

**STATEMENT TO BE MADE CONCERNING THE DRAFT BUDGET 2015 BY  
THE MINISTER FOR TREASURY AND RESOURCES  
ON FRIDAY 18th JULY 2014**

1. Since the onset of the financial crisis, this Assembly has faced many different types of challenges, and budgets of the last three years have reflected them.
2. In 2011 we faced an extremely difficult budget, where Members were asked to take tough decisions to address the deficit, make savings, reduce our public finances and protect Jersey's economy.
3. The 2012 and 2013 budgets that followed were focused on stability and targeted investment in infrastructure and jobs and health.
4. Last year, in the 2014 budget we were able to start giving something back. Islanders will feel the £8M financial benefit of the lower the marginal rate and help for children at university in their pockets in 2015.
5. The budget we have to consider is one of balance.
6. Balancing continued support to the economy, jobs and business, balancing the need to continue to fund the unprecedented planned increase in spending in Health, whilst continuing to fund the tax cut in addition the significant cost benefit of deferring the Long Term Care change whilst introducing the benefit this year.
7. Confidence in the global economy has been growing.
8. There is renewed optimism locally, but Jersey's economy also remains under pressure.
9. Business confidence is rising earnings growing unlike other places are higher than inflation and I welcome the news this morning of the latest RPI at 1.6%.

10. Higher earnings than inflation puts more money in people's pockets which with inflation control is so important.
11. While our public finances, particularly our Balance Sheet, remain strong, continuing weakness in the labour market, low interest rates and the consequences of the financial crisis have resulted in the independent tax forecasting group revising their 2012 estimates.
12. This is not unexpected.
13. While in 2013 this was offset by an improved business tax position, it would not be prudent to rely on that for 2014 and 2015.
14. Whilst confidence is returning to the economy, interest rates are only expected to increase at a gradual rate next year.
15. Notwithstanding the forecast, the Council of Ministers is determined to maintain capital spending and planned spending increases for Health.
16. At the same time the Public Finances Law rightly and prudently requires the budget to balance the Consolidated Fund.
17. The FPP were clear in their advice last year, that should the economy need it, all available resources from existing funds should be deployed to support spending. We should continue to be spending more than we are taking out of the economy to help economic growth.
18. We propose to do just that.
19. In addition, as I briefed members yesterday and is set out in the report, we plan to not only raise more revenue where we can, and building on the success of the Comprehensive Spending Review.

20. I am extremely grateful for the Corporate Management Board for now being able to deliver better service, improved efficiencies which are also contributing towards the savings that will be delivered in future years.
21. Before I turn to tax measures for 2015, I would like to say that none of this would have been possible without the outstanding performance of the Treasury team and their colleagues across the States over last three years.
22. In particular, I want to pay a particular tribute for the incredible hard work of the Treasurer Laura Rowley over her four years in post.
23. As members are aware the Treasurer has taken the decision to return to the UK and I would like to take this opportunity to thank her personally, on behalf members, for all her hard work and the exceptional results she has achieved.
24. She leaves with my and I'm sure this Assembly's thanks and very best wishes for the future.

### ***Marginal rate***

25. Taking each of the measures in turn, I will start with the marginal rate.
26. The marginal rate will be maintained at 26%.
27. The Long Term Tax Policy will signal the goal of reducing the marginal rate to 25%.
28. The income tax exemption is proposed at 1.7%.
  - The MTFP assumed an increase of 3%, so this represents a saving of £2.1 million against previous plans,
  - I propose to freeze tax allowances.
29. Today we are launching a major consultation in property tax.

30. A well-functioning housing market as we have been debating over the last few days needs supply across all tenures.
31. We also need a tax system that is joined up, balanced.

### ***Mortgage interest tax relief***

32. The Green Paper is an important document which I hope will catalyse an informed and useful debate.
33. One of the distortions that is identified is MITR.
34. Whilst undoubtedly well intentioned and has helped offset the mortgage interest costs of house purchase, it does nothing for renters and little to help those home owners at the lower end of the income scale.
35. The advice we have is that it actually worsens the situation in the longer term by inadvertently boosting house prices. The measure proposed in the 2015 budget seeks to take a first moderate step to flatten that inequality by proposing a cap on mortgage interest tax relief of 5% on £300,000 – 15%, which is above the current fixed and standard variable rates and, even with the expected rise in interest rates, will remain so.
36. This cap is a modest one – will have an impact on a small number of home owners and while not removing MITR sends a signal that we need to look at it.
37. It is of vital importance that there is an informed debate as to the merits of maintaining this relief or the alternatives.

### ***Stamp duty***

38. To accompany his proposal I would like to propose a change to stamp duty on the cost of registering a mortgage.

39. It seems unfair that a buyer of an average house with a mortgage pays more stamp duty than a cash buyer.
40. And for this reason I proposed to remove mortgage stamp duty on properties over £400,000.
41. After careful consideration I propose to remove all duty on qualifying properties on the first £300,000 of debt and to apply the lower rate of 225% on any borrowing up to £400,000.
42. So this will remove the burden of borrowing and will support the average homebuyer.
43. To fund this I have reviewed stamp duty on properties over £1M.
44. The second stamp duty proposal will increase the rates of duty collected on higher value properties and will affect those with properties with a value of more than £1 million.
45. I propose to increase stamp duty:
  - 4% rate on properties purchased at £1m to £1.5 million.
  - 5% at £1.5 million on properties valued at £1.5m to £2 million.
  - 6% on between £2 million and £3 million.
  - And, 7% above.
46. These increases are modest as set out in the report and designed to raise approximately £850,000 which more than covers the stamp duty mortgage cut.
47. As members will see from the report stamp duty rates will remain significantly below those in the UK and other countries.

### ***STATES PROPERTY RATES***

48. I am today publishing the Treasury's conclusion on how the States paying rates could be funded.

*Double tax credit*

49. Local taxpayers assessed at the marginal rate don't receive a double tax credit. As we have identified this unfairness we have sought to remove it at a cost of £500,000.

*Impôts*

50. Turning to impôts, I propose to increase spirits, wines and strong beer at 1.7%
51. I proposed to align the cider duties to those for beer.
52. I proposed to increase a standard packet of 20 cigarettes by 4.7¢ or 22.4 pence.
53. A penny on a litre of fuel and a VED increase of 1.7%.

*Pension measures*

54. I am delighted that we are delivering the legislation for all the modernisation and simplification rules.
55. These changes give greater flexibility to pension savers and give Islanders greater confidence in their future pension provision.
56. Taken together with the reform of PECRS this Assembly should be proud of the significant reports delivered in this ministerial term on pensions.

*Capital programme*

57. Confidence is returning to the local economy, but continues to need our support.
58. Securing capital projects now is also delivering better value for money.
59. Included in the capital programme are:
  - The second phases of additional primary school accommodation, and
  - The infrastructure for the sports strategy.
60. The second phases of the future hospital project and the Liquid Waste Strategy have also been accommodated.

### ***Housing Development Fund***

61. Members will recall the significant success of our Housing Bond. Securing 40 year money at 52 basis points over UK Gilts has been one of the proudest moments of my Treasury term of office.
62. This will not only provide an acceleration to the refurbishment strategy but also deliver new homes on the sites we approved yesterday.
63. I undertook to bring to the States the rules for the operation of the Housing Development Fund and these are set out in appendix C of the Budget report.

### ***Strategic Reserve***

64. I also committed to confirming the definition of the capital value of the fund and how it should be managed.
65. We are proposing that the Strategic Reserve balance of just over £651 million as at 31 December 2012 be defined as its capital value.

66. In future years that capital value should be maintained in real terms using Jersey's RPI (Y) for the inflation factor.

### ***Stabilisation Fund***

67. In my response to the Fiscal Policy Panel report on the Budget 2014, which was laid before the States in January 2014, I made a commitment to set out clearly the rules for the Stabilisation Fund.
68. These rules are set out in Appendix E of the Budget 2015 report.
69. I am also publishing today the Economic Unit report on the Fiscal Framework.
70. Members will, I hope, forgive me for repeating my mantra that whilst good politics is not always good economics in my view good economics is always good, sound and sustainable long term politics.
71. And I commend the Fiscal Framework published to members.

### ***Conclusion***

72. I am extremely proud of the work which has been done over the last three years and the work that is ongoing to modernise and improve our tax and spending.
73. The principles that guided previous budgets I believe have proved their worth.
74. The principle of balance which underpins this budget now builds a solid foundation for the next States Assembly to build and improve upon.
75. This Assembly should be proud that has been one of the boldest, most reforming, innovative and made decisions to plan for our future.

76. The fallout from the global economic crisis is still in evidence and we will need to do all we can in the coming year to secure and propel economic growth.
77. I want to warmly thank my Assistant Minister, Deputy Eddie Noel for unswerving and unstinting support and to my colleagues on the Council of Ministers and especially the Chief Minister.
78. So, we have put money back into the economy,
79. We have supported low and middle income tax payers,
80. We have helped hundreds of people get back into employment,
81. We have provided the means for significant improvements in housing and healthcare and we have put significant money in our infrastructure.
82. I am proud of these achievements and I believe that this budget maintains the position of strength and will help secure growth and I commend it to the Assembly.