HOUSE OF LORDS

Economic Affairs Committee

The House of Lords is an essential part of the UK Parliament. Its committees investigate public policy, proposed laws and government activity. The Economic Affairs Committee's remit is 'to consider economic affairs.'

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Background and role

Why it was set up

The House set up a committee in 1998 to scrutinise the work of the then new Monetary Policy Committee (MPC) of the Bank of England. The remit was broadened and it became the House's Economic Affairs Committee so it could also investigate other economic issues.

What it does

- Investigates current economic issues.
- Reviews the performance and behaviour of the economy and regularly meets the Chancellor and Bank of England and Treasury officials.
- May set up a sub-committee each year to look at some parts of the Finance Bill.
- Reports to the House of Lords and makes recommendations for government action.

How it does its work

The committee's main activity is inquiring into chosen economic topics of public interest. The whole process usually takes about eight months. The government replies within two months to each of the committee's reports. There is then a debate on each topic in the House of Lords.

Apart from inquiries, the committee holds public meetings on specific topics of interest, including regular sessions when it questions the Chancellor of the Exchequer and the Governor of the Bank of England about the outlook for the economy.

'[The House of Lords] economic affairs committee, which treads fearlessly in controversial areas, is a bright spot in our political darkness.'

Economist John Kay, writing in the Financial Times

Membership

The committee benefits from the professional experience of its members. It includes business leaders, economists and former Chancellors of the Exchequer.

Members

Lord Hollick (chairman)
Businessman, former government adviser and founder of IPPR

Baroness Bowles of Berkhamsted
Former MEP and chair of European Parliament Committee on Economic and Monetary Affairs

Lord Burns
Former head of the Treasury and chairman of Santander

Lord Darling of Roulanish
Former Chancellor of the Exchequer

Lord Forsyth of Drumlean
Former Secretary of State for Scotland

Lord Kerr of Kinlochard
Former head of the Foreign Office and UK ambassador to the USA

Lord Lamont of Lerwick
Former Chancellor of the Exchequer

Lord Layard
Economist and academic

Lord Livermore
Former government adviser

Lord Sharkey
Governor, Institute for Government

Lord Tugendhat
Businessman and former European Commissioner

Lord Turnbull
Former head of the Treasury and UK civil service

Baroness Wheatcroft
Journalist and former editor in chief, Wall Street Journal Europe

Investigations and reports

Building more homes

The committee investigated the housing market and the housing policy of recent governments. Its July 2016 report criticised the government's housing policy for setting a new homes target which will fail to meet demand or moderate the rate of house price increases and restricting local authorities' access to funding to build more social housing. It also said the government's focus on home ownership neglects renters and its frequent changes to house buying tax rules and subsidies, reductions in social rents and extension of the Right to Buy reduce the supply of low cost rental accommodation.

The report pointed out that large housebuilding companies restrict the volume of new homes they build to maximise their profit margins and could not be relied upon to build the homes needed. The committee recommended the government:

- allow local authorities to charge developers council tax on site when new builds are delayed
- lift its target by 50% to build 300,000 homes each year to tackle the housing crisis
- free up local authorities and housing associations to build more homes for rent and for sale
- take steps to build on surplus public land, with a focus on supplying low cost homes.

See all Economic Affairs Committee reports at www.parliament.uk/hlcommittees

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Implications of financial devolution to Scotland

Before the main debate in the Lords on the key areas of the Scotland Bill in November 2015, the committee recommended that it did not go on to the next stage for its detailed check until the underlying financial arrangement between the UK and Scottish governments – the fiscal framework – was agreed and published.

Full details given to Parliament

The committee's report stated that the fiscal framework was central to future financial devolution arrangements and the Scotland Bill had the potential to fundamentally change the financial structure of the UK. It argued that Parliament should not be expected to check the bill without the financial details that would underpin financial devolution.

Set out borrowing powers

The report identified key issues the fiscal framework should clarify: it said markets wouldn't believe the 'no bail out' rule, so simple and clear borrowing rules including an agreement on a maximum ceiling on Scottish government debt would be needed.

Impact of income tax arrangements

It also argued for a proper look at the impact of devolving income tax revenue to Scotland. It said this arrangement was:

- being put in place too quickly
- unprecedented internationally
- risked undermining the relationship between Scottish tax payers and the UK government and Parliament.

Modernising the funding formula

The committee said the current funding system for devolved grants – the Barnett Formula – was not a sustainable way to calculate funding, particularly with the devolution of tax powers. It called for a needs based funding formula, reflecting the additional needs of Scotland, Wales and Northern Ireland.

Check on funding arrangements

The committee called for increased and joined-up scrutiny of the funding of devolved governments by the Office of Budget Responsibility, and the Westminster and devolved parliaments.

The government re-arranged the timetable for the Scotland Bill to be considered and published the fiscal framework before the House of Lords to completed its check.

The economics of High Speed 2

The government's main objectives for HS2 are to increase railway capacity and rebalance the economy. The committee's March 2015 report argued that it had not yet made a convincing case for either.

Capacity

The committee found that long-distance trains to and from Euston were on average 43 per cent full. Overcrowding was mainly a problem on Friday evenings and weekends.

The committee argued that cheaper options to fix overcrowding had not been properly reviewed.

Rebalancing the UK economy

The committee heard evidence from other countries, such as France, that showed capital cities were often the biggest beneficiaries of high speed rail.

The committee found that there was a strong case for improvements to the trans-Pennine links or building the northern legs of HS2 first, as both could be better ways to rebalance the economy.

Reducing cost

The report stated that the estimated £31.5 billion net public subsidy for HS2 did not tally with the government's objective to make rail less dependent on the public purse.

It highlighted possible ways to reduce cost, including:

- running trains at 200 mph instead of 250 mph
- terminating the line at Old Oak Common, to avoid the cost of tunneling work into Euston
- learning lessons from the construction of high speed lines in France where the cost of building railway lines has been much lower.

The committee concluded that legislation to start the first phase of HS2 should not be agreed until the questions raised in the report were answered by the government.

Find out more

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