

Government Finance

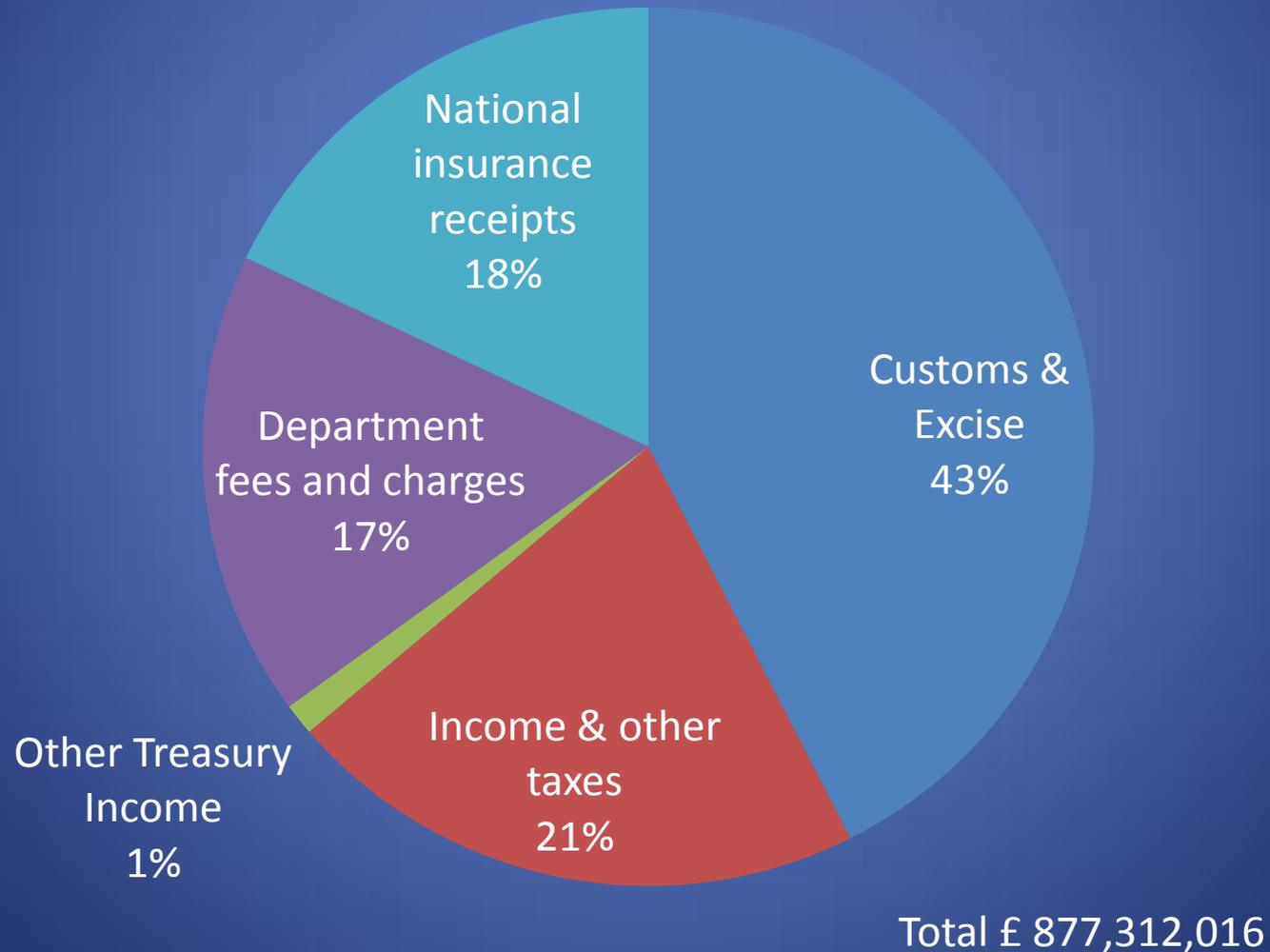
A Bluffer's Guide

Themes

- Income & Expenditure
- Revenue vs Capital
- Savings, Cuts & the VAT black hole
- The Budget Process
- The Budget Problem

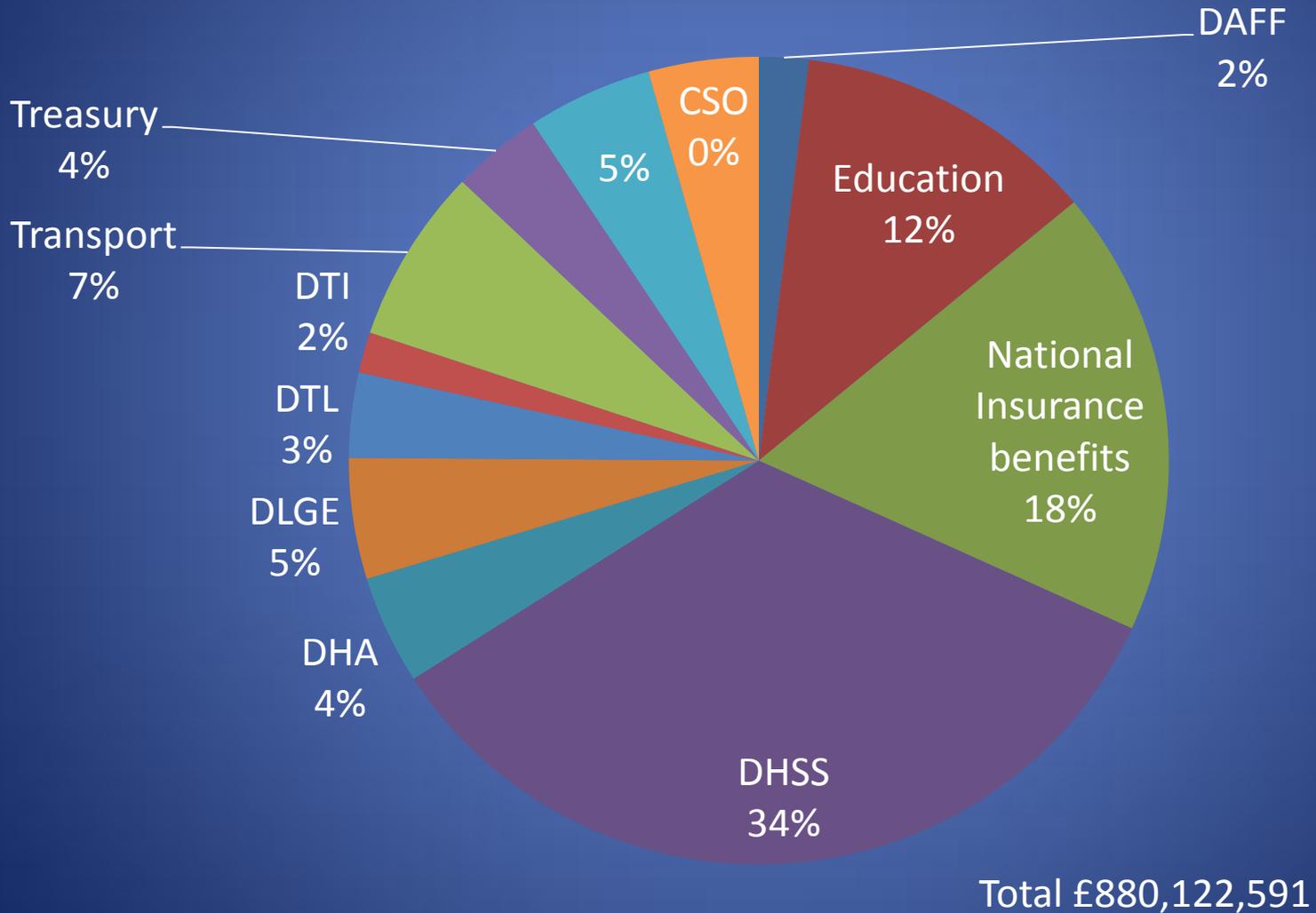
Where does it come from?

Government Income 2009-10



Where does it go?

Government Spending 2009-10



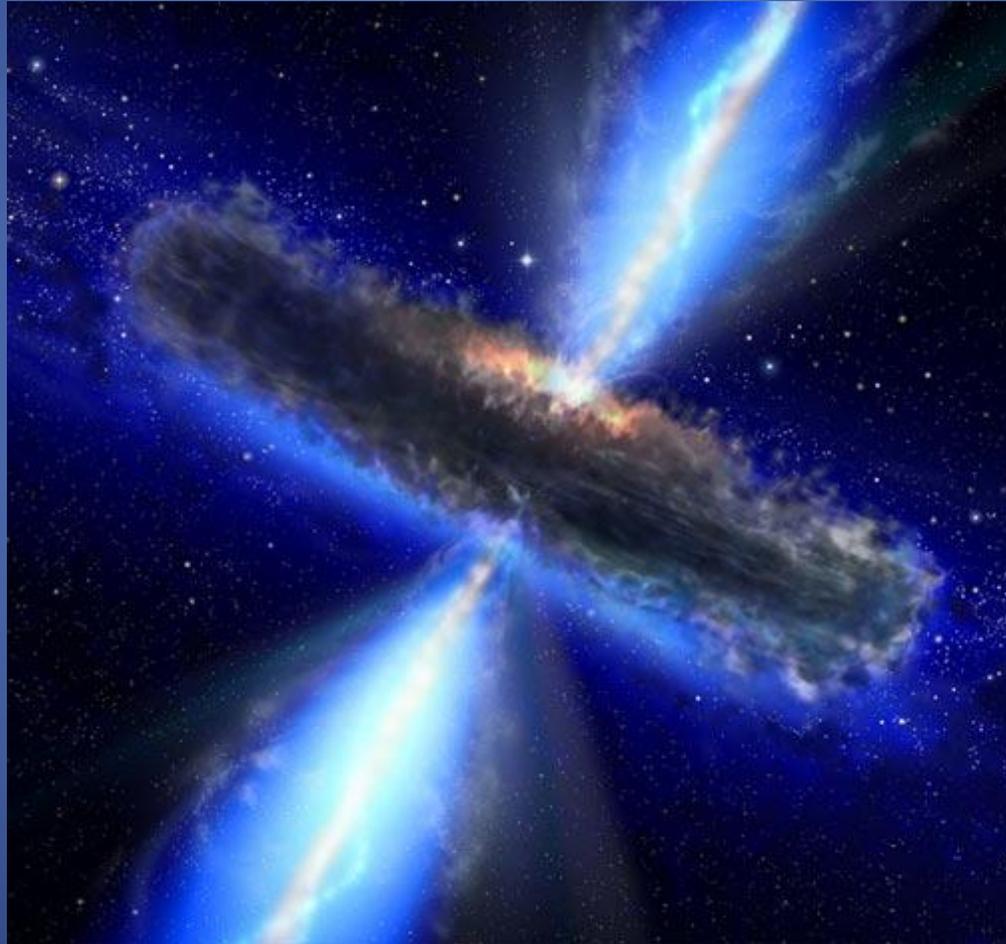
Revenue vs Capital

- Of that £880m of revenue spending, £56m is repayment of loans.
- Most loans are internal, i.e. Government borrows the money from itself
- This loan account is the Consolidated Loans Fund (CLF) and is one of the reserve accounts.
- As at 31/3/2010 the cash balance was about £116m

Why not use our reserves?

Reserve account	Balance	Comment
National Insurance Fund	£568,354,638	Only for use on pensions and benefits
Hospital Estate Development Fund	£45,126,732	To cover loan charges on hospital
Currency Account	£71,879,692	Used to back Manx notes and coins in circulation
Media Development Fund	£54,826,194	Ringfenced for film funding (see PAC Report)
Public Sector Employees Pension Reserve	£208,256,760	To offset the £1.3bn pension liability
Consolidated Loans Fund	£116,634,669	To fund infrastructure
Economic Development	£14,427,246	Could be spent
General Reserve	£591,767,057	Could be spent
TOTAL	£1,671,272,988	

The VAT Black Hole



Rebalancing strategy

	2010-11	2011-12	2012-13	2013-14	2014-15
	£m	£m	£m	£m	£m
Revenue	24	37	29	58	59
Transfers to capital					
Spending reductions	26	40	43	46	49
Increases in taxes & charges	20	27	27	27	27
Transfers from reserves	15	38	43	11	7
Total	85	142	142	142	142

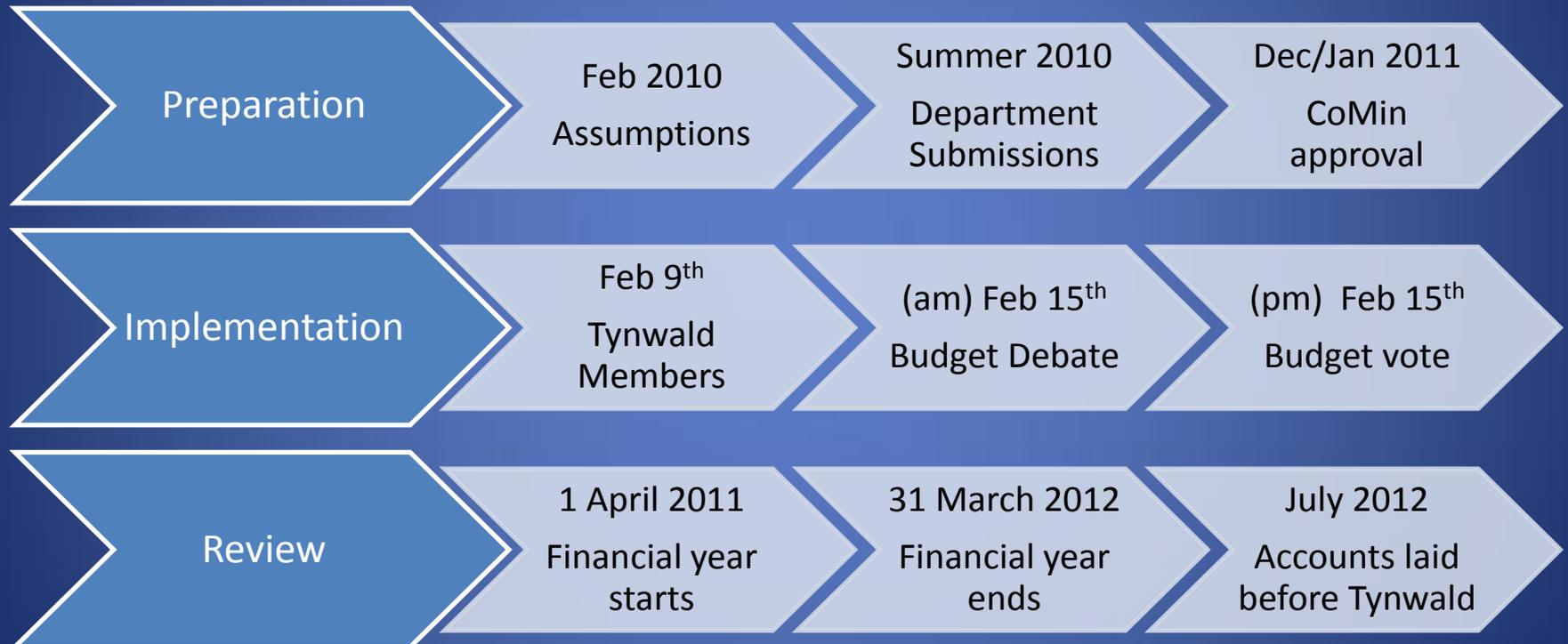
Tony Brown's "State of the Nation"

- "The Budget delivered to Tynwald in February 2010 reduced government's overall net revenue spending by 6.5 per cent or £37.1 million."
 - Target per 2010 budget was a net reduction from £580m to £535m. A drop of 7.7%.
- "Government increased the higher rate of personal income tax from 18 per cent to 20 per cent, and we implemented a 1 per cent increase in employee National Insurance contributions; we transferred £15 million from Reserves as part of our readjustment programme to help transverse through the change, and minimise the impact of the loss of some £70m worth of the income to government, due to the change in our VAT receipts."
 - Budgeted net income for 2010-11 was due to drop by £35m.
 - Per budget VAT income drop from £306m (08/09) to £264m (09/10) and £224m (10/11), but per accounts, VAT collected in 2009/10 was £397m!
- "However, at the same time we increased the Personal Allowance Credit for the less well off in our community, by 18 per cent, and the income tax personal allowance was increased by 1 per cent."
 - Personal allowance credit can provide a disincentive to work in certain circumstances - see my paper on the subject.

Tony Brown's "State of the Nation"

- "Also announced during the 2010 budget was a freeze on staff salary budgets and, the loss of nearly 100 Government posts through non-replacement of vacancies, this being achieved through a new assessment process that the Council of Ministers introduced."
 - Salary bill rose by £6.5m as increments were not frozen
 - The 100 posts had not been filled, so were not a true saving
- "I announced that departments were required to seek to make a 10 per cent reduction in staff costs – resulting in a £30m saving if achieved, and this work is ongoing."
 - Civil service numbers have risen by 23 since 1 April 2010
- "Also a notable aspect of the planned response agreed in last year's Budget was the provision of a substantially reduced, but still effective capital spending programme, totalling £96 million".
 - Traditionally only 2/3 of the capital projects budget has been spent

2011-12 Budget process



The Budget problems

- Assumptions are over a year out of date by start of financial year.
- Budget only in 12 month periods
- There is no opportunity for public consideration or input before the budget is approved. Equally there are no opportunities to lobby MHKs once the budget is announced. The public are removed entirely from the process.
- Because the Budget is given to Tynwald Members as “strictly confidential” six days before the announcement, no expert advice can be sought.
- Six days is not adequate time to scrutinise and comprehend £800m of revenue spending and £127m of capital expenditure, especially whilst considering all other items for the February Tynwald. (There were 20 items on the February 2009 Order Paper plus questions.)
- The Budget, when published is effectively a fait accompli. The budget document itself (Pink Book) cannot be amended.
- The Manx system is based on “consensus” politics, but not all members feed into the budget process until the debate.

Any questions?

(but not about the 2011 budget!)