Meeting with Local Government Minister

I attended a meeting between Wokingham Council and the local government Minister earlier this week to put the case against negative grant and to argue for a better financial settlement for Wokingham and similar placed Councils at the bottom end of the grant lists. The government is currently consulting on these matters, and will publish its conclusions later this year.

The tax revenue pours in – but not from all taxes

Mr Osborne's policy of cutting the budget deficit always relied primarily on a big boost to tax revenues. That is also the policy of his successor, Mr Hammond. Total tax revenue of £604bn in 2014-15 is expected to rise to £699bn in 2017-18. By 2022-23 they want to be taking £815bn from us. In 2009-10, the last Labour year, they collected just £476.4bn. Tax revenue in 2017-18 will be a massive 47% higher.

They expect Capital Gains tax receipts, Stamp duty on shares and self assessment Income tax to fall in 2017-18.The main gains in 2017-18 are forecast to come from National Insurance and environmental levies assisted by PAYE Income Tax and VAT. There is a substantial reduction in forecast for all years for Capital Gains Tax, reaching a £2.3bn fall in 2022-23. Capital Gains will bring in not much more than in the last Labour year before the crash, when rates were lower. There is a reduction in the Stamp Duty land tax forecast revenue in every year as well, reaching a £0.6bn cut in 2022-23.

This is no surprise. The Treasury underestimates how sensitive to the rate of tax these sources of revenue are. Rich people who pay much of the CGT and all of the top end Stamp Duty do not have to undertake a transaction, and are clearly in many cases not doing so because they do not intend to pay the combined high CGT and Stamp Duty charge. The higher rates of Stamp Duty and the maintained higher rate of CGT on property have brought about a substantial reduction in higher priced property turnover, hitting the revenues.

If you want to follow a higher tax revenue strategy on this scale successfully it is important to fix rates that maximise the revenue from each tax source. The Treasury is still struggling with finding out that revenue maximising rates are lower than they think.

Water capacity

There is currently a consultation underway over future water resources for the Thames Valley. The main supply companies agree that we will need a new major reservoir, and have proposed a site near Abingdon. This would be a common facility for all local water companies. It could store more water for us and put it into the river system when we need it.

Demand continues to expand with a growing population. There are one off savings in volumes when people switch to water meters. The danger in not providing additional storage capacity would come if we had three low rainfall years in succession. There could also be problems in relying too much on withdrawing water from chalk natural reservoirs, and seeking to rely on too much abstraction from rivers. Both of these can have unpleasant environmental impacts.

The extreme case of Cape Town is a warning to those who think we should keep capacity close to demand. Cape Town is now suffering badly from water shortage thanks to failing to put in more storage, and has now experienced a long period of low rainfall.

Thames Water is running its desalination plant most of the time on partial capacity, though this was designed to be an expensive long stop provision for shortage periods.

Scarce water?

There's plenty of rain in the UK in a typical year, and plenty of rivers that take the water back to the sea.
That does not mean we can relax about having an ample and good water supply. It still needs an industry to collect and process the water to the required standard, and to pipe it to homes and businesses on demand.

The authorities seem keener on regulating demand than on boosting supply. They rightly point out that some of the older pipes in the system are leaking, with quite high levels of suspected water loss in transmission. There are programmes to remedy this, but they can be very expensive as they usually entail digging up lots of roads and replacing miles of pipe, some of it still in good working condition. We need to decide a pace and realistic cost for moving to fewer leaks.

The authorities also like water meters. Charging people for what they use has its merits, and apparently produces a one off drop in water consumption as people adjust to the unit pricing of what they consume. Water meters help pin point leaking pipes on customer land and encourage water users to eliminate such waste by mending their own pipes.

When it comes to accepting that substantial rises in population requires more water, there remains a range of options. There is the possibility of cleaning up more waste water to a higher standard and re using it. There is the ability to put in desalination plants as there's huge quantities of water all around us in the sea. That is not about to run out. There is the opportunity to extract more water from natural aquifers. Finally there is the obvious possibility of simply storing more of the water from rivers when they are running high or in flood for the times when there is little or no rain and the rivers are running low.

It is not good practice to extract large quantities of water from rivers when they are running low in hot weather, and not a good idea to run down supplies in natural aquifers too much. Given the great growth of population and water use in London and the south east I do think we need to plan for a substantial new reservoir to add to the flexibility of our system and to improve our resilience in dry times. I am writing in support of the proposal for a major reservoir near Abingdon, which I would like to go ahead sooner, not later. The new reservoir over its long life would provide cheaper water than desalination and would also provide a place to take excess water in times of flood.

One cheer for the OBR

With spectacular bad timing the OBR last autumn lowered their forecast for growth in the UK economy based on turning very negative about productivity growth. They did so just in time to see productivity suddenly spurt forward, and for the growth rate to come in 13% higher for 2017 than their forecast. That takes some doing, making that kind of error for the year in question when the forecast went out in the penultimate month of the year!

This time the OBR have second thoughts on 2018, and have edged their growth rate forecast up by 7% to 1.5%. I expect they will need to revisit this as the year progresses. I can only give one cheer for the OBR being a little less pessimistic. The upward revision to 2017 came about because the actual figures showed they had got the forecast wrong again. I remember being criticised for complaining that official forecasts since the Brexit vote rushed to be wrong by being too pessimistic, but so it has proved. These latest errors are not on the scale of the forecast winter recession in 2016-17 which the Treasury had to write out of its script when growth accelerated in the second half of 2016.

The OBR says they now do not know whether "growth slowed down, speeded up or remained stable between 2016 and 2017", so it is difficult to see how they can ascribe anything to the Brexit vote! Their forecast error in 2017 comprised underestimating private consumption, private investment and government spending, but also overestimating the favourable impact of overseas trade. There was no decline in private investment in the way many establishment forecasts had expected. They have had to admit that a weaker sterling did not depress imports as forecast. Nor was the price effect as strong as some thought.

The OBR reminds us in their numbers just how much extra money the UK would have to send to the EU after we have left if a deal is concluded. It will need to be a very good deal in every other respect if it is to be worth £37bn. There’s a lot of good we could do at home with that sum, and spending it at home instead of sending it to the continent would give a timely boost to our national output and income.