

## **Baroness Jo Valentine's speech in the House of Lords Queen's Speech debate**

**25 November 2009**

I congratulate the noble Lord, Lord Sugar, on his maiden speech. I am an enthusiastic follower of "The Apprentice" and anything he can do to champion apprenticeships in the current economic climate will be welcome.

I should declare that I am chief executive of London First, a non-profit-making business membership organisation. I shall focus on financial regulation and fiscal responsibility, and on public trust in banks and business trust in government.

According to the most recent surveys, London remains the world's leading financial centre. While there are several hundred thousand jobs in the capital, there are a million jobs across the UK-in Edinburgh, Manchester, Leeds, Birmingham and Liverpool-with several million more jobs indirectly supported.

A few people in this sector bear some responsibility for the credit crisis, but all in the sector, including blameless tellers at your local Halifax branch, have a blighted reputation. The priority for regulation in the Financial Services Bill, therefore, is that it supports a journey towards people trusting our financial community again. It must also provide the foundations for London and the UK to compete successfully internationally. A new body, TheCityUK, has been established to promote the UK's financial services, as well as to represent practitioners' views on international regulation, and I wish it well.

The public anger over bankers' remuneration is understandable, but scrapping in the media over whether £10, £1 million or £10 million is the appropriate bonus for a banker is incidental. Government have a strategic and international leadership role to perform, and the banking community needs to demonstrate that it has understood the lessons of the past few years and will of its own volition change its ways.

Instead of the current adversarial approach, Government and bank leaders in the UK should jointly agree the objectives of a new regulatory framework and provide the international guidance one rightly expects of the market leader. So let me offer some suggestions: first, financial services regulation should help to restore the reputation of the sector; secondly, it should seek to build best practice among practitioners rather than second-guess their every action; thirdly, there needs to be a form of insurance against future meltdown, and those profiting from the implied public guarantee should in some way contribute to it; and, fourthly, new financial regulation across the world should in so far as possible provide an even playing field.

What of the style of regulation? Some would say that principles-based regulation has failed us, but the alternative, detailed micromanagement, with an army of regulators and lawyers feeding from it, could be characterised as the US model. Lest we forget, that is where the crisis began. One thing is for sure: the next crisis will not be the same as the last.

We need a strong and trusted regulator who is alert to the big-picture threats, with a relatively free hand and a set of broad, commonly understood principles backed up by hefty penalties for failure to abide by them. Of course, the regulator should have the ability to adjust the rules to stay in tune with emerging international regulation. Then there is fiscal responsibility. Recently, the organisation which I run published a report called, *Supporting UK growth while balancing the budget*. An underlying theme is that business needs to be able to trust that government will take economically rational, rather than politically easy, decisions. So let me make some proposals for the medium term.

First, the public sector needs to increase efficiency. The ONS estimates that, in the past 10 years, services in the private sector increased productivity by over 20 per cent compared with a 3 per cent decline in the public sector. The experience of both private sector and the best of local government should be applied to central government.

However, efficiency savings alone will not solve the deficit-incidentally, nor, despite the efforts of the *Daily Telegraph*, will chopping parliamentarians' expenses. The Government need to be hard-headed about culling low-value economic and social programmes. At the moment, evaluation across government departments varies. A forceful Cabinet Committee should rigorously analyse every spending programme and transparently balance economic and political criteria.

In such a cost-benefit analysis, infrastructure investment will score well. However, the OECD recently commented that in Britain, infrastructure projects, "are typically the first victim of fiscal consolidation efforts, while other less productive but politically sensitive projects survive".

The Royal Address made a welcome commitment to strengthening national infrastructure. Both Crossrail and the modernisation of the Tube are indispensable to future economic growth.

Finally, we may well, unfortunately, need to raise taxes, but, if we must, we should do so from a broad base. We need an honest evaluation of the merits of business, employment or consumption taxes. In each case, the least well off must be protected and we must maintain the UK's international competitiveness. Taxes which threaten the internationally mobile will harm London and the UK and ultimately reduce the Treasury's tax take.

We need business to trust the Government; we need people to trust the Government; and-reverting to my original theme-we need the public to trust our banks.