Too much borrowing

The November borrowing figures make grim reading. The OBR was forecasting borrowing of £99 bn this year in the March budget. They are now forecasting £177bn. By November we had already borrowed more than the March forecast for the entire year at £105 bn.

The main reason for the big overrun is debt interest. I have commented before on how they conflate capital items, the need in due course to repay indexed debt with more devalued pounds, and the true revenue costs, the actual interest charges. Because they did not see all the inflation coming they have had to revise up the forecast in the light of the big increase in indexed debt repayment costs. There is also the impact of the higher Bank of England rate increases which were the predictable result of the unforeseen inflation.

The second reason is the increased spending on benefits and special subsidies for people and businesses to handle high energy costs. The government has made this higher by offering handouts to all people whatever their income or housing circumstances. The Chancellor has said he will offer a more targeted and therefore cheaper proposal from next April.

Inflation will come down next year given the big real income squeeze and the dramatic shift from too loose to very tight money by the Bank of England. The Bank should not be increasing interest rates next year. If only they had followed advice and got them higher sooner. I urged them to put them higher at last rate rise decisions.

The government needs to take more of an interest in managing the interest charges part of public spending as it has been wildly out of control. It needs a more affordable way of helping people and business with energy bills. If only it would get on with allowing more oil and gas production in the UK it would get a revenue boost from high oil and gas taxes, and help to ease the squeeze on supplies.

Total spending was up a massive 19.5% in November on the previous year. These two main problems account for a lot of that. The government also needs to take up some more of the ideas for controlling and reducing spending outside the crucial public service areas of its priorities that have been set out here. It also needs to work with public sector managers on raising productivity more widely. We need many more something for something public sector pay deals.