

Cornish Cream

Roger Smith views the world's turmoil from his country hide-out

No longer for me the pressures of living full time in our capital city. Six years ago I made the decision to spend most of the summer working via the internet at my house near St Ives in Cornwall and have no regrets. After a holiday break from *COUNSEL*, I can observe the financial affairs of our great nation from a sense of distance: a Cornish perspective, you might say.

County of contrasts

The local picture is not entirely paradisaical: the price of diesel has reached £1 a litre at my garage; I learn that one British citizen goes bankrupt every minute in England and Wales; my local post office is regularly filled with Lithuanian farm workers now in large numbers; our local hospital is again under pressure of closure; the local village junior school is filled to capacity; access to and exit from my county on the A30 is again compromised by well timed road alterations during the main tourist season

by the Ministry of Transport and Cornwall County Council.

In spite of these little tribulations, I can report that we do at least have no water shortage. This year has been wetter, hotter and colder than usual. The Cornish climate is certainly changing in recent years with more extremes of weather being evident. So we must come to terms with global warming. Even Sir David Attenborough now admits it.

And the country, too

In national and international affairs the world appears to be in turmoil: disaffected British Muslims are apparently planning to explode American planes over the Atlantic; thousands are dying in Africa and the Middle East; the rich oil-bearing countries get a lot richer every minute whilst the poor get poorer or simply give up and die; oil companies report huge profits and UK banks, following an orgy of poorly-regulated 'over lending', declare exceptional profits amid a debt crisis for thousands of our citizens.

Black and white

We are increasingly a country of sharp contrasts. A minority of debt-ridden citizens are throwing in the towel and opting for an Individual Voluntary Arrangement (IVA) or personal bankruptcy. Why should this be happening? As the Bank of England inflation index excludes mortgages, council tax and childcare, then the sharp rises in these costs are not reflected in the true inflation figure. It might be shown to be higher than target, so the Bank of England with its remit of keeping base rate in line with inflation keeps interest rates by the standards of most families' real lives, artificially low

The result is the economy is flooded with cheap money for lending. The more prudent reader might say that people should live within their means. But what we have to spend is determined by the Government who takes up, (including National Insurance contributions) 50% of our hard earned money.

When we have paid a £1 a litre



Smith: savings boom



for petrol or diesel (most of it is tax); the mortgage (dearer after the recent rise in base rate to 4.75%); another sharp council tax hike; much higher energy costs; and having bought ridiculously expensive rail and tube tickets and paid child support costs at school or university, is it any wonder the holiday or new car ends up going on a credit card or loan agreement?

High levels of personal debt...

Our highly taxed country thus contributes to the high levels of personal debt. The banks and their accomplices in credit card companies offer seemingly fantastic deals to the gullible, financially inexperienced or simply over-stretched British hard working family. Instant gratification to pent up desire... and the result is £1 trillion of debt! Is this a prudent way to run an economy?

... Yet saving is back in fashion

But despite, or perhaps because of it, this cold shower of reality present on our daily media, personal saving seems to be back in fashion. Spurred on by massive publicity about A Day and the changes to the UK pensions regime from 6 April 2006 there appears (judging by my postbag alone) to be a keen desire to review investments and pensions and it seems, renewed confidence in regular saving.

Falling stock markets in May do not seem to have dampened investor's appetites. According to the Investment Management Association, net retail sales of investment products such as ISAs jumped 113% in May, while overall sales this year are £7bn. as opposed to £8.4bn. for the whole of 2005 though this is still well below the best year of 2000 when sales reached £17.7bn.

Baby boomers?

The difference can be partly explained by the maturing group of baby boomers of which I am one (I was born in 1952) who realise we must put more away for our retirement, as males living in good health to age 65, can now expect

to live till 90. Healthy females can expect to live even longer. So longer life is now, with modern medicine, available to all in the UK, or at least most of us, depending in which Health Authority one resides.

The savings boom can also be explained for the extension of investment asset classes which now

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permit commercial property as an ISA investment. Experience of firms like my own who are looking for more space in W1 and simply cannot find it, are faced with rents of Euro 1361 per square metre a year for prime locations (a 25% increase year on year) as opposed to Euro 817 in the City of London. This contrasts to Zurich at E626 Paris at E730 and Moscow at E 955. The demand from tenants is high and now there is more money chasing a good home from the new Property ISA funds!

Richer and poorer

It is also clearer that rich Britons are getting richer from inheritance despite the ravages of a widening inheritance tax burden. Residential property prices continue to rise in 2006 despite the doom and crash forecaster's predictions during 2005.

The average parental subsidy for a first property for an adult child is purported to be somewhere in the region of £27,000 and that figure is likely to change as university fees and other costs rise and student debt increases.

House prices and planning

But with the Government's recent announcement that planning permission is to be encouraged across Britain, perhaps UK housing prices may fall in many of our higher priced areas, to accommodate an ever growing demand

fuelled by an unknown number of immigrant workers from Eastern Europe. I have been promoting organic growth of towns and villages over the years in many differing publications, but I little thought the Government would forego years of preservation of the Green Belt and prime agricultural land.

Apparently there are to be no planning controls on the 'quality' of the building and we might once again see blocks of ugly cheap housing at the edge of many a pretty village or town!

The German experience

My knowledge of Germany is scanty but I understand that the village or town residents determine the demand to the local council and any citizen can approach a farmer and the council and do a deal to build a new house on the outskirts of any settlement. Planning control mechanisms and strict environmental building quality requirements are imposed. Based on local demand, the community grows naturally. It is an organic approach to dealing with housing demand in places where it is needed rather than this British 'knee jerk reaction' to the recent criticism of Government policy that the south east can't sustain more houses without more water resources. I know which approach I prefer.

Sources: *Institute of Actuaries report June 06* & *Daily Telegraph 28 July 06*

The views expressed are those of the author and not of Foster Denovo Ltd

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