Guernsey's 2020 Budget - are we beginning to see more clearly?

If you woke up to the sound of metal clinking against tarmac, that was the sound of Guernsey's fiscal can being kicked down the road one more time. Though perhaps that may be changing.

This morning saw the release of the Island's 2020 Budget, 196 pages in total. And the overall message is that whilst the Island's income is holding up (with increased income tax and document duty receipts), expenditure is not being brought under control as much as had been planned and the impact of an aging population is being felt sooner than expected. So the States is being asked to support a review of the new Fiscal Policy Framework. This will include examining the possibility of new taxes, such as a 'ring-fenced health tax' and consumption taxes. The elephant has not left the room.

The headline numbers reflect a balanced budget, but one achieved by a reduced transfer to the capital reserve. The 'Budget on a page' shows income for next year of £479m, expenditure of £432m with net transfers to reserves of £40m and provision for an additional Aurigny loss of £7m. The airline we own is continuing to struggle and features prominently in the Report.

The actual tax measures included are relatively few, hence that clinking sound, limited mainly to the usual suspects. Smokers will pay an extra 37 pence a packet, with the duty on fuel increasing by 2.2 pence to 72.3 pence per litre. A bottle of wine will cost 10 pence more, beer around 2.5 pence a pint extra.

Notwithstanding the concerns raised over the Island's fiscal position, personal allowances are being increased, with a single person's allowance for next year up to £11,575, compared to £11,000 this year. That will make the maths more complicated. The phased removal of the age related allowance has been completed. The tax charged on benefits in kind provided by employers will increase by 2.5 per cent.

TRP is set to increase again. There is a noticeable 10.2 per cent increase in domestic building and land tariffs with a possible further premium being added for larger properties, those between 200 and 499. The rate on commercial buildings is upped by 5 per cent with professional services businesses being asked to pay the increased rates introduced previously for lawyers and accountants.

To make this matter even more complicated, States members are being asked to choose between three options; to introduce that additional premium on larger domicile properties, to instead increase the commercial property tariff by a further 5 per cent, or both. It will be interesting to see what our deputies make of that.

There is a welcome change to help 'standard charge' payers seeking to benefit from the new UK/Guernsey double tax treaty which will not cost the Island anything.

Perhaps to reflect the increase in TRP and the passing of the age related allowance, there is a proposal to allow the introduction of equity release mortgages which apparently cannot be offered currently under Guernsey customary law. 'Skiing' comes to Guernsey?

And there are detailed changes to pension reliefs and the 'WOPA' the withdrawal of personal allowances for high earners. It is interesting to note that this currently affects 2,200 people in the Island.

Consideration was given to the introduction of a 10 percent income tax band for the first £5,000 of an individual's taxable income, and the introduction of an additional personal allowance for those on lower incomes. However these were not pursued as the cost would prove prohibitively high compared to the benefit.

On the corporate front, aside yet another increase in TRP, it is proposed to extend the 20 per cent higher rate tax charge to profits made on the cultivation and manufacturing of cannabis products, though I would expect those involved to be relaxed about that. The intermediate rate of 10 per cent is extended to income from operating an aircraft registry. But that is about it.

On the expenditure side, the revenue cash limit for next year is set at £432m compared to £404m this year, with the larger increases in health, 'corporate services' an increased budget reserve and service developments. But this may be another elephant.

There is an interesting appendix to the Budget Report setting out in more detail how the Island raises and spends its/our money. This underlines our reliance on personal income tax and social security, with what we might expect to pay in tax over our life time ranging from £260,000 for a lower income working couple, up to £5m for the very wealthy here all their working life.

As for what we spend, as you might expect, health, education and pensions take up most of this. The annual cost of one year's state pension at full rate is £11,300, a year's prescription of a rare cancer drug £530,000 and one year's secondary education around £8,500 per pupil. The cost per capita of our emergency services is £400, the border costs £2.25 per passenger. There is more detail in Appendix II to the Report.

So, overall a balanced budget, though one achieved by a reduced transfer to the Capital Reserve. There is some raising of revenue in the usual ways, with increased expenditure expected next year. But the Budget Report does note difficult times ahead, with a proposed revised 'Review of the Fiscal Policy Framework' to be submitted to the States in January which will hopefully finally begin to address the long term challenges we are facing. The new States in 2020, with its Island wide mandate, will have to hit the ground running but will hopefully do so with its eyes wide open.

If you have any questions in relation to Guernsey's 2020 Budget, please do not hesitate to ask.