



**Isle of Man**  
Government  
*Reilrys Eilan Vannin*

## **TREASURY**

# **Department Financial Plan 2024/25**

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**1. Executive summary**

The Treasury is responsible for collecting income for Government, primarily through Taxation Income collected through the Income Tax (ITD) and Customs & Immigration (C&I) Divisions.

Focusing on expenditure, it is difficult to identify cost reductions given 91% of the budget is Transfer Payments, primarily state pensions and benefits. It is likely that given the continuing high levels of inflation, increases will be required, however such increases are expected to focus on those who are most vulnerable.

Treasury have continued to implement a robust policy for the recruitment of staff, requiring the approval of the CFO. It is intended that some of the vacancies will be filled as the year progresses.

**2. Background**

Overall Treasury finished 2022/23 £45.7m better than budget, as a result of additional receipts as well as a one-off provision release. In order that the expense budget was not exceeded, £10.4m of fund claims were posted, largely in relation to the Cost of Living Schemes. Additionally virements of £11.5m were posted to transfer income budgets to expense, mainly from the revenue contingency budget.

The full £16.4m of revenue contingency budget was utilised in supporting other Departments to meet their budgets due to payroll and energy cost pressures.

TREASURY						
NET EXPENDITURE BY DIVISION - YEAR TO 31/03/23						
£'000	YTD Actual	YTD Budget	Variance to Budget	Variance by Type		
				Income	Employee	Non-Pay
Income Tax Division	5,687	5,949	263	-	345	(82)
Customs and Excise Division	2,554	2,867	313	0	246	67
Social Security Division	85,356	84,417	(939)	(23)	333	(1,248)
Financial Advisory Service	2,969	3,017	48	17	48	(17)
Audit Advisory Division	537	703	166	20	87	59
Financial Governance Division	5,843	6,253	409	(191)	525	75
Lottery Distribution	1,674	1,400	(274)	-	-	(274)
Treasury Grants	9,433	9,453	20	178	-	(157)
Contingency	16,366	16,359	(6)	-	-	(6)
<b>Total excl. Taxation Income</b>	<b>130,418</b>	<b>130,419</b>	<b>0</b>	<b>0</b>	<b>1,584</b>	<b>(1,584)</b>
<b>Taxation Income</b>						
Income Tax	(274,968)	(250,429)	24,539	24,539	-	-
Customs & Excise	(451,929)	(430,726)	21,203	21,203	-	-
<b>NET OPERATING EXPENDITURE</b>	<b>(596,479)</b>	<b>(550,736)</b>	<b>45,743</b>	<b>45,743</b>	<b>1,584</b>	<b>(1,584)</b>
NI Operating Account	-	-	-	19,238	-	(19,238)
<b>NET EXPENDITURE</b>	<b>(596,479)</b>	<b>(550,736)</b>	<b>45,743</b>	<b>64,981</b>	<b>1,584</b>	<b>(20,822)</b>

The role of the Treasury is broad, but vitally important for the economic well-being of the Isle of Man. Treasury's vision is ...

"To support the economy, local businesses and residents of the Island by being the best possible custodian of our financial resources."

This strategic direction supports the Council of Ministers' Our Island Plan's priorities and our objectives and outcomes are aligned to Government's vision to build a secure, vibrant and sustainable future.

The Treasury lead on four of the Our Island Plan objectives; related to Government's priority of a Strong and Diverse Economy and our strategic objectives and goals are:

- A stable economic environment
- A balanced economy with growth providing support and opportunity
- Sustainable public finances
- To ensure Treasury is a high performing professional organisation

As well as delivering our core services, Treasury has many improvement and development challenges ahead over the next few years. These include; completing the Economic Strategy, transforming the delivery of social security services and reviewing the means by which we plan for and allocate the Island's finances through the budget process.

## **2.1. Statutory Functions**

The constitution of the Treasury is provided under the Treasury Act 1985, which sets out the statutory functions of the Department, which include:-

- 2.1.1. Administer the General Revenue of the Island, the Isle of Man Reserve Fund and all other financial resources of the Government
- 2.1.2. Supervise the collection and management of the revenues of customs and excise, income tax, value added tax and other taxes, fees, charges or duties which fall to be paid into the General Revenue
- 2.1.3. Supervise and control all matters relating to the financial affairs of the Government
- 2.1.4. Perform functions relating to the financial administration of the Government
- 2.1.5. Receive and consider the annual estimates of all designated bodies and departments of Government in such form as the Treasury shall direct
- 2.1.6. Determine priorities of expenditure, to give directions to designated bodies and departments of Government as to accounting and economies, and to consider applications by designated bodies for supplementary expenditure
- 2.1.7. Consider all matters of financial and economic policy affecting the present and future prosperity of the Island.

Treasury is also granted authority to act by a wide range of Legislation, including the

- Value Added Tax Act 1996
- Customs and Excise Acts 1986 to 1993
- Income Tax Acts
- Social Security Acts
- Audit Act 2006

2.2 Financial Forecast 2023-24

2.2.1. Treasury Forecast of Income & Expenditure by Category

TREASURY								
INCOME & EXPENDITURE BY CATEGORY - FULL YEAR FORECAST								
£'000	Forecast	Budget	Variance To Budget	Variance by Division				
				C&E	FGD	Tax	SSD	Other
<b>INCOME</b>								
Taxation Income	(988,160)	(956,024)	32,136	(1,550)	-	23,550	10,136	(0)
Third Party Contributions	(197)	(210)	(13)	-	2	-	(15)	-
Operating Income	(76)	(76)	0	0	-	-	-	0
Other Non-Trading Income	(20,015)	(19,338)	677	-	677	-	-	-
<b>Total Income</b>	<b>(1,008,449)</b>	<b>(975,648)</b>	<b>32,801</b>	<b>(1,550)</b>	<b>679</b>	<b>23,550</b>	<b>10,122</b>	<b>(0)</b>
<b>EXPENDITURE</b>								
Employee Costs	20,441	20,845	404	-	200	101	103	(0)
Infrastructure Costs	8	10	2	(0)	-	2	-	-
Supplies & Services	9,048	8,617	(431)	-	(206)	(33)	(192)	0
Agency & Contracted Services	3,324	3,323	(0)	-	(0)	-	-	(0)
Loan Charges	3,500	3,500	-	-	-	-	-	-
Social Security Clients	335,314	330,868	(4,446)	-	-	-	(4,446)	-
Fund Reimbursements	(1,304)	(1,150)	155	-	155	-	-	-
Other Costs	12,410	14,095	1,684	-	-	(0)	1,611	74
<b>Total Expenditure</b>	<b>382,741</b>	<b>380,109</b>	<b>(2,632)</b>	<b>(0)</b>	<b>149</b>	<b>70</b>	<b>(2,925)</b>	<b>74</b>
<b>NET EXPENDITURE</b>	<b>(625,708)</b>	<b>(595,539)</b>	<b>30,169</b>	<b>(1,550)</b>	<b>827</b>	<b>23,620</b>	<b>7,197</b>	<b>74</b>

**Income**

- **Income Tax** receipts are forecast to be around £24m better than budget.
- **FERSA** for the current year is currently expected to be on budget.
- **IoM Duties** are forecast to be £1.5m below budget, mainly as a result of the ongoing 5 pence per litre reduction in hydrocarbon oil duty rates as set by HMRC.

**Expenditure**

- **Employee costs** are tracking below budget due to the continued number of vacancies, some of which are now being recruited in to. The 2024-25 PSC pay award has not yet been agreed, however, a 6.0% provision has been included within the accounts. This is also reflected in the forecast but is still expected to remain within budget.
- **Infrastructure costs** are very small in Treasury and the significant inflation in energy costs will have little impact.
- **Revenue-Funded Benefits** were uplifted by an average of 10% for 2023-24 so are higher than last year, however this is offset by the cessation of the Cost of Living schemes. Additionally, JSA expenditure is lower, reflecting low unemployment levels this year.

2.2.2 Treasury Forecast by Division (as per June 2023 Management Accounts)

TREASURY						
NET EXPENDITURE BY DIVISION - FULL YEAR FORECAST						
£'000	Forecast	Budget	Variance to Budget	Variance by Type		
				Income	Employee	Non-Pay
Income Tax Division	6,299	6,369	70	-	101	(31)
Customs and Excise Division	2,575	2,575	0	0	-	(0)
Social Security Division	83,256	90,453	7,197	(14)	103	7,109
Financial Advisory Service	4,155	4,156	0	-	-	0
Audit Advisory Division	749	748	(0)	-	-	(0)
Financial Governance Division	2,881	3,708	828	679	200	(52)
Lottery Distribution	1,326	1,400	74	-	-	74
Treasury Grants	8,747	8,747	-	-	-	-
Contingency	5,138	5,138	-	-	-	-
<b>Total excl. Taxation Income</b>	<b>115,125</b>	<b>123,295</b>	<b>8,170</b>	<b>665</b>	<b>404</b>	<b>7,101</b>
<b>Taxation Income</b>						
Income Tax	(302,310)	(278,760)	23,550	23,550	-	-
Customs & Excise	(438,523)	(440,073)	(1,550)	(1,550)	-	-
<b>NET OPERATING EXPENDITURE</b>	<b>(625,709)</b>	<b>(595,539)</b>	<b>30,170</b>	<b>22,665</b>	<b>404</b>	<b>7,101</b>
NI Operating Account	-	-	-	10,136	-	(10,136)
<b>NET EXPENDITURE</b>	<b>(625,709)</b>	<b>(595,539)</b>	<b>30,170</b>	<b>32,801</b>	<b>404</b>	<b>(3,035)</b>

1. **ITD** (excl. taxation income) – Pay is favourable YTD and includes a provision for a 6% pay award. The forecast also includes the pay award accrual, but due to vacant posts the Division should still be below budget. Non-pay costs include £25k YTD for online card and bank charges. These are expected to be a budgetary pressure throughout the year.
2. **C&E** (excl. taxation income) – the Division has incurred significant legal fees in relation to a VAT tribunal , however the full year forecast anticipates the Division to remain within its allocated budget.
3. In **SSD**, revenue-funded benefits are just under budget and are expected to remain within the budget on a full year basis.
4. **Financial Advisory** costs are mainly salaries. It is currently expected that the division will be on budget on a full year basis, due to vacant posts.
5. **Audit Advisory** is underspent due to vacancies. However these are currently being recruited to and so it is unlikely the underspend will increase as the year progresses.
6. In **Financial Governance Division**, investment income is £286k better than budget YTD. However there is a £82k income deficit on Crown Fines and a £150k of consultancy cost incurred, covered by a claim to the Economic Recovery Fund relating to the costs of 'Our Big Picture'.
7. **Lottery expenses** should offset the lottery income received within C&E.
8. **Treasury Grants** are forecast to be on budget.
9. The **Revenue Contingency** currently has no spend incurred, however it is currently assumed to be fully utilised at year-end in supporting other Departments in meeting additional costs from high levels of inflation.

Notes continue on next page....

**Notes to Table 4 (Continued)**

10. **Income Tax** income is currently above budget and Income Tax receipts are forecast to reach almost £24m more than budget by year-end.
11. **FERSA** (VAT) income is assumed to come in on budget this year. **IoM duties** are currently on budget, but are expected to fall behind budget by year-end. This is largely due to Hydro-Carbon Oils and a significant reduction in dutiable fuels forecast.
12. **NI income** is better than budget by £2m YTD and is forecast to be about £10m better by year-end.

**3. Overview of funding assessment**

The 2023/24 Pink Book has provisionally indicated the following budgets for the 2024/25 financial year;

Category	24/25 base budget (£000)
INCOME	(1,087,147)
EMPLOYEE COSTS	21,261
INFRASTRUCTURE COSTS	11
SUPPLIES & SERVICES	8,969
AGENCY & CONTRACTED SERVICES	3,861
SOCIAL SECURITY CLIENTS	389,638
OTHER COSTS	21,342
<b>Net Budget</b>	<b>(642,065)</b>

**3.1 Financial Pressures**

**3.1.1 Employee costs**

Excluding social security expenses, employee costs accounts for the majority of the Departments’ annual spend. Whilst Treasury has maintained a rigorous control of its staffing establishment, the impact of pay awards cannot be underestimated.

For every 1% of unfunded pay award, an additional £200k of financial pressure is placed up on the Department’s employee budget. Whilst this is currently being mitigated through management of vacancies it cannot be a situation that the Department maintains on a long term basis.

**3.1.2 Audit Advisory**

The Division has been tasked with facilitating risk management across all eight Departments and Divisions within government, with no additional resource to support this work. Progress with e-learning and website development has been paused whilst work is being completed on risk management.

If a dedicated risk management resource can be employed it will help create, embed and support Departments with creating a risk management culture. This in turn will help deliver strategic and operational objectives as outlined in Departmental plans and the Island Plan.

The appointment of a Risk Manager will help train officers, support colleagues and embed risk management across the Isle of Man Government. Audit Advisory will be taking a paper to the Treasury Board requesting their approval to create and fund a Risk Manager position.

**Financial Pressure - £70k**

### **3.1.3 Income Tax**

A significant financial pressure on the Income Tax Division are online card payment charges.

These charges are outside the control of the division and have increased significantly over the past few years.

The costs are difficult to predict as ITD are actively encouraging online services to provide improvements in customer service including online payments, and therefore can only assume such costs will increase with the uptake of online tax services.

There is currently compulsory online filing for companies and employers with 5 or more employees and the online service is used by over 60% of individual clients with a target to increase this over future years. Consequently if the use of the online service grows as desired, this financial pressure will also continue to grow.

**Financial Pressure - £70k**

### **3.1.4 Social Security**

The cost of the 2024/25 benefits uprating is not yet known, as is it usually based on both the UK & IoM CPI in September. However, if CPI (both here and in the UK) is assumed to be 6.0%, the estimated cost of the 2024-25 benefits uprating to general revenue would be in the region of £5m (after a £1.67m uprating to align the (currently) lower rate of child benefit for a second and subsequent children in a family with the rate applicable for the first or only child in a family).

The Division has no specific actions within Our Island Plan, however funding has been provided for the Division to deliver a Transformation Project, with the aim of transforming the services it provides, ensuring that the public services are fit for purpose, modern and provided in the right place. The programme also sets out to achieve more accessible, inclusive and modern ways of interacting with the division which closely aligns with Government Digital Strategy of 'enabling the modernisation of Government's digital services through the effective and innovative use of technology' with focus being on aligning with a number of the strategy's core objectives.

### **3.1.5 Customs & Immigration**

The Customs & Immigration Division have had a difficult staffing situation over the last two years, it is hoped that this can be addressed in the next financial year to ensure continuation of operational requirements. To ensure continuance of VAT knowledge in the Division there needs to be sufficient budget available for two assurance trainee positions as well as another Sanctions officer.

The Division has continued to remain within its payroll budget allocation, however this has been due to the Division operating with vacancies within its establishment and is therefore not a true



budget surplus. Whilst the establishment has been rationalised as far as possible to ensure the Division remains within its allocated budget, further cuts are no longer practical.

Funding is required in order to ensure the recruitment of key posts.

As well as payroll pressures, there are additionally £100k pressures relating to training and equipping of law enforcement staff, with the Division anticipating to fund an assumed 20 staff members attending 50 weeks of off-island travel during the year.

The increase in staff numbers in this area is due to the transfer of the Passport, Immigration and Nationality (PIN) services from the Cabinet Office to the Treasury which took place on 16/01/24. The amalgamation of the customs law enforcement team with PIN services is integral to the Government's aim to develop measures to tackle threats to the Island's safety and security coming through vulnerable entry points.

### **Financial Pressure - £433k**

#### **3.1.6 Financial Advisory Service (FAS)**

Following Chief Officer Group workshops, options are being explored for resourcing a contract management service expanding the current scope of Procurement Services to aid in ensuring contracts provide maximum value for money and to assist with cost avoidance. Based on spend to procurement officer ratios used in the UK public sector, there is the likely requirement to recruit up to six posts in total, however this is initially planned as a pilot.

Funding options are still being considered but in the medium to long term it is likely that additional budget will be required for this service.

#### **3.1.7 Financial Governance Division (FGD)**

The Finance Governance Division have managed to stay within their payroll budget due to vacancies which are expected to be filled before the end of the financial year.

However this will mean that the Division will face significant pressure in 2024/25 around staffing costs which will increase further if the pay award is in excess of that factored into the budget.

The Division holds the budget for all of Isle of Man Governments' Insurance, whilst the Division mitigates increases where possible, it has no control over the level of premium increases driven by the general market.

Audit fees are also a financial pressure for the Division. The Tynwald Auditor General now agrees audit engagements and fees under the Audit Act 2006, however the cost of the audit falls to Treasury for the central government audit. If there are increases in the central audit fees then the budget may not be sufficient to meet the costs.

The capital budget includes an allocation for the planned replacement of the core government financial system. This is a significant project and will span over two financial years aiming to provide enhanced value by automating and creating efficiencies where possible.

**4. Cost and savings analysis**

**4.1 2023/24 Cost Improvement Programme**

Treasury are reviewing their ability to mitigate any forthcoming inflationary pay pressures through the management of vacancies and prioritisation of key posts.

In addition, the development of an Efficiency and Cost Improvement Programme which considers the Department as a whole in order to identify opportunities to reduce costs, mitigate cost pressures and look at efficiencies in service delivery is planned.

The main source of risk across the Department is employee costs. With pay awards anticipated to be around 6% with budgets uplifted by 2%, this puts the Department under approximately £800k of cost pressure. Additionally budget is required for positions to allow for services to be enhanced.

As noted in the above sections, Audit Advisory have highlighted the need for additional budget in order to recruit a Risk Manager and Customs and Excise needing to recruit to three positions in order to ensure the services have resilience and are appropriately resourced.

Should additional funding not be found, it is unlikely that many of the services performed by the Department will cease. It is likely that resource would be allocated to service priorities which may cause delays to other lower priority tasks. The highlighted need for additional staff resource from the two divisions would significantly contribute towards the strategic goals of Treasury as per the Island Plan. The Risk Manager function would help towards ensuring the sustainability of public finances as well as ensure Treasury as well as wider Government are not only aware of their risks but that they are also documented and where possible mitigations are in place.

Ultimately this is not a sustainable scenario and so either additional budget or a reduced expectation is required.

Online card payment charges are also providing an additional financial challenge to the Department. As highlighted by the Income Tax Division there is likely to be an increase in these charges as more frequently on-line services are used and at certain times of the year.

**5. Total funding request**

Category	24/25 base budget (£000)	Audit Advisory	Income Tax	Customs & Immigration *	Payaward	24/25 revised budget
INCOME	(1,087,147)			(1,747)		(1,088,894)
EMPLOYEE COSTS	21,261	70		1,629	800	23,760
INFRASTRUCTURE COSTS	11					11
SUPPLIES & SERVICES	8,969			192		9,161
AGENCY & CONTRACTED SERVICES	3,861					3,861
SOCIAL SECURITY CLIENTS	389,638					389,638
OTHER COSTS	21,342		70			21,412
<b>Net Budget</b>	<b>(642,065)</b>	<b>70</b>	<b>70</b>	<b>74</b>	<b>800</b>	<b>(641,051)</b>

**The total funding pressures of Treasury for 2024/25 are £1.01m**

**\*Customs and Immigration Division includes a net transfer of £359k from the Cabinet Office in respect of Passports Immigration and Nationality.**

6. Approvals

**Designated Finance Officer**

Name:	
Title:	Finance Business Partner
Date:	
Signature:	

**Accountable Officer/Chief Officer**

Name:	
Title:	
Date:	
Signature:	

**Minister**

Name:	
Title:	
Date:	
Signature:	