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PARLIAMENTARY DEBATES
(HANSARD)

HOUSE OF LORDS

OFFICIAL REPORT

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

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

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House of Lords

Monday 9 September 2024

2.30 pm

Prayers—read by the Lord Bishop of Leeds.

Introduction: Lord Cryer

2.36 pm

John Robert Cryer, having been created Baron Cryer, of Leyton in the London Borough of Waltham Forest, was introduced and made the solemn affirmation, supported by Lord Kennedy of Southwark and Baroness Smith of Basildon, and signed an undertaking to abide by the Code of Conduct.

Introduction: Lord Sharma

2.44 pm

The right honourable Sir Alok Kumar Sharma, KCMG, having been created Baron Sharma, of Reading in the Royal County of Berkshire, was introduced and took the oath, supported by Baroness Hayman and Lord Gascoigne, and signed an undertaking to abide by the Code of Conduct.

Oaths and affirmations

2.47 pm

Several noble Lords took the oath or made the solemn affirmation, and signed an undertaking to abide by the Code of Conduct.

Pension Credit

Question

2.49 pm

Asked by Lord Davies of Brixton

To ask His Majesty's Government how many people (1) claimed, and (2) were eligible to claim, Pension Credit in each of the past three financial years.

The Parliamentary Under-Secretary of State, Department for Work and Pensions (Baroness Sherlock) (Lab): My Lords, in answer to the first part of the Question, the numbers of people claiming pension credit were: in 2019-20, 1.49 million, in 2021, 1.41 million, and in 2021-22, 1.35 million. In answer to the second part, we cannot know precisely how many people are eligible to claim pension credit because we do not hold data on their circumstances, but we make estimates based on surveying pensioners and extrapolating from there. On that basis, we estimate that in 2019-20, 2.26 million were eligible. No figures are available for 2020-21 because the pandemic restricted the number of face-to-face interviews that could be done, and that were necessary to collect the data. In 2021-22, there were 2.15 million.

Lord Davies of Brixton (Lab): I thank my noble friend for her Answer and express my great pleasure at seeing her in her place. But, her Answer makes it clear that many of the poorest pensioners—not just those who fail to claim credit, but those with an income slightly higher than that—will suffer from the cut to the winter fuel payment. Does she agree that seeking a replacement for the anomalous tax-free cash payment should only follow a thorough and detailed review, rather than this rushed, information-lite and damaging decision?

Baroness Sherlock (Lab): I thank my noble friend—for everything up to the “But”. The Government are having to take what is a difficult decision at this time for the very simple reason that we inherited a £22 billion pressure on public finances.

Noble Lords: Oh!

Baroness Sherlock (Lab): If only the Opposition had been as attentive when they were building up the deficit as they are now it is there. To be really straightforward, the Chancellor came in and looked at the public finances, which were the result of significant pressures having built up in departmental spending. Significant commitments had been made, but no spending review had been done since 2021 to make sure that the money was there to pay for things. As a result, this Government have had to make the hard decisions that were not made previously, and this is one of them. We have taken action to make sure that we are protecting the poorest pensioners. Everybody on pension credit will be entitled to the winter fuel payment. We are targeting it at those who need it most, not at the many pensioners who do not need it as much.

Lord Sherbourne of Didsbury (Con): My Lords, when the Government looked at the various candidates for cutting public expenditure, why did they choose winter fuel payments?

Baroness Sherlock (Lab): My Lords, the pressures were such that some of the money had to be found in this financial year, because a series of expenditure gaps came to light in this financial year. We have already cut other capital programmes, and departments are absorbing pressures. This was a cut that could be made in-year, so it was added to it.

I am sorry to say that this is not the last difficult decision this Government are going to be forced to make, but we will try to target things appropriately. I think most Members of the House would agree that something like a winter fuel payment should not be going to the roughly quarter of pensioners who have a million pounds in assets; it should not be going to those who can manage. What we should be doing is trying to target the money at those who need it most, and that is what we set out to do.

Lord Palmer of Childs Hill (LD): My Lords, the Minister has talked about encouraging people who are entitled to pension credit to claim it. Does she agree that they do not claim it for reasons of pride, or perhaps because they are unable to cope with the system? How are the Government going to encourage this large number of people to claim pension credit,

[LORD PALMER OF CHILDS HILL]

because if they do not, they will not have the winter fuel allowance? I have doubts that people will actually claim it to any great degree.

Baroness Sherlock (Lab): The noble Lord makes an important point and I am grateful to him for doing so. Certainly, a significant number of pensioners do claim pension credit—1.4 million have managed to claim and do get it as a result. So, our job is to get the next surge of people to do that. DWP has a big campaign on: we had a week of action last week, and we work with partners such as charities and local authorities to go out and promote the campaign. From next week, we are running a national marketing campaign on a range of channels, including national print and radio. We will be targeting people of pension age but also friends and family, who can encourage them to apply. It can be tough, but sometimes we need to make people understand that there is lots of help out there. They can call the department free of charge and get charities to help them. If people are really stuck, we have a DWP home visiting team, which will visit the vulnerable and help them make a claim. So I urge all noble Lords: by all means let us have the fight in here, but please put the word out and let us get people to claim what they are entitled to.

Viscount Younger of Leckie (Con): My Lords, allied to pension credit, the Government find themselves firmly between a rock and a hard place on this ill-judged decision to cut the winter fuel payment. On the one hand, if there is a substantial increase in the uptake of pension credit—and of course, we are all for that—the figures show that the increased costs will all but wipe out the net gain of £1.4 billion that the Treasury expects through the cut. On the other hand, with a poor or low uptake, it is apparent that many more of the most vulnerable pensioners will be hit. What mitigating measures are the Government looking at to reduce the impact of this decision, and when will they be announced and introduced? Mitigating measures there will need to be—and even better would be to see a reversal of the whole policy.

Baroness Sherlock (Lab): My Lords, the noble Lord is talking about take-up. As I said, the best estimate of pension credit take-up as a whole is 63%: that is 63% of the number of people who could be claiming pension credit who we think are getting it. The amount of pension credit that is taken up is quite a bit higher than that, nearer to almost three-quarters of the total amount claimed. The challenge for us is to make sure that those who do not claim it do get it. However, the big difference this will make is this: if you are on the basic state pension and not claiming pension credit, you will get not just an extra £200 or £300 in winter fuel payments; you could get thousands of pounds in pension credit itself. Our job is therefore to make it as easy as possible for people not just to get this smaller amount, but to get the bigger amount as well, so let us all try to do that.

Lord Watts (Lab): My Lords, many of us accept that the Government have inherited a black hole in the budget and need to take action on it, and we are also

not against the principle of some form of means-testing. However, many of us also think that the threshold is too low. Will the Government look at the threshold again to ensure that poor pensioners are not excluded from the winter fuel allowance in the future?

Baroness Sherlock (Lab): My Lords, I have had lots of very interesting suggestions from, and conversations with, Members from around the House, who have variously suggested trying different thresholds and creating a new, higher threshold. One of the challenges is that this is a single, once-a-year, one-off payment. There is already a means-testing process for pension credit. Creating a brand new means-testing system for a one-off payment would involve simply too much bureaucracy, complication and red tape for what is a once-a-year payment. So, we have ended up going for pension credit, which is already there. The great advantage is that, if somebody is on pension credit, we can pretty much automatically give them the winter fuel payment, so they will not have to apply for it, whereas, if we create a new special scheme, people will have to apply for it. We will continue to look at a range of alternatives, but this is clearly the only sensible way to do this in the short term. I stress again: everybody on pension credit is entitled to this money. Let us get them out and getting it.

Lord Cameron of Chipping Norton (Con): My Lords, as someone who made a promise to Britain's pensioners to keep the winter fuel payment, and kept that for six years as Prime Minister, may I make a gentle suggestion to the Government? Instead of this misguided attack on the winter fuel payment, why not simply say that pensioners who are higher-rate or additional-rate taxpayers do not receive it? You may only raise 10% of the money but you would save 90% of the shame and embarrassment of the current position.

Baroness Sherlock (Lab): I am grateful to the noble Lord. He will remember that the previous Government decided to do something similar with child benefit. They wanted to means-test it, but because they could not find a way to do so, they decided to get just higher-rate taxpayers. He may also remember the massive complications that flowed from that—because the tax system is individual-based and the benefit system household-based—and that it caused huge complications and the Government effectively had to relitigate to do it all over again. We need to find something that works and is straightforward. The pension credit system is established; people know it is there. Our job is to make sure they can apply for it. If we can do that, we can ensure that they get not just this £200 or £300 but the thousands of pounds they might be entitled to under pension credit. We have absolutely committed to looking after pensioners. The triple lock gave people £970 the year before and £900 this year; who knows what the earnings data will be, but it could be several hundred pounds more this year as well. We will keep investing in pensioners, but we will direct more to those who need it most.

Baroness Jones of Moulsecoomb (GP): Why do these tough decisions always hit the poor and not the fossil fuel companies and the water companies?

Baroness Sherlock (Lab): My Lords, of course, the point is that most of the pensioners hit by this decision will not be the poor, among those who actually get money at the moment. But the noble Baroness absolutely has a point about making sure that polluters pay, and this Government are addressing those questions as well.

Anti-Muslim Prejudice and Hate Crime *Question*

3 pm

Asked by Baroness Gohir

To ask His Majesty's Government what assessment they have made of the drivers of hate crime against Muslims in Britain, and what steps they are taking to challenge anti-Muslim prejudice and anti-Muslim hate crime.

Baroness Gohir (CB): In begging leave to ask the Question standing in my name on the Order Paper, I draw attention to my interests set out in the register.

The Parliamentary Under-Secretary of State, Ministry of Housing, Communities and Local Government (Lord Khan of Burnley) (Lab): My Lords, we are absolutely committed to tackling Islamophobia. Our Government are only 10 weeks old, but in this time, I have crossed the country from Southport to Sunderland to Camden to hear directly from communities, with more meetings planned. I am deeply saddened by recent horrific scenes and hateful attacks against Muslims, causing unacceptable fear. We are refreshing our strategic approach to tackling all forms of hatred, including Islamophobia, and we will update the House shortly.

Baroness Gohir (CB): My Lords, I am publishing a report today called *Anti-Muslim Hate: Concerns and Experiences*. I have sent a draft of it to the Minister and will send a final copy today. Will the Government formally respond to my report? Key findings included 80% of Muslims who experienced hate crimes not reporting them and 73% being very worried about their safety after the riots. What action will the Government take to increase reporting and improve the safety of Muslim communities—not just of mosques but of Muslims walking down the road and Muslims online using social media?

Lord Khan of Burnley (Lab): My Lords, the noble Baroness has raised some important questions regarding hate crimes against Muslims in our country. I am particularly thankful to her for all the important work she has done, including leading the Muslim Women's Network UK and advocating for Muslim communities, and women especially, at the highest levels. I look forward to meeting her tomorrow. Anti-Muslim hatred is abhorrent and has no place in our society. We will continue to take swift action to address anti-Muslim hatred, and this includes safeguarding Muslim women. MHCLG is reviewing Dame Sara Khan's advice, and we will provide updates on social cohesion work in due course.

Baroness Warsi (Con): My Lords, you cannot genuinely tackle what you dare not define and detail. In opposition, Labour adopted the All-Party Parliamentary Group on British Muslims' definition of Islamophobia, as did most other political parties, including the Conservative Party in Scotland. Can the Minister update the House on whether the Labour Party intends to follow through on that work now that it is in government, and what work, if any, has started?

Lord Khan of Burnley (Lab): I first acknowledge the work that the noble Baroness has done in this area; in particular, a comprehensive piece of work done by the APPG on the definition of Islamophobia. A new definition must be given careful consideration so that it comprehensively reflects multiple perspectives and considers the potential implications for different communities. We understand the strength of feeling on this issue and want to make sure that any definition comprehensively reflects multiple perspectives. We are actively engaging and considering our approach to Islamophobia, including definitions, and we will provide further updates in due course. I look forward to working and engaging with the noble Baroness and the APPG.

Baroness Hussein-Ece (LD): My Lords, the previous Government established the cross-departmental Anti-Muslim Hatred Working Group, of which little was known about its membership and work. I found out about it quite by accident a few months ago. Do this Government plan to re-establish this working group, and will the Minister meet Muslim Members of this House and another place, and others if necessary, to consult on its membership and work?

Lord Khan of Burnley (Lab): I reassure the noble Baroness that I am happy to meet any noble Lord, in particular about any concerns about religious hatred of all kinds. In relation to our approach on the definition of Islamophobia, as I just answered, we will come forward and update the House and discuss the actions we will take to tackle the problem of Islamophobia in our country.

The Lord Bishop of Lichfield: My Lords, some of the most valuable and effective work that is being done to improve community relations, and so to counter religious hate crime and prejudice, is at a local and grass-roots level; for example, in Walsall we have community iftars, church-mosque twinnings, multifaith drama groups, and so on. Can the Minister tell us what the Government are providing in funding and support for local initiatives and groups of that kind?

Lord Khan of Burnley (Lab): First, I express my gratitude to the right reverend Prelate for his question. He makes the point that faith groups play a huge role in working to promote community cohesion and attacking the problems that we face in society. Moving forward, we are looking at having an approach that best supports communities. A lot of work is now being led by the Deputy Prime Minister; in the next few days we will see some measures that will take not just a national but a cross-governmental approach to social cohesion. I reassure the right reverend Prelate that we are looking at these challenges at the moment.

Lord Singh of Wimbledon (CB): My Lords, there are no comparative statistics to show that Muslims suffer more from irrational prejudice than, say, any member of the Hindu, Sikh or Buddhist faiths. To borrow from Shakespeare, if a member of those other faiths is cut, do they not bleed? Will the Minister confirm that the Government will be even-handed in looking at the needs and concerns of all religions and those of no faith?

Lord Khan of Burnley (Lab): I say in response to the noble Lord's important points that all forms of racial and religious discrimination are completely unacceptable and have no place in our communities. This Government will explore a more integrated and cohesive approach to tackling it. We are committed to protecting the right of individuals to freely practise their religion and we will not tolerate religious hatred in any form towards any religion.

Baroness Scott of Bybrook (Con): My Lords, the previous Government committed to spending over £117 million to protect mosques and Muslim schools and community centres in the UK from anti-Muslim hate attacks over the next four years. In the light of the unrest we saw this summer, what discussions has the Minister had with his ministerial colleagues to ensure that this money is being spent effectively to protect Muslim communities? In the light of the summer disruption, what further steps will the Government take to tackle anti-Muslim hate in the United Kingdom?

Lord Khan of Burnley (Lab): My Lords, the noble Baroness makes an important point. On the latter question, the Home Office has announced a rapid response force—work which involves more security to help support mosques that are facing direct public and violent disorder against them. I have visited quite a few mosques and had discussions with communities. In relation to our £29.4 million pledge to support mosques, a lot of mosques are taking up these schemes. Their continuation is important, as it is to tackle any form of religious hatred we see, including anti-Semitism. Where there are high levels of religious hate crime, there is existing government funding to support institutions to protect themselves.

Baroness Blower (Lab): My Lords, does my noble friend agree that the review of the national curriculum that the Government are planning provides the opportunity to ensure that schools are places where all ignorance and prejudice-based behaviour are challenged, and where anti-racism—in this case, islamophobia—is actively taught, to try to stop these attitudes developing in our young people?

Lord Khan of Burnley (Lab): My noble friend makes an important point in recognising that school has a huge role to play in raising awareness and tackling discrimination. At a very early age, young people can understand our British values. I visited Middlesbrough, and that was what the community was telling me. We should be looking at this more closely, looking at the national curriculum. That is a discussion to be had with the community and the Department for Education. We will take that forward and pass it to the relevant department.

Lord Ahmad of Wimbledon (Con): My Lords, in thanking the Minister for sharing his answers, perhaps I might make a suggestion. My noble friend on the Front Bench has already articulated the issue of funding. There is existing architecture from the previous Government—the Anti-Muslim Hatred Working Group. Also, it was the Conservative Government led by my noble friend Lord Cameron that made anti-Muslim hatred a specific hate crime. There is also an issue of underreporting.

I hope that the Minister agrees that we must focus on reporting these crimes and make that issue of education prevalent in the communities. Linked with that, we must accentuate the positive. Muslims make an incredible contribution across the piece in the United Kingdom, even in areas such as cricket, which may be the litmus test. I recall a particular ministry official saying to me that when he gets up in the morning, he hears Mishal Husain on the radio, travels on an Underground run and overseen by Sadiq Khan, then reports to a Minister called Tariq Ahmad. Let us accentuate the positive of Islam and Muslims in Britain alongside what we do in tackling anti-Muslim hatred.

Lord Khan of Burnley (Lab): I do not have anything to respond to that with. It was a fantastic point. I pay tribute to the work that the noble Lord did as Special Envoy on Freedom of Religion or Belief. His points were very clearly made, and I will take them forward. I appreciate his comments.

Independent Review of Children's Social Care

Question

3.11 pm

Asked by Lord Wood of Anfield

To ask His Majesty's Government what plans they have to implement the recommendations of the 2022 Independent Review of Children's Social Care.

The Minister of State, Department for Education (Baroness Smith of Malvern) (Lab): My Lords, reforming children's social care is critical to giving hundreds of thousands of children and young people the best start in life. It is also necessary to achieve financial stability for local authorities. The previous Government oversaw the *Independent Review of Children's Social Care* in 2022. This Government have already moved quickly to set out our legislative programme. The children's well-being Bill will deliver on our manifesto commitment to ensure that all children can thrive in safe, loving homes.

Lord Wood of Anfield (Lab): My Lords, I thank the Minister for that Answer and say "Hello" to her with her new hat on. All of us know that the state of our children's care system is totally unacceptable. It is a system with growing financial shortfalls, where rising numbers of placements squeeze spending on prevention and, most importantly, where the most vulnerable children in our country are, for cost reasons, being sent sometimes hundreds of miles from their home

and their kinship circles. Can I ask the Minister about regulation in response to this? Last week, Ofsted said that it should be given the powers and resources to stop unregulated children's homes, where hundreds of children currently reside, and to equip Ofsted to regulate private equity-run companies that increasingly dominate children's care services, often based overseas and facing little regulatory oversight. Can the Government commit to meeting these important Ofsted demands?

Baroness Smith of Malvern (Lab): My noble friend is right, I am afraid, in his description of the enormous challenge in children's social care at the moment, particularly by identifying the role of Ofsted. As I outlined in this House last week, Ofsted will be working closely with the children's social care sector to determine how it can protect children in the way that he described. Also, on the particular challenges in the children's social care placement market that my noble friend outlined, local authorities are facing enormous rising costs for these places and, as my noble friend says, for places which increasingly are not serving the needs of children. This Government are clear that excessive profiteering from vulnerable children in care is unacceptable. Through the legislation that we will bring forward, and through the regulation that he described, we will tackle this.

Lord Young of Cookham (Con): My Lords, the MacAlister review described foster carers as the bedrock of a social care system. However, in the last five years we have lost 1,000 foster carers, with 5,000 more children in care. For many children, a children's home with dedicated staff is the right answer, but living with a family in foster care may provide a more stable environment at a quarter of the cost. What is the Minister doing to encourage more foster carers to come forward and provide that care for children?

Baroness Smith of Malvern (Lab): The noble Lord is right: for many children the stability that comes from being in a loving family with foster care is absolutely appropriate for them. Therefore, it is disappointing that, since 2019, the number of mainstream local authority foster carers has dropped by 11%. We will continue the policy of foster care hubs to provide support and resource for local authorities and foster carers in 10 different places—covering 64% of the country—and, where those hubs do not have impact, we will also develop the foster link resource to support children's social care services in other parts of the country. There is a role to play for all of us and all local authorities in celebrating foster carers and encouraging more people to think about doing it.

Lord Laming (CB): My Lords, does the Minister agree that there are two main thrusts of this report? First, there needs to be a huge increase in family support services to prevent, as far as possible, children being removed from their parents. Secondly, for the children that are in care, the state has a responsibility to be a good parent and that means helping these children fulfil their full potential. Does the Minister think that the Government have the ambition to achieve these two things?

Baroness Smith of Malvern (Lab): Given the noble Lord's enormously distinguished career in this area and his contribution to ensuring that children are kept safe, I think the whole House will listen to what he has to say. He is right that the objective of the MacAlister review and this Government is to bring timely support to children and families that need help; evidence shows that preventing problems from escalating leads to better outcomes. We will build on the work of the Families First for Children pathfinders, which, unfortunately, are only in 10 places at the moment, to think about how we can develop that early help. The noble Lord also makes the very important point about all our responsibility, as corporate parents, to ensure that children who have to come into the care system get the same very best care from us that we would expect for our own children. That is certainly something that this Government will pursue and think about how we can embed that even more broadly in the public sector and in our communities.

Baroness Tyler of Enfield (LD): My Lords, I will pursue the point made so eloquently by the noble Lord, Lord Laming. Last week, the children's care coalition of charities highlighted that, for the first time, more is being spent on residential care placements than on early intervention. Can the Minister say how the Government plan to rebalance that spending, given the current tight fiscal climate, including in the upcoming Budget and spending review, to ensure that families, children and young people get the support they need before reaching crisis point?

Baroness Smith of Malvern (Lab): The noble Baroness makes a very important point. The Local Government Association also found that, whereas in 2022-23 91% of councils that responded spent at least £10,000 per week or more for one placement, in 2018-19 that had only been 23%. Not only does the position in the placement market disadvantage children in not being able to find those loving and stable placements that they need, but it is also an enormous burden to local government. That is why, as she said, we have to build on, for example, the £45 million invested in the Families First for Children pathfinders this year to help families get support earlier. Where there is clear profiteering from some providers in the placement market—evidence of this has been discovered—we need to take action and we will do so.

Baroness Barran (Con): My Lords, I recognise the Minister's sincerity and that of her colleagues in addressing this issue, but we know that when we talk to children with personal experience of the care system, what they tell us is how many different social workers they interact with. I am not sure what the opposite of stability is, other than instability, but it is a series of fractured and fragmented relationships. Can she update the House on how the Government plan to address this?

Baroness Smith of Malvern (Lab): The noble Baroness is right. I have recently been in a position to talk to children in social care in Sandwell and she is absolutely right, as one of their top concerns is not having continuity of social worker. That is why it is so worrying

[BARONESS SMITH OF MALVERN]

that local authorities are becoming even more reliant on agency social workers, as 17.8% of all local authority child and family social workers are agency workers currently. There are many good and high-quality social workers who come through the agency route, but their position is more likely to be unstable than it would be with a permanent worker. That is why the department is already building a new relationship with the children's social care workforce and is looking at how to improve support for workers in children's social care. Thinking particularly about working conditions as a key factor in keeping social workers in the profession, this autumn we will release resources to support local authorities with best practice to retain social workers. We will continue the work of the national workload action group, which will make independent recommendations on acting on workloads by January 2025.

Lord Sikka (Lab): My Lords, between 2011 and 2023, 816 care homes were involuntarily closed by the regulator. Of these, 804 were operated by for-profit organisations. They profiteered from regulation and safety breaches, low staffing and harms to residents. Local authorities and not-for-profit care homes provided the best care. In the light of this evidence, can the Minister say when the Government will end the running and operation of care homes by for-profit organisations?

Baroness Smith of Malvern (Lab): My noble friend has certainly identified a challenge, where providers of placements and homes for children focus more on profit than on the quality that is being provided to those children. Local authorities are currently providing 45% of looked-after children's placements and the private sector is providing 40%, some of which offer stability, high-quality and loving care for our children. However, where it is clear that placement providers are profiteering from the most vulnerable children in the country, this Government are absolutely committed to taking action.

Local Bus Sector Question

3.22 pm

Asked by **Lord Berkeley**

To ask His Majesty's Government what plans they have to provide longer-term support to the local bus sector.

The Minister of State, Department for Transport (Lord Henty of Richmond Hill) (Lab): The Government are determined to deliver better bus services. We are setting out an action plan allowing every community the opportunity to take back control of local bus services to deliver improvements for passengers and giving local leaders more control and flexibility over bus funding to deliver their local transport priorities for growth, jobs and housing. We will consider how best to support buses in the longer term as part of the forthcoming spending review.

Lord Berkeley (Lab): I am grateful to my noble friend for that Answer. He has long experience in the bus industry. Would he look, in particular, at the

problem of rural bus services, which on the whole do not get much visibility? He may know of a very good one in Cornwall; buses go every half hour, with cheap fares. How will he ensure that the whole country benefits? Will the funding be there and will it be ring-fenced? Will the Government encourage or force local authorities to pick up their offer?

Lord Henty of Richmond Hill (Lab): The proposition for local authorities and communities throughout the country is to take advantage of the proposals that the Government will table, which will ensure the right solutions for each area. My noble friend knows that the bus service in Cornwall is particularly well organised; it is not franchised but is subject to a large degree of local authority control. Consistency of information, ticketing, fares and service standards is an important feature, wherever in the country buses operate.

Baroness McIntosh of Pickering (Con): My Lords, will the Minister, whom I congratulate on his new position, pay tribute to rural bus services such as those in North Yorkshire? If the bus arrangements transfer back to the local authorities, will he ensure that the funds will follow the responsibility for, in particular, concessionary bus fares, which are so important for older people in rural areas?

Lord Henty of Richmond Hill (Lab): I thank the noble Baroness for her compliment. I hope the House will see it repaid in what I do. Concessionary bus fare funding will, without any doubt, follow the control of bus services, and that will be as important in North Yorkshire as it will be everywhere else in the country.

Baroness Randerson (LD): My Lords, the Minister will be fully aware from his extensive experience how much young people in London benefit from free bus travel. Unfortunately, in the rest of the country the picture is different—it is very patchy and uneven. Does the Minister agree that there is a strong argument for a standard system of highly reduced or free bus fares for young people across the country, to help them into jobs, apprenticeships and education, to create a fairer society and to create a new generation of bus travellers?

Lord Henty of Richmond Hill (Lab): The noble Baroness will recognise the important ability of the Mayor of London to fund cheap and free fares for young people. The opportunity that the Government's franchising proposals will give is that other local authority leaders and combined authority mayors will also have the ability to fund fare concessions for the purposes that she mentions.

Lord Moylan (Con): My Lords, the Minister is right to emphasise the importance of bus services, particularly for the elderly. I speak as somebody who has reached pension age. In that light, and given the Government's, shall we say, cavalier attitude to pensioners that we have seen on display, can he give an unshakeable commitment that the Government will maintain the national bus pass and the statutory freedom pass scheme in London? Or is there the possibility that they too could find themselves subject to means testing?

Lord Hendy of Richmond Hill (Lab): At my age, I share the noble Lord's enthusiasm for the freedom pass scheme. He is attempting to put me in the invidious position of making a concrete commitment for all time. The freedom pass, and the local authority and national scheme for free travel for pensioners, has lasted a long time and we would all hope that it continues into the future. The Government are not in a good position with the state of public finances they have been left with, but we will bear in mind his enthusiasm, and that of many others, for free travel for elderly people on buses as we move forward with our commitments for the bus service.

Lord Berkeley (Lab): My Lords, in addition to the work that my noble friend is doing with buses, we will soon hear about the Great British Railways changes, with Ministers taking much greater control of the railways. Does this not provide an opportunity for some proper timetabling, so that when a bus arrives at a station there is a train soon ready to go, rather than one that has just left, which happens in so many parts of the country at the moment?

Lord Hendy of Richmond Hill (Lab): I thank my noble friend for that question. It is a subject that has engaged the bus and railway industries for generations. In fact, it is more likely that the bus will have to alter its timetable to suit the railway, because the railways are a national, integrated system, but he is right to suggest that the opportunity arises as a consequence of the Government's proposals for Great British Railways and for buses as part of a more integrated public transport service across the entire country. The Government will do their best to make sure those opportunities are built on.

Lord Kirkhope of Harrogate (Con): My Lords, my colleagues and I are concerned about the amount of pollution which diesel buses in particular present. We used to have trams and vehicles that were run on electricity. Can the Minister confirm what the Government are doing to encourage better environmental standards in buses and other means of public transport?

Lord Hendy of Richmond Hill (Lab): The programme to reduce emissions from the bus fleet has been carried out by successive Governments over many years. There is no doubt at all that government intervention has created both cleaner diesel buses, which now meet that Euro 6 standard, and an increasing fleet of electric buses, which are the modern equivalent of tram-cars. This Government hope to continue that, subject to funding, because it is clearly a very important contribution to air quality in urban and other areas.

Lord Hampton (CB): My Lords, while we talk about support for buses, I think we ought also to talk about support for bus safety. I quote the BBC website from this morning:

"At present there is no independent investigator and no independent recommendations when it comes to bus collisions. The families want to know why there is one policy for trains and another for buses".

Perhaps the Minister could comment on that.

Lord Hendy of Richmond Hill (Lab): It is clearly critical that bus services and buses should be safe. The DVSA, which is an agency of the Department for Transport, does look at serious bus accidents. It can deal with the drivers and the operators of those vehicles, and take into account whether standards should be changed for bus design.

Baroness Blackwood of North Oxford (Con): My Lords, for many of those dependent on buses, whether they are travelling to work or to hospital appointments, lateness can have a real impact. Can the Minister say what actions he will take to improve real-time tracking of buses?

Lord Hendy of Richmond Hill (Lab): The technology for real-time tracking has changed enormously in 20 years. One of the opportunities for franchising, which is part of the Government's programme for bus services, is to provide consistent real-time information. It is important. It is quite clear that, where that information is provided—which is not limited to signs on bus stops; it can also be accessed on mobile phones and at home—patronage increases, so we have every enthusiasm for increasing it. The proposals on bus franchising will enable it to be more easily supplied where bus franchising takes place.

Public Authority Algorithmic and Automated Decision-Making Systems Bill [HL]

First Reading

3.33 pm

A Bill to regulate the use of automated and algorithmic tools in decision-making processes in the public sector, to require public authorities to complete an impact assessment of automated and algorithmic decision-making systems, to ensure the adoption of transparency standards for such systems, and for connected purposes.

Lord Clement-Jones (LD): My Lords, I draw the attention of the House to my AI advisory interests on the register.

The Bill was introduced by Lord Clement-Jones, read a first time and ordered to be printed.

Permitted Development Rights (Extension) Bill [HL]

First Reading

3.34 pm

A Bill to make provision to extend permitted development rights to allow householders to improve and extend their residential properties, and for connected purposes.

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

Grenfell Tower Inquiry Phase 2 Report

Statement

3.35 pm

The Lord Privy Seal (Baroness Smith of Basildon) (Lab): My Lords, with the leave of the House, I shall now repeat a Statement on the Grenfell Tower inquiry made in another place last Wednesday by my right honourable friend the Prime Minister. The Statement is as follows:

“Sir Martin Moore-Bick has now published the final report of the Grenfell Tower inquiry. I am sure the whole House will join me in thanking him, the members of the inquiry and his whole team for their dedicated work.

I want to speak directly to the bereaved families, the survivors and those in the immediate Grenfell community, some of whom are with us in the Gallery today. Sir Martin concluded—I am afraid there is no way of repeating this that will not be painful—that

‘the simple truth is that the deaths that occurred were all avoidable and that those who lived in the tower were badly failed over a number of years and in a number of different ways’

by, as the report lays out in full, just about every institution responsible for ensuring their safety. In the face of an injustice so painful and so deserving of anger, words begin to lose their meaning, after seven years still waiting for the justice that you deserve. I want to say very clearly, on behalf of the country, that you have been let down so badly before, during and in the aftermath of this tragedy.

While Sir Martin sets out a catalogue of appalling industry failures, for which there must be full accountability, he also finds

‘decades of failure by central government’.

He concludes:

‘In the years between the fire at Knowsley Heights in 1991 and the fire at Grenfell Tower in 2017 there were many opportunities for the government to identify the risks posed by the use of combustible cladding panels and insulation’.

He concludes that,

‘by 2016, the department was well aware of those risks, but failed to act on what it knew’.

Further, he finds:

‘The department itself was poorly run’

and

‘the government’s deregulatory agenda ... dominated the department’s thinking to such an extent that even matters affecting the safety of life were ignored, delayed or disregarded’.

So I want to start with an apology on behalf of the British state to each and every one of you and, indeed, to all the families affected by this tragedy. It should never have happened. The country failed to discharge its most fundamental duty to protect you and your loved ones—the people we are here to serve—and I am deeply sorry. I also want to express my admiration for the strength it must have taken to relive these events when giving your evidence to the inquiry, and indeed to see written down today the circumstances that led to the deaths of your loved ones.

After all that you have been through, you may feel that you are always one step away from another betrayal. I get that, and I know that I cannot change that with

just words today. But what I can say is that I listened carefully to one of the members of the inquiry, Ali Akbor, who said this this morning:

‘What is needed is for those with responsibility for building safety to reflect and to treat Grenfell as a touchstone in all that they do in the future’.

I consider myself someone with responsibility for building safety, and that is exactly what I will do and what I will demand of this Government.

Today is a long-awaited day of truth. It must now lead to a day of justice—justice for the victims and the families of Grenfell—but also a moment to reflect on the state of social justice in our country and a chance for this Government of service to turn the page. That is because this tragedy poses fundamental questions about the kind of country we are: a country where the voices of working-class people and those of colour have been repeatedly ignored and dismissed; and a country where tenants of a social housing block in one of the richest parts of the land are treated like second-class citizens, shamefully dismissed as, in the words of one survivor,

‘people with needs and problems’,

and not respected as citizens—as people who contribute to Britain, who are part of Britain and who belong in Britain. Unbelievably, that continued even after the tragedy. Sir Martin highlights:

‘Certain aspects of the response demonstrated a marked lack of respect for human decency and dignity and left many of those immediately affected feeling abandoned by authority and utterly helpless’.

That alone should make anyone who feels any affinity towards justice bristle with anger.

Sir Martin continues that he finds

‘systematic dishonesty on the part of those who made and sold the rainscreen cladding panels and insulation products’.

He goes on to say:

‘They engaged in deliberate and sustained strategies to manipulate the testing processes, misrepresent test data and mislead the market’.

Sir Martin also cites

‘a complete failure on the part of the Local Authority Building Control ... over a number of years to take basic steps to ensure that the certificates it issued ... were technically accurate’.

He finds that the work of the Building Research Establishment

‘was marred by unprofessional conduct, inadequate practices, a lack of effective oversight, poor reporting and a lack of scientific rigour’,

and that the tenant management organisation

‘must also bear a share of the blame’.

Its only fire safety assessor

‘had misrepresented his experience and qualifications (some of which he had invented) and was ill-qualified to carry out fire risk assessments on buildings of the size and complexity of Grenfell Tower’.

He also finds

‘a chronic lack of effective management and leadership’

on behalf of the London Fire Brigade, with tragic consequences on the night of the fire.

In the light of such findings, it is imperative that there is full accountability, including through the criminal justice process, and that this happens as swiftly as

possible. I can tell the House today that this Government will write to all companies found by the inquiry to have been part of these horrific failings, as the first step to stopping them being awarded government contracts. We will, of course, support the Met Police and the CPS as they complete their investigations. But it is vital that, as we respond to this report today, we do not do or say anything that could compromise any future prosecution, because the greatest injustice of all would be for the victims and all those affected not to get the justice that they deserve.

There must also be more radical action to stop something like this from ever happening again. One of the most extraordinary qualities of the Grenfell community is their determination to look forward. They are fighting not only for justice for themselves but to ensure that no other community suffers as they have done.

Some important reforms have taken place in the last seven years—which we supported in opposition—including banning combustible cladding, new oversight of building control, a new safety regime for all residential blocks over 18 metres, new legal requirements on social landlords, and making sure that fire and rescue services are trained and equipped to handle large-scale incidents, including moving from ‘stay put’ to ‘get out’ when needed. We are now addressing the recommendation from Sir Martin’s first report to introduce a new residential personal emergency evacuation plan policy for anyone whose ability to evacuate could be compromised, with funding for those renting in social housing.

We will look at all 58 of Sir Martin’s recommendations in detail. There will be a debate on the Floor of this House. We will respond in full to the inquiry’s recommendations within six months, and we will update Parliament annually on our progress against every commitment we make.

But there are some things I can say right now. There are still buildings today with unsafe cladding. The speed at which this is being addressed is far, far too slow. We only have to look at the fire in Dagenham last week—a building that was still in the process of having its cladding removed. This must be a moment of change. We will take the necessary steps to speed this up. We will be willing to force freeholders to assess their buildings and enter remediation schemes within set timescales, with a legal requirement to force action if that is what it takes. We will set out further steps on remediation this autumn.

We will also reform the construction products industry that made this fatal cladding so that homes are made of safe materials and those who compromise that safety will face the consequences. We will ensure that tenants and their leaseholders can never again be ignored, and that social landlords are held to account for the decency and safety of their homes.

As the Government tackle the most acute housing crisis in living memory, building 1.5 million new homes across the country, we will ensure that those homes are safe, secure and built to the highest standards—places of security, health and well-being that serve the needs of residents and their wider communities. A safe and decent home is a human right and a basic expectation, and the provision of that right should never be undermined

by the reckless pursuit of greed. One of the tragedies of Grenfell is that this is a community who nurtured so much of what we want from housing: people who had made the tower their home and were entitled to a place of safety and security, not a deathtrap. Yet time and again they were ignored.

Two weeks ago I made a private visit to Grenfell Tower. I laid a wreath at the memorial wall and affirmed the Government’s commitment to the work of the memorial commission to deliver a permanent memorial on the site through a process led by the Grenfell community. As I walked down the narrow staircase from the 23rd floor and looked at walls burned by 1,000-degree heat, I got just a sense of how utterly terrifying it must have been. As I saw examples of the cladding on the outside of the building and listened to descriptions of the catastrophic and completely avoidable failures of that fatal refurbishment, I felt a sense of the anger that now rises through that building. It left me with a profound and personal determination to make the legacy of Grenfell Tower one of the defining changes to our country that I want to make as Prime Minister.

To the families, the survivors and the immediate community, I say that we will support you now and always, especially those who were children. In the memory of your loved ones, we will deliver a generational shift in the safety and quality of housing for everyone in this country. In the memory of Grenfell, we will change our country—not just a change in policy and regulation, although that must take place, but a profound shift in culture and behaviour, a rebalancing of power that gives voice and respect to every citizen, wherever they are and wherever they live. We will bring the full power of government to bear on this task because that is the responsibility of service and the duty that we owe to the memory of every one of the 72. In that spirit, I commend this Statement to the House”.

3.47 pm

Lord True (Con): My Lords, I thank the noble Baroness the Leader of the House for repeating this important Statement. Like her, our thoughts and prayers are with the victims and survivors, their friends and families and all the lives that have been irreversibly affected by this terrible tragedy. We will never forget the 72 people who lost their lives that night and, as the report makes clear, need never have lost them.

The publication of the *Grenfell Tower Inquiry: Phase 2 Report* is a damning indictment of over 30 years of successive state failures—the failure to appreciate, to understand and to act—and we must all take our share of responsibility for that. In this comprehensive report Sir Martin, whose appointment was not universally acclaimed, and his team should be commended. It raises many points that I am confident that all parties and both Houses will agree on. This will be a difficult time for the Grenfell community and a difficult report to process and come to terms with. Will the Government ensure that those affected will get all the support that they need at this time?

When this party was in government, we put an extensive remediation regime in place, financed by central government funding and developer contributions.

[LORD TRUE]

That work to remediate and identify at-risk buildings must continue in order to prevent another tragedy, and I welcome that assurance. A £600 million fund was put in place to replace unsafe aluminium composite material—the cladding type used on Grenfell Tower. A further £5.1 billion followed through the building safety fund and the cladding safety scheme to pay for remediation beyond ACM cladding.

I am delighted to hear that the new Government will continue supporting leaseholders and tenants to get their buildings fixed as quickly and as safely as possible, and indeed intensify those efforts. Can the noble Baroness the Leader tell the House what the Government's targets are for remediation work being completed?

Legislation in the last Parliament, as the noble Baroness acknowledged, reformed our fire safety and building regulation regimes through the Fire Safety Act and the Building Safety Act, and created a new building safety regulator and a new building safety regime. There was also change to statutory guidance in *Approved Document B* to ban combustible construction materials and reduce the threshold for sprinklers in new blocks of flats. It also introduced requirements for evacuation alert systems and secure information boxes.

I agree with the noble Baroness the Leader of the House that further measures will be needed on top of these to ensure that the regimes remain fit for purpose. The inquiry has recommended regular updating of *Approved Document B*, the appointment of a chief construction adviser, a single regulator and a single responsible Secretary of State. I can assure the noble Baroness that we will work with the Government to support the delivery of any proportionate and necessary measures that follow the report.

Will the Government actually commit, as the report asks, to embedding regular reviews of *Approved Document B* so that it keeps up with developments in building technology? If the Government agree with the recommendation to appoint a chief construction adviser, can the Leader tell the House when they hope to commence seeking to appoint someone to this position? Will the Government consider, as was proposed to be necessary, machinery of government changes to ensure that there is one lead department responsible for such issues, going forward?

We must confront the failure of oversight by those responsible for ensuring the independence and rigour of testing and compliance. Sir Martin described, as the noble Baroness said, the Building Research Establishment's work with suppliers as "systematically dishonest behaviour". No one would wish to jeopardise criminal inquiries—I agree with the noble Baroness—but it would be a euphemism to describe some of the behaviour described in this report as shocking and shameful.

I welcome the Prime Minister's forthright commitment to continue to support the Metropolitan Police and the CPS in continuing to pursue criminal charges against a small number of developers and contractors who, knowingly and dishonestly, cut corners on building safety for financial gain. We stand foursquare with the

Government on that, and I hope that the noble Baroness will understand that we on this side strongly agree that disgraced firms should not benefit from future public procurement.

We all have lessons to learn from this inquiry: that includes the local council and, as the noble Baroness said, the tenant management organisation. The Social Housing (Regulation) Act 2023 was introduced to improve the quality of social housing accommodation, ensure better training and the professionalisation of senior social housing staff, and redress the balance between social landlord and tenant. I am pleased that the report acknowledged the difference that this Act will make for social housing tenants. As a Government, we listened to the Grenfell community throughout the passage of that Bill; noble Lords on all sides of this House played a valuable part in improving and delivering it, and I would like to thank them. When will the Government bring forward secondary legislation to implement the measures included in the Act?

At the time of the fire, my noble friend Lady May of Maidenhead apologised for local and national failures in response to it. I reiterate her apology and repeat my own profound sympathy and apologies to all those affected by the Grenfell fire tragedy. The word "community" is much used—perhaps overused—in some aspects of modern politics. The brave people of Grenfell, in all their diversity, by their courage and support for each other, by their determination to fight for what was right for their fellows and for others in the future, and never to accept a wrong, taught us what a true community is. We honour them. We will never forget all those who died and those whose lives were so brutally changed. We, and the whole House, will stand behind the Government in ensuring that justice is done and that such a horror must never happen again.

Lord Newby (LD): My Lords, the central conclusion of this long-awaited report is blunt and devastating. Sir Martin finds that building safety has failed for decades in central government, local government and the construction industry. He says that every single death was avoidable. From these Benches, we say a heartfelt sorry to the victims, their families and their friends.

One of the most shocking threads running through the report is that there has been no sense of responsibility and a lack of questioning inside various government departments, including by Ministers. The report says that the machinery of government and its agencies failed the victims, especially as a result of a lack of interdepartmental working. Fragmentation and a lack of curiosity resulted in inaction, delay and obfuscation, and this cost lives. This criticism also came up in the Infected Blood Inquiry, the Hillsborough report, and the Post Office Horizon report. That is why, from these Benches, we have long advocated for a duty of candour, and we are pleased that the Government have committed to introducing it. Can the Minister say when this legislation will appear?

In the meantime, what changes have been made to ensure that civil servants and public agencies ensure that Ministers are always told the truth, however

uncomfortable it may be? Specifically on building safety, can the Minister say what steps the Government are taking to ensure that everyone across government knows who is in charge, and how the current culture can be changed to ensure that no more tragedies like Grenfell can happen again?

The failures of the construction sector—whether regulators, manufacturing companies, builders, maintenance or management agents—are also shocking. The 2018 Hackitt report, with 50 reforms for the sector, was accepted by both Sir Martin and the last Government, in 2019. The key was to strengthen the golden thread of safety running throughout the sector, from manufacturing to regulation and training. When will there be an update to Parliament on the implementations of the Hackitt recommendations? In particular, can the Minister say when she expects the Government to appoint a cladding safety tsar, as proposed by Dame Judith?

At the heart of this report is the evidence of the poor treatment of individuals, especially those already marginalised in our society. Sir Martin speaks of

“a marked lack of respect for human decency and dignity”,
with

“those immediately affected feeling abandoned by authority and utterly helpless”.

These words could also be written about the other inquiry reports, such as those on Windrush and infected blood. This widespread lack of respect challenges all involved in public policy management, whether Ministers, politicians or officials, to change our attitudes. Central government must take a lead in bringing about this change, which requires a fundamental change in mindset. This will take time and commitment, but it is crucially important.

In this case, the tenant management organisation failed badly. Never again should social housing tenants be regarded as not worthy of safe housing. Never again should the vulnerable, especially the elderly and disabled, be regarded as not worthy of safety systems to get them out of burning buildings. In the light of the Dagenham fire two weeks ago, where there were locked exits and problems with the fire alarms, what are the Government doing to ensure that all blocks of flats, regardless of height, have working fire systems without delay?

Seven years on from the Grenfell fire, the delays in the removal of combustible cladding are now a national disgrace. As the noble Lord pointed out, the previous Government committed funds and said that they wanted to knock together the heads of the building firms and freeholders. But clearly more still needs to happen, and urgently. So what will this Government do to speed up the process of making safe the hundreds of blocks that still have inadequate cladding?

It is vital that the police and the CPS move at pace to review the report and investigate the individuals and organisations that Sir Martin says deliberately breached the law. Given the pressures on the police and the CPS, will the Government ensure that there are no further delays because they lack the resources to do the work? Justice further delayed is justice denied, and there have been enough delays already.

The Government have pledged to act on more than 50 recommendations in the report. Despite their initial commitments to move on them all, there is a danger that momentum may not be maintained, as we have seen with the recommendations of the Hackitt report. So can the Leader of the House commit to a full debate in your Lordships' House in the near future, and then a regular report back to Parliament, so that everybody can feel safe in their homes and those who behaved so appallingly in this case can be held to account?

Baroness Smith of Basildon (Lab): My Lords, I thank both noble Lords for their comments. I think the House is united, first, in an apology and, secondly, in determination and a sense of anger. As I read the inquiry report and felt that disappointment and sadness about it, the further I read, the angrier I got. It is quite hard to sustain anger, but by the end I was more than just bristling with anger, and I think anybody who read it felt exactly the same. So I am grateful for all the comments.

I will take the last point first. Yes, we commit to a debate in the House. This addresses points made by both noble Lords. The Prime Minister has committed to an update, within six months, on where we have got to, but there are things that can be done sooner and, where they can, they will be implemented sooner, with an annual update to the House. So there will be a regular update, and there will be an early debate, although I will not attempt to identify when; I leave that to the Chief Whip, who will come back.

The noble Lord will know that the height of buildings referred to in the report is currently 18 metres, but we have to see whether that is the appropriate level.

On when secondary legislation will come forward, it is being drafted now and there will be measures in the renters reform Bill to bring that forward. The police and the CPS will have the resources they need to do this job. Justice has been denied for far too long, and this should move on apace. Anyone who read the interviews with police officers involved in the investigations would have sensed their determination and commitment. Anybody who has spoken to the families or anyone affected will be nothing but moved and determined to support and help them. I went to one of the hearings in Church House. There is always a sense of guilt: when you hear something and are deeply moved by it, you realise what it must have been like to be there at the time, even though all you are doing is hearing it and being deeply moved at that point. So there is an absolute determination that resources will not prevent proper investigations and prosecutions.

The duty of candour will come forward. The noble Lord, Lord Newby, is right to raise this: there does seem to be a theme of people being ignored or not taken seriously. Many years ago, when I was a Minister in Northern Ireland, there was a report into the deaths of children in hospitals there. The first recommendation for the Northern Ireland Government was that there should be a duty of candour—in other words, for public servants to tell the truth. That also protects junior members of staff, who may feel under pressure from more senior members not to say exactly what they know. Bringing that forward, I was pleased to see that in our manifesto.

[BARONESS SMITH OF BASILDON]

On the management of buildings and how we manage public policy, it is worrying to read the report and see how many opportunities there were to prevent this happening. Information was withheld, including information on the testing of combustible materials. The culture change on this starts from the top. Ministers have to be told uncomfortable facts and create a climate in their departments whereby, if they are brought information that is not what they want to hear, that is difficult and uncomfortable, when action has to be taken by government and may be expensive, that information will be brought to them and members of their departments will be encouraged to do so.

On the removal of cladding, we are accelerating that process. It is a tragedy that in Dagenham that work was ongoing and had not been completed, which also caused a problem. There is the scale of the challenge—4,630 residential buildings over 11 metres have been identified as having unsafe cladding—yet, so far, all these years on, only 50% have either started or completed that remediation work. That has to continue apace, and we must do so as quickly as possible. There is now a route to do so, and access to government funding, as well as a way of identifying whether any buildings have been missed there.

4.05 pm

Lord Young of Cookham (Con): The Leader of the House will recognise that the Building Safety Act does not cover all buildings at risk or all leaseholders, and it does not cover all safety defects. She recognised that they may need to look again at the buildings under 18 metres, which get no help at all. I shall press her on something that the Prime Minister said last Wednesday:

“We cannot suggest for a minute that the existing legislation, guidance and policy is sufficient. We need more powers”.—[*Official Report*, Commons, 4/9/24; col. 326.]

He was right. Will we get that new legislation in this Session?

Baroness Smith of Basildon (Lab): The first stage is to look at what can be done with existing legislation or under the legislation that has been brought forward already, and then examine whether new legislation is required. If it is, the Government will do their best to bring it forward as quickly as possible. This is not something that we want to leave and see a further tragedy. We have seen too many tragedies; this is not the first case. I am not going to give a commitment as to when it will be brought forward, but I shall say that it will be as quickly as it can be.

Baroness Chakrabarti (Lab): My Lords, I declare an interest as a Member of your Lordships’ committee looking into the operation of statutory inquiries at the moment. I thank my noble friend the Leader for the clarity, compassion and, indeed, righteous anger of the Statement, and I thank the noble Lords, Lord True and Lord Newby, for the tone of their responses.

How can we ensure that deregulatory zeal and the desire to cut so-called red tape never again becomes the basis for compromising human decency, dignity and protection?

On the time that it takes to investigate and prosecute, I agree with my noble friend that independent investigations and prosecutions, and indeed trials, should not be compromised. But given the fabulous way in which the Government responded over the summer to the racist riots by ensuring that the authorities had the resources they needed to accelerate the process, are the Government confident that they can ensure that the police, prosecutors and so on have the resources, including specialist resources, that they need to bring matters quickly to a conclusion?

Baroness Smith of Basildon (Lab): On the first point that my noble friend raises, there is an issue about deregulation, which should always be seen in the context of what is appropriate; it is not about the numbers of regulations that we have. Most importantly, what struck me when reading this report was that, although deregulation was certainly part of the issue, honesty and dishonesty were an even greater part. Parts of the report refer to deliberately concealing from the market the true extent of the danger, systematic dishonesty, how a company embarked on a dishonest scheme to mislead its customers in the wider markets, as well as a deliberate strategy to continue selling those products in the face of a statement about the fire performance which they knew to be false. The scale and depth of the dishonesty there is extraordinary. So regulation is important, but the point about honesty, misleading information and systematic failures runs so through deeply throughout this that there are multiple threads to the failure.

On resources, the Prime Minister has made it clear that they should be made available to ensure that prosecutions can be brought, if that is the view of the police and the CPS, and that they will have the resources to do so.

Baroness Brinton (LD): My Lords, six people died in the Lakanal House fire. The coroner said in that inquest, published in 2013, that, if Lakanal House had had sprinklers, not one of those six deaths would have happened. While it is good that the Government have accepted the need to review the height of 18 metres, there has been no mention about sprinklers, not just in new buildings but in tall, older buildings. Will the Government reconsider ensuring that sprinklers are retrofitted, particularly in the most high-rise flats? Also, while the Statement recognises the need for residential personal emergency evacuation plans, can the Minister please confirm that work will be done with disabled communities before decisions are made, which did not happen with the previous Government when they created their interim versions earlier this year?

Baroness Smith of Basildon (Lab): Yes; the noble Baroness is right that we have to engage with those who will be directly affected. Work is ongoing on that now. On the point about sprinklers, it is one of many solutions in terms of reducing the risk of damage from fire. Sometimes it can actually be quite difficult to do. All options are open in looking at how to ensure that buildings are safe.

Baroness Sanderson of Welton (Con): My Lords, the Leader makes a very good point about anger. If that is how it made us feel, can you imagine how

difficult that report must have been for the victims last week? “Systemic dishonesty”, “persistent indifference”, “basic neglect”, “a cavalier attitude”—all terms used by Sir Martin to describe the behaviour of everyone involved, from the manufacturers and contractors to national and local government and the oversight and regulatory bodies.

Sir Martin has made a series of carefully considered recommendations. I mention just one, recommendation 113.4, and declare a similar interest regarding the committee I am on:

“We recommend that it be made a legal requirement for the government to maintain a publicly accessible record of recommendations made by select committees, coroners and public inquiries together with a description of the steps taken in response”.

Progress on recommendations obviously needs to be made, but victims and survivors also need to be able to see that progress is being made. So will this be one of those areas for early work that the Prime Minister outlined last week?

Finally, will the department look at the excellent monitoring system devised by the Home Office in response to the phase 1 recommendations? It is very easy to navigate and far more accessible than the usual GOV.UK updates but, inexplicably, it still has not been put into use.

Baroness Smith of Basildon (Lab): I pay tribute to the noble Baroness for her work, commitment and support for the victims of those in Grenfell; I know that she has visited the site and met them. I know how deep her commitment is—led, I think, by the anger that we all feel—and pay tribute to her for that also.

She is absolutely right: as we move forward on this, those who have been involved in supporting Grenfell survivors and those who themselves survived are going to need confidence; the Prime Minister referred to this in his Statement. It takes more than just words to reassure them that action has been taken. We need to look at an appropriate format so that it is easily understood what has been done, what is about to be done and the timescales. He has committed to come back with a full response “within six months”. I know that he and the team are looking now at what can be done within that time so I will take back the noble Baroness’s comments and, if there are examples of how it has been done in the past with open access, that would be a good thing to look at as a model.

Baroness Warwick of Undercliffe (Lab): My Lords, I want to raise the issue of remediation as it affects social housing. Nothing is more important to housing associations than the safety of their residents. They have been moving quickly to identify buildings with combustible materials and remediate them as quickly as they possibly can so that residents can feel safe in their homes, as they should be able to. They need to do more; they want to do more.

The previous Government took a decision that meant social landlords cannot access the building safety fund and cladding safety scheme in the same way that private building owners can. Private building owners have received 90% of the government funding available for remedial works to buildings 11 metres-plus

high. There is almost no public funding available for works to flats where social tenants live. Will the Leader of the House urge the Government to reconsider the previous Government’s decision so that housing associations can ensure their residents’ safety more quickly?

Baroness Smith of Basildon (Lab): My Lords, I understood that different schemes were in place, but I will take that back, look into it and come back to my noble friend with a response.

Baroness Pinnock (LD): My Lords, thousands of leaseholders and tenants are still living in blocks that are unsafe. I thank the noble Baroness the Leader of the House for the commitment she has given to speeding up remediation works. However, some leaseholders are not included in the current scheme, as non-qualifying leaseholders of various sorts. Will the Minister commit to reviewing the qualification of leaseholders for the scheme to get the cladding on their homes removed? They are, as are others, living in places where they fear fire every day.

Baroness Smith of Basildon (Lab): My Lords, nothing is more important than feeling safe and secure in your own home. My noble friend Lady Taylor, who is sitting with me, is well aware of this as a former council leader. The department is aware of the issue and is looking into it.

Lord Cromwell (CB): I add my thanks to the Leader of the House for the very moving and, in a true sense, infuriating sharing of that Statement. I think we would all agree that dealing with the issues has been far too slow. As the noble Lord, Lord Newby, and others have pointed out, it is now seven years since Grenfell. Is it to be reasonably expected, given the size of the challenge, that, when we reach the grim 10th anniversary—or even the 15th—there are still going to be buildings with flammable cladding on them?

Baroness Smith of Basildon (Lab): I very sincerely hope not. It is our intention to accelerate this as quickly as possible. It would be a failure if, in 15 years, we still had cladding on those buildings. We would not be fulfilling our obligations as a Parliament, a Government and a country.

Baroness Manzoor (Con): My Lords, I thank the noble Baroness for repeating the Statement and for the empathy and sympathy that she has shown. It is very sad that there are many people throughout who are marginalised and do not feel that they have access to the appropriate services, whether in the NHS or in the housing sector.

I come back to the point made by the noble Lord, Lord Newby, around the duty of candour and whether the Government will look at this particular issue across different departments; whether it will need primary legislation; and whether something can be put in place around this duty in terms of procurement services for external bodies, which will help immensely. I concur with the noble Baroness, Lady Chakrabarti: seven years is far too long, and we need to see justice being done. To my mind, there is ample evidence of where

[BARONESS MANZOOR]

things have gone wrong. We should support the CPS to move to prosecutions very quickly; otherwise, this will be another injustice done on top of what should already have been avoided.

Baroness Smith of Basildon (Lab): The noble Baroness is right but I think we would all want to ensure that the CPS has the time and the resources to ensure that, if it brings prosecutions, it is confident that it has the evidence to prosecute so that it can be fully considered. That is partly why this is taking so long but we are assuring it that this will not be a matter of resources; we want it to do its duty as quickly as it can.

We have made a commitment to the duty of candour; it is a really important factor. When the legislation comes before your Lordships' House, it will be primary legislation and considered in the usual way. I sense that the time has come. I remember that, when this was first mooted a number of years ago, there was quite a resistance towards it in terms of why it was required—that is, why did we need a duty of candour? I think we all know why we need a duty of candour now.

Lord Harris of Haringey (Lab): My Lords, I refer to my interests in the register on preparedness and resilience. There are a lot of parallels between this report and the report that we debated last week on the Covid inquiry, particularly the importance of clarity about who holds responsibility for particular things. In the case of the Covid inquiry the noble and learned Baroness, Lady Hallett, was talking about system-wide risks and contingencies. This report is very clear about who holds the responsibility when several departments and several agencies might be involved. Can my noble friend tell us how that will be taken forward and whether these common themes will be picked up?

The other issue I wanted to raise, which was raised by a number of noble Lords, is about responding to inquiries and inquests. This occurs throughout the public sector. It happens in the health service, and I know from the work I have done in the past on prisons that the same sorts of recommendations are made time and again there. Too often, a response is sent to the individual coroner which says, "We've established a committee to look at this"—and that is the end of the response. Never is it explained what lessons have been learned and what lessons have been acted on, and how that is working. How will this be turned into something which operates effectively and systematically across the public sector?

Baroness Smith of Basildon (Lab): That is the great challenge for government and public sector organisations. The Chancellor of the Duchy of Lancaster is leading on a resilience review, and that is the kind of issue that should be brought forward. Unless you are joining the dots on this, we will hear this same theme. As has been mentioned already today, whether you are looking at Hillsborough, Covid—as the noble Lord mentioned—or this incident, in every single case, people gave warnings and were not believed. That is often compounded afterwards because trying to get to the truth is made harder than it ever should be.

In this case, the last Government did the same, setting up the inquiries. Getting to the truth is the first part of being able to take the action needed. It then needs that determination to see it through. When the Prime Minister made the Statement in the House of Commons, he acknowledged that just words are not enough; we have to see this through with actions. The resilience review is part of it but we also need to learn the lessons. Sometimes when we are looking across government at what needs to be done—Covid is an example again—we may think, "Everything's okay at the moment; there is no problem". You have to prepare for the worst-case scenario to ensure that if there is a difficulty or a problem, we have the resilience and the resources in place to deal with it.

Lord Shipley (LD): My Lords, the Minister just mentioned resilience. The Statement itself does not say very much about emergency planning and resilience, yet Sir Martin Moore-Bick says at chapter 113.73 that the Royal Borough of Kensington and Chelsea

"was not able to provide an effective response to the emergency", and he therefore recommends that

"local authorities train all their employees, including chief executives, to regard resilience as an integral part of their responsibilities".

This is pretty basic. Can the Minister ensure that the Government take steps to enable resilience and emergency planning to be seen as a central duty of local government?

Baroness Smith of Basildon (Lab): The noble Lord is absolutely right. I can remember from a time when I was a county councillor that the emergency planning committee was quite a central committee of the council; we do not see so many of those around these days. Unless we address the issue of resilience and preparedness at every level of government, we will not be in the right position to deal with problems, as I said in my previous answer. Yes, work is ongoing across government on that issue now.

Lord Kerr of Kinlochard (CB): One of the striking and shocking aspects of this brilliant report is the proof that requiring regulators to operate commercially, competing for business, risks their capture by business. Grenfell shows the piper playing the tune that business wanted and that cost lives. I hope the Government will take up the recommendation to have a single regulator for the construction industry, and I really hope that they will site that regulator and all its regulatory functions in the public sector.

Baroness Smith of Basildon (Lab): One of the starkest issues in here is about dishonesty, incompetence and responsibility, including not even checking the qualifications of those responsible for undertaking inspections. I do not know if the noble Lord's response to the report was similar to mine but, as he can see if I hold it up, there are lots of pink and red marks where I have highlighted it. I went through it thinking at every stage, "How did this happen? How could this happen?" I am grateful to him for his comments, and we will report back to the House on those points.

Lord Naseby (Con): My Lords, I am sure I speak for the whole House in thanking the Leader of the House for coming to us today, and for the clarity with which

she made the Statement. I raise two quick questions. First, it has been my privilege to be involved in social housing ever since I was elected to the London Borough of Islington and became the housing chairman there and, subsequently, as Member of Parliament for Northampton, a new town. In relation to who should drive this forward, it seems to me that she has sitting on her right-hand side somebody who has been involved with the new towns commission. That might not be the right vehicle, but it works in relation to housing and quick decisions on issues. We may need some variation of that, but I put that forward as a suggestion.

Secondly, missing all the time—and I questioned my Government about this—has been any real contribution from developers on the continent of Europe, some of whom were involved in various developments. So far, to the best of my knowledge, we have had no financial contributions from the construction companies involved from outside the UK. We ought to look very closely at that, particularly as our construction companies—to the best of my knowledge, the vast majority—have contributed so far.

Baroness Smith of Basildon (Lab): Yes, I think where companies have been international there has been greater difficulty in that regard. I thank the noble Lord for his comments about my colleagues. My noble friend Lady Taylor—now a Minister in the department—has experience in local government that is a huge asset to us, but also my noble friend Lady Twycross was the deputy mayor for fire and resilience in London. I assure him that there is great determination, which we feel quite personally, to ensure that we move forward as quickly as we can with respect to those who suffered because of this fire.

Budget Responsibility Bill

Second Reading (and remaining stages)

4.29 pm

Moved by Lord Livermore

That the Bill be now read a second time.

The Financial Secretary to the Treasury (Lord Livermore) (Lab): My Lords, at the general election, our manifesto made it clear that sustained economic growth is the only route to improving the prosperity of our country, raising living standards, and sustainably funding public services. That is why it is our central economic mission.

On her first day in the Treasury, the Chancellor received new economic analysis from Treasury officials on the lost growth of the past 14 years. This analysis showed that, had the UK economy grown at the average rate of other OECD economies, it would now be over £140 billion larger. This could have brought an additional £58 billion in tax revenues in the last year alone—money that could have revitalised our schools, hospitals and other public services. We have therefore urgently begun the work to deliver on the mandate for change delivered by the British people at the election to fix the foundations of our economy, rebuild Britain and make every part of our country better off.

Our approach to growth rests on three pillars: stability, investment and reform. We have set out ambitious reforms, most importantly to the planning system, the

single biggest obstacle to our country's economic success. We have ended the ban on onshore wind and set out reforms to the skills system. With regard to investment, we have established the national wealth fund, committed to an industrial strategy council, and begun the creation of GB Energy. But the first, and most critical pillar, is economic stability—it is the rock on which all else must be built and the essential precondition for growth.

Over the last 14 years, with five Prime Ministers and seven Chancellors, instability has deterred investment, undermined family finances and, most importantly, held back growth. Many of the crises we faced during that time were of course global in origin—pandemic, war and an energy shock—but other countries faced those same shocks. The reason why we in the UK were hit harder than other comparable countries can be explained only by the choices made by the previous Government here at home: austerity, which choked off investment; a rushed and ill-conceived Brexit deal; and the disastrous Liz Truss mini-Budget, which crashed the economy and sent mortgage rates spiralling.

We believe that stability must begin with respect for our economic institutions. For much of the UK's history, the strength of our economic institutions has bestowed credibility in international markets and underpinned our economic success. Politicians who seek to undermine those strengths, as we saw in the last Parliament, play a dangerous game. Under this Government, the Bank of England's Monetary Policy Committee will continue to have operational independence in the pursuit of its primary objective of price stability, and, in line with our manifesto, we will support and strengthen the Office for Budget Responsibility, hence the Bill we are debating today.

The OBR was, of course, introduced by a Conservative Chancellor to deal with a lack of independence in forecasting and the problems that had caused. It was a commendable move, bringing greater transparency and independent scrutiny to fiscal policy. But while the previous Government then went on to undermine it—Liz Truss notoriously saying that she wanted to “see the back of the OBR”—

the Labour Party continued to support it. Now, in government, we will strengthen it.

This Bill therefore fulfils a simple but important step to help restore economic stability: it brings transparency and independent scrutiny into law by ensuring that every fiscal event that makes significant changes to taxation or spending will be subject to an independent report from the OBR. In doing so, it delivers on a manifesto commitment.

Let us be clear about why this Bill is needed. While the existing fiscal framework requires at least two OBR forecasts a year, there is currently no requirement on the Treasury to subject announcements on all fiscally significant measures to independent OBR scrutiny. In effect, that means there are times when the Government can make fiscally significant announcements while opting out of both transparency and scrutiny. This was a key factor in the disastrous Liz Truss mini-Budget, which did so much damage to our economy and to households, who are still paying the price for it today.

The previous Government knew the measures they were taking were unfunded and unaffordable, but as they were not bound to a forecast, they wilfully prevented

[LORD LIVERMORE]

one from taking place. This absence of scrutiny was a key factor in the adverse market reaction that followed. As the now shadow Chancellor said at the time, the mini-Budget damage was in part

“caused by the lack of a forecast”.—[*Official Report*, Commons, 17/10/22; col. 395.]

This cannot be allowed to happen again, so this Budget Responsibility Bill takes five important steps.

First, the Bill requires that, before the Government make any fiscally significant announcement in Parliament, the Treasury must ask the OBR to prepare a report which takes that announcement into account. This builds on the existing process whereby the Chancellor commissions the OBR for an economic and fiscal forecast to accompany a fiscal event. It guarantees in law that, from now on, every fiscally significant change to tax and spending will be subject to independent scrutiny from the OBR.

Secondly, the Bill gives the OBR new powers independently to decide to produce a report if it judges the measures in a fiscal event to be fiscally significant. If a fiscally significant announcement is made without the Treasury having previously requested a forecast from the OBR, the OBR is required to inform the Treasury Committee in the House of Commons of its opinion, and then prepare a report as soon as is practicable.

Thirdly, the Bill defines a measure, or combination of measures, as “fiscally significant” if they exceed a specified percentage of GDP. The Charter for Budget Responsibility will then set the precise threshold. Setting the threshold in this way provides clarity for the OBR and external stakeholders about what constitutes a fiscally significant announcement and ensures that the Government can set it at the right level going forward, recognising economic conditions. The Treasury has published a draft of the updated charter. This notes that the threshold level will be set at announcements of at least 1% of nominal GDP in the latest OBR forecast.

Fourthly, the Bill ensures that these arrangements do not apply to Governments responding to emergencies. The Bill does this by not applying in respect of measures that are intended to have a temporary effect and which are in response to an emergency. The charter will define “temporary” as any measure that is intended to end within two years. This recognises that it is sometimes reasonable, as it was during the pandemic, for the Government to act quickly and decisively without an OBR report, if that is needed in response to a shock. Of course, in emergencies it may be appropriate for the Chancellor to commission a forecast from the OBR to follow measures that need to be announced or implemented rapidly, and that would happen in the usual way. Alongside any such announcement, the Treasury will be required to make clear why it considers the situation to be an emergency. As set out in the updated charter, the OBR will have the discretion to prepare a report if it reasonably disagrees.

Fifthly and finally, the Bill requires the Government to publish any updates to the detail of these arrangements, such as the threshold level at which they are triggered, in draft form at least 28 days before the updated charter is laid before the House of Commons. This is

an essential safeguard in the Bill, preventing any future Government from choosing to ignore these arrangements by updating the charter without clear parliamentary consent. In line with this Bill, and as the Chancellor announced in July, she has commissioned a full forecast to accompany the Budget on 30 October, following the important principle that significant fiscal policy decisions should be made at a fiscal event and accompanied by an independent OBR report.

In the Chancellor’s July Statement to Parliament, and in light of the scale of the overspend left by the previous Government, of which the OBR has confirmed it had not been informed, she also announced additional measures to strengthen the fiscal framework. These require the Treasury to share with the OBR its own assessment of immediate public spending pressures, enshrining that rule in the *Charter for Budget Responsibility* and establishing that spending reviews will take place every two years, with a minimum planning horizon of three years, to avoid uncertainty for departments and to bring stability to our public finances.

The changes introduced in this Bill are an important step in bringing much-needed stability to our economy. By empowering the OBR and ensuring that an independent report will accompany all fiscally significant announcements, it will improve transparency and accountability. Economic stability is central to economic growth—objectives that I hope will be shared across your Lordships’ House. I beg to move.

4.37 pm

Lord Altrincham (Con): My Lords, we thank the Minister for bringing forward this important Bill. Perhaps we should also thank the OBR for its very good work over these past 14 years. We in Parliament have been concerned about the supervision of financial regulators, and we did a lot of work last year on strengthening the supervision of other financial regulators in the Financial Services and Markets Act. Separately this afternoon, the Industry and Regulators Committee has been looking at a whole range of independent agency regulators with a very mixed performance.

It is worth pausing for a moment on the Office for Budget Responsibility itself, which is widely admired across government, in Parliament and, as the Minister says, by the current Government. It is to its credit that it managed to find a way to work closely with government, but independently and transparently. We should mark this with respect, given how stressed the government finances are.

A core objective of the OBR is, of course, the sustainability of the public finances. Perhaps we should look at how that has been since it was set up, following the 2011 Act. In 2012, public sector debt to GDP was 74%. One way or another—by spending the fiscal headroom across various Governments, and following the different issues that arose—we are now at 98%, which is a rise of around 2% per year in debt to GDP. This kind of budget responsibility is becoming almost unaffordable to the public exchequer, and things will have to change.

They will have to change because the scale of public spending—to the tune of £1 trillion a year—requires very good forecasting, and some of the forecasting

that underpins this tight nexus between the Treasury, the OBR and their own reviews has been challenged. The OBR substantially missed the inflation change; lots of other agencies missed it—less in the private sector than in the public sector—and that is a problem because it hints at a closeness between the OBR and the Treasury because it was agencies of government that all missed the inflationary change. The OBR reviews its own forecasting very carefully, so when it reviews that error, it will tend to look at supply shocks in Ukraine and downplay quantitative easing and rates. That is one area of weakness, but there are others that will affect this concept of the fiscal announcement.

The OBR has struggled with basic numbers around population. It tended to underestimate population and is now scrambling to increase population in its model, which currently has a population of 57 million adults in the UK in 2029. This number is extraordinarily sensitive, obviously, for estimates of average wages and welfare spending. The OBR says that modelling those kinds of assumptions is very difficult because they are modelled off much lower levels of immigration than we are currently seeing, and these are the kind of numbers that would trigger enormously different fiscal outcomes in the Treasury/OBR model. There are other numbers in the forecast which are very sensitive, and the OBR itself mentioned this, but it is important that we reflect on this as we think about how this kind of fiscal brake might work. The OBR is modelling the expected tax take out of the economy to reach 37% of GDP in 2029. It is essential, of course, that it does reach that kind of level, but it is unknowable whether the economy can really sustain that level of taxation. It is a modelled outcome—we must all collectively hope it can work, but it might not, and therefore inherent in the actual forecasts are very significant fiscal risks.

One other area to mention in the OBR numbers that will underpin the Budget in October is the huge variable of accounting for the economics between the Treasury and the Bank of England. This is an extraordinarily enigmatic subject, not particularly well explained by the OBR itself, whereby the Bank can, at its discretion, impose costs on the Treasury which themselves could become very significant in these fiscal numbers. My question to the Minister is: what should we expect the costs of the asset purchase scheme to be between the Treasury and the Bank of England for this year? Will that be an area in which the Treasury can balance the numbers that it believes are a black hole? The kind of scale of adjustment is easily that big—for example, the Bank of England could easily stop issuing gilts for the coming months, seemingly at its discretion—so maybe the Minister could clarify that.

I end with the Chekhov question. Chekhov used to say that when you see a revolver on the mantelpiece in the first act, it will always be fired before the final curtain. I ask the Minister whether we can expect the fiscal announcement, beautifully described in Clause 1 as the “section 4(3) report”, to take place in this Parliament.

4.43 pm

Lord Macpherson of Earl's Court (CB): My Lords, this is a sensible Bill to strengthen a sensible institution. The creation of the Office for Budget Responsibility, together with the granting of operational independence to the Bank of England, has transformed macroeconomic policy-making in the UK, and it is no coincidence that the premium the UK has had to pay on its debt, relative to its G7 partners, has declined over the last 25 years.

Economic forecasting is a thankless task. Forecasts are invariably wrong. The late Denis Healey's commented that he would like to do for economic forecasters what the Boston Strangler did for the reputation of door-to-door salesmen. In an ideal world, forecasts would not be necessary. However, Governments have to plan public spending and the taxes necessary to pay for it. They need to do so over the medium term to better understand the implications for borrowing and the debt market. Somebody has to make the projections on which the decisions that determine the well-being of the nation are based.

Over my career at the Treasury, I worked on well over 60 fiscal events. For over 50, the Chancellor determined the forecast. It is fair to say that, on the vast majority of those occasions, the Chancellor did not seek to interfere with the forecast that Treasury officials presented to him. Even then, he often had to resist pressure from the First Lord of the Treasury to raise the growth rate just a little to make tax cuts or public spending increases more “affordable”—I emphasise the inverted commas surrounding the word affordable.

Whether or not Prime Ministers or Chancellors interfered, the perception of the markets was that they did. The result was that the forecast's credibility was always called into question and that the taxpayer had to fund an interest rate on government debt that was slightly higher than it needed to be. Two years ago, that term came to be known as the “moron premium”. I emphasise that the OBR is no better at forecasting than other institutions; the importance is that its forecasts are perceived to be unbiased, and this is borne out by the evidence.

On the detail of the Bill, I welcome the Government putting a number on what constitutes fiscally significant. It may be a little on the high side—most fiscal events over the last 30 years have made a fiscal adjustment of less than 1% of GDP—but I see the problem in setting it too low and triggering an endless round of forecasts.

I also welcome the Government's determination to improve the credibility of public spending projections. We should be in no doubt that an incredible spending forecast is the source of the problem with which the Government are now wrestling. Had the previous Government been required to populate their spending plans with policy decisions, I rather doubt that they would have announced successive cuts in national insurance contributions.

The measures set out in the Chancellor's letter to Richard Hughes of 29 July are a big step forward: in particular, a clear timetable for spending reviews and a requirement for the Treasury regularly to update the OBR on emerging spending pressures. Allowing the

[LORD MACPHERSON OF EARL'S COURT]

OBR to publish, in effect, corrected spending plans will improve decision-making, even if it makes life more difficult for the Chancellor in the run-up to an election.

As the Government consider further reforms to the OBR framework, I encourage the Treasury to focus on another issue that also muddies the waters in the run-up to an election: the costing of opposition policies. Every four or five years, we have to go through the absurd theatre of the Chancellor of the day publishing, to great fanfare, official costings of their opponents' policies. Of course, they are not official costings, since the assumptions are determined by Ministers and their special advisers. The Opposition are always rightly indignant at the time, claiming that the process is terribly unfair. I had to field unhappy telephone calls from shadow Chancellors from both main parties. But, once in government, parties have an uncanny knack of forgetting about the unfairness.

While the present Government are still in their early days of missionary zeal, I encourage them to resuscitate the 2015 proposal of the then shadow Chancellor, Ed Balls, to put opposition costings in the hands of the OBR, as happens in countries such as Holland. I ask the Financial Secretary to raise this issue with the Chancellor when he returns to the Treasury.

4.48 pm

Lord Eatwell (Lab): My Lords, the OBR was created by George Osborne to

"remove the temptation to fiddle the figures".

An entirely non-political evaluation of major fiscal measures was certainly a good idea; unfortunately, it has not yet been achieved. The failure to attain political independence may be attributed to two elements that are not dealt with in the Bill yet are essential to its purpose.

First, key inputs to the OBR's work are the estimates of future spending provided by the Government. We now know that these can be politically manipulated to ensure that fiscal targets seem to be met. As the Institute for Government commented at the time of the Conservative Budget this Spring,

"the figures that Hunt announced ... are based on entirely fictitious future spending plans".

Since the election, we have learned that not only were the Conservatives fiddling the figures that they provided to the OBR, but they were concealing spending plans too. In the light of post-election findings, Mr Hughes confirmed that the OBR was made aware of the extent of pressures on departmental budgets only in late July. Happily, the Financial Secretary has just outlined the measures that are to be taken to verify the data supplied by the Government. These measures are most welcome.

The second key political element undermining the value of the OBR's current assessments is the current formulation of the charter. The current charter embodies three targets that the OBR is required to assess; unfortunately, none of them is based on sound economics.

First, there is the objective to have public sector net debt—excluding the Bank of England—as a percentage of GDP falling by the fifth year of the rolling forecast period. As the noble Lord on the Opposition Front

Bench just pointed out, this means that whenever the Bank of England sells part of its stock of government debt to the private sector, it automatically tightens the noose around government spending. An important part of monetary policy has damaging consequences for fiscal policy—how foolish is that?

More importantly, the objective treats all government expenditure as having the same economic relevance. A crazy unfunded tax cut is assigned the same economic impact as investment in industrial infrastructure. As the Chancellor of the Exchequer argued in her Mais Lecture while still the shadow Chancellor,

"our fiscal rules differ from the government's. Their borrowing rule, which targets the overall deficit rather than the current deficit, creates a clear incentive to cut investment that will have long-run benefits ... I reject that approach".

Unfortunately, the next objective, to ensure that public sector net borrowing does not exceed 3% of GDP by the fifth year of the rolling forecast period, is simply a dynamic version of the first objective and is, therefore, subject to the same rejection that the Chancellor has made.

The third and final objective is to ensure that expenditure on welfare is contained within a predetermined cap. One of the important operational aspects of economic policy is the value of the automatic stabilisers in the economy: when the economy booms, welfare spending automatically goes down; in a slump, welfare spending automatically goes up. The notion of a cap would emasculate the automatic stabilisers—again, a silly thing to do.

In short, none of the current objectives in the charter makes sound economic sense. It forces the OBR to make forecasts that are simply not relevant for the Government's stability and growth objectives. It is imperative that the charter is revised prior to the Budget on 30 October. Given the requirement that revisions of the charter must be presented to Parliament 28 days before coming into effect, will the Minister tell us whether we can expect a revised charter to be presented before 1 October?

To conclude, the OBR is a very good idea, as is this Bill, but major operational aspects need urgent correction. I look forward to hearing from the Financial Secretary how these deficiencies are to be dealt with.

4.53 pm

Baroness Noakes (Con): My Lords, I have a number of regrets about the Bill. My first regret is that it is a money Bill. It is customary that this House does not challenge the decision of the Speaker in the other place, and I will not do so. It is not, however, a Bill that has any direct fiscal impact, but it makes changes to a body that has become an integral part of the country's economic management. I believe the Bill would have benefited from a normal Committee, where we could have scrutinised it in detail. For example, noble Lords might recall that when income tax was first introduced in 1799, it was labelled a temporary tax, which raises interesting questions about this Bill's exclusion of temporary measures from the OBR's new powers.

Secondly, I regret that the Government have not taken the opportunity to ensure that the OBR's forecasting is fit for purpose. My noble friend Lord Altrincham

raised several of the issues here. On its own internal assessment, the OBR is not particularly good at forecasting. It claims, with no sense of irony, that its performance is in line with that of the Bank of England. The noble Lord, Lord Eatwell, from whom we have just heard, pointed out in his speech on the gracious Speech in July that the OBR was set up to reinforce austerity and is ill-suited to underpin the Government's growth ambitions. In the same debate, I argued a similar point: the OBR does not use dynamic modelling, so growth measures will struggle for a full evaluation in the OBR's calculations. These areas would have been a better target for the Government's reforming zeal.

Thirdly, I regret that the Bill does not ensure that the OBR operates to high standards of governance. I cannot think of another public sector body which has an executive chairman and does not have a majority of non-executive directors. Like most independent quangos, its external accountability arrangements are weak. It is quite simply dangerous to allow a public body, which can exert great influence on the Government's fiscal policies, to exist with weak internal governance alongside weak external accountability.

Lastly, I regret that the Government have used this Bill to peddle untruths for political purposes. At Second Reading in the other place, the Chief Secretary said:

"The country cannot afford a repeat of the calamitous mini-Budget of September 2022, when Liz Truss and Kwasi Kwarteng's reckless plans unleashed economic turmoil that has loaded hundreds of pounds on to people's mortgages and rents".—[*Official Report*, Commons, 30/7/24; col. 1211.]

The Minister repeated the substance of that in his opening remarks. The fact is that interest rates were already on the way up in the fight against inflation, and they remain high for the same reason. They did spike immediately after the mini-Budget, but the Bank of England's own internal analysis shows that two-thirds of the 103 basis points spike in the 16 days after the mini-Budget was due to the Bank's own mismanagement of the risks inherent in LDI strategies. Furthermore, the Bank had already unsettled financial markets by failing to raise interest rates in line with the US and with market expectations. It does not reflect well on either of the Chancellors who succeeded Kwasi Kwarteng that they have turned a blind eye to these truths.

It was political opportunism that led to the creation of the OBR, and it is the same motivation driving this Bill. This is a poor foundation for legislation.

4.58 pm

Lord Hain (Lab): My Lords, two years ago the Tory faithful showed that they had no firmer grip on reality than Liz Truss by choosing a Prime Minister who engineered her own downfall and now blames absolutely everybody else. The infamous Truss mini-Budget provoked a crisis of confidence in Britain's public finances by sidestepping the Office for Budget Responsibility, and this Bill will ensure that cannot happen again. The financial turmoil around the Truss mini-Budget, with its reckless £46 billion package of unfunded tax cuts and cavalier attitude to government borrowing, added to the economic chaos that seven successive Tory Chancellors caused over 14 years in office since 2010, dumping an appalling legacy in Labour's lap.

First, they left office with real household incomes lower than when they came into government and working people with the highest tax burden for 70 years. The main reason was appallingly slow economic growth, due in large part to investment being significantly lower than in other G7 economies. Had the UK economy grown as fast as the OECD average over the past 13 years, UK GDP would have been more than £140 billion bigger, providing some £50 billion of extra tax revenue for public services and lower borrowing.

Secondly, the Tories gave up their seals of office on the 76th anniversary of the NHS's launch with more than 7.6 million patients waiting for hospital treatment in England.

Thirdly, national debt, which stood at 65% of GDP in 2010 even after the financial crisis, is now touching 100%. The Tories have also bequeathed to Labour a huge £22 billion budgetary black hole about which Tory Ministers deliberately kept quiet and with which the Chancellor is now having to wrestle. She is right to stress that 14 years of damage cannot be reversed in one Budget. The OBR estimates that the decade of fiscal austerity imposed by George Osborne and Philip Hammond added up to nearly 9% of GDP—82% by cuts to public spending and 18% cent by tax increases—equivalent in today's terms to some £200 billion of public spending cuts.

Do not forget that things could have been even worse. The noble Lord, Lord Cameron, admitted in his memoirs that, had he stayed in office after 2016, he would have pursued even more public spending cuts. George Osborne's last Budget in March 2016 revealed plans for another £60 billion of public spending cuts, which would have brought total Tory cuts to £260 billion. Fortunately, Liz Truss lost office before she could attempt similar economic and social vandalism—but then, in this summer's election, Rishi Sunak's dishonest promise of national insurance cuts of £13 billion and defence spending rises of £7 billion per year would have doubled the black hole that the Chancellor discovered.

When critics claim that the Chancellor has embarked on George Osborne-type austerity, she is absolutely right to insist that giving public sector workers their first real-terms pay increase in 10 years is certainly not that. Osborne's first Budget announced a two-year public sector pay freeze. Jeremy Hunt now claims:

"Labour have inherited a growing and resilient economy".

He says that because UK GDP grew in the first half of this year, yet GDP shrank in the second half of last year as the economy sank into recession. We may have stopped going backwards but we are not yet any further forward than we were an economically destructive and financially irresponsible Conservative year ago. The Bank of England now expects growth to slow, not speed up, in the third and fourth quarters of this year—another sign of Tory failure and nothing like the rapid turnaround that we experienced under the last Labour Chancellor in 2009 as the economy recovered from the terrible global financial crisis.

This Bill is designed to block any repeat of such Tory antics and to establish a future under Labour of economic growth and stability. It will not be easy, but thank goodness we have grown-ups running the country again.

5.03 pm

Lord Frost (Con): My Lords, I find this a peculiar Bill. There are a number of odd things about it.

First, as my noble friend Lady Noakes mentioned, it seems odd that this is a money Bill. I do not challenge the decision, obviously, but it does not seem to affect the Government's powers to raise taxes or spend in any way. I cannot help but notice that, as far as I can tell, the original Budget Responsibility and National Audit Act, which created the OBR, was not a money Bill, so it is odd that this one is. I do not question the decisions on this point but it does seem odd; I agree that it would have benefited from more scrutiny.

This feels more a constitutional Bill in some ways, but it is weak there too. The Minister billed it as a lock on government actions, and others have described it as such, but it does not actually stop the Government doing anything; it only requires the OBR to write a report if they do so, so it seems misconceived in those terms too. One has to ask what the point of the Bill is. It is, of course, a process Bill, but it is also a political Bill. It is written entirely to give an opportunity for the Government and the Labour Party to contrast their activity with the Liz Truss mini-Budget and the decisions taken in 2022. We have heard plenty of that already in this House today.

I think Labour will find two problems with that. First, as my noble friend Lady Noakes has already mentioned, the Bank itself says that two-thirds of the problem was its own mishandling of the LDI crisis. It is hard to see how, if this Bill had been in force and a report had been required, it would have had any effect on that aspect of the autumn 2022 problems. The other problem that the Government will find is that the world does move on. Their own so-called fiscal black hole, which they have already spent a large time creating, is where attention will move. They may regret this Bill before long, to judge by the Niagara Falls of public money that seems likely to pour out of the Treasury in the months and years to come.

I do not think that we are meant to take this Bill seriously. Outsiders recognise that; the IFS itself says that the proposal is "largely performative". Even the Resolution Foundation describes its impact as "relatively small". The real impact of the Bill will be to reinforce the position of the OBR in the constitution, but I am doubtful about that for two reasons.

First, for some of the reasons that have been said, the OBR is not a particularly effective institution. It clearly reinforces the Treasury view of the world. It has a poor record, as others have said and as it itself acknowledges. It is negative about Brexit and it repeats the zombie 4%-cut-to-GDP figure that was produced six years ago on the basis of reports put together before we even left the EU. It is doubtful about incentives and what makes a free economy tick. Forecasting is difficult—people bring their priors to it—but the answer is not to do it better or do more forecasts; the answer is to remove the privileged status of the OBR and the forecasts it gives in our economic decision-making. That is the first reason.

The second is that this Bill forms part of the tendency over the past 20 to 25 years to tie down elected Governments with Platonic guardians who think they know better than Governments. This is an intellectual error that began, reasonably enough, with Bank independence in 1997, but it cannot be extended to every single situation. Just because it is good for running monetary policy does not necessarily make it desirable to have independent controls on fiscal policy, to give independence to one regulator after another or to give independence to institutions with wider economic policy effects, such as the Climate Change Committee and many others. These are very different things. You cannot solve the problems that the country faces by constantly giving further independence to unelected institutions and bureaucratic processes.

I am afraid that this error has time to run yet. It is sapping democracy and will make it more difficult to deal with new economic challenges. I hope that, one day, we will reverse this trend and look at this panoply of constraints on government action with a much more sceptical eye.

5.08 pm

Baroness Wheatcroft (CB): My Lords, I welcome this Bill, short though it may be. We have already heard different views of the Liz Truss mini-Budget. I would merely say that it does seem advisable to try to thwart cavalier, determined efforts to avoid scrutiny by the OBR; it makes one slightly suspicious. However, the OBR can only be as effective as the information with which it is provided. It should be a cause of concern that the OBR chairman, Richard Hughes, has intimated that he was not kept fully in the picture towards the end of the previous Administration. We need to be very wary about a repeat of that.

I believe the whole basis of government accounting is flawed. It focuses solely on the short term, to the detriment of the country's longer-term interests. Take the current controversy over the winter fuel payment. I will not enter into the rights and wrongs of that decision—we have already heard about those today, and will hear a lot more—although it seems to be a very costly exercise in terms of political capital, for very little financial gain.

However, the £22 billion black hole that we keep hearing about that the Government intend to fill, in part with the proceeds of cutting the winter fuel allowance, is actually more of a bottomless pit, for a major contributor to that £22 billion is the pay rise for public sector workers. That pay rise brings with it huge ongoing costs that do not feature because public sector pensions are not provided for. That is a massive obligation which is simply swept under government carpets. According to the whole of government accounts, public service pensions are the largest single liability on the Government's balance sheet. In 2021-22 they were calculated at £2.6 trillion—greater than the national debt.

The idiocy of this system of accounting was highlighted in a recent article by John Crompton, a former investment banker who has also done three stints at the Treasury. He suggests that the latest public sector pay awards, cited as contributing £9.4 billion to that black hole, could also bring unfunded liabilities of between £3.5 billion and £4 billion every year. Crompton calls this treatment

of government liabilities “downright misleading”, and I am afraid it is. The short-term saving from cuts such as the winter fuel allowance will be wiped out year after year by numbers that do not appear in the accounting at superficial levels.

So, while I welcome the Bill as a minor improvement, I ask the Minister whether he agrees that the time has come for a much more radical rethink of government accounting. Yes, cash flow is important, but, as every household knows, concentrating solely on income and expenditure is not the way to build a healthy economy. Major infrastructure projects, such as those cited by the noble Lord, Lord Eatwell, are essential. Cancelling them because of a short-term need to cut expenditure, as this Government have done, may be foolhardy. A proper net worth finances method of accounting, dealing with government expenditure over the longer term, would enable a much more effective long-term view to be taken of the costs and benefits of investment. A change to a more sensible fiscal framework would make for much healthier, better management of public finances, and it would contribute to the growth that we absolutely need.

The Minister explained that the Government have three aims as far as the Bill and the economy are concerned: stability, investment and reform. I ask him to really be serious about reform.

5.13 pm

Viscount Chandos (Lab): My Lords, this is a short Bill, which, as it is—in my view, rightly—designated as a money Bill, your Lordships’ House cannot amend. I propose to speak briefly. I add my voice in support of the Bill and of the persuasive reasoning set out by my noble friend the Minister in his opening remarks.

More unusually, I find myself in a position of agreeing with the noble Lord, Lord Frost. Yes, there is a political aspect to the Bill’s introduction. Ben Zaranko from the Institute for Fiscal Studies wrote that it

“is broadly sensible but largely performative ... rather theatrical ... some future Chancellor determined to misbehave”—

this sounds familiar—

“could almost certainly find a way to get around it”.

He concludes, however,

“but it nonetheless serves as a welcome commitment to fiscal transparency”.

That commitment should not have needed to be codified but the reasons that it is in fact necessary and welcome lie not just in the debacle of the Truss-Kwarteng fiscal event—that mini-budget, self-immolation or whatever—but in the persistent indifference, arguably contempt, shown by the last four Conservative Governments towards the principles of good governance and towards the institutions of the state, old and new.

Restoration of confidence in the professionalism of government and the stability of the UK economy is needed; this Bill is a useful contribution to that. Forecasting, to paraphrase Professor Niels Bohr—or Yogi Berra—is difficult, particularly about the future. Criticisms from some quarters of the OBR’s track record are not, however, well founded, so not a reason for dismissing the validity and importance of its assessment of any proposed large fiscal event.

The Bill increases fiscal transparency, rather than delegating decision-making to an unelected body. Extraordinarily, the shadow Exchequer Secretary, traumatised perhaps by his membership of the previous Government, lamented in the House of Commons in July that

“nowhere in the Bill ... is the OBR empowered to prevent a Government from taking fiscally significant action of any kind”.—[*Official Report*, Commons, 30/7/24; col. 1215.]

The newly elected Labour Government face many challenges in the direction of the UK economy, arising from both the legacy of the Conservative Governments and geopolitical, demographic and technological trends. They are not abdicating responsibility for those decisions but seeking to ensure that those decisions are taken—and can be judged—in the context of the best possible independent analysis. This Bill is an important symbol and insurer of this, and I look forward to its passing all stages in this House and receiving Royal Assent—the first Bill to be enacted by this Government.

5.17 pm

Baroness Bennett of Manor Castle (GP): My Lords, in introducing this Bill the Minister said that

“economic stability is ... the rock on which all else must be built”.

I respectfully suggest that that is a reflection of what has been described as “Treasury brain”, a subject that the noble Lord, Lord Macpherson, and I have previously had some discussions on. I would posit that the rocks on which our society depends are the health, energy, talents and skills of its people; the state of its environment; and the capacity of its infrastructure and services, from the quality of the housing to the facilities of our NHS. I pick up here the points made by the noble Lord, Lord Eatwell, and the noble Baroness, Lady Wheatcroft.

There is also the question: what is the economy for? The economy is there to meet the needs of the people and to care for our environment. We are not all here to work for the economy; I fear that is all too often forgotten. Also too often forgotten is the fact that the economy is a complete subset of our physical and natural world, and the understanding that we cannot have infinite growth on a finite planet. The UK is now using its share of the resources of more than three planets. We have to go back to one-planet living fast and that is the frame in which we always have to think about the economy.

Mainstream economic thinking has a phrase that it is very attached to: “*ceteris paribus*”. That is the Latin for “all other things being unchanged or constant”. I welcome the fact that the Office for Budget Responsibility has been showing increasing awareness of the fact that things are not staying the same in terms of the environment, physical and human, that the economy is operating in. I note that, since 2017 it has been producing the *Fiscal Risks and Sustainability* report, the last of which was presented to Parliament in July 2023. That report now lists 57 risks, some of which may be described as purely economic, but many of which relate to the state of the physical and human world. The OBR is picking up on some of the risks we are facing.

[BARONESS BENNETT OF MANOR CASTLE]

I particularly draw to the attention of noble Lords in this House who like to question spending towards the country reaching net zero, that the OBR says that there is the risk of a

“delayed transition to net zero raising ... fiscal cost”.

I also note that four risks have been added to this latest report:

“persistent and high inflation, rising global trade tensions, global security threats, and cyber-attacks”.

At least the first three of those are very much related to the climate emergency. We are seeing the impact that the climate emergency is having, for example, on food prices—which, I am afraid, is only going to keep getting worse. “*Ceteris paribus*” certainly does not apply to the state of our world; the old economic verities will not hold, if, indeed, they ever did.

It is also worth noting that the OBR report talks about one of the unchanged continuing risks being

“the risks of financial crises and ... non-payment of taxes”.

I note that, in your Lordships’ House, with backing from the now-Government and now-Opposition, we recently passed the Financial Services and Markets Act. That contains a push to grow the financial sector, which the OBR has identified as a significant risk to all of our futures.

Picking up the point on climate spending, the OBR said that if we do not act and invest now, the

“public investments needed to support the decarbonisation of power, buildings, and industry could reach £17 billion a year”

by 2030. As our own independent Climate Change Committee has been making clear, if we invest now, we save ourselves—or if you want to phrase it that way we save “the economy”—very significant costs and risks in future.

Finally, I particularly note the OBR’s reference to the number of people of working age not being in paid employment. The figure in the 2023 report is 2.6 million people of working age not in the labour force for health reasons. That figure reached 2.83 million in April. If we are going to look at our economic future, we have to think about investing in a healthier society. The OBR says that, although there is much talk about people being on NHS waiting lists, it is only a small part of the problem. We have a deeply unhealthy society, and that is something the Treasury and Government need to be thinking about when looking at their spending plans.

5.22 pm

Baroness Lawlor (Con): My Lords, I am grateful to the Minister for his exposition of the Bill. I declare a special interest, having worked on and published a number of independent analyses of the fiscal, monetary and regulatory problems of the UK economy as director of Politeia, the think tank at which I am now research director.

No one with the public finances at heart can fail to support a measure that strengthens transparency and a rules-based approach to the UK’s public finances. I am a devotee of fiscal stability and the need for rules, written or, as in previous times, understood. As the German economist Ludger Schuknecht has explained,

many serious problems arise not because of bad rules, but because of the failure to implement the rules by using tools such as medium-term budgetary frameworks, spending reviews, financial risk analysis and independent fiscal councils to help achieve these aims.

But are the Bill and the structures—including the OBR, which it relies on—the way to ensure sustainable public finances and tighter fiscal discipline? I am unsure, and I have the following questions. First, is the Bill requiring an OBR assessment for financially significant measures or empowering the OBR to offer such an analysis, should it deem a measure such, enough to control unsustainable public spending and public debt? Is there any obligation on the Government to change their spending or debt policy if an OBR analysis predicts potentially dire consequences for the economy? If not, there is no fiscal lock, contrary to the Government’s suggestion, but simply fiscal advice. If so, that raises constitutional questions about unelected bodies and the power they exercise.

Secondly, the Government want to allow a higher ceiling for debt as a proportion of GDP by the fifth year of the cycle, from 1% to 1.2% of GDP, made public in advance of the Budget. Should we expect a further relaxation of the three previous rules for fiscal discipline and, if so, which will be relaxed, which will be changed and which will become less transparent? Will further changes be assessed by those who, like me, are sceptical of lax fiscal discipline?

Thirdly, no single forecasting institution can, or should be expected to, take the burden of advising a Government on tax and spending alone. We have heard today of some of the problems with the OBR which it has the modesty to recognise. Will the Government be open and invite other forecasters and assessments, equally independent of the Treasury and the OBR, to be sure to have other views?

Fourthly, what public spending will count as fiscally significant? I know the 1% of GDP measure has been provided, but here are two sorts of public spending that may be open-ended and not fall within the threshold, although they will eventually. The first is public sector pay rises. Rises of 5% or 6% for the 3.5 million public sector workers have been announced, adding to the potential for pay inflation, with other rises reported to be in the offing, including 22% mooted for doctors. Will the Minister agree that such pay rises should prompt an OBR report, particularly if they will likely continue to increase and reach the high threshold?

The second is the costs of immigration. According to Home Office figures, quite apart from legal migration—which is nearer to 1 million this year, net migration being lower—illegal migration via channel crossings amounted to 9,000 illegal immigrants crossing to the UK in July, August and the first week of September. Since no scheme in place is likely to deter these crossings, will the Minister confirm whether the additional management, administrative and legal costs—these have been itemised by previous Governments—for processing individual cases and providing public services, including housing and subsistence, will be averaged in an annual figure and considered as significant in order for an assessment by the OBR?

5.28 pm

Lord Davies of Brixton (Lab): I support the Bill—after all, it is in the manifesto—but it has faced some criticism. The comments of Ben Zaranko have already been mentioned. It ill becomes a Member of the Opposition to criticise legislation as performative, since that is practically all they did over the last five years.

The legislation is not performative but declaratory—it is setting out a declaration of intent, and it is to be welcomed for that. But—and there is always a but—I see in the Bill potential weaknesses, which arise from the exceptions in new subsection (4), and this issue of what counts as “temporary”. After all, the freeze in fuel duty each year is temporary, but it is now apparently part of our constitution. But I am more concerned about the term “emergency”. Is it a term of art? Who is going to determine what counts as an emergency? It is not defined in the Bill, and it has not been used in the charter. Ultimately, there is no track record of how it is interpreted in this context or who is going to decide.

We have an interesting case study here. Of course, we had a fiscal event on 29 July. I shall steer away from talking about winter fuel payments again. My assumption is that it was not large enough to trigger the size test, but did it trigger the emergency or the temporary test? I shall be interested in hearing my noble friend’s comments on how that undoubtedly fiscal event fitted in with the requirements of this legislation.

I was going to speak at more length on that but, inevitably, I was diverted by the comments made by the noble Baroness, Lady Wheatcroft, who came up with the perennial saw that there was some sense in including liabilities for future unfunded public service pensions in the national accounts. The whole point about unfunded pensions is that they are unfunded, and it makes no sense at all to treat them as though they were funded. However, if you are going to do the sums—or I could do them for you—and say what the current value of the future liabilities of these schemes will be, logically you should also have a figure for the future revenues that are going to meet those liabilities. It is not funded, so the future payments are exactly matched by the future taxation revenue that will pay those liabilities. You have to include both figures if you are going to account for them, and they are equal and opposite by definition. Including them in the national accounts makes no sense.

5.33 pm

Lord Moylan (Con): My Lords, I always think that legislation, of which this is not the only example, which arises in reaction to a single event is almost certain to be foolish, pointless and dangerous and to lead us astray. That is particularly so when reflection has shown that the initial understanding of that event—in this case, I am talking about the mini-Budget—was flawed, and that in fact it was not the mini-Budget and its fiscal measures that caused the market volatility.

It is now accepted—even by the Bank of England, I believe, in a recent paper—that about two-thirds of the volatility was caused by the Bank of England’s own misregulation of some dodgy LDI schemes in pension funds, which I do not claim to understand. Possibly the noble Lord, Lord Davies of Brixton,

would understand them, given his background. They were happening in something like the equivalent of the darknet of the pensions industry, and they were what caused most of the problem. Perhaps we would be better off having a Bill that penalised the Bank of England for misregulating pension funds and other financial institutions within its purview, which might actually keep it on its toes.

My second point has already been made to some extent by my noble friends Lord Frost and Lady Lawlor. This Bill is a further step in the de-democratisation of our governmental decision-making. It is the transfer, in effect, of power from elected Ministers, who are accountable to the electorate, to unaccountable institutions on the basis of the claim that they are somehow independent. They simply have a view as to how certain changes in taxation and expenditure are going to affect the economy. It is perfectly possible for somebody else to have a different view—in fact, it is perfectly possible for a Chancellor of the Exchequer to have a different view. The noble Viscount, Lord Chandos, tried to persuade us that that was not in fact so, but of course the whole point of the Bill is to trammel and put handcuffs on the Chancellor of the Exchequer—and, of course, the first people who will be penalised by this and come to regret this legislation will no doubt be the current Chancellor of the Exchequer and her successors, if she has any, over the next few years. But that is the whole purpose of the Bill beyond its performative measure.

My third and final point was simply to say that I wanted to follow up on the remarks of the noble Baroness, Lady Wheatcroft. She said something to the effect that we were looking at our public accounts the wrong way. I agree with her to some extent but I want to make a different point. We have this enormous focus on the fiscal rules, which are essentially about the level of debt that the Government can carry—but that is a secondary matter.

The really crucial matter is what level of national income the Government should dispose of. To some extent, that is a political question, because inevitably the Labour Party will take the view that the Government should dispose of a larger sum and the Conservatives would probably take the view—I hope—that they should dispose of a smaller sum. It is not quite clear where the Liberal Democrats would stand on that crucial question. But that is the essential point that should drive all our politics. However, it is not simply a political matter; it can also be considered with regard to the effectiveness of that spending and whether that spending, as it increases, achieves a proportional improvement in the outcome of public services or whether it runs into what might be described as diminishing returns. I would say that the evidence is clear that at a certain point increased public expenditure starts to run into the problem of diminished returns when you measure the outputs that the Government actually achieve. Spending more money on the health service might produce more hospitals but does it produce better health outcomes? Are death rates from certain illnesses improving, and so forth? When you measure those things, it is clear from the evidence that simply spending more money does not produce proportionate outcomes.

[LORD MOYLAN]

The Government really need to focus on questions of that character, because the question of how you fund that expenditure, whether through debt or taxation, is an important one but essentially secondary.

5.38 pm

Lord Murphy of Torfaen (Lab): My Lords, I very much support the Bill. The debate has been extremely interesting, although noble Lords seem to want to rewrite recent history. The purpose of the Bill is to reflect on what happened when Liz Truss was Prime Minister. There is a revisionist view going around that she was not so bad after all. The idea that you can have £46 billion of unfunded tax cuts everybody knew was bonkers, which of course was why she did not involve the Office for Budget Responsibility and why she sacked an eminent civil servant, the Permanent Secretary to the Treasury, because he disagreed with her.

It is ironic that the Office for Budget Responsibility was brought in by the Government of the noble Lord, Lord Cameron. It was not a Labour proposal. We have had all this business about how it is not democratic and how we have to go to the people and all the rest of it—but it was brought in by a Conservative Government, apparently in response to what they regarded as the profligacy of the Labour Government of which I happened to be a member. At the very end of that Government, in 2008, 2009 and 2010, when we were facing the international financial crisis, and I was a member of the National Economic Council, the problems that we faced were global. Over the past number of months, the Conservatives have argued, rightly, that many of the problems that they faced in government were global, with Covid and the war in Ukraine, as well as the problem with energy supply.

Of course, the truth lies somewhere in the middle, but there is no doubt in my mind that if Gordon Brown had not tackled the financial crisis as he did, it would have been much worse not just for our country but for the whole of the western world. I recall having to meet the Prime Ministers of Canada and Japan because he had called together the leaders of all the major economies in the world to resolve this matter.

Having formed the OBR, the Conservatives, having used what they regarded as the profligacy argument, embarked on a terrible period of austerity which effectively eroded our public services to the extent that they are at rock bottom. It has been 14 years of austerity and now we are told that, in the last year of that, there was no comprehensive spending review, no effective management of revenue spending in the departments and no funding for policies announced during the last six or seven months, and the result of all that is that it is all the more important for there to be an Office for Budget Responsibility to give an independent and transparent account, analysis and assessment of where we are in our economy.

The noble Lord, Lord Frost, said we should not have these bodies; they should be elected and we should rely on the good sense of the British people to assess and make a judgment on the economic mess in which we now find ourselves. Well, they did. They gave

the Labour Party a majority of nearly 170 and virtually destroyed the Conservative Party in the House of Commons. They did give a verdict on the Liz Truss mini-Budget and that is why we have a Labour Government and why the Conservative Party will be out of office for a very long time.

5.42 pm

Lord Bilimoria (CB): My Lords, Rachel Reeves said:

“This Government’s defining mission is to deliver economic growth. However, growth can only come through economic stability and a commitment to sound public money so never again can a government play fast and loose with the public finances. This new law is part of our plan to fix the foundation of our economy so we can rebuild Britain”.

The decision by Labour gives the OBR the most power it has ever had since the Chancellor at the time, George Osborne, set it up in 2010. Of course, we know that forecasts can be wrong. The noble Lord, Lord Macpherson, said that they are invariably wrong, but he made an interesting point: what about opposition forecasts? Will the Minister respond to that?

The noble Lord, Lord Macpherson, also said very clearly that forecasts are based on assumptions. I know that. We in business continually make assumptions on all our forecasts and they are not always correct. Laith Khalaf, head of investment analysis at AJ Bell, said:

“Ironically Liz Truss and Kwasi Kwarteng did more to burnish the credentials of the OBR than any politicians since its inception. As things stand, the OBR is now more commanding than ever”.

The Bill will mean that the OBR, which monitors and checks the UK Government’s financial plans, has the power to make an assessment on announcements over the course of a financial year that make permanent tax or spending commitments worth more than 1% of the UK economy. That 1% is just over £2 trillion—just over £20 billion. My noble friend Lady Wheatcroft spoke about the black hole of £22 billion. This number keeps getting bandied around: it is not even 1% of GDP, yet it is made out to be the only reason why taxes need to be put up. If taxes are put up in the Budget coming forward—taxes such as CGT equated to income tax—it will be so damaging to the country and its economy and to investment.

The OBR provides independent analysis. It is meant to be absolutely independent. The Chancellor must request the OBR to produce forecasts at least twice a year. The initial Cabinet Office briefing note stated that the Bill’s purpose was

“to capture and prevent those announcements that could resemble the disastrous Liz Truss ‘mini-budget’”.

The briefing was republished with the reference to Ms Truss removed. Will the Minister confirm that? The absence of public OBR analysis is considered to be a factor in the negative reaction of the financial markets that followed. After Kwasi Kwarteng’s Statement, as we know, market volatility led to increased government borrowing costs and the devaluation of the pound against other international currencies. My friend Sir Anthony Seldon has just released his new book, *Truss at 10: How not to be Prime Minister*.

The fiscal mandate is a Government’s guiding fiscal objective, so tax and spending policy decisions should be made with this in mind. It is to ensure that public sector net borrowing does not exceed 3% of GDP by

the fifth year of the rolling forecast period. The noble Lord, Lord Eatwell, made a very good point that I ask the Minister to respond to: what is the effect of this on automatic stabilisers? According to the Treasury, the effect of Kwasi Kwarteng's and Liz Truss's mini-Budget, which would have reduced income tax by around £45 billion, would have been to reach a trend rate of growth of 2.5%—that was a noble objective. It was reported that the OBR had provided the Chancellor with a draft forecast, but this was not made public. Opposition parties and the Conservative chair of the House of Commons Treasury Committee urged the Chancellor to publish the forecast, and the lack of that OBR analysis has been cited as the major factor that contributed to the negative reaction to the mini-Budget in the financial markets.

We can go into the analysis—by the BBC, for example—of key aspects and consequences of the mini-Budget: unfunded tax cuts, a funding shortfall, market reaction, an impact on interest rates and pension funds, Bank of England intervention, loss of market confidence, political and economic repercussions, reform and an emphasis on credibility. The noble Baroness, Lady Noakes, made a very important point: why is this a money Bill? This means we have a limited influence on the Bill; I do not think that this should have been a money Bill.

To conclude, the Bill has received support from many quarters, including from the CBI, of which I was president for two years, from June 2020 to June 2022. Louise Hellem, chief economist at the CBI, said:

“Market stability is a key foundation to enabling economic growth and business investment. Ensuring large changes in tax and spending policy are always subject to an independent assessment by the Office for Budget Responsibility will give businesses and investors additional confidence in the stability of the public finances”.

5.47 pm

Lord Sikka (Lab): My Lords, this Bill produces comfort for Chancellors, even though the OBR acknowledges that there are shortcomings in its work. Right at the outset, can the Minister explain why the Bill does not permit the OBR to publish forecasts at its own volition or at the request of parliamentary committees? Why that particular restraint? The OBR's reports are promoted as apolitical, but that does not mean that it is free from institutional biases. Neither the Treasury nor the OBR makes a distinction between capital and revenue expenditure. Both are lumped together to produce a forecast of government spending and debt, which is of little use in charting the long-term course of the economy. Does the Minister agree that these items should be separated?

The OBR forecasts government debt, but asks no questions about the composition of the debt. For example, government debt includes Treasury bills and gilts held by the Bank of England's asset purchase facility, which amount to £643 billion. It is really a hangover from the quantitative easing period and should not be part of the government debt. The left hand of the government creates the money, then the right hand buys the Treasury bills with it, and, somehow, £643 billion turns up as a government debt. I cannot

see any economic logic to this, and it really constrains the Government's policy options. I hope the Minister can explain why the Government are content for this overstatement of their debt: it ought to be looked at.

The OBR asks few searching questions and rarely steps beyond the conventional. With apologies to the philosopher Bertrand Russell, I am reminded of the story of the inductivist turkey that became famous for its forecasting abilities. It collected daily data, noting the times when the flock was fed and watered. Soon, it began to predict when the daily feeding and watering events would occur. Everybody was in awe and it became a celebrity.

The OBR of the turkey world checked the calculations and confirmed that the predictions were accurate, but some had different questions. They wanted to know why they were fed and watered every day; why they were weighed every day; why they were caged; and why it was that some were taken out and never seen again. Such questions were not the flavour of the day, and the critics were whipped into silence. The rulers decided that the inductivist turkey should receive a specially minted gold medal. The next day, it was Christmas.

So it is here: key assumptions and wisdom are not questioned by either the OBR or the Treasury because they are all intoxicated with getting the forecasts right. The entire life of the OBR has been accompanied by policy failures: the flatlining of the economy; cuts in real wages; falling living standards; investment strike by the state; crumbling infrastructure; and people dying while awaiting a hospital appointment. The OBR never looks at the multiplier effect of the Treasury assumptions or the composition of the government debt but Chancellors are still comforted because, somehow, the OBR has said that everything is okay.

If the authentication of financial forecasts by so-called independent parties is so desirable, why do the Government not apply the same logic to other arenas, such as pensioner poverty, child poverty, income and wealth inequalities, mental health and social care targets? Perhaps, when he is replying, the Minister can explain the political indifference to the social squalor created by relying on forecasts.

5.51 pm

Viscount Trenchard (Con): My Lords, I congratulate the Minister on his appointment, if it is not too late to do so. I was delighted to learn from his interview with the *Financial Times* that he is working on breaking down

“very big obstacles to inward investment”.

This Bill is intended to contribute to financial stability; I imagine that the Government think that periods of relative financial instability have constrained foreign direct investment. That may or may not be true, but is it not also the case that foreign investors are more likely to invest in countries with relatively low rates of tax and relatively light and proportionate regulatory regimes?

The Government also make much of their democratic credentials but the effect of this Bill is to transfer power away from the democratically elected Government and the Chancellor of the Exchequer—accountable to the House of Commons—to an independent body that is, however well regarded it may be as a fount of

[VISCOUNT TRENCHARD]

prudential wisdom and the most formidable number cruncher bar none, still a quango. There are too many quangos and they have too much power, which has been relentlessly but steadily drawn away from Ministers. Most new substantive Acts of Parliament create a separate independent quango with its own offices, board of directors and substantial costs that are met by either taxpayers or consumers.

I was rather sceptical about the OBR when it was created by George Osborne. I did not believe that there was any chance that it would be a more accurate predictor of the consequences of any fiscal changes on the economy than the Treasury. Graham Stringer, speaking in another place last Wednesday, suggested that George Osborne created the OBR in order to trap an incoming Labour Government, restrict them and slow them down; he described it as

“an odd thing that we see this quango being gilded”.—[*Official Report*, Commons, 4/9/24; col. 340.]

Is it not obvious that, as is reported in the media, the existence of the fiscal rules as adjudicated by the OBR severely limits the Government's choices? Does the Minister agree that these limitations were behind the Chancellor's decision to cancel infrastructure spending to meet public sector pay demands?

I am not sure that having the OBR really protects us at all from financial instability. I am pretty sure that the average voter does not have a clue what it is or what it does—but we have it, and we should make sure that it is as cost-effective as possible. I am sympathetic to the attempt made by my honourable friend in another place, Nigel Huddleston, who sought to amend the Bill to ensure that any changes in the fiscal rules would trigger a requirement for the OBR to issue a report. As the Government have committed to reduce the national debt, it is also critical that we understand the definition of debt in connection with the application of the fiscal rules. Without certainty in respect of these two points, it is hard to accept that the fiscal lock will be effective.

As was discussed in another place last week, it is also unclear what happens when a fiscal measure intended to be temporary—I understand that this means up to two years—runs on beyond that time limit. The example of income tax was given; it was introduced as a temporary measure in 1799 by Pitt the Younger. I ask the Minister whether there should be constraints on Ministers taking significant decisions on other measures that are not fiscal ones if it is considered that, severally or cumulatively, they may have an effect on GDP of over 1%.

Does the Minister not agree that it would be much better if the revisions to the Charter for Budget Responsibility had been published already? I agree with the noble Lord, Lord Eatwell, on this. Can the Minister tell your Lordships whether there will be an opportunity to debate the changes to be made to the charter in due course? The separation of the charter revisions from the Bill itself gives the impression of undue haste. I am tempted to agree with those who think that the Bill is not necessary and is as much concerned with political theatre as with making changes that will have any real positive effect on the operations of the OBR.

5.56 pm

Lord Liddle (Lab): My Lords, I strongly support this Bill and congratulate the Financial Secretary on the very able speech with which he introduced it. I do not see how an attempt to prevent a repeat of Liz Truss can be regarded as performative. Surely everybody would want to see that consequence.

My worry is that this Bill does not go far enough. In the past two years, we have seen a real failure of fiscal responsibility in the way in which Rishi Sunak and Jeremy Hunt justified big cuts in national insurance on the basis of public spending forecasts that were, as the noble Lord, Lord Macpherson hinted, completely unrealistic. This has now landed us in a very difficult position. When they made their public spending forecasts, they did not take account of public sector pay, which is part of Chancellor Reeves' black hole of £22 billion. They did not take account of the need for social care reform, without which, as Wes Streeting has said, there cannot be any wider reform of the NHS.

In an excellent report published just today by Unison, we learn that local councils are at risk of going bust. There is also a crisis in our courts and prison system. The Conservatives committed themselves to a defence target of 2.5%, which they seriously said could be achieved by “efficiency savings”. These were completely unrealistic public spending forecasts on which tax decisions were taken. Worst of all, in order to finance them, the Government pencilled in a cut in public investment from about 2.6% of GDP to 1.9%, which is actually the reverse of what the country needs: a big increase in investment.

So, we have a big structural deficit on our current account that we have to correct. We can try efficiency savings, benefit freezes or putting off change and reform in the hope that growth will naturally increase, but I argue that tax will have to be part of the solution to this, because the public were misled by the last Government. However, when I say “tax”, I do not believe some people from our own side, who seem to think that we can deal with this problem by simply taxing the top 1%. Yes, the broadest back should bear the heaviest burden, but it should be broader than that to work without economic damage.

We need tons of investment to launch a new nuclear energy programme, invest in our railway infrastructure, reconfigure the national grid, apply AI to public services, build new towns which have adequate social housing and fund the modern industrial strategy based on promoting a new wave of entrepreneurialism from our excellent science base. I believe that we need tough fiscal rules; we have to plan for current spending and revenue to be brought quickly into balance. But at the same time, I agree with my noble friend Lord Eatwell that the rules have to be sufficiently flexible to accommodate worthwhile, spend-to-save measures in public services and invest-to-grow measures for the wider economy. I believe that, although fiscal rules matter, a convincing growth strategy matters even more to the financial markets, and the bond markets will back our ambitions as long as our investment plans are well conceived.

Labour has a unique or huge opportunity ahead of it. We certainly need prudence and certainly need to be disciplined, but we also need radicalism—a radicalism from what I would describe as the politics of the centre ground.

6.01 pm

Baroness Kramer (LD): My Lords, I am pleased to welcome the Bill. My colleagues in 2010 were very closely involved in the creation of the OBR in order to provide an independent analysis of the UK economy free from party politics. The noble Lord, Lord Macpherson, talked about the importance of the absence of political bias, and I think the noble Lord, Lord Murphy of Torfaen, echoed that same set of thoughts. We on these Benches believe that the OBR serves Parliament and the nation well.

A report from the OBR is not an examination judgment such as a “Good”, “Outstanding” or “Failing” from Ofsted. It is an analysis with which one can agree or disagree, but it enables policy and decisions to be made with deeper insight and challenged with greater insight. Obviously, forecasts must be part of that or the analysis is near meaningless.

Many noble Lords speaking today have suggested that there need to be further reforms, whether it is of fiscal rules, accounting rules or methodologies, and all that is worth looking at. We heard from the noble Lords, Lord Eatwell, Lord Altrincham, Lord Sikka and Lord Liddle, and the noble Baronesses, Lady Noakes, Lady Wheatcroft and Lady Lawlor. I have to say that I have a particular sympathy with the noble Lord, Lord Liddle, but it was also suggested by someone else—the name has escaped me—who challenged the current arrangement whereby the Treasury lays down the future spending plans that will be part of the OBR’s forecast. I would see much more scope for challenge there.

None of this is perfect, but to me it seems important that the OBR’s view does not dictate what policy or decisions will be. I say to the noble Viscount, Lord Trenchard, and the noble Lords, Lord Moylan and Lord Sikka, and the noble Baroness, Lady Bennett, who came at this issue from many different angles, that any politician or Chancellor with some backbone can accept or reject the conclusions that will come from the OBR, but presumably they will then have to explain in some detail why, and that process of challenge is crucially important.

A modern economy and a modern Government are so complex that, frankly, except for a small handful of institutions that have very extensive resources, it is extremely difficult to try to understand the primary elements of economic performance. It is really like trying to unravel a bowl of spaghetti if you come at it with the kind of tools, for example, that I would or many of my colleagues would have. But it is not just those outside of government that can use the OBR analysis; it is also data either to agree with or to challenge. I know from my very brief period inside government that the OBR view at least does something to check some of the groupthink that almost inevitably grows up inside government and which is a constant risk. Here is one of the opportunities to challenge that groupthink.

Frankly, I was stunned in 2022 when the then Prime Minister Liz Truss and her Chancellor Kwasi Kwarteng suddenly announced a mini-Budget with the biggest tax cuts in 50 years and soaring borrowing with no OBR analysis or economic forecast attached. The Bank of England, which also had no advance warning, had to step in to prevent financial meltdown as the markets went into shock, both from the content of the mini-Budget but also from the manner of its doing. I will not dwell on the consequences, because, as I think the noble Lord, Lord Liddle, said, the country gave its verdict at the last election, except to say that to this day ordinary people are still hurting, and hurting badly, from the consequences of that Budget and the manner of its introduction.

Why did the Truss Government turn their back on the OBR? They could easily have requested a draft forecast, and indeed one was offered by the OBR. I think it was because we had a series of Tory Governments which found economic truth at best “inconvenient”, and especially the consequences of Brexit—I heard that in some of the speeches today—and the permanent scarring of the economy that followed. Ministers would talk about the 2008 financial crash, Covid and the energy crisis arising from the Russian invasion of Ukraine. However, from on high or through self-denying ordinance, the B-word was banned, despite being far more damaging and a far more permanent blow. We heard speech after speech, month after month and year after year, in which there was *omertà* on that particular set of issues. As far as I can see, the OBR has never hesitated to name both the problem and the causes of a problem and to lay out its rationale. It can be challenged, but it has not flinched.

I very much hope that this new Government would never behave in the same way as Liz Truss—or any other Government, quite frankly; I hope that lessons have been learned. But the problem is that the horse has bolted. Financial markets will always suspect that a British Government are capable of the arrogance, self-interest and ideology to produce sweeping fiscal policy without any kind of unbiased or objective analysis—I think the noble Viscount, Lord Chandos, made that point. That indeed is the value of this piece of legislation.

This is a money Bill, so I cannot propose amendments. Were it not so, it would indeed be nice to be able to go through a process of probing amendments at the very least to try to understand more about some of the terminology, to understand what a “fiscally significant” event is and more about the issues of “temporary” and “emergency”. The noble Lord, Lord Davies of Brixton, raised similar points on trying to get greater clarity on this issue. I join others—I think the noble Lord, Lord Liddle, was the last to mention this—on wanting to understand how change can happen through the Charter for Budget Responsibility. We are going to be notified 28 days in advance, but I would love to have seen, at least from a Minister, some commitment to bring such issues to the Floor of the House for debate, which is where they belong—and remember that the Charter for Budget Responsibility was set up under the umbrella of primary legislation that started in this House. However, we are where we are, and when it comes indeed to the heart of the issue, do we support the Bill or do we not? We do.

6.09 pm

Baroness Vere of Norbiton (Con): My Lords, this has been an interesting debate with thoughtful contributions from all sides of your Lordships' House.

From these Benches, we believe that information about the public finances should be open and transparent so that the public can hold the Government to account over decisions they make when it comes to spending taxpayers' money. That is why the Conservative Government created the Office for Budget Responsibility in 2010, to ensure value for taxpayers' money and that the Government of the day were making responsible decisions with the public finances. We therefore welcome the opportunity to ensure that this remains the case, but sadly that opportunity is not before your Lordships' House this evening.

The Bill is so narrow in scope and effect that it can be assessed only for what it is; a naked opportunity to play political games and engage in a bit of political theatre, using a rushed and ill-thought-through Bill to fill a bit of parliamentary time. Its publication back in July was accompanied by an astonishingly overtly political statement from the Cabinet Office, as was noted by the noble Lord, Lord Bilimoria; this statement had to be swiftly withdrawn. This is clear evidence that the Bill is the Government playing political games, as was also noted by my noble friend Lord Frost. To my mind, the Government are not taking the issues of transparency and accountability seriously when it comes to public finances, and this hastily assembled Bill reflects that.

The furore around the statements made on the publication of the Bill was one of the first missteps from this Government, missteps that have continued and intensified. Later this week, the disastrous decision to cut the winter fuel payment will be debated in your Lordships' House. The Government have decided to buy off the train drivers—with no strings attached—from the pockets of pensioners. The impact of this cut is clearly significant, not only on pensioners themselves but on the public services that support them. But there is no impact assessment accompanying the cut, and certainly no report from the OBR. The timing of the cut could only be described charitably as ill conceived—out of the blue, with no notice, as we head into the winter period. It is all beginning to look a little ragged, and the Government have been in place for only just over two months.

I return to the Bill: what does it actually do? Not much. To summarise, I say that it sets a rather high and woolly trigger threshold for a tax and spending change above which a third-party body, the OBR, would have to write a report. There is no brake, no lock, no stop. It does not stop anybody from doing anything—much as, I hear from many noble Lords, they would like it to do so.

The Minister in his opening remarks rehashed quite a large quantity of doom-and-gloom, “Oh my goodness, we didn't know what we were getting into” lines about the nation's finances, echoed by the noble Lords, Lord Hain and Lord Liddle. I struggle to follow the relevance when it comes to this legislation. Many

noble Lords, including my noble friend Lord Moylan, pointed to the 2022 fiscal event as the single and only driver for this legislation.

The measures in the Bill are described by the Minister and the Treasury as a “fiscal lock”, which sounds very decisive. I have been trying to figure out who or what is being locked, fiscally or otherwise. It is not a lock. It is another example of the Government taking a very well-understood English word and simply redefining it to mean something else for political expedience. As my noble friend Lady Lawlor noted, it is merely fiscal advice—a report. The Bill does not create a lock. It does not empower the OBR to stop, to brake, or to prevent the Government taking fiscally significant action of any kind. I do not think that it was a lamentation by the Exchequer Secretary in the House of Commons, as noted by the noble Viscount, Lord Chandos, when he mentioned that it did it not do that; it was simply a statement of fact. This Bill is so riddled with holes and high thresholds that I cannot see it having much effect at all, other than to use up a bit of parliamentary time while other more contentious Bills are being argued about with the unions and other stakeholders behind the scenes.

Yet there was an opportunity to improve this frankly underwhelming Bill. As noted by my noble friend Lord Trenchard, my opposition colleagues in the Commons tabled a helpful amendment which would have improved transparency and accountability. The amendment laid in the Commons would have required the OBR to publish a report not only when there are significant and permanent tax and spending changes but when fiscal rules, including the metrics used, are changed. Fiscal rules are important. They set the boundaries within which the Government have committed to operate tax and spending decisions. Fiscal rules are an important pillar, contributing to economic stability. It must be right that the Government should not be able to change their fiscal rules and the underlying metrics without some analysis and assessment of the impacts to enable scrutiny. As noted by my noble friend Lord Trenchard, changing the metric for the debt rule would allow for billions of pounds of higher borrowing, which would be funded by working people and other taxpayers. If large ad hoc tax and spending changes are to be subject to OBR analysis, surely ad hoc changes to the fiscal rules should also apply. These are, after all, very significant fiscal decisions and, as I said, contribute to economic stability. Sadly, the Government declined to accept the amendment.

This Government are beginning to show signs of fiscal incontinence, and I fear that they will seek to conjure up headroom by tinkering with the fiscal rules. Right on cue, only today the Trades Union Congress voted in favour of reforming the

“unnecessarily restrictive and arbitrary fiscal rules”,

citing a £500 billion public investment deficit. That is a pretty big increase. Is that the sort of quantum that the noble Lord, Lord Liddle, has in mind? It is going to need quite a shift in the fiscal rules and quite some jiggery-pokery with tax rates. Rather than playing the hand that the Government have been dealt from the current pack, they may seek to simply swerve the difficult decisions and magic up a bigger pack of cards. Will the Minister confirm that, despite extreme

pressure from the TUC, individual unions and the noble Lord, Lord Liddle, the Chancellor will stick to the current fiscal rules and metrics which guided the difficult decisions made by the last Government? Or will she make her difficult decisions substantially easier by changing the debt rule and piling the burden on to working people?

It is worth commenting on how the Bill works in practice, and I will turn to triggering the lock—or, in other words, exceeding the rather high and woolly threshold at which a third-party body must write a report. There are at least two elements to be considered by the OBR when deciding whether to write this report. The first is the size and nature of the tax and spending change. In the text of the draft Charter for Budgetary Responsibility, the Government state that “fiscally significant” is equivalent to 1% of nominal GDP in any single financial year in the forecast period. This is quite a substantial amount: just under £30 billion.

I accept that public sector spending is around £1.2 trillion and, as a percentage of that total, this is actually quite small. But realistically, discretionary spending is far less than that. Therefore, the Bill is setting a threshold which would be a massive change over and above what might be considered basal. It is so high as to be substantially meaningless—which possibly reverts to the rationale for the Bill in the first place being that single event. Furthermore, the impact must be in a single year, not the discounted value of the impact in the years in the forecasted period. Again, a carefully crafted but significant change could fall equally over many years and therefore escape scrutiny.

As importantly, how is the costing of the change decided? Who defines what is and is not a fiscal measure—a measure with a potential impact on the GDP of this country? I agree with the comments made by my noble friend Lady Lawlor, who also questioned the scope of what might be considered significant. Is the Minister able to give your Lordships’ House additional context about how that figure was arrived at and what will be in and out of scope? Might there be a temptation for a Chancellor to make one, two or more announcements totalling just under £30 billion, or 1% of GDP, over several years, and in doing so still substantially change the fiscal picture of our nation?

The second factor is that the change is excluded if it is temporary—if it will unwind within two years and is in response to an emergency. The world of the Treasury is littered with tax and spend decisions which were “temporary” and “emergency” at the time yet still became a permanent part of the fiscal picture. Many noble Lords mentioned income tax, which of course is one of the most famous, but I am sure there are many others—I think fuel duty was also mentioned.

This stipulation that temporary emergency measures be excluded puts the OBR in a difficult position. The OBR must decide what counts as a spending emergency and what does not—the point made by the noble Lord, Lord Davies of Brixton. The OBR is not part of decision-making within government, and it is reasonable to assume that the OBR will not have all the information available with which to reach a rather rapid judgment about whether something is an emergency.

If the OBR disagrees with Ministers, the process by which it would do so, and the consequences, are unclear. Would the OBR notify the Treasury of its decision, and would the Treasury then delay the announcement, or not? Would the OBR continue its work and produce a report, and over what timeframe? Would the OBR have full access to all the information relating to a temporary emergency measure? What impact would all this have on the markets?

I hope the Minister agrees that, in the haste to get this Bill into the current legislative gap, there are still significant questions to be answered. Has he considered whether the OBR should be under the same obligations when temporary emergency measures are announced but given the latitude to produce the report after the announcement has been made?

I have some questions around OBR decision-making, assuming that the measure is in scope of the arrangements currently in the Bill. How much notice will the OBR get that a fiscally significant announcement is planned? How much time will the OBR have to prepare and present its assessment, and how detailed will that assessment be? Is it the Minister’s expectation that a fiscally significant announcement will be accompanied by an assessment or a statement from the OBR setting out the reasons why one is not appropriate? There is a big grey area there in which I am sure the markets will show great interest. Will the OBR publish a summary of the information that it used to reach its determination one way or the other?

I note that the information in the draft Charter for Budget Responsibility text published on 18 July was quite limited. I would be grateful if the Minister could let your Lordships’ House know whether there will be any further guidance for the OBR around this, because I see pitfalls everywhere—where it may be charged with being too political when politics should not be part of what it does.

I listened with great interest to the wise words of many noble Lords when it came to the OBR’s governance and operations, particularly those of my noble friend Lady Noakes and, of course, my colleague and noble friend Lord Altrincham. The OBR cannot itself be beyond scrutiny, and I hope that the Minister will consider their words, alongside wider input into how we measure and present our public finances from the noble Lords, Lord Eatwell, Lord Davies of Brixton and Lord Sikka and the noble Baronesses, Lady Wheatcroft and Lady Bennett. There is an opportunity to continue to debate how public finances appear in front of the public, and it is incredibly important.

To conclude, the Bill before your Lordships’ House can be described only as a disappointment. It is with sorrow that I reflect on the political theatre accompanying it in political statements from the Cabinet Office and in contributions in the Commons and, to a lesser extent, your Lordships’ House. When he took office, the new Prime Minister seemed to imply that this Government would occupy the highest pedestal and would be above petty and theatrical politics. It is clear now that this is not the case. This Bill will be the first to receive Royal Assent under the new Labour Government; part of me thinks that is oddly appropriate. This Bill cannot be amended in your Lordships’ House, so to the statute book it will go.

6.24 pm

Lord Livermore (Lab): My Lords, it is a pleasure to close this debate on the Bill. I am grateful to all noble Lords for their contributions and questions.

As promised in our manifesto, we will support and strengthen the Office for Budget Responsibility. This Bill delivers on that simple but important step to help restore economic stability by bringing transparency and independent scrutiny into law, ensuring that every fiscal event which makes significant changes to taxation or spending will be subject to an independent report by the OBR.

Let us remind ourselves why this Bill is needed. Although the existing fiscal framework requires at least two OBR forecasts a year, there is currently no requirement on the Treasury to subject announcements on all fiscally significant measures to independent OBR scrutiny. In effect, that means that there are times when the Government can make fiscally significant announcements while opting out of both transparency and scrutiny. As the noble Baroness, Lady Kramer, said, this was a key factor in the disastrous Liz Truss mini-Budget, which did so much damage to our economy and to households, which are still paying the price for it today.

The previous Government knew that the measures they were taking were both unfunded and unaffordable but, as they were not bound by a forecast, they wilfully prevented one from taking place. That cannot be allowed to happen again. This Bill takes five important steps, which, in combination, will deliver on that commitment.

First, it requires that, before the Government make any fiscally significant announcement to Parliament, the Treasury must ask the OBR to prepare a report which takes the announcement into account. This guarantees in law that, from now on, every fiscally significant change to tax and spending will be subject to independent scrutiny from the OBR. The noble Baroness, Lady Lawlor, suggested that certain announcements should have been accompanied by such a forecast under these arrangements, a question also raised by my noble friend Lord Davies of Brixton and the noble Baroness, Lady Vere of Norbiton.

I will look first at the Chancellor's July Statement. It did not represent a change to the funding allocated to departments or to borrowing plans. This Bill is aimed at ensuring independent scrutiny of significant fiscal announcements that would represent risks to macroeconomic stability. The threshold is set at 1% of GDP or more in any year. None of the policy announcements mentioned by the noble Baroness would qualify as fiscally significant within the definition of the Bill. However, that 1% is of course cumulative, and, unlike the previous Government at the time of the disastrous mini-Budget, when they wilfully prevented a forecast from taking place, the Chancellor has commissioned the OBR to deliver a full economic and fiscal forecast, which will be presented alongside the Budget on 30 October. This is when the Government will set out their fiscal plans, including how they meet our fiscal rules, in the usual way.

My noble friend Lord Eatwell spoke about those fiscal rules, as did the noble Baronesses, Lady Wheatcroft, Lady Lawlor and Lady Vere, my noble friends Lord Sikka and Lord Liddle and the noble Viscount, Lord Trenchard. The Government's manifesto set out robust fiscal rules which will ensure that the current budget moves into balance, so that day-to-day costs are met by revenues, and debt must be falling as a share of the economy by the fifth year of the forecast. The Chancellor will set out the Government's full fiscal plan, including the precise details of those fiscal rules, in the usual way: at the Budget in October, alongside an economic and fiscal forecast produced by the OBR. A revised OBR charter will be published at that point.

To further address the point made by the noble Baroness, Lady Wheatcroft, I point out that the Chancellor said, in her Mais Lecture earlier this year, that she

"will report on wider measures of public sector assets and liabilities at fiscal events, showing how the health of the public balance sheet is bolstered by good investment decisions".

The noble Lord, Lord Altrincham, asked about the costs of the asset purchase scheme. The OBR provides detailed projections of the underlying cost arising from QT and the impact on different fiscal metrics. The latest OBR forecast for the financial year 2024-25 put HMT transfers to the APF at £34.5 billion. The separation of fiscal and monetary policy is essential, so the Government do not comment on the conduct or effectiveness of monetary policy.

Secondly, the Bill gives the OBR the power to decide independently to produce a report, if it judges the measures in a fiscal event to be fiscally significant. The noble Lord, Lord Frost, raised the question of how much impact this Bill will have, a point also made by the noble Viscount, Lord Trenchard, and the noble Baroness, Lady Vere. As my noble friend Lord Liddle said, we need look back only at the disastrous Liz Truss mini-Budget and at the current cost of the average mortgage—£300 a month higher than before that mini-Budget—to see how serious the impact of sidelining the OBR can be.

Of course, the noble Lord, Lord Moylan, is correct to say that the problems with that mini-Budget went much wider than just the absence of a forecast. As the noble Baroness, Lady Kramer, said, the announcement of £46 billion of unfunded tax cuts led to an unprecedented increase in borrowing costs. As a result, the value of sterling fell to a record low against the dollar, with a near collapse in the pension market. As my noble friend Lord Murphy rightly said, explicitly sidelining the OBR meant that no one knew how any of this would be paid for or how it would impact on the then Government's fiscal rules. There is no doubt that this contributed to uncertainty in the markets. As the now Shadow Chancellor said at the time, the mini-Budget damage was, in part,

"caused by the lack of a forecast".—[*Official Report*, Commons, 17/10/22; col. 395.]

The noble Baroness, Lady Vere, described this Bill as political theatre. However, what is particularly notable is the lack of an apology to the British people from the noble Baroness in her speech this evening for the damage that the Liz Truss mini-Budget did to family finances. I know that they are determined not to

apologise, but I am not sure that is a wise strategy. As long as they refuse to do so, they may well continue to pay the electoral price for it.

To address the question from the noble Baroness, Lady Lawlor, and my noble friend Lord Sikka, this Bill will prevent the sidelining of the OBR by giving it the power to start an assessment if the Government announce fiscally significant policies without one. This means that the mini-Budget, and any other fiscally significant announcements like it, would have been subjected to the scrutiny of an independent OBR report. This Bill ultimately is about transparency and scrutiny.

The noble Lords, Lord Frost and Lord Moylan, and the noble Viscount, Lord Trenchard, whom I thank for his kind words, criticised some independent regulators. I respectfully disagree. This Bill ensures transparency and accountability. It does not give the OBR policy-making powers. As my noble friend Lord Sikka and the noble Baroness, Lady Kramer, rightly said, policy is very much for the elected Government. By adding a further level of scrutiny to fiscally significant announcements, this Bill takes nothing away from the power of this Parliament—in fact, greater transparency surely increases accountability. This Bill requires that policy-making is subject to proper scrutiny. Independent scrutiny of the public finances promotes greater accountability to the public, provides certainty for the markets and investors, and supports economic stability. We have seen what happens when the OBR is sidelined—higher interest rates and mortgage misery for millions.

The noble Baronesses, Lady Noakes and Lady Vere, raised the question of the OBR's accountability. The OBR is accountable to Parliament. The Treasury Committee in the Commons can call in the chair and other OBR members, and both oral and written evidence submitted by the OBR are available on the Parliament website. It must also consent to the appointment of the OBR chair. In addition, a full update to the charter will be published on 30 October alongside the Budget, on which Members in the other place will vote in the usual way.

The noble Lord, Lord Macpherson, and my noble friends Lord Eatwell and Lord Liddle, noted that the Chancellor's Statement in July set out robust reforms to further increase transparency in the public finances. In the light of the scale of the overspend left by the previous Government, mentioned by my noble friends Lord Hain and Lord Murphy, and the noble Baroness, Lady Wheatcroft, about which the OBR had not been informed, the Chancellor also announced additional measures to strengthen the fiscal framework. These require the Treasury to share with the OBR its own assessment of immediate public spending pressures, enshrining that rule in the Charter for Budget Responsibility and establishing that spending reviews will take place every two years, with a minimum planning horizon of three years to avoid uncertainty for departments and to bring stability to our public finances. The noble Lord, Lord Macpherson, asked about further reforms to the OBR, and I will of course look at his suggestions.

The noble Lords, Lord Altrincham and Lord Frost, and the noble Baroness, Lady Noakes, questioned the OBR's forecasting record and some of the assumptions that the OBR makes. As my noble friend Lord Chandos

said, this Bill concerns the scrutiny and transparency around fiscally significant announcements. However, I note that the IMF has said that the OBR's analysis "can be considered as best-practice, and could be used as a benchmark by other advanced countries".

Meanwhile, the OECD has described the OBR as a "model independent fiscal institution".

The OBR's forecasts for GDP and the public finances have typically been more accurate than the previous forecasts made by the Treasury. As the noble Lord, Lord Altrincham, said, the OBR is required by primary legislation to publish an annual assessment of the accuracy of its forecasts. All previous forecast evaluation reports are available on the OBR's website.

The third element of this Bill is to define a measure or combination of measures as "fiscally significant" if they exceed a specified percentage of GDP, with the OBR charter then setting the precise threshold at 1% of GDP. The noble Lords, Lord Macpherson and Lord Bilimoria, and the noble Baroness, Lady Vere, discussed the setting of the 1% threshold. The purpose of the legislation is to ensure that large-scale fiscal announcements that could undermine macroeconomic stability cannot take place without independent scrutiny. This requires a threshold that is targeted at fiscally significant announcements. The current threshold will ensure that the provisions are triggered only when appropriate to support macroeconomic stability.

To answer the noble Viscount, Lord Trenchard, and the noble Baroness, Lady Vere, the 1% of GDP threshold is cumulative and treats savings and costs separately. This means that announcements made by government to Parliament in any financial year in the forecast period can be added together and trigger these arrangements. It will not be possible to simply announce savings to offset costs to avoid it. The Treasury will keep track of announcements as they are made over time and share these with the OBR as requested. This is an important part of how these arrangements will hold the Government to account on spending commitments.

Fourthly, this Bill ensures that measures do not apply to responses to emergencies. The Bill does this by not applying in respect of measures that are intended to have a temporary effect and which are in respect of an emergency. The OBR charter will define "temporary" as any measure that is intended to end within two years. In an emergency—for example, during a pandemic such as Covid-19—it may be necessary for the Government to take rapid action. In these cases, it would not be appropriate to hold back the response to the emergency until such time as a forecast could be produced.

My noble friend Lord Davies of Brixton and the noble Baronesses, Lady Kramer and Lady Vere, sought clarity on the definition of "emergency". Given the unexpected and unpredictable nature of events, it is not possible to set out a precise definition of an emergency in legislation. However, the Bill contains clear limitations to ensure that no Government can inappropriately avoid independent scrutiny on its significant fiscal announcements.

The first of these limitations is that the updated Charter for Budget Responsibility notes that, when the Treasury believes something is an emergency, it would need to make it clear why it considers the

[LORD LIVERMORE]

situation to be an emergency. Secondly, this can be relevant only for temporary measures which are intended to end within two years. Thirdly, as set out in the updated charter, this will not simply be for the Treasury to decide. The OBR will have the discretion to prepare a report if it reasonably disagrees on whether the situation in question is an emergency. If it were to reasonably disagree, the OBR would be required to notify the Treasury Committee in the House of Commons of its opinion. I repeat that, in emergencies, it may be appropriate for the Chancellor to commission a forecast from the OBR to follow measures that need to be announced or implemented rapidly. That would happen in the usual way.

Finally, the Bill requires the Government to publish any updates to the detail of these arrangements, such as the threshold level at which they are triggered, in draft form, at least 28 days before the charter is laid before the House of Commons. This is a key safeguard in the Bill, preventing any future Government from choosing to ignore these arrangements by updating the charter without clear parliamentary consent.

The noble Baroness, Lady Noakes, and the noble Lords, Lord Moylan and Lord Bilimoria, raised the question of scrutiny of this Bill in your Lordships' House. As the noble Baroness, Lady Noakes, and the noble Lord, Lord Frost, noted, this is for the Speaker in the House of Commons to determine under the Parliament Act 1911. This Bill focuses on the scrutiny of fiscally significant announcements—tax and spend—which is the remit of the other place. To reassure the noble Viscount, Lord Trenchard, the House of Commons will debate and approve the updated charter.

The changes introduced in this Bill are an important step in bringing much-needed stability to our economy, so that we never again see a repeat of the disastrous Liz Truss mini-Budget and the damage that it did to family finances. By empowering the OBR and ensuring that an independent assessment will accompany all fiscally significant announcements, it will improve transparency and accountability. Economic stability is the rock upon which all else must be built; it is the essential prerequisite for growth. This Bill is an important step as we fix the foundations of our economy, rebuild Britain and make every part of our country better off.

Bill read a second time. Committee negatived. Standing Order 44 having been dispensed with, the Bill was read a third time and passed.

Watchdogs (Industry and Regulators Committee Report)

Motion to Take Note

6.40 pm

Moved by **Lord Hollick**

That this House takes note of the Report from the Industry and Regulators Committee *Who watches the watchdogs? Improving the performance, independence and accountability of UK Regulators* (2nd Report, Session 2023–24, HL Paper 56).

Lord Hollick (Lab): My Lords, I am pleased to introduce this debate on the Industry and Regulators Committee report. I thank our committee members and staff for their valuable contribution to the committee's work, particularly my noble friend Lady Taylor, who has taken over from me as chair of the committee. Over the last three years, the committee examined the regulators of energy, water, higher education, and financial services. This report drew on our findings in those inquiries and built on them by hearing from a wide range of other witnesses, whom we thank.

Our report focused on how power is delegated to regulators and how they are held accountable for the use of that power. The 90 or so regulators in the UK usually have oversight of particular sectors, such as Ofgem, for the energy sector, or particular issues across the economy, such as the Competition and Markets Authority. Regulators are set up to act independently from government, with the aim of providing long-term stability and instilling confidence that enforcement decisions against citizens and organisations are not affected by political considerations or lobbying. They wield significant power and influence over our economy and our everyday life; that unelected bodies wield such power is unusual, and for this reason it is important that Parliament holds regulators to account for how this power is used.

Primarily, this is done through Select Committees. However, we found that the scrutiny of regulators by committees tends to be piecemeal and reactive. There is little routine scrutiny that focuses specifically on whether each regulator is carrying out its duty effectively in line with its remit. We recommend that a regular review is needed to provide an assurance that regulators are carrying out their duties as required and to identify problems before they occur—I hope—rather than examine the debris after the fact. The Industry and Regulators Committee has been filling some of this gap, and so will the new Financial Services Regulation Committee, which I now sit on, but they are not able regularly to scrutinise all the UK's regulators. In the absence of a regular review of regulatory performance, each inquiry has to start from scratch. This contrasts starkly with the practice of the European Parliament, which can call on European regulators and examine their performance and hold them to account, well informed by the knowledge and evidence prepared by a substantial permanent group of officials.

We have important bodies to aid scrutiny. The National Audit Office does sterling work in supporting the Public Accounts Committee, including, on occasion, by assessing the value for money that regulators provide. However, it does not have the resources to cover all regulators on a routine basis, and neither does the PAC have the time to do so. The National Infrastructure Commission has an important role to report on the delivery of UK infrastructure where regulators such as Ofgem, Ofcom, Ofwat and the environment agencies hold some responsibility. Given the importance of investing in infrastructure and securing growth—the key aspiration of the new Government—we recommend that the National Infrastructure Commission be put on a statutory footing, giving it the freedom of independence to speak truth to power and to inform the public about what is going on, or often not going

on, with large-scale investments into our public realm. For instance, we were disappointed to find that the NIC did not have the power to investigate proactively catastrophic underinvestment in the water infrastructure over many years, which led to widespread sewage discharges. Why is that? Because it is not allowed to investigate areas of settled government policy.

We recommend a more effective approach to improve parliamentary oversight of regulators, and a new independent statutory body, the office for regulatory performance, should be created to advise Parliament and its committees to hold regulators to account on a more thorough and systematic basis and provide an annual report card on each regulator's performance. The resources to fund its work would be well spent to ensure that regulators are delivering what they are asked to by Parliament. We recommend that the Government consider provisions for the office for regulatory performance as part of their forthcoming creation of the regulatory innovation office.

Imposing multiple statutory responsibilities on regulators can muddle them and their accountability. Some regulators have been given too many objectives and matters to have regard to without any clear guidance on priority. This makes it difficult for a regulator to achieve its objectives and for Parliament to assess its performance. Take the case of Ofwat, which prioritised keeping consumer costs down instead of increasing essential investment in the water infrastructure to meet population growth and replace its failing century-old system. Where there is a lack of clarity in the job role given to regulators, they often reach for the most cautious solution and avoid raising bills, even where this might be necessary. This lack of clarity undermines the independence of regulators; Parliament and the Government need to be clearer when setting and prioritising objectives and not remain mute on the issue.

The recent introduction of the competitiveness and growth objectives for regulators brings a welcome focus on growth and improving the performance of regulators, but it also brings a challenge for regulators to balance the new growth objective with their overriding responsibility to sustain the integrity and enforcement of effective regulation in their sector and, particularly, the protection of customers.

Noble Lords will recall the enthusiastic embrace of the coalition Government for a bonfire of red tape. Earlier this afternoon, we were reminded of the dangers of thoughtless implementation of that approach when the Grenfell fire report cited lax regulation as a key contributory factor to the devastating fire. The objectives of growth and competitiveness must sit side by side with a strengthening of public protection and an improvement in the clarity and speed of response and remediation provided by regulators to the public and business alike.

Regulators can have a significant impact on growth. In the Industry and Regulators Committee's 2023 letter to the London insurance market, we noted how the introduction of rules to allow the advent of securitisation and captive insurance was widely applauded and adopted in many jurisdictions, and opened attractive growth opportunities for London. In Singapore, where

the regulator promoted the virtues of these same UK rules, they rapidly authorised several companies to open for business. UK regulators were far too slow off the mark and introduced a very long process of authorisation, which prevented London taking advantage of being the primary rule setter.

When the CEO of the London Market Group appeared before the Lords Financial Services Regulation Committee last week, she reported that there had been no improvement in London's regulatory process since our earlier report. In the same meeting, the head of Marsh McLennan told us that the cost of compliance in the UK was estimated to be six times greater than in the nearest major competitor jurisdiction. These examples appear to be a result of our regulators' passion for process rather than effective outcomes. This results in great frustration for customers and businesses; it adds costs and undermines growth.

That regulator passion for process is in part born of an understandable need to minimise the danger of getting something wrong and missing key information. Perhaps the advent of AI software, which itself presents some interesting regulatory challenges, can transform that process by collecting all the data, verifying it for an available, possibly centralised database, and identifying those cases and authorisations that require further inquiry and judgment to resolve. The regulators can then focus their resources and well-honed skills on resolution rather than procrastination. Innovation like that can improve regulatory performance and protection, and promote growth.

The Government's announcement to legislate to set up a regulatory innovation office provides an important opportunity to consider how AI and other innovations can be harnessed and regulated to improve protection, competitiveness and growth. Will the Minister please confirm that there will be a pre-legislative consultation, when the recommendations of our committee and others can be considered? When do the Government expect to set up this new body and are they supporting the previous Government's May 2024 White Paper, *Smarter Regulation*, ensuring that regulators play their part in supporting growth?

Regulators protect citizens and the environment against those who, by design or otherwise, wish them ill. By providing a clear and efficiently managed set of rules, regulators provide the predictability, stability and competitiveness that help businesses to attract domestic and overseas investments, which can help them flourish and boost growth. Regulators need a clear remit, independence from political interference, and the necessary funding and resources to do their job.

Regulators have the responsibility to operate in a transparent manner, to explain the reasons for making their decisions, and to speak candidly to Parliament and the public if there are significant issues that need to be addressed and resolved, however discomfiting the Government of the day might find them. Parliament, for its part, must adopt the reforms proposed to strengthen its oversight of the regulators and to fulfil its role watching the watchdogs. I beg to move.

6.54 pm

Lord Hunt of Wirral (Con): My Lords, I first draw attention to my entry in the register of interests; in particular, as chair of the financial services division of DAC Beachcroft. I welcome the opportunity to follow the noble Lord, Lord Hollick, not only to congratulate him on an important speech but to thank him and his colleagues for making such an important contribution to this debate.

This report excels particularly in its shrewd and practical analysis of the eternal tension between independence and accountability. As it states in paragraph 171:

“Regulators should be held to account for aspects of their performance by their sponsoring departments within government. Given the importance of regulatory independence, accountability cannot be left to the Government alone, and Parliament must play a critical role”.

Experience tells us that regulators have their ups and downs. In the unlikely but possible event of one going rogue—acting outwith its statutory remit, demonstrably underperforming or even failing completely—there must be some mechanism for dealing with that. Sometimes we joke that the sign of a successful regulator is to be equally unpopular with producers and consumers, and with Governments and Oppositions.

Financial regulation—the very foundation of our economic system—failed disastrously, resulting in the crash of 2008. Thereafter, the debate seemed to be between rules-based versus principles-based regulation. I say that we need proportionate, flexible and targeted regulation. There is always a risk of regulating to prevent the last catastrophe, rather than creating a system that can prevent the next one.

In May, the previous Government produced a very good White Paper, *Smarter Regulation*, which included the observation that

“regulation should only be used where strictly necessary, with a high bar for introducing it and laser-like focus on how it will be implemented and felt”.

Labour’s manifesto said:

“Labour will ensure economic regulation supports growth and investment, promotes competition, works for consumers, and enables innovation”.

I hope that the new Government’s policy on regulation will continue to have its roots in their oft-stated intention to promote growth. For any consensus about the future of regulation to be truly sustainable, it should be across parties and not just within them. I hope to hear from the Minister a repeated echo of the spirit of practical common sense that so characterises this report.

Adam Smith, who I suppose is the father of free market economics, famously wrote:

“People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices”.

There, in a proverbial nutshell, is the case for regulation: a totally free market might well unleash countless instances of honest entrepreneurship and public benefit, but it would also facilitate all kinds of mischiefs.

As Secretary of State for Wales in the early 1990s, much of my effort was directed towards securing inward investment. When considering where to invest, major international companies, especially those in financial

services, will naturally take account of taxation rates and regimes, but they will also subject regulatory systems to formidable scrutiny—and, believe me, they really do their homework.

What attracts much-needed inward investment is a regulatory system that is stable, predictable and proportionate, not one that wastes everyone’s time and resource with pointless box-ticking and form-filling. I very much hope that we can all agree on that.

6.58 pm

Lord Clement-Jones (LD): My Lords, it is a pleasure to follow the noble Lord, Lord Hunt, and a particular pleasure to follow so closely the comprehensive introduction by our excellent former chair, the noble Lord, Lord Hollick.

As the noble Lord alluded to, the Grenfell report and today’s Statement have been an extremely sobering reminder of the importance of effective regulation and the effective oversight of regulators. The principal job of regulation is to ensure societal safety and benefit—in essence, mitigating risk. In that context, the performance of the UK regulators, as well as the nature of regulation, is crucial.

In the early part of this year, the spotlight was on regulation and the effectiveness of our regulators. Our report was followed by a major contribution to the debate from the Institute for Government. We then had the Government’s own White Paper, *Smarter Regulation*, which seemed designed principally to take the growth duty established in 2015 even further with a more permissive approach to risk and a “service mindset”, and risked creating less clarity with yet another set of regulatory principles going beyond those in the Better Regulation Framework and the Regulators’ Code.

Our report was, however, described as excellent by the Minister for Investment and Regulatory Reform in the Department for Business and Trade under the previous Government, the noble Lord, Lord Johnson of Lainston, whom I am pleased to see taking part in the debate today. I hope that the new Government will agree with that assessment and take our recommendations further forward.

Both we and the Institute for Government identified a worrying lack of scrutiny of our regulators—indeed, a worrying lack of even identifying who our regulators are. The NAO puts the number of regulators at around 90 and the Institute for Government at 116, but some believe that there are as many as 200 that we need to take account of. So it is welcome that the previous Government’s response said that a register of regulators, detailing all UK regulators, their roles, duties and sponsor departments, was in the offing. Is this ready to be launched?

The crux of our report was to address performance, strategic independence and oversight of UK regulators. In exploring existing oversight, accountability measures and the effectiveness of parliamentary oversight, it was clear that we needed to improve self-reporting by regulators. However, a growth duty performance framework, as proposed in the White Paper, does not fit the bill.

Regulators should also be subject to regular performance evaluations, as we recommended; these reviews should be made public to ensure transparency and accountability. To ensure that these are effective, we recommended, as the noble Lord, Lord Hollick mentioned, establishing a new office for regulatory performance—an independent statutory body analogous to the National Audit Office—to undertake regular performance reviews of regulators and to report to Parliament. It was good to see that, similar to our proposal, the Institute for Government called for a regulatory oversight support unit in its subsequent report, *Parliament and Regulators*.

As regards independence, we had concerns about the potential politicisation of regulatory appointments. Appointment processes for regulators should be transparent and merit-based, with greater parliamentary scrutiny to avoid politicisation. Although strategic guidance from the Government is necessary, it should not compromise the operational independence of regulators.

What is the new Government's approach to this? Labour's general election manifesto emphasised fostering innovation and improving regulation to support economic growth, with a key proposal to establish a regulatory innovation office in order to streamline regulatory processes for new technologies and set targets for tech regulators. I hope that that does not take us down the same trajectory as the previous Government. Regulation is not the enemy of innovation, or indeed growth, but can in fact, by providing certainty of standards, be the platform for it.

At the time of our report, the IfG rightly said:

"It would be a mistake for the committee to consider its work complete ... new members can build on its agenda in their future work, including by fleshing out its proposals for how 'Ofreg' would work in practice".

We should take that to heart. There is still a great deal of work to do to make sure that our regulators are clearly independent of government, are able to work effectively, and are properly resourced and scrutinised. I hope that the new Government will engage closely with the committee in their work.

7.04 pm

Lord Cromwell (CB): My Lords, I have the honour of serving on the committee that produced this report, which was chaired superbly by the noble Lord, Lord Hollick, and is now chaired by the noble Baroness, Lady Taylor—both of whom we will hear from today. We were very fortunate in our staff, who achieved the almost impossible against excruciating timelines.

To illustrate the points that I will make with one example, I will reprise the committee's experience with the water industry. The initial objective given by the Government to the regulator and thence to the water companies was the production of clean, cheap water—and that happened. Privatisation raised some finance but the investors' objective was to deliver profits to their own stakeholders; that happened too, through financial engineering that its regulators did not understand or question. So long as the initial objective—cheap, clean and plentiful water—was being met, the water companies were largely left to go their own way. The result?

Investment for the long term was ducked, sewage discharge facilities were abused and monitoring was inadequate until environmental objectives gained prominence and a combination of civil society, the media and the committee's inquiry revealed that Ofwat, the Environment Agency and Defra had been both diffident and outplayed in their dealings with the water companies. Thereupon, water companies' directors were lambasted for taking bonuses while polluting rivers and their investors were criticised for sharp practice. The regulators, exposed as complacent, imposed swingeing fines on water companies—costs that will ultimately fall on the consumer, as will the many billions for overdue investment in a catch-up that will probably take a quarter of a century or more.

Meanwhile, investors have taken fright, some water companies face bankruptcy and there is uncertainty as to whether the water companies and their regulators are even up to the job of delivering the projects needed. All this reflects a combination of poor and shifting objectives from government while complacent departments and underskilled, under-resourced regulators were outsmarted by the very businesses they were supposed to be regulating.

This brings me to my two points. First, the inherent tensions between independent regulators, the Government, consumers and delivery organisations—often with sophisticated investors—are characterised by divergent stakeholder objectives that alter over time and are not clearly prioritised. Regulators must work robustly with stakeholders while remaining independent, vigilant and inquisitive, but they also need skills ranging across both technical and financial areas. Despite the concerns that have been raised over the executive pay at regulators, the report highlights that skills gaps and resourcing at competitive financial levels are serious issues in some of them. It would therefore be helpful to hear from the Minister what plans the Government have to ensure that regulators can access a full range of skills, possibly shared between regulators—for example, in private equity financial engineering.

Before I touch on my second point, which covers regulatory accountability to Parliament, let me say that I support the report's finding that such examination should systematically include relevant government departments whose guidance and interaction with regulators are vital determinants of their effectiveness. They should be automatically and fully in scope, rather than seeking to brush aside the inquiries from our committee.

Returning to the regulators, the question is, "Who watches the watchdogs?" The answer is, "We do". However, with 90 regulatory bodies—perhaps considerably more—there is a simple capacity issue. In theory, every regulator should come before Parliament at least to present its annual report, be examined on it and have agreed actions followed up, but that just does not happen. Consequently, as the noble Lord, Lord Hollick, pointed out, interaction between Parliament and the regulators is typically reactive—that is, not preventing problems but seeking who is culpable afterwards. It is not systematic: the examination of those who do get called in is useful, but inquiries then hasten on to the next pressing matter and follow-up is far too limited.

[LORD CROMWELL]

A key recommendation of the report is to create an independent office for regulatory performance, as has been touched on, in order to spread the load and move towards a systematic approach rather than a reactive one. Before the election, the Labour Party said, as others have mentioned, that it would create a new regulatory innovation office with an emphasis on removing delays in regulators' approvals of business proposals, along with strengthening the Regulatory Horizons Council.

Getting to grips with performance means constant vigilance, not complacency, and—I underline this—access to the necessary skills to get right down in the weeds on a whole range of technical and commercial areas. If such a body can both speak hard truths to government about its continuous responsibilities for clear prioritisation of objectives and bring practical help to parliamentary committees in systematically holding regulators to account, I would welcome it. It would therefore be very helpful to have a detailed update on the Government's plans when the Minister comes to wind up.

7.10 pm

Viscount Chandos (Lab): My Lords, I congratulate my noble friend Lord Hollick on securing this debate and his outstanding introduction. This report, *Who Watches the Watchdogs?*, is the crowning glory of his term as the inaugural chair of the Industry and Regulators Committee, to whose establishment he did much to contribute. The standing of the committee, which is recognised by the Institute for Government, as I shall refer to later, owes much to his term as chair. Like the noble Lords, Lord Clement-Jones and Lord Cromwell, I was proud to be a member of the committee at the time of this inquiry, and continue to be a member under the excellent chairmanship of my noble friend Lady Taylor of Bolton.

Who among us has not felt frustration at the burden or impact of regulation, whether as consumers or in our business or professional lives? That, I suggest, is the result of bad regulation, not the principle of regulation, and the purpose of the committee's inquiry was to identify ways in which regulation could be made consistently better. Further, like the noble Lord, Lord Clement-Jones, I believe that good regulation is a key determinant of the success of a dynamic social market economy. One of the most striking pieces of evidence that the committee heard was from Virginia Acha of the pharmaceutical group MSD. She argued that, if you look around the world, there is no country in which there is a thriving life sciences industry that does not have a strong pharmaceutical regulator.

What is true for life sciences is true for other industries and sectors, even or particularly those that are complex and/or fast changing. For that reason, I disagreed with the previous Conservative Government's policy of delaying overarching regulation of AI and look forward to the Labour Government introducing legislation as soon as possible, drawing where appropriate, I hope, on the Private Member's Bill introduced in the previous Parliament by the noble Lord, Lord Holmes of Richmond.

The most significant of the many good recommendations in the committee's report is the establishment of an office for regulatory performance to improve Parliament's ability to oversee regulators and hold them to account. As my noble friend Lord Hollick also noted, two months after the report was published, the Institute for Government published its own valuable report on the specific issue of the parliamentary scrutiny of regulators. It proposed a regulatory oversight support unit as its solution to the same challenges that the committee set out to address through the office for regulatory performance, as well as suggesting that the committee should seek to involve members of the House of Commons in its proceedings on a regular basis. This last suggestion feels to me to be way beyond my pay grade, although I would welcome it.

On the difference between the committee's advocacy of the office for regulatory performance and the Institute for Government's recommendation of a regulatory oversight support unit, I am torn between a loyalty towards the committee of which I am a member and feeling that the pride of co-authorship should not be allowed to get in the way of achieving, as soon as possible, a practicable and cost-effective solution. Can my noble friend the Minister say whether the Government will, alongside the proposed establishment of the office for regulatory performance, also explore, with both Houses of Parliament, the best way to strengthen Parliament's scrutiny and holding to account of regulators, drawing on the work of both the Industry and Regulators Committee and the Institute for Government?

7.14 pm

Baroness Finn (Con): My Lords, I congratulate the noble Lord, Lord Hollick, on the work of his committee in producing such a comprehensive and insightful report. It has brought into focus an important issue that has a huge impact on the wider public. Many years ago, I worked at the Financial Services Authority at its foundation.

A common refrain from commentators, frustrated with democratic politics, is, "Things would be so much better if only experts were in charge". However, I suggest that the proliferation of regulators throughout the United Kingdom has tested that theory, and the committee's report provides ample evidence of the trade-offs inherent in delegating matters to regulators.

As many in this House will know, decision-making in government consists of an endless flow of problems. These problems, almost without exception, involve distributional trade-offs between competing voices in society, each of whom has a legitimate claim on public resources. Every decision creates winners and losers: those who stand to gain or suffer from the effects of public policy. That is why I welcome the committee's recommendation that, where decisions necessarily involve distributional trade-offs, there should be some facility for regulators to seek guidance from the Government as to how to proceed. There is a good case for making that facility more formal.

The only plausible qualification for taking distributional decisions is democratic consent. Accountability to the electorate is the only effective deterrent for decision-makers

to resist the temptation to serve factional interests over wider public interests. Since 2008, the Bank of England has engaged in almost £1 trillion-worth of quantitative easing. In evidence to the Economic Affairs Committee of this House, Bank officials stated that they “hope”—their word—that the effect of this stimulus would be to inflate existing asset prices, making asset-holders richer and thus prompting them to spend more money. That is a distributional decision, the consequences of which impact on us all, and one which Parliament played no role in authorising. I therefore also welcome the committee’s recommendation that the accountability of regulators to Parliament must be strengthened, although I doubt whether the committee’s recommendation for yet another statutory body will enhance that accountability.

The power of regulators is supposedly curtailed by their having clearly defined statutory duties that limit their freedom of manoeuvre. I fully agree with the committee’s finding that many regulators today suffer from a proliferation of conflicting statutory duties that read more like shopping lists than legal direction. However, when a regulator catastrophically fails to exercise its statutory duties, there are seldom any consequences. The 2008 financial crisis was unambiguous evidence of the failure of the institutions responsible for supervising the financial services sector, yet the central culprit of that failure—the Financial Services Authority—was simply rebranded, with some of its responsibilities moved down the street to the central bank. The bulk of its personnel did not change, nor did their working practices. The very culture that gave rise to such failure was left to fester, and the FCA can often seem to take a greater interest in the diversity of the board members of those it regulates than it does in the macroeconomic risks arising in the financial services sector.

The report also makes a number of recommendations about the appointments to regulators’ boards, including the timeliness of such appointments. This is an entirely fair criticism, but, having had some experience of such appointments inside government, I highlight that the data about these important appointments is often woeful. In the then BIS department, it took officials almost six months to pull together the data on upcoming appointments. This is important in the appointments to regulators’ boards, since those who are most qualified to undertake these roles will almost certainly have conflicts of interest and will need to be approached in good time and, often, persuaded to apply. They are not the sort of people who will check the public appointments website, so it is vital that the departments give such appointments the attention that they deserve, with officials of appropriate seniority in charge.

I close by emphasising that regulators, with few exceptions, seem to have fallen prey to the temptation of governing not in the wider public interest but in the factional interest of those they apparently exist to regulate. A different incantation of statutory words cannot resolve this. The only answer, as the noble Lord, Lord Hollick emphasised, is for our democratic decision-makers to play a more meaningful role in the regulation of the British economy.

7.19 pm

Lord Berkeley (Lab): My Lords, it gives me great pleasure to take part in this debate and to congratulate my noble friend Lord Hollick and his committee on a most excellent report. I was not a member of the committee, but sometimes I felt I was a lone wolf in challenging HS2 and other things over their costs over the past 10 years because there was no regulator. What struck me was that, on page 5 of the report, near the bottom, there is an interesting paragraph which says:

“Ministers and Departments responsible for specific regulators should be subject to scrutiny ... the Committee was disappointed by the Department for Business and Trade’s limited engagement”.

I think that is probably putting it mildly. It probably did not turn up at all. The same applies to the Department for Transport in my fights with it. I have come to the conclusion that there may be a difference between the way that regulators can regulate commercial companies and the way that they try, sometimes successfully, to regulate government departments.

In the time available, I shall concentrate on the Department for Transport. It has sat back and seen the capital cost of HS2 go up from £37 billion to £180 billion. That is quite a jump over 10 years. When you try to challenge it, it all gets very difficult. I tried the PAC and the National Audit Office, and they were busy, as one might expect. So, I wrote to the Cabinet Secretary to ask him to investigate whether Ministers had complied with paragraph 1.3 of the Ministerial Code by failing to give an accurate and truthful account to Parliament, knowingly misleading Parliament and failing to be as open as possible with Parliament and the public. The answer to all of those was no. Simon Case, the then Cabinet Secretary, instead of doing what I asked him to do, asked the Permanent Secretary of the Department for Transport to respond. Unsurprisingly, she said everything was fine—but she would because was it her department I was challenging.

Then I was told by the Cabinet Secretary that he could do nothing unless the Prime Minister agreed. The Prime Minister at that stage was Boris Johnson, who liked HS2, so there was a circle of nobody doing anything at all and just letting this thing flounder until, finally, the Treasury was persuaded that my costs were likely to be closer to what was going to happen than those the Department for Transport was producing, and the Prime Minister then cancelled most of HS2.

Whether we think that is a good thing or bad thing does not really matter, but it demonstrates that there does not seem to be any way of challenging the Department for Transport unless it is through Parliament. As the noble Lord, Lord Cromwell, said, that might be a good idea, but you have got to get Parliament to do it, and that is quite hard work. My preference would be for the House of Lords to be able to do it as well as the House of Commons because we have a bit more time.

This is a good report. I think there are many other bits of regulation that one could talk about—for example, nuclear power stations, the Office of Rail and Road, which does not look at road safety, and many things like that. I think an office of regulatory

[LORD BERKELEY]

performance would be a very good start, and I hope that when my noble friend responds she will give it an amber, if not a green, light.

7.24 pm

Lord Holmes of Richmond (Con): My Lords, it is a pleasure to take part in this debate. I congratulate the noble Lord, Lord Hollick, on his excellent introduction to the debate and thank him and the committee for an excellent report that covers so much ground in such clarity and detail. “Who watches the watchdogs?” has been the cry over centuries of human societies, and it is never more applicable than today with the proliferation of regulators covering all aspects of our economy and society. Performance, independence and accountability are exactly the three points on any tripod to get into the issues surrounding how in the UK we regulate in the 21st century. The recommendations are clear, achievable and relevant, and I agree with all of them.

The themes running through the report are equally clear. There is a sense that it is as good as pointless—worse, harmful—simply to add more statutory objectives to regulators in the belief that this would impact performance and produce a better result for the market or consumers. Similarly, some regulators are able to fund themselves through levies and fees, and others have to go with their hand out to government. That financial structure must impact on the way that they operate, through no fault of their own.

The cry I hear running through the whole report is for clarity, consistency and coherence across the regulatory landscape. I agree entirely. This is never clearer than when we come to artificial intelligence where, currently, there is no regulator. The previous Government had the inadequate approach of writing a letter to all regulators to ask them what they intended to do when it comes to artificial intelligence. Will the Minister say what this Government’s approach will be to get the right regulatory framework for AI? I would certainly like to see an AI authority to review many of the provisions in my AI Private Member’s Bill, and I thank the noble Viscount, Lord Chandos, for his kind words about it.

When I say an AI authority, I do not mean a behemoth regulator covering all aspects of AI; I mean a right-sized, agile, nimble and, crucially, horizontally-focused regulator to look across all the existing regulators to assess their competence, address the issues, challenges and opportunities of AI and identify the gaps where currently there is no recourse. For example, in recruitment, if you find yourself on the wrong end of a recruitment decision, often without even knowing that AI was in the mix, there is currently nowhere in the regulatory landscape to seek redress. Similarly, we need an AI authority to be the custodian of the principles we want to see, not just for the right-size regulation of AI, but going further than that with an ability to transform the way we regulate across the whole of our economy and society and to look at all legislation to address its competence to address the challenges and opportunities of AI.

Will the Minister say where the Government currently are with the regulatory innovation office? What will be the scope? How will it be funded? What will be its first

tasks? Does she agree that it is high time that we had an AI authority if we are to gain all the economic, social and psychological advantages and benefits of AI while being wholly conscious and competent to address all the risks and challenges? I suggest that if we had such an AI authority, it would have not just a positive impact on how we go about regulating AI but could improve how we go about regulation and regulators across the piece, not just positively impacting AI, not just asking the question “Who watches the watchdog?”, but enabling those watchdogs to be more, enabling them to be guard dogs and to be guide dogs, and, crucially, if the guard dog and the guide dog fail, empowering them to show their teeth.

7.29 pm

Baroness Kidron (CB): My Lords, it is an absolute pleasure to follow the noble Lord, Lord Holmes, not just because I am going to speak thematically, alongside him, but because he speaks so wonderfully.

I thank the committee for its excellent report, and the excellent introduction by its chair, the noble Lord, Lord Hollick. I will restrict my remarks to two issues: the AI skills shortage across government and regulators, and the recommendation for a Joint Committee of both Houses to oversee digital regulation. I refer the House to my interests, in particular as adviser to the Institute for Ethics in AI at Oxford and as chair of the LSE’s Digital Futures research centre.

AI technology is not new, and nor is competition for digital expertise to support public policy. However, in recent years, we have seen a raft of digital regulation across data, competition, safety, consumer products and so on, as well as a step change in the scale at which AI is being deployed across business, public services and direct to citizens. Together, these have created an eye-watering competition for AI skills. The US and China dominate the charts of AI talent, together currently employing 75% of highly skilled workers; that is up from 58% in 2019. One sector analysis found that there are only 10,000 people in the world with the kinds of skills that new applications of AI need. I ask the House to do the maths: if the US and China have 7,500 of those people, that leaves very few for the rest of us.

What was once an issue concentrated in the tech sector, or in businesses with complex delivery or service functions, is now an issue for everyone, including the regulators. Increasingly, we hear government Ministers suggest that AI is the tool by which they will reform the NHS, justice and welfare, and that it is central to their growth agenda. This requires regulators and government itself to enter an intensely competitive market for skills in which they either pay eye-watering sums to attract talent or outsource to companies, most often headquartered outside the UK, with which they frequently make data sharing and processing arrangements that accrue long-term value disproportionately away from the UK.

There are a number of actions that government might consider, from funding graduate programmes to retraining professionals in associated fields or adding digital skills to those with domain expertise, compulsory training for civil servants and government lawyers,

attractive packages for foreign nationals, and so on. But without a concerted and urgent effort, our hopes to be a centre of innovation, and for the transformation of public services and functions of government, such as drafting legislation or fulfilling oversight functions, will be blighted by a lack of access to adequate skills.

This leads neatly to my second point. The pre-legislative committee on the online harms Bill, on which I was privileged to serve, recommended a Joint Committee of both Houses to oversee digital regulation, setting out five primary functions for that committee: scrutinising digital regulators; scrutinising government drafting of legislation about digital technologies; reviewing relevant codes of practice; monitoring new developments such as the creation of emerging technologies; and publishing independent research or whistleblower testimonies. During the passage of the Online Safety Bill, the data Bill and the competition Bill, the creation of a Joint Committee was supported by Members of both Houses and from all parties, most notably championed by the noble Baroness, Lady Stowell, but including the Minister herself.

There is not time in this debate to go into detail about emerging gaps between the intentions of Parliament and digital regulators, the speed of regulatory codes versus the speed of technological development, the twin evils of hacking and scraping of intellectual property, commercial access to publicly held data, or the ferocious lobbying of government and regulator by the most powerful companies in the world. However, along with the issues raised by the report of conflicting objectives, inadequate expertise in government and regulator, and the habit of information overload instead of transparency, each of these things would be well served by Parliament having oversight and expertise from dedicated committee members and staff.

This is a time in which digital solutions, particularly those driven by AI, come before the House in ever greater numbers, with unprecedented impact on every area of public and private life. If we do not ourselves grasp the problem of skills, we will squander our sovereign resources and find ourselves renters of services and products that should be built in the UK. If we do not improve our oversight of digital regulation, we will squander our chance to be a rule-maker and not a rule-taker of the new world.

7.35 pm

Baroness Jones of Moulsecoomb (GP): My Lords, I congratulate the noble Lord, Lord Hollick, on his opening speech, which was very good, and also congratulate his committee on this report, which was extremely interesting. If *Who Watches the Watchdogs?* is to have an impact, we in your Lordships' House have a responsibility to hold those watchdogs to account.

The report highlights a lot of challenges, but the key challenge for the new Government is to ensure that real change actually happens. It is very easy—well, perhaps not easy—to produce a report, and we produce reports and they are then often ignored. As the Institute for Government says about the infected blood scandal:

“Past inquiries, including the high-profile Mid Staffs inquiry, have put forward similar recommendations on culture, candour and patient safety. These have not, however, resulted in change.”

We have 90 watchdogs, a library full of regulations, and all supported by some very high-level civil servants, probably drawn from our best public schools. It is a puzzle as to why we have had Grenfell, infected blood, sub-postmaster prosecutions, Hillsborough and the PPE contract scandals. It seems that here in this country, ordinary people can die but those responsible never get jail time. Ordinary people can lose everything but will have to wait decades for compensation, while the CEOs enjoy bonus payments and retirement cheques, and never have to worry about paying any money back. It seems that ordinary people take pay cuts for years but the profits for energy companies stay excessively high. Why do the shareholders of water companies get billions in dividends while those of us paying the bills pay the interest on their debts?

If noble Lords want to know why Britain has more billionaires than ever before but collapsing public services, it is because many modern fortunes have been built on regulatory capture, privatised services, and a system of corruption designed to separate taxpayers and bill payers from their money.

I was shocked to discover today that water companies have a duty to not pay shareholder dividends if that stops them delivering improvements and doing their jobs. What has Ofwat been doing for the last few decades? Why do this Government think that this is going to suddenly change if they leave Ofwat in charge?

This report examines the many and varied reasons why watchdogs are failing, but I want to focus on two that the proposed watchdog of the watchdogs is seeking to address. First, there is regulatory capture. The water industry is riven with revolving doors, as Ofwat is joined by water company bosses and water companies co-opt ex-Ofwat chiefs. The deals are arranged between an overstretched Environment Agency and water companies to keep the industry solvent. Is the Environment Agency captured by business interests rather than doing its job to protect the environment?

This weekend, I visited Lake Windermere to see the well-publicised problem of pollution there, and I heard some distressing reports. On the August bank holiday in 2022—when, as you can imagine, a lot of holidaymakers were making their way to Lake Windermere—around the lake, six miles of blue-green algae were clearly visible in the north basin. World Health Organization limits were breached, yet the Environment Agency issued no warning because of “reputational risk”. On 15 May 2024, United Utilities spilled 10 million litres of untreated sewage into the lake in an eight-hour period. Again, the Environment Agency response was inadequate.

I argue that within the definition of “national park” there should be a high standard for the water in that park, which does not happen at the moment, and that should prevent sewage dumps and other pollution. Lake Windermere could be a pilot for that idea.

The Grenfell Tower Inquiry report points out the problem that successive Governments have failed. It seems that the cutting of red tape was done with a carelessness that is absolutely incredible. Regulations can be influenced by the power of money. Private developers accounted for around a third of donations to the Conservative Party for about a decade, and

[BARONESS JONES OF MOULSECOOMB]

lobbying by developers and the construction industry undoubtedly played a part in the shameful Grenfell cladding scandal and the deaths of residents.

I say to the Minister opposite and to the new Government: please listen to other voices. If you hold a meeting with the water companies, meet Feargal Sharkey to get a counterview. If you meet Post Office bosses to discuss compensation for sub-postmasters, please also meet Mr Bates. If you get a Civil Service briefing on a scandal such as infected blood, personally check what the victims have to say. You have to listen to other voices. It will not make for an easier life but it will make for wiser decisions.

7.41 pm

Lord Kerr of Kinlochard (CB): I was lucky enough to serve on the economic committee when the noble Lord, Lord Hollick, was chairing it, so the quality of the report and the skill with which he introduced it tonight came as no surprise to me. I shall pick up what it says about transparency and accountability and draw on two examples to illustrate the point made very powerfully in the report at paragraphs 83 and 85.

I shall begin with Ofwat, about which the noble Baroness, Lady Jones, has spoken so eloquently. The Government have said they are reviewing regulation of the water sector. Because of the financial crisis at Thames Water, there is now a Water (Special Measures) Bill before the House. However, I wonder whether the Government will also review Ofwat's announcement only a week after the election, clearly made with pride, that it had knocked £16 billion off the water companies' investment plans for the next five years. The noble Lord, Lord Hollick, referred—correctly, in my view—to catastrophic underinvestment in the sector. It does not sound as if the water regulator agrees. Perhaps the Minister could tell us whether the decision announced a week after the election stands. It seems a little odd, given the national revulsion against polluted rivers and beaches. One wonders whether the regulator was not perhaps operating under an injunction from the previous Government to give paramount priority to keeping prices down. We do not know whether that is the case because all such injunctions are not necessarily public. Like the committee, I think that is wrong.

I have the same concern about Ofgem, the energy regulator, about which I know rather more because throughout the Cameron, May and Johnson years I was on the board of a company running extensive electricity networks. Ofgem cut back its investment plans in every one of the years that I was on the board, by over £1 billion in some years—it was not just us; our competitors fared no better—although everyone agreed that on present plans the national electricity grid would be quite inadequate to meet future demand. Think data centres, road transport, rail transport, domestic heating and net zero. The biggest problem is not generation but distribution.

I do not know whether the Government, anxious to keep today's prices down, were urging Ofgem not to take a long view, or whether—although this is a little implausible—they were simply looking the other way, passively allowing Ofgem to forget about

tomorrow. However, we should have known and the country should have known. The report by the noble Lord, Lord Hollick, is spot on when it says at paragraph 83:

“The Government's strategic steers and policy statements to regulators often do not provide adequate clarity on how to make trade-offs between their objectives, especially in relation to political and distributional issues, such as balancing the affordability of utility bills with the need for future investment ... The Government must not duck responsibility by delegating political or distributional decisions to regulators without clear objectives or any sense of priority”.

I agree with that; it has to be right.

Ofgem says on its website:

“We are a non-ministerial government department and an independent National Regulatory Authority”.

Is there not a contradiction there? How independent can a government department be? It continues:

“Our role is to protect consumers now and in the future by working to deliver a greener, fairer energy system”—

not a clearer, fairer and adequate energy system. Must protecting consumers now mean curtailing tomorrow's consumption? I do not think so. Clearly there is a balance to be struck but, equally clearly, striking it is a political decision that should be public—announced to Parliament and accountable to Parliament. He who pays the piper calls the tune, but he must not pretend that it was the piper alone who picked it.

Also, Mrs Badenoch really should not have refused to give evidence to the committee.

7.46 pm

Lord Addington (LD): My Lords, when I put my name down for this debate, I suspected I would learn more than I imparted to the House. What dragged me towards this debate—that moment when you take that rare parliamentary step of getting out of your own little corner—was that, when I looked at the title, I remembered my experience many decades ago when I was the baby on the then water Bill. Indeed, when I explained this to my noble friend Lord Teverson, he asked whether I was on some sort of day release or child workforce project for Parliament.

I remember being told at the time that the regulator would work and would cover everything, but we have discovered that it did not. The noble Lord, Lord Cromwell, has pulled that apart for us and shown that the regulator did not have the structure, the incentive or the vision to do anything about it, but we did not know that. The regulator just jogged on, doing its inadequate job and delivering on its original remit, and no one paid any attention until it was too late—until we had people making reports to the press, which then made their way to Parliament, and by that point you are often basically playing catch up and mend. The conclusion that I have come to is that the difference between a regulator and red tape is that the work is the same and you decide whether it is red tape or useful regulation.

There are many other regulatory bodies. As my noble friend Lord Clement-Jones pointed out, there is some debate about how many we have. Surely that is something that Parliament could sort out. Is it 90 or 200? Is there some subset below 90? Surely that is something to find out.

The central idea of an office for regulatory performance is a crucial one. It would be a much better way of allowing Parliament to see what was not working. If you have to come and report to Parliament, you will find out.

When it comes to regulation or red tape, I do not think that many people in either House are basically evil and out to get everybody else. They may have different views and objectives but if you can say, “Something isn’t working, so please do it differently”, you stand a good chance of somebody engaging. It is just one of those things that happens. The noble Lord, Lord Holmes, pointed out something that we have not really looked at, because we did not really understand it until comparatively recently, and when it comes to new areas we have to do something. Also raised in this report is: do not just stick something into an existing body, if it has not got the structure to handle it, because everybody is panicked.

Having looked at this report, I think it seems awfully like common sense to anybody who has been around Parliament for a while. If you do not know that something has gone wrong and it is not in the press, Parliament will not discuss it, so the regulatory framework carries on until something catastrophic happens and there is real public failure, or until it becomes politically desirable or fashionable for the party in power to address it. Those things are both probably undesirable, because somebody comes through and makes sweeping changes that may not make it any good, or they are responding to a disaster.

Surely some form of reporting on how things are managed is very sensible. I hope that when the noble Baroness, Lady Jones of Whitchurch, replies she will say that she is looking at this favourably. It does not have to be this scheme, but there should be something that reports back and lets us know how efficient things are. We are not asking for some revolution here, just for better monitoring of our current system.

7.51 pm

Lord Ashcombe (Con): My Lords, I am delighted to be able to take part in this debate, but before I start I should declare my interest as an employee of Marsh McLennan, the insurance broker. I thank the noble Lord, Lord Hollick, and his committee for this report and believe that nothing but good can come from this debate around the performance, independence and accountability of the UK regulators. I know that it was welcomed by many within London’s commercial insurance and reinsurance markets.

The committee’s report was particularly welcome in the context of the Financial Services and Markets Act 2023, which established a number of new accountability metrics and mechanisms, including a secondary objective for international competitiveness and growth for the FCA and PRA. These two regulators are now required to publish annual competitiveness and growth reports, the first of which were published in late July. These reports represent an important step forward and illustrate how the new accountability measures introduced are starting to engender a culture change in these regulators. Time will tell of progress.

They also provide an opportunity for noble Lords, via the Financial Services Regulation Committee, to scrutinise the performance of these two regulators.

To take advantage of dynamic changes, businesses need to be able to respond swiftly to new opportunities and risks. They will have many choices about how and where to do that, so the speed, responsiveness and willingness of the regulators to support these innovations are vital factors. If London is to remain the global centre of risk transfer and retain its reputation for innovation, it needs to be able to offer customers all the tools available—tools used in competitor jurisdictions.

The noble Lord, Lord Hollick, touched on two topics, captive insurance and insurance-linked securities, which I would like to go a little further on. I am particularly interested in the potential of captive insurance, a rapidly growing global market estimated by Marsh McLennan to reach \$161 billion by 2030, and of which the UK has no share. Core to its success will be the approach by the regulators; the regime needs to be designed and structured in a balanced and proportionate way. I urge the regulators to learn from their experience of the ILS market, an area where the UK market has broadly stalled—unlike Singapore, which copied the UK’s framework in 2019, since when 28 transactions have been launched thanks to the proactive work of its regulator, the MAS.

I welcomed the inclusion of a consultation on the creation of a UK captives regime in last year’s Autumn Statement. I understand that significant progress had been made prior to the general election about that consultation nearing publication. Pressing ahead and establishing the UK as a relevant captive domicile would mean that the UK could take advantage of a market that is growing rapidly, contribute to growth and bring back taxpayer capital currently held in the captives of UK public bodies based offshore. I hope that this House will continue to review these essential topics in the years to come. We have an important part to play in making the FCA and PRA fulfil their primary and secondary objectives.

I finish with two questions to the Minister. First, does she agree that, given that a number of UK public sector bodies currently base their captives offshore, the creation of a UK regime would be a positive step in bringing back taxpayer capital to the UK? Secondly, can she provide the House with an update on the Government’s work in preparing a consultation on the creation of a UK captives regime and, furthermore, will she be prepared to meet me and other noble Lords interested in the potential of this market, to seek our views? We all want growth, with the UK economy thriving and driving our nation’s prosperity.

7.56 pm

Lord Skidelsky (CB): My Lords, I was not on the committee and therefore would like to allow myself a few mild criticisms of a very thought-provoking report. I will touch on three aspects of its central problem: “Who watches the watchdogs?”

First, a bit of history might be helpful. In its present form, this challenge was created by the Thatcher reforms of the 1980s, which produced a new dividing line between the state and the private sector. Previously,

[LORD SKIDELSKY]

the Government owned the public utilities and were accountable to Parliament, while the private sector was in the hands of private companies that were in theory accountable to the market. That was the model, anyway, but it was swept away by the reforms of the 1980s. Injected into the private sector by Margaret Thatcher and her successors were some big natural monopolies, which had to be regulated to protect the consumer and the general public, so we got Ofcom, Ofgem, Ofwat and so on. Now there are altogether 90—or is it 200?—regulators. No one seems to know, but a massive quangocracy has arisen and with it the problem to which the report speaks: people can replace their elected representatives but they cannot vote out bad regulators

It would have been helpful had the report given a bit of this history, because that would have helped us to think more clearly about which bits of the economy are best in the private sector and which should be in the public sector. For all its talk of efficiency gains and protecting the consumer, privatisation was a euphemism for the sale of public assets, the main purpose of which was to raise revenue, reduce public debt and thus enable tax cuts. In short, it was a Conservative programme for shrinking the state, dressed up in the clothes of scientific economics. Any historian probably has to take some view of that kind.

One way of tackling the problem of accountability is to rethink the present boundary between private and public, particularly to ask whether it makes sense to keep some of these hybrids, with their layers of regulators, in the private sector at all. The present division is based on no principled red lines. It is directly implicated in the decline in total investment as a share of GDP and the growth of inequality, but that is a matter for another debate. I do not blame the report for taking the world as it is and trying to improve it. I do not think I need to limit myself to that.

My second point is mandate creep, which is something the report pays a lot of attention to. It is the loading of more and more functions on to the regulators, obscuring the character of their remits. As the report rightly says, regulators are increasingly told to “have regard to” or “take account of” or “consider” matters not in their original mandates. The general problem is illustrated by the Bank of England. The Bank of England Act 1998 mandated it to maintain price stability. The Banking Act 2009, and then the Financial Services Act 2012, added a macroprudential remit. On top of that, in 2021, there was a mandate to facilitate the transition to net zero. Here we have a clear example of mandate creep.

In 2021, when I was on the Economic Affairs Committee, I strongly agreed with the noble Lord, Lord King of Lothbury, that the new net-zero mandate would set up a conflict with the Bank’s primary objective of maintaining price and financial stability. Not surprisingly, Bank officials welcomed this increased degree of ambiguity, which allows them to interpret their mandate as they see fit. What exactly is it that they are to be held accountable for?

My final point is on transparency. Telling the truth to power? Not if your prose is so obscure that the truth disappears in a forest of impenetrable jargon. I am rather disappointed that the report is heavily sprinkled with acronyms, which are probably unknown to any but specialists. So-called transparency mechanisms, such as publishing board agendas, minutes, annual reports and strategic business plans, are not transparent to what used to be called “the man on the Clapham omnibus”—and not even to some parliamentarians. It is a fault that is very hard to cure. Clear reporting in very plain English should be a remit given to all regulators.

8.02 pm

Baroness Taylor of Bolton (Lab): My Lords, I thank the noble Lord, Lord Hollick, for the way in which he chaired our committee and made sure that the work the committee has done has been purposeful.

I will start by coming back—as the noble Lord, Lord Skidelsky, has just done—to why we have a body of regulators in the first place. Like the noble Lord, Lord Addington, I remember the passage of the Water Bill while I was in another place. We were told at that time that independent regulators were going to be needed to protect industry and business from too much political interference by Ministers. The idea was, as the committee was told in evidence, that independent regulators can support stability and business confidence by separating important decision-making from political considerations and the electoral cycle. The committee was, and still is, interested in just how independent our regulators really are. That raises some significant questions, as we have heard this evening. Are the regulators really given a clear remit? Are their statutory duties and objectives properly defined?

The committee found that over time regulators have been given too many objectives, too many secondary objectives, and too many issues to which they “must have regard”. For example, the Office for Students was given seven general duties it has to consider. However, during our inquiry into the OfS, the regulator suggested that these duties do not necessarily have to be achieved, and the OfS merely has to show it has thought about these when making decisions. That is not a strong or clear basis on which to delegate power to an unelected body. This was clearly a cause for concern within higher education, the sector being regulated, especially when the OfS appeared not to be pursuing some of its duties, in particular in relation to institutional autonomy.

In other sectors, we noted that both the energy and water regulators face trade-offs, as we have heard this evening, between their different responsibilities—the affordability of consumer bills, the necessity of providing secure supplies and the need to protect the environment. It is challenging, and who should actually decide on the right balance—regulators, Ministers or Parliament? Quite simply, the duties and objectives given to these regulators in legislation do not provide guidelines on how to prioritise between the objectives they are given and the balances that should be struck. Government and Parliament need to give greater thought as to how they assign objectives to regulators. I welcome that the Government are conducting a review into the objectives

of utilities regulators. Could the Minister give us more information on the timescale of that and whether it might be extended?

The power and influence that regulators have are very significant. It affects the lives of all of us and the viability and success of individual companies, and, indeed, our economy. It is therefore critical that regulatory bodies are accountable. They should be accountable to Ministers, where transparency is vital to ensure that there is clarity between the independent decisions of regulators and any political direction from Ministers. We cannot say that Ministers should not give directions, but when they do, there should be transparency.

As we have heard already, we need better accountability to Parliament. We acknowledge that many Select Committees in both Houses do a great deal of important work across a range of issues, but there is no drumbeat of accountability so far as the regulators are concerned, and we need to do more. The committee called this an accountability gap, and in a democracy that is very serious. We advocated for the body that has been spoken of, which would be similar in purpose to the Public Accounts Committee, but on a much smaller scale.

Independent regulators are here to stay. They have an important role, but we need changes so that their remits and responsibilities are clear; so that relationships with Ministers are clear and transparent; and so that they have a proper and appropriate degree of scrutiny, with Parliament playing a full role in this.

8.07 pm

Lord Teverson (LD): My Lords, I have not had the opportunity to welcome the Minister to her new position. Her work on the environmental side of things when she was on the Opposition Benches was exemplary, including how she worked with our Benches at that time. I wish her well in her role.

I once accused my noble friend Lord Addington of having entered the House in short trousers, because of his experience here—the noble Baroness, Lady Taylor, was in the other place at that time—in terms of the water industry. With the way things are going, I suspect they may witness the full circle, not through legislation but through a lack of financial engineering and investment, of those organisations—some quite close to this building—suffering and coming back into public ownership of some kind.

I found the report extremely interesting. The history the noble Lord, Lord Skidelsky, gave I found excellent as it put it in an interesting framework. The one thing that came to me from this report is that in this House we very much concentrate on primary legislation. We look extensively at secondary legislation. However, here we have another area, rule-making, which is below those tiers. It is one that is evidently quite untransparent and we need to shed light on it. That, in a way, was the most important message to someone who does not get involved in this area all the time. Having said that, for six years I was a board member of the Marine Management Organisation, one of the less known regulators of the seas around England. I congratulate the noble Lord, Lord Hollick, on his report.

Like the noble Lord, Lord Kerr, I was absolutely astounded that the Secretary of State, Kemi Badenoch, refused—and was distinctly unco-operative with—the committee and, in effective, this House. It is important that Secretaries of State understand that this is a House of Parliament to which they are accountable, even though they are not Members of this place. We need to remember that.

The noble Lord, Lord Kerr, is absolutely right about Ofgem. Over the last year to 18 months, it has generally been understood—even by the previous Government—that the national grid is unable to deliver net zero or what we are doing in terms of the offshore rounds and the various other areas of renewable energy, hence why this House pushed strongly for that regulator to be given an additional responsibility for net zero. It did not have that before; it therefore did not provide that basis operationally to deliver what the country required.

I say distinctly that we on these Benches believe that regulation can be good. Sure, not all regulation, but this has to be said because regulation is so often seen as a burden on industry, economic growth and other areas. Generally, it is not, although bad regulation is clearly bad. It was always an irony that, during the Brexit discussions, we talked about “Singapore on Thames” as if Singapore is a rip-roaring, free-enterprise, absolutely-do-anything economy. It is not; it is one of the most regulated parts of the globe, as well as one of the most successful. A number of Members mentioned the examples of Grenfell, the financial crisis, and the fall of Northern Rock and the other financial institutions of this country, which have shown how dangerous getting rid of regulation—as rather did happen in the City prior to 2008—can be.

The report mentions that we have abolished one other big regulator: the European Commission, which kept a close eye on certain areas. Secretaries of State and heads of department were very concerned about infraction procedures, but that has gone. As part of the trade and co-operation agreement, we now have the Office for Environmental Protection; I will come back to that organisation later on because it was rather ignored recently by the previous Government. We cannot have Governments without transparency; that is one of the key messages that comes out here.

Let me go through one or two important areas that I learned about during my time at a regulator. One concerns independence and funding. The report mentions a divide between regulators that are independent of grant in aid by government and those that are not. I was in one that was completely dependent on grant in aid and was therefore careful about some of its decisions that it made on, in that case, Defra. It relied completely on that funding and its independence was very much impaired by that relationship. There should be a real emphasis on trying to get regulators to be, where they can, sustained through levies or other means; that is most important.

One area where funding is important is enforcement; the report mentions enforcement on a number of occasions. At the end of the day, there is no point in having a regulator if it does not enforce. Clearly, you do not enforce straightaway—you warn, try to educate

[LORD TEVERSON]

and do all those other things—but, at the end of the day, if someone transgresses and continues wilfully to transgress, you should be able to enforce. However, the cost of enforcement to regulators, particularly smaller ones, is often huge. In our case, we ended up subcontracting it to the Treasury under the proceeds of crime legislation. Fair enough—maybe that enforcement was done—but I strongly believe that we have an enforcement gap in this country. That is particularly true at the local authority level, which is not considered in this report but is one area that is of great importance because those who keep to regulations are discriminated against by those who do not. This is fundamentally wrong in terms of the way our economy should work.

We have mentioned Ofwat on a number of occasions. It is the view of our Benches that, if a regulator publicly fails so catastrophically, I am afraid you have to get rid of it and change it. During the coalition Government, the FSA, which was mentioned by the noble Baroness, Lady Finn, was in effect abolished and replaced by the FCA and the PRA. I take the lesson that, if you abolish and change, you really have to change; you cannot just keep the same people in different positions. To us, Ofwat's public reputation is dead, and it needs to be changed.

On timing, I was particularly struck by how slow some regulators work, mainly because departments will not appoint. I applied to be a board member of the Environment Agency some time ago. I was on a shortlist of one and I thought, "I could be here". Then they told me that I had to go and see the Secretary of State, who was Liz Truss at the time. The civil servants warned me that she could be difficult on occasion and that I had to be careful about how I handled that. Within literally 10 seconds of walking through the Secretary of State's door, I knew that I was not going to get the appointment—it was quite obvious. I have no problem with that as I was probably not the right person; maybe that was the right judgment. What annoyed me was that it took two to three months to tell me that that was the case. I know from other boards that, exactly as the report says, departments look in their diaries and think, "Oh my goodness, so and so has come up for renewal for a three-year term and we've forgotten to do anything about it". That has to change.

It is key that funding is not just as independent as possible but sufficient for regulatory activity to take place fully. The Environment Agency has been an example of that in the past. Another example, with nutrient neutrality—that will be a topical subject again—is that the OEP was ignored by the previous Government. In future, will the Government take notice of the OEP's recommendations, as they do of those of the Climate Change Committee, which is in some ways equivalent on the carbon side?

I come back to my noble friend Lord Clement-Jones's challenge: will we have an office of regulatory performance? What is the alternative to make sure that this area of important regulatory work functions?

8.18 pm

Lord Johnson of Lainston (Con): My Lords, I direct Members to my register of interests, although I do not believe that I have any specific conflicts relating to this debate. I should admit that I am going through a planning process at the moment, so I can work from home; I will not raise the word "bats", which will no doubt send shivers down the spine of anyone who has looked at regulation.

I thank the Industry and Regulators Committee for its work in producing this important report. I thank the noble Lord, Lord Hollick, for his introduction to this debate and his chairing of the committee, which has been succeeded exceptionally ably by the noble Baroness, Lady Taylor. I very much enjoyed our interactions in the last few months when I was the Minister for Smarter Regulation.

I welcome the Minister to her place and look forward to her replies. I look forward to hearing her clearly stating this Government's commitment to better regulation. This is my first appearance on behalf of His Majesty's Opposition and naturally I am extremely keen to play a strong part in holding this Government to account. I seized a copy of the Government's response to *Who Watches the Watchdogs?*, sure in the knowledge that it would be full of holes and give me plenty of opportunities to challenge the Minister, and possibly even cause significant embarrassment to her so early on in her tenure. But as I read it, I was overwhelmed by a steady and growing sense of déjà vu, realising somewhat late in the document it was written by me, when I was Minister for Regulatory Reform.

First, I praise the essence of the response in its balance and breadth, and I confirm that, as the noble Lord, Lord Clement-Jones, said, we supported the majority of all the extremely good points raised. I also take this opportunity to say how much I appreciated the work of the regulatory directive in the DBT, headed by Chris Carr. I am sure that the Minister and her colleagues will have a chance to work with it, because it really did excellent work in trying to introduce reforms to our regulatory environment and better understand it.

It is important to state that I am personally very aware—as is my party, the Conservatives—that regulation is at the core of our high-functioning advanced economy, as the noble Lord, Lord Teverson, said. Consumers need to be protected, and we see how the failure of regulation and regulatory implementation can lead to devastating loss of life, as the noble Lord, Lord Clement-Jones, mentioned earlier. Markets need to operate effectively, and we must have frameworks that generate trust, without which we cannot function. But as the noble Lord, Lord Hollick, said, excessive regulation and the wrong standards—for example, ill-co-ordinated regulations, coming often out of departments, and a lack of effective collaboration between regulators, business, the consumer and the Government—have resulted in regulatory burdens costing the wealth of the nation tens of billions of pounds annually. We cannot ignore that—and I was particularly fascinated by the history lesson given to us by the noble Lord, Lord Skidelsky.

As I discovered when I was Minister for Regulatory Reform, the long and short of it is that we love regulation. This House and the other place are designed to create regulations; that is what we are—we are legislators, and we are here to make regulations. I found it very difficult—as I am sure my predecessors did and my successor will, which is why I wish him so much success—to get my hands around the regulatory structures and reduce regulatory burdens, to make them more meaningful and effective. However, in light of this, I ask the Government for their view of the growth objective, which the noble Lord, Lord Hunt, mentioned at the beginning of the debate. We have not heard much about it during this debate, but it was introduced and recently confirmed to cover a whole raft of regulators. Frankly, it is central to how we believe that we need to proceed with regulatory actions. My first main question is whether the Minister will continue to commit the Government to the principle that regulation must always be proportionate and effective and that regulators must adhere to the growth objective passed into law earlier this year as a requirement for them to bear in mind when managing their affairs.

It is clear from both the report and several consultations undertaken by the Department for Business and Trade—as well as from many good comments, some of them made by the noble Baroness, Lady Finn, in her excellent speech—that the entire regulatory landscape is confusing, with overlapping duties and a lack of clarity about those duties, layered over generations. Regulators are also often unsure of their relationship with government, so will the Minister confirm that her Government will take action to simplify and measure regulators' duties? That has come up time and again, particularly in this report. Will the Government work to provide better assessment of the regulators themselves, as called for in this report, and work hard to ensure that strategic steers and better accountability to Ministers—and ultimately to Parliament, as the noble Baroness, Lady Taylor, raised—are now built better into the system. That was covered by a number of Peers, including the noble Lord, Lord Cromwell, and the noble Baroness, Lady Kidron.

In my work, and clearly identified by this report, are issues surrounding the work of regulators. If we are to innovate and grow our economy—the noble Baroness, Lady Kidron, and the noble Lord, Lord Holmes, made a strong series of points about the importance of AI—and if we are effectively to police the market to ensure proper consumer safety, the people who lead and staff these regulators must have proper qualifications in monitoring. With this in mind, will the Government properly assess the competency of the regulators and ensure that they have the resources necessary to carry out their functions? That includes timely appointments of boards, where we would agree that Parliament should also have more effective opportunities for scrutiny and oversight.

Too often, the cry is for more regulation or, on the other hand, deregulation. People used to come up to me and whisper furtively, “I’m so glad you’re Regulation Minister, let’s get rid of all regulation”. Other people would confront me in the passages here and come right up to me and say, “What are you doing? We need more regulation”. It is completely ridiculous—a bonfire

of red tape, or whatever it may be, in reality has nothing to do with the quantum of regulation, more or less, and everything to do with the culture of regulation and how regulators themselves undertake their work.

We heard a great deal about the failure of regulation in the water sector from many noble Lords today, but clearly that has nothing to do with a lack of regulation. The process of water companies to establish pricing now runs to more than 20,000 pages. It clearly has to do with the lack of clarity regarding the objectives, often a lack of expertise in the regulator and a belief in checking boxes rather than looking at proper outcomes, with a view that the regulator has only a limited role to play in making the sector function effectively and does not look closely enough at how to make it a success for consumers and the economy more broadly.

To respond to these issues, and indeed many of the points raised in the report, the last Government issued a White Paper entitled *Smarter Regulation*, which was mentioned by the noble Lord, Lord Hunt. I have a copy here, signed by the team. It followed on from the now well-established smarter regulation framework, which, by the way, I assume that the Government have no plans to deviate from, and the context of which was the introduction of the growth mandate mentioned. In this document, there were 10 key principles designed to make the regulatory environment more effective. To point to a few, they were: clear guidance; transparency and accountability; the need to avoid unnecessary risk aversion; proportionality; and a focus on being highly pro-innovation, as the noble Lord, Lord Holmes, raised. All were absolutely central. They also included: far better collaboration between regulators; much better engagement with business and citizens, which is important regarding regulation as a service; a real focus on skills and capabilities; and more understanding of how regulations are applied at local levels, which will be particularly relevant in planning reform.

I have a simple question for the Minister, if I may. Is this White Paper still a feature of the Government’s ambitions? How will the Government build on this important work? To some extent, some of the problems highlighted in this debate stem from the original work of departments in issuing directions and drafting new regulations. If we had more or better analysis of the cost of regulations, and assessment as to the impact on regulatory activity in business, we would be in a far better place than we are today.

This brings me to the work of the Regulatory Policy Committee, headed by the very able Stephen Gibson. The work of this body has been too narrowly defined and its resources too thin to enable it really to aid Parliament to monitor the cost of regulations as well as the actions of regulators. There is talk of a super-regulator; this may actually be a very good compromise answer to that conundrum. We thoroughly support a review of this body, to increase its effectiveness, and I hope the Government will continue to ensure that its impact assessment processes continue to be a central feature of their own legislative process.

In summary, will the Minister tell the House how she will comply with the response to the committee’s extra paper? Additionally, will the Government commit

[LORD JOHNSON OF LAINSTON]

to continuing the work started by the White Paper on smarter regulation, especially when it comes to more funding and investigatory powers for the Regulatory Policy Committee, higher expectations on regulators to foster innovation, provide better service to business and collaborate more effectively with each other.

Finally, will this Government, with all their commitment to economic growth, give proper credence to the process of the better regulatory framework and the now established principle of smarter regulation? I very much look forward to hearing from the Minister on these points and those raised in the excellent report under discussion today.

8.28 pm

The Parliamentary Under-Secretary of State, Department for Science, Innovation and Technology (Baroness Jones of Whitchurch) (Lab): My Lords, I am very pleased to respond on behalf of the Government. I thank my noble friend Lord Hollick for tabling today's Motion and congratulate him on the report of the Industry and Regulators Committee. As others have said, the report is a fine swansong for his very able period as chair of the committee. I am also grateful to other members of the committee and other speakers for their insights and remarks on this important topic. I am grateful to the noble Lord, Lord Skidelsky, for giving us a very short but important history lesson. It is important that we remember the context which started this whole process, through the natural monopolies that were created and the forced need for external oversight. What a journey we have been on from those days to where we have got to today, with all the complications of regulation that we are now confronting.

This Government welcome views on how we best improve the performance and accountability of UK regulators and the frameworks to which they operate. This will support our ambition to build a pro-innovation, pro-worker, pro-wealth creation economy. I am therefore grateful to the committee for conducting its inquiry and producing this report, which focused on concerns about the functioning of the relationship between regulators, government and Parliament and made recommendations spanning issues across the regulatory landscape. I have heard messages from noble Lords today which echo many of the issues in the report: for example, the need for a review of regulator duties, with a view to streamlining duties and objectives and providing clear priorities; the need for strategic steers in how regulators handle any political and distributional trade-offs in implementing their duties; more attention to the skills and resource needs of regulators in the context of what they are being asked to achieve; the need for measures to support accountability, including a definitive list of UK regulators; and a greater emphasis on performance reporting from regulators, with metrics linked to outcomes.

As the noble Lord, Lord Johnson, quite rightly identified, a formal government response was published in May 2024 as a supplementary document to the White Paper, *Smarter Regulation: Delivering a Regulatory Environment for Innovation, Investment and Growth*. This response proposed a number of non-statutory

reforms to the regulatory landscape and worked towards addressing some of the recommendations in the committee's report. However, I have to say that the response was written some time ago, and since then a new Government have been formed, so I think it is important to say that we will need to consider afresh our approach to all these issues.

I should also say that I know that noble Lords will want to press me on the specifics of our reform agenda, but I hope they will understand that, at this stage, I am able only to outline a direction of travel; we are still working on a lot of the detail. However, what I can say is that the Government are determined to kick-start economic growth, working with industry and businesses to deliver economic opportunity. This of course needs to be supported by the right regulatory frameworks that foster competition, innovation and investment. Central to this will be a focus on ensuring high-quality regulation, both in terms of improving existing regulations and, where the bar is met, delivery of any new regulations necessary to support the Government's missions.

In addition to the interest from the committee and the comments we have heard today, noble Lords will know that there have also been numerous well-researched publications on regulatory reform led by a number of think tanks, including Progressive Britain. They too have set out concerns and recommendations on the performance and accountability of independent regulators. All of this is invaluable work in shaping the Government's next steps. It goes without saying that regulators play a crucial role across almost all sectors of the economy, including the oversight of essential services and infrastructure; medicines and healthcare products; workplace safety; and the environment and financial services. Their work is seen and felt by consumers, businesses and the environment—by everyone. It is only right that we continue to evaluate how our regulators are functioning and drive improvement where needed to support our economic growth mission.

In response to the noble Baroness, Lady Finn, and the noble Lord, Lord Clement-Jones, the Government of course have a critical role to play in setting that strategic direction and the outcomes that they want to see regulators deliver, so issuing strategic guidance in a consistent way is key to that delivery.

The noble Lord, Lord Clement-Jones, and others asked about publishing a list of the UK regulators, with their responsibilities and their oversight. The White Paper proposed that a register be published, and we are considering how to take that proposal forward.

The noble Lord, Lord Clement-Jones, the noble Baroness, Lady Finn, and others asked about getting the best possible people on boards. Many of these are regulated by the Commissioner for Public Appointments, but we are determined to reduce delays and improve those processes. I think we could all identify with the experience of the noble Lord, Lord Teverson, when he illustrated the problems that he encountered.

The noble Lords, Lord Hunt of Wirral and Lord Johnson of Lainston, asked about and emphasised the growth agenda. The Government recognise the importance of well-performing and accountable regulators

in our mission to kick-start economic growth. This is reflected in our plans to launch a new industrial strategy to build a more resilient economy, while ensuring that we have the right regulatory environment to go for growth at every opportunity. Regulators reporting on their performance will continue to play an important part, and the Government will set out their overall plans on performance to help deliver that growth agenda in due course.

A number of noble Lords, including my noble friend Lord Hollick, stressed the importance of independence. The Government recognise the important role of regulatory independence, particularly in technical areas where outcomes depend on long-term decisions that sit outside of traditional political cycles. We know this is valued by businesses, investors and wider stakeholders. At the same time, we know that regulators differ in their degree of operational and policy independence, and that there is a role for government in providing that strategic direction and ensuring that regulators operate to the right duties. As noble Lords have argued, we must be alive to mission creep, and ensure that regulators' duties are focused on what matters to business and to citizens.

We are alive to the importance of these issues for all stakeholders. Indeed, the Department for Business and Trade's call for evidence, which has been referred to, and which ran from October 2023 to January 2024, has informed our understanding of these regulatory issues and the specific concerns of industry. The call for evidence received over 200 responses from a diverse range of voices, including businesses, consumers and industry groups, academia and regulators themselves. Respondents recognised the many positives in the UK regulatory system, that it is broadly well-structured and that it is well-regarded internationally.

However, they also set out some specific concerns that are helpful to the committee's understanding of these issues. These points have been reiterated today—for example, the difficulty that businesses and others face in understanding the different roles and remits of the different regulatory bodies and how they interact with government; the accumulation of regulatory duties over time, which can dilute regulatory purpose and give rise to trade-offs which are implied rather than explicitly addressed; and the need for effective strategic steers from government to regulators on how to handle those trade-offs in their duties, particularly for decisions that verge on the political, such as normative and distributional issues.

This Government are determined to further understand and tackle these issues head-on. This includes pro-actively engaging with regulators to understand the issues they face and identify where the greater scope for improvement lies. This will also include identifying areas where the costs of regulation, particularly when viewed in the round, may be too high and burdensome for businesses. This includes both how regulations are designed, as well as how they are implemented.

In response to my noble friend Lady Taylor, we absolutely understand the need for regulators to have those clear duties and objectives, particularly in the light of the piecemeal accumulation of duties which has occurred to date.

We will take a mission-driven approach to improving the UK regulatory regime. This means improving existing regulations and working actively with regulators to support their performance and accountability, the frameworks that they operate to, and, crucially, the candour with which they explain their decisions. It means ensuring there is a shared understanding of objectives, and working with regulators to ensure that they have a skilled and capable workforce, alongside an efficient appointments process for independent boards.

The noble Baroness, Lady Kidron, quite rightly raised the issue of raising skills, particularly in technology and AI. I absolutely understand and concur with her concerns. As part of this work, we want world-leading regulatory structures in driving technology and innovation, with, for example, a clear understanding of the potential role that artificial intelligence can play.

In that regard, I agree with my noble friend Lord Chandos and the noble Lord, Lord Holmes, that AI has a huge role to play, but we have to get the regulation right. So, as per our manifesto, we will introduce binding regulation on the handful of companies developing the most powerful AI models.

More broadly, we are acutely aware of the need to support innovative businesses working in a fast-growing, fast-changing field such as AI and quantum computing, so that they can navigate the regulatory landscape effectively. This will be the principal focus of the regulatory innovation office, led by the Department for Science, Innovation and Technology. This was a key manifesto commitment, and we are pressing ahead to deliver on it over the coming weeks and months.

A number of noble Lords, including my noble friends Lord Hollick and Lord Berkeley and the noble Lord, Lord Holmes, questioned the role of the regulatory innovation office. It is important to clarify its future role. It is part of the overall solution but will not be the independent statutory oversight body recommended by the committee. As part of the Government's mission-driven vision for regulatory reform, the activities of the regulatory innovation office will sit alongside wider cross-cutting work on improving regulatory performance and accountability led by the Department for Business and Trade, and it will work closely to deliver on the Government's priorities with the Department for Science, Innovation and Technology.

A number of noble Lords, including the noble Lord, Lord Cromwell, raised the interests of stakeholders. We are acutely aware of the importance that stakeholders place on understanding roles and responsibilities across government, with clear points of contact to address their regulatory concerns. I reassure the House that the Government will take a joined-up approach to regulatory reform across departments and will clearly communicate this to stakeholders.

More broadly, we are in the process of developing a clear regulatory reform agenda that addresses all the issues I have outlined in my speech and which noble Lords have highlighted today. This agenda will be set out in more detail in due course. However, we are clear that these reforms must have a real, lasting and positive impact on business and everyone who interacts with the regulatory system and UK regulators. It is important that we get this right and deliver the high-quality

[BARONESS JONES OF WHITCHURCH]

reforms that are needed. This will be the best way to support the growth mission and deliver the right outcomes for individuals, households, businesses and the environment.

A number of noble Lords illustrated the failures of regulation in a number of different sectors, and Ofwat, as has been well discussed, is a good case in point. My noble friend Lord Hollick described it as arising from a catastrophic underinvestment, and the noble Baroness, Lady Jones, well illustrated how the regulator lost its way in maintaining water quality standards. She also rightly mentioned the need to listen to wider voices when we are putting forward the direction for regulators. The Water (Special Measures) Bill will deliver our manifesto commitment by putting water companies under tough special measures by strengthening regulation. Similarly, as my noble friend Lady Taylor illustrated, the Office for Students was given too many conflicting spheres which prevented it fulfilling its effectiveness. We would not want to repeat that issue in the future.

Before I turn to other points made in this debate, I acknowledge the Grenfell report that was published this week and take this moment to honour those who lost their lives and the many who were injured and extend my deepest sympathy to the bereaved and to the broader Grenfell community affected by this tragic event. I echo the sentiments expressed by the Prime Minister, who apologised on behalf of the state in a Statement to the House of Commons on 4 September. There is no doubt that it represents, in part, a failure of regulations at that time. This Government are committed to carefully considering the inquiry's findings and recommendations to ensure that a tragedy like this can never happen again. There will of course be opportunities for more in-depth debate on the inquiry's report in due course.

Turning back to the context of this debate, I hope that I have picked up most of the points that have been made. I would be happy to meet with the noble Lord, Lord Ashcombe, to discuss the UK captive regime and perhaps could recommend HMT Ministers joining that discussion as well. If I have missed other noble Lords' questions, I will write to them.

I noted the report's remarks on the previous Government's engagement, or perhaps lack of engagement, with the committee, and I reassure your

Lordships that this Government look forward to engaging in a bipartisan fashion with the committee and in a very positive way with noble Lords as we take this vital work forward. I personally have a huge respect for the work of the committee and look forward to working with it in future.

In conclusion, I believe we are broadly on the same page, not only in the report but in this debate, and I hope that in due course noble Lords will see the full evidence of the seriousness with which we are taking these issues and our determination to modernise the regulatory landscape to achieve better outcomes. I therefore commend this report to noble Lords.

8.45 pm

Lord Hollick (Lab): I thank noble Lords for their contribution today. I think it has been a very good debate. There is clearly a strong appetite to be a good and effective watchdog, or guide dog, and I believe that some of the points that have been made and some of the recommendations from the committee will considerably assist this House to fulfil the duties that it clearly wants. It is hopeful that my noble friend the Minister said that she is looking at everything afresh. When she does that, I hope she will be able to return to the House and explain how it is that we will be helped to hold the regulators to account and how clarity and transparency will be ensured. Without those fundamental reforms, we shall be back having the same debate in two or three years' time.

The fact that the previous Minister was otherwise occupied and could not come to see us should be taken as a very clear point that we need serious engagement from the Government about how we can improve the regulatory regime and the performance of regulators in this House, to the benefit of the protection of our citizens and for better regulation for those businesses and sectors that, frankly, need to have a lighter but more effective burden on them to stimulate growth.

These are big issues, they are important issues and, when the Minister looks afresh, hopefully she will be in a position to come forward to explain how they are to be addressed in a practical way over the next period.

Motion agreed.

House adjourned at 8.48 pm.

