

Funding the Future

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Rachel Reeves will be presenting her Budget on November 26, [if the Labour government of which she is a part lasts that long](#).

I will be commenting on that Budget on the day on BBC Radio 2, and elsewhere afterwards, but what is already clear is that whatever Reeves has to say, she will miss the required mark by a very long way. Being aware of that, I thought it appropriate to offer an alternative Budget speech ahead of the time when she offers her own. Given the significance of this issue, it has been addressed in parts published over the period leading up to Budget Day.

This ninth part addresses some fundamental reforms required to:

- * The relationship between the Bank of England and our commercial banks.*
 - * The food industry, the ultra-processed foods it produces, and the government, given the impact those foods have on people in the UK and the NHS.*
 - * The devolution settlements for Scotland, Wales and Northern Ireland, and their impact on economic management.*
 - * The future management of the Treasury and its structure.*
- The draft budget will then move to the issue of taxes.*
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I am aware that I have taken up a great deal of the House's time today, but I am unapologetic for that. As I said at the outset, this was always intended to be a significant Budget, setting this country on a different path from that which it has followed, quite disastrously, for the last 45 years.

I have a few final matters to address before turning to tax. Each is important for understanding the proposals we are publishing today.

Central bank reserve accounts

Firstly, those with long economic memories will know that, prior to 2006, the Bank of England did not pay interest to the UK's commercial banks and others holding accounts with it on balances held with it that are properly described as central bank reserve

accounts. This was assisted by the fact that balances were low in those days, unlike now.

The fact that these have been inflated to around £700 billion today is, however, not because we have required our commercial banks to deposit additional sums with the Bank of England, but rather because successive UK governments did, through the quantitative easing process in use from 2009 to 2021, create new central bank reserve account balances which were effectively made available to commercial banks at no cost to themselves. It might reasonably be said that this exercise represented the single most significant injection of capital into any part of the UK economy ever made by the UK government.

However, instead of demanding payment for this support, the sums that were technically held as deposits by these banks on their central bank reserve accounts were treated as if they were any akin to any other bank deposit account, even though they were with the Bank of England who had actually been responsible for creating them, despite which fact the Bank of England then paid its base interest rate on them even though the commercial banks holding these funds had never undertaken any activity to justify earning a return on them.

This issue was inconsequential during the decade or so when Bank of England base rates were close to zero per cent, but that has not been the case over the last few years. As a result, UK commercial banks have benefited by sums of up to nearly £50 billion a year on some occasions, and even now are benefiting by almost £30 billion a year as a consequence of these interest payments - and they then have the temerity to tell us that we cannot afford the social programmes we and the people of this country desire because we must, instead, fulfill our supposed obligation to make interest payments to them.

There can be no justification for payments on this scale. I accept the technical arguments put to me by the Bank of England that some interest payment on some of these balances is required as part of the process of managing interest rates in this country, and as such, I accept the idea that these deposits should be tiered, an arrangement used in Japan and by the European Central Bank, with interest being paid on only some of those balances. From now on, the first £200 billion of such deposits, apportioned between banks on the basis of the balances maintained in aggregate by the banking sector with the Bank of England, will be subject to interest payment, but thereafter no such payment will be made. A saving of more than £20 billion a year should arise as a consequence.

I should add that I have also instructed the Bank that it should cease quantitative tightening operations immediately because the only justification that they have been able to supply for this activity is their policy of maintaining high interest rates in this country to supposedly tackle inflation, when it should be evident to anyone, the Bank of England included, that the UK inflation rate is entirely unaffected by the Bank of

England's interest rate. This programme has been profoundly harmful to the UK's financial well-being for the last few years. The Bank of England has been responsible for this harm, and it will cease. I expect market interest rates to fall as a result, delivering significant potential savings to this government, over the next year and for many years that might follow.

Ultra-processed foods

Secondly, the banking sector is not the only commercial sector within the UK to have exploited the goodwill of this government and its predecessors. So too has the food industry, and most especially the manufacturers of ultra-processed foods.

All sorts of reasons and excuses have been put forward for why action to tackle the massive consequences of excessive intake of these so-called foods cannot take place. I consider all those excuses as artificial as ultra-processed foods.

It is entirely technically feasible to determine what these foods are, and the weight of evidence that they are now deeply harmful to the health and well-being of people in this country is so overwhelming that there is no reason for further debate on whether action is required to tackle them. At least 50 per cent of our calorie intake is made up of these toxic substances, with that proportion almost certainly being higher amongst young people, many of whom have limited access to kitchens and cooking equipment because of the nature of their domestic circumstances.

The cost to the NHS of this food is very hard to estimate, but I am advised that rates of obesity, diabetes, heart disease, all forms of metabolic condition and even cancer are being inflated by these foodstuffs, as might also be some diseases of old age, including dementia. This is a cost that we cannot tolerate. These foods are imposing an enormous and unjustified burden on the people of this country.

As a consequence, it is the government's proposal that not only will we put warnings on all ultra-processed food packaging, and prevent television advertising of such products, and all advertising of them targeted at children in any media, but we will also use the power of tax to change the pricing of these products relative to whole foods that are conducive to health.

Details of this proposal have yet to be finalised, and a consultation will take place, but the intention is that, over time, the rate of value added tax to be charged on ultra-processed foods will increase to the standard VAT rate, and that, at the same time, a negative rate of VAT will be applied on the sale of all other foodstuffs. Given that it is thought that the balance of consumption between these two types of food is broadly equal at present, the result should be revenue-neutral at first, although we accept that this will change over time and that the balance of rates will need to be kept under review. But what I stress is the fact that this is not a tax measure as such: it is a market repricing that will not only have a massive impact on improving health in this

country, but which will also massively reduce demand on the NHS, from which everyone will benefit, including those with other illnesses, who will see considerable resources released for their benefit as a consequence.

This government cares. We care about people. We care about health. We care about eliminating the causes of ill health. This is how we will demonstrate all those things, and we will all be better off for it.

The ultra-processed food industry and the big pharmaceutical companies, who have profited enormously from the consequences of the ill health that food industry has created, will object, but they will not get their way: people matter more than their profits, and it is to the shame of previous governments that they have not acted to tackle this issue.

Devolving responsibility for tax

Thirdly, I wish to address the issue of devolution settlements within the UK and the impossible fiscal positions they put our devolved governments in. Rational decision-making on tax rates is virtually impossible for these governments because of the limited range of taxes available to them and the perverse incentives that result, with embarrassing outcomes for the governments in question and the undermining of government credibility in Scotland, Wales and Northern Ireland.

I can, therefore, announce today that this government will be seeking to reopen the devolution settlements with Scotland, Wales and Northern Ireland, and will begin negotiations with the governments of each of these countries to discuss greater devolution of tax management powers to them.

These discussions will not cover VAT, which we think should remain a UK tax broadly aligned with the system of the European Union, with which we expect each of the devolved governments to agree, but they will otherwise consider:

- * Devolution of the whole of income tax, including control over some reliefs and allowances.
- * Devolving powers over capital gains tax rates.
- * Devolving powers over inheritance tax, including its structure and design, providing the potential for these governments to offer alternative taxes on gifts or wealth.
- * Devolving powers over corporation tax rates and maybe reliefs, requiring the introduction of a unitary basis of tax apportionment between the member countries of the United Kingdom, permitting, as a result, variation in corporation tax rates between countries.
- * Devolving greater borrowing powers.

I will also be open to a more comprehensive representation of the views of each of these governments in macroeconomic policy affecting the United Kingdom as a whole.

I cannot, of course, pre-empt the outcomes of such discussions, or what the

government of each of these countries might wish to do, but my colleagues and I look forward to these negotiations, which we believe will strengthen democracy and the proactive role of government in each of these countries and in the UK as a whole.

The future of the Treasury

Finally, before I turn to taxation, I have one other announcement to make, which is that the changes that I have announced necessarily require reconsideration of the role of the Treasury within government.

The Treasury has, for far too long, been too dominant and has been a drag on the goals of other government departments and on the process of democracy itself, because the thinking of the Treasury has usually been far too aligned with the interests of capital rather than with the interests of the people of this country.

I can, therefore, announce another consultation process, which I hope will be complete within a year. This will concern a proposed breaking up of the Treasury into three new Departments.

The first will manage revenues and will be responsible for HM Revenue & Customs, the coordination of the activities of the reformed Debt Management Office, and liaison with the Bank of England in its new role.

The second, relatively small Department will work with the Chancellor on economic policy, but will be required to coordinate with the other Departments that will now be created.

The third such new Department will be responsible for economic development, and will be tasked with managing applied fiscal policy within our economy to achieve our stated aims. This will be a department of industrial policy and delivery, although I leave the eventual outcome of this consultation open at this stage.

What I do, however, is signal that change is essential. The processes we have had will not deliver what will be required for the future. That is the underpinning logic of this reform, and that reform must take place.

Other posts in this series:

- * [***The Alternative Budget 2025 - The Background***](#)
- * [***The Alternative Budget 2025, Part 2: Understanding tax and 'borrowing'***](#)
- * [***The Alternative Budget 2025, Part 3: Creating a new fiscal framework***](#)
- * [***The Alternative Budget 2025, Part 4: Renationalisation***](#)
- * [***The Alternative Budget 2025, Part 5: Reforming the UK's Savings System***](#)
- * [***The Alternative Budget 2025, Part 6: Addressing issues in housing***](#)

- * [***The Alternative Budget 2025, Part 7: The politics of care***](#)
 - * [***The Alternative Budget 2025, Part 8: Abolishing national insurance***](#)
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Taking further action

If you want to write a letter to your MP on the issues raised in this blog post, there is a ChatGPT prompt to assist you in doing so, with full instructions, [***here***](#).

One word of warning, though: please ensure you have the correct MP. ChatGPT can get it wrong.

Comments

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