

Introduction

1. Sir, I rise with a degree of some trepidation as I present my first budget statement to the Assembly.

Global Economy

2. The past year has seen more turmoil and uncertainty than for a generation.
3. Significant sums have been spent on bank bailouts.
4. Central Banks and Governments around the world have taken unprecedented and co-ordinated action to inject billions into the global economy.
5. Most would agree that if the causes of the global recession had not been tackled head-on, there would have been catastrophic consequences.
6. Fortunately, the action taken has had an effect and by the third quarter of this year the Japanese, US and Euro zone economies, returned to growth.

However, as our own Fiscal Policy Panel has said:

“Whilst the outlook is generally optimistic there remain plenty of reasons for caution”

7. The International Monetary Fund reported the recovery is uneven and not yet self sustaining.
8. The international consensus is that the recovery will be sluggish.

The Jersey Economy

9. Of particular note for us in Jersey, the UK has remained in recession and the Bank of England’s decision to increase further their “quantitative easing” programme shows that the UK is still facing problems.
10. History tells us that Jersey economic activity tends to lag behind global developments and the UK.
11. The Economic Advisor’s independent estimate is that the Jersey Economy will have contracted by 5% in 2009.
 - 50% of banks expect their profits to fall, primarily as a result of exceptionally low interest rates which are expected to remain low for some time yet.

- Business visitors are down by 18% and despite the Economic Development Minister's increasing decisive action of increasing Tourism marketing funds – leisure arrivals still dropped by between 5 and 6%.
 - Whilst this a better performance than many destinations in Continental Europe, it has had an impact
 - We have seen job losses in Hotels, Retail and Finance: total Employment is down, unemployment up and vacancies are at a 10 year low.
12. Retail sales are reported to have dropped. We are now in the fortunate position to have much better statistics than in the past. This includes:
13. The new Business Tendency Survey indicates that - on average - the whole of business report falling activity. Moreover they are cutting back on staff.
14. Looking ahead to 2010 we predict Jersey's Economic Output may drop by a further 2% and without action over the next months employment is expected to fall further.
15. The survey also said that in the construction sector 34% of firms say activity again fell in the three months to September and nearly a third of firms now claim they are working below capacity. 2009 has been tough and tougher for some.
16. All commentators say small and medium sized businesses have been affected by the slowdown as a result of the global economy.

Fiscal Stimulus Programme

17. Like other responsible governments we responded, and allocated £44 million from the Stabilisation Fund to be spent on a discretionary fiscal stimulus package.
18. This Programme, centrally controlled and monitored by the Treasury is providing skills, training and support for both business and individuals, through the economic downturn.

19. Almost £7 million of projects are underway and I am particularly pleased to report that Education has done an excellent job and more than 100 young people are benefiting from extra places at Highlands.
20. Advance to Work – the new youth training scheme - and the additional careers resource is supporting adults finding new work.
21. The re-introduced States apprenticeship Schemes have been particularly well received.
22. In all, over 250 places for skills and work based training have been provided as a direct result of the Council of Minister's and this Assembly's support of the Fiscal Stimulus initiative.
- 23. If we hadn't put this stimulus in place I have no doubt our unemployment figures would have been higher and I hope Members agree that we should continue to provide opportunities and help for any individual who is in the unfortunate position to be out of work through no fault of their own.**
24. One of the sectors of the economy that employs thousands of islanders, and has been most affected by the down-turn, is the construction sector - private sector contracts have dried up and put local jobs at risk.
- 25. Whilst States departments already had plans in 2010 for more than £70 million of new civil infrastructure, maintenance and construction projects—*such is the scale of the down-turn more was needed.***
- 26. *The Fiscal Stimulus package will provide an additional £20-£30 million of work for locals. Under strict rules more than 45 projects will be put out to tender on the new States e-portal platform over the coming months. Indeed we have taken the opportunity to change the way we tender all States procurement projects.***
- 27. *Not only will the Fiscal Stimulus money help keep people in work – it will also benefit the community.***
- 28. *One project which I hope will happen and will make a lasting difference is the much needed refurbishment of the Elderly Care unit at Rosewood House, St Saviour's Hospital, which care for, amongst others, Alzheimer's patients.. It will improve the quality of life and care for residents and staff who work in challenging conditions.***

There will be other projects that will also transform the lives of Islanders.

29. I will carefully monitor the level of construction demand, and with my colleagues the TTS and Housing Ministers, I will consider how to bring forward other capital projects if that is necessary.
30. The Waterfront Enterprise Board is a good example. I will be encouraging WEB to bring forward one and possibly two residential schemes during 2010 which could add new valuable residential stock to the market and keep local people in work.

Finance industry developments

31. Jersey has built a strong global reputation as one of the leading Offshore Financial Centres in the World.
32. Our Finance Industry, by providing both well paid jobs and substantial tax revenues, will be the main source of our economic prosperity both now and into the future.

Independent Assessment

33. During the economic crisis this industry has been subject to close scrutiny, with positive outcomes.
34. The International Monetary Fund assessed Jersey as complying, or largely complying, with 44 of the 49 Financial Action Task Force recommendations.
35. Only Belgium, the US and Singapore have to date achieved more than 40.
36. No-one has achieved more than 44.
37. This is a phenomenal achievement for a small island jurisdiction and I hope all members share a sense of pride in the tremendous work of our Industry and regulator.

38. More than that - the Foot Review, showed just how important Jersey and the other Crown Dependencies are to the UK economy.
39. Jersey alone contributed more than 200 billion US dollars of liquidity into the UK markets in just one quarter of this year.
40. That said, Michael Foot also made it clear that there was always more to be done.
41. We will be reviewing all of his recommendations to see what further action is required.
42. However, we can take pride in these independent endorsements and ensure the message is loud and clear that Jersey is, and will remain open for high quality, reputable business.
43. Our relationship with the UK is strong and they are likely to be our primary partner for financial services and our gateway for a long time to come.
44. But there is a shift in global economic power from the West to the East and our business flows need to follow.
45. The Asia-Pacific region has weathered the financial crisis better than the West.

Exploring New Opportunities

46. With Jersey's strong reputation, I believe there are tremendous opportunities in China, India and the Middle East despite recent difficulties there. Of particular note - our new Foundations Law has generated much interest.
47. But business levels have slowed and it is vital that action is taken to mitigate the effects of the slowdown, maintain our revenues and capture opportunities.
48. We need to be innovative and continue to develop new products and services.
49. The Economic Development Minister, the Chief Minister and I are determined to do just that.
50. Opportunities will not be seized without investment.
51. Sir, I believe it is vital that we support our financial services sector with the resources required to sustain our position.

52. Along with the other fiscal stimulus measures, I have now also provisionally allocated £2.5 million from the fiscal stimulus in 2010 to enhance Jersey's international position by opening representative offices in Asia Pacific, speeding up product development; and providing more support to Jersey Finance, a body that has been outstandingly effective in marketing the Island's Financial Services in the last, very challenging 12 months
53. We are in the enviable position of funding all of these Fiscal Stimulus measures from cash put aside into our Stabilisation Fund leaving the Strategic Reserve completely intact. Unlike other places, we have not had to borrow a penny to inject the necessary funds into the Economy.
54. However, we cannot afford to be complacent

Financial Position and Outlook

55. The worldwide recession will lead to a significant reduction in States revenues.
56. The latest Treasury forecast is for a £60 million deficit in 2010 and £68m deficit in 2011.
57. In accordance with the advice of the Fiscal Policy Panel and as agreed by the Assembly earlier this year, these deficits will be funded by existing balances in the Consolidated Fund and up to £112 million from the Stabilisation Fund.
58. Whilst there are a huge number of assumptions and there is still tremendous uncertainty in the global economy forecast, if no further action is taken, I am predicting a recurring deficit of £40 - £50 million from 2012.
59. Sir, I cannot allow this to happen.

Dealing with the Financial Challenges

60. I believe that we must have a strategy to return to balanced budgets as soon as possible. This means we need a plan in place by this time next year, for the 2011 Budget.
61. To deal with this I am proposing **three streams of work**.

- Firstly, the best way to deal with a deficit is to grow ourselves out of it. We need to maximise economic growth and maximise the income from Financial Services and I will examine the options for doing that.
- Secondly, I am going to start a Comprehensive Spending Review;
- Thirdly, a review of our Fiscal Strategy.

Comprehensive Spending Review (CSR)

62. The existing Annual Business Planning process is not working.
63. The Comptroller and Auditor General has said – year on year - it leads to continually spending above agreed limits.
64. Ideally, in my view, the States should agree three-year spending limits at the start of each new Council of Ministers, and then do our best to stick to them.
65. We must also be realistic about the need for contingencies. Unforeseen items will always occur, and we should budget an appropriate amount for them.
66. Departments must be encouraged to plan further ahead.
67. And in return, departments should be allowed greater flexibility to reallocate funds between years over the three year period. In other words, have an incentive to save and in future, under strict conditions, keep their carry forwards once their three year budget has been set.
68. The first step of the Comprehensive Spending Review will be for us set an overall limit on States spending early next year.
69. We will then review the major spending departments. Firstly, Health and Social Services, secondly Education, Sport and Culture, thirdly Social Security and fourthly Home Affairs.
- The reviews will take the first nine months of next year and ask basic questions about the services delivered:
 - Are departments providing value for money and who should pay?
 - What are the public's expectations of services provided?
 - Are services being delivered efficiently?
 - Should we continue to deliver them and if not who should deliver them?

- We have learnt a great deal from previous spending reviews and other places.
70. A team is being appointed which will be seconded to the Treasury to carry out the FSR.
71. It is my intention to support this process with a Panel of Independent Commissioners whose specific remit will be to examine and challenge the findings of the reviews and present their reports to this Assembly.
72. In addition, specific reviews will be carried out on the pay, conditions and pensions of all public employees, and on controlling expenditure on Court and Case costs which has, in recent years, for understandable reasons, spiralled.
73. I intend to work closely with the Corporate Services Scrutiny Panel throughout the process.
74. In fact I hope that all Scrutiny Panels will be involved in the reviews of their own departments and will be prepared to play a significant role as a critical friend.
75. The CSR will be a significant investment of time, energy and resources but it is essential to increase the efficiency of the public sector and raise public confidence to ensure an informed debate about the level of services the public is willing to pay for.
76. Whilst CSR outcomes may be uncomfortable and there will be difficult decisions to take, I understand members' perfectly legitimate aspiration to improve services.
77. Each of us in this Assembly went into politics to serve the community and improve the lives of our Islanders.
78. There are calls, often fair and reasonable ones, for increased investment in areas like education, health and benefits.
79. But to finance these improvements we have to make choices.
80. If the spending review is to be successful, it must direct existing resources to where they are most needed, as well as identifying savings to meet the structural deficit
81. As States members we share collective responsibility for spending decisions. Spending decisions are made in this place. We must show the

discipline which it could be said has been lacking and which Islanders are demanding with increasing volume.

Strengthening Financial Management

82. To support this objective the Treasury will be restructured to put in place the right resources and expertise to strengthen financial management across the States.

83. I am determined to introduce a culture of financial awareness and responsibility throughout the organisation.

84. Improving financial management alone, however, is unlikely to meet all of the unprecedented challenges facing the States on spending demands.

Fiscal Strategy Review (FSR)

85. For that reason I turn now to the Fiscal Strategy Review.

86. Three years ago we made significant changes to our tax system to keep our island competitive and to maintain the high quality public services and way of life we are all used to.

87. The early decision to move to a 0/10 corporate tax structure, introduce GST, 20 means 20 and ITIS may have been unpopular, but was undoubtedly right.

88. These policies have provided certainty, encouraged investment and supported high levels of economic growth. We all benefit from the strong position Jersey has maintained.

89. However, responsible governments always keep their fiscal strategies under review, not only to ensure they meet changing international standards, but above all to ensure they remain appropriate and competitive.

90. The global financial crisis is prompting most countries to review their tax structures.

91. I have to be clear to members, that we need a Fiscal Strategy Review - not only because of the structural deficit but also because of the need to plan for the costs of an ageing population, infrastructure renewal and growing health demands.

92. The FSR will review all taxes and charges including personal income tax, GST, duties and, importantly, our social security contributions.
93. Any tax options coming out of the review will be assessed for efficiency, competitiveness, who pays, fairness, the cost of collection and revenue stability.
94. Islanders will be consulted on the options and their responses will help formulate any proposals for change.
95. While I am not going to rule anything in or anything out, and I believe that our success has been built on low taxes and high economic growth, members must appreciate that in trying to generate as much revenue as possible from export services, and particularly financial services, we must remain internationally competitive and protect jobs.

Review of Business Tax

96. A key part of the FSR is a review of business taxation. This was always intended to be part of the Review but clearly recent events have increased our focus on this area. I am conscious that recent press speculation has created uncertainty in the finance industry and it is important that I respond to this.
97. First I want to clarify the following: -
- 0/10 has NOT been found to be non-compliant with the EU Code of Conduct on Business Taxation;
 - Secondly, I understand the fundamental importance of tax neutrality to our Financial Services industry and the requirement that this be maintained; and
 - Thirdly, we have not agreed to move to a flat corporate tax rate of 10%.
98. However, we do understand that certain EU Member States have questioned whether 0/10 could be interpreted as being outside the 'spirit' of the Code.
99. The international tax world is changing. Jersey is already committed to the tax 'norms' of non-discrimination which is why we introduced 0/10.
100. However, we must be alert to this and understand the concerns that have been raised.

101. The business tax review, which is an important part of our FSR, will consider all options.
102. I repeat – nothing is ruled in and nothing is ruled out.
103. I will also consult widely on any proposed changes or alternatives to 0/10.
104. I recognise the importance of providing stability to the financial services industry and for that reason I want to say the following:
- We have already made some changes to our tax law to provide certainty for funds – notably the tax exemption of collective investment funds which is in accordance with international norms.
 - I propose extending that further to securitisation vehicles – again reflecting the treatment of such entities in other major jurisdictions.
 - I will look for other precedents from established International and European tax codes, not only to ensure compliance with international standards, but also to ensure a level playing field for Jersey's businesses, trust and other structures.

FSR Summary and Timetable

105. I hope that I have clarified for members the important relationship between the Comprehensive Spending Review and Fiscal Strategy Review.
106. The public will be asked for their views on all options for both reviews.
107. Following this consultation, proposals will be finalised for debate in the 2011 Budget.
108. I welcome the continued, constructive and often challenging scrutiny from the Corporate Services Panel so that we can all be sure the reviews are robust.

Budget Proposals 2010

Principles

109. Sir I turn now to the specific tax proposals in the budget
110. My aim this year is to minimise tax increases during the downturn, while paving the way to return to balanced budgets.

Proposals for Income Tax

111. I am not proposing any increases in direct taxes for 2010.
112. Indeed many people on lower incomes will benefit in 2010 from the 5% increases to income tax exemption thresholds agreed last year.
113. Earlier this year I made a commitment to review the effect of “20 means 20” based on the first three years of the five year scheme.
114. After careful consideration, I am clear that they should be maintained.
115. “20 means 20” delivers the essential progressive element to the fiscal strategy changes which my predecessor introduced.
116. The fourth year of withdrawal of allowances will only affect those on higher incomes and the significant increases in the tax exemption thresholds over the last three years have protected people with low to middle incomes from all, or most, of the effect of these proposals.
117. I have also given careful consideration to the reports of the Corporate Services Scrutiny Panel in relation to “Deemed Rent”. That is something I will look at in the FSR.
118. I am proposing to remove the anomaly whereby tax breaks have been available to UK Superannuation Funds – known as Article 115.
119. I have listened to the views of certain sections of the business community but have yet to hear convincing reasons why the Island should give tax breaks to some non-resident property investors, while other property investors are treated differently.

Other Income Tax proposals:

120. I am also proposing a number of minor changes to the Income Tax Law:
- Firstly, and very timely with the Copenhagen summit this week, landlords who invest in insulation and energy efficiency improvements, will benefit from concessions on that investment. This is designed to improve energy efficiency and insulation for tenants and will also help lower the Island’s carbon foot print;
 - Secondly, I am introducing further beneficial changes to occupational and private pensions tax legislation;
 - Thirdly, the penalty for the late filing of tax returns will increase by £50 to £250 which is the first increase since it was introduced 5 years ago;

- Fourthly, there are minor adjustments to the existing 0/10 provisions and changes to align the powers, penalties and offences in the Income Tax and GST laws and regulations.

Future proposals

121. Looking ahead over the next year there are further changes to share options and share awards.
122. Finally I'm pleased to say the Comptroller also hopes to be able to offer Electronic Tax Returns from 2012.
123. Sir, I have become aware that there has been a debate about 1(1)k's.
124. In the last 20 years, more than 65 1(1)ks have taken up residency in the island .
125. For the year of assessment 2007, 1(1)k's paid £9 million in income tax. That's £9 million that would have had to be raised by other means.
126. Also, despite a widespread misconception – 1(1)k's have no special rates for Jersey sourced income and pay the same rates as other locally taxed residents
127. The vast majority of 1(1) k's are responsible individuals who make a major contribution to tax revenues and play a valuable role in the community.
128. Indeed all 1(1)k's who have arrived in Jersey since 2005 have been subject to a statutory regime with a minimum tax liability of £100,000 per annum.
129. Whilst I don't know the details, I am advised that many 1(1)k's who arrived in the island before 2005 pay considerably more than the £100,000 minimum.
130. However, some of the early 1(1)k's do not, and I want their current arrangements reviewed. I believe it is only reasonable for those who made a commitment to pay an agreed amount to keep to it.
131. I plan to appoint an individual with appropriate knowledge and international expertise to conduct the review.
132. Any changes proposed for the 1(1)k regime will be announced in next year's Budget.
133. Sir, I believe everyone should provide an appropriate contribution.

134. In the Business Plan we approved extra funds for tax investigators and there are advanced plans to set up a joint tax and benefit fraud office with the Social Security Department. The vast majority of Islanders are honest, but

135. I should give fair warning to anyone considering submitting anything other than an honest tax return that the Comptroller will get tough with tax evaders and now has the resources to do so.

Proposals for Impôts Duty

136. Sir, I turn now to the increases in Impôts duty.

137. There was extra spending for Health agreed as an amendment to the 2010 Business Plan and I explained at the time I would need to finance this through additional duties.

138. It has also become increasingly evident to me that there are concerns about the Health effects of alcohol consumption.

139. I have experienced at first hand these problems by visiting the Alcohol and Drugs service at Stopford Road.

140. I am persuaded by what I have seen and I share the concerns already expressed by the Health Minister.

141. I am also influenced by the Home Affairs Minister's concerns over the many causal links between alcohol consumption and criminal or behavioural problems.

142. In this budget I am proposing to fund the extra spending agreed in the business plan debate by raising alcohol and tobacco duty in 2010.

143. I recognise that raising duty will not - on its own - influence the behaviours of alcohol consumption and I will be supporting the Health Minister, who over the next few months, in conjunction with the Home Affairs and Economic Development Ministers, will consider raising alcohol and tobacco duties further - possibly in line with UK levels over a three to four year period.

144. The Impôts duty proposals for alcohol and tobacco for 2010 are equivalent to increases in duty of:

- 58 pence on a litre of spirits - that's a 3% increase on the average retail price;

- 7 pence on a bottle of wine – or 2% on an average bottle;
- 2 pence on a pint of beer - that's less than a 1% increase.
- 30 pence on 20 cigarettes which adds 5.5% increase on an average packet of 20 cigarettes – of course – on the assumption that only the additional duty is passed on to consumers.

145. Members will understand that I was disappointed with the amendment proposed by Deputy Power.

146. He will be aware of the challenging financial position the island faces. He will also be aware of the persuasive arguments that increased duties along with other measures are required to address the widely recognised health concerns.

147. Instead he proposes an amendment which would remove all increases in impôts duty and increase the deficit by more than £4 million in 2010 and future years.

Marine Fuel

148. As members will recall, in the past few years there have been a number of representations concerning the current duty free status of marine fuel.

149. I have discussed with the Economic Development Minister the contribution that the marine sector makes to the island

150. The outcome of our discussion is to require an increased financial return from the Harbours Trading Account of £200,000 in 2010. That's equivalent to about a third of the duty currently relieved on the marine fuel duty concession. I regard this as a first step in our discussions.

151. This means we will collect more revenue while retaining the appeal of the Island to visiting yachtsmen, who otherwise might go elsewhere.

Proposals to fund Environmental Spending

152. In last year's Business Plan we agreed to consult again on ways to fund environmental initiatives.

153. Consultation has now been carried out. The Planning Minister has been right to champion this and I am including proposals for a low level Vehicle Emissions Duty as part of this budget.

154. I am proposing that this duty should not be introduced until September 2010, by which time I hope we will be well on the way to economic recovery.

155. I am proposing an extra 3 pence per litre in fuel duty which, together with the introduction of VED, will provide £2 million for the environmental initiatives Members agreed in the Business Plan.

156. I want to be clear that I do not regard these proposals as pure environmental taxes, they are taxes to help fund the environmental spend.

157. Working with the Planning Minister and his Assistant, however, I will support the initiatives to develop taxes and other ways to influence the choices we make for the benefit of the environment.

158. There will be a green tax strand of the Fiscal Strategy Review.

159. The amendment from, Senator Le Main, suggests an alternative way to raise funds for the environmental spend and I have amended the proposals to provide States members with a choice between an annual or one-off emissions tax.

160. In respect of funding environmental spend I am grateful to the JEC for providing seed funding of half a million pounds this year to enable more energy efficiency initiatives to be progressed. I have spoken to a number of people who have benefited.

161. This investment has made a real difference to many islanders. Particularly pensioner households.

162. I will be looking for the other energy companies to consider how they can help in this area and if they are unwilling to co-operate I will consider a compulsory levy so that they also help islanders with energy efficiency improvements.

Proposals for Stamp Duty

163. I am not proposing to increase stamp duty rates next year in recognition of the still fragile state of the housing market.

Proposals for a Land Transactions Tax

164. I am, however, proposing that the long awaited Land Transactions Tax will commence from 1 January 2010.

165. Whilst the concessions for first time buyers will be the same as freehold purchases this will finally bring equity to all residential property

transactions, by capturing those share transfer transactions that previously have been free from duty.

166. Before I conclude my tax and duty proposals for 2010 I would like to confirm that the planned review of Stamp Duty has had to be put on hold. However, a review of Stamp Duty will be considered as part of the Fiscal Strategy Review.

Summary of Achievements

167. Sir, whilst we are facing challenges – our public finances are some of the strongest of any nation in the world.

168. Unlike some places, because of the decision this Assembly and some of my predecessors have made, we saved in the upturn.

169. This has enabled us to support islanders in the current climate- by injecting money from the Stabilisation Fund.

170. This action is insulating our community from the worst effects of the down-turn. We are also maintaining and enhancing services.

171. I believe this Council of Ministers with the support of the Assembly has achieved a great deal for instance in the coming year £17 million has been provided for essential service improvements and spending pressures, financed entirely from savings.

172. This investment in essential services will deliver:

- £3.6 million to improve children's services;
- More than £3 million to fund growth in Health and Social services;
- £6 million to maintain the real value of social benefits;
- Half a million to continue the funding of the Building a Safer Society;
- £400,000 for improvements in residential care; and

173. We are at last investing in essential property maintenance and infrastructure.

174. I am also building new stronger relationships with my Guernsey and Manx counterparts, so together we can maximize the economic potential of our Islands.

Thanks and Appreciation

175. As I conclude I must thank the Treasurer of the States, the Comptroller of Income Tax, the Economic Advisor, the Agent of the Impôts and the Head of Statistics and all the senior officials at Treasury and Resources and those of the Chief Minister, and the excellent teams of professionals who support them in preparing and drafting these proposals.

176. I would also like to thank my Assistant Ministers, Deputy Noel and Deputy Le Fondre and the Council of Ministers in particular, for their vigorous discussion but unstinting support in difficult times.

177. *I would particularly like to thank the Chief Minister, Senator Le Sueur, for his support in my first year as Treasury Minister. I appreciate and respect the baton that he gave me of long term thinking and fairness.*

Minister's Closing Remarks

178. In closing, I hope you'll agree that this budget looks to the future, it marries together the short-term fiscal issues, mitigating the impact of the downturn with long-term strategic thinking.

179. This can only be achieved by rigorously pursuing the fundamental elements I have outlined today: - .

- a radical overhaul of the way we plan for government spending through a Comprehensive Spending Review;
- a detailed Fiscal Strategy review to put our economy in a competitive position and our finances on a sound footing;
- a plan to ensure the first rate economic and financial management that is essential to navigate the States through the challenges ahead;
- A stimulus programme that will mitigate the impact of the global downturn and a budget for 2010 that lays the foundations for a sustainable, fair and prosperous future.

Sir, I am proud to commend this budget to the Assembly.