

A Guide to Spending and Tax Planning

Please find below our thoughts on how to approach the States' spending and tax planning.

First find out what cash you think you need. This ought to be easy but as we have mentioned previously the States' accounts are confusing and misleading and it's not as easy as it should be. Read our previous paper on this matter [here](#).

Nonetheless in principle it's easy to add up all the States' activities and see what we are spending. From this you can establish what spending needs to be over the next few years.

Actually, even the current accounting allows the States to estimate its income from current taxes and other revenues fairly easily.

At this point you can see that **we are spending (very roughly) £100m a year more than our income.**

Again, much harder than it should be but it's really not that hard to see, the borrowings, pension liabilities and investments held by the States if the accounts are properly prepared.

So how can we deal with this £100m shortfall?

- a. **Reduce spending/stop growth in spending.** There are targets such as the huge cost and liability (£1.2 billion) of the States' staff pension fund – putting this in line with private sector costs could save perhaps £10m per year. There are other targets in the costs of Government where significant efficiencies can really be made.
- b. **Decide on priorities** – you could decide that education and health spending for example are more important than the dubious costs and

benefits of signing up for UN treaties. Cut back on the “nice to have”. Save money.

- c. Try to get **economic growth** going. Long term this is critical. We need to make, and keep, Guernsey a good place to do business and to employ people.
- d. **Some capital expenditure is essential** – we should not stop this. Some other capital expenditure is a good financial investment and we should be doing that. But a lot is “nice to have” and that needs to wait for more prosperous times. Decisions need to be made on these categories.
- e. All the above will reduce but not eliminate the £100m problem. So we can:-
 - i. **Increase/introduce taxes**. This gives obvious issues of standards of living, decreased attractiveness of the Island to people and businesses and some reduction in the output of the economy. Things like putting a withholding tax on pensions paid to people no longer living here are useful sources of revenue without detriment to the Island.
 - ii. **Borrow more**. Only borrowings that are used to generate future economic return do not “kick the can down the road” and make things worse for those who follow us. At some level of borrowing, and in circumstances easily imaginable, borrowings could give rise to a future nasty crisis.
 - iii. We could **sell some of the assorted investments** that the States own. We are really unusual as a (near) nation in having both substantial investments and (larger) borrowings and liabilities and we are betting that returns from investments will outrun the borrowing costs. They may.....or maybe not.

Longer term - medical care cost inflation and increasing issues with the care costs of the likely increasing proportion of longer surviving elderly need tackling. Pension ages will need to rise, self-funding will need to increase, and the boundaries of personal responsibility as opposed to States’ liability need careful drawing,

None of these solutions are politically easy but the sooner they are tackled the better. Our politicians should be able to do this, but pain aversion is a powerful political influence leading them to defer taking difficult decisions. We should not let them keep dodging the issues.

There is however a fundamental problem with achieving all of this and that is the way in which the States' Assembly and to some degree the civil service is currently structured.

As it stands it gives too much power to individual committees and relies on individual Deputies lobbying each other to get proposals voted for or against.

Guernsey needs an executive government.

Without changes to the way the Assembly works the island will continue to be at the mercy of individual deputy's interests and vulnerable to weak and inadequate States Deputies.

We need actions.

No action is a very bad option.