14th March 2023

Guernsey Taxation - the way forward - an update.

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Guernsey Taxation – the way forward –an update.

We published a paper before the great debate at the States on GST. Despite days of debate no decision to implement the "Spend and Tax" package was made.

The debate showed clearly that the simple question as to the real cash need was not clear to States Members.

Members repeatedly expressed understandable confusion over the idiosyncratic States accounts and lack of forecasts – which was very predictable. To plan tax you need cash forecasts – we produced a reasonable forecast that the cash need was c£160m pa in the absence of spending cuts. Nothing surfaced in the debates to make us wish to change that estimate.

The external budget for the usual consulting contracts of £150k on the tax proposals has turned out to be £400k.

The effect of no decision is a de facto kicking the problem past the next election in June 2025. Cash shortfalls of around quarter of a billion pounds will have to be met in the meantime from borrowings and the sale of investments.

The decisions, such that they were, are listed out below:

1. To review the capital expenditure spending plans.

You might very well have hoped that this would have been thoroughly done before taxation increases were put forward. The States has now asked for this to be done by March 2024 – hardly a demanding target. It seems that Policy and Resources noticed the leisurely nature of this commitment and accelerated the timetable to July 2023.

The Chief Minister announced "All schemes in the current capital portfolio will be examined to determine whether they could be paused, delayed, stopped or re-scoped based on strategic fit, affordability, deliverability and impact on related schemes." None too soon. (What is the distinction between "paused" and "delayed"?)

These schemes were reported in the press as adding up to around £460m – we cannot readily reconcile this with previous States announcements and plans which seem to be perhaps 25% more.

Our earlier paper on capital expenditure gives a simple analysis of the classes of capital spend.

Essential – power, other essential utilities.

Economically rewarding – has a measurable rate of return. This is the only category where debt funding is clearly appropriate.

There should be little debate on these categories. We doubt that the current pipeline is a quarter in these categories.

Then there is Nice to Have. Improved leisure facilities, Alderney runway, some environmental spends, beach accesses and the like. Here there is much scope for debate, cancellation or deferral. The decisions are mostly political – but if the States cannot obtain funding from its Members - then it is easy.

2. **To set up "a Sub-Committee working with Principal Committees, the States Trading Supervisory and wider States Members" to find savings of £10-£16million over 5 years (£2-£3m pa) to be considered by the end of 2024.**

Well over the political horizon and really rather pathetic in its objectives.

3. **"To direct the Policy & Resources Committee, working with Principal Committees and wider States Members, and after effective engagement with the community, to identify a longer-term vision for the island and an accompanying economic, social and environmental model and report back by the end of 2024."**

No lack of ambition there. Seems very unlikely to solve a funding gap. A good reason for not doing lots of things.

4. **To set-up a Policy and Resources sub-group to review possible changes to the tax system.**

No stated timetable.

5. **"To direct the Policy & Resources Committee, working with the Committee for the Environment & Infrastructure, to investigate annual revenues generated through transport, such work to include consideration of fuel duty, distance charging, the application of an annual tax on the ownership of vehicles and paid public parking and to report back to the States by the end of March 2024."**

Unlikely to raise very much and politically unpopular.

6. "**To direct the Policy & Resources Committee, working with the Committee for Economic Development and in consultation with industry to consider, in lieu of GST, the opportunities to raise up to £2m annually from the visitor economy including consideration of the use of a visitors' levy by the end of March 2024."**

Not very significant. Tourism hardly prospering as it is.

7. **"To direct the Policy & Resources Committee to provide an estimate of the structural deficit, if any, in future annual budget reports."**

It is to be hoped that they understand what it is.

8. **"To note that the Policy & Resources Committee has commenced a project to review the package of terms & conditions for new public servants and redundancy policies, and to direct: that this includes consideration of the closure of the public servants' pension scheme to new entrants and offering a defined contribution pension scheme; and to report back by the end of September 2024."**

Notably there is nothing here about tackling the very considerable issues for current public servants' very generous pension benefits. And a very leisurely timetable to come up with proposals. Bizarrely, under the current accounting concoction that the States use, this limited proposal would likely <u>increase</u> the "deficit."

Government Structure

The failure of the Spend and GST proposals to get progressed raises a question as to the effectiveness of the States finance function to facilitate a solution.

The inability of the States to deal with these budgetary issues is clearly an issue of importance. We may well have a "lame duck" States until the next election.

We are in the process of generating a paper on the structure of the Guernsey Government and would welcome any inputs. It is not an easy subject.