

Budget Speech 2019

A Budget of Confidence

Mr President,

Today I am delivering a budget of confidence in this Island. Not an ill-conceived or misplaced confidence, but a confidence built on the solid foundations that have been put in place in the previous two budgets of this administration.

But confidence should not be misinterpreted as complacency for there are many challenges ahead of us, perhaps more than at any other time in our recent history.

But that in itself is not a cause for retrenchment or caution and I have long supported the mantra that with every challenge comes opportunity. This Island and its people have consistently proved that we can change and thrive in new circumstances.

Indeed the list of external challenges is somewhat long and distinguished.

The global economy is full of possible permutations, international stock markets unpredictable and country debt in some quarters alarming. Closer to home not only do we have the uncertainty of BREXIT but other closely aligned matters

concerning our relationship with the EU and the international community on tax, substance and financial services.

And at home we have many hurdles to clear; a major review into our Health and Social Care delivery mechanism, a significant debate on Public Sector Pensions, the Post Office, Education, the Steam Packet, growing our working population, growing and diversifying our business and industry, tackling the cost of living, providing for the disadvantaged, improving the mechanisms for delivering public services to name but a few and that list is also long and distinguished!

But Mr President, rather than view these many and difficult matters with a sense of foreboding, we should be meeting them with a sense of optimism. Optimism because tackling each represents a better and more progressive future for this Island and optimism because we have the foundations in place to meet these challenges head on.

In my first budget in 2017 we set out a Five Year Financial Plan to instil confidence in public finances and in this, my third budget, there is credible evidence that we are creating a sustainable base for the future.

That five year plan set out our plans to meet the shortfall in Public Sector Pension payments when the Pension Reserve fund is depleted in 2022, ensuring minimal risk to public services and the economy.

That five year plan set out strong cost controls.

That five year plan set out to control pay in a reasonable and fair manner.

That five year plan set out prudent financial forecasts

That five year plan set out not austerity Mr President, but prudent requirements for departments to deliver their public service commitments in a focused efficient manner.

We have also taken quantified risks Mr President. We have moved to increase personal allowances at a greater rate than ever before despite the potential cost impacts.

We started to increase support to our working families through Child Benefit and Employed Persons Allowance, we have invested in early years education; we have invested in targeted public spending and we have also managed to cope with the deficit spending from the Health Department investing an **unplanned** additional £21 million in the nation's health since this plan was put together without distracting from our overall financial objectives.

And where are we Hon Members? Let me take you to the bottom line. The budget last year forecast a surplus of £10 million. Today, as a result of the success of our economy, the hard work of our citizens, our commitments to control spending, we are forecasting a surplus of just under £28 million. That's

right Hon Members, £28 million - that's £18 million more than was estimated, generated by better than expected income receipts, more people in work, more spending in our economy and the majority of departments sticking to budgets.

I must recognise that the recent announcement by the DHSC and other spending pressures particularly in the DHA may require some additional support, but this extra funding can be found from the contingency subject of course to Tynwald approval. But £18m more than forecast gives me 18 million reasons to bring forward a budget of confidence. And let me start the ball rolling by getting straight to recognising and supporting the people of this Island who should inspire us with their commitment and hard work to improving their lives. Two years ago personal allowances stood at £10,500. Today it is £13,250. In April Hon Members I am proposing that it will rise again to £14,000 with no change to the tax bands.

We are retaining the 10% band at £6,500 and this measure will therefore **again** ensure that **all** taxpayers are better off and should see 1,500 people removed from the scope of income tax. Individual Taxpayers will be up to £150 better off or up to £300 better off for a jointly assessed couple.

The cumulative impact of these three increases has been to remove over **6,500** individuals from paying income tax putting as much as £500 back into the pockets of individuals and

£1,000 for jointly assessed couples, maintaining our commitment to support the hardworking families of our Island.

Hon Members we can be confident that we are an island that is inclusive and caring.

Our focus remains on supporting our working families and building an inclusive society but in doing so we remain adamant that welfare spending is appropriately targeted and fair, both in terms of the criteria for receipt and the recognition of our need to provide support to key groups.

In general terms our benefits payments will be increased by the rate of inflation at the customary reference point for benefits uprating which was 2.4% at September 2018. This is the same rate of increase as the UK.

But we are not stopping with the family heartbeat of our Island here. Not only will personal allowances help but I am proposing that we increase child benefit for the third budget in succession - this time by 5% which is more than double the rate of inflation. This is at a time when the UK Government has frozen its rates of child benefit for the fourth successive year. This increase will give parents the benefit of an additional £57.20 per year for the first child and £36.40 per year for other children. From April, parents on the Isle of Man will be £98.80 a year better off than those in the UK for the first child, and £62.40 for additional children.

Last year we also gave support to our working families with younger children by committing an additional £1.5 million for pre-school credits but this Government also recognises that it is increasingly more difficult to help support Manx students attending Universities and Higher Education in the UK. I am therefore announcing that we are committing an additional £1.5 million to the Department of Education, Sport & Culture to use in a scheme to help parents and families support those students. That money is ring fenced for this purpose and the Department will announce full details of how this funding is to be applied as soon as possible.

These measures will benefit the low to middle income earners on the Island and I am proposing to go further to help the lower paid by increasing the basic allowances for Employed Person's Allowance by half a per cent above inflation to 2.9% to ensure that working families on low incomes will benefit from the increase in the primary earnings threshold for National Insurance contributions from April, as other workers will. And I will explain further about the National Insurance Changes in a few moments.

Supporting the Vulnerable in our Communities

Disabled People

I also wish to do more for the working disabled in our community. For disabled workers I am increasing the Employed Person's Allowance by 5%.

Additionally, I am pleased to announce that the rates of disability living allowance and attendance allowance for our carers will generally be increased above inflation **to 3.4%** from April and that the amounts of the disability premiums for each of the income-related benefits will be increased by 5%.

And I want to give greater support to vulnerable people – particularly the elderly on low incomes to help them meet their winter fuel bills. Therefore I am increasing the amount of the Winter Bonus from £300 to £350. This represents a 17% increase and the first time this allowance has been increased for 10 years.

This Government is taking steps to support the more vulnerable in the community.

The Elderly

As I announced last year, we will continue to follow the UK's so-called triple lock uprating of state pensions for the lifetime of the current UK Parliament. Therefore, I can confirm that - as will be the case in the UK - basic state retirement pensions in the Island will increase by 2.6% from the week commencing 8th April 2019. For those with a full basic pension

this will mean an increase of £169 per year. Furthermore, the additional state pension will increase by 2.4% from April, in line with prices inflation. Overall, the cost of these increases in the Island is estimated to be £3.7 million per annum.

New Manx State pension

Hon Members, as planned the new single-tier Manx state pension will be introduced in April this year.

I can confirm that the full rate of the Manx state pension will be £184.15 a week on its introduction. This is in accordance with a resolution of this Honourable Court made in July 2016 for the new single-tier state pension to be £170 a week, revalued in line with increases to the basic state pension since that date.

Some people who have accrued significant amounts of additional state pension up to 5 April 2019 may get more than this amount, whilst others who have been in contracted out employments for considerable periods of time will most likely get less than this amount.

The officers from the Income Tax Division will be on standby to offer advice and guidance to those who need it.

Manx Pension Supplement

As agreed by this Honourable Court in July 2016 the value of the Manx Pension Supplement **for new pensioners** will

gradually be diminished over a 20-year period starting from this April.

It would therefore seem inequitable to increase it for **existing** pensioners. So I propose that the current rates of the Manx Pension Supplement will not be increased from April.

As has happened in previous years, the Pension Supplement Scheme has been amended in order to avoid what would otherwise be an automatic increase.

Bereaved Families

In April 2017 we introduced the new Bereavement Support Payment, which provides for a very straightforward and easy to satisfy contribution condition and standard rates of allowance payable for a fixed period of 18 months.

Following recent representations, I have decided to give more help to bereaved families with very young children. I can confirm that I shall be bringing an Order to this Honourable Court next month which will - where relevant - extend the period for which this benefit can be paid to the 6th birthday of the youngest or only child in a bereaved family. I believe extending it until a child's 6th birthday will give their parent the additional support in adjusting to these difficult circumstances.

It Pays to be in Work

The increase in the Isle of Man minimum wage rate from 1st October last year resulted in a welcome widening of the gap between the maximum jobseeker's allowance payable to a single jobseeker and the amount of take home pay a worker would have at minimum wage levels. For an individual aged 25 or over, based on a 40-hour week that gap is now over £67 a week, whilst for an individual aged between 18 and 24, again based on a 40-hour week, the gap is almost £88 a week.

Incapacity benefits and Funeral Payments

Last year this Honourable Court agreed to significant changes to incapacity benefits and funeral payments, intended to simplify and rationalise provision in those areas and I am grateful to Honourable Members for supporting those changes.

Social Housing

We are continuing to support the vulnerable with investment in Social Housing. We have £2 million set aside in our capital programme for further works at Clagh Vane in Ballasalla and £1.9 million for minor capital works to refurbish and repair the existing stock.

National Insurance Measures

In my budget speech last year I announced that Class 2 National Insurance Contributions that are paid by the self-employed would be abolished from April 2019.

In September last year the UK Chancellor announced that the abolition of Class 2 had been postponed to at least after the next election in the UK.

I have considered that given the nature of the current reciprocal agreement that operates between the Island and the UK it would not be practicable at this time for the Island to abolish Class 2 contributions as the UK have not, and therefore I can announce today that Class 2 National Insurance contributions will continue to be paid by the self-employed for the foreseeable future.

The 2017/18 tax year once again saw steady growth in National Insurance contributions and this trend has continued into the 2018/19 tax year. I therefore expect receipts to be £4 million above estimate.

I again therefore propose to freeze the rates of National Insurance paid by employees, employers and the self-employed for the 2019/20 tax year so that the Island continues to remain a competitive place to do business.

The Lower Earnings Limit (LEL) is the point at which an employee starts to build up entitlement to National Insurance

funded benefits, in this current tax year it is £116 per week. The UK has announced that from 6th April it will increase to £118 per week and I propose that the Isle of Man should continue to keep the same level as the UK and therefore the Lower Earnings Limit will be increased to £118 per week in the Island from 6th April 2019.

The earnings threshold is the point at which both employees and employers start to pay National Insurance and is currently £118 per week. I propose to increase this amount to £125 per week saving all employees £40 a year in National Insurance and employers £46 a year for each employee.

As a result of this increase the starting point at which a self-employed person starts to pay Class 4 National Insurance will rise from £6,136 to £6,500 saving them £29 a year.

Mr President, we are demonstrating our commitments to an inclusive and caring society and we can also be confident that we are a healthy and safe island.

Last month this Honourable Court received the interim progress report from Sir Jonathan Michael with the final report to come in May 2019. This will provide Tynwald with a number of options that will shape the future of our Health and Social Care system.

I confirmed in Tynwald last month that Treasury has already approved funding from the Healthcare Transformation Fund in

order to address some of the immediate change requirements and some £4 million will be available to act on Tynwald's support or otherwise in respect of the Michael recommendations. I want to thank everyone who has and is inputting into this report and I look forward to that debate in May. We can and we must get behind our health professionals in finding a new and exciting way forward for the delivery of integrated care on this Island.

In terms of the actual budget for Health & Social Care next year, alongside a 2% increase for pay worth £2.1 million, we are providing an additional £3 million to further support staffing and additional pharmaceutical costs. In total that is an additional £5.1 million in additional funding for DHSC which brings our three year total of additional funding (including overspends) to over £42 million.

Our NHS would be nothing without the staff it employs and I want to thank all of the staff in that Department for their continued dedication and hard work and for their support during the independent Health and Social Care Review.

Within our capital programme we are investing a further £13.6 million of funding within Health and Social Care including £550,000 per annum over the next 4 years for new radiology equipment.

The issue of poor Mental Health is an increasing concern in today's society. People with mental illness also bear a disproportionate burden of physical ill-health related to lifestyle factors.

We must continue to tackle mental health and we are allocating £1.7 million to Geddyn Reesht and £1.5 million to Grianagh Court for infrastructure improvements designed to help, treat and support those who need it..

Introduction of 'Sugar Tax'

Last year I announced that the introduction of the Soft Drinks Industry Levy had been postponed on the Island until 1st April 2019. This postponement was due to the fact that the UK needed to introduce legislative changes to allow for the movement of dutiable soft drink products between the UK and the Isle of Man without the need to treat the goods as imports or exports. We are confident that these changes, which are included in the UK Finance Act 2019, will receive Royal Assent before 1st April this year and that the Isle of Man will be able to introduce the duty on 1st April as planned.

Income raised under this duty is estimated to be £300,000 in 2019/20 and will be ring-fenced to be utilised by the Department of Health & Social Care who plan to use it initially for weight management in children and families, breastfeeding initiatives and the promotion of oral hygiene.

£3.4 million additional budget for the Department of Home Affairs

We live in one of the safest places in the world. Our quality of life is envied by many and our low levels of crime are a significant factor in attracting new businesses to our Island. The safety and security that we enjoy are precious, but we must not take them for granted.

I know that Honourable Members have often spoken about their support for the Isle of Man Constabulary in the work that it does to keep us safe. I fully share and endorse these views and I recognise that the Constabulary is facing many pressures that now need addressing.

I am therefore providing the Department of Home Affairs with £3.4 million of additional funding next year which includes an additional £2.5 million to be invested in our Police force to help keep our Island safe now and in the future.

Although this will not mean a return to Policing levels of ten years ago, it will give the Chief Constable the means to tackle new and emerging threats to our safety in imaginative ways.

Neighbourhood policing will be redesigned and modernised, with extra officers being provided to tackle offending and anti-social behaviour across the island. It will also provide more effective support to vulnerable people.

Additional officers will be put into the fight against serious organised crime.

There will be more officers in place to target the importation of Class A drugs and to help take the profit out of drug dealing.

There will be extra officers in place to investigate serious sexual offences and to provide support to victims of abuse.

In January the Government's road safety strategy for the next 10 years was approved by Tynwald and in this budget we have provided £227,000 for 4 additional roads policing officers that will allow the Constabulary to fully deliver the strategy.

Ensuring our officers are equipped now and in the future to deal with the challenges of 21st century policing is a priority. That is why we have also committed to a major investment in police training and development.

Funding for the Fire & Rescue Service and Probation Team

On top of these additional funds for policing, the Department will receive funding for Fire Service training and for additional staff within the Community Service Team which will then ensure that adequate alternative sentencing options are available for the judiciary.

DHA Capital Investment

From our capital programme we will be investing a further £4.6 million in our safety and security next year. Part of that

investment is funding to help in the fight against financial crime, with £707,000 set aside for new technology to allow the Economic Crime Unit to become even more effective. In our 5 year capital programme we have £6 million set aside for the renewal and replacement of equipment, and £7.5 million for emergency vehicles to ensure our Police and Fire and Rescue Service have the resources they need to ensure the Island remains a safe place and that we live our lives free from crime and danger.

Additionally, an investigation continues to try to identify a long term and multi-disciplinary solution for a new emergency services Douglas Head Quarters with £475,000 set aside in 2019/20 for this as well as support to assess the scope and condition of the current Police Headquarters.

Hon Members we are investing in the safety and security of our Island. .

We can also be confident that we are an Island of Enterprise and Opportunity.

If we are to be successful we must have a diverse economy where people choose to work and invest. I can report today that we are delivering on that objective and can assure business that we have plans to continue strong economic growth.

In a 2018 opinion on the Island's credit profile, Moody's Investor Service said they consider the Island's economic strength to be 'high', underpinned by high wealth levels and a track record of strong economic growth. They report that our economy has a comparatively higher degree of diversification than many other economies of a similar size, and it is this diversification, which has been supported by specific Government policies, that has proven to sustain our economy during the financial crisis.

We are seeing positive growth in our exporting industries and encouraging stability in our domestic sectors.

Our e-Gaming, Insurance, and ICT sectors are still expanding with double figure growth this year. Our banking sector is also showing healthy signs of growth, with the Alternative Banking Regime leading to the first new banking licence in the Island for over 20 years.

The Department for Enterprise's new Executive Agencies are taking charge of a productive private/public partnership, delivering a number of new initiatives and committing to a range of strategic actions designed to support this administration's Programme for Government objectives and the wider economic needs of our Island.

This budget allows the Executive Agencies to deliver the objectives through the utilisation of the Marketing Initiatives

Fund and Economic Development Fund. It is early days for the agencies but in this coming financial year their contribution must be significant. Their role is to grow jobs and income for the nation, they need to have ambitious goals and their performance needs to be measured so we can monitor progress.

Digital Isle of Man

Supported by Digital Isle of Man, the Island's digital sectors are leading the way in regards to GDP and employment. E-Gaming has now overtaken Insurance as the Island's largest sector and is continuing to grow and evolve with new businesses, products and markets regularly coming to fruition.

This year the Isle of Man has committed to a strategic direction in the area of blockchain technology, putting us back on the map as a jurisdiction for the development of innovative solutions for modern technology and business needs.

In October Tynwald approved a new telecoms strategy; today we are committing £2 million to the continuation of this, subject to negotiation with potential private sector providers. It is clear that Government will need to finance some of the roll-out of super-fast broadband where it is not commercially viable to do so.

Finance Isle of Man

Finance Isle of Man has instigated an international campaign for the life insurance sector, reaching countries around the world with a clear message of strength, stability and security.

Financial and Professional Services remain an essential part of the Island's economy, with over 40 years of experience in supporting an international client base. It is encouraging to see the continuing innovation in this sector with projects moving forward this year regarding Digital ID and V, crowdfunding and new savings products for the Isle of Man.

The Island's domestic economy has faced some challenges in recent years, but signs are encouraging for a shift of fortune particularly in the catering and hospitality sector. It is clear domestic businesses can prosper if they deliver great service.

Uncertainty around Brexit remains a potential threat to both our aerospace and manufacturing sectors, though the sector has been taking positive steps to build relationships with our closest neighbours in the UK and Ireland to secure supply chain opportunities and implement strategies to overcome potential external changes.

In support of this, local business can apply for a grant from the Business Improvement Scheme of up to £5,000 towards the cost of the transitions required for Brexit.

Visit Isle of Man

Our visitor economy has been the subject of much interest this year, with increased visitor spend bolstered for 2019 by further investment in our hotel and accommodation infrastructure.

Visit Isle of Man will be taking forward a number of new initiatives this year, working hand in hand with industry to build a visitor economy that not only attracts more visitors but that also underpins the quality of life we take for granted here in the Isle of Man through the development of restaurants, bars, events and activities across the Island.

Business Isle of Man

The Isle of Man continues to impress with the innovation and dedication demonstrated by our local business community. Be that in small start-up enterprises or large scale developments, our ethos for being an Island of Enterprise and Opportunity is carried through our whole economy.

We continue to support this entrepreneurial spirit through our enterprise support schemes, all of which have been reviewed and upgraded last year. Whatever funds are required to help our economy develop will be provided if they can generate a return to the Exchequer. Support has helped 120 businesses start up, 56 businesses grow and created 140 new jobs since the start of the financial year, and interest in starting a business is at record levels. The budget this year makes available £6 million for financial assistance to Island businesses and

potentially up to £9.5 million in the Enterprise Development Scheme.

As part of the 2016 Budget, the Enterprise Development Fund was created with an initial £10 million, supporting the £50 million Enterprise Development Scheme. We have now reformed and opened up the Scheme to allow local investors and businesses to work together with the Department for Enterprise to focus on job creation and to strengthen the requirement for co-investment. Whilst it is difficult to predict what impact these changes will have on overall levels of investment in future years, both DfE and Treasury are committed to supporting businesses that will create jobs in the local economy through a range of financial support options

Supporting Inward Migration of Employees

Locate Isle of Man

The work of this government has seen an increase in personal income, increase in job opportunities and an increase in the diversity of our business sectors - but unemployment remains low, and skill shortages persist.

Therefore we will continue to support this Government's commitment to growing the economically active population of the Isle of Man through the launch of a comprehensive Locate strategy to attract more skilled workers, encourage the return of

Manx graduates, help local businesses and recruitment agencies source and retain talent, and attract more investment into the Island and £0.5 million is made available in this budget to support this initiative.

NI Holiday Scheme

To encourage people to come to the island to work I am introducing a National Insurance Holiday Rebate scheme for employees.

This scheme will be introduced in April with a proposed NI holiday for certain individuals who move to the Island for employment. These individuals will need to be new residents to the Island or have been non-resident for at least 5 years, and must be employed by an Isle of Man employer with a salary of at least £21,000. In addition and in order to encourage students back to the Island to work, the scheme will also be extended to students who were resident on the Island and complete their full-time course outside the Isle of Man, if they return to the Island within 5 years. Anyone meeting the conditions will be able to apply for a refund of National Insurance Contributions they have paid during a 12 month period of up to £4,000.

This scheme sits alongside the relocation rebate scheme for employers to assist in business costs in offering relocation support to new employees.

Work Permit Reforms

Additionally, our work permit reforms continue to help reduce bureaucracy whilst protecting the local workforce. Over 75% of businesses requesting permits are now satisfied with the system and around 85% of applications are processed the same or next working day.

Continued Low Unemployment

Mr President, the Island is continuing to enjoy an exceptionally buoyant labour market. Our unemployment rate is the lowest in Europe, standing at just 1.8% at the end of December 2018, compared to 4% for the UK and 6.6% for the EU more generally.

As a result of these low unemployment figures, spending on the associated benefits is low, and overall spending on revenue funded benefits is expected to be around £8 million lower than budget. Given these figures we have been able to re-profile the budget for 2019-20 and expect that £5 million less will be required for job related benefits next year.

Airport Technology Gateway & Jurby Development Initiative

Mr President, I can announce today that we intend to provide funding of £2.1 million from the Economic Development Fund for our colleagues in the Department for Enterprise to enhance

the development of the Airport Technology Gateway and will support the Department of Infrastructure with an investment of £1.8 million for the Jurby Development Initiative. Both projects demonstrate our willingness to work across Government to invest in infrastructure to allow small and new business to thrive, to attract larger employers and to support communities by using Government support to sow the seeds of growth for a sustainable future.

We cannot tackle our major social issues or improve our citizens lives without a strong economy and we should applaud the hard work and determination to succeed demonstrated by so many across our diverse business sectors. I want to acknowledge the commitment to this Island demonstrated by business entrepreneurs and leaders.

Their hard work means that income tax forecasts continue to exceed budget expectations. This year, income tax receipts are expected to be around £233 million which is £10 million more than our original estimate.

Since this time last year the number of taxpayers has increased by 439, the number of taxpayers in employment has increased by 605 and the number of employers by 73.

Business, wealth creation and the success and opportunities they bring means that this Government and this Treasury will always be receptive and supportive of opportunities for

economic growth. And I want to send this message to business leaders. The Isle of Man will offer you and your businesses stability and support and this Government will play its part in supporting you in a changing global landscape. We should all think for the long term, we should commit for the long term and we must work together to tackle problems and shape this Island for the future.

Company Taxation

Mr President, I would now like to turn my attention to the taxation of companies.

Last year, I asked the Assessor to review the taxation position of the banks with a view to taxing all banking profits at the 10% rate from this year. The Assessor has informed me that despite initial thoughts, in reality very little extra revenue would be raised by taxing all of the banking profits at the 10% rate as deposit funded lending is already charged at that rate. Also our banks have been restructuring and working towards a new ring fenced model and despite this their tax contribution continues to increase.

Therefore, I see no reason at this time to increase that burden further. Indeed, to do so at this time could have the reverse effect.

I believe the foundation we have built in previous budgets, the measures we are proposing in this Budget, and the strength of our economy will confirm and enhance our status as an island of Enterprise and Opportunity.

Mr President, we can be confident that we are a responsible Island.

We cannot be complacent and must recognise that in an environment of international political and economic turbulence, the environment around is changing and challenging. However, we can be confident that we **are** meeting our international standards.

Strong Track Record of International Compliance

Mr President, during 2018 a new international tax standard was developed initially by the EU and now by the OECD's Forum on Harmful Tax Practices. It requires certain companies operating in a no or low corporate income tax jurisdiction, like the Isle of Man, to meet substance requirements.

The Isle of Man is committed to meeting international tax standards and we have a long-standing policy of compliance with those standards set by bodies such as the OECD, the EU and FATF. This work is sometimes complex and

time pressured and the results are generally out of our hands. I would like to thank the Assessor and her team for their hard work and dedication over the last 12 months to meet this international deadline. I am sure that we have done as much as possible to ensure that we continue to meet our high standards and stay off any EU blacklist.

It is vital that we all consider the impact the growing number of ongoing and credible external threats pose to the Island's reputation and our economy. We already have our own robust systems in place to tackle tax evasion, money laundering and other financial crime, which meet international standards. Collectively, we all need to ensure the Isle of Man continues to protect our reputation and our economy going forward.

It is vital that we continue to meet those international standards if we wish to keep our general zero rate of tax for companies and the new substance legislation is now part of that international package. I hope that this will *clearly demonstrate our commitment to being at the fore front of being compliant and meeting international standards – building a platform which will* continue to attract new business to the Island and also encourage already established business to grow.

Mr President, last year I brought forward a 'Budget of Substance' and we have delivered on that. In December we introduced new substance legislation which requires corporate

taxpayers to have adequate substance in the Island including having an adequate number of employees and a physical presence here. Not only does this legislation encourage real companies with real jobs to be based on the Island but it also ensures ongoing compliance with EU requirements.

In this budget we have provided almost £400,000 of extra resources for our Income Tax and Customs Divisions to bolster their international compliance teams.

Within the Income Tax Division, additional funding has been provided for resources to ensure that the Island's tax system addresses EU and international requirements in relation to substance. A project was approved by the National Strategy Group in 2018 and new primary legislation introduced in December 2018. A redesigned online corporate tax return, together with new processes and staff will be required in 2019 to ensure the Income Tax Division is fully equipped to implement, monitor and enforce the new requirements.

Following the publication of the so called "Paradise Papers" in November 2017, the Treasury invited HM Revenue and Customs to review our processes in relation to aircraft and yachts. As a result of that review being requested, IOM Customs & Excise undertook an internal review in relation to the VAT Treatment and ongoing assessment of Aircraft. That resulted in the need for additional staff to undertake this work

and it has been considered necessary for us to commit to these staffing levels for the longer term to avoid any doubts about our ability to assess future aircraft liabilities.

Additionally, the Customs & Excise budget has been increased to strengthen its Law Enforcement team. This will ensure the Division is prepared for the UK's exit from the EU and ensure that the recommendations of MONEYVAL are fully incorporated into every day activity.

In further support of our commitment to meet our international obligations, this Budget provides an extra £297,000 to establish the International Cooperation & Asset Recovery Team on a permanent basis, after an initial successful pilot scheme. This is to allow the team to be resourced to adopt a zero tolerance in relation to money laundering and preventing terrorist financing.

In 2017/18 £148,989 was confiscated from 18 cases and £536,369 forfeited under the civil cash seizure regimes. Similar success is being experienced during 2018/19.

On top of this £707,000 of capital funding has been provided for the procurement of a system to enable digital searching of information to facilitate timely Anti-Money Laundering (AML) and Combatting of Financing Terrorism (CFT) investigations.

In addition £87,000 has been allocated to the Cabinet Office for a Policy Advisor to advise and support on the development of

AML/CFT and related financial crime legislation to ensure we comply with the recommendations of MONEYVAL.

Mr President that is an additional £1.5 million to ensure we meet our international obligations.

Strong Regulatory and Legislative Framework

Moody's assessed our institutional strength as 'very high' given our robust and transparent institutional framework. They further noted that we have established a good regulatory framework for our e-gaming sector and in support of that we have provided £145,000 to the Gambling Supervision Commission to ensure it retains the necessary expertise to continue to develop appropriate regulation and ensure compliance with that.

To support our ambition of excellence in regulation and compliance, we have provided an additional £93,000 of funding for the Financial Intelligence Unit to help improve the depth and scale of investigations it is capable of undertaking and £157,000 to the Information Commissioner to support his offices in their growing workload following the Island's implementation of the General Data Protection Regulations.

Treasury has been working closely with key stakeholders to deliver on the objective of strengthening our legislative framework. This not only delivers credibility to the wider world,

but creates certainty for our local businesses and opportunities for growth. For example, work continues to modernise Civil Debt Recovery, add further stability to our banking sector and enable money held in dormant bank accounts to be utilised for local good causes. Legislation has either already been introduced for scrutiny or is due to be brought forward for consultation in the coming months.

To ensure we can continue to deliver well-regulated and efficient services post Brexit, we will top up the Brexit Fund to £2.5 million. This will allow Departments to bring forward the necessary regulations for trade and other services to continue after Exit Day.

Mr President, our results to date and those set out in our 5 Year Plan demonstrate we are Financially Responsible

Next year we again expect strong income tax receipts. The budget assumes income tax receipts of £230.5 million next year, with total income exceeding £1 billion for the fourth year in a row.

We must remain mindful of the challenges that lie ahead, in particular the depletion of the Public Sector Pension Reserve which is forecast in 2021/22 where we must realign our finances to cope with an additional revenue cost of £45 million. And of course, we must take care with our forecasting, in that respect Prudence is a rather attractive virtue.

NI Fund & Contracting Out

The Manx National Insurance Fund is held by Treasury and as at March 2018 had a book value of £794 million, an increase of £37 million from the previous year. The National Insurance Fund remains and will remain an important National Asset.

The interest from investments from this fund and increases to NI receipts has enabled Treasury to cover the shortfall in recent years between income from National Insurance contributions and benefits expenditure.

In March last year this honourable Court approved a significant piece of legislation that introduced into the Island the new Manx State Pension. As a result the contracted-out rate of National Insurance will cease from 5th April and all workers on the Island will start to contribute to the new Manx pension. For employees who are currently in Contracted Out pension schemes this will mean a small increase in the amount of national insurance they contribute. This includes the majority of public servants who, from April, will incur an additional 1.6% increase in their NI contributions. However, with these changes in place, our actuarial projections now predict that the NI fund, which was predicted to run out in the 2050's, is now set to run until at least 2072 and possibly beyond. We will await the next actuarial report with interest but it would be remiss of me not to acknowledge that workers in the public sector are having to go

through a significant readjustment to their take home pay and conditions as they face higher contributions to their public sector pension and higher contributions to their state pension. I thank them for their patience and understanding as they invest in their long term pension security.

With low unemployment levels, in the current year, our National Insurance Income is significantly better than budget and spending on the state pension which is funded from that income is also reduced. Therefore we are expecting to have a surplus of more than £11 million on the NI operating account, most of which will go back into the NI fund for future generations, further sustaining the longevity created by these changes we have made.

Pay Awards

There are still challenges remaining. Whilst the budget includes an allowance for 2% for pay awards, this is below inflation and representative bodies are seeking a higher award for their employees. Balancing the cost of pay awards within the overall budget is a challenge for both Treasury and the Departments. The pay award for public service employees has been announced and is above the level of budgetary allocation. For 2019/20 departments will be expected to meet these additional costs from within their existing budgets.

Priority Based Budgeting

Last year I said we would be introducing a new approach to budgeting by looking at Priority Based Budgeting. That process is well underway but in order to be effective it is taking more time than anticipated due to the detailed and complex nature of the work. The Department of Education, Sport and Culture has been able to dedicate a resource to this project and expects to be in a position to use their analysis for the 2020-21 budget. Additionally work has begun in the Treasury and in Home Affairs with plans for other Departments to follow early in the new financial year.

A Stable Environment

Mr President, we have succeeded in providing a solid foundation for a stable environment. Moody's confirmed our credit rating as Aa2 Stable. They noted that unlike many jurisdictions we have no outstanding debt and substantial reserves. We're in a good position for the future but we can't afford to be complacent. Many uncertainties exist.

Prudent Budgeting of our VAT Income

Since the agreement of the Final Expenditure Revenue Sharing Arrangement (or FERSA) in March 2016 the Island's share of VAT and other common duties has been based on the amount of irrecoverable VAT (also known as sticking VAT) that is paid by householders, businesses, public and third sector

organisations when consuming goods and services in the Isle of Man.

The level of this non-recoverable VAT was initially determined through the household, business and tourist surveys that were conducted over a 12-month period starting in January 2013. The results of those surveys established the Island's provisional share of duties for the years' 2014/15 through to 2017/18. During this period the Island's share of VAT and other common duties amounted to £1.2 billion.

However, the FERSA agreement requires the expenditure survey process to be repeated at least every five years and since April 2018 the Treasury has been working closely with the Cabinet Office to complete a new series of surveys.

The outcome of these surveys will be used to rebase the Island's share of VAT and other common duties for the years 2014/15 to 2016/17, and to determine the Island's provisional share of indirect taxes for the years 2018/19 to 2022/23.

The results of the current surveys won't be fully known until later this year.

Securing Added Value and Efficiencies (SAVE) Programme

Mr President, the Securing Added Value and Efficiencies Programme, or 'SAVE' programme, continues to work within Departments to improve the efficiency of our Public Services.

A number of external reviews have already been completed and projects are underway within Departments. But this journey isn't an easy one, we continue to challenge our service delivery models in an attempt to reduce the cost of our services whilst increasing the efficiency of our services.

From our policy decisions to the point of delivery, SAVE has identified a number of areas which will deliver tangible savings.

The Integrated Transport Strategy under development by the Department of Infrastructure should drive forward with £1 million of savings within the revenue budget over the next three years. This will include clear tangible measures to demonstrate the effective and efficient use of government funding to deliver our local bus and rail needs.

We remain committed to investing in our infrastructure as our capital programme illustrates, however by improving the transparency and accountability of our transport services there will be revenue savings to be realised which remains essential to ensuring our public finances continue to be sustainable in the forthcoming years.

Later this year the Department of Education, Sport and Culture will continue along a pathway to consolidate higher education services on the Island. The SAVE Sub Committee of the Council of Ministers continues to support this project, providing governance to the Council of Ministers. This work aims to grow the student population, thereby supporting an increase in our economically active population. This is a challenge we need to address where young people may choose to experience life and education off Island. We are committed as outlined in our Programme for Government to provide an education system which matches the Island's skills requirements now and in the future. This includes a commitment to ensure value for money from higher and further education. We recognise in order to realise savings of at least £1 million within our higher education provision that in order to provide education and training to meet both local business and individual student needs a new, modern innovative higher education partnership working model is essential.

By securing and improving ongoing learning pathways in our community, online and through the University College Isle of Man we are committed to continue to secure the best opportunities for our students.

As I have recently advised this Honourable Court we continue to support the work of the Legal Aid Committee to ensure that

the provision of Legal Aid in the Island is efficient, effective and sustainable, now and in the future. We recognise Criminal and Civil Legal Aid fall within the overarching principle of “Access to Justice”, which is a fundamental cornerstone of our society. By extending this project’s remit to become one of “Access to Justice” we will have the opportunity to review the Island’s Legal Aid provision as a whole and whether any aspects could or should be changed or improved. The overarching principles of access to justice and quality of service should be in place, and if there are potential efficiencies and savings to be made, this project will seek to identify them.

The SAVE Programme and its process of appraisal and identifying opportunities for change has been focussed on facilitating reform whilst identifying savings and efficiency improvements. This is an ongoing challenge for us all. Informed, evidence based decision making will continue to underpin our commitment to deliver savings when necessary. Treasury continues to improve the budget process to identify priorities and work with Departments to evaluate and improve our understanding of our budget allocation to our services.

If initiatives such as the SAVE programme are to be successful, then Departments need to be ready and willing to accept new

ideas and implement change. If those ideas and implementation are blocked, then there will be no progress.

2019 will see the SAVE Programme refocussing on a collaborative roll out using priority based budgeting to inform our spending priorities across the public sector, to address our competing need for spending within a climate of ongoing revenue spending scrutiny.

Fairness and equality in accessing government services remain key principles throughout our Programme for Government and we must ensure our budgeting approach, financial accountability and continuous service improvement, where possible, deliver savings and efficiencies. Honourable Members, there is an unidentified £15 million of savings written into the Pink Book. We are carrying risk but overall performance is negating that risk. BUT, I have said it before, I will say it now and I will say it again. There is no room for complacency and Departments cannot be allowed to sit back and relax controls and executive Government must be pushed to think innovatively about service delivery. Treasury will not be releasing the handbrake when it comes to bids or spending plans.

Mr President, we can be confident that we are a sustainable island.

Continued Capital Investment in Infrastructure

The continued investment in our infrastructure remains a strategic priority for Government. We have prioritised our capital spending programme and this budget, for the next five years, contains £479 million of capital spending on infrastructure, healthcare, schools and our heritage and leisure industry. This Government is investing to secure our transport and communication links as well as supporting schemes to stimulate sustainable economic benefit to the community.

From an infrastructure perspective we will invest in ensuring that our transport links are maintained and enhanced. In the 2018 Highway Satisfaction Survey 57% of our Island residents said they are satisfied with the condition of our roads. However, we recognise that investment must continue in order to at least maintain or improve that statistic. There is therefore, significant investment planned in our roads network. Over the course of the next 5 years we have almost £48 million of capital investment programmed in with a further £20 million for future years.

Many of our visitors' first impressions of our Island will be formed as they leave the Sea Terminal or the Airport. Colleagues will have seen the commencement of works for the Douglas Promenade project and this budget year sees £3.1 million forecast of the overall £21 million four-year investment. Additionally, a £1.9m further investment will be made to bring

the Promenade Walkway up to a standard that will match the adjacent areas, including storm protection.

Investment of £1 million will also be made to improve the construction and safety of the A5 at Santon, this being a Primary link to our capital from the Airport.

A further £5.6 million is planned for 2019/20 to ensure that our airport is compliant. Projects at Ronaldsway focus on safety and efficiency as well as ensuring that the infrastructure can support the increasing size of aircraft preferred by the carriers who provide the services to key destinations.

We will hear in the coming months about the progress made with the Liverpool Ferry Terminal project and there is a £30 million provision within the budget to deliver this scheme.

For our on-Island transport I have made provision of £7.3 million in this budget for the ongoing replacement of the bus fleet to ensure that we have a modern and efficient public transport network that minimises revenue costs and maximises fiscal and environmental efficiency.

The budget also identifies funding to ensure that our Island continues to be a special place to live and work, as well as supporting our wellbeing and the visitor economy, with the continuation of funding of £3.4 million for Active Travel and a

programme of enhancements to our National Glens, hills and forests.

In order to support our heritage and tourism offering, a number of schemes have been combined to provide an annual consolidated fund of £4.5 million for our heritage transport. Whilst on the theme of tourism and transport we will support the investigation and evolution of schemes to update Douglas harbour and make provision for a cruise berth and pleasure craft pontoons.

Additionally, funding of £250,000 has been allocated for the investigatory stages of the Department for Enterprise's wish to review the provision and potential increased use of the Grandstand.

To ensure we meet our national and international obligations and support the goals of the Programme for Government, this budget includes £23.5 million for the next phase of the Regional Sewage Treatment Strategy, a range of refurbishment and treatment solutions and £1.7 million for a new special waste facility to replace Wrights Pit North and provide a strategic solution for the future.

We have provided £1.9 million to provide a long term solution to deal with the silting of Peel Marina. The proposed solution not only ensures the Marina can be used effectively, but aims to establish a long term solution for the storage of the removed

material which it is hoped will be able to be used to remediate areas of historic mining damage.

Our seas and rivers offer much to our economy, environment and our transport links but we also need to invest to ensure that we are protected from them where climate change may cause a threat to life and property. This budget sees planned investments in 2019/20 of almost £3.3 million of design and construction work prioritised through studies involving private consultants, DEFA, DoI and MUA.

In the last two budgets we have brought support totalling £3 million into our education budget, money that will provide support to young working families through pre-school credits and now support for families with students in higher education. Of course education is also about planning for the future. That is why £2.3 million will be spent in the next year preparing for the new Castle Rushen High School, £400,000 will be spent preparing on works connected to the Science Technology Engineering and Maths (STEM) Block at QE2 and St Marys is also scheduled to have £600,000 spent on an extension scheme.

Investing in technology – Digital Strategy Fund

The Digital Strategy Fund continues to enable large change programmes across Government.

As the first programmes complete their delivery phase's new initiatives have been started including extending Digitisation in the Department of Health and Social Care to include Clinical Notes and Electronic Prescribing, initiatives in the Department of Infrastructure including a central platform for the management of Public Sector Housing, and the creation of the Smart Services Programme

In total to date approximately £7 million has been committed from the Digital Strategy Fund on projects that will deliver cashable benefits of over £12 million and indirect benefits and efficiencies estimated in the region of £25 million.

On top of this we have almost £9 million of technology schemes within the capital programme including the £2 million investment in the Fibre Optic Network I referred to earlier.

New Community Fund supporting our UNESCO Biosphere Status

The Isle of Man is rightly proud of our UNESCO Biosphere recognition and as part of this year's Budget Treasury has made £250,000 available to assist with the development of community projects that are in keeping with this recognition.

It is intended that this fund will be administered by the Manx Lottery Trust and will provide a maximum grant of up to £25,000 to match fund costs associated with projects that can

demonstrate a clear community benefit in line with our UNESCO recognition. In essence the three stated pillars of Conservation, Development and Learning will form the key assessment criteria but the exact interpretation of the requirements will be the responsibility of the Trust.

The key target is supporting community projects that develop and enhance our environment or help with the provision of community services. These would be one-off clearly identifiable capital or revenue costs and set against match funding of 70:30 for registered charities and 50:50 for all other organisations.

Agricultural Support

Mr President, in discussing our environment and sustainability, it is right that I explain why this budget is bringing forward almost £1 million of additional revenue support for farming over the next three years and why a further £1 million is set aside to aid and support the transition of the meat plant.

The importance of agriculture, food and the land economy should not be underestimated and, if you forgive the pun, it remains a challenging landscape. Nevertheless, it is when major political and economic change takes place that the value of our food production comes to the fore. Whether we like it or not, we need to have sustainable agriculture and we need to support our farmers to achieve it. DEFA will have their budget

increased by £1 million over the next three years at £350,000 per annum to support and reform the Agricultural Development Scheme.

Similarly, if you produce meat, you need to have the facilities to slaughter it. It is absolutely right that we demand the meat plant operate as efficiently as possible, but in order to provide some security further funding is made available to support the changes and to give confidence for the industry.

We are investing to ensure that we are a sustainable Island.

Summary

Mr President this budget has been designed to support the Programme for Government objectives. It has also been assisted by the focus groups who attended the public meetings in Ramsey, Douglas, Peel and Castletown and it has been refined by Parliamentary input. I thank all those who have contributed.

Hon Members, I welcome the publication yesterday of the Commons Select Committee Report into Fake News and Disinformation that has become so rampant on social media, disinformation being defined as the deliberate creation and sharing of false and/or manipulated information that is intended to deceive and mislead audiences.

Well, I am pleased today to reach out beyond the purveyors of disinformation to tell you that:

We should be **confident that we are creating an inclusive and caring society.**

- An additional £6.6 million of welfare payments to support the less well off in our society
- £13.7 million in healthcare facilities
- A £5 million commitment to support the changes recommended by the Health and Social Care Review when that report is published later in the year.
- Personal allowances up to £14,000 – helping families tackle the cost of living
- Child Benefit up by 5% - more support for the family heartbeat of our society
- Our National Insurance Receipts in surplus by £11 million

I am pleased today to reach out beyond the purveyors of disinformation to tell you that:

We should be **confident that we support an Island of enterprise and opportunity.** Despite the backdrop of continued international, political and economic uncertainty, the Island is demonstrating remarkable resilience.

- Unemployment below 1%
- Income Tax receipts up

- Numbers registered for taxation up
- £6m millions of pounds in business support schemes to diversify and build an economy for the future

I am pleased today to reach out beyond the purveyors of disinformation to tell you that:

We should be **confident that we remain financially responsible.**

- This budget includes a further £11.8 million for funding public services for next year and
- a commitment of £479 million of capital investment for the next five years. These investments are building for future and providing jobs and security for thousands of families
- And even with all this being delivered our plan to meet the budgetary shortfall caused by Public Sector Pensions support and create a platform for future sustainability is on track to deliver.

Hon Members, the environment around us is changing; but with change also comes opportunity. We must recognise that we have solid foundations on which we can adapt to meet our challenges. But in a year that promises international political and economic uncertainty there is no room for **COMPLACENCY.**

BUT THERE IS ROOM FOR CONFIDENCE AND Honourable Members, **THIS BUDGET PROVIDES A PLATFORM FOR THAT CONFIDENCE IN OUR ISLAND, IN OUR ECONOMY AND MOST OF ALL IN OUR PEOPLE.**

I commend this budget to this Honourable Court.