Managing the overseas aid budget

This year the government has said it will reduce the aid budget in line with the fall in GDP, as the promise on aid is based on spending 0.7% of GDP. As we do so it is important to be generous with grant money and direct assistance for famine relief and humanitarian help for those in crisis. Stopping aid to countries with space programmes would be a good start. Seeking better value for money and better targeted assistance would be a good idea.

As it adjusts the budget it should also make other changes. The UK wishes to help the poorest countries. It can offer a lot in areas like better water provision, health care and communications. In some cases what the developing country needs is a good technical partner with the ability to design and deliver the projects required, and equity investment to carry the risks. The aim should not be to offer massive projects based around debt with all kinds of future ties. If we combined grants and shares, we would then have some investment which would reward us in due course if successful, and bind us into the same interest as the developing country to make sure the project worked as planned.

Over the years we could build a sovereign help fund, and decide what to do with any payments from success. The important thing is the UK would not be trying to extract interest payments from schemes which were not working but there would be a market test of the wisdom of the investment. Grant aid can miscarry, encouraging projects that do not help as much as they should.

Of course all our humanitarian help, famine and poverty relief and medical interventions should be offered free to those in need.

Mountains of debt

As we count the cost of the response to the virus, it is time to sketch out what future plans for public spending might look like.

As one who thought the government had to spend whatever it took to combat the virus and to keep jobs and companies afloat once the government decided on a national lock down I am not in a panic about current levels of debt. All the time interest rates are kept so low this is affordable. It is a one off cost which can be repaid gradually in years ahead.

It has, however, to be a one off, with a substantial reduction in new borrowing next year and beyond as a result of the ending of the expensive special measures and the restoration of more normal levels of revenue and employment.

Over the next few days I want to explore how the government might bring its budget back into a better balance. So far interest rates have been kept low thanks to official action by the Bank of England. They have both lowered interest rates and bought large quantities of UK state debt up to keep its price high and the interest rates low as a result. Last month debt interest fell owing to lower inflation and the cost of index linked debt, despite the large increase in total borrowings. Again this is feasible for a period dealing with a one off collapse in demand brought on by regulations to stop activity for health reasons. It is not a policy for the future that can be sustained indefinitely, as it would then lead to higher inflation and the need for higher interest rates.

One thing the authorities can do today is to borrow longer. The UK debt management team have done a better job than many countries, so the average maturity of our debt is a lot longer than continental countries on average. Given how low rates are, why not issue some debt with no repayment debt, and more ultra long debt at these tiny rates?

The best way to bring the deficit down and start to limit the debt is to get a good recovery underway. State debt is rarely repaid. It is usually rolled over or extended. As growth returns the aim must be to reduce the debt as a proportion of a growing economy. There are some easy and obvious reductions in spending that can be made which I will discuss again in future posts. Let’s start by ending EU contributions, which went up again in June.

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1 million charger points

Let us look in more detail at the example of a suitable Green Project as proposed by the EU. Creating a network of charger points is certainly an important idea to persuade more car buyers they would like an electric vehicle. It is range worry that puts lot of people off.

It will not be easy to carry this out. To have sufficient points in the densely populated area of the Franco German border lands with the Netherlands. Belgium and Luxembourg, for example, five countries will need to submit plans to the EU for funding for these charger centres. They will need to ensure they provide fast chargers. They also need to make sure they can accommodate all makes of electric car equally with the right cables and plugs. Payment systems need to be easy and not dependent on prior sign up or monthly payments.

The aim of 1 million sounds ambitious until you think about the realities of the vehicle stock in the EU. There are some 230 million passenger cars in the EU (x UK). Providing charger points for 1 million spread over such a vast area may not be that much. . There will of course be charging at homes and work places to take some of the strain. There are a large number of vans, smaller trucks and other vehicles as well to cater for.

The issue is should government be supplying these facilities? Should they be grant financed, when diesel and petrol stations are provided commercially? If they become government assets, what charging policy will be applied for the supply of electricity? Is the aim to generate a return on the capital invested?

Pay rises for nurses and teachers

Dear John

I am writing to you regarding today's announcement of the public sector pay awards for 2020-21.

Today, we are accepting the recommendations of the independent pay review bodies and announcing a significant, real terms pay increase between 2-3% for around 900,000 public sector workers across seven workforces, around 20% of total public sector workforce. For the majority, this is the third inflation busting pay rise in a row following lifting of the public sector pay cap at the end of 2017/18.

Our public sector workers deserve to be recognised for their hard work as it is their commitment and dedication that ensures our essential public services continue to be delivered to those that need it, even during challenging and uncertain times.

These awards cover the Armed Forces, Teachers, Police Officers, the National Crime Agency, Prison Officers, Doctors and Dentists, the judiciary, senior civil servants and senior military personnel. The Devolved Administrations are responsible for the salaries of public sector workers in line with devolved areas of responsibility, including Teachers and NHS workers.

More than one million NHS workers continue to benefit from the three-year Agenda for Change pay deal, under which the starting salary for a newly qualified nurse has increased by over 12% since 2017/18.

This deal delivers a real terms pay rise for all nurses this year, and averages 4.4% for those not already at the top of their pay scale. The Agenda for Change pay deal has also increased the lowest starting salary within the NHS by over 16%. The Government has also agreed a pay deal that provides junior doctors with a minimum 8.2% pay rise over four years. 2

Social care is rightly an area of intensive interest from Members. Pay for social care workers is set independently of central government and is outside the scope of Tuesday's announcement. The vast majority of care workers are employed by private sector providers who ultimately set their pay. Local Authorities work with care providers to determine a fair rate of pay based on local market conditions. In April this year, the Government increased the

National Living Wage by 6.2% to £8.72 an hour, benefiting an estimated 2.4 million people, including social care workers. We have also delivered a Budget this year that cut the cost of living for hard working people, for example by giving a typical employee around £104 next year by cutting National Insurance.

We are conscious that public sector pay awards must deliver value for money for the taxpayer. The coronavirus is having a very significant impact on the economy, labour market and the fiscal position. In May 2020, public sector pay was up by 3.7% on the year before, compared to a fall of 1.2% in the private sector. Public sector pay awards announced today will be significantly more than the average in the private sector, where the OBR's central scenario assumes a fall in average earnings. Therefore, for reasons of fairness, we must ensure that across this year and the spending review period, public sector pay levels retain parity with the private sector.

I enclose the table below setting out the breakdown of today's announcements. Individual Secretaries of State lead this process for their relevant workforces and will lay Written Ministerial Statements setting out further details of each award.

Best wishes,

RT HON STEVE BARCLAY MP

Workforce	Number	Agreed award
School Teachers	450,000	*3.1%*
Doctors & Dentists	69,000	*2.8%*
Police Officers	124,000	*2.5%*
National Crime Agency	4,800	*2.5%*
Armed Forces	194,000	*2%*
Prison Officers	29,000	*2.5%*
Judiciary	5,000	*2%*
Senior Civil Servants	5,000	*2%*
Senior Military	Minimal	*2%*

The EU delays its "rescue"plan

The so called Recovery and Resilience fund agreed after much wrangling on Monday night will do practically nothing to help EU economies recover from the pandemic policies. There is no pubic analysis of the damage done to large sectors of the EU economy by lockdown, no plan for aviation or hotels. It is a very important step on the road to full political union, establishing the important principles that the EU can borrow on the balance sheet of all the member states, and can transfer money from richer to poorer countries following such borrowing.

The grant and loan money in the fund totalling Euro 560bn after haggling will be disbursed over a four year period starting next year. Nothing will be raised and spent in 2020, when the need is greatest, and maybe under 60bn Euro in 2021 according to an EU Commission cash flow forecast. In other words this scheme is not going to rescue the EU economy and is going to make no visible contribution to the recovery for at least the first 18 months after the crash. The other Euro 190 bn will be added to existing EU spending programmes in future years, taking the new borrowing to the promised Euro 750bn.

It is not actually about the virus. It is about the political ambitions of the new Commission, and the need of France and Germany to reaffirm faith in the project of ever closer union at a time of major divisions of opinion on that goal. The UK's dogged resistance to the project is rightly no more. It is better we leave than continue to oppose the central thrust of the project. Instead the Netherlands led a group of five so called frugal countries who object strongly to a larger budget and to sharing their tax revenues with poorer nations. Two of them have also refused to join the Euro, seeing how that takes you a long way on the road to European integration. Denmark has a legal opt out from Euro membership, whilst Sweden simply declines to meet the Treaty obligation to join.

The Commission has used the Covid 19 damage as a means to lever a bigger budget out of the member states, to be applied to the priorities of the Commission as set out before the pandemic intervened. The overriding priority is to push the Green Revolution. The favoured example of a project suitable for funding is 1 million electric vehicle charger points around the EU. To bring that about individual member states will need to incorporate national roll out of such points in their National Plans and submit them to the EU for money.