



House of Commons
Treasury Committee

**Work of the Committee
2008–09**

Second Report of Session 2009–10

Report, together with formal minutes

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The Treasury Committee

The Treasury Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of HM Treasury, HM Revenue & Customs and associated public bodies.

Current membership

Rt Hon John McFall MP (*Labour, West Dunbartonshire*) (Chairman)
Nick Ainger MP (*Labour, Carmarthen West & South Pembrokeshire*)
Mr Graham Brady MP (*Conservative, Altrincham and Sale West*)
Mr Colin Breed MP (*Liberal Democrat, South East Cornwall*)
Jim Cousins MP (*Labour, Newcastle upon Tyne Central*)
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Mr James Plaskitt MP (*Labour, Warwick and Leamington*)
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Mr Mark Todd MP (*Labour, South Derbyshire*)
Mr Andrew Tyrie MP (*Conservative, Chichester*)
Sir Peter Viggers MP (*Conservative, Gosport*)

Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No. 152. These are available on the Internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at www.parliament.uk/treascom.

A list of Reports of the Committee in the current Parliament is at the back of this volume.

Committee staff

The current staff of the Committee are Eve Samson (Clerk), Andrew Griffiths (Second Clerk and Clerk of the Sub-Committee), Adam Wales, Jay Sheth, Helen Jackson and Aliya Saied (Committee Specialists), Phil Jones (Senior Committee Assistant), Caroline McElwee (Committee Assistant), Gabrielle Henderson (Committee Support Assistant) and Laura Humble (Media Officer).

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1 Introduction

1. The Treasury Committee scrutinises Her Majesty’s Treasury, its departments and associated public bodies including the Financial Services Authority (FSA) and the Bank of England. Within its terms of reference, the Committee chooses its own subjects of inquiry. Depending on the subject, external deadlines, and the amount of oral evidence the Committee decides to take, an inquiry may last for several months and give rise to a report to the House; other inquiries may simply consist of a single day’s oral evidence which the Committee may publish without making a report. In common with other select committees, the Treasury Committee does not have the power to legislate; rather it seeks to influence the Government through effective examination of government expenditure, administration and policy. The Committee reports its conclusions and recommendations to the House; although the Government (and other relevant bodies) must respond to each recommendation they are not bound to act upon them.

2. Session 2008–09 has been a very busy year. This Report provides an account of our activity and achievements during this period.¹ It also reviews the work of the Committee in relation to the objectives and core tasks of select committees established by the Liaison Committee.²

Overview of Work

3. The turbulence in the financial sector that began in the UK with the collapse of Northern Rock in September 2007, and in the US with the bankruptcy of Lehman Brothers a year later, continued to send shock waves through the UK economy deep into 2009. At the beginning of Session 2008–09 the Government (having already taken a majority stake in the Royal Bank of Scotland) waived competition rules to allow the merger of Lloyds TSB and Halifax Bank of Scotland. In March 2009 the Bank of England began a programme of asset purchases for monetary policy purposes—a measure known as quantitative easing. To date this has seen £200 billion injected into the economy. March 2009 also saw the publication of *The Turner Review: a regulatory response to the global banking crisis*. In the Review Lord Turner, Chairman of the FSA, noted that:

Over the last 18 months, and with increasing intensity over the last six, the world’s financial system has gone through its greatest crisis for a least a century, indeed arguably the greatest crisis in the history of finance capitalism.³

Unsurprisingly, the Committee’s workload during Session 2008–09 was dominated by the banking crisis and the actions taken by the Government, Financial Services Authority and Bank of England (the tripartite authorities) to deal with its consequences.

1 Parliamentary session 2008–09 began with the State Opening of Parliament on 3 December 2008 and ended on 12 November 2009

2 Liaison Committee, First Report of Session 2006–07, *Annual Report for 2005–06*, HC 406, para 7

3 Financial Services Authority, *The Turner Review: A regulatory response to the global banking crisis*, March 2009

4. The Committee's major piece of work was an inquiry into the Banking Crisis, which accounted for 18 out of our 38 evidence sessions and 5 of our 16 reports. We did not, however, neglect our regular activities such as the scrutiny of the Budget and Pre-Budget reports, and continued to monitor the work of the Bank of England in meeting the inflation target. We held pre-appointment hearings with those appointed to important public office such as the Monetary Policy Committee, and we examined the expenditure and administration of HM Treasury and HM Revenue and Customs. Details of the programmes of the Committee and its Sub-Committee can be found in the sessional returns annexed to this report.

Highlights of the Committee's work in Session 2008–09

- **Banking Crisis inquiry:** At the peak of the banking crisis senior figures from across the financial sector gave evidence in public to the Committee.
- **Pensions:** The Government's pledge that there should be no reward for failure was scrutinised in depth by the Committee and details of Sir Fred Goodwin's pension were first made public at a meeting of the Committee.
- **Consumer detriment:** We followed our banking crisis inquiry by looking at how consumers were affected. We raised awareness of the increasing numbers of people affected by increased mortgage arrears charges, the threat of repossession, and the actions of miscreant mortgage lenders.
- **Web-based evidence gathering:** We teamed up with moneysavingexpert.com to capture individuals' experiences and difficulties in searching for credit.
- **Visits:** We held public meetings in Belfast, Edinburgh, Halifax and Leeds in order to learn first hand how the banking crisis was affecting individuals and small businesses.
- **Ports:** Our Sub-Committee reported on the back-dated charges that are causing severe financial distress to many port occupiers. We urged the Government to reconsider its decision to back-date the charges to 2005.

Working practices

Membership

5. Our membership reflects political representation in the House. Eight of our Members—including the Chairman—are drawn from the Government benches, four are from the Opposition and two are from the Liberal Democrat party. Such cross-party representation lends itself to effective scrutiny of the Government. Our findings are generally unanimous and therefore cannot simply be dismissed by the Government as overtly political or partisan.

The Treasury Committee Sub-Committee

6. On 14 July 2005, the Committee agreed to establish a Sub-Committee to examine the work of the minor departments accountable to the Treasury and other matters referred to it by the main Committee. The minor departments accountable to the Treasury are:

- Debt Management Office
- Government Actuary's Department
- HM Revenue & Customs
- National Savings & Investments
- Office of Government Commerce
- the Royal Mint

The Sub-Committee scrutinises their performance and accounts on an annual basis and also conducts one major inquiry a year on behalf of the Committee—during 2008–09 it looked at the Government's efficiency programme. The composition of the Sub-Committee is identical to the main Treasury Committee, but is chaired by Mr Michael Fallon MP.

Support

7. We are supported by a secretariat of eight full time and two shared staff and are grateful for their efforts over the past year. In addition to our secretariat we are also able to call upon expert advice from our team of Specialist Advisers. We would like to take this opportunity to thank Roger Bootle, Professor Sheila Dow, Professor David Heald, Professor David Miles, Karon Monaghan QC, Professor Anton Muscatelli, Professor Danny Quah, Bridget Rosewell, Professor Colin Talbot, and Professor Geoffrey Wood for their invaluable contributions during the course of our inquiries. We are also grateful to the Institute for Fiscal Studies for the support they provided during our inquiries into the Budget and Pre-Budget Reports and to the National Audit Office and House of Commons Scrutiny Unit for their assistance in scrutinising departmental reports and accounts.

Public engagement

8. Our inquiries are evidence-based. During Session 2008–09 we held 44 meetings and took oral evidence in public on 38 occasions. We also received 430 pieces of formal written evidence. We are grateful to the individuals and organisations who took the time to respond to our requests both for written and oral evidence. In addition to formal evidence we also received over 1,500 pieces of correspondence. In common with other select committees we do not intervene in individual cases. Nonetheless, the letters and emails we received provided useful background information to much of the work we have undertaken over the past year, and many influenced our inquiries.

9. We have also gathered evidence using a web-based forum. Our inquiry into Credit Searches focused on the role of credit reference agencies and the impact of multiple credit searches on people's ability to obtain credit. We called on Martin Lewis at Moneysavingexpert.com to ask his 3.7 million subscribers for their experiences and difficulties in searching for and obtaining credit. We received valuable evidence and the posts on the moneysavingexpert website attracted 6,500 hits. We are grateful to all those who wrote to us unprompted, and to those who responded to our request for information on the web.

Visits

10. Committee visits, whether within the United Kingdom or abroad, provide an important opportunity to engage with people unable to come to Westminster yet whose expertise and experience are valuable to a committee's inquiry. They also allow us to gather information that goes wider than formal evidence gathering, whether it is in wide ranging discussions with a few expert participants, or in public meetings where we can engage directly with people who might not otherwise respond to Committee calls for evidence.

UK visits

11. In March 2009 the Committee visited Belfast, Edinburgh, Halifax and Leeds to examine the impact of the credit crunch away from London and the City. Meetings were arranged with members of local communities and local businesses affected by the financial crisis as well as Members of the Scottish and Northern Ireland Parliaments. One of the messages that came out of the meetings was the widespread belief that those responsible for the banking crisis had been treated differently from everybody else. This feeling was particularly acute in Halifax where the Committee held a public meeting attended by many employees and shareholders of Halifax Bank of Scotland. We heard their resentment at the greed and short-sightedness of HBOS management and their anxiety about the possibility of future job losses. In Leeds, directors of small businesses expressed their concern about the visibility of the Government's schemes to support businesses during the financial crisis. These concerns were echoed in Northern Ireland, where members of the local business community told us that knowledge of the various support schemes put forward by the Government was 'patchy'. The meeting in Northern Ireland was also attended by members of the Presbyterian Mutual Society (PMS), and we learnt about the uncertainty and worry that savers with the Society were enduring as a result of the Society's collapse.

12. We are grateful to those who gave up their time to meet the Committee during our UK visits. We took away from the visits a clear sense of the issues and concerns facing members of the public and small businesses and conveyed many of these, such as the plight of savers with the PMS, to the Chancellor of the Exchequer at a meeting on 19 March. The information gathered during the visits also fed into our report *Banking Crisis: dealing with the failure of the UK banks*.⁴ In the report we noted our concerns about the "availability and

4 Treasury Committee, Seventh Report of Session 2008–09, *Banking Crisis: dealing with the failure of the UK banks*, HC 416

terms of credit to the small business sector”,⁵ and deplored the actions of a number of banks, “who have received so much public money and behaved in such an insensitive manner particularly to established customers”.⁶

13. During the course of the year we also visited HM Treasury, UK Financial Investments Ltd and the Debt Management Office. Officials within these bodies provided an informative and useful insight into their work and how they were responding to the challenges presented by the banking crisis.

Overseas visits and inward visitors

14. Overseas visits offer an international perspective to a committee’s inquiry. Given the global nature of the financial system, our work would be severely limited without them. Our visit to Brussels in January 2009 enabled us to engage directly with the Commission on responses to the banking crisis by the UK and other member states. We discussed with Neelie Kroes, Commissioner for Competition, the Commission’s investigation into Northern Rock’s receipt of State Aid and the application of the State Aid rules in general. Commissioner Kroes warned us about the dangers of protectionism, and stressed the importance of member states working together to find a collective response to the financial crisis. Charlie McCreevy, Commissioner for Internal Market and Services, offered us an insight into the Commission’s position on reform of the global financial architecture including amendments to accounting standards, securitisation, and the regulation of cross-border banks, credit ratings agencies and hedge funds. The visit to Brussels took place a week after the FSA lifted its ban on short selling and there were concerns about hedge funds shorting stocks in UK banks, which we were able to discuss with Commissioner McCreevy. This gave us valuable background information for our subsequent evidence session with hedge funds.

15. Visits to the United States have become an established and integral part of the work of the Treasury Committee over several Parliaments. They enable the Committee to learn more about the state of and prospects for the US and world economies, an understanding of which is of fundamental importance in the Committee’s core work of examining the Treasury’s handling of the economy. We visited New York and Washington DC in May 2009, where we met financial institutions and Government bodies, the IMF and the World Bank, whose work is essential to our oversight of the United Kingdom’s role in international monetary and financial arrangements.

16. It is self-evident that the banking crisis and subsequent economic crisis, as well as any subsequent recovery, are heavily rooted in the US. Visiting the US in May was especially useful in the context of our work on the international dimensions of the banking crisis and proposed changes to the architecture of financial regulation and supervision. We were privileged to meet people with deep and personal knowledge of the US financial sector

5 Treasury Committee, Seventh Report of Session 2008–09, *Banking Crisis: dealing with the failure of the UK banks*, HC 416, para 189

6 *Ibid.*

including Paul Volker, Chairman of the Economic Recovery Advisory Board, and other senior figures in the Obama administration, the House Financial Services Committee, JP Morgan, Deutsche Bank, the Federal Reserve and New York Stock Exchange amongst others. The US and the UK face many similar challenges. We held illuminating discussions on issues such as the impact of the banking crisis on levels of household debt, whether banks have become too big to fail, obstacles in the valuation of toxic assets, the likely trajectory of recovery of both the US and world economies, and the potential problems faced by both the US and UK governments in devising exit strategies for their holdings in companies.

17. On the last day of the visit we met Dominique Strauss-Kahn, Managing Director of the IMF. Mr Strauss-Kahn warned us about the potential contagion of problems in Eastern European economies spreading into Western Europe. We learned much about the role of emerging economies in any recovery. We have just returned from a visit to Frankfurt, Vienna and Budapest where we further investigated this area.

18. We are extremely grateful to all those who hosted our visits. In particular, we thank the Foreign and Commonwealth Office. The help we have received from the Ambassadors and the staff they lead has been vital to our work. Their involvement has been crucial to ensuring that our visits fulfil their purpose. We are also extremely grateful to the staff of all the institutions we visited for their excellent assistance and support.

19. Meeting members of overseas parliaments provides a useful means of sharing ideas and best practice. In Session 2008–09 we hosted delegations from the finance committees of the Parliaments of Japan, Bosnia and Herzegovina, China, Indonesia, New Zealand and the United States. Visits in a representative capacity are another useful means of interacting with colleagues from other Parliaments. These visits involve no more than one or two members of the Committee and typically involve attending conferences or seminars overseas. This year members of the Committee attended the High Level Parliamentary Seminar on the Global Financial and Economic Crisis hosted by the OECD in Paris, and the Economics of Climate Change and Sustainable Public Finance conference hosted by the Swedish Parliament as part of their chairmanship of the European Union.

2 Meeting the core tasks of select committees

Introduction

20. All select committees are guided by a set of common objectives (core tasks) issued by the Liaison Committee in order to encourage a more methodical approach to the business of scrutiny. The core tasks represent guidance to committees, not a rigid blueprint; we retain the right to choose our own inquiries and the flexibility to respond to urgent issues of the day. The core tasks are:

A: To examine and comment on the policy of the department.	C: To examine the administration of the department.
1. To examine policy proposals from the UK Government and the European Commission in Green Papers, White Papers, draft Guidance etc, and to inquire further where the Committee considers it appropriate.	6. To examine the department's Public Service Agreements, the associated targets and the statistical measurements employed, and report if appropriate.
2. To identify and examine areas of emerging policy, or where existing policy is deficient, and make proposals.	7. To monitor the work of the department's Executive Agencies, NDPBs, regulators and other associated public bodies.
3. To conduct scrutiny of any published draft bill within the Committee's responsibilities.	8. To scrutinise major appointments made by the department.
4. To examine specific output from the department expressed in documents or other decisions.	9. To examine the implementation of legislation and major policy initiatives.
B: To examine the expenditure of the department.	D: To assist the House in debate and decision.
5. To examine the expenditure plans and out-turn of the department, its agencies and principal NDPBs.	10. To produce reports which are suitable for debate in the House, including Westminster Hall, or debating committees.

Core task 1: Scrutiny of policy proposals

21. The banking crisis and the Government's response to it occupied much of our work during Session 2008–09. Indeed, since September 2007 and our inquiry into the collapse of Northern Rock, financial stability has been the dominant theme of many of our inquiries. The Government recognised our contribution to parliamentary scrutiny in its July 2009 White Paper, *Reforming Financial Markets*. The Government noted:

the important role that the Treasury Select Committee has played throughout the events of the last two years ... It is, of course, for the House of Commons to decide how the Treasury Committee may best fulfil its role. The Government will consult on options for broadening and strengthening channels of democratic accountability

and will work with the Treasury Select Committee to consider whether and how emerging options should be implemented.⁷

22. Our work over the last two years meant that we were well-placed to scrutinise the Government's proposals for Reforming Financial Markets. We considered the reforms to the institutional structure of the Tripartite Committee announced in the White Paper to be largely cosmetic, and concluded that merely re-branding the Tripartite Standing Committee would do little in itself.⁸ There remained a lack of clarity about who was responsible for systemic oversight, and who had executive authority in a crisis, a problem we first highlighted in the aftermath of Northern Rock's demise. Where before no-one had a formal responsibility for financial stability, now many do—the Bank of England, the FSA, the Treasury, the Council for Financial Stability and the Bank's Financial Stability Committee. We concluded that where responsibility lies for strategic decisions and executive action was, and remains, a muddle.⁹ However, in the Committee's view no new macroprudential responsibilities should be allocated until a decision has been made about the precise tools needed. Accordingly, we did not advocate substantial change to the tripartite framework at present. However, we urged that when that decision was made, responsibilities needed to be crystal clear, and aligned with powers.¹⁰

Sufficient opportunity for scrutiny

23. We welcome the Government's commitment to parliamentary accountability. Over the last year the department has been helpful in providing ministers and officials to give evidence to our inquiries, often at short notice, and we are grateful for their willingness to attend. We were disappointed, however, that the White Paper *Reforming Financial Markets* was yet another significant policy document to be published just hours before the relevant minister was due to give evidence to the Committee. If we are to offer effective scrutiny this must be based on a more considered analysis of policy documents.

24. It is not only the United Kingdom Government which fails to allow adequate time for scrutiny. On 20 October we announced an urgent inquiry into the European Commission's proposals for financial regulation and supervision and, in particular, the detailed proposals for a European Systemic Risk Board and three European supervisory bodies: a European Banking Authority, a European Insurance and Occupational Pensions Authority and a European Securities and Markets Authority. The Commission's proposals were announced on 23 September 2009 and were complemented by a further set of measures announced on 26 October 2009. We conducted a short sharp inquiry and reported our conclusions and recommendations to ensure they were available to inform the House before the debate in the Chamber that the European Scrutiny Committee recommended should take place

7 HM Treasury, *Reforming financial markets*, Cm 7667, July 2009, p 139

8 Treasury Committee, Fourteenth Report of Session 2008–09, *Banking Crisis: regulation and supervision*, HC 767, para 112

9 *Ibid.*, para 114

10 *Ibid.*, para 113

before the ECOFIN meeting on 2 December 2009.¹¹ The Commission's proposals will set the shape of European regulation and supervision for many years to come. It is unsatisfactory that so little time was available to consider them.

Core task 2: To identify and examine areas of emerging policy, or where existing policy is deficient, and make proposals

25. The second core task is a wide ranging objective and most of our activity can be said to cover it. As the banking crisis stretched the financial regulatory and supervisory system to its limits, it highlighted deficiencies in the existing system of oversight as the tripartite authorities were pushed to react quickly to an exceptional set of circumstances. During the course of our inquiry into the crisis we examined the financial system in detail. We took evidence from all members of the tripartite committee—the Chancellor of the Exchequer, Governor of the Bank of England, and Chairman of the FSA; former and current Chairmen and Chief Executives of major banks; senior representatives from building societies, hedge funds, and credit ratings agencies; auditors, accountants, journalists and academics; representatives of organisations and individuals affected by the collapse of the Icelandic banks; and the Chief Ministers and Financial Regulators of the Isle of Man and the States of Guernsey.¹² We identified a number of problems with existing policy and scrutinised the solutions proposed by the tripartite authorities.

The collapse of the Icelandic banks

26. The failure of the Icelandic Banks demonstrated the huge impact the collapse of large banks can have on a country's economy and the severe distress suffered by those affected. This was particularly evident in the Isle of Man and States of Guernsey. However, we unanimously agreed that the UK Government cannot be expected to provide cover for deposits held by British citizens in jurisdictions outside the direct control of the United Kingdom.¹³

The roots of the banking crisis in the UK

27. In our report *Banking Crisis: dealing with the failure of the UK banks* we concluded that banks were the principal authors of their own demise.¹⁴ A culture of increased risk taking and a misplaced faith in financial innovation combined with totally ineffective corporate governance led to a number of banks being put on life support. However, this was a failure not only within individual banks but also of the supervisory system designed to protect the public from systemic risk. Our Report considered both the origins of the crisis and the steps the Government had taken to resolve it.

11 Treasury Committee, Sixteenth Report of Session 2008–09, *The Committee's Opinion on proposals for European financial supervision*, HC 1088

12 Treasury Committee, *Banking Crisis: Oral evidence*, HC (2008–09) 144–I

13 Treasury Committee, Fifth Report of Session 2008–09, *Banking Crisis: The impact of the failure of the Icelandic banks*, HC 402, para 88

14 Treasury Committee, Seventh Report of Session 2008–09, *Banking Crisis: dealing with the failure of the UK banks*, HC 416

Bank recapitalisation

28. We supported the decision of the Government to embark on a bank recapitalisation programme. We noted that the unavoidable speed of implementation did, however, mean that the implications for both banks and Government were neither fully understood nor worked out.¹⁵

The Asset Protection Scheme

29. We welcomed the approach taken in the Asset Protection Scheme, but remained concerned about the need for greater clarity over the possible impact on the public purse.¹⁶ We also questioned whether, given what emerged, more analysis should have been instituted by regulators earlier to clarify the nature and value of assets on which banks were relying.¹⁷

Bank Lending

30. The availability and terms of credit to the small business sector, and the slow movement on this issue by the banks, is an ongoing concern. In our report we noted regrettably anecdotal evidence of sharp increases in bank charges and arrangement fees, which can often be more damaging to businesses than higher interest rates. We deplored the behaviour of a number of those banks who had received so much public money and behaved in such an insensitive manner, particularly to established customers.¹⁸

UK Financial Investments Ltd

31. We expressed concerns that for an institution managing billions of pounds of public money too little information about UKFI's activities was in the public domain. We urged the Government to publish a strategy for UKFI addressing how it would use its control of the investee companies, and what role it envisages for UKFI in promoting change within the banking sector more generally.¹⁹ We are pleased that since our report UKFI have provided more easily accessible information on their website including details on their market investments, investment strategy and wholly owned investments. They have also worked with both RBS and Lloyds on the revision of their remuneration practices, and, in line with our recommendation, are preparing to relocate out of the Treasury building.²⁰ We held a further evidence session with UKFI in November 2009, and expect that monitoring their performance will be a key task of our successor Committee.

15 Treasury Committee, Seventh Report of Session 2008–09, *Banking Crisis: dealing with the failure of the UK banks*, HC 416, para 146

16 *Ibid.*, para 172

17 *Ibid.*, para 178

18 *Ibid.*, para 189

19 *Ibid.*, para 212

20 Treasury Committee, Seventh Special Report of Session 2008–09, *Banking Crisis: dealing with the failure of the UK banks: Government, UK Financial Investments Ltd and Financial Services Authority Responses to the Seventh Report from the Committee*, HC 956

Corporate Governance

Remuneration in the City

32. Our third Report on the Banking Crisis focused on reforming corporate governance and pay in the City. We concluded that the banking crisis exposed serious flaws and shortcomings in remuneration practices in the banking sector and, in particular, within investment banking.²¹ Moreover, we remained concerned that the FSA's *Turner Review*²² downplays the role that remuneration played in causing the banking crisis and we question whether the regulator is attaching sufficient priority to tackling the issue.²³

33. In our Report we also proposed a number of reforms to remuneration more widely in the banking sector. These include enhanced disclosure requirements on firms about their remuneration structures and about remuneration below board-level, reforms to remuneration committees to make them more open and transparent, and a Code of Ethics for remuneration consultants.

Shareholders and Non-executive directors

34. We noted the failure of institutional investors to effectively scrutinise and monitor the decision of boards and executive management in the banking sector.²⁴ We also criticised the bank executives and pin-pointed three problems: the lack of time many non-executives commit to their role, with many combining a senior full-time position with multiple non-executive directorships; in many instances a lack of expertise; and a lack of diversity. We called for a broadening of the talent pool from which the banks draw, possible restrictions on the number of directorships an individual can hold, dedicated support or a secretariat to help non-executives carry out their responsibilities effectively, reforms to ensure greater banking expertise amongst non-executive directors, as well as stronger links between non-executive directors and institutional shareholders.²⁵ We called for the *Walker Review* to address these concerns as a matter of urgency. We followed this up by inviting Sir David Walker to an evidence session in October, where we both explored his emerging findings and pressed him to address our concerns.

35. Sir David's final report dealt with a number of the issues we considered important, and his proposals for more openness about remuneration, more shareholder engagement, and strengthening boards are some improvement on the current situation but his focus was limited. We consider that the Treasury Committee in the next Parliament should assess the effectiveness of his reforms.

21 Treasury Committee, Ninth Report of Session 2008–09, *Banking Crisis: reforming corporate governance and pay in the City*, HC 519, para 151

22 Financial Services Authority, *The Turner Review: A regulatory response to the global banking crisis*, March 2009

23 Treasury Committee, Ninth Report of Session 2008–09, *Banking Crisis: reforming corporate governance and pay in the City*, HC 519, p 3

24 *Ibid.*, para 153

25 *Ibid.*, para 152

Bank executives

36. A report on our work over the last year would not be complete without mentioning our questioning of bank executives. While we extracted apologies from bank chief executives we also noted that the apologies we heard from the former bank executives had a polished and practised air. We were concerned that the banks saw themselves as unlucky victims of external circumstances; we remain concerned that banks seem unaware of the extent to which their continued functioning depends on taxpayer support.²⁶

Consumer detriment

37. At the end of our banking crisis inquiry we turned to examine its impact on the consumer. We reported on the rising numbers of people faced with mortgage arrears charges and even repossession.²⁷ We shared the concern expressed by many of those who gave evidence to our inquiry that some lenders are charging high and excessive mortgage arrears fees to customers who fall into mortgage difficulties. In many instances such charges appeared to go beyond the recovery of additional administrative costs and are being used instead as an alternative profit stream. We also considered Government schemes to help those who fall into mortgage difficulties and were critical of the response of the FSA to the problem, particularly their leisurely approach to dealing with mortgage providers who were not treating their customers fairly.²⁸

Core task 3: Scrutiny of draft bills

38. None of the seven draft bills published by the Government in Session 2008–09 fell within the remit of the Committee. However, four Bills before the House were relevant to our work;

- The **Savings Gateway Accounts Bill** built on work this Committee has undertaken in previous Sessions, notably our work on Financial Inclusion.
- The **Banking Bill** became an Act of Parliament on 12 February 2009. We scrutinised the Banking Bill as part of our 2007–08 inquiry on Banking Reform.
- On 11 June 2009 the **Child Poverty Bill** had its first reading. The aim of this bill is to enshrine in law the Government’s 2020 target to eliminate child poverty. We monitor the Government’s progress towards meeting the 2020 target and the interim 2010 target of halving child poverty through our scrutiny of measures announced in the Pre-Budget and Budget reports as well as one-off sessions undertaken by our Sub-Committee.

26 Treasury Committee, Ninth Report of Session 2008–09, *Banking Crisis: reforming corporate governance and pay in the City*, HC 519, para 134

27 Treasury Committee, Fifteenth Report of Session 2008–09, *Mortgage arrears and access to mortgage finance*, HC 766

28 *Ibid.*, para 52

- The **Finance Bill** makes the tax proposals announced in the Budget into law. As in previous years we ensured that our report on the Budget was published in time to inform debate on the Finance Bill. This is discussed further under core task 4.

Core task 4: To examine specific output from the Department expressed in documents and other decisions

39. Each year we enquire into the Budget and the Pre-Budget Report, which contains proposals under consideration for the Budget, and updates Parliament on the state of the economy and the public finances. It also reports on progress made on measures announced in the previous Budget.

40. The 2008 Pre-Budget report delivered on 24 November 2008 was, in the Chancellor's own words, set in the context of "a background of economic uncertainty not seen for generations".²⁹ We held three evidence sessions with: experts in economic affairs, accounting issues and the social impact of the Report; Treasury officials; and the Chancellor of the Exchequer. We called for the Government to do more to ease the flow of credit and highlighted the lack of bank lending as "the single most critical problem for the economy in the near term".³⁰ We considered the Government's forecast for a swift recovery in economic growth for 2010, and commented that the overall effect of the fiscal stimulus remained uncertain.³¹ We also noted that:

the risk of a self-reinforcing deflationary cycle exists in the UK economy at present and recommend that the Treasury prepare and publish the actions it may consider taking should a period of "quantitative easing" be needed.³²

We were surprised by the announcement of an additional £5 billion of efficiency savings without any supporting schedule showing the derivation of this figure. Our Sub-Committee would later inquire further into this area, both in a freestanding report, and in its regular scrutiny of the Department and associated public bodies.

41. Our scrutiny of the 2009 Budget built on the work of our Pre-Budget inquiry. We reiterated our concern about the lack of measures to advance the Government's goal of halving child poverty by 2010. We again questioned the Government's forecasts for the economy, noting that the assumption that the economy would begin registering positive growth as early as the fourth quarter of 2009 was an optimistic one.

42. In our report on the 2008 Budget we noted that the Treasury forecast that the current budget would move into surplus in 2010–11 was subject to "considerable downside risks".³³ Our scepticism was vindicated by the significant deterioration in the public finances

29 HC Deb, 24 November 2008, col 489

30 Treasury Committee, Second Report of Session 2008–09, *Pre-Budget Report 2008*, HC 27, para 17

31 *Ibid.*, para 12

32 *Ibid.*, para 30

33 Treasury Committee, Ninth Report of Session 2007–08, *The 2008 Budget*, HC 430, para 31

detailed in the 2008 Pre-Budget report. The 2009 Budget announced a further marked deterioration in the borrowing forecasts. In our report we commented:

The chancellor’s forecasts for public borrowing and national debt make sobering reading. By any measure, those forecasts along with those of many other OECD countries, are extremely high: they have exceeded the fiscal rules from which the Government departed in PBR 2008 by a wide margin and these figures represent the worst outlook since the Second World War. We are very concerned about the state of the public finances.³⁴

43. We welcomed the Government’s focus on measures to tackle unemployment particularly amongst those aged under 25. However, we cautioned that it would not be immediately apparent whether these schemes were a sufficient response to the challenge of unemployment.³⁵ We also considered other measures announced in the Budget including the vehicle scrappage scheme, the new 50p top rate of income tax, the stamp duty holiday, and the change to tax relief on pensions. We will look again at these measures when the Government provides an update of their progress in the 2009 Pre-Budget report.

Core task 5: Scrutiny of expenditure plans and outturns

44. A significant part of the work of our Sub-Committee is to examine the expenditure of HM Treasury, HM Revenue and Customs, and other public bodies within the Chancellor’s department. With the assistance of the Scrutiny Unit we have analysed their Annual Accounts, Estimates and Supplementary Estimates.

45. The Sub-Committee has also followed progress on the Government’s alignment project. The alignment (“clear line of sight”) project aims to create greater transparency between Government budgets, supply estimates and accounts. In our report on the *Administration and expenditure of the Chancellor’s departments, 2007–08*, we voiced our concern that “without adequate levels of information regarding income, Parliament’s authority may be diminished”.³⁶ We recommended that the new estimates “provide appropriate levels of information relating to income”.³⁷ The Liaison Committee shared our view, noting in its report on *Financial Scrutiny: Parliamentary Control over Government Budgets*, that “the concerns expressed by the Treasury Committee are extremely valid”.³⁸ The Government welcomed our “helpful and pragmatic approach” to this important issue and considered our concerns in the proposals announced in the Alignment Project White Paper.³⁹

34 Treasury Committee, Ninth Report of Session 2007–08, *The 2008 Budget*, HC 430, para 44

35 *Ibid.*, para 27

36 Treasury Committee, First Report of Session 2008–09, *Administration and expenditure of the Chancellor’s departments, 2007–08*, HC 35, para 41

37 *Ibid.*

38 Liaison Committee, Second Report of Session 2008–09, *Financial Scrutiny: Parliamentary Control over Government Budgets*, HC 804, para 32

39 Treasury Committee, Second Special Report of Session 2008–09, *Administration and expenditure of the Chancellor’s departments, 2007–08: Government Response to the First Report from the Committee*, HC 419, p 5

Core task 6: Scrutinising Public Service Agreements and targets

46. Public Service Agreements set out the key priority outcomes the Government wants to achieve in the next spending period. The 2007 Comprehensive Spending Review introduced a new system of measuring departmental performance, reducing the number of PSAs from 110 to 30. HM Treasury is the lead department for delivering on a single PSA: to “halve the number of children in poverty by 2010–11, on the way to eradicating child poverty by 2020.”⁴⁰ We examined the Government’s progress in achieving this PSA as part of our inquiries into the Pre-Budget and Budget reports as well as our annual session on HM Treasury’s Annual Report and Accounts.

47. In our inquiry into the 2008 Pre-Budget we were disappointed to learn of the lack of progress on child poverty since we last examined the Government’s performance in this area. While we recognised that the fiscal position was strained we nonetheless called on the Government to take decisive action in the 2009 Budget if we are to have any hope of achieving the 2010 child poverty target.⁴¹

48. These concerns were not addressed by the Government in the 2009 Budget and we were dismayed to report that, “on current indicators the Government will fail to meet its 2010–11 target by a significant margin”.⁴² As part of our inquiry into the Administration and expenditure of the Chancellor’s departments, 2008–09, we questioned Sir Nicholas Macpherson, Permanent Secretary to the Treasury, in October 2009 on his department’s progress in meeting the PSA. He told us

Over the past two years of published data we have not made as much progress as we would have liked. A lot of resources have been put into tax and benefits to support poor families but progress does not seem to have been reflected in the statistics. It does not mean you give up; if anything, you need to redouble your efforts, but we shall be hard pressed to halve child poverty by 2010 given the recent trajectory.⁴³

We will continue to monitor the Government’s progress in meeting its Public Service Agreement and expect to return to the issue in our forthcoming inquiry into the 2009 Pre-Budget Report, as well as in the Sub-Committee’s scrutiny of the Department’s work.

49. In addition to PSAs, departments are also guided by ‘Departmental Strategic Objectives’ (DSOs). HM Treasury has two such objectives:

- to maintain sound public finances, and
- to ensure sustainable economic growth, well being and prosperity for all.

40 HM Treasury, *Meeting the aspirations of the British people: 2007 Pre-Budget Report and Comprehensive Spending Review 2007*, Cm 7227, p 190

41 Treasury Committee, Second Report of Session 2008–09, *Pre-Budget Report 2008*, HC 27, para 72

42 Treasury Committee, Ninth Report of Session 2007–08, *The 2008 Budget*, HC 430, para 74

43 Treasury Committee, Uncorrected transcript, HC 1046-iii, 11 November 2009

50. The global financial crisis has had a profound impact on the work of HM Treasury during Session 2008–09. The economy has experienced successive quarters of negative growth and we have seen public debt and levels of unemployment increase. We examined the Government’s response to these issues in our inquiry into the banking crisis, and our inquiries into the 2008 Pre-Budget and 2009 Budget.

Core task 7: Monitoring the work of agencies and other public bodies

51. During the last year the Committee continued its practice of taking evidence on the quarterly Inflation Reports produced by the Bank of England. We aim to hear evidence within four weeks of the publication of an Inflation Report and it has become settled practice for the Committee to sit in September to take evidence on the August Inflation Report. The Inflation Reports are designed to provide a comprehensive and forward-looking framework for discussion by the members of the Monetary Policy Committee (MPC) and to allow the Bank to share its thinking. Our evidence sessions play an important role in enhancing the transparency and understanding of the interest rate decision-making process. They provide an opportunity to question the Governor and four other members of the MPC on the reasons behind their decisions on setting interest rates, the outlook for monetary policy going forward and, more recently, the impact and scale of quantitative easing. We are grateful to the Governor and his colleagues for their continuing support of the work of the Committee. We have also continued our tradition of holding pre-appointment hearings with those selected to join the MPC. These are discussed in the next section.

52. In December 2008 we took evidence from the Financial Services Authority on their annual report and accounts. This session gave us the opportunity to question the FSA on their performance over the preceding twelve months. In common with previous years the evidence session covered a wide range of topics including the future of principles-based regulation, the Treating Customers Fairly initiative, the Retail Distribution Review, and the regulation of retail banking code of conduct. We have recently held a further wide ranging session with the FSA.

53. We held regular meetings with UK Financial Investments Ltd (UKFI) who have a crucial role in managing the Government’s investments in financial institutions including Lloyds Banking Group, Royal Bank of Scotland, Northern Rock and Bradford & Bingley. At a hearing in November 2009 we questioned the outgoing chief executive, John Kingman, on the remuneration policy of RBS. Mr Kingman highlighted the dilemma we referred to in our report on the failure of UK banks:⁴⁴

We have to walk this tightrope by which we, on the one hand, reform the cultures ... but, on the other, we cannot afford to be in a position where the banks lose so many people that we start to lose serious value.⁴⁵

44 Treasury Committee, Ninth Report of Session 2008–09, *Banking Crisis: reforming corporate governance and pay in the City*, HC 519, para 95

45 Oral evidence taken before the Treasury Committee on 4 November 2009, HC (2008–09) 1090-i, Q39

54. Mr Kingman also explained UKFI’s approach to splitting Northern Rock into “good” and “bad” banks and detailed how UKFI envisaged the sale of Northern Rock, as well as assets of the UK’s part-nationalised banks, would take place. These are clearly important issues and we will maintain a close watch on developments.

55. As discussed under Core task 5 above, the Committee, through its Sub-Committee, continued its regular programme of scrutiny of the administration of the Chancellor’s departments in Session 2008–09. The Sub-Committee annually takes evidence from HM Treasury, HM Revenue and Customs and a selection of bodies which fall under the Chancellor’s remit. In January we reported on the evidence we took at the end of the previous Session. Amongst our conclusions we questioned whether continued staff reductions in the Treasury Group would leave the Group able to deliver all that is expected of it.⁴⁶ We were also concerned that the Debt Management Office was operating under increased pressures.⁴⁷ We are pleased to note that both the Treasury Group and the DMO have since recruited staff to help with the increased workload caused by the financial crisis. We again noted the low morale amongst staff in HM Revenue and Customs and pressed HMRC to disclose information regarding the financial case for individual office closures.⁴⁸ The Sub-Committee also scrutinised the work of the Valuation Office Agency—this is discussed under core task 9.

Core task 8: Scrutiny of major appointments

56. The Treasury Committee has held pre-appointment hearings with all new appointees to the Monetary Policy Committee of the Bank of England since 1998. During Session 2008–09 we held three such hearings: Paul Fisher, Dr Adam Posen and Professor David Miles. We also examined Paul Tucker’s appointment to the role of Deputy Governor of the Bank of England for Financial Stability. Mr Tucker was already a member of the MPC through his previous role as Executive Director, Markets. In accordance with our established practice we asked whether the appointees fulfilled our criteria for appointments to the MPC of professional competence and personal independence. In advance of the oral evidence hearing appointees are requested to complete a questionnaire regarding their career to date and their views on relevant economic issues. The questionnaire together with the oral evidence forms the basis of our conclusions on the appointment and the appointment process. These are published in a short report following the hearing.

57. In a previous report we recommended that the post of Governor of the Bank of England and the two Deputy Governor posts be filled by open advertisement.⁴⁹ On 19 June 2008, the Chancellor of the Exchequer reported in a letter to the Chairman of this Committee that the Governor had indicated to him that in future the Bank “would

46 Treasury Committee, First Report of Session 2008–09, *Administration and expenditure of the Chancellor’s departments, 2007–08*, HC 35, para 15

47 *Ibid.*, para 51

48 *Ibid.*, para 92

49 Treasury Committee, Twelfth Report of Session 2006–07, *The Monetary Policy Committee of the Bank of England: ten years on*, HC 299–I, para 84

advertise externally the two Bank Executive posts which carry MPC membership”.⁵⁰ This change was designed to ensure that all future appointments to the MPC would be the subject of open advertisement. We welcome the use of an external advertisement system and are pleased that the appointments of Paul Tucker as Deputy Governor, and Paul Fisher, as Executive Director, Markets, were achieved through this process—both appointments were the first at their grade to be made through open competition. It is necessary to have advance warning of appointments in order to schedule pre-appointment hearings. We are grateful to HM Treasury for advance notice of appointments to the MPC over the last year.

58. The role of Deputy Governor of the Bank of England for Financial Stability is one of the key posts within the financial system. Its holder is at the heart of the debate about how the financial crisis will be resolved and how the regulatory system should change. In addition to our criteria of professional competence and personal independence we questioned Paul Tucker on his priorities on becoming Deputy Governor and examined the way in which he would deal with the challenge of responding to the financial crisis.

Core task 9: Implementation of legislation and major policy initiatives

59. In October 2008 our Sub-Committee took evidence from the Valuation Office Agency on their annual report and accounts.⁵¹ Two significant issues emerged at the meeting, the worryingly low morale amongst staff in the VOA, and the Agency’s handling of the revaluation of UK statutory ports. As a result of the revaluation exercise a total of 569 new rateable properties were identified in England and a further 81 in Wales. However, businesses affected received bills backdated to 2005.

60. We received a high volume of correspondence from businesses that had been placed under severe financial pressure as a result of this process. Some businesses had already failed and others expected to join them in the near future. There were three main issues that concerned us: the poor quality of communication by the VOA with the businesses affected; the relationship between port operators and businesses operating within ports (port occupiers); and the justification for backdating these charges. In light of the failings of the VOA and the compelling evidence that many businesses were being forced to declare themselves insolvent, we recommended that the Government consider maintaining port ratings at the levels published in the 2005 lists until the next scheduled revaluation of statutory ports is undertaken in 2010.⁵² It is disappointing that despite a further meeting on this subject with Ministers from HM Treasury and the Department for Communities and Local Government as well as Members in the Chamber commending the Committee for suggesting a simple way forward, we could not persuade the Government to accept our

50 Letter from the Chancellor of the Exchequer to John McFall MP, available at www.parliament.uk/documents/upload/Chancellor08619F.pdf

51 Treasury Committee, First Report of Session 2008–09, *Administration and expenditure of the Chancellor’s departments, 2007–08*, HC 35

52 *Ibid.*, para 139

recommendations. The Sub-Committee continues to press the government for more information, and is reviewing this as part of its current scrutiny of the department's work.

61. In May 2009 our Sub-Committee launched an inquiry into the Government's efficiency programme. As part of the 2004 Spending Review, the Government launched an ambitious efficiency programme that set demanding targets for Government departments to achieve monetary savings, headcount reductions and relocation of posts from London and the South-East. Our inquiry looked at the effects of that efficiency programme, known as the Gershon Review, on the Chancellor's departments, following the final report published in the 2008 Pre-Budget Report. It also examined the more recent programmes announced in the 2009 Budget including the Operational Efficiency Programme and the Public Value Programme.

62. We welcomed the Government's efforts to improve efficiency, but stressed the importance of accurately evaluating the costs and savings of major efficiency programmes, and of maintaining staff morale. We noted that low staff morale at HMRC has been caused, in part, by uncertainty about the future, a lack of understanding about the chosen efficiency targets, especially when service quality is perceived to have fallen, and increased pressure—having to do the same job with less resources.⁵³ We returned to this area as part of our inquiry into the *Administration and expenditure of the Chancellor's departments, 2008–09*.

Core task 10: Debates in Westminster Hall and the Chamber

63. The tenth core task is to “assist the House in debate and decision”. Our work over the last year, through the provision of reports and evidence to the House, has helped to inform Members during debates in the Chamber. During the last year the work of this Committee has been cited in the Chamber on 97 occasions. It was referred to a further 57 times by Members in the House of Lords.

64. It has become standard practice for the Committee to report on the Budget in time for our report to be tagged to the second reading of the Finance Bill. To achieve this in 2009 we were forced to operate under a tighter timetable than normal. The Budget was published on 22 April. Two weeks later, having held three evidence sessions, we published our report in time for the debate on the second reading of the Finance Bill. The debate began on 6 May and our Report was referenced repeatedly. We were commended for coming to “a very sensible view”, and “asking the right questions”. The Government was urged to “address in this debate what [the report] says”.⁵⁴ Our concerns at the lack of any substantial measures in Budget 2009 to combat child poverty were also cited in the second reading debate.

53 Treasury Committee, Thirteenth Report of Session 2008–09, *Evaluating the Efficiency Programme*, HC 520, paras 24–33

54 HC deb, 6 May 2009, cols 185, 277–8 and 492

65. In addition to tagging our *Budget 2009* report to the Finance Bill, our reports, from last session and before that, were frequently cited. Our concerns about child poverty were raised during the second reading of the Child Poverty Bill.

66. At the end of Session 2007–08 we published our report on the Banking Bill.⁵⁵ In January 2009 the Bill, which had been carried over from session 2007–08, received Royal Assent. During the third reading of the Bill Mark Hoban MP commented:

‘The deliberations of the Treasury Committee in the aftermath of Northern Rock and financial instability contributed a great deal to our consideration of the Bill in the Public Bill Committee’.⁵⁶

In the second reading debate on the Savings Gateway Accounts Bill in January 2009, Yvette Cooper MP, Chief Secretary to the Treasury, noted the long-standing support of the Treasury Committee for the bill by quoting from our Thirteenth report of Session 2006–07.⁵⁷

67. We have sought to bring clarity to parliamentary and public debate throughout Session 2008–09 and we will continue to do so as we move towards the General Election in 2010. Although it is early in the new session, two debates have already had our work tagged to them. Our work on the Banking Crisis has contributed a great deal to the Financial Services Bill.⁵⁸ Perhaps even more significantly, the European Scrutiny Committee asked us to examine proposals for European financial supervision, so that our Opinion was available to the House before these proposals were debated.⁵⁹

55 Treasury Committee, Seventeenth Report of Session 2007–08, *Banking Reform*, HC 1008

56 HC deb, 17 December 2008, Col 1122

57 Treasury Committee, Thirteenth Report of Session 2006–07, *Financial Inclusion follow-up: saving for all and shorter term saving products*, HC 504

58 The Committee’s Fourteenth Report of Session 2008–09, *Banking Crisis: regulation and supervision*, HC 767, and the Government’s and Financial Services Authority’s responses thereto, were “tagged” for the debate on the Second Reading of the Financial Services Bill on Monday 30 November.

59 The Committee’s Sixteenth Report of Session 2008–09, *The Committee’s Opinion on proposals for European financial supervision*, HC 1088, and the Committee’s First Report of Session 2009–10, *Proposals for European financial supervision: further report*, HC 37, were “tagged” for the debate on the Motion to Approve a European document relating to financial services on Tuesday 1 December.

Table 1: Core tasks relevant to inquiries undertaken by the Treasury Committee and Treasury Sub-Committee in 2008–09

Inquiry	Core task	1	2	3	4	5	6	7	8	9	10
Administration and expenditure of the Chancellor's departments, 2008–09			✓			✓	✓	✓		✓	✓
Appointment of Paul Fisher to the Monetary Policy Committee									✓		
Appointment of Professor David Miles to the Monetary Policy Committee									✓		
Appointment of Dr Adam Posen to the Monetary Policy Committee									✓		
Appointment of Paul Tucker as Deputy Governor of the Bank of England									✓		
Bank of England February 2009 Inflation Report								✓			
Bank of England May 2009 Inflation Report								✓			
Bank of England August 2009 Inflation Report								✓			
Banking Crisis		✓	✓		✓			✓		✓	✓
Banking Crisis: international dimensions			✓								
Banking Crisis: regulation and supervision		✓	✓		✓			✓		✓	✓
Budget 2009		✓	✓		✓	✓	✓	✓		✓	✓
Credit searches			✓								
Evaluating the Efficiency Programme						✓		✓		✓	
Proposals for European macro and micro prudential financial regulation		✓									
Mortgage arrears and access to mortgage finance			✓					✓		✓	
Pre-Budget Report 2008		✓	✓		✓	✓	✓	✓		✓	✓
UK Financial Investments Ltd			✓		✓			✓		✓	
Walker Review			✓		✓						
Women in the City			✓								
Work of the Financial Services Authority 2007–08		✓	✓			✓		✓		✓	

3 Looking forward

68. In Session 2009–10 we will continue to monitor the Government’s response to the banking crisis. The Government has announced that Northern Rock, and parts of Royal Bank of Scotland and Lloyds Banking Group are to be sold over the next four years. The Chief Executive of UKFI told the Committee that he would “certainly expect to see a positive return on our portfolio over time”.⁶⁰ We will maintain our scrutiny of UKFI’s progress towards this goal and the behaviour of those banks in which so much public money is invested.

69. The banking crisis created a number of significant challenges for the Government. Scrutinising how the Government responds to such issues as restoring public finances to good health, reforming the financial system, dealing with rising unemployment, high levels of consumer debt, and the availability of credit, will dominate much of our future work.

70. During our visit to Brussels both Commissioner Kroes and Commissioner McCreevy stressed the need for politicians to take a long term view when considering policy responses to the financial crisis. In Session 2009–10, with the inevitable distractions of a looming General Election, it is important that we retain our focus and that our reports are considered, well argued, and based on sound evidence. We hope that our reports of Session 2008–09 have met this challenge.

71. The banking crisis faces policymakers with a dilemma. It is clear that there have been major and catastrophic failures both in the behaviour of participants in the financial sector, and in the regulatory framework, both by sectoral regulators and central banks. Working out ways in which to reform that regulatory framework at both national and global level will not be easy. There are difficult balances to make between allowing free market innovation, and providing a framework which prevents gambling. As the FSA has pointed out, in a recent paper, many regulatory choices have policy effects: the nature of the trade-offs between stability and possible growth need to be carefully considered. Moreover, this has to happen in the international arena, as well as in individual countries. At the same time, as the acute phase of the crisis passes, there will be a pressure to return to business as usual. Indeed, the first signs of that are already clear. In evidence to us, Sir David Walker considered concerns about bankers’ bonuses as a “socio-economic phenomenon”; it was only when our Chairman intervened that he conceded that there might be some trade-off between money allocated to the bonuses, and money used to rebuild capital.⁶¹ The return to business as usual can also be seen in the way in which thoughtful policy discussions can be presented as ideological battles between, for example, the FSA and the Bank of England.

72. The fear that return to ‘business as usual’ would soon blunt the desire for reform perhaps underlay the European Union’s proposal to restructure its entire regulatory framework as quickly as possible. But that way too, there lies danger. Some policy changes

60 Oral evidence taken before the Treasury Committee on 4 November 2009, HC (2008–09) 1090-i, Q 19

61 Oral evidence taken before the Treasury Committee on 3 November 2009, HC (2008–09) 1089-i, Qq 3-4

will be urgent. Some will require careful consideration and debate. Some policy changes will need to be reconsidered in the light of events. We hope that over the next year our work will encourage debate on the key issues, such as how to prevent institutions being too big or too important to fail, or how to allocate resources between capital rebuilding and remuneration. It is too early to expect there to be a clear answer to these questions. As the Governor of the Bank of England told us:

We need radical reform of the international monetary system. In large part this goes to politics at least as much as to economics, so this is probably more in your domain than in mine. I shall continue to argue for reform of the international monetary system, as I have for many years in speeches. It is very important. If we ignore it and fail to tackle it I fear that some of the concerns we thought we were about to experience at the beginning of this year ... will come back to haunt us.⁶²

We need to ensure both that hasty ineffective measures are resisted, and that political will for reform does not fade before the necessary reforms are in place. Maintaining that balance will be a key task for the next session, and beyond.

4 Annex 1: Treasury Committee sessional return

Treasury

For website access click on www.parliament.uk/treascom

The Committee was nominated by the House of Commons on 13 July 2005.

Members	Meetings attended
McFall, John (Chairman)	44 out of 44
Ainger, Nick	40 out of 44
Brady, Mr Graham	38 out of 44
Breed, Mr Colin	29 out of 44
Cousins, Jim	29 out of 44
Crabb, Mr Stephen (discharged 9.2.09)	6 out of 12
Fallon, Mr Michael	42 out of 44
Keeble, Ms Sally	40 out of 44
Love, Mr Andrew	37 out of 44
Mann, John (added 12.1.09)	27 out of 40
Mudie, Mr George (discharged 13.7.09)	18 out of 35
Plaskitt, James (added 13.7.09)	6 out of 9
Simon, Mr Siôn (discharged 12.1.09)	0 out of 4
Thurso, John	33 out of 44
Todd, Mr Mark	38 out of 44
Tyrie, Mr Andrew (added 9.2.09)	29 out of 32
Viggers, Sir Peter	41 out of 44
Overall Attendance:	80.7 %

Total number of meetings:	44
Of which:	
Number of meetings at which oral evidence was taken	38
Number of times oral evidence was taken partly or wholly in private	0
Number of wholly private meetings	6
Number of concurrent meetings with other committees	0

Other activities

Informal meetings (including overseas visitors)	6
Conferences/Seminars hosted	0

Staff

Details of the permanent staff of the Committee during the Session can be found in the Committee's publications.

Specialist Advisers during the Session

Roger Bootle, Professor Sheila Dow, Professor David Heald, Professor David Miles, Karon Monaghan QC, Professor Anton Muscatelli, Professor Danny Quah, Bridget Rosewell, Professor Andrew Scott, Professor Colin Talbot and Professor Geoffrey Wood.

Witnesses

Oral evidence was given during the Session by the following categories of witnesses:

Number of appearances by:	
Cabinet Ministers	4
Other Ministers	6
Members of the House of Lords	7
Number of appearances by officials from, or representatives of:	
HM Treasury	8
Number of appearances from or representatives of public bodies and non-Ministerial departments comprising:	
Bank of England (including Monetary Policy Committee)	9
Financial Services Authority	4
Financial Services Compensation Scheme	1
Financial Services Consumer Panel	1
Financial Services Practitioner Panel	1
Smaller Businesses Practitioner's Panel	1
UK Financial Investments Ltd (UKFI)	2
Appearances by other witnesses	118

Overseas Visits

Date	Destination	Members	Staff	Purpose	Cost
19.2.09	Paris, France ^A	Love	1	High Level Parliamentary Seminar on the Global Financial and Economic Crisis	£1,336.93
18-22.5.09	New York and Washington DC, United States	McFall, Ainger, Brady, Breed, Fallon, Keeble, Love, Tyrie, Viggers	2	Inquiry into International Dimensions of the Banking Crisis	£47,757.32
6.9.09	Stockholm, Sweden ^A	McFall	1	Economics of Climate Change and Sustainable Public Finance conference	£2,156.96

^A Travel in a representative capacity

Visits to European Institutions

Date	Destination	Members	Staff	Purpose	Cost
21-22.1.09	Brussels, Belgium	McFall, Ainger, Brady, Fallon, Love, Viggers	3	Inquiry into the Banking Crisis	£6,537.60

UK Visits

Date	Destination	Members	Staff	Purpose	Cost
20.1.09	HM Treasury, London	McFall, Ainger, Brady, Cousins, Fallon, Thurso, Viggers	3	Inquiry into the Banking Crisis	
2.3.09	Belfast	McFall, Ainger, Brady, Fallon, Viggers	3	Inquiry into the Banking Crisis	£2,918.00
9-10.3.09	Edinburgh, Halifax and Leeds	McFall, Ainger, Brady, Love, Mann, Mudie	4	Inquiry into the Banking Crisis	£5,576.80
1.4.09	UK Financial Investments Ltd, London	McFall, Ainger, Brady, Breed, Fallon, Keeble, Love, Todd, Viggers	3	Inquiry into the Banking Crisis	

Reports and Oral and Written Evidence

Title	HC No. (2008–09)	Date of publication	Government reply
First Report: <i>Administration and expenditure of the Chancellor's Department, 2007–08</i>	35	23.1.09	Received 2.4.09: published as Second Special Report Session 2008–09
Second Report: <i>Pre-Budget Report 2008</i>	27	28.1.09	Received 22.4.09: published as Third Special Report Session 2008–09
Third Report: <i>Work of the Committee 2007–08</i>	173	29.1.09	Not required
Fourth Report: <i>Appointment of Paul Tucker as Deputy Governor of the Bank of England</i>	34–I	23.1.09	Not required
Oral and Written Evidence: <i>Appointment of Paul Tucker as Deputy Governor of the Bank of England</i>	34–II	24.2.09	Not applicable
Fifth Report: <i>Banking Crisis: The impact of the failure of the Icelandic banks</i>	402	4.4.09	Received 8.6.09: published as Fourth Special Report Session 2008–09

Title	HC No. (2008–09)	Date of publication	Government reply
Sixth Report: <i>Appointment of Paul Fisher to the Monetary Policy Committee of the Bank England</i>	415–I	24.4.09	Not required
Oral and Written Evidence: <i>Appointment of Paul Fisher to the Monetary Policy Committee of the Bank England</i>	415–II	20.5.09	Not applicable
Seventh Report: <i>Banking Crisis: dealing with the failure of the UK Banks</i>	416	1.5.09	Received 15.7.09: published as Seventh Special Report Session 2008–09
Eighth Report: <i>Budget 2009</i>	438–I	6.5.09	Received 6.7.09: published as Fifth Special Report Session 2008–09
Oral and Written Evidence: <i>Budget 2009</i>	438–II	11.5.09	Not applicable
Ninth Report: <i>Banking Crisis: Reforming corporate governance and pay in the City</i>	519	15.5.09	Received 15.7.09: published as Eighth Special Report Session 2008–09
Tenth Report: <i>Appointment of Professor David Miles to the Monetary Policy Committee of the Bank of England</i>	765–I	6.7.09	Received 13.7.09: published as Sixth Special Report Session 2008–09
Oral and Written Evidence: <i>Appointment of Professor David Miles to the Monetary Policy Committee of the Bank of England</i>	765–II	24.7.09	Not applicable
Eleventh Report: <i>Banking Crisis: International Dimensions</i>	615	24.7.09	Awaited
Twelfth Report: <i>Appointment of Dr Adam Posen to the Monetary Policy Committee of the Bank of England</i>	764–I	20.7.09	Not required
Oral and Written Evidence: <i>Appointment of Dr Adam Posen to the Monetary Policy Committee of the Bank of England</i>	764–II	19.10.09	Not applicable
Thirteenth Report: <i>Evaluating the Efficiency Programme</i>	520	28.7.09	Received 28.9.09: published as Ninth Special Report Session 2008–09
Fourteenth Report: <i>Banking Crisis: regulation and supervision</i>	767	31.7.09	FSA response received 6.11.09; published as written evidence published on the internet
Fifteenth Report: <i>Mortgage arrears and access to mortgage finance</i>	766	8.8.09	Received 19.10.09: published as Tenth Special Report Session 2008–09

Title	HC No. (2008–09)	Date of publication	Government reply
<i>Sixteenth Report: The Committee's Opinion on proposals for European financial supervision</i>	1088	16.11.09	Awaited
<i>First Special Report: Budget Measures and Low Income Households: Government Response to the Committee's Thirteenth Report of Session 2007–08</i>	69	15.12.08	Not applicable
<i>Second Special Report: Administration and expenditure of the Chancellor's Department, 2007–08: Government Response to the First Report from the Committee</i>	419	24.4.09	Not applicable
<i>Third Special Report: Pre-Budget Report 2008: Government Response to the Second Report from the Committee</i>	431	1.5.09	Not applicable
<i>Fourth Special Report: Banking Crisis: the impact of the failure of the Icelandic banks: Responses from the Government and Financial Services Authority to the Fifth Report from the Committee</i>	656	19.6.09	Not applicable
<i>Fifth Special Report: Budget 2009: Government Response to the Eighth Report from the Committee</i>	890	10.7.09	Not applicable
<i>Sixth Special Report: Appointment of Professor David Miles to the Monetary Policy Committee of the Bank of England: Responses from the Financial Services Authority, Professor David Miles, and the Bank of England to the Tenth Report from the Committee</i>	898	13.7.09	Not applicable
<i>Seventh Special Report: Banking Crisis: dealing with the failure of the UK banks: Responses from the Government, UK Financial Investments Ltd and Financial Services Authority to the Seventh Report from the Committee</i>	959	24.7.09	Not applicable
<i>Eighth Special Report: Banking Crisis: reforming corporate governance and pay in the City: Responses from the Government, UK Financial Investments Ltd and Financial Services Authority to the Ninth Report from the Committee</i>	462	24.7.09	Not applicable
<i>Ninth Special Report: Evaluating the Efficiency Programme: Government Response to the Thirteenth Report from the Committee</i>	997	19.10.09	Not applicable

Title	HC No. (2008–09)	Date of publication	Government reply
Tenth Special Report: <i>Mortgage arrears and access to mortgage finance: Responses from the Government and Financial Services Authority to the Fifteenth Report from the Committee</i>	1068	4.11.09	Not applicable
Oral and Written Evidence: <i>Work of the Financial Services Authority, 2007–08</i>	98	4.2.09	Not applicable
Oral Evidence: <i>Banking Crisis</i>	144–I	1.4.09	Not applicable
Written Evidence: <i>Banking Crisis</i>	144–II	1.4.09	Not applicable
Written Evidence: <i>Banking Crisis</i>	144–III	1.4.09	Not applicable
Oral and Written Evidence: <i>Offshore Financial Centres</i>	355	26.3.09	Not applicable
Oral and Written Evidence: <i>Bank of England February 2009 Inflation Report</i>	376–i	30.4.09	Not applicable
Oral and Written Evidence: <i>Bank of England May 2009 Inflation Report</i>	763–i	20.7.09	Not applicable
Oral and Written Evidence: <i>Bank of England August 2009 Inflation Report</i>	966–i	19.10.09	Not applicable
Oral Evidence published on the Internet: <i>Women in the City</i>	967–i	6.11.09	Not applicable
Oral Evidence published on the Internet: <i>Women in the City</i>	967–ii	6.11.09	Not applicable
Oral Evidence published on the Internet: <i>Administration and expenditure of the Chancellor's departments, 2008–09</i>	1046–i	11.11.09	Not applicable
Oral Evidence published on the Internet: <i>The Walker Review</i>	1089–i	10.11.09	Not applicable
Oral Evidence published on the Internet: <i>UK Financial Investments Ltd</i>	1090–i	12.11.09	Not applicable
Uncorrected Oral Evidence published on the Internet: <i>Administration and expenditure of the Chancellor's departments, 2008–09</i>	1049–ii	3.11.09	Not applicable
Uncorrected Oral Evidence published on the Internet: <i>Administration and expenditure of the Chancellor's departments, 2008–09</i>	1049–iii	16.11.09	Not applicable
Uncorrected Oral Evidence published on the Internet: <i>Credit Searches</i>	1069–i	2.11.09	Not applicable
Written Evidence published on the Internet: <i>Women in the City</i>		14.10.09	Not applicable

Title	HC No. (2008–09)	Date of publication	Government reply
Written Evidence published on the Internet: <i>Credit Searches</i>		20.10.09	Not applicable
Written Evidence published on the Internet: <i>Banking Crisis: regulation and supervision</i>		11.11.09	Not applicable

Government replies to Reports for Session 2007–08

Reply to the Committee's Thirteenth Report: *Budget Measures and Low Income Households*, received 8.12.08 and published as the Committee's First Special Report Session 2008–09.

Formal Minutes

The Formal Minutes of the Committee were published electronically after each meeting of the Committee. They are available on the Committee's website at <http://www.parliament.uk/treascom>.

Divisions

None.

Debates

Committee reports were tagged on the Order Paper as being relevant to debates in the House of Commons or Westminster Hall on 1 occasion. Further details can be found in the Committee's Sessional Report.

Number of oral evidence sessions for each inquiry during the Session

Inquiry	Number of oral evidence sessions
Appointment of Dr Adam Posen to the Monetary Policy Committee of the Bank of England	1
Appointment of Paul Fisher to the Monetary Policy Committee of the Bank of England	1
Appointment of Paul Tucker as Deputy Governor of the Bank of England	1
Appointment of Professor David Miles to the Monetary Policy Committee of the Bank of England	1
Bank of England August 2009 Inflation Report	1
Bank of England February 2009 Inflation Report	1
Bank of England May 2009 Inflation Report	1
Banking Crisis	13
Banking Crisis: International Dimensions	2
Banking Crisis: regulation and supervision	3

Inquiry	Number of oral evidence sessions
Budget 2009	3
Credit Searches	1
Mortgage arrears and access to mortgage finance	2
Pre-Budget Report 2008	3
Proposals for European Macro and Micro Prudential Financial Regulation	2
UK Financial Investments Ltd	1
Walker Review	1
Women in the City	2
Work of the Financial Services Authority 2007–08	1
Total	41^A

^A On three occasions the Committee's meeting comprised two separate evidence sessions.

5 Annex 2: Treasury Sub-Committee sessional return

Treasury Sub-Committee

For website access click on www.parliament.uk/treascom

The Committee was nominated by the House of Commons on 13 July 2005.

Members	Meetings attended
Fallon, Mr Michael (Chairman)	8 out of 8
Ainger, Nick	7 out of 8
Brady, Mr Graham	6 out of 8
Breed, Mr Colin	5 out of 8
Cousins, Jim	3 out of 8
Crabb, Mr Stephen (discharged 9.2.09)	0 out of 1
Keeble, Ms Sally	7 out of 8
Love, Mr Andrew	6 out of 8
McFall, John	8 out of 8
Mann, John (added 12.1.09)	2 out of 8
Mudie, Mr George (discharged 13.7.09)	1 out of 4
Plaskitt, James (added 13.7.09)	2 out of 4
Simon, Mr Siôn (discharged 12.1.09)	0 out of 0
Thurso, John	8 out of 8
Todd, Mr Mark	8 out of 8
Tyrie, Mr Andrew (added 9.2.09)	3 out of 7
Viggers, Sir Peter	7 out of 8
Overall Attendance:	72.3 %

Total number of meetings:	8
Of which:	
Number of meetings at which oral evidence was taken	6
Number of times oral evidence was taken partly or wholly in private	0
Number of wholly private meetings	2
Number of concurrent meetings with other committees	0

Other activities

Informal meetings	1
Conferences/Seminars hosted	0

Staff

Details of the permanent staff of the Committee during the Session can be found in the Committee's publications.

Specialist Advisers during the Session

None.

Witnesses

Oral evidence was given during the Session by the following categories of witnesses:

Number of appearances by:	
Other Ministers	2
Number of appearances by officials from, or representatives of:	
HM Treasury	3
Government Departments reporting to the Chancellor of the Exchequer comprising:	
Office of Government Commerce	1
National Savings and Investments	1
Royal Mint	1
UK Debt Management Office	1
Number of appearances by officials from or representatives of public bodies and non-Ministerial departments comprising:	
HM Revenue and Customs	2
Appearances by other witnesses	4

Overseas Visits

None.

Visits to European Institutions

None.

UK Visits

Date	Destination	Members	Staff	Purpose	Cost
6.5.09	Debt Management Office, London	Fallon, Ainger, Brady, Breed, Keeble, Love, Viggers	3	Inquiry into the Administration and expenditure of the Chancellor's departments, 2007–08	£94.62

Reports and Oral and Written Evidence

None.

Government replies to Reports for Session 2007–08

Not applicable.

Formal Minutes

The Formal Minutes of the Committee were published electronically after each meeting of the Committee. They are available on the Committee's website at <http://www.parliament.uk/treascom>.

Divisions

None.

Debates

None.

Number of oral evidence sessions for each inquiry during the Session

Inquiry	Number of oral evidence sessions
Administration and expenditure of the Chancellor's departments, 2008–09	3
Evaluating the Efficiency Programme	3
Total	6

Formal Minutes

Tuesday 8 December 2009

Members present

John McFall, in the Chair

Nick Ainger	Mr James Plaskitt
Mr Graham Brady	John Thurso
Jim Cousins	Mr Mark Todd
Mr Michael Fallon	Mr Andrew Tyrie
Ms Sally Keeble	Sir Peter Viggers
John Mann	

Work of the Committee 2008–09

Draft Report (*Work of the Committee 2008–09*), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 72 read and agreed to.

Annexes agreed to.

Resolved, That the Report, be the Second Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

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[Adjourned till Monday 14 December at 3.00 pm

Reports from the Treasury Committee during the current Parliament

Session 2009–10

First Report	Proposals for European financial supervision: further report	HC 37
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Session 2008–09

First Report	Administration and expenditure of the Chancellor's departments, 2007–08	HC 35
Second Report	Pre-Budget Report 2008	HC 27
Third Report	Work of the Committee, 2007–08	HC 173
Fourth Report	Appointment of Paul Tucker as Deputy Governor of the Bank of England for Financial Stability	HC 34–I
Fifth Report	Banking Crisis: The impact of the failure of the Icelandic banks	HC 402
Sixth Report	Appointment of Paul Fisher to the Monetary Policy Committee of the Bank of England	HC 419
Seventh Report	Banking Crisis: dealing with the failure of the UK banks	HC 416
Eighth Report	Budget 2009	HC 438
Ninth Report	Banking Crisis: reforming corporate governance and pay in the City	HC 519
Tenth Report	Appointment of Professor David Miles to the Monetary Policy Committee of the Bank of England	HC 765
Eleventh Report	Appointment of Dr Adam Posen to the Monetary Policy Committee	HC 764
Twelfth Report	Banking Crisis: International Dimensions	HC 615
Thirteenth Report	Evaluating the efficiency programme	HC 520
Fourteenth Report	Banking Crisis: Regulation and supervision	HC 767

Fifteenth Report	Mortgage arrears and access to mortgage finance	HC 766
Sixteenth Report	The Committee's Opinion on proposals for European financial supervision	HC 1088

Session 2007–08

First Report	The 2007 Comprehensive Spending Review	HC 55
Second Report	The 2007 Pre-Budget Report	HC 54
Third Report	The Work of the Committee in 2007	HC 230
Fourth Report	Climate change and the Stern Review: the implications for Treasury policy	HC 231
Fifth Report	The run on the Rock	HC 56
Sixth Report	Financial Stability and Transparency	HC 371
Seventh Report	Administration and expenditure of the Chancellor's departments, 2006–07	HC 57
Eighth Report	Re-appointment of Dr Andrew Sentance to the Monetary Policy Committee	HC 454
Ninth Report	The 2008 Budget	HC 430
Tenth Report	Re-appointment of Mervyn King as the Governor of the Bank of England	HC 524
Eleventh Report	Counting the population	HC 183
Twelfth Report	Inherited Estates	HC 496
Thirteenth Report	Budget Measures and Low Income Households	HC 326
Fourteenth Report	Appointment of Lord Turner of Ecchinswell as Chairman of the Financial Services Authority	HC 916
Fifteenth Report	Appointment of Charlie Bean as Deputy Governor of the Bank of England	HC 917

Sixteenth Report	Appointment of Spencer Dale to the Monetary Policy Committee of the Bank of England	HC 1009
Seventeenth Report	Banking Reform	HC 1008

Session 2006–07

First Report	Financial inclusion: the roles of the Government and the FSA, and financial capability	HC 53
Second Report	The 2006 Pre-Budget Report	HC 115
Third Report	Work of the Committee in 2005–06	HC 191
Fourth Report	Are you covered? Travel insurance and its regulation	HC 50
Fifth Report	The 2007 Budget	HC 389
Sixth Report	The 2007 Comprehensive Spending Review: prospects and processes	HC 279
Seventh Report	The Monetary Policy of the Bank of England: re-appointment hearing for Ms Kate Barker and Mr Charlie Bean	HC 569
Eighth Report	Progress on the efficiency programme in the Chancellor's department	HC 483
Ninth Report	Appointment of the Chair of the Statistics Board	HC 934
Tenth Report	Private equity	HC 567
Eleventh Report	Unclaimed assets within the financial system	HC 533
Twelfth Report	The Monetary Policy Committee of the Bank of England: ten years on	HC 299
Thirteenth Report	Financial inclusion follow-up: saving for all and shorter term saving products	HC 504
Fourteenth Report	Globalisation: prospects and policy responses	HC 90

Session 2005–06

First Report	The Monetary Policy Committee of the Bank of England: appointment hearings	HC 525
Second Report	The 2005 Pre-Budget Report	HC 739

Third Report	The Monetary Policy Committee of the Bank of England: appointment hearing for Sir John Gieve	HC 861
Fourth Report	The 2006 Budget	HC 994
Fifth Report	The design of a National Pension Savings Scheme and the role of financial services regulation	HC 1074
Sixth Report	The administration of tax credits	HC 811
Seventh Report	European financial services regulation	HC 778
Eighth Report	Bank of England Monetary Policy Committee: appointment hearing for Professor David Blanchflower	HC 1121
Ninth Report	Globalisation: the role of the IMF	HC 875
Tenth Report	Independence for statistics	HC 1111
Eleventh Report	The Monetary Policy Committee of the Bank of England: appointment hearings for Professor Tim Besley and Dr Andrew Sentance	HC 1595
Twelfth Report	Financial inclusion: credit, savings, advice and insurance	HC 848
Thirteenth Report	“Banking the unbanked”: banking services, the Post Office Card Account, and financial inclusion	HC 1717
