

An independent Central Bank

I read various bizarre articles defending the Bank of England's independence against an imaginary threat from Liz Truss. I only know what she has said in public, where she issued no threat to Bank independence. She said she favoured a review of the Bank's mandate to see if it met best standards in the world of independent Central Banks, and to find out what can be learned from the Bank's failure to forecast or prevent the high inflation we now suffer. The inference was she wanted a tougher Bank, not a Bank that printed more money and artificially depressed interest rates to suit the government.

The articles are bizarre because they always ignore the radical change to Bank policy launched by Mr Brown and Mr Darling and continued by all subsequent PMs and Chancellors. They agreed with the Bank a policy of creating more money and buying up state debt to keep rates down. Right from their start of this policy it has been a dual control policy, with the Bank needing the consent of the Chancellor and requiring a full Treasury guarantee or underwriting of the transactions. As this policy has dominated money policy between 2008 and 2021 we cannot say the Bank was then genuinely independent. It does have and did have throughout the sole power to fix the official interest rate. No-one in this debate is recommending taking that power away.

Going forward I would like to see the Bank introduce quantity of money and circulation of money as important information to monitor and take into account when settling interest rates. It has proved difficult to control inflation whilst allowing a large increase in the money supply triggered by substantial Quantitative easing. The Bank may not want to go back to strict money targets that were used in the early 1980s to end the last big inflation, but monitoring money and showing an awareness of its importance might help them make better calls. The current money figures show they have now reined things in considerably. They do not need to overdo the tightening from here to make the opposite error to being too loose as they were in the previous two years. The IMF does usually call for monetary discipline when it puts in a recovery programme for a state that needs financial help.

The ONS makes life more difficult

When Rishi Sunak announced a £400 payment to every electricity bill payer I was concerned about that way of offering some relief. I would have preferred tax cuts on energy which would directly cut the CPI/RPI measurements of inflation. The government thought these cash payments might qualify as reductions in energy bills and help the CPI figure. Instead after

considerable delay the ONS has decided to call them “current transfers” to households that do not cut the price of power.

They rightly go on to remind us they have the legal power to make a judgement about such matters, They say “Decisions on whether to include rebates, subsidies and discounts in our consumer prices inflation statistics are taken on a case by case basis”. As these £400 payments cannot be withdrawn and spent on anything else but take the form of a cut in the electricity bills that need to be paid there is a perfectly good case to say this is a cut in the price of electricity for all users.

All this matters. Allowing the full bill cost to boost the CPI without allowing for the discount that is available means we face higher inflation with all the knock on effects. This decision will increase public spending and the deficit given the way some spending items are directly linked to the inflation index. It raises the repayment amount for indexed debt. The Treasury should have asked the electricity companies to put it on bills as a discount to the price of power, which is what it is. A sum equivalent is payable by the Treasury to the companies as a subsidy. This is another missed opportunity.

Why we need more gas

Many people argue that instead of producing more of our own gas to cover some of the energy shortfall we need to press boldly on with more windfarms. They argue that now wind energy is cheaper than current gas prices, so it makes economic sense as well as environmental.

If only it were that simple. Many have pointed out that the problem with wind energy is it stops when the wind does not blow. It does not matter how many windfarms with how much rated capacity you install if the wind does not blow. Wind turbines also cannot function in very high winds. But there is an obvious more practical problem for those who say the answer lies in a blowing wind. Most UK households this winter will heat their rooms and water using gas. Renewable electricity would be no use to them. Most industrial processes use gas rather than electricity. Most commercial premises are fuelled by gas.

Until most households, most factories and most offices have been through their own electric revolution we will need more gas as electricity cannot power it. The issue is do we produce the gas ourselves, with greater reliability and tax revenues flowing to the UK state, or do we import it with tax revenues and jobs flowing to the overseas provider? Is there going to be a hydrogen revolution, where it becomes commercial to use windpower to create large quantities of hydrogen which can be used to fire our boilers? If so that does not solve the problem for the next few years whilst this is planned and installed.

In all the grand green plans gas is down there as a transition fuel. In all the plans there is an acknowledgement that the world as whole will be using more oil and gas at the end of this decade than it did at the beginning. It will be more reliable, collect more tax revenue generate more jobs and vent less CO2 if we use our own rather than rely on imports.

Social care costs

I have told Wokingham Borough Council that I will as always support sensible proposals for more financial support from central government to provide good local services. In particular I am conscious more money can be helpful in dealing with social care. I trust the Council will respond to the consultation on distributing extra funding for social care reform. Under these proposals the Council could receive up to an extra £2.77m in 2023-24 for social care to cover the costs of the extension of means tested support and including an extra £1.2m for its own administrative costs, if it opted for the choices in the consultation that maximised Wokingham's receipts. Even going for other options would still deliver the extra £1.2m for administration.

Consultation on electricity regulation

The UK government has recently published a consultation document on possible reform of the management and regulation of the UK electricity industry.

The UK fell under the EU system of control and regulation, which was progressively tightened and embodied in the 71 page 2019 Regulation. This Regulation wished to achieve two main aims, the integration of a Europe wide system of power provision and rapid progress to decarbonise the electricity used. The two aims were self reinforcing. The Regulation warned that as more power came from interruptible renewable sources there would be more need for interconnectors to allow the import and export of power across national boundaries to compensate for shortfalls in supply. The UK duly obliged even though we were in the process of exiting the EU, continuing its drive to rely more on interconnectors to the continent and very willing to add large extra volumes of wind energy to the system.

In line with other European countries the UK had developed twin market interventions to bring about the net zero progress. More low carbon power was attracted by offering long term contracts at guaranteed prices. In the early days of renewable power and for nuclear these were at premium prices to the

then market wholesale price. The investors putting in the new capacity agreed to pay back any money earned over the contract price were energy prices to rocket, whilst requiring a subsidy all the time the contract prices remained above the wholesale price. The grid operator also had to hold capacity auctions, offering money to owners of stand by plants that would work in periods of low wind or little solar to keep their capacity ready to run. As they hoped these plants were not going to run that often they needed to offer sufficient money to make it worthwhile maintaining , staffing and fuelling the plants ready to run. Gas plants ended up running a lot to keep the system going with more than half our electricity coming from gas on a typical light wind day.

The consultation document does not give a clear steer of what would be a better system to guarantee security of supply whilst also providing plenty of competitive pressure to keep prices under control. The original regulatory system set up by the UK in the 1980s before the EU took over was a simple one of generators bidding into the system their price offers. The grid manager always took the next cheapest offer when having to scale up the output, and dropped off the dearest when cutting supply. The system was sufficiently attractive for there to be spare capacity so we never ran out of power even on cold dark windless busy day. Most of the power came from coal and gas, with a useful contribution from nuclear.

The immediate issues are the way some providers of renewable power can receive the elevated gas based price despite having much lower costs, and the lack of margin in our capacity for when the wind does not blow and the sun does not shine. The UK has also to prepare for a reduction in output from nuclear this decade, which is planned to see the closure of all but one of the existing nuclear stations. What are your thoughts on the changes we need?