A Letter from the Department for Education regarding All Saints CofE (Aided) Primary School

I have received the below letter from the Secretary of State for Education regarding the All Saints CofE (Aided) Primary School reaching academy status which I would like to share:

Dear colleague,

FUNDING AGREEMENT FOR ALL SAINTS COFE (AIDED) PRIMARY SCHOOL

I am pleased to inform you that I have agreed to enter into a Funding Agreement to allow All Saints CofE (Aided) Primary School, in Wokingham Borough Council, to become an academy.

The date of conversion will be 1 September 2022 and I am writing to the local authority to instruct it to cease maintaining the school from that date.

As you know, academies form an integral part of the Government's education policy to raise attainment for all children and to bring about sustained improvements to all schools. I am delighted that the school recognises the benefits academy status will bring.

Rt Hon James Cleverly MP
Secretary of State for Education

How high is UK state debt? 82.9% or 95.5% of national income?

The Treasury and most commentators are mesmerized by UK state debt at 95.5% of GDP, the official figure which appears in the ONS monthly updates. They are right that by the standards of the last fifty years this is a high figure and reflects substantial increases in borrowing by government particularly over the banking crash and great recession in 2007-10 and again over covid between 2020 and today. So far this has not proved unaffordable as interest rates have remained very low and markets have been willing to lend.

By international standards the UK level of debt is middle of the pack. Japan leads the high debt league with around 250% of GDP, all financed at around zero interest and with inflation still low. Different rules seem to apply to the Japanese economy. In Europe Greece at 190%, Italy at 150% and Portugal at 127% are much higher . France is at 122% and Spain at 118%. The USA is also above the UK.

The ONS accepts that there are various ways of calculating the amount of UK debt. Indeed, it thinks a fairer or more realistic way is to take its figure for “Public sector net financial liabilities” rather than the figure for “Net Public Sector debt” given the complications created by the balance sheet of the Bank of England, a body 100% owned by the state. What should we make of the state debt owned by the Bank itself? How should we account for the Term Funding schemes the Bank runs?

On the ONS definition of net liabilities the figure runs out at 82.9% of GPD in July 2022, 12.6% of GDP lower than the usually quoted figure.

Of course the state should seek value for money in what it spends, should aim to control public spending well and should look to the private sector to invest and finance most activities outside the core services of health, law, order and defence, and schools. It would be good to see state assets rising and net liabilities falling. The state needs to control the cash cost of interest charges by avoiding excessive borrowing. It is also important not to overstate the gloom about our debt levels and to understand the range of numbers official statisticians come up with to try and capture the complexity.

How much money will taxpayers lose on the bonds bought by the Bank of England?

Hidden away in the latest ONS official figures for the debt and deficit is a revealing number. The Bank of England’s bond portfolio bought under its Quantitative Easing programmes cost £112bn more to buy than the bonds will repay on maturity. As most of the bonds will likely be held to maturity this will be the loss. If they are sold off earlier in the market that is also likely to be at a loss in a world of rising interest rates.

These losses are all carried by the Treasury and taxpayers. Right from the start of QE with Chancellor Darling the Bank said it needed a Treasury guarantee as it could not itself afford the potential losses on such a large portfolio. All Chancellors since have offered such a guarantee. It has been an agreed policy between the Labour government that first invented it, and the Lib/Con coalition and the subsequent Conservative governments that continued it.

I quote the official source:

ONS: "In February 2022, the BoE announced that it will no longer be replenishing the gilt stock of the APF. Following a £3.2 billion gilt redemption in July 2022, the APF's gilt holdings currently stand at £731.7 billion (at redemption value).

It is important to understand that this £731.7 billion (conventional) gilt holding is not recorded directly as a component of public sector net debt. Instead, we record the £112.1 billion difference between the £843.8 billion of reserves created to purchase gilts (at market value) and the £731.7 billion redemption value of the gilts purchased."

Quote from ONS July Public Finances

My Conservative Home Article: Sunak represents a failed establishment orthodoxy. His record means he deserves to lose this contest.

Below you will find my latest article for Conservative Home:

Rishi Sunak is a clever man with a good life story. I thought he was badly treated over his wife's wealth and tax affairs. Jealousy is no part of Conservatism, where we welcome people of all backgrounds, rich and poor, achievers and inheritors, people who can make it for themselves and people who need help. In office I always found him polite, willing to explain his position and interested in what colleagues had to say. I have never had any personal differences or problems with him.

I also found myself unwillingly drawing into more and more disagreement with the analysis he offered and with the actions he took as Chancellor. He started well amidst great popularity when he rightly backed and developed plans to offset the big economic damage of lockdown. I welcomed some money creation by the Bank in March 2020 and wanted a scheme to subsidise jobs whilst people were banned from working. Disappointment first set in when Rishi declined to treat self employed and small business people with the same generosity in all cases, leaving some smaller businesses at risk and threatening us with reduced capacity when we reopened.

I took issue with the increasingly pessimistic forecasts coming from the OBR which he accepted and from the Treasury which he signed off. In the budget debate of March 2021 I stressed that the forecasts were suggesting too large a budget deficit and borrowing based on low field estimates of tax revenue. There was no need, I argued, for a £12bn tax hike through National Insurance. A year later we see the central government deficit came down by a whopping £131bn compared to forecast, and tax revenue surged bn £77bn over estimate despite or because of no tax rate rises that year. Rishi became a high tax Chancellor based on these views. Why did he do that? He told us he believed in low taxes yet spent his time in office putting in new taxes and raising the rates of old ones. He could instead have put in a growth strategy, challenged unrealistically gloomy forecasts and showed the power of selective tax cuts.

I voted against the National Insurance rise. Why did he decide that the missing £12bn he thought he saw in the accounts should be provided in this way? It was a clear violation of a Manifesto pledge. It was a tax on work and on business at a time when we needed to encourage both. He knew he needed to impose more discipline on the spending, particularly on the runaway budgets for test and trace and for covid loans, but found this difficult. He correctly agreed that the extra money going into the NHS needed to be tied down to specific spending needs that would boost the workforce and tackle the backlogs but did not deliver. It is surprising given this that on his watch the taxpayer paid large sums to the private health sector in the UK to use their capacity for NHS work, yet failed to use that capacity fully to keep the waiting lists down.

Rishi started his campaign for leader defending the Treasury orthodoxy. No tax cuts could be afforded. The package he had announced to help offset energy bills was the answer. He would fight inflation as his single crucial priority. This was difficult to believe. He had, after all, signed off a further £150 billion of money creation and bond buying extending right through 2021, well into the period of rapid recovery. This was likely to prove inflationary. He pledged full taxpayer and Treasury backing for the Bank for any losses they might make on the large quantities of bonds they bought at deliberately elevated prices. These were not the actions of a cautious man preoccupied by the threat of inflation.

Under the pressure of the campaign he then shifted position. Removing VAT on domestic fuel was a good idea after all. In office he had always resisted VAT cuts and seemed to take the view that we could not change VAT in Northern Ireland as we wished. He did not favour resolving this through unilateral action.

He reasonably has also shifted to the view that we could borrow a bit more this year anyway as energy prices were looking worse. He now goes along with UK legislation to resolve the Northern Ireland protocol though still thinks the EU is about to do a decent deal with us, which several years of negotiations has shown to be unlikely.

Throughout the leadership campaign he has struggled to come over as Conservative. Where we want a lower tax society he in office put in major tax rises on incomes, profits, employment, energy and digital services. He has allowed or supported major expansions of state activity, adopted Labour's windfall tax and looked happy with an ever widening range of controls, rules, taxes and subsidies. Conscious he was not appearing to be Conservative enough he then adopted some punk Conservative proposals that he thought might please. There was the wish to charge people £10 if they did not turn up for a GP appointment, which annoyed many Conservatives who think the problem is more the other way round, actually getting one without cancellation by the NHS. He said he will double the number of deportations of foreign criminals without explaining how this would work given the trouble the government he belonged to had in handling criminal activity allied to migration.

I have no reason to doubt the poll findings and Conservative Home’s surveys which suggest Liz will win with around twice as many votes as Rishi. If that proves to be roughly right it will confirm that the Conservative party is in a mood for positive and radical action to bring inflation down and try to see off a long and deep recession to follow. Rishi’s strong suit was said by his followers to be his economic and business understanding and experience. It is I fear members appraisal of his time in office that has proved his encumbrance. He did put up those taxes. He did back the Bank, triggering an inflation almost three times target before Russia invaded Ukraine. He has changed his stance a bit during the campaign about whether we need to fight recession as well as inflation.

I think the senior people in our party who pushed Rishi forward and tried to make him the shoe in establishment candidate did his cause harm. Their enthusiasm for an economic policy which had given us 10% inflation and may give us a recession was tone deaf to the mood of members and the country. Claiming it was what Margaret Thatcher would have done was so silly and wrong. By digging Rishi in behind a system and policy that had misfired they did not allow room to offer something better, let alone allow any reflection on what has gone awry economically in recent months. When we need change and improvement an attempted establishment stitch up is a bad look.

Conservatives want a better deal for all those who work hard, who set up small businesses, who battle on in self employment, who want to grow the economy and create more and better paid jobs. Raising productivity and helping more places to catch up with London’s dominant economic performance requires more freedoms, more private enterprise, and lower taxes as well as more transport,water and energy capacity. Socialism penalises such people and makes the outlook worse. You cannot tax us out of recession though you can tax us into one. You cannot regulate prices down, you need to encourage more output and supply. Rishi flew too close to Treasury orthodoxy and got too keen on Labour ideas to win more member votes. Liz will speed more people on their personal journeys as training, education, self employment, opportunity come to touch many more.

Deficits and growth

One of the features of the OBR/Treasury model that works badly is the ability to forecast the all important public sector deficit or amount that the state needs to borrow each year. This is all important as the forecast drives tax policy. Whenever the model forecasts a high or rising deficit the cry goes up to increase taxes.

The last two years saw massive over forecasts of the likely deficit. It seems the model underestimates the impact of recovery or growth in output and incomes on the deficit. Faster growth spurs considerably more revenue, as each marginal pound of extra personal and company income is taxed more highly than average income. It is also more likely to spent more on discretionary items that attract more VAT and transaction taxes than purchases of the basics.

There is also an inbuilt hostility to any laffer effect. Cutting Stamp duty to stimulate transactions recovering from covid for example was scored as cutting revenue but the overall boost to taxable activity was positive and Stamp duty itself overall rose.

This financial year we may discover the model makes these errors in reverse when there is little or no growth. I expect the deficit to exceed the OBR forecast of £99 bn given the big hit to real incomes and the marked slowdown in activity. The bizarre way of counting so called debt interest at a time of high and rising inflation will also push up the stated deficit. So far this year the government has paid bond holders just £11.6bn of debt interest in cash payments. It is scored as £39.8bn of spending given inflation effects on indexed debt with no accounting offsets for gains on erosion of real value of the bulk of the debt from inflation.