The state of the public finances

It is becoming more and more difficult to see an accurate picture of the nations finances given changes to the definitions and runs of data and the accounting methods deployed.

Yesterday we learned that there was a £5bn surplus of revenue over expenditure in January., This was considerably better than the OBR recent forecast. We should expect there to be a healthy surplus each January, as substantial sums of self assessment income tax, CGT and other annual taxes are paid following the filing of returns.

I found the more interesting figure was the one for the government's cash surplus last month. That was a much healthier surplus of £21 bn for the one month. That is the excess of revenues over total bills paid by the government that month. The big discrepancy with the headline figure of just £5bn can be explained by non cash items like the payment of £4.2bn of taxpayer cash to the Bank of England for its losses, where the cash sent to the Bank remains within the wider public sector, and the so called interest bill including the indexation changes on indexed government borrowings. The state does not pay these out as cash payments but they are rolled up until the maturity date of the bond which may be 20 years or more away. It will then be reborrowed, not requiring tax revenue to pay out.

The figures suggest there is what the Treasury call headroom for some tax cuts in the budget. The OBR will score lower tax rates as losing the state revenue. There is an issue with this, as cuts in tax rates for taxes like Corporation Tax and higher rate Income Tax have always in the past led to more revenue not less. Overseas experience as I highlighted yesterday is a lower rate of business tax brings in much more revenue, encouraging so many more businesses to locate and invest in low tax jurisdictions. The headroom will be enlarged by Treasury accounting. By the year end when many expect the inflation rate to have more than halved there will be a big saving in the interest programme as the Treasury charge the non cash item of indexation increases on inflation linked state debt to the debt interest programme. The energy subsidy programme will also produce large savings after the wind down in April.

Among the ideas the Treasury should adopt to assist growth and more capacity in our economy are cancelling the Corporation tax rise, improving the tax system for the self employed, raising the VAT threshold for small business and suspending VAT on domestic fuel.