Councils spend too much

In the three years to 2019 Councils spent £ 6.6 bn on buying up commercial property. I was against this at the time. Property had risen in value and the private sector was keen to offload shops and retail centres, seeing the rise of on line retail. The Councils were able to borrow cheaply thanks to the low interest rate regime, and expected rental income to exceed their costs.

Unfortunately for them covid lockdowns and new drives to on line shopping and working from home accelerated the negative trends for many of the shops and offices they bought. The collapse of many commercial property values will have hit valuations of Council owned property.

The Councils who had all this money to buy these assets often now claim to be short of cash. Maybe they should sell these assets to raise money where the values are still sensible. Maybe they should cut their losses when they can where they made bad investments as going forward they will be paying more interest on borrowings than when they first bought. They should stop adding to these portfolios. Wokingham taxpayers should not be made to buy a solar farm. The Council is not skilled in such an area and claims to be short of money. The risk is not acceptable for a public body.

Many Councils have redundant or surplus assets beyond these speculative portfolios some bought. They should be selling. Many Councils are spending far too much on consultants on top of the salaries of officers meant to be qualified to undertake many of the specialist tasks. Many are still annoying many drivers with expensive schemes to delay the vans and cars more. Save the money and spare us the aggro.

What is the most annoying waste of money from your local Council? How many extra admin staff have they taken on in recent years?

My Article in Conservative Home

Treasury briefing keeps telling us unfunded tax cuts will cause inflation. We have just lived through two years of surging and high inflation with increased taxes. That should lead them to question their bizarre view of inflation. If they believe that tax is the key to inflation why don't the Treasury think the tax rises also caused the inflation? In one sense some of them did, as they heaped higher taxes on energy as energy prices soared.

The Office of Budget Responsibility acknowledges that it has overstated this year's borrowing so far by £20 bn yet carries on asserting there is no scope to cut taxes. The reason borrowing is lower is once again they got their forecasts of tax revenue wrong. I read in the press they keep sending the

Chancellor very different forecasts of how much borrowing there might be in five years time. The Government uses this to decide what tax cuts they can afford. The OBR forecasts though wildly fluctuating never seem to fluctuate to allow tax cuts according to the press briefings that filter out. Why does the government use the five year forecast to decide anything? It is bound to be wrong. The last three years have seen many overstatements of future borrowing by the OBR for the immediate year which should be a lot easier to get right than five years out.

The Treasury and Bank need to think again about the inflation they have just presided over. Let me give them some thoughts on what did cause it. The Bank should grasp that printing £150 bn and paying very high prices for bonds to keep interest rates close to zero was inflationary. The Treasury should understand that boosting spending by £350 bn a year over three years and borrowing the money to pay for much of the extra spending was inflationary. They ended up borrowing it at overdraft rates from the Bank of England. These rates then surged as the Bank decided to hike them. It means it was very unwise to borrow like that. If they had funded it long it would have been a lot cheaper and arguably less inflationary. The Government needs to grasp that recruiting 103,000 more civil servants over six years and allowing a 7.5% collapse in productivity was inflationary.

They will reply that the surge in oil prices from the Ukraine war was inflationary. It certainly drove up energy prices but does not account for why UK inflation was already three times target before that happened. Nor does it explain how big energy importers China and Japan did not have a big inflationary surge as we did, but then they did not print lots of extra money and drive their interest rates lower.

The budget needs to cut taxes. It also needs to help bring inflation down and it needs to push downwards on the deficit. Far from being impossible to do these three things at the same time, the right policies will indeed do all three together. If only the Treasury had a model of revenues that picked up how increases in growth deliver higher revenues more accurately it would be easier to persuade them. If only they were better at controlling public spending and at avoiding big falls in public sector productivity that would help too.

Let’s have a go at a budget that they should grudgingly agree using their wayward models will achieve these ends. Let’s start with getting inflation down more quickly. Suspend the 5% VAT on domestic energy for heating for the year ahead. Take 5% off petrol and diesel by a temporary cut in fuel duty. This will give a useful nudge down to energy costs just as world prices are increasing again. Some of the revenue lost will be compensated by higher profit and windfall taxes on the energy companies as they benefit from higher world prices. Cover the rest with some of the proceeds of selling the whole remaining holding in Nat West shares. A lower rate of inflation earlier will also save some money on public spending which is very geared to the inflation rate.

The budget should proceed to expand the supply side of the economy to offset some of slowdown the Bank is creating. The VAT threshold for registering small businesses should be raised to £250,000 from £85,000. This would release a lot of new capacity quickly which in turn would produce a bit of downward pressure on prices. More importantly it would generate additional tax on incomes and profits as the small businesses did more. Treasury models will score this as a revenue loss so offset their fictional figure with rephasing some of the £20 bn carbon capture and storage spend. It is unlikely anyway that large scale projects with good business cases will be available to subsidise any time soon.

We have lost 800,000 self employed from the workforce since February 2020. Some of this may be Covid related. It is also the result of tax changes in 2017 and 2021 which make it too difficult for some to grow their businesses in the way they used to, particularly where they need business customers. Change the rules back. Again Treasury will claim a loss, though it should save government money especially where people move back into self employment from benefits. This could be more than offset by imposing a strengthened version of the civil service recruitment controls the Government is talking about. Natural wastage should slim the civil service after the increase of 103,000 in just six years.

Switch farming grants for the future away from stopping people growing food to supporting them for doing so. That will generate more business success to tax. It will cut imports which do not deliver any income tax, national insurance and corporation tax on the food growing,

Save on anti driver schemes the Transport Department helps fund, in accordance with the welcome new approach outlined by the Prime Minister.

There are many other places for reducing the costs of government. All this means we can have lower taxes, a lower deficit and lower inflation. This is a cautious package. It would be possible to move further and faster to generate more growth. Look at the USA which has managed to get inflation lower than us despite their Central Bank making the same mistakes as ours. It has also just recorded 4.9% growth.

Just do something to cheer us up. We are fed up with being controlled by wrong forecasts by the OBR. Nor should we have to pay further for the wild policy swings of the Bank of England who did much to give us inflation in the first place. We do need higher public sector productivity, lower costs of Government and a lower deficit. This can advanced with tax cuts which lower prices, create more supply and boost incomes and profits to tax at home.

Ministers and civil servants

Our constitutional practice used to be based around the fundamental proposition that government power must be accountable and this is best done by Ministers reporting to an elected Parliament on the conduct of government.

Ministers have to defend the actions of their officials and departmental administrations, or explain what action they are taking to correct mistakes, reform policies and change personnel where things go wrong. Ministers are meant to decide and civil servants are meant to advise. In the toughest version of the doctrine Ministers had to resign for mistakes made by officials which they knew nothing about until they came to light with the damage they caused.

This practice could scarcely apply to a large number of areas of government activity when we were in the EU that came under EU regulation, directives and court decisions. There was no serious attempt to think through the consequences of these changes. Ministers usually shouldered the burden of responsibility for laws and decisions taken in Brussels, even where they had opposed them. The public decided to sort this out and reassert the need for genuinely accountable Ministers who could change laws and policies where needed by voting to leave the EU legal structures. With EU laws and policies Ministers could face failing policies which they were both blamed for and could not change.

In recent years under governments of all three main UK parties this has been further modified. There has a growing enthusiasm for so called independent bodies. Many politicians came to the conclusion that it was better to appoint specialists to run quangos that could take big decisions, make a wide range of rules under statute, enforce rules, impose penalties , spend large budgets and set out blueprints for the future. The Bank of England gained control of interest rates and money policy. The Environmental Agency set policy on water and flooding. NHS England gained more control over health budgets and management. The vast HS2 project was run by an independent highly paid team of managers.

As we survey the surge in inflation and the giant bond losses of the Bank, the flooded farms and the pollution of rivers from the Environment Agency, and the huge waiting lists at the NHS the public demands Ministers sort it out. They do not want to hear that the main budgets and powers are all exercised by highly paid managers who insist on independence from Ministers. HS 2 showed that high pay with plenty of independence did not necessarily produce a good outcome.

There is much to be said for reasserting the original idea that Ministers can direct and alter the management of these bodies as they will take the blame when things go wrong. Some things done by quangos would be better done directly by the sponsor government department, cutting overheads. Ministers may well opt for substantial management delegation, but need to find good managers they trust and who deliver to make that model work. They need to to be able to reward and promote them and in bad cases to remove them. They need full ,access to important information about the way the service and the policies are working out.

Appointing Ministers who know the subject or who have an enthusiasm for it would help. Keeping them in post for long enough to have an impact and to know the area well is important. A Minister like Nick Gibb was allowed to work in Education where he was a great advocate of synthetic phonics to improve reading abilities. More importantly he was allowed long enough there to make a big difference and see the results of his approach come through with better literacy scores. We need more of that.

[The Treasury needs to think again about inflation]

Briefing from the Treasury for over a year now has been rightly telling us inflation is too high, and wrongly saying what we need to do about it.

Their mantra is unfunded tax cuts cause inflation. No recognition that the last two years of high inflation have been years of tax rises, so there is no possibility the current inflation was caused by unfunded tax cuts. No mention that if unfunded tax cuts can cause inflation then so can unfunded spending rises. No mention of the huge surge in spending in the last three years.

They should think again. The present inflation was brought on by

The Bank of England printing £150 bn of extra money during 2021,a recovery year.

The Bank keeping interest rates near zero by paying ever crazier prices to buy up state debt and to enable the government to borrow huge sums at very low rates

The Treasury imposing high carbon taxes, fuel duties and windfall taxes on energy to give us very dear energy at a time of high market prices

The Treasury agreeing to a 103,000 increase in civil service numbers from 2017 to today and a 68,000 increase in other public administration posts , resulting in a 7.5% fall in public sector productivity over the 3 years 2020-22.

The big expansion of state debt this decade effectively financed on a Bank of England overdraft

Tomorrow I will examine how the right tax cuts offset by spending controls and asset sales can bring inflation down. I am not recommending more borrowing to fund tax cuts, but if you did borrow by issuing a longer dated bond to pay for a tax cut the bond withdraws the same amount of spending power as the tax cut injects, though from different people.

A Budget for growth, lower inflation and a lower deficit

I have been proposing a budget for faster growth and lower inflation. The notes beneath give the outlines of it.

The Prime Minister has three economic aims
• Get inflation down
• Promote growth
• Cut the deficit

These reinforce each other.
• More growth brings more revenue and lower spending on benefits
• Falling inflation reduces spending pressures, helps business with costs and lowers the deficit

The budget judgement
• The OBR forecast £131 bn deficit for 2023/4. Revenues have been better than expected so there is a £20bn improvement available
• The right kind of tax cuts can promote growth and boost other tax revenues more than the OBR model suggests. The OBR often under forecasts tax revenue.
• There are spending controls and reductions that can help cut the deficit as taxes are brought down a bit

Inflation is too much money chasing too few goods
• Our inflation stems from excess money, credit and bond buying by the Bank in 2020-21.
• Money supply is now falling. The Bank has lurched from far too easy to very tight.
• Government can help the Bank get inflation down by cutting taxes on expensive energy whilst prices remain high, and by offering tax cuts to the self employed and to businesses to promote more output.
• The Bank wants to get inflation down by stamping on demand. More work to boost supply would help.

What the Bank should do next
• The Bank is independent in in setting short term interest rates. It is likely they have now set them high enough, but they will make that call.
• The Bank acts as agent of the Treasury in buying and selling bonds, with a full Treasury indemnity for losses
• The Bank should stop selling bonds at a loss in the market and sending huge bills to the Treasury (£24bn in the first 4 months of this year) Run the portfolio off as and when the bonds are repaid.

Affordable tax cuts for growth
• The UK has lost 800,000 self-employed since February 2020. Some of this is the result of the 2017 and 2021 changes to IR 35 taxation. It is now difficult for the self-employed to get contracts from companies.
• The government should restore the pre 2017 tax regime. This should produce

a good increase in self-employment, saving money on benefits and leading to extra taxes on incomes form self-employment.
• Self-employment offers a flexible and fast way to expand capacity in a wide range of goods and services.

Boost small business with a VAT cut
• Raise the VAT threshold to £250,000 from £85,000. Many small businesses turn down extra work or have closure periods to avoid going over the VAT threshold in any given year.
• There would be a rapid increase in capacity as small business adjusted to a less onerous regime. There would be offsetting tax gains on taxing employee and business income as a result.

Take 5p a gallon off motor fuels whilst oil prices are high
• The government will get more revenues from domestic oil and gas production and from sales of energy all the time oil prices rise and stay high.
• Offer 5p off fuel duty per gallon all the time oil stays above $75 a barrel. Review three monthly.

Suspend 5% VAT on domestic energy bills whilst gas and oil are high
• As with fuel duty, remove VAT temporarily while oil is above $ 75 a barrel
• These two measures on energy will help push inflation down, which lowers public sector costs which have to match inflationary rises.
• They will also help contain business costs

Make a further reduction in Business rates
• Many businesses which provide a good service by occupying physical property to serve customers are suffering from high and rising business rates.
• Offer a further reduction in these costs to help business recover from the covid and interest rate shocks that have damaged output and profits.

Tackle the public sector productivity collapse

• ONS figures show public sector productivity is down 7.5% in the 3 years 2020 to 2022. This is a £30bn hit to budgets, raising costs by that amount to produce the same output. This is on top of large money increases in spending to handle inflation.
• Ministers need to work with public sector senior managers to restore the 2019 levels as soon as possible, freeing money for other purposes.

Cut the benefits bill by helping more people into better paid work
• The measures to boost self-employment and small business will help reduce welfare costs
• Switching more employment by helping people already settled here into jobs instead of increasing the numbers of legal migrants will also cut costs, both by reducing benefit demands and cutting the extra costs of providing homes, surgeries, school places for additional arrivals

Overall budget judgement
• The Treasury seems to think IR 35 changes would cost £2bn, the fuel duty change £2.6bn and VAT change £4 bn. Business rates could add another £5bn

- This is less than the current £20 bn increase in revenues/lower deficit experienced. It is also balanced by productivity restoration in the public sector. If only one third of the recent losses were regained in the first year that covers two thirds of this package.
- The return to work and self-employment changes would also generate spending savings.
- Any success in cutting inflation faster would also generate savings on the costs of government debt, given the way they account for Index linked