

Be Afraid ! Options to balance the National Budget.....

Written by Chris Blyth
Tuesday, 30 August 2011 23:36



Be Afraid – Be Very Afraid.....

The impact of the latest UK VAT Agreement is to reduce our Government's income by some £175 million per year in total – out of an annual total “spend” of some £600 million or so – or a cut of 30%.

Given that our previous Government has spent every penny of income possible in the past five years, made little progress in addressing the problem of the reduction in the VAT tax take (although already actioning the “creative accounting” possibilities of adjusting the nominal interest rate on capital projects, and of starting to take from reserves), the new Government from September faces real problems in producing a “balanced budget”, as it is legally required to do.....

The last Government would have had you believe that growth in the private sector of 7.5% per year would eventually enable the books to be balanced, and allow the Government to continue its profligate spending – but that proposition clearly falls down, given the size of the VAT cut, and given our major trading partners in UK, Ireland and Europe are stagnating if not actually collapsing under the weight of their debts. The general economic outlook is for stagnation to continue for much of the next ten years – and which, if correct, necessitates our next Government taking firm and urgent control of the budget.

So where now ? Every voter should be challenging prospective candidates in the General Election on their proposals for tackling the issue.... and there are only three possibilities.....

- Raising taxation
- Cutting the public sector spend (and presumably some of the services provided)
- Or taking from reserves (currently worth some £1.4 billion)

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Given the massive adjustment needed to achieve the desired results, the probable outcomes (I would suggest) include some or all of the following :

- Allowing the reserves to absorb perhaps £40-50 million per year for the next 3-4 years, whilst our
 - private sector is given incentives to recruit and grow and the time to expand its operations
- Cutting public sector spending by £30-40million per year via a 10% cut in headcount (say, a reduction
 - from 8000+ employees to 7200, together with continuing pay restraint)
- Increases in taxation / rates / rents and various “stealth taxes” to raise the remaining £100 million needed
 - some ideas likely to include
 1. Higher Rate Income Tax to 25%, and a freeze on personal allowances
 2. A rise in the income tax exemption limit from £115,000 to £250,000
 3. A progressive but steep rise in public sector housing rents (currently acknowledged to be amongst the cheapest compared with UK)
 4. An increase in rates of 3% in excess of inflation
 5. The ending of the free bus passes for pensioners, to be replaced with concessionary fares
 6. Freezing the “manx supplement “ for retirement pensions
 7. The ending of final salary public sector pensions, to be replaced with “career average” pensions, and a
 - major increase in employee contribution levels
 8. A review of corporate taxation, and our position vis-a-vis competitor economies, with a view to
 - increasing the tax contribution from companies
 9. Stealth taxes such as expanding “benefits in kind” tax to include employer provided car parking,
 - increases in town centre car parking charges, restrictions in state benefits to those identified as being
 - most in need (means testing for child benefit ? stricter criteria for housing and other benefit allowances
 - etc ?)
 10. Selling off the Post Office, and the MEA Retail Operations
 11. Requiring the buses, trains and airport to become at least cost neutral over the next 4-5 years
 - (currently losing £12 million per year)
 12. Increases in class sizes in our schools to cut the education bill, and extending waiting times for
 - non-essential surgery or treatments in our hospitals

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None of the above would be popular with the electorate, but given the size of our budgetary problems, some (if not most) of the above will be necessary in the near future – I would urge all voters to challenge their prospective MHK over the next few weeks and see just how deeply he (or she) has considered the problems, and just what measures they will be advocating, should they be elected..... and if the answer is “none of these”, you’ll recognise their inadequacy for the task, as they will clearly not have faced up to the difficulties of the major financial issues ahead.