My Speech in the Treasury Estimates Motion

Rt Hon Sir John Redwood MP (Wokingham) (Con): I am glad the Minister agreed that the £60 billion for the energy scheme will of course adjust according to market prices, and let us hope that the current downward trend in some of the gas prices is continued. We need a mild winter and other bits of good fortune, otherwise we could be back facing even bigger bills. I am sure we are all appreciative of the fact that the new Chancellor wishes to review the scheme after March, because this is a very expensive scheme and there may be better ways of doing it to contain the expenditure.

I hope, for example, that consideration will be given, where price controls are still being offered to consumers, to limiting the amount of subsidised fuel any household can buy to a reasonable amount for a normal household, so that those who are in richer households and making much bigger demands on the fuel system would pay for the additional fuel they need—if they are lucky enough to have a heated swimming pool, or whatever it is—and would pay the full price on the extra fuel that such luxuries require. That is offered as a hopeful idea of how one can start to grapple with the very high costs of this scheme without in any way undermining the crucial guarantee to all those who are struggling with their bills already and want this kind of security.

I also have some concerns about the Bank of England estimate. It is quite true that, from Chancellor Darling onwards, quantitative easing decisions have always been jointly taken by Chancellors of the Exchequer and Governors of the Bank of England. One of the main reasons why they have always been joint decisions is that the Bank of England always understandably insisted on a complete capital guarantee against losses on the bonds, because it was envisaging buying so many bonds that they became very big for the Bank of England balance sheet, and it wanted to be reassured that the Treasury and taxpayers stood behind the system in case of losses.

To the extent that this supplementary estimate is to make good losses on bonds that the Bank of England is selling, I have these questions. First, why does the Bank of England think it must sell bonds at this juncture, when the United Kingdom bond market, the American bond market and lots of other bond markets around the world are particularly depressed by the need for a counter-inflation strategy based on high interest rates? We are crystalising a loss that, as I understand it, the Treasury then has to pay for, whereas if we have an unrealised loss, no payments are of course needed until eventual redemption, and very often the redemption value of the bond is considerably higher than today's price in the market. I cannot quite understand why the Bank needs to sell these bonds now, and as this has always been a joint policy in which Chancellors have been very heavily involved and have heard Bank of England advice—Chancellors had to sign it off because the taxpayer is at risk, not the Bank of England itself—I hope this will be carefully re-examined.

To those who say that we do need to be selling bonds as well as putting up interest rates to curb inflation, I would say they should be careful not to overdo it. If the Bank really does feel it has to tighten even more, it can do so by a further rise in interest rates; it does not have to do so by selling bonds. Very directly, as we see tonight, the sale of these bonds can realise a loss and then can trigger a cash requirement on taxpayers and the Treasury at an extremely bad time for such a cash requirement. I think all of us have much better priorities than paying for bonds that are underwater, when we see the current state of the economy and the need to route more money to individuals and companies in the right ways, to see off a longer and deeper downturn and provide some balance in the public accounts. I ask the Minister and Chancellor to think again, and to talk again to the Governor of the Bank of England about their joint responsibility. They must ask whether this is really the right time to be crystalising losses, resulting in unspecified amounts of money that will have to be paid.

Leadership, a retrospect

The consultation of members of the Wokingham Conservative Association put Boris Johnson in first place, a little ahead of Rishi Sunak. Penny Mordaunt came a poor third. Boris has many strong supporters whilst more Rishi enthusiasts support their man because he is not Boris.

Amongst constituents there was also much more interest in Boris and Rishi than Penny. Both men attracted strong support and evoked strong antipathy from others. Amongst constituents a few more favoured Rishi, but this seems to be particularly true of people who do not express Conservative values and outlooks and are unlikely to given the attitudes they do express.

Boris and Penny answered my questions about the economic issues but Rishi did not. I look forward to an early statement from him on how he will fight recession whilst continuing the work the Bank and Treasury have done to bring inflation down.

As you now know MPs did not get a vote between the candidates, nor will members. All now rests on Rishi making good judgements of how to pilot the economy and how to build support with the party and the public for what he wants to do.

Ways to cut spending

The new Chancellor says he is looking for ways to cut spending to bring the borrowing down. I have sent him a list of ideas familiar to readers of this blog where they have been published before.

Today there are some easy ways to make an impact.

1 Reverse his decision with the Bank of England to sell some of the bonds they own at a loss. Not selling would save in excess of £10 bn in the year ahead.

2 Work with DWP to improve incentives and support to help 500,000 people on benefits to get jobs. Saving around £5bn from less benefit and more tax.

3.implement Braverman plan to stop small boats illegal migration. Save £3bn in annual additional hotel costs.

4. Cancel HS2 and resell land acquired. Save many billions starting this year.

5. Adjust energy package to limit subsidised energy for households to the average usage, requiring those who use more to pay full price for the extra.

6 Substitute more UK gas and oil for imports by pressing on with extra N Sea production. This will cut the import bill and boost UK tax revenues substantially.

The Bank wants to lose money on bonds

The Bank of England announced again this week its plans to sell some of the bonds it bought at much higher prices. Lower bond prices mean higher interest rates. When it last announced this it then was forced by the market into wanting rates lower so it flip flopped and bought more. Now it wants rates even higher so it plans to sell them again. I think they are wrong to be selling at current levels. They should wait until they can lower rates again when the bonds will be much more valuable. Longer rates are quite high enough to curb inflation, as most forecasters see it coming down next year after a probable peak next month.

Mr Sunak as Chancellor approved £450bn of bond buying and underwrote all the purchases. When the Bank does sell and takes a loss that loss has to be paid by the Treasury. All Chancellors from Darling onwards agreed to bond buying and agreed to pay any losses. As the decision to buy was a joint one between the Chancellor of the day and the Governor, and as the Treasury pays the

losses, the Chancellor should tell the Governor he does not have the money to pay for taking losses now and the bonds should be held for better times. How much is the Bank planning to want the Treasury to find to cover losses over the next twelve months? Bloomberg suggests over £11bn.

This week Mr Hunt signed off a Bank scheme to lend money to energy companies if they needed it. Once again the taxpayer through the Treasury is guaranteeing the Bank against loss. I think the government should be more careful about all these guarantees.

As Mr Hunt tells us he needs spending cuts to reduce the deficit he should start with this one. He must tell The Bank he will not pay for losses on bonds they do not need to sell. That will save us billions. Sometimes saving money can be popular and easy.

Consultation on leadership

I continue to consult on who my constituents would like to see as the next PM. A good number have written into my email and some have expressed views here. The Wokingham Conservative Association has also consulted and is letting me know the balance of opinion amongst members who of course have a vote in any final ballot assuming there are two candidates with more than 100 MPs backing them. I am also seeking the views of the candidates on various matters of importance.