[We need a new way of forming budgets Conservative Home article]

The two main parties are locked in a budget battle.They are dug into OBR provided trenches and fighting over the odd couple of billion here or there for a Non Dom tax and a Vat on private school fees tax.

£2 bn is under 0.1% of our economy and around 0.2% of revenues. Even when they get so far as to argue about a £10 bn tax cut or spending increase they are still only talking about a sum under 0.5% of GDP. More to the point they are arguing over small rounding errors in the error strewn OBR forecasts of the deficit. The OBR regularly has to revise its deficit forecasts down by several tens of billions.

I understand the need for parties to behave in a fiscally responsible way. They have to live down the huge spending rises necessitated by excessive lock downs as the preferred way of tackling covid. Labour was the bigger offender, always demanding the economy produced less and was subsidised more,always wanting longer and harder lockdown, encouraging huge bills taxpayers could not afford. I do not understand why people think following the OBR will give us fiscal prudence, as they cheered on the covid excesses and now favour an economic austerity that will stifle growth and so depress revenues.

However, in resigned acceptance of the cross party and establishment’s wrong approach to necessary prudence I have set out before how there could be substantial cuts to public spending without damaging core services like the NHS and education. Within misleading OBR rules government could find plenty of headroom to boost growth with tax cuts and or cash for investment for those who prefer that public sector led route.

We start with my old friend the heavily loss making Bank of England. They have lurched from creating inflation by printing too much money and keeping rates too low, to causing a shallow recession by destroying too much money and by driving bond interest rates too high. They have lost us £50 bn since 2022, all reimbursed by taxpayers. Stop the bond sales and follow ECB policy over bank reserves to make a big reduction in the losses and taxpayer subsidies.

Abolish the expensive and useless UK Government Investments . Get Ministers to supervise their departmental monitoring of the nationalised industries and state owned shareholdings that report to them. They already duplicate the UK Government Investments work. Put in management that can stop the huge losses at the Post Office and Network Rail. Dispose of holdings as with Nat West to bring in cash and cut risks. Sell other assets. Mutualise the Post Office. Achieve a substantial reduction in the £33 bn cash injection this year into a heavily loss making railway.

Get an accurate figure out of the Treasury/ OBR on early year capital costs of providing a low wage migrant with a new social home, NHS capacity, school places for children and the rest. Identify the top up benefits , tax credits and public service running costs to support a low paid new arrival. .Increase current targets to cut legal migration by 300,000 and reduce future spending accordingly.

Remove the £20 bn carbon capture spend from future budgets. There is no need for this transitional spend which just makes existing electricity dearer. Press on with cheaper functioning low carbon alternatives. The UK may have good carbon storage facilities so make these available for neighbouring countries producing too much CO 2 financed as a future profit making private sector opportunity.

Speed up policies to get more of the millions of working age not in work back into the workforce. The DWS has some good ideas to reduce the numbers of working age people not in jobs by suitable support, more home working and realistic pay.

Build on the announcement in the budget of a major public sector productivity drive. The 6% collapse in public service productivity since covid can be recaptured before embarking on an ambitious spend to save AI led programme of work. The immediate task should be to impose a recruitment ban on civil service and public sector admin posts to recover 2019 numbers and levels of productivity.

These measures offer scope for up to £100 bn of savings through recaptured productivity, lower losses by state concerns, more private green investment and fewer low wage migrants. These things warrant more debate. The odd £2 bn is an OBR fiction that will be washed away in their forecasting errors.

Expanding the grid

National Grid recognises that it needs a major expansion of grid capacity to carry all the extra electrical power that will be needed as people switch heating and transport to electrical methods. They also see they need more capacity to handle more intermittent renewable power on the system, as they seek to make more connections available to the mushrooming solar and windfarms seeking access and long distance transport for the power they hope to generate.

National Grid is talking about an increase in electricity volume of 50% by 2035. This is well short of what would be needed for net zero. We will need increased power to handle a growing population, as well as increased power per head when people switch more of their activities to electrical means. They talk of an investment of a large £54 bn. which may well be an understatement. They need to put in subsea cables to offshore wind to get the power to land, and pylon mounted cables to route the renewable power long distances from generation to use. There will also need to be a complementary investment in local power cables street by street and house by house as more people want supplies beyond the capacity of their current installations.

This poses a number of planning and environmental issues. Many people object to pylons strutting across the valleys and landscapes of England, and few want to live under powerful electrical lines where they need to cross urban areas. There will be a lot of pressure to put more of this underground which greatly increases the costs. All this extra capital will need rewarding, so electricity prices will need to reflect the need for so much money to be committed to expanding the grid as well as all the extra cost of additional and different generating systems. More renewables also means more back up generation which is costly to provide, or means the construction of expensive large battery farms, pump storage systems or conversion into hydrogen and synthetic fuels using the renewable power.

Given planning delays and the long enquiries used by those against all this is going to take many years to accomplish. What are your thoughts on the feasibility and practicality of this approach?

Municipal roads are letting us down

I have watched with concern as Council highways departments have spent much money and time making our roads worse. Motorists and business drivers have to pay huge sums in taxation. There is the taxation on a new vehicle, road fund duty to take a vehicle on the roads, there is the 55% of the fuel price that goes in taxes to the state as fuel duty and VAT, and the taxes on insuring and maintaining the vehicle. The original idea that motoring taxes pay for the roads has long since been supplanted by spending much of the traveller and transporter taxes on anything but roads.

Local authorities do not seem to see the roads as a necessary service to taxpayers where they should constantly consider the ease of safe use of the highways by the taxpayers. Most people need to use roads for good purposes. Van drivers need to get to their next client. Delivery drivers need to get food to the shops and medicines to the surgeries and hospitals. Parents need to drive young children to school in safety. Emergency vehicles need to get to accidents and disasters. Many workers need a car or van to get to their place of employment because of their hours and or the location of their work and home. Few people live in walking distance of a station with an employer in walking range of another station down the line. Few people can do the weekly shop from a bicycle or bus. Buses and cycles too need roadspace.

Years ago when I was a member of a County Council I found then there was a wish to restrict use of the roads by some officers rather than a wish to provide additional capacity and safer freer flowing junctions. Traffic lights were often preferred to roundabouts. More recently Council after Council has set about narrowing roads, removing lanes, creating artificial barriers and bollards to restrict flow, cutting traffic light green phases on busy roads, changing kerbs and painted lines, creating more special zones. They often take out parking spaces and raise the charges, leading to more vehicles circulating looking in vain for a parking place. Many streetscapes now are a slalom course festooned with many menacing signs. Large sums are spent on aggressive kerbs,with b fancy blockwork for carriageways.

All this undermines business productivity, limiting the number of calls someone can fit in. It adds greatly to business costs and therefore to prices of services as the self employed and businesses need to recoup the increased cost of transport and parking. It adds to the stress on drivers and can make roads and junctions less safe, as with the country roads where now one way is occasionally blanked out by bollards forcing vehicles to use the wrong wide of the road to progress. It gives many Councils a bad name and leads the public to be more hostile to all the taxes they have to pay. A council only provides two services to every household, the roads and the refuse collection. If both are damaged and made worse people form a bad impression of the Council as a whole.

Today we see too many roads full of unrepaired potholes, and too many streets narrowed or under road works designed by the Council, against the driver. Too much money is spent on making roads less available and too little on better roads away from pedestrians and homes to allow people and businesses to get about in a sensible way. Coming into work yesterday my optimistic sat nav once again underestimated the time it would take by 17 minutes, not allowing for the all the delays created by Councils through roadworks that many of the public do not want performed.

Reading FC

I have been saddened to read of the financial difficulties of Reading FC and to see the understandable impatience of fans with the owner and management. I have not made any public statements as government has no powers to intervene in these matters and it would be wrong to suggest government can find a solution to the difficulties of paying the wages and tax bills and creating more harmony between owner and fans. Reading FC is regulated by the FA.

The Club owner needs to understand that the financial value of the club depends on a strong and loyal fan base willing to buy plenty of tickets for matches and club merchandise. A team is more likely to play well and boost fan numbers if there is no financial problem hanging over them. If an owner cannot get the fans on board and motivate players it is usually best for a new owner to take over. The goodwill and support of the fans is crucial.

A few have written to me hoping regulation could put things right. The government has consulted on introducing a new independent regulator with powers to intervene over issues like financing a club and its ownership. It has promised legislation in due course following more detailed discussions with clubs and the authorities. It will need to balance club independence allowing them to make often expensive decisions that offer the prospect of better results, with Regulator worries about overspending on players, management and facilities and over the stability of income. The legislation is not imminent and is unlikely to be retrospective, so it cannot deal with the urgent issues currently facing Reading FC.

The Bank of England deliberately hiked mortgage rates

On 21 st September 2022 on the eve of Kwarteng/Truss budget the Bank announced a 0.5% hike in bank rate. This was designed to push up interest rates. Just to make sure it would mean higher mortgage rates on the same day they announced they would over the ensuing year sell £80 billion of bonds at a loss which they had bought at very elevated prices in the previous year. Selling bonds pushes their price down which automatically pushes up interest rates.

The bond market fell in the days before the mini budget because US bonds were falling and interest rates rising , and then because the Bank so clearly signalled it wanted rates higher. This was a bad background for the Kwarteng announcements.

On the following Monday it became clear in the market that a number of pension funds had bought too many government bonds through levered funds. As bond prices fell they had to put up more money for bonds they owned but had not fully paid for. They did not have cash to pay for their losses so they had to sell bonds to raise money, on top of the planned massive sales by the Bank. No wonder the bond market tanked.

The Bank of England responsible for the overall solvency of the system at last realised their dreadful error of selling so many bonds when pension funds were so weak. They suspended the sales and agreed to buy some. The market surged upwards, Pension funds had space to reduce their heavily overcommitted positions and the crisis past.Between 28 September and 14 October the Bank bought £19.3 bn of bonds to correct its errors.

These were the special UK factors of autumn 2022 that temporarily increased volatility. The UK trend was the same as the US and EU. The higher mortgage rates that resulted were caused by Bank of England policy.Todays higher rates have nothing to do with the long cancelled Truss budget.