

Government Finance - Stormy Weather Ahead !

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The latest news from the UK Treasury is that UK tax revenues have fallen significantly this year (down 12.9%) - due, in particular, to

- a drop of 4.7% in the size of the total UK economy (as the impact of the "credit crunch" of late 2008 hits economic activity and outputs),
- a major fall in income tax revenues (with the increase in unemployment, and willingness of private sector workforces to accept pay and bonus cuts, or work part-time),
- a fall in corporation tax receipts (with falling company profitability),
- and a fall in VAT revenues (with the cut in spending power and consumers paying back their debts).

These are necessary and easily anticipated adjustments given the current stage of the UK economic cycle, and the fall-out from the "credit crunch" - but there are obvious repercussions on the Isle of Man, with the fall in overall VAT revenue presumably causing a reduction in any payout under the sharing arrangement with UK (and not just from the cut to 15% rather than 17.5%).

Has that been officially recognised or acknowledged by the Manx Treasury as yet ? And what are the Treasury's projections for both revenue and expenditure for this financial year ? And if there is a forecast shortfall in revenue, what measures are the Government proposing to ensure a balanced year-end outcome ?

And again, given the cut in the VAT sharing arrangements which start to impact upon the Manx economy in 2010/11, just how does the Manx Government justify the belief that the local economy will continue to grow at the 7.5% explicit in its future public sector pension arrangements ? When even the optimistic Mr Darling is only hoping for 1.5% UK economic growth (from the low point of 2009).

So lots of questions to be answered in coming months, with a public sector hoping to avoid cut-backs and redundancy programmes, a private sector hoping to avoid tax increases, and a Finance Minister stuck in the middle, trying to square the circle..... we live in interesting times indeed !