

My Interventions on the Finance Bill

John Redwood (Wokingham) (Con):

I have declared my business interests in the Register of Members' Financial Interests.

I rise to support the Government's new clause 5. I think it is good that they are considering what more they can do to promote investment in the United Kingdom's generating capacity. We import far too much power already, especially when the sun does not shine and the wind does not blow, and on the basis of the Government's ambitious forecasts and targets for much more of our energy to be delivered by electricity, I think that the position will get a lot worse quite quickly. Anything that the Government can do to encourage that additional investment in generating plant will be very welcome.

We will, of course, need a similar positive approach to grid and cable, because the more we electrify, the more we will need to convey that power from the rather remote locations where much of it comes from to the parts of the country that will need it. So my only worry about new clause 5 is that I am not sure it goes far enough. I think it is helpful in this limited number of cases, but I trust that the Chancellor, when it comes to the Budget—quite soon, on 6 March—will consider that the new clause is just a stepping stone and that we need to review again the very large tax impositions on energy of all kinds in this country. We now have double corporation tax in many cases and a range of windfall taxes that are often not really windfall taxes because they do not come off when the prices go down, although they are put on when the prices are going up.

That whole area needs considerable review, because we need to take seriously the fact that we are short of energy overall. We are short of electricity generating capacity and short of the means to route power from generation to use, and it would be an important stimulus for the British economy if we produced more of our own energy and generated more of our own electricity, and if we were thinking about having a surplus to export again instead of all too often being cruelly reliant upon imports of liquid natural gas and electricity, particularly from the continent.

I would also like briefly to refer to new clauses 4 and 6. They are wide-ranging new clauses that invite the Government to make assessments or reviews of features of this legislation, but they also wish to broaden it out to get the Government to review the impact of their general fiscal strategy on equalities, on investment, on the state of the corporate sector and on inequalities in our society. I am quite sure that the Government will be reviewing all those things as a matter of course, as this is often a continuous process. Indeed, many of the items covered in this request for special review are already reported on and form part of the normal process of policy preparation, and rightly so. If the Minister were to tell me that he would be grateful if I did not vote for these new clauses, I would have no problem with that—I am not sure that it would help to embody them in the

legislation anyway; I think it would be a bit of an abuse of the legislation—but the Government need to respond to the general thirst for knowledge that these new clauses represent, and to understand that there are some serious issues here that need to be returned to. I trust that the Chancellor will return to them at the Budget.

Looking at the fiscal impact that these new clauses cover, I trust that in the preparation of the Budget we will have analysis in the Treasury of these particular measures, which are still going through from the last time, but I also hope that the Government will review the extraordinary losses of the Bank of England—I think that they have already run up to £34 billion in the current financial year. These are losses that the Treasury, and therefore the taxpayer, have to pay as they are incurred, and that is completely unacceptable. It imposes strains on the public accounts and on the Treasury at a time when we really do not need them and when we need that money for other purposes.

There are two simple measures that the Bank could take to stem the magnitude of those losses. First, it should not be selling bonds at a big loss in the market. The European Central Bank is not doing this, although it has a similar problem with a portfolio of very expensively acquired bonds. There is also the issue of the running losses on these holdings where the Bank of England is paying the full, much enhanced, short-term interest rate following its increases in it. This now greatly exceeds the revenue on the bonds because the Bank paid far too much for the bonds and there is a very low rate of interest on them. Those running losses are a problem. I think the Bank should look at what the European Central Bank is doing, in paying different interest rates on reserves held under this system so that it does not have such a large running loss.

Richard Fuller:

Can my right hon. Friend tell me if I have got this right? In the commentary ahead of the Budget, we talk about wiggle room and the Office for Budget Responsibility forecast and about £5 billion or £10 billion here and there, but I think I heard him say that this matter was completely out of the control of the those on the Treasury Bench and this Parliament; that the Governor of the Bank of England could unilaterally decide to crystallise losses on whichever extent of bonds he wished to, and then put that loss into the calculations of the Chancellor of the day; and that the Chancellor would then have to work around that in order to work out what the fiscal expenditure, public expenditure and taxation would be. Is that actually the case? It sounds mightily undemocratic to me.

John Redwood:

That is an interesting point of debate, but my understanding of the constitutional position is that it is not as bad as my hon. Friend is suggesting because all the bonds were acquired with the express permission of the then Chancellor of the Exchequer. The Bank of England's website says that the bond portfolio is held on behalf of the Treasury. Successive Chancellors of the Exchequer—beginning with the Labour Chancellor who first undertook

quantitative easing and carried on by successive Conservative Chancellors—all signed an agreement with the Bank to say that they would indemnify against loss. So, given that the Government and this Parliament empowered the purchase of the bonds and now take responsibility for any losses on them, it seems perfectly reasonable for there to be a proper conversation about whether we want to take the losses.

I see nothing wrong with us here challenging the idea that, uniquely among the big quantitative easing programmes, it is the Bank of England that not only insists on selling the bonds at big losses but gets reimbursed. The ECB does not sell them in the market at big losses. The Federal Reserve Board sells them in the market at big losses but gets no money back; it simply puts on its balance sheet that it has lost a lot of money and takes the view that, as it is a central bank, it does not really matter if it loses a lot of money, because central banks create money and it is therefore not like a normal commercial business. So I hope that Ministers will look at this as part of the general assessment that is being invited by these new clauses.

I hope also that Ministers will look at the expenditure items in the overall accounts covered by new clause 4 on the public finances, because there has been a marked decline in public sector productivity in the years 2020 to 2023. It was quite without precedent in my experience of following public finances over the years, and this very sharp decline represents at least a £30 billion loss to our system, in that it now costs at least £30 billion a year more to run the group of public services covered by these figures than it did before the collapse in productivity. On top of that, there has also been the need for much bigger sums to cover inflation. This is not the inflation figure; this is the real loss figure from the productivity.

We are all sympathetic to the difficulties that lockdown and the transition out of lockdown caused, and there was bound to be disruption. Our public services were badly affected by that, as children could not go to school and hospitals were disrupted by covid, but that is now some time behind us and it seems perplexing that we cannot get those public services back to 2019 levels of productivity. I hear comment that maybe artificial intelligence will do it and that there needs to be a big investment in computers. Well, that should be on top. All that I am saying to the Government is that we can surely get back to 2019 productivity levels using techniques from 2019, which was very much pre-artificial intelligence and before the latest round of computerisation. Again, this is a big area that needs to be looked at as part of any review of the public finances.

The third area, which is also very large and very much in the news today, is that even more people in our country do not feel they can go back to work and that they need help at home because they are no longer able to work. The Government are working on some important programmes, through the Department for Work and Pensions, to show people that through a combination of part-time flexible working and working at home with proper support and training, and maybe with additional financial support to help them, they could go back to work for part of the time and make a contribution. We desperately need them, and I think their lives would be more rewarding. They would also be better off because we now have a benefits system that means it is always better to

work. This should be a cross-party matter, because it is a problem that our nation as a whole faces. We can enrich those people's lives, help to reduce the burden on the taxpayer and improve the net income of those concerned. Again, this involves many billions.

My point in making these three simple points apparent to the House is that there are very large sums of money indeed involved in bond losses and productivity, which we need to review because that would help in the formation of the next Budget. It would create more headroom, both for the tax cuts that we need if we are to promote growth, and for improved public service provision in the areas where the shoe is still pinching. I trust that will be part of any review that might emerge from these new clauses, or from the spirit of these new clauses. I hope that my right hon. Friend the Chancellor is thinking about this, as we will have a Budget hard on the heels of this Finance Bill, which came out of the autumn statement. In these conditions of recovery, and given the need for faster growth, I welcome having more than one Budget a year, and the fact that we may have three fiscal events quite close to each other, if all goes well. They must promote growth and reduce taxes, and this is a good start.

I welcome new clause 5, but can we please have more? Can we please look at the headroom that I think I have helped to identify?