We don’t believe you – BBC Today’s business howler

This morning in the business section of the Today programme after 6 am the BBC’s own expert and his chosen interviewee expert both told us that today the Bank of England will announce its decision on interest rates. They will, we were told, keep them unchanged at 0.5%.

Both seemed unaware that the Bank of England raised rates to 0.75% on the 2nd August 2018, the second rise from the lows. The BBC man was in a rush to get on to his main theme, that the Bank of England was forecasting a recession should the UK just leave the EU on 29 March 2019 without a Withdrawal Agreement to hand over £39bn to the EU. This was a bit much for his interviewee who said she did not think the Bank had forecast that, but probably others had! She was then asked to explain why without naming any specific forecast which either could quote.

No wonder voters increasingly say to so called experts “We do not believe you”. The BBC Business correspondent for Today regularly leads his witnesses to his agenda for the day. He also seems to regard it as primarily a slot to pursue anti Brexit questions, when there are so many more accurate and interesting stories he could pursue. Normal business life carries on regardless of Brexit, and so far we are still completely locked into the EU. He usually fails to question the EU critically or to comment on the perverse consequences of many of its decisions that still affect us.

More bad news from a car industry damaged by higher taxes, and lower Stamp Duty receipts from higher rates

I do wish the government would reverse the damage it has done to the UK car industry through its higher VED, its attack on diesels and the credit squeeze. Last month car sales were very weak in what should be a good month, with the biggest hit predictably taken by diesels. The latest credit and money growth figures from the Bank of England show that last month there was no money growth at all, with a big fall in car loans. This left the yearly rate of money growth at a new low level below the current rate of inflation. Domestic policy continues to slow the UK economy, with the car sector and dearer properties bearing the brunt of the tax attack.

It is especially strange that the Business department, ever vigilant of alleged and often implausible problems for the car industry from Brexit, says nothing about the obvious damage to car output and car sales by the tax and credit policies currently being pursued. Indeed, with diesel car sales down more than 4o % now, it is difficult to understand how they have not observed this and not done something about it.

Returning VED to the levels prior to the 2017 budget would be a good start. Allowing more car loans, one per person in employment at sensible levels would also be a good idea.

Cutting Stamp Duty to 2016 levels where it is currently higher would help unblock the homes market. The Treasury had to admit in the budget that Stamp duty receipts will be £1bn lower this year than forecast owing to the decline in transactions and their model forecasting errors from the higher rates, with a loss of nearly £4bn over the five year forecast period.

School Funding update

I have received the enclosed update on School Funding from the Secretary of State for Education:

"£400 million additional capital for schools this financial year

Schools can spend this additional £400 million on capital projects to meet their own priorities. This may include improvements to buildings, equipment and other facilities. Examples could include investing in IT infrastructure; small scale enhancement to buildings; or renovations to sports facilities or equipment.

By December, we will share an online calculator so that schools can estimate their allocation and make plans to spend the money. We will then publish individual allocations in January. These allocations are for individual schools, although in some cases the payments will be routed via local authorities, dioceses or multi-academy trusts, as is the case for 'devolved formula capital' (DFC). An average size primary school will receive £10,000 and an average size secondary school, £50,000. The amounts cannot be 'top sliced' by local authorities.

The funding will be made available to: maintained nursery, primary and secondary schools, academies and free schools, special schools, pupil referral units, non-maintained special schools and sixth form colleges. It will also be allocated to those specialist post-16 institutions that have eligible state-funded pupils.

Given we expect this money will be spent on improvements rather than as part of major capital projects, and the calculator will support schools to plan ahead, the expectation is that schools will spend the money in financial year 2018-19. However, the normal terms of DFC apply; these provide some flexibility for the funding to be spent over the following two financial years if necessary.

This funding is in addition to the £1.4 billion of condition allocations already provided this year to those responsible for maintaining school buildings. Overall, we are investing £23 billion in the school estate between 2016-17 and 2020-21.

Additional school funding update

I am acutely conscious of the budgeting challenges for schools. To respond to those and to support the transition to the National Funding Formula, we have made available £1.3bn in additional funding since the last spending review. More money is going into our schools than ever before (£42.4bn this year and £43.5bn next year). But I do recognise that budgets remain tight.

Earlier this year, we announced the biggest increase to teachers' pay since 2010: a 3.5% increase to the main pay range, 2% to the upper pay range and 1.5% for school leaders. We will be funding this with £508 million over two years, over and above the core funding allocations schools have received, to cover the difference between the 1% that schools would previously have been budgeting for, and the pay award. The £187 million for this year's pay award is going out to local authorities and academies now. We also intend to fully fund schools and academies for the increased costs of teachers' pensions, planned for September next year.

We have set out the range of practical help and support available in managing the £10 billion of non-staffing spend across the school system; and a further 10 new recommended deals for schools have just gone live. We have also published Good Estate Management for Schools to support management of school buildings and facilities. The range of support is summarised here: https://www.gov.uk/government/publications/supporting-excellent-school-resource-management."

Leaving with no Withdrawal Agreement will be better for the economy than signing it

I have been puzzling over why so many commentators think a so called No Deal departure would be a heavy negative for the UK economy.
There seem to be a series of specific fears that are unlikely to be realised e.g.

1 "Planes will not fly on 30 March. "

The overfly rights are under the Chicago Convention which will be unaffected by the UK ‘s departure from the EU. Landing rights are in the gift of member states and will presumably be mutually reaffirmed in time for exit. Airlines continue to sell tickets for post 29 March and do not expect to be grounded.

2. “Just in time supply items will be held up at UK ports, wrecking the factory plans.”

UK ports will be entirely under UK control. There are no plans being made that I have read about to hold goods up for longer. The addition of a customs payment to current VAT and Excise payments and currency changes can be done away from the border from existing compliance filings electronically, with or without a tweak to the computer data. Intrastat declarations are already very comprehensive and mandatory for EU trade. Products meeting specifications under contract will not need new inspection systems on 30 March.

3. “Food imports will be detained by the need for longer and more complex inspections at borders.”

Again there is no need for the UK to impose damaging delays and extra checks, and on imports it is a matter for the UK authorities. Current contracts contain inspection regimes, usually at the farm or processing plants, and product will also continue to be inspected carefully by the purchaser.

4.” Medicine imports will be delayed.”

As with food, things that have gained regulatory UK approval and are on the NHS approved list can be imported as before with similar inspection regimes and verification.

5” Calais will operate a go slow or blockade of UK exports to the continent”

The Calais port authorities have categorically denied this and say they wish to keep the business. Belgian and Dutch ports would like to take market share from Calais and see the need to offer a smooth service.

Making all these things work are in the mutual interest of the EU and the UK and are not controlled in the main by the EU authorities. There is every reason to suppose where they need agreements these can be reached, with a general wish to carry on as before.

There are then the economic arguments.

1” Imposition of customs dues will restrict and damage trade”

If nothing changes but the UK and EU impose EU level tariffs on each other then the EU will collect £5bn of extra customs, and the UK £13bn, given the large imbalance in trade in items that attract tariffs. The UK government could give the £13bn as tax cuts so people on average are not worse off from the higher prices. The high tariffs are almost entirely on food products, where the UK has a balance of trade deficit of £20bn with the rest of the EU. Imposing full EU tariffs is likely to lead to a lot of import substitution from cheaper non EU produce, and to a substantial market share gain by UK farmers. The UK gain in domestic market share should more than make up for losses of exports. There will be a crop cycle of adjustment to new demands. The UK can publish its own tariff schedule once it has left, and has the option of lowering tariffs compared to EU levels, which would mitigate the impact tariffs have on trade. It is difficult to see more than a marginal impact on the UK economy of high tariffs on food. Trade with the rest of the world which has been growing faster than EU trade for the UK would benefit from removing tariffs on products we cannot grow or produce for ourselves, removing small tariffs where the bureaucracy is not worth the trouble, and cutting very high food tariffs somewhat. The UK government has yet to publish a tariff schedule for March 30 for No Deal.

2.” There will be a confidence effect”

Presumably most businesses now understand that No Deal is an option, and see that its probability has risen as a result of the poor progress in talks so far and the EU rejection of the Chequers half in approach to the single market and customs union. There was a confidence impact on big business investment plans after the vote, but this did not prevent continued growth at a good rate for the first nine months after June 2016. Brexit voters expressed more consumer confidence after the vote. There were also some large inward investors who went ahead with big commitments, including the purchase of two £1bn plus London office blocks and major commitments to jobs and space in London by the leading US tec companies. If I am right in thinking we will avoid any big problem in the weeks after leaving, confidence should come back quite quickly to those large businesses that are preoccupied by this issue. There has not been the predicted exodus of businesses out of London despite more delay and difficulty in the negotiations than advertised.

3. “The UK authorities will raise taxes and tighten money to deal with the shock”

That would be entirely the wrong reaction and looks unlikely. On exit with no Withdrawal Agreement the UK state has £39bn more to play with over the next three years, and the balance of payments is immediately enhanced by the same amount. The Bank of England actually eased money after the vote, and could do so again were there to be any problems after exit. The Treasury has fire power to spend more and tax less were the economy to slow further.

The economy will get a bigger boost by leaving without a Withdrawal Agreement and spending the £39bn at home. Prolonging exit for 21 months or more prolongs uncertainty, commits us to large extra payments and does not even guarantee a better trade deal.

More money for social care

Councillors and others have told me that Wokingham and West Berkshire need more money to help provide good quality care services. I have regularly put this case to Ministers in public and private.

It is good news that in the budget the government promises an additional £240 m this year for adult social care, and the same again next year. There is in addition an extra £410 m next year for adult and children’s social care. We await the distribution of these sums between Councils. There is also an additional £55 m this year for Disabled Facilities grants for children and adults.

The government is also working on a Green (consultative) paper on adult social care to put the funding of this service on a “fairer and more sustainable footing”.