

# Expect more gloom from the Office of Budget Responsibility

The official forecasters got 2016 horribly wrong, slashing estimates for the post vote economy. Instead it did well, with credit available, more jobs being created, good growth in car sales and rapid expansion in services.

This year the growth rate is being slowed by a deliberate monetary tightening from the Bank and from the after effects of tax rises in both the 2016 and 2017 budgets. I have pointed to this likelihood for sometime based on the tax and monetary policies being followed. Official forecasts were revised up a bit from the very low levels made after the referendum. The OBR forecast of 0.3% growth for the third quarter of this year was just 25% lower than the outturn figure. I now read in the press that the Office of Budget Responsibility is going to cut its forecasts for productivity growth, which in turn will mean lower growth estimates for output and tax revenues. This will face the Chancellor with a more difficult set of figures against which to make his budget judgement.

I have no problems with more pessimistic forecasts if that is needed to make them more accurate. My complaints have been about a run of pessimistic forecasts that have been wrong, where I have put forward a more accurate alternative. The adjustment to the official figures will take place against the backdrop of a year so far where the deficit has come in well below forecast. Without further changes to forecasting assumptions, that would have left the Chancellor some welcome leeway for tax cuts and spending rises in areas that need them.

It may well be the case that the last set of productivity forecasts by the OBR were too high. It is also the case that the OBR has been underestimating tax revenue growth. Their models seem to assume loss of revenue when you cut a rate, yet in many cases as with Corporation Tax, higher rate income tax, CGT and Stamp duty lower rates have in practice led to higher revenues. The government needs to avoid lurching to too tight a fiscal policy to try to hit targets based on estimates that have in the past proved faulty. The deficit is a figure based on changes in two much larger figures, income and spending. Small changes in assumptions elsewhere can bring big and unrealistic swings in the deficit forecast.

The budget does need to provide sufficient cash for the NHS, schools and social care. It should be tough on any idea that we will pay large sums to the EU, as we need that money at home and we do not owe them beyond our contributions up to departure. Saving the EU money is the favourite spending cut of many voters. The government needs to revisit how it can instil discipline in spending on the railways. It should ensure the overseas aid budget pays for all military costs involved in disaster relief and peace keeping. It should examine ways of making more affordable housing for sale available to meet people's aspirations and reduce the strain on social rented housing which has a substantial public spending cost.

The budget also needs to look at how it can use selective lower tax rates to boost output, productivity and tax revenues.

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## Meeting with Minister Hancock over broadband roll out

I had a meeting with Matt Hancock to draw his attention to some small business constituents who are finding it difficult or impossible to secure access to superfast broadband at an affordable price. I also raised service quality issues for a range of constituents who do have superfast services but do not always find they offer the speed and capacity required.

The Minister said he is well aware of these issues which are common across the country. He is working on ways to expand coverage more rapidly and to ensure good quality service. He promised further initiatives to foster more and better service. He also sought my views on how we should undertake the next stage, going from superfast to ultrafast which will require fibre into the home or office.

I will keep people posted with progress, and will continue to work with Superfast Berkshire who are responsible locally.

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## The EU imprisons some civil servants

One of the strengths of the old UK constitution was an independent civil service. They could give honest and fearless advice to Ministers, who would decide following discussion with them. Civil servants would then implement the decision. Only Ministers announced and defended new policy. Ministers took the blame if mistakes were made whilst defending their officials who could not speak out for themselves.

This model was changed in two ways during our time in the EU. Government created more public bodies to carry out policy or to regulate. This gave to their senior officials a voice, and meant they had to accept responsibility themselves without the full protection of the Minister. As the powers of the EU expanded, spreading a vast canopy of EU law above our own law, so officials started telling Ministers that many of the things they wanted to do were illegal under EU law and therefore could not figure in the Ministerial decision. All too many so called Ministerial decisions were instructions from officials who took their orders from Brussels.

Now we are leaving the EU I am told some important officials are finding it hard to adjust to serve a sovereign UK government. They are still running to Brussels for instruction, and telling Ministers that things are against EU laws which Ministers wish to change or will no longer apply. It is true Ministers want to keep big areas of EU law like employment and environmental laws, but there other areas where people and politicians want change.

Many want to press on with negotiating trade deals with non EU countries. Some officials claim this is against EU law and cannot be done until we leave. I see no evidence of that in the Treaties. Clearly we cannot sign a trade deal until the date we leave, but what is stopping sorting one out ahead of departure? To do so will not damage the EU. As we are leaving their jurisdiction there is no crime the day we leave.

We want a UK fishing policy. Lets get on and design and legislate one so its ready for April 2019 when we depart. Of course that's against current EU rules, but as long as it only applies from the day we leave there is again no violation of the Treaty. Civil service jobs have just got a lot more interesting. Instead of having to relay the EU instruction to a frustrated Minister the two can now work together on a better answer for the UK. Its called democracy and it could catch on.

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## National Funding Formula for Schools

I lobbied the government to increase the total amount going to schools over the next three years, and to increase the proportion of the total going to Wokingham schools which were poorly funded by national standards. The government has now decided on its new National Funding Formula which does give increases to Wokingham schools, and creates a guaranteed minimum of per pupil funding for every school in England. The government has also increased the amounts placed in the total settlement for schools as the figures below show.

Ministers have recently published figures which show how the provisional allocations under the new National Funding Formula for Schools:



relationship the idea of transition looks premature. No future Relationship Agreement, No Transition. If as the PM hopes they soon change their mind and do get on with negotiating a future relationship agreement then there could be implementation time depending on what needs doing to execute the Agreement. If there is no special Agreement, then clearly there is no need for an implementation period.

The overwhelming majority of small businesses do not export to the EU. Their confidence levels and ambitions are dependent on the prosperity of the local and UK economies. They are more interested in lobbying the Chancellor before the budget than in seeking to influence any particular way to leave the EU. Issues that worry the small business community most include the indexation of business rates to the RPI, which they would like eased. Business rates are felt to be high, and hit businesses like High Street shops more than some of their on line competitors. The small business groups are worried about the reduction of credit in the economy resulting from the macro prudential actions of the Bank of England and the slowing apparent in recent figures for output. They regret some of the tax rises put through in the 2016 and 2017 budgets, and are keen to resist any changes to the way NI is levied on the self employed.

There is a temptation in some journalism and commentary to attribute everything to Brexit when little that is currently happening is to do with Brexit which still has not happened. Small business wants a positive budget that helps promote growth. An end to monetary tightening combined with some suitable tax cuts would be the best response from government to the needs of small business.