The Treasury paints another dark picture

A year ago I spoke about the March budget and stated that the official forecasts for were far too gloomy. In particular the deficit would be much lower than the £233 bn for the current year that they expected.

At the half year stage the OBR changed its deficit forecast, slicing a large £50bn off it. I commented that it was still too high. Yesterday they admitted that the second half year saw the need to take another £55bn off the forecast, bringing the total change to a massive £105bn for the year as a whole. A similar overstatement of the deficit had occurred in the previous year. This year's document contains an anguished passage on why they so understated the tax revenues coming in from the lower rates being charged before the rises this spring. The extra revenue is so huge that clearly they do not need the extra £12bn from the National Insurance hike .

It is s pity the Treasury did not grasp the opportunity to use some of the overshoot of revenue to allow some selective further tax cuts. Choose the right ones and you may anyway end up with more revenue, as they did with Stamp Duty.

The Treasury has at last got round to removing VAT from insulation, boiler controls and other products that can help people cut their home heating bills. This EU tax needed to go. It is disappointing to learn they think they cannot remove these taxes for Northern Ireland under the Protocol. That is by no means clear from the text. They say they are seeking a solution from the EU as they acknowledge the UK government needs to be in control of all taxes anywhere in the country. |They could go ahead and abolish these taxes in Northern Ireland at the same time as the rest of the UK, and could buttress the legal position by putting into the law a clause overriding any unhelpful or errant interpretation of the protocol.

The Treasury forecasts are for slowing growth, inflation persistent for this year, and too large a squeeze on incomes. Last year they also got inflation badly wrong, telling us it would run at 1.8% this year, yet it has hit 6.2%. Given the persistent money printing the Bank undertook all last year it is difficult to know why they thought inflation would be so low.

More wrong forecasts to misdirect policy?

At the time of the last budget I spoke about the unduly pessimistic forecasts for growth, tax revenues and the deficit. Yesterday's figures show the deficit for the current financial year is running £25.9 bn below forecast with one month left. The Treasury/ONS forgot to mention they lowered the deficit forecast by £50 bn at the half year stage. So in truth the deficit is a massive £75 bn below where the Treasury thought it would be. It undermines their claim that they need to impose a new tax to raise £12bn extra a year to make the finances prudent.

The figures show a surge in revenue with no rise in tax rates. Inflation boosts VAT and fuel duties. Stamp duty revenues are strongly up thanks to many more housing transactions and higher prices. The tax rises planned for April will slow the economy and may slow the growth in revenues.

The latest misleading gloom spin comes in the form of the so called interest charges. To make these look a lot scarier and unaffordable they lump in with the genuine regular cash interest payments the revaluation of indexed debt. This debt has to be refinanced or repaid on maturity at the same real value as borrowed. Holders are therefore repaid more pounds than they lent. There are no regular cash payments to bond holders to reflect inflation so it is quite wrong to call this debt interest. They also fail to put into the accounts any credit to the state for the devaluation of the rest of the debt which will be repaid in pounds worth considerably less than those borrowed and spent when the debt was first issued.

Why does the Treasury always want austerity and want us to feel miserable?

Public services that can be improved.

This is my latest Conservative Home article:
When I go shopping I do not set out to maximise what I spend. If I tell friends and family I do not report that I have bought £70 of goods only to face a barrage of complaints that I had not spent £80 instead. I go to the shops with a list of things I need. I compare prices and qualities . I might tell them what I have bought. I might only mention what I paid if I had found some bargains or been given a good offer.
Nor when I go to the shops do I need to ask how much the shop has spent on providing its service, in order to go to the one that has spent the most. I go to the shops that combine a good environment, friendly and prompt service and value for money goods. I would not regard it as a defence for poor service or shoddy products if the shop told me they had nonetheless spent a lot on delivering this. Nor would I take pity if they told me the experience was rubbish because their owner had left them short of cash to spend on staff and stock.
So why then when daily I listen to the government and Opposition hammering at each other over important public services, do they spend most of their time talking about costs? The NHS must be great says the government, because we have just spent £20bn more on it. That is not enough thunders the Opposition.

It would be perfect if we just spent a bit more. Ministers rarely give us any detail over where all the extra money is going, and the Opposition rarely tell us what extra items or staff they would want to hire. It is unusual to hear a normal debate about the quality and range of service, its availability, and how these could in detail be improved. Money is national and political. Service provision is local and outside politics. The detail of why a service is poor is apparently too difficult or too embarrassing for politicians to discuss.

The government should change this pointless debate. They should tell us what improvements to service and what increase in service they are going to buy, and tell us how they will seek to achieve better value for money. They may need to incentivise public sector staff to align their interests with the consumer interest. Ministers may need to change the odd Chief Executive of whom the public sector has so many to ensure better performance. Senior managers should report openly their successes and failures and encourage grown up understanding of what needs doing to improve. As we approach a debate on strengthening our nation’s defences we should not debate how much money we should spend. We should debate what extra capabilities we need and then set about providing them to the right quality for an affordable price. The danger is monopoly provision gives too much power to the professional providers and not enough to the consumers. We have a monopoly nationalised road network. The users pay many times its cost through special taxes on owning and using a road vehicle . Highways England and many Council Highways departments seem to delight in closing roads or parts of roads as often as possible. They allow utility companies access to dig them up and put in cables and pipes in ways guaranteed to create many future needs to close the highway and dig it up again. Why not place these networks in reinforced conduits for ease of access and why not put more of them away from the centre of a main road? They often keep parts of the roads closed at evenings and week-ends when no-one is working on the closed portions. There is no sense that the user taxpayers have any right to expect the road to be more freely available more often. Many Councils regularly change the signs, paintings, lanes, junctions and crossings in ways which make the life of the car commuter or business van driver ever more difficult

Last week I went to speak in far away city by train. The fairly new rains were a lot less comfortable than the old ones they replaced. There was no hot meal service even though I was travelling at meal times. The computer system telling you where your seat was did not work. Overall it was a bad and expensive service. Train services are now hugely subsidised so they should think more about how to make themselves more attractive to the users. The collapse of office working post covid is in part a large revolt of the commuter against train services they regard as both bad in quality and too dear. Too many commuters have been let down by cancelled and delayed trains, by a shortage of seats and by season tickets going through the roof. The wrong kind of snow, leaves on the line and the late running of the train ahead pall as reasons for delayed arrivals.

Public services like health and education that are free at the point of use have plenty of demand which they struggle to meet. Public services like trains and buses with user charges struggle to fill their seats. The public sector is reluctant to close services and facilities that lack users and finds it difficult to keep up with demand where free offers help make a service very popular. Recent years have brought a passion to take the management of many of these services out of politics by delegating the use and control of resources and the recruitment and training of staff to expert managers. Labour and Conservative Ministers favoured this, thinking it meant they would not be to blame when things went wrong. Instead the Minister is still blamed for every failing, whilst the management usually escapes criticism and may even keep their well paid jobs despite some disaster. Parliament concentrates on playing party politics, where the Opposition blames every management failing on too little money, and the government claims they had enough all along. No wonder the services often cost a lot and do not deliver the quality and range we want. We want an NHS free at the point of use and free places for all needing them in schools. We need better ways to debate successes and failures, with more attention on how the money is spent. Ministers who provide the cash need more control over how it is spent all the time they are held responsible.

What should the March statement on the economy say?

The government is pleased to report that growth has been considerably stronger this year than the Treasury forecasts. Employment has grown well and unemployment is low. Tax revenues are well up, and the budget deficit was £50bn lower at the half year than forecast, and has beaten forecast a bit more since. The one piece of bad news is inflation is also well above the Bank of England's 2% target, with prices surging further on the supply disruptions caused by the Russian war.

Looking forward the danger is higher prices coupled with the planned tax rises will cut real incomes too sharply, leading to a fall in effective demand and a slowing of the economy. Far from making it easier to get the deficit down more, this will get in the way of progress in reducing the amount of new borrowing by slowing tax revenues. The government therefore proposes to reverse the impact of the tax rises. It will cancel the National Insurance hike. It will remove VAT from domestic fuel and from green products that help people cut their energy bills. It will make a modest reduction in petrol and diesel duty. As costed by the Treasury this will cost £20bn of revenue forgone, under half the amount of the financial improvement so far this financial year. In practice there will be more revenues from more jobs and more activity as these policies limit the damage to growth and output that will otherwise occur.

The government will adopt and reinforce the Bank's 2% inflation target as its own and will take actions to help expand UK domestic capacity in shortage areas where price pressures are most evident. The Bank created too much money for too long last year which helped fuel the inflation. They have now stopped this which will gradually assist in the process of getting inflation back down to more realistic levels. Inflation of 6-8% is corrosive and unhelpful to economic activity and prosperity. The UK needs to tackle more of its bottlenecks and understand the years of relying on cheap imports will no longer always be possible, as we see in the case of energy and Russian goods.

[My interventions in the Opposition Day debate on the cost of living]

I read that last the U.K. government is encouraging more domestic oil and gas from the North Sea to ease the squeeze, cut CO 2 in gas use and generate a lot more tax revenue. As the exchanges beneath reveal it is still hard work getting Opposition MPs to want us to produce our own with all the obvious benefits that brings. Why do so many MPs want to stop th3 U.K. prospering?

Rt Hon Sir John Redwood MP (Wokingham) (Con): Most of my constituents still have gas boilers. Renewables will work one day, but the immediate crisis is that we are short of gas. Do we have our own or do we have foreign gas? If we have our own, we get tax revenue.

Stephen Flynn: Shadow SNP Spokesperson (Business, Energy and Industrial Strategy): It is interesting to hear that we are short of gas when I regularly hear the opposite from the Minister for Energy, Clean Growth and Climate Change. That is the important point: Government Members can try to disagree with their own Government on these matters, but in real terms we are self-sufficient. Scotland is self-sufficient when it comes to oil and gas, but we can and must go so much further on renewables. If the right hon. Gentleman wants to hang around, he will hear me speak about that in due course.

…

Rt Hon Sir John Redwood MP (Wokingham) (Con): Would the spokesman and his party now agree that we need to get a lot more gas and oil out of the North sea, which would generate tax revenue that the Treasury could use to ease the squeeze, instead of paying huge sums of money to Qatar and Russia for liquefied natural gas?

Stephen Flynn: Shadow SNP Spokesperson (Business, Energy and Industrial Strategy):

The right hon. Gentleman makes an interesting point. Of course, he will be cognisant of the fact that when the oil and gas comes out of the ground it goes into the hands of multinational countries. Do we want to be in a situation in which that gas benefits us here, rather than those abroad? Absolutely. Should we be importing from Russia? Absolutely not, and the

Government have been right to take action on that. Nevertheless, what I want to see from his Government, which he should want too, is a turbocharging of investment in renewables. When are they going to come forward with their energy security strategy? I have heard talk about it in the paper, but there has been no clarity whatsoever. I shall come back to that later in my speech.

…

Rt Hon Sir John Redwood MP (Wokingham) (Con): Over the last year, the economy has grown a lot faster because the Treasury did not hike tax rates but instead went for growth. That was a great policy, so why reverse it? Is there not a danger that these tax rises and massive increases in energy prices will slow the economy down too much? If that happens, the Government will have a revenue problem.

Helen Whately, the Exchequer Secretary: If my right hon. Friend will give me a little time, I will come on to the importance of growth to our economy, which is the right answer for the longer term in ensuring that we improve people’s standard of living.

Pressures on household finances are not generally the consequence of one single price rise; they are typically affected by an amalgam of different factors. Remedying the pressure on households therefore requires taking action on a range of fronts, not just on energy bills. Again and again, that is what this Government have done and are doing. We are acting in dozens of ways to support working families. For instance, over the winter, the £500 million household support fund has helped vulnerable households with the cost of essentials such as food, clothing and utilities. Local authorities in England have allocated the lion’s share of that funding to ensuring that it reached those who needed it most, with 50% ring-fenced for households with children. Additional funding was allocated to the devolved Administrations, including the Scottish Government, in the usual way.

We have also reduced the universal credit taper rate and increased universal credit work allowances by £500 to ensure that work pays. This is essentially a £2 billion tax cut for the lowest paid in society. It is helping around 2 million households to keep an average of an extra £1,000 per annum in their pocket. Next month, the national living wage is increasing by 6.6% to £9.50 an hour, again benefiting more than 2 million workers and meaning an increase of over £1,000 in the annual earnings of a full-time worker on the national living wage. And we are committed to going further, so the national living wage will reach two thirds of median earnings for those over 21 by 2024, provided that economic conditions allow. We have supported working families in other ways too: doubling free childcare for eligible parents, which is worth around £5,000 per child every year, and introducing tax-free childcare, which will provide working parents with 20% support on childcare costs up to £10,000.