

Government response to VAT bombshell

Written by Chris Blyth

Tuesday, 17 November 2009 22:43

Given the severity of the VAT “tax raid” by the UK on the Island’s expected income in the next two years, it cannot be a surprise that the Manx Government needs time to evaluate a fully considered response. However, the response to date is one of complacency, of “traa dy lioar”, and the continued protection of self-interest within our bloated public sector. It also fails to recognise the reality that the UK Government faces a long term financial crisis, with major budget deficits forecast for some years to come – and, it has to be suggested, the probability of further “salami slicing” of the Manx VAT revenue in coming years.

This budget crisis is, in reality, a crisis of government itself - of a government which has used the years of economic growth to increase the size of the public sector, and rewarded itself generously whilst doing so, but without taking the necessary steps to improve service efficiency.

The situation therefore demands serious and urgent measures to clarify the government’s intentions. This is the opportunity for major reform of our public sector –reform which is necessary given the lower productivity, higher wages, and better pensions compared with the private sector (but which has largely funded such excesses). Were this to be a business (as opposed to a client state), action would already have been taken. A 20% cut in the government’s revenue MUST require surgery to the headcount, and some reduction in the services to be provided by the sector. We now have approx 8200 “full time equivalent” employees in the public sector - more than the size of our economy can possibly justify – and we should be looking to reduce this to no more than 7400 within the next 12 - 18 months i.e. a minimum of a 10% reduction from the current position. And thereafter, arguably further reductions to a target of perhaps 7000. We need :

- An immediate headcount freeze so that any positions becoming vacant due to retirement, or to voluntary redundancy, will not be replaced – a policy of “natural wastage” which will reduce the need for enforced redundancies. If positions are considered irreplaceable and have to be recruited, it should be fully justified to Treasury and Personnel, and properly signed off - but against an environment of extreme budgetary constraint with internal transfer the first option, rather than external recruitment (which would continue to aggravate the overall headcount problem).
- A salary freeze for at least the next 2 years on all public sector employees – they have been significant beneficiaries of generous salary increases by a profligate government in recent years, so this will enable a measured slow down in government expenditure on salaries.
- An immediate scheme for voluntary redundancies, to reduce the overall headcount in line with the target, and hopefully negating the need for enforced redundancies.
- Given a “no recruitment” policy, the opportunity to announce the immediate end to final salary pension schemes for new employees. This would provide a long-term cap to the current massive deficit in our Public Sector Pension Reserve, but of itself, would have a very limited impact upon government finances in the short term. Government should therefore be looking to increase employee pension contributions as soon as is practical, to reduce the massive public

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subsidy currently required (and paid for from taxation and other government revenues). £900K has already been spent on Hymans Robertson, but is the £2million forecast for future spending with them still necessary, or could savings be made here as well ?

- Establishing proper “absence procedures” with the intention of reducing the high level of absenteeism prevalent in the public sector. This is currently running at some 75000 days of absence per year – equivalent to nearly 10 days per employee per year, or approximately 330 employees being absent every day. Given that the equivalent absence rates in the private sector are barely half those in the public sector, it confirms a “soft culture” endemic within the public sector, and a weak management unable or unwilling to confront the issue. Some 160 employees could be lost with no significant impact on services, if absence rates were reduced to those in the private sector.

- Establishing proper financial controls which require any purchase of (say) more than £1000.00 to be correctly signed off by a senior manager, with “common items” subject to a proper annual tender process (eg purchase of vehicles, stationery, office furniture, computer equipment) from a central purchasing office, rather than individual departments.

- A proper consideration of the current structure of government. Do we really need all the separate departments, each with political members and a Minister ? Is there not the opportunity now to amalgamate, or to streamline activities into a more coherent structure that ensures properly “joined up” processes, rather than the sometimes dysfunctional operations we currently see?

IMPACT ASSESSMENT

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| Headcount Reduction | £280 million per year |
| Salary Freeze | £8.4 million first year (say 3% increase on £ 280million salary bill), and a further £7.5 million per year |
| Pension Contributions increase | £7.5 million per year (increasing current contributions from 1.5% to 4% minimum) |
| Pensions Consultancy | £2 million saved by cancelling the Hymans Robertson consultancy. |
| Absenteeism Procedures | Assumed into the headcount reduction savings |
| Purchasing Controls | Given the size of Government and the overall cost of materials and equipment |

And all this would send a clear message of serious intent - a range of programmes to ensure our public services focus on, and do provide, true “value for money”. And it would also send the right message to the tax paying public - that government was itself addressing the key internal

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fundamentals of public sector headcount, cost savings, efficiencies and reform - BEFORE looking to cut programmes and services, and BEFORE seeking to raid the reserves, or to increase taxes. Which is exactly what any Chief Executive in the private sector has had to face in the past two years - of no salary increases, no bonus payments, of cost savings, cut-backs and redundancies

Yes, it looks inevitable that both company and personal taxation will have to rise to help meet the budgetary task set for us by the UK, but government MUST demonstrate its own commitment and discipline before expecting the taxpayer and the private sector to “pick up the pieces“. Given the very fragile nature of the economy at present – and the very real stress in the hospitality and retail sectors in particular – the market can ill-afford further penalties such as major tax hikes which exacerbate costs, or reduce incentives.

But, does our Chief Minister and his government have either the vision or the courage to provide the leadership that is urgently required ? Given the performance to date, the answer is “no” – no vision, no courage, and no leadership..... and once again, it is likely to be the “front line” troops in lower paid jobs, the taxpayer, and the small businessman who will pay the penalty for these omissions.

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