

## 2009 Budget Speech

### “Global problems, local solutions”

Mr President

I rise today to present my eighth budget against a backdrop of the worst global economic position seen in the last sixty years. The world in which we live has been shaken by the credit crunch, by a loss of confidence in global banking and by an accelerating economic slowdown that has made this the most difficult budget I have ever had to prepare.

The public look to Tynwald at these times for leadership, and for understanding of their concerns. The maturity shown by Members last October in responding to the challenges faced by the collapse of Kaupthing Singer and Friedlander represents all that is best about our small nation; its ability to respond quickly to events, its ability to be measured and proportionate in such a response, and most of all our ability to act to protect our quality of life and our international reputation.

We are still coming to terms with the implications of those events but today I want to focus on how we will deal with the challenges that lie ahead, and there are many.

There are international challenges, fiscal challenges and economic challenges, but I am sure we can face them all with confidence.

I will also update Members and depositors on the latest position of Kaupthing Singer and Friedlander and the Government's response.

#### **Economic background**

Firstly though, I will turn to the economic background.

The current worldwide slowdown started in early 2007 with warnings of rapidly rising numbers of defaults in loan repayments in the so-called sub-prime mortgage market in the USA, and has worked its way throughout the global financial system, destroying major companies and bringing interbank wholesale markets to a virtual standstill.

No-one at the time of my previous budget could have foreseen a situation in which financial institutions were to be nationalised and billions of pounds, dollars and euros would be pumped into support for failing financial structures.

The magnitude of the resultant credit freeze has been such as to at least suspend all the traditional orthodoxy on what constitutes sound and prudent monetary, financial and fiscal policy:

- Dramatic interest rate cuts have now replaced conservative adjustments in base rates;
- Governments have borrowed huge amounts, well beyond those embedded in the rules governing the treasuries of the EU member states; and
- there have been increased calls for new and more effective regulation of financial services industries.

The economic and financial measures introduced by the UK Government have taken several forms and whilst we would all support the objectives of revitalising spending and investment and shoring up the British economy against recession, the specific action of cutting VAT to 15% was somewhat less welcome. The impact of this action has influenced many of the decisions within this budget.

The overall economic picture is one of recession in the key world economies, significant slowdown in others, and, inevitably, slowdown here also. No country can be immune to these global pressures, and certainly not one that forges its living through selling its goods and services in export markets.

Economic slowdown on the Island will have a number of immediate repercussions, notably on levels of unemployment and on Treasury revenues, a consequence of reduced tax income from corporate profits and individuals' earnings.

The unemployment situation on the Island was holding up well until late last year, a consequence of continued relatively strong growth in the economy. But since then we have experienced large increases in the number of individuals registered unemployed. From a low in 2008 of 519, as at the end of January the unemployment total is 926, or 2.2% of the workforce.

The worst affected sectors in the last few months have been construction and retailing. Three quarters of the job losses in January were in these two areas. Clearly, although seasonal layoffs are impacting, there is definitely a slowdown in the local construction industry. But the retailing sector has essentially been the victim of the demise of a number of well known UK high street retailers rather than of local economic conditions.

Our overall level of unemployment still compares well with countries such as the United Kingdom, where unemployment is now 6.3% of the working population, and Ireland where the rate is now 9.2%

Increases in unemployment represent one of the key financial threats to the budget going forward. Each person added to the register, not only represents a personal and family hardship but also affects the exchequer, both in lost taxes and higher benefit costs. Treasury estimate that each job lost costs the exchequer around £15,000 per annum.

Maintaining employment levels will be a key responsibility for us all in the times ahead, but at present the labour market appears to be bearing up well, with few job losses in the primary, export earning sectors and ongoing recruitment by some employers. Income tax records at the end of December revealed the Island to have its highest ever level of employment, with more than 46,000 in work, and there are still around 250 vacancies waiting to be filled.

Mr President, it has been a long held ambition of successive Governments to achieve an inclusive society in the Isle of Man and to deliver support for our people when they face difficult times.

Today I want to help those who find themselves out of work whilst they are looking for a new job, and after they return to work. Jobseekers allowance, like many benefits is based on a September uprating. September's inflation was 6.5% last year. Despite the overall financial position, and the steep reductions in inflation resulting from reducing fuel and mortgage costs, we will implement in full the 6.5% uprating for those in receipt of all means tested

benefits not covered by reciprocal arrangements. This includes income support, family income supplement and jobseekers allowance. Most other benefits will rise by 5%.

In addition, once people return to work, they may find that their jobseekers allowance payments ultimately contribute to an overall tax bill for the year that is higher than they would have expected based on their employment alone. This is because jobseekers allowance is currently treated as a taxable benefit, and must be declared on an annual tax return.

Similarly those who have had income during the year, lose their jobs and go onto jobseekers allowance, find that it contributes towards a tax liability at the year end, and reduces any repayment of tax that may have been due. This does nothing to help people who have lost their jobs, so with immediate effect I am making jobseekers allowance a non-taxable benefit. This will provide immediate assistance to anybody unfortunate enough to be out of work at present.

Growth forecasts have been reviewed in light of changing economic conditions. Growth for 2007/8 is provisionally estimated at 8.2%. For the current year, 2008/9 growth is expected to be 4.5% in real terms, helped by a strong first half of the year. For 2009/10 we anticipate growth of 2.5% in real terms, 3.5% lower than what we were forecasting this time last year.

This is still positive, and some way from recession. If the international consensus proves correct there will be a global recovery from 2010 and Treasury believes that the Island can resume its more typical growth path.

Interest rates can be expected to remain near zero for much of 2009, before rising again in 2010.

If there is a silver lining in the recessionary cloud it is in the impact of reduced global demand on inflation rates. A combination of soaring fuel and energy costs and increasing mortgage costs produced an Island inflation rate of 6.5% in October. This is now down to 1.2%. I expect local inflation to continue to stay low in the ensuing months, with more energy tariff cuts in the pipeline, falling interest rates, and declining food and commodity prices, helping to outweigh the increased import costs for British industry arising from the weakness of sterling.

As well as bringing financial relief to households, the inflation outlook will bring some welcome respite to some key areas of Government spending.

One of the big contributors to inflation is the oil price. A year ago this was at record highs, with prices peaking at \$140 a barrel. It is now below \$50 a barrel. This is also good news for local businesses, for our transportation services, and for consumers facing winter energy bills. The package of support introduced last October clearly helped many people through the period of higher costs. The average family is now several hundred pounds better off as a result of falling oil prices, and whilst the longer term investment in insulation and energy efficiency will continue, the short term increases to the winter bonus have had the desired effect.

The oil price reduction would have had more of an impact had it not been affected by the weakness in sterling. This will aid our exporters, but will make foreign travel, and imports more expensive in the medium term.

Overall the local economy remains strong, especially when compared with elsewhere. Our key responsibilities are to maintain confidence, without which there will be little new investment, to protect jobs which create wealth and generate revenues, and to weather the external shocks that may yet further affect areas such as retail, banking and property markets.

### **International issues**

I will now turn to international issues

The last year has seen a number of key challenges in respect of our international profile. The events of last October should be a salutary reminder of the constant need to be proactive in communicating to wider audiences worldwide.

The collapse of Kaupthing Singer and Friedlander Isle of Man dominated events. We all recognise the financial and emotional strain this has caused, and are committed to finding the best solution in difficult circumstances. The Chief Minister and myself have held a number of meetings with key figures in the United Kingdom and Iceland in an attempt to find a satisfactory resolution to facilitate the return of the depositors' stranded funds, without success to date.

At the same time the banking crisis, and the international response was forcing a faster reconsideration of the depositors compensation scheme, and ultimately, a Government guarantee to provide up to £150 million of financial support was put in place, should this be required.

It has now been over four months since the problems with Kaupthing Singer and Friedlander emerged. During this time we have not stood by waiting for events to unfold, but have constantly striven to construct a solution in the best interests of all depositors. This includes continued dialogue with all interested parties. The continued lack of certainty regarding meaningful information from the UK administrator has frustrated our ability to reach satisfactory conclusions to these discussions.

Having secured the support of this honourable Court to the introduction of an early payment scheme in December, I can inform honourable Members that some 6,000 applications have been made, a significant proportion already paid. An enhanced early payment scheme is to be put to Tynwald this month, providing for reimbursement of deposits up to £10,000.

The two early payment schemes will together cost up to £105 million, equivalent to more than a thousand pounds for every man, woman and child resident on the Isle of Man. In my opinion it cannot be said by any person that we do not take seriously the situation the depositors find themselves in.

Later this week the court will meet again to determine whether the scheme of arrangement should be allowed to proceed as an alternative to liquidation. We remain convinced that this will provide a better outcome to that of liquidation for the creditors of Kaupthing Singer and Friedlander, ensuring 71% of eligible depositors will receive 100% recovery within two years.

I am aware that many depositors may be watching or listening to the budget debate today. I therefore want to reiterate my commitment to continue to work to meet both any short term financial difficulties experienced by getting as many early payments out as soon as possible,

and at the same time to implement the courts wishes in respect of an overall solution as swiftly as we can.

The stresses caused by the banking crises put our closest relationship, that with the United Kingdom, under considerable pressure. Much of the press comment at the time was inaccurate, and showed little understanding for the Island's status or economy. I am therefore more determined than ever to ensure that we actively get our message across. This is more than just marketing; it is about developing and sustaining an international personality so we can represent the Island's interests and build relationships to ensure that the reality and not the rhetoric is heard.

I will therefore expand the scope of the Marketing Initiatives Fund so that it can be used for the promotion of the Island's relationships internationally, and I will transfer £5 million from the Economic Development Fund to the Marketing Initiatives Fund to ensure sufficient resources are targeted in this area.

As an example of what can be achieved, we can point to the Isle of Man's attendance at the World Bank annual meeting in Washington during October 2008 where I spoke at the Small States Forum.

I announced a major initiative whereby the Isle of Man, in conjunction with Oxford University and the World Bank, will assist capacity building in small and developing states from across the globe by organising courses at the University Centre at the Nunnery. This is a tangible way in which the Island can use its experience and expertise to assist both developing nations and the improvement of regulation and corporate governance in response to developing international standards. I am proud that the Isle of Man should be leading in this regard. £1 million will be spent on this programme over the next five years.

It is becoming increasingly important that we should take a leading and visible stance on a number of international matters, especially in relation to how countries co-operate with each other on tax matters. Honourable Members are all aware of the wave of anti-tax haven comment that has been if anything increasing in intensity in the last twelve months. It is likely that legislation will soon be re-introduced in the US Congress by Senator Levin and that it will be backed by President Obama. France and Germany are pushing hard in the EU and the G20 to have a new black-list of tax havens drawn up and for action to be taken against those countries appearing on the list.

The Isle of Man is not a tax haven, and I am determined that we should not appear on any new black-list drawn up by the OECD or any other organisation.

Our engagement with international organisations and with individual countries, coupled with our approach of combining actions with words and concluding tax co-operation agreements has positioned us well. The positive support of this court for this approach makes our stance even stronger. We understand what is required of a country having a financial services centre and we deliver it.

Our proactive response to the events of last October will extend to the review into crown dependencies' regulation being undertaken by the United Kingdom and referred to as the "Foot Review". I understand Members frustration in relation to hearing how the review is to progress, but to date we have yet to meet Mr Foot or his team, to hear how he proposes to undertake this work. I look forward to such a meeting taking place at an early opportunity as

I know that we can demonstrate that we the meet highest standards of regulation, and as such this will be another opportunity to demonstrate this to the international community.

This is not just my opinion. Our external credit rating agencies compare and contrast the performance of many jurisdictions and even after the turbulent events of last October, they have confirmed our 'Triple A' credit rating. A factor in our favour is the relative diversity of our economy. The continued drive for diversification and new sources of business must always be at the forefront of our thinking.

With regard to the IMF, they completed their visit in September and we are eagerly awaiting what we anticipate to be a positive report. The Isle of Man remains committed to demonstrating high standards of regulation, and I am sure that this will become increasingly important to investors in the years ahead.

Our relationship with the European Union continues to progress. We need to watch developments closely in this regard, especially those that may revise the EU savings tax directive. I expect those states who opted for the transitional withholding tax route to come under further pressure to move to automatic exchange of information, and clearly we need to keep under review our position in this regard.

One of the international responses to the global financial crisis has been the increasing prominence of the "G20". This is a group of finance ministers and central bank governors established in 1999. It will next meet in April, when its priority will be to gain further agreements for a concerted and co-ordinated response to the global challenges in respect of financial regulation and taxation. It will therefore become another international body with which the Isle of Man will need to interact.

In summary, responding to the new and more aggressive international agenda towards small states will be a major challenge in the time ahead, and will have to be a top priority for the Isle of Man for many years to come.

Mr President, local companies continue to succeed on the international stage. Film production levels have been impacted by the very challenging market and economic conditions. We may not have the quantity, but there is no doubt as to the quality of local productions. "Me and Orson Welles", filmed in the Gaiety Theatre attracted a great degree of media interest, and "A Bunch of Amateurs" was selected for the royal film premiere in November. Two more productions are underway at the present time and there are further opportunities on the horizon which, depending upon ongoing discussions, may result in more local films.

The Media Development Fund has been used to date to finance such investments, and to generate the associated local spend and employment. Going forward we need to ensure that the Fund is used to sustain longer term employment opportunities, as and when they become available.

Our economy has continued to develop well in a number of other areas.

E-business has continued to grow on the Island, generating jobs and revenues for other local businesses. The DTI estimates that it will have paid over £2million in financial assistance to e-businesses over the last 3 years which in turn has helped to secure over £20million in local investment particularly in e-business infrastructure such as data centres. This will attract

further jobs and investment. The work done by the MEA in developing their fibre optic cable is contributing to this growth.

The e-gaming sector has again made excellent progress and showed strong growth in 2008. There are now 16 gaming companies licensed and trading on the Isle of Man. A further 5 have licences approved and at least 20 are in the process of application. As a result the number of jobs supported by this sector is estimated to be over 450, an increase of around 100 from this time last year.

The average salary in e-gaming exceeds that of virtually any other sector and are diverse in nature with skills often transferable from other sectors, not least financial services. The e-gaming sector is now contributing significantly to the Isle of Man economy in terms of employment, tax receipts, local spend in the economy and fees for banks, its businesses and professional services.

The appointment in June last year of a new gambling regulator has helped greatly to raise the Island's profile in this area and to make considerably more progress in terms of licensing. Major developments include the licensing of network gaming and betting exchanges which should drive future growth.

The manufacturing sector continues to play a vital role in our economy at a time when the economy generally is experiencing a downturn. It is the second largest primary sector after banking and employs around 3,000 people. Over the last 5 years, growth in manufacturing has substantially outstripped the national average.

In the last year alone, the aerospace sector has created 50 new jobs and further are forecast in this area in 2009.

I am pleased to report that significant new expansion plans are underway at both GE Aviation in Onchan, where a £12 million factory is planned, and at Swagelok in Tromode, and these are expected to create further job opportunities in 2009.

We are all aware of the fact that the retail sector on the Island has faced a difficult period of trading, particularly towards the end of 2008. The DTI has sponsored an independent retail consultancy programme aimed at helping local businesses to improve skills and boost profits. Around 30 businesses in Douglas have already benefited from this programme and in October last year the initiative was extended to 10 businesses in Ramsey. We have also put aside funds from the Marketing Initiatives Fund to support an online offering for local retailers.

On a more strategic level, 2008 saw the release for consultation of the all-Island retail study, commissioned by the Economic Development Committee.

During the preparation of the retail study and in the subsequent consultation, much attention has been given to the role of retail development in the regeneration of town and village centres around the Island. I am pleased to say that the regeneration scheme is intended to be put to the February Tynwald and at the same time the project manager will take up his role in the DTI. The £8 million Fund, plus interest remains available for use by the Department, in conjunction with local authorities.

Over the past year the Ship Register has continued to perform well, maintaining its international position, and remaining highly regarded. We now have over 1,000 vessels on

the register. This year has seen a growth in the number of new merchant ship registrations ending the year with some 447 on the register of which some 70 were commercial yachts over 24 metres in length. Each of these vessels requires substantial input from businesses on the Island: banks, lawyers, corporate service providers and representative persons, all benefiting economically from the strength of the register. In addition to this, the ship registry has attracted four new companies to the sector in the last year.

The Isle of Man Aircraft Register is now 21 months old and has been a phenomenal success. To date, 110 high-quality corporate and private aircraft have been attracted to the register. To put this in perspective, one of our major competitors, the Cayman Islands, has added 50 aircraft in the last 10 years!

Finally, I would like to turn to agriculture. The Agricultural Development Fund was set up two years ago to assist in the introduction of the Countryside Stewardship Scheme and the ending of the red meat derogation. The Fund has £5.5 million available for use in the next few years and Treasury have worked with the Department to deliver support to a number of key areas within the industry.

### **Public finances**

I wish to turn now to the public finances.

The general slowdown has impacted the financial estimates. Government revenues for the current year will be around £12 million below budget at £587 million. The most significant area has been the reduction in customs receipts, affected by the reduction in the rate of VAT from 17.5% to 15% and from a reducing pool of revenues within the customs and excise agreement due to a more general spending slowdown.

We estimate a shortfall of £24.5 million in VAT receipts in the current year, and a further £21.6 million in 2009-10.

By contrast, our income tax receipts have remained buoyant, coming in £14 million over budget. Our corporate taxpayers reported on a good year, and personal tax receipts have remained strong, with strong employment and, until recently, good investment returns.

Treasury has been closely monitoring expenditure, which we expect to come in at around £573 million, giving us a surplus of £14million for the year. In deciding what to do with this surplus, my priorities have been to:

- provide for the expected reduction in receipts in 2009-10;
- maintain investment in key areas such as capital and information technology;
- meet previous commitments in respect of funding employee pensions.

It is important to note that there are no reserve transfers planned for 2009-10 onwards, and that as a result, we will need to re-prioritise and make the best use of existing reserves.

Marketing remains a key priority. As already said, I am proposing that a sum of £5 million is transferred from the Economic Development Fund to the Marketing Initiatives Fund. As a result there will be £13 million available to promote the Island going forward. The Economic Development Fund will still contain £14 million for other economic initiatives.

There is also a longstanding commitment to the Commonwealth Youth Games, and I will transfer £1 million from the Visitor Facility Improvement Fund to meet this.

Tourism remains a key part of the economy, and we need to find new and innovative ways of using the Visitor Facility Improvement Fund to promote the industry. There remains over £7 million available in this Fund and we will work with the Department to ensure it is spent on improving the quality of the visitor experience.

In respect of information technology I will make the planned £4 million transfer announced last year. We have seen considerable progress in using ICT for genuine improvements in public service delivery and internal efficiency. As an example, the growth of on-line services via the Onemann programme has significantly exceeded targets for adoption by business and citizens, with over 5,500 companies and individuals registered, and over £11 million of payments for income tax, VAT and rates received by the new electronic payments channels.

The key challenge for the future is to ensure Government prioritises the drive for real productivity and customer service improvements. I have asked the Value for Money Committee, under my colleague Mr Downie, MLC to review its spending in 2009-10, and work with the Chief Minister's Business Development Group to ensure the effective use of these funds.

There are a number of longer term fiscal challenges that still need to be addressed. Public sector pensions continue to cost the taxpayer 10% more every year, and will cost £44 million in 2009-10.

Treasury will make the planned £15 million transfer to the Public Sector Pensions Reserve in 2008-9 bringing the book value of the Reserve to around £206 million, or 15.7% of the estimated total liabilities of £1.3 billion at the 31<sup>st</sup> March 2009.

I welcome the consultation exercise being undertaken by Hymans Robertson, and encourage all those with an interest in the longer term success of the Island's economy to read the report and seek a sustainable solution that does not damage the economic success that those in the public sector will rely on to pay their pensions in the years ahead.

For next year I am estimating income to be £572 million, and have budgeted expenditure at the same level. There is just a £200,000 surplus on this budget, and therefore all departments will need to manage carefully and cautiously in the year ahead. To achieve a balanced budget many difficult decisions have had to be made. These include utilising the interest earned on the Reserve Fund and Currency Account to support ongoing spending rather than reinvesting them.

I have also reduced the annual allocation of funds from revenue in support of the capital programme. This reduction has been achieved by reducing the rate of interest on loan charges from 6.25% to 3.25% for 2009-10, which reduces departmental budgets by £16.8 million. To ensure that we continue to support our construction industry, I will transfer £11 million from this year's surplus into the capital account.

What we have not done is cut services, jobs, or investment in key areas that generate revenues and wealth. It must be recognised that Government's overall salary bill is now in excess of £300 million per annum, more than half our annual net expenditure. At a time when those in the private sector are facing a period of severe belt-tightening and job insecurity, it is vital that we apply the same discipline to the public sector.

Inflation is now 1.2% and expected to fall further, so the scope for new pay settlements in the current year will be severely limited. For every 1% pay increase, Treasury needs to find around £3 million, or  $\frac{3}{4}$  of 1% on the headline rate of income tax for all taxpayers.

It is my hope is that there is a collective effort across Government, at all levels to create a more efficient public service that can produce the environment to finance future pay settlements and provide for growth in essential public services.

We have also to control the numbers of people working for Government, and the overall reduction of 2 in this figure, including temporary and contract staff, is a small step in the right direction.

I have also removed from revenue funding for tourism marketing and central insurances which will be met directly from reserve funds.

We do expect income levels to recover somewhat in 2010-11 assuming VAT returns to 17.5%, but I also anticipate further difficulties in respect of lower direct tax receipts if the economic slowdown becomes deeper and more prolonged, and if continued low interest rates continue to reduce returns to savers.

In respect of our investments, under the chairmanship of Mr Braidwood, the Investment Committee has continued to manage our reserves under exceptionally difficult market conditions. Despite some reductions in the underlying value of our investments, we have to date avoided much of the significant downturn in certain market sectors. As a result our reserves are in a better position than they could otherwise have been. Externally invested reserves fell in value to around £1.05 billion at the 31<sup>st</sup> December 2008, having lost around £130 million since the 31<sup>st</sup> March.

The Manx Electricity Authority remains a demand on public finances, although the good work put in by the board under the chairmanships of Mr Teare and Mr Gill continue to reduce this burden. The MEA will require £7.2 million of taxpayer subsidy for 2009-10, £3.6 million less than the current year.

The overall economic projections mean that we need to continue and if possible accelerate the MEA's return to a position in which taxpayer support is no longer required.

### **Revenue budgets**

I now turn to the revenue estimates for next year. These have proved very difficult to allocate, but this presents opportunities for departments to work more efficiently and to make best use of limited resources.

Net departmental spending is estimated to increase by £5.6 million or 1% over the current year's estimate.

We have continued to prioritise health and social care as a key area for resource allocation and the DHSS has received a £13.3 million, or 5.7%, increase. The challenges faced in this area are too many to go into here, but I remain confident in the abilities of the Minister for Health and Social Security and his team to get the best out of the resources he is given. Others are also working hard on this, but I remain convinced that there are still pockets of waste and excess across Government that every member who works in a department can help identify and remove.

Similarly we have provided for significant increases in the basic pension and pension supplement both of which rise by 5%. A married couple, entitled to the supplement will receive £228.45 a week, just under £1,000 a month from April, and a single pensioner with supplement £142.88 per week, an increase of £6.83. I also introduced a £2,000 personal allowance last year, which is now impacting current tax assessments and which takes half of all pensioners out of tax altogether.

In spite of the challenges facing us, the Isle of Man remains a prosperous community. I believe we have a responsibility to help those in the developing world.

The Overseas Aid budget has grown substantially since I became Treasury Minister. For 2009-10 it will be increased by a further £200,000, to £2.4 million, an increase of 9%.

After adjusting for the impact of loan charges only three departments show a reduction in next year's budget, and two of these reductions relate to the removal of certain items of expenditure met from reserves. We have therefore avoided any dramatic cuts to services for next year. Now is the time then to make some of the more difficult decisions over priorities that may have not been required previously, if only to give departments the space to grow and develop in other new areas in the years ahead.

### **Capital programme**

I shall now turn to the capital programme.

I said earlier that Government must be focussed on maintaining employment. Government's capital programme can be an important tool in maintaining construction activity and jobs during a downturn. It is therefore disappointing to report again that only around two thirds of this year's programme will be delivered. All Government departments need to acknowledge their responsibility to those in the construction sector, to provide a realistic and deliverable capital programme.

For next year, Treasury has reviewed every scheme to ensure not only that it can be delivered, but also to assess its contribution to the wider economy. As a result some £55 million of the £127 million programme for 2009-10 is construction or property related, up from £40 million last year. Local Authorities will spend an additional £22 million, supported by Government funds.

Although large schemes are required from time to time, much of the work that is required to be undertaken is preventative or minor in nature. These are the schemes that we have prioritised, as they give a steady flow of work, and are not subject to some of the delays that can befall larger projects.

A good example of what I mean has been the creation of an ongoing preventative maintenance programme by the Department of Education. It has reviewed its entire estate, and come up with a rolling programme of works to prevent its deterioration, and in the longer term, prevent the need for more expensive repairs or rebuilds. We will double the allocation of capital spending to this work from next year onwards.

There are larger construction firms as well, and I am conscious of their reliance on Government work in a slowdown. We need to focus at this time on progressing key policies such as public housing. The Housing Reserve has over £20 million ready to spend, and now

is the time to spend it, so we are working closely with the Department of Local Government and the Environment to accelerate housing schemes wherever possible.

Finally there are the big infrastructure works. Provision has been made in this year's programme for the completion of the runway extension, for Northern IRIS and for the new Bemahague School. There will also be the building of a new factory by the DTI. Again the focus is on protecting jobs and investment and making a practical difference to peoples lives.

## **Taxation**

Mr President, it is now time for me to cover the taxation aspects of this budget.

Firstly I will review some of the factors that have influenced its preparation.

Times are challenging, to say the least, and many of us in the Isle of Man are exceptionally occupied with dealing with the challenges. In such circumstances it is easy to forget that we have continued to make good progress in areas that benefit the people and businesses of this Island.

Many of our elderly people are now benefiting from the new age-related tax allowance that I mentioned earlier. On the wider front, I also made sweeping changes to the personal allowance credit system so that those people in our community who are less well off received a direct cash boost.

Our new system for the taxation of pensions is now law and is receiving much favourable comment. Treasury is receiving feedback on the new act and also on the potential for further enhancing the Isle of Man's standing as a centre for pension management. I will consider all of that feedback carefully and make any changes that appear appropriate when the time is right.

We have continued to build our excellent reputation in the field of international tax co-operation. Tax agreements have been signed with Ireland and the United Kingdom since my last budget; and only a few days ago I signed agreements with Australia on behalf of our Government. A number of further agreements are in the pipeline and I would urge every member in this court to support this programme of work fully.

Mr President, the Isle of Man has committed publicly to deliver international standards of tax co-operation. We are seen to be at the leading edge of a group of international financial services centres that are showing clear evidence of their commitment, rather than paying lip-service to it as some countries are. I see our actions as joining us firmly to the global effort to establish a system based on co-operation, transparency and effective exchange of information in tax matters; all of which strengthen global financial stability.

Much of our work in the last few years has been driven by tax information exchange and the stand-alone agreements that deliver it. I expect that we will now move forward into the realm of negotiating comprehensive double taxation agreements which are far more focussed on economic and business links between countries, and which our private sector has been keen to see in place for many years.

The fact that we have shown action in addition to words as part of our tax co-operation work has brought us praise from the Secretary-General of the OECD and from a number of the OECD member states. While such praise does not put "meat on the table" directly, it adds to

the sense of confidence that people and businesses have when investing in the Isle of Man. Moving into what I called last year the global economic mainstream brings with it many obligations; but we understand them and are willing and able to fulfil them.

Honourable Members have rightly asked in recent months where the Isle of Man's new taxation strategy is. I remain strongly of the view that we should have such a document in place and in the public domain so that it is clear to any interested party how the Island's tax system can be expected to change in the coming few years. The severity of the changes in the world's economies, especially those of our closest neighbours, and the effects that those changes are having on our revenue flows, mean that the strategy that we consulted on only last year should be re-examined. It is right that we should be open about our expectations regarding future tax policies. However, those policies must be fit for purpose. We are actively reviewing the taxation strategy, and I ask honourable Members to remain patient and to accept that carrying out more work in this area is the correct approach.

A number of Honourable Members have asked me about one aspect of the tax strategy consultation documents; namely that we should consider introducing a tax-advantaged savings vehicle, perhaps similar to a UK "ISA". This concept remains under consideration, but its introduction would be associated with a cost, and I have determined therefore that now is not the right time to take it forward.

Mr President, the Isle of Man's revenue outlook for the forthcoming year is a difficult one, and we face problems that have not been experienced in the Isle of Man for a generation. Our fiscal projections have been made to the best of our ability, but there is still a great deal of uncertainty. It goes without saying, however, that we will have less than we had this year.

My colleagues in the Council of Ministers have reviewed their budgets rigorously and have accepted a tight financial settlement for 2009/2010.

I have had to consider whether to raise tax rates, or to abolish tax allowances or reliefs to give us more breathing room in the year ahead; and no doubt many Honourable Members in this court and members of the public outside are expecting just that.

However, taking all possible circumstances into account, including the discipline of Ministers in terms of their departmental budgets, I have reached the conclusion that it is possible this year to avoid the pain of raising our tax rates, and yet still to offer more to the less well off.

Mr President, I am proposing that for individuals all of the principal income tax rates, allowances and rate bands will be frozen at their 2008/2009 levels in the year ahead. This means that rates will remain at 10% and 18%, the personal allowance will be £9,200 for a resident individual and £18,400 for a jointly assessed married couple and the income band in which tax is payable at the 10% rate will remain at £10,500 for a single person and £21,000 for a married couple.

The limit on the amount of interest that can be deducted from a person's income for tax purposes will remain at £15,000 for a single person and £30,000 for a jointly assessed married couple. Other tax allowances and deductions will also be unchanged.

The personal tax cap limit will be held at £100,000 in the 2009/2010 tax year.

For those people in our community who are less well off, I can offer some additional help this year through the only changes that I am announcing, which are indeed the only changes that I feel the Isle of Man can afford to make.

Firstly, Mr President, I will be increasing the amount of the personal allowance tax credit by 10%; from £500 to £550. The limit below which the credit will be payable will also be increased to £9,200 to match the personal allowance. The cost of these measures will be almost a million pounds. It will add another 850 people to the 10,000 who currently get the personal allowance credit, and take the total cost of the personal allowance credit to £6 million for 2009-10. No honourable Member should doubt our continued commitment to assist those on low incomes.

Secondly, I announced last year a review of taxable state benefits. My conclusion is that it makes little sense to pay benefits via the DHSS and then try to claw some of them back later via the income tax system. As I earlier noted we have taken the first step today by redefining jobseekers allowance as a non-taxable benefit.

For companies, none of the primary aspects of the taxation system will change. The standard rate of 0% and the higher rate of 10% for banking income and income from land and property remain as they were.

Mr President: that completes my proposals on taxation.

### **Conclusion**

Mr President, today's budget is presented with a backcloth of the most difficult combination of circumstances in living memory.

The turmoil in the financial markets and especially the UK recession, combined with the heightened international political agenda focussing on small states have presented us with unprecedented challenges.

Notwithstanding the scale of these challenges, we have nonetheless produced a balanced budget, as I am statutorily obliged to do.

We have done this without raising head-line tax rates and without reducing services.

We have enhanced support for those on low incomes and recognise the concerns of the newly unemployed.

We have structured our capital spending to help stimulate the construction industry and we have given a major boost to our marketing funding to further stimulate the economy.

Mr President, I am totally committed to seeing the Island through the difficult times ahead, to protecting jobs, public services, and the vulnerable in our community.

To that end I would particularly like to thank my fellow Ministers, Honourable Members in their various departments, and officers at every level across Government for their cooperation in achieving today's budget.

I must also thank Mr Braidwood and Mr Downie, my fellow members of Treasury, together with my officers who have helped deliver this budget under extremely stressful circumstances.

The next 12 months are likely to be the most difficult any of us have known and will undoubtedly throw up many unexpected challenges along the way.

However, I believe that our economy is stronger and more resilient than it has been during previous downturns. In spite of the slowdown the Isle of Man is not in recession and there are still good news stories across the economy, even when the global media is full of negativity.

To the outside world my message is plain. Look at our 25 year record of unbroken growth. Look at our success and be part of it, because when the world starts to recover it will find the Isle of Man ready and able to be part of that recovery.

To our Island I say that even though there may be difficult times ahead, I strongly believe that if both Tynwald and our community work together in common cause, putting aside our differences, we can come through this period stronger than most.

I believe the budget which I have had the honour to present today is an important first step towards recovery and I commend it to the Court.

**Hon Allan Bell MHK**  
**Minister for the Treasury**  
**17<sup>th</sup> February 2009**