

£30bn for pay awards, and more, could easily be found

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I have [this letter in The Guardian](#) today:

As your editorial ([13 July](#)) notes, the government needs just a little extra funding to meet the pay and conditions demands of public sector workers that are crucial to the retention and recruitment of staff. You suggest additional tax charges, but there is another way to do this.

The government created about £900bn of new money to pay for the banking crises. To move this new money from the government sector, where it was created, to the private sector, where it was used, the Bank of England transferred that money to the UK's commercial banks.

The banks did nothing to earn this money, and yet they are still paid the Bank of England base interest rate on the total sums they hold. When interest rates were under 1%, as they were from 2009 to 2021, these interest costs were insignificant. Now that the base rate is 5%, the sum paid has soared to more than £40bn a year.

There is no need for the Bank to pay base rate on all these deposits. To ensure the effectiveness of its interest rate policy it needs to pay base rate on some of them. Interest on £200bn should be enough to do this. The rest could enjoy interest at a very much lower rate: 0.1% should do. Japan and the eurozone already use such a two-tier interest rate system. If done here this would save around £30bn per year which is enough to meet all pay demands now being made of the government.

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