A mythical £5.7bn of revenue

Synopsis: The House of Commons Treasury Committee has provided a reminder of a £5.7bn questionable assumption in the OBR's forecasts for 2023/24 tax revenue.

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The price of petrol and diesel is a sensitive political subject in many parts of the world. In the UK it also the source of some dubious financial forecasting, which has been highlighted in a new report from the House of Commons Treasury Committee (HCTC).

To understand what prompted the HSTC's action requires a history lesson. Back in the 2009 Budget, the then Chancellor (Alistair Darling) announced an increase in fuel duty of 2 pence per litre on 1 September 2009, to be followed by 1 penny per litre in real terms each year from 2010 to 2013. When George Osborne took over the job, he set out in the Budget 2011 a 'fair fuel stabiliser' which would see fuel duty rise by inflation alone (as measured by the RPI) if oil prices were determined to be 'high'.

However, the last increase in fuel duty was on 1 January 2011. Each year, successive Chancellors have used a freeze on fuel duties as a Budget sweetener. In the 2022 Spring Statement, Rishi Sunak went one further and announced *'a temporary 12-month cut to duty on petrol and diesel of 5p per litre'.*

Throughout the period since 2011, the official Treasury policy assumption has been that fuel duty will rise in line with RPI inflation. The Office for Budget Responsibility (OBR) must follow that assumption in its forecasts, even though over a decade's precedent suggests it should not.

The OBR's Autumn 2022 Economic and Fiscal Outlook confronted the idea that spring 2023 would see fuel duty rise by double digit RPI plus the ending of the temporary 5p cut. Under the heading of 'main adverse economic and fiscal risks' it made the following comment…

'The planned 23 per cent increase in the fuel duty rate in late-March 2023, which adds £5.7 billon to receipts next year. This would be a record cash increase, and the first time any Government has raised fuel duty rates in cash terms since 1 January 2011. It is expected to raise the price of petrol and diesel by around 12 pence a litre.'

£5.7bn is not small beer: HMRC's ready reckoner puts it at £450m more than 1p on basic rate tax would raise in 2023/24. Nevertheless, nobody expects Mr Hunt to turn the Treasury assumption of a 12p a litre increase from fine green theory to painful political reality. The corollary is that the Chancellor will need to find the £5.7bn elsewhere.

The HCTC recommends that *'…the Treasury, for the purposes of providing the OBR with a policy assumption for future forecasts, should assume there will be no inflation-linked rise in fuel duty over the forecast horizon. This would more* *accurately reflect the recent path of fuel duty and make for a more credible forecast. As ever, the Chancellor would be free to propose changes in duty rates at fiscal events.'*

Comment

Given the fall in petrol and diesel prices since their July peaks, a 12p per litre increase would take pump prices back to roughly last November's levels, with a knock on effect on inflation of about 0.25%. Mr Hunt is already reported to be planning no tax cuts in the March Budget, but does ignoring formal Treasury assumptions of increases represent a cut?

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