STATES OF JERSEY

PROPOSED BUDGET (GOVERNMENT PLAN) 2025-2028 (P.51/2024): TWENTY-EIGHTH AMENDMENT (P.51/2024 AMD.(28)) – AMENDMENT

Lodged au Greffe on 19th November 2024
by the Council of Ministers
Earliest date for debate: 26th November 2024

STATES GREFFE

PROPOSED BUDGET (GOVERNMENT PLAN) 2025-2028 (P.51/2024): TWENTY-EIGHTH AMENDMENT (P.51/2024 AMD.(28)) – AMENDMENT

1 PART 1 –

Replace the words 'reduced by £2,000,000 to reflect the removal of the current higher rate surcharge' with 'reduced by £665,000 to reflect the reduction of the current higher rate surcharge from 3 percentage-points to 2 percentage-points'

2 PART 2 –

Replace the word 'removed' with 'reduced'

COUNCIL OF MINISTERS

Note: After this amendment, the amendment would read as follows –

1 PAGE 2, PARAGRAPH (a) –

After the words "Article 9(2)(a) of the Law" insert the words –

", except that in Summary Table 1 the income estimate for Stamp Duty in 2025 should be reduced by £665,000 to reflect the reduction of the current higher rate surcharge from 3 percentage-points to 2 percentage-points'".

2 PAGE 4, PARAGRAPH (o) –

After the words "set out in the Appendix to the accompanying Report" insert the words –

", except that on page 30 after the words "the previously forecast.", there should be inserted the words "In order to promote a positive increase in the sale of residential properties the additional higher rate of Stamp Duty in relation to the sale and purchase of second homes has been reduced for one year.".

Note: After this amendment, the proposition would read as follows –

THE STATES are asked to decide whether they are of opinion –

to receive the Government Plan 2025 – 2028 (entitled "Budget 2025-2028") specified in Article 9(1) of the Public Finances (Jersey) Law 2019 ("the Law") and specifically –

(a) to approve the estimate of total States income to be paid into the Consolidated Fund in 2025 as set out in Appendix 2 – Summary Table 1 to the Report, which is inclusive of the proposed taxation and impôts duties changes outlined in the Government Plan, in line with Article 9(2)(a) of the Law, except that in

Summary Table 1 the income estimate for Stamp Duty in 2025 should be reduced by £665,000 to reflect the reduction of the current higher rate surcharge from 3 percentage-points to 2 percentage-points on the sale of second homes for one year

(b) to approve the proposed Changes to Approval for financing/borrowing for 2025, as shown in Appendix 2 – Summary Table 2 to the Report, which may be obtained by the Minister for Treasury and Resources, as and when required, in line with Article 9 (2)(c) of the Law, of up to those revised approval amounts.

(c) to approve the transfers from one States fund to another for 2025 of up to and including the amounts set in Appendix 2 – Summary Table 3 in line with Article 9(2)(b) of the Law.

(d) to approve a transfer from the Consolidated Fund to the Stabilisation Fund in 2025 of up to £25 million, subject to a decision of the Minister for Treasury and Resources based on the availability of funds in the Consolidated Fund as at 31st December 2024 in excess of the estimates provided in this plan, or from budgeted underspends identified before 31st December 2025.

(e) to approve a transfer from the Consolidated Fund to the Agricultural Loans Fund in 2025 of up to £2 million, subject to a decision of the Minister for Treasury and Resources based on availability of funds in the Consolidated Fund as at 31st December 2024 in excess of estimates provided in this plan, or from budgeted underspends identified before 31st December 2025;

(f) to approve each major project that is to be started or continued in 2025 and the total cost of each such project and any amendments to the proposed total cost of a major project under a previously approved Government Plan, in line with Article 9(2)(d), (e) and (f) of the Law and as set out in Appendix 2 – Summary Table 4 to the Report.

(g) to approve the proposed amount to be appropriated from the Consolidated Fund for 2025, for each head of expenditure, being gross expenditure less estimated income (if any), in line with Articles 9(2)(g), 10(1) and 10(2) of the Law, and set out in Appendix 2 – Summary Tables 5(i) and (ii) of the Report.

(h) to approve the estimated income, being estimated gross income less expenditure, that each States trading operation will pay into its trading fund in 2025 in line with Article 9(2)(h) of the Law and set out in Appendix 2 – Summary Table 6 to the Report.

(i) to approve the proposed amount to be appropriated from each States trading operation's trading fund for 2025 for each head of expenditure in line with Article 9(2)(i) of the Law and set out in Appendix 2 – Summary Table 7 to the Report.

(j) to approve the estimated income and expenditure proposals for the Climate Emergency Fund for 2025 as set out in Appendix 2 – Summary Table 8 to the Report.

(k) to approve an updated and consolidated policy of the Strategic Reserve Fund as follows:

"The Strategic Reserve Fund, established in accordance with the provisions of Article 4 of the Public Finances (Jersey) Law 2005, is a permanent reserve only to be used:

i. in exceptional circumstances to insulate the Island's economy from severe structural decline such as the sudden collapse of a major Island industry or from major natural disaster.

ii. if necessary, for the purposes of providing funding (up to £100 million) for the Bank Depositors Compensation Scheme established under the Banking Business (Depositors Compensation) (Jersey) Regulations 2009, including to meet the States contribution to the Scheme and/or to meet any temporary cash flow funding requirements of the Scheme.

iii. to support the development of future healthcare facilities and the borrowing costs for such work, in line with a financing strategy agreed by the Assembly;

iv. as a holding fund for any or all monies raised through external financing until required, and for any monies related to the repayment of debt raised through external financing used to offset the repayment of debt, as and when required; and

v. in accordance with Article 24 of the Public Finances (Jersey) Law 2019, where the Minister for Treasury and Resources is satisfied that there exists an immediate threat to the health or safety of any of the inhabitants of Jersey, to the stability of the economy in Jersey or to the environment, for which no other suitable funding is available."

(l) to approve the transfer to the Strategic Reserve of the amounts due as a result of the move from prior-year basis taxation after 31st December 2025, as and when these payments are received (estimated at £280 million).

(m) in relation to the new Government Headquarters (office), to approve;

i. the exercising of the option to acquire the new Government Headquarters (estimated at £91 million), by the Public of the Island, in line with the pre-agreed terms; and

ii. the acquisition of the new Government Headquarters as an investment of the Social Security (Reserve) Fund (including authorising the meeting of expenses incurred in connection with the acquisition); and

iii. the subsequent leasing of the new Government Headquarters by the Public of the Island from the Social Security (Reserve) Fund, with commercial terms to be agreed between the Minister for Infrastructure (on behalf of the Public) and Minister for Social Security and the Minister for Treasury and Resources (both on behalf of the Fund); and

(n) in relation to the new Government Headquarters, to authorise H.M. Attorney General, the Greffier of the States, the Ministers for Infrastructure, Social Security and Treasury and Resources, and the Public of the Island, to enter into such arrangements, including financing, and pass any contracts as are necessary to put into effect paragraph (m).

(o) to approve, in accordance with Article 9(1) of the Law, the Government Plan 2025-2028, as set out in the Appendix to the accompanying Report, except that on page 30 after the words “the previously forecast.”, there should be inserted the words “In order to promote a positive increase in the sale of residential properties the additional higher rate of Stamp Duty in relation to the sale and purchase of second homes has been reduced for one year.”

REPORT

Arguably, the housing market in Jersey is experiencing one of the most challenging periods seen in our time. The latest House Prices Index reports that seasonally mix-adjusted average house prices are 12% lower than in the corresponding quarter of 2023, and turnover for the last year has been at its lowest since records began in 2002.

The housing market is however recovering from a period of overheating, illustrated by the fast rate of house price increases seen in the 2018-2022 period. This rate of growth was seriously unsustainable, making home ownership even more out of reach for Islanders. The 3% Stamp Duty surcharge sought to rebalance this, prioritising home ownership above investment purchases.

The introduction of the 3% surcharge did however come at what was already a turning point in the housing market, with the Bank of England (BOE) base rate hike quickly altering the affordability landscape, meaning both investors and homeowners are now facing considerably higher mortgage costs. Further, the higher interest rates have made traditional savings more attractive - and in many cases more attractive than property investment - for the first time since 2008.

There are nevertheless green shoots emerging, supported by recent lowering of the BOE base rate - which is forecast to continue - and the Government's investment into the First Step assisted home ownership scheme which will also continue into 2025.

Whilst transactions do remain low, the latest House Price Index[1] has reported an increase in turnover from its lowest point in Q1 2024. It also highlights the positive rebalancing of transactions that has occurred between first time buyers and those purchasing "non main residence" homes, which was one of the primary objectives of the introduction of the 3% surcharge.

This positive rebalancing towards First Time Buyers (FTB) is at risk of being reversed as a result of the proposed removal of the Stamp Duty surcharge, which shouldn't be supported. However, the Council of Ministers are mindful that the ongoing low number of transactions may be harmful to the housing market and wider economy, and hence have proposed this amendment to the amendment, seeking to support the market in a fairer and more sustainable way.

Indeed, the original Corporate Services Scrutiny Panel amendment[2] which introduced the principle of the higher Stamp Duty rate for buy-to-lets and second homes justified this as it felt "…clear that timely actions to reduce the continued demand and increase in property price is needed", a context which has now considerably changed but nevertheless calls for a careful and step-wise approach to ease the housing market to a stable and sustainable position.

[1] House Price Index Third Quarter 2024.pdf
[2] p.90-2021 amd. (22).pdf

	Flats				Houses				Overall			
	2023	Q1 2024	Q2 2024	Q3 2024	2023	Q1 2024	Q2 2024	Q3 2024	2023	Q1 2024	Q2 2024	Q3 2024
Not main residence	39%	15%	17%	19%	4%	6%	7%	6%	27%	10%	12%	12%
First time buyer rate	26%	45%	38%	41%	3%	16%	17%	13%	18%	28%	28%	26%
Turnover	549	47	107	85	296	67	104	100	843	114	211	185

Table 1: Turnover, higher rate and first time buyer proportion of sales, 2023, Q1 2024 to Q3 2024 (Q3 House Price Index 2024, Statistics Jersey)

Rejection of the removal of the 3% surcharge

The Council of Ministers urge members to not support the wholesale removal of the 3% surcharge at this time.

Whilst the 3% surcharge for second homes has proven to be divisive in the current market conditions, it nonetheless exists and any subsequent move to abolish or reduce this rate must be carefully considered for its impact on the housing market. The Fiscal Policy Panel's Housing Market Review[3] highlights "*that interventions that slow down adjustment of the housing market to changing economic conditions are not desirable*".

Short-term interventions such as a stamp duty holiday or temporary relief do not help the housing market in the long term, they are disruptive, create uncertainty and lead to boom-bust cycles. The proposed approach of Amendment 28 to wholly remove the higher rate of Stamp Duty for one year is likely to displace sales by delaying those that might have taken place before the holiday is introduced (thus leading to a stall in transactions for the remaining part of 2024), compressing future sales into 2025 and not leading to an overall increase in sales in the longer term. It's important to emphasise that what is being proposed by Amendment 28 is merely a short and sharp holiday, which will not address the underlying stresses in the housing market. The Council of Ministers' amendment to instead reduce the 3% to 2% is a more measured approach that will provide some support for the housing market, whilst avoiding the risk of an exacerbated - or exaggerated - market reaction that would be probable should the 3% surcharge be removed entirely for one year.

The original principle of needing to support first time buyers into the housing market remains a high priority for this Government and it's vital we avoid crowding that market out with a rush of investment purchases in 2025, amidst what would be only a temporary break in the 3% surcharge.

We believe this more measured reduction in the rate may bring some stimulus to the market in 2025, without crowding out first time buyers. A 2% rate would also mitigate the £2m fiscal cost of abolishing the surcharge completely for a year, as it could create the prospect of a measured increase in activity in 2025.

Proposed amendment to reduce the surcharge from 3% to 2%

The Council of Ministers are mindful that the current market conditions are particularly challenging, especially for developers who have recently completed new developments or are contemplating future investment that will contribute to the regeneration of the

[3] JERSEY'S FISCAL POLICY PANEL HOUSING MARKET REVIEW – APRIL 2024

Island and new housing supply. We do not want to see homes remain empty for long periods, or construction sites not commenced. Equally, we do not want to see a knee-jerk reaction that risks longer-term harm or once again pitches home-owner Islanders against investors.

Our amendment will reduce the upfront cost of second homeownership by 1 percentage point. We anticipate that this will be supported by continued reductions in the BOE base rate in 2025, as the main factor that will improve overall affordability to investors and homeowners alike.

The below table sets out how this amendment will impact the Stamp Duty costs:

Property	Price (Q3 2024)	Standard Stamp Duty	FTB Stamp Duty	Stamp duty at the higher 3% rate	Stamp duty at the higher 2% rate
Mean 1 bed flat	£306,000	£4,120	£0	£13,300	£10,240
Mean 2 bed flat	£507,000	£8,210	£1,570	£23,420	£18,350
Mean 2 bed house	£618,000	£11,540	£4,570	£30,080	£23,900
Mean 3 bed house	£749,000	£15,715	£15,715	£38,185	£30,695

**highlight shows the types of properties must likely to be purchased as buy-to-lets.*

House Prices are now correcting to levels that would have been expected had the 2018-2022 spike not occurred, and this too will likely support an increase in market activity in 2025:

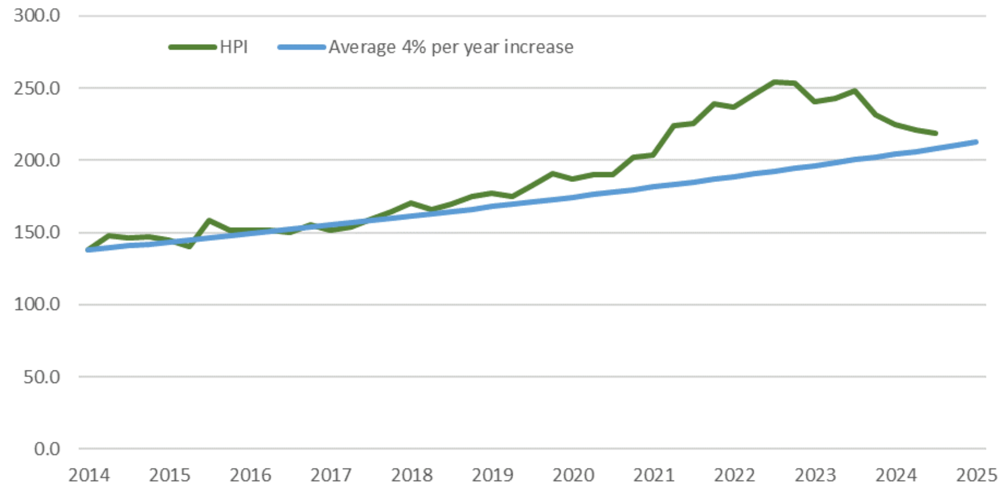

Figure 1: House Price Index compared with a 4% per year increase trend line, 2014 to Q3 2024

Conclusion

Stamp Duty is a recognised lever for the housing market, but care needs to be taken to ensure the lever is being used in the right way and at the right time. The reduction of the surcharge from 3% to 2% is considered to be a fair move which reflects the enduring impact of the high-interest rate environment, whilst avoiding an over-stimulation of short-term investor demand.

The Council of Ministers urge the Assembly to accept this amendment to the amendment as a positive yet lower-risk move to support Jersey's housing market through this challenging period. In doing so, Members are also urged to REJECT the separate Amendment 25 which poses a wide, unaffordable and high-risk Stamp Duty holiday, in favour of an amended Amendment 28, and for reasons to be set out in published comments for Amendment 25.

Following the success of the First Step scheme, Ministers will also look to increase the provision of £2 million already included in the plan through the application of a further £1 million of capital underspends at the end of 2024.

The Council of Ministers will continue to work with the Minister for Housing and the Minister for Sustainable Economic Development to monitor how this and wider actors on Jersey's housing market are evolving in the changeable economic landscape, and will consider other sustainable actions should they be considered necessary in the future.

Financial and staffing implications

The proposed amendment will reduce the financial implications from £2m to £665,000, and a corresponding increase in housing market activity may serve to partially or fully mitigate this reduction in income.

Children's Rights Impact Assessment

A Children's Rights Impact Assessment (CRIA) has been prepared in relation to this proposition and is available to read on the States Assembly website.