

GD 2018/0071



ISLE OF MAN GOVERNMENT ACCOUNTS

2017/18

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**Isle of Man
Government**

Beillga Ellen Vannin



Isle of Man
Government
Reiltys Ellan Vannin

AUDITED ACCOUNTS

For the Year Ended 31 March 2018

LAID BEFORE TYNWALD BY THE TREASURY



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1 Explanatory foreword

1.1 Introduction

The purpose of this foreword is to offer interested parties a comprehensive guide to the most significant matters reported in these Accounts. These accounts are known as the “Dark Blue Book” and the pages which follow are the audited Isle of Man Government accounts for the year ended 31 March 2018.

1.2 Accounting Changes

The Isle of Man Government introduced the Audit Act 2006 and the Accounts and Audit Regulations 2018¹ for accounting and financial reporting, and requires the Accounts to be prepared in accordance with any Financial Reporting Standards issued or adopted by the UK. Consequently, the Accounts for the year-ended 31st March 2018 have been prepared in accordance with FRS102 (The Financial Reporting Standard applicable in the UK and Republic of Ireland), as applicable to an Isle of Man company.

The Accounts are prepared in respect of ‘Central Government’ (comprising Departments, Offices and revenue funded Statutory Boards of Isle of Man Government, as in previous years) and also in respect of the Isle of Man Government Group Accounts (comprising Central Government plus the two non-Revenue Funded Statutory Boards and companies owned by Central Government).

1.3 Financial Highlights and Commentary (Section 2)

The financial commentary is intended to provide a quick guide to the Government’s annual transactions and its year end position.

1.4 Statement of Responsibilities (Section 3)

This sets out the respective responsibilities for preparing the Accounts.

1.5 Statement on Internal Control (Section 4)

This is a statement by the Chief Financial Officer describing the Government’s arrangements for ensuring strong governance and internal control, the progress made in addressing issues identified by this process previously and areas where improvements are planned.

1.6 Report of the Independent Auditors (Section 5)

The Independent Auditor reports on whether, in their opinion, the Accounts have been properly prepared in accordance with the Accounts and Audit Regulations 2018 and comply with the requirements of all other enactments applicable to the Accounts.

1.7 Income and Expenditure Account (Sections 6.1-6.3)

The Income and Expenditure Account shows in summary form all of the Government’s annual income and expenditure, in accordance with United Kingdom Accounting Standards as applicable to an Isle of Man Entity, and the consequent surplus or deficit which has arisen during the year. It reports the cost for the year of the major services undertaken by the Government and compares that cost with the finance provided by Treasury income.

The income and expenditure for the year has been presented in accordance with the source of the voted income and the Government Department responsible for the expenditure.

1.8 Statement of Total Movement on the General Revenue Account Balance (Section 6.4)

This shows the surplus or deficit on the Income and Expenditure Account adjusted for the additional amounts which are required by statute and non-statutory proper practices to be charged and credited to the General Revenue Account in determining the movement on the General Revenue Account balance for the year. Examples of such transactions include adjustments in respect of fixed assets and pension, and transfers from the Net General Revenue Account to other external and internal reserve funds which are not included within the Income and Expenditure Account.

¹ Statutory Document No 2018/0053



1.9 Statement of Comprehensive Income (Section 6.5)

The Statement of Comprehensive Income shows all gains and losses recognised by Government during the year which are not reflected in operating performance within the Income and Expenditure Account, such as revaluation of certain property and infrastructure assets and unrealised gains or losses on investments.

1.10 Balance Sheet (Section 6.6)

This statement is fundamental to understanding Government's year-end financial position as it reflects the balances in the Accounts of the Treasury. It does not generally attempt to place market values on the assets, although the value of Long Term Investments and certain Fixed Assets are revalued from their original cost. The amount of "Total Net Assets" does not reflect any liability associated with the National Insurance Fund Investments (future social security obligations).

1.11 Cash Flow Statement (Section 6.7)

The Cash Flow Statement provides information about the changes in cash and cash equivalents for the reporting period, showing separately changes from operating activities, investing activities and financing activities.

1.12 Statement of Changes in Equity (Section 6.8)

The Statement of Changes in Equity presents the surplus or deficit for the reporting period, other comprehensive income, the effects of changes in accounting policies, corrections of material errors recognised in the period and the other movements in reserves.

1.13 Notes to the Accounts (Section 7)

The Notes to the Accounts record additional information that is either required to explain the summary information provided in the Accounts, or assist in explaining other information contained within the Accounts. The Notes include details of further information, the remuneration statement and any specific required year end information, including:

- Accounting Policies: this statement explains the basis upon which the figures in the Accounts have been prepared. The Accounts can only be properly appreciated if the policies which have been followed in dealing with material items are explained.
- Analysis of Treasury Income: detailed analysis of Custom and Excise, Income Tax, Social Security Income and Other Treasury Income which are included in summary form in the Income and Expenditure Account.
- Investments and Internal Reserves: detailed analysis of Government's Funds including balances brought forward, movements during the year, the balances carried forward and the associated year end market values.
- Employee Pension Liabilities: estimated liabilities in respect of employee pension schemes (as opposed to state benefit pension commitments) together with movements during the year and key assumptions used to prepare the estimates.

1.14 Reconciliation of Expenditure of Departments and Other Bodies (Section 8)

These statements provide a reconciliation of the expenditure of the individual Departments and other bodies which appear in in the Income and Expenditure Account. The Central Government General Revenue budget is prepared on a different basis from the requirements of United Kingdom Accounting Standards as applicable to an Isle of Man Entity, which is appropriate and necessary for reporting purposes.

A more detailed analysis of Department expenditure is presented within the Detailed Government Accounts (Tynwald document number GD2018/0038).



1.15 Consolidated Loans Fund (Section 9)

Certain expenditure of a long term nature is funded from the Consolidated Loans Fund, enabling the expenditure to be defrayed against the General Revenue budget over a number of years. These statements provide details of funding made available to Departments during the year, how this funding has been financed and details of advances and repayments made during the year. Aggregate balances for loans made to external bodies are also presented.

1.16 Additional Information

Throughout the document, reference is made to the Detailed Government Accounts, which are unaudited accounts published in July 2018. Known as the 'Light Blue Book', these accounts are published informally as a source of management information, containing a more detailed version of the Government's Accounts, comparing actual income and expenditure to the budgeted figures.

Information from the Detailed Government Accounts is the basis for these Accounts which then have certain adjustments applied to ensure compliance with the current relevant accounting standard (FRS102).

The Detailed Government Accounts can be found on the Government website:

<https://www.gov.im/categories/tax-vat-and-your-money/government-accounts/>

P Primrose, ACMA

Chief Accountant, Treasury

Date:



2 Financial Highlights and Commentary

2.1 Introduction

This section is intended to provide a quick guide to the Government’s annual transactions and its year end position. The graphs included within the commentary add further information and give a visual impression of the relative sizes of the Income and Expenditure Account’s components.

The commentary is split between Central Government Accounts (comprising Departments, Boards and Offices funded from the General Revenue Account) and Group Accounts (which also include the two non-revenue funded Statutory Boards and six companies owned by Central Government).

2.2 Financial Highlights

FINANCIAL HIGHLIGHTS - GROUP					
		2017-18	2016-17	Variance	
		£000	£000	£000	Comments
REVENUE					
Operating Income		1,105,150	1,090,781	14,369	Operating Income is higher than prior year primarily due to an increase in taxation income.
Operating Expenditure		(1,117,045)	(1,071,751)	(45,294)	Other Departmental spending before consolidation adjustments is up by around £26m, details of which can be found in section 6 of the Detailed Government Accounts. The remaining is due to an increase in the current service cost for pensions and an increase in depreciation for fixed assets.
Other Income and Expenditure		(179,413)	1,417	(180,830)	Last year there was a £114m unrealised gain on investments which moved to £60m loss in 2017/18
Surplus / (Deficit) for the year		(191,308)	20,447	(211,755)	The deficit in 2017/18 is largely due to the unrealised loss on the investments and increase in departmental expenditure.
CAPITAL					
Income		65,852	53,769	12,083	Interest on loan charges has remained the same as prior year at 1.5%.
Expenditure		(41,521)	(66,075)	24,555	Capital expenditure was low due to delays on certain significant schemes. DOI spent £3.7m on plant and vehicles, MUA spent £3.5m on the regional sewer strategy and DHSC spent £1.6m on residential accommodation services
EXTERNAL RESERVES					
Market Value		1,551,715	1,607,587	(55,872)	The reduction in market value was due to, in majority, a withdrawal of £46m across all funds during Q4 2018. The FTSE 100 fell by 3.64% to 31 March 2018 which has also had an impact on the overall value of funds.
Investment Income		38,636	32,838	5,798	The majority of Investment Managers exceeded the benchmarks for the 12 months ending 31/03/2018



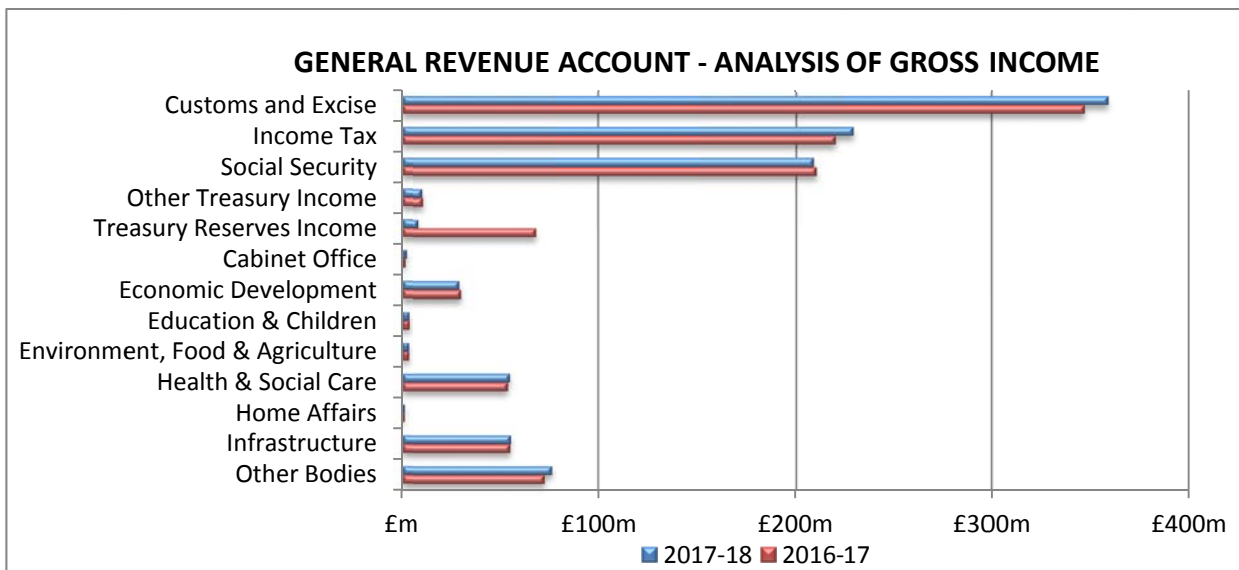
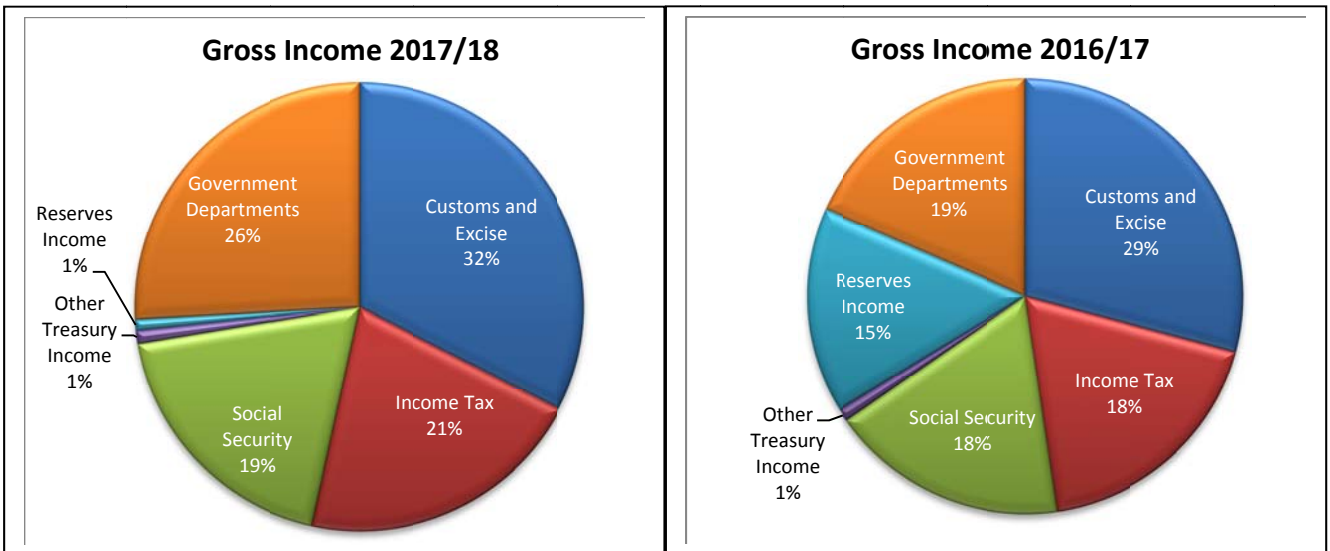
2.3 Central Government

2.3.1 Income

Compared to the Detailed Government Accounts, income is adjusted to include the income from reserves, and to adjust the income within Tax and Customs on an accruals basis rather than cash basis.

Gross income from all sources at £1,102.1 million (2016/17: £1,189.1 million) was above the budgeted figure mainly due to an additional £22.0 million collected in Income Tax and an additional £13.7 million in National Insurance income. The additional National Insurance income included £5 million of Class 1 contributions and a £9.7 million one-off adjustment from the UK.

The decrease from the previous year (£87 million) was mainly within Reserves Income and was the result of an unrealised loss on investments (£60.4 million) which was an unrealised gain of £114.2 million last year (and therefore reported as an income). Within operating income the larger movements were in income tax (up £10.3 million) and Customs and Excise income (up £12 million). Total realised reserves income was up by £2 million due to increased investment income of £5.8 million offset against reduced profit on investments of £3.7 million.





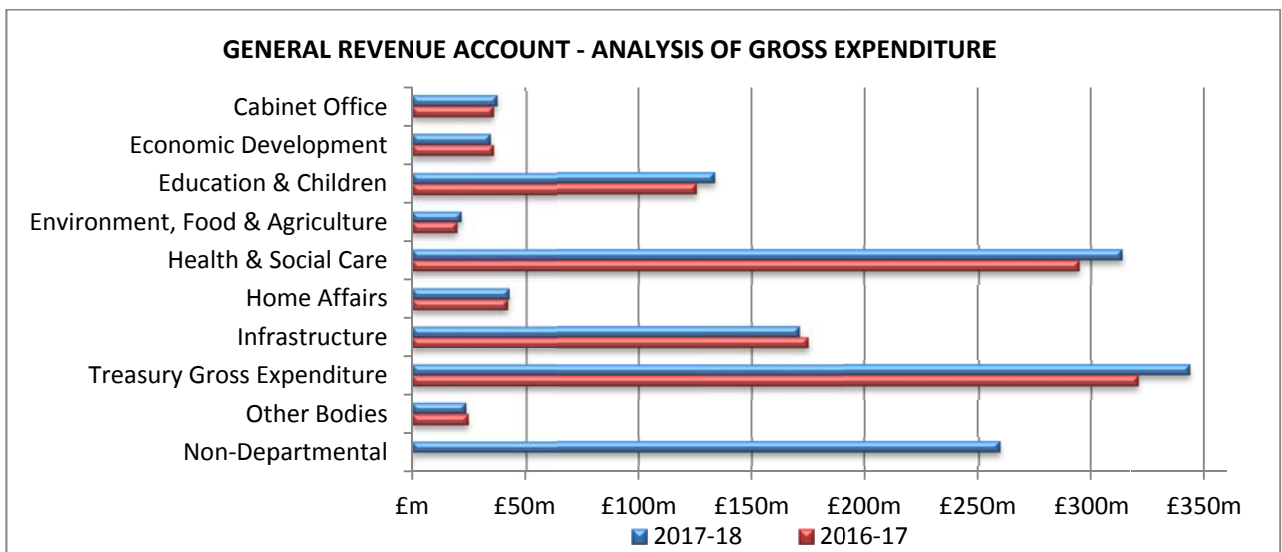
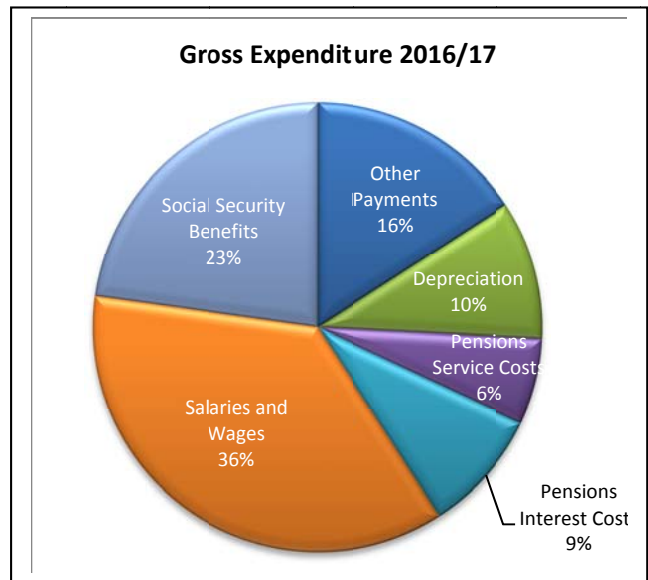
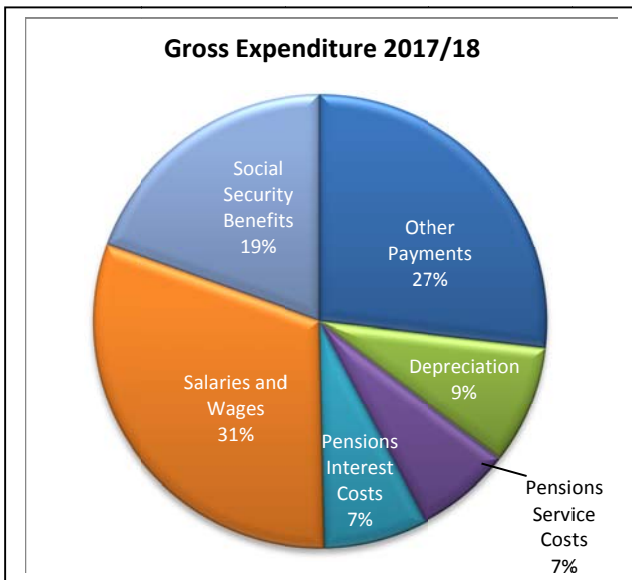
2.3.2 Expenditure

Compared to the Detailed Government Accounts, expenditure within these Accounts is higher due to the inclusion of depreciation charges and actuarial pension costs (as opposed to net pension payments made). Depreciation charges exceed their loan charge equivalents due to the revaluation of significant fixed asset groups above their historical costs.

FRS102 requires that unrealised gains or losses on investments are included within the Income and Expenditure Account. This has had quite a significant impact. In 2017/18 there was an unrealised loss of £60.4 million (and therefore reported in expenditure), in 2016/17 there was an unrealised gain of £114.2 million (reported as income).

Gross expenditure was £1,282.8 million (2016/17: £1,180.6 million). Department expenditure now includes a contribution for employee pension costs although that is reported as income within Executive Government and is therefore just a change to internal presentation.

Pension interest costs included were £102 million (2016/17: £105 million; see note 7.24.6) and this reflects the estimated impact of inflation on existing pension liabilities between the annual actuarial valuations of the pension scheme liabilities.



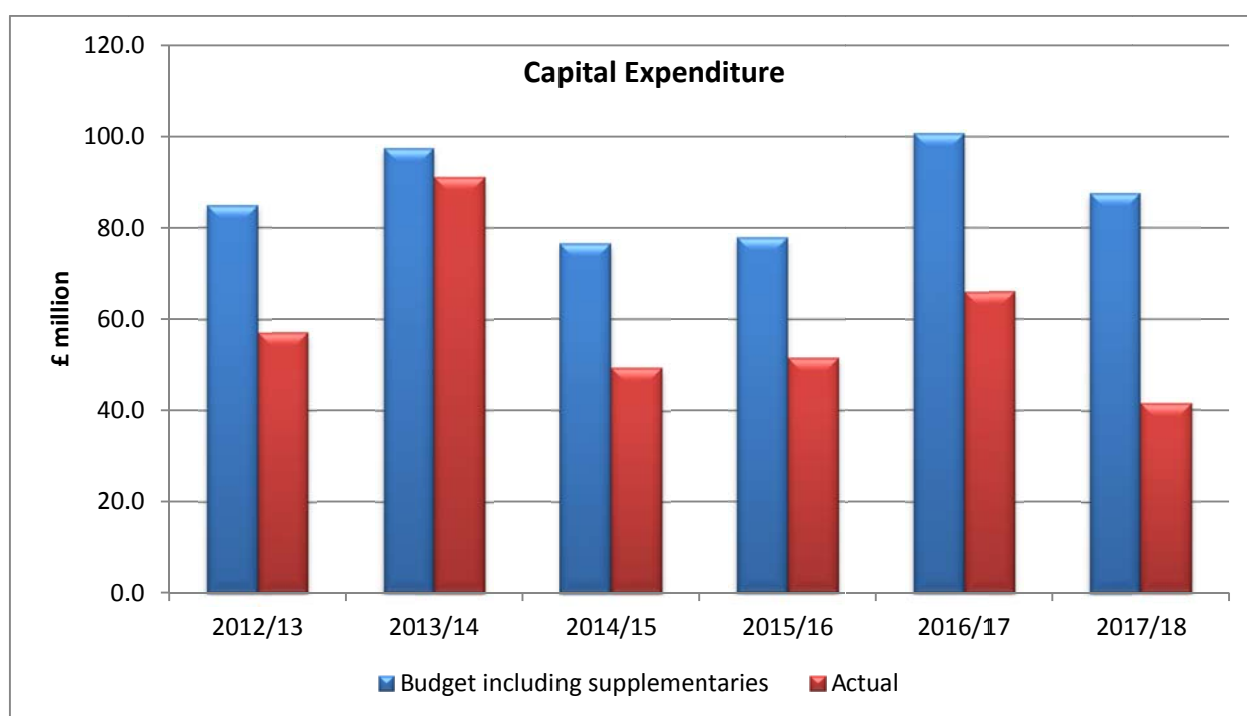
The 'Non-Departmental' costs above include the interest cost on the pensions of £102 million (2016/17 £105 million), the unrealised losses on Investments of £60.4 million (2016/17 gain of £114.2 million) and the £95 million debt reduction for the MUA (2016/17 £nil).



2.3.3 Capital Expenditure

Total capital expenditure for the year was £41.5 million (2016/17: £66.1 million). This compares with the original budget of £88.3 million.

Supplementary Votes totalling £5.1 million were approved in 2017/18. £3.5 million was approved for the purchase of land for Liverpool Landing Stage and £5 million was approved in respect of accommodation for Day Care Services (Eastcliffe) however £1.6m million relates to 2017/18. Furthermore, retrospective approval was granted by Tynwald for £0.7 million to cover the additional spending of £0.1 million for the Older Persons Residential and Resource East which was as a result of a planning appeal and £0.6m towards Strategic Structural Maintenance which has been brought forward from future years. £1.5 million was approved by Treasury for funding from the Capital Contingency Fund. The use of capital contingency funding was for work on the NSC Flood Control (£0.5 million), the New Tromode Storage Facility (£0.3 million), Vehicle Acquisition Legacy historic adjustment not recorded in Pink Book (£0.2 million), and the King Edward V111 Pier (£0.3 million).



	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Budget	84.9	97.5	76.5	78.0	100.8	87.6
Actual	57.2	91.2	49.5	51.6	66.1	41.5
Actual as a % of budget	67%	94%	65%	66%	66%	47%

The balance on the Capital Fund at the end of the year was £797.9 million (2016/17: £880.1 million) and the cash remaining available for capital expenditure was £58.8 million (2016/17: £34.4 million).

Further information on capital and the consolidated loans fund is given in section 9.

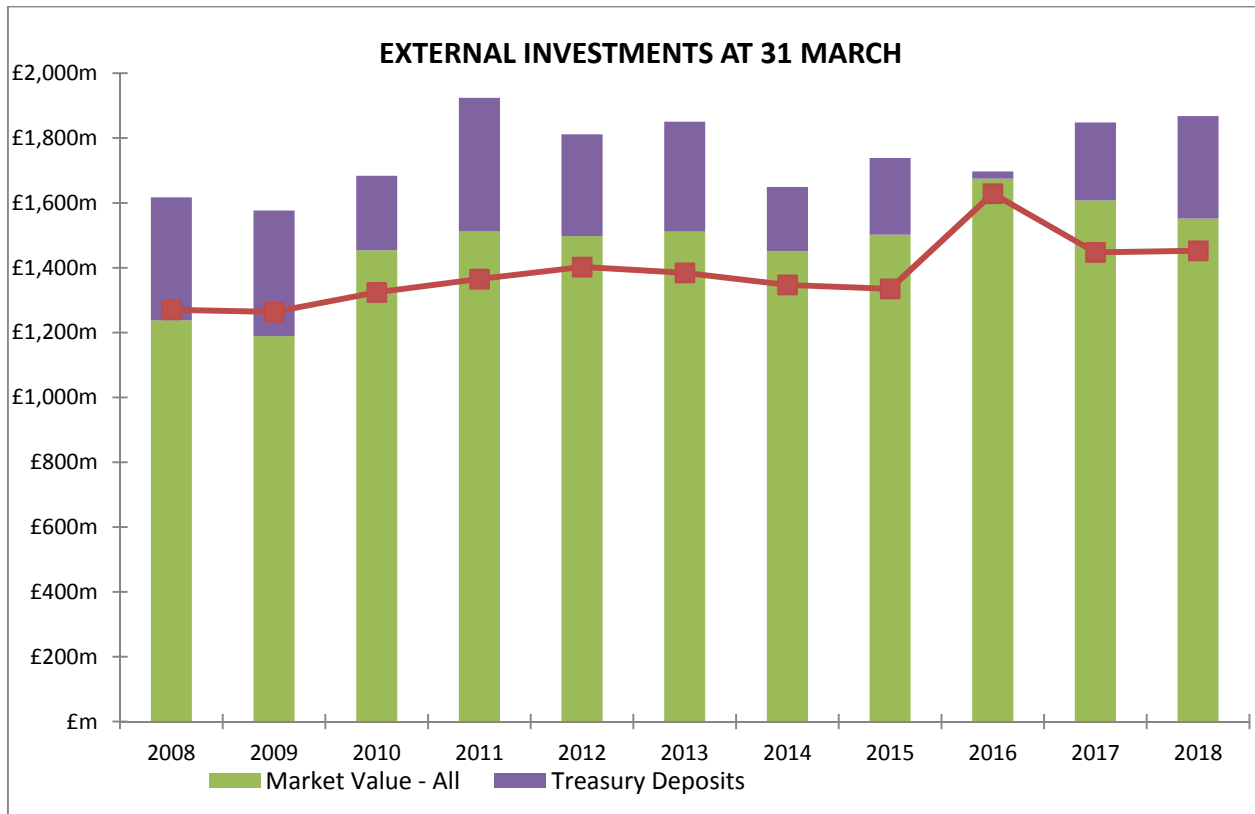


2.3.4 Reserve Funds

Treasury's investment strategies for the larger funds (which are invested by external investment managers) include exposure to equities and, although their market values can and have fluctuated downwards from time to time, the broad and long term trend has been upwards.

In 2017/18 the market value of the investments (net of transfers into and out of the funds) decreased by £55.9 million to £1,551.7 million (2016/17: increase of £148.8 million to £1,607.6 million). See note 7.14.2.

Treasury Deposits increased by £75.6 million to £315.9 million (2016/17: increased by £2.0 million).



2.3.5 Transfers from Reserve Funds

The deficit for the year excluding reserve fund income was £348.3 million (2016/17: deficit of £59.1 million).

There was no requirement to transfer money from the Reserve Fund to balance the revenue position (2016/17 also nil) but there were transfers totalling £5.4 million to the other funds (2016/17 £24.4 million).

As a result, the retained balance on the General Revenue Account increased by £28.5 million to £91.2 million (2016/17: decreased by £2.7 million to £62.7 million).



2.3.6 Other Balances

Fixed Assets (Note 7.10)

The value of fixed assets decreased by £71.4 million to £2,126 million (2016/17: decreased by £56.9 million to £2,197.4 million) after depreciation charges of £95.5 million (2016/17: £95.1 million). During the year freehold land and building fixed assets and vehicle, plant and equipment fixed assets with a NBV of £2.5 million and £nil respectively were disposed of.

Long Term Debtors (Note 7.16.1)

Long term debtors decreased by £104 million to £453.9 million (2016/17: £557.9 million) predominantly due to debt reduction with the Manx Utilities Authority.

General Revenue Adjustments Account (Note 7.23.2)

The balance on the General Revenue Adjustments Account decreased by £47.1 million to -£1,339.3 million mainly as a consequence of the movement in fixed assets and in pensions charges (2016/17: decreased by £895.2 million to -£1,292.1 million).

Internal Investments (Note 7.23.4)

The value of internal investments increased by £5.6 million to £61.5 million (2016/17: increase of £1.3 million to £55.9 million, both net of expenditure) as a result of £14.8 million of transfers from the General Revenue Account to the reserve funds during the year.

Pension Scheme Liability (Note 7.24.4)

The pension scheme liability in respect of Government pension schemes reduced by £100 million during the year to £3,723 million (2016/17: increased by £832 million to £3,823 million), principally due to an actuarial gain of £223 million (2016/17: loss of £723 million).

The actuarial gain included a £148 million gain due to a change in the longevity calculation since the previous accounting period. There was a £75 million gain due to changes in financial assumptions, the real discount rate which has seen a small increase over the period since 31 March 2017 due to a small movement in corporate bond yields with no change expected for future CPI inflation.

Changes to assumptions in Longevity Calculation		
	31-Mar-18	31-Mar-17
Future pensioner - Male	28.5	30.6
Future pensioner - Female	31.2	33.2
Current pensioner - Male	26.6	28.9
Current pensioner - Female	29.3	30.9



2.4 Group Accounts

2.4.1 Contribution from Statutory Boards

The Group Accounts include transactions and balances in respect of the two non-revenue funded Statutory Boards (Manx Utilities Authority [MUA] and Isle of Man Post Office [IOMPO]), and the Government-owned companies (Radio Manx Limited, Laxey Glen Mills Limited and Isle of Man Film Limited).

The combined operational surplus for these bodies was £7.3 million (2016/17: surplus of £20.9 million). The reduction in the surplus is due to a £4.7 million financial adjustment in the MUA as a result of the impairment of assets.

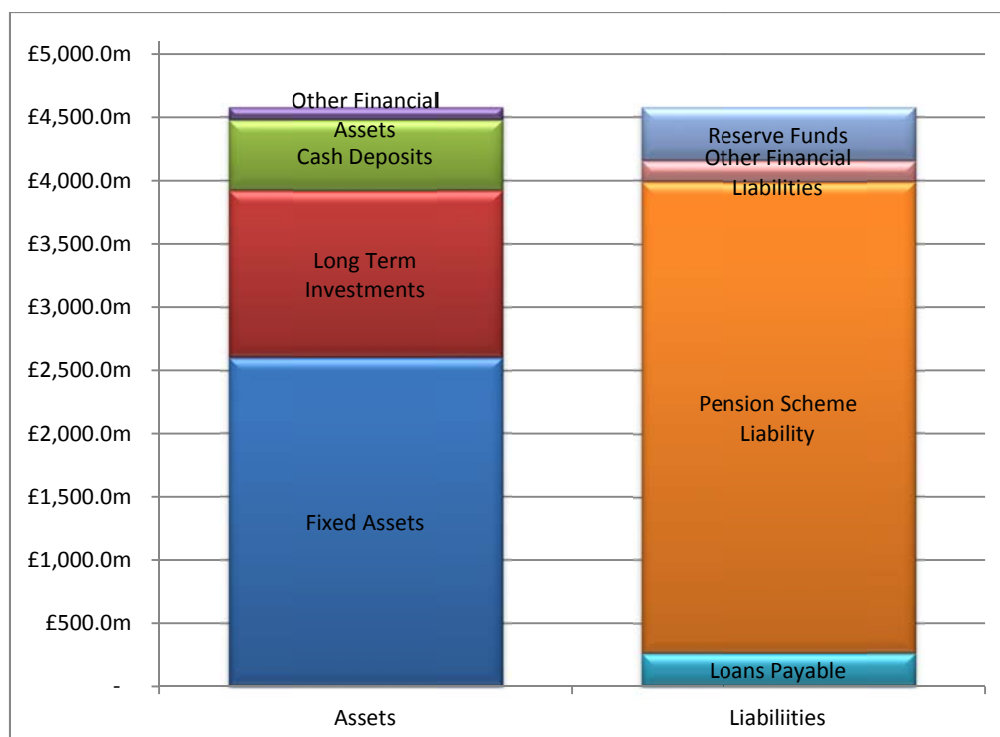
However, the surplus increases to a net surplus of £80.2 million (2016/17: net surplus of £10.5 million) after taking into account the MUA debt reduction of £95 million (2016/17 £nil), net interest charges of £23 million (2016/17: £21.6 million), interest income of £1.3 million (2016/17 £1.7 million) an unrealised gain on forward purchases of £2.4 million (2016/17: unrealised gain of £7.4 million), an unrealised loss on investments of -£1.4 million (2016/17: unrealised gain of £3.7 million).

2.4.2 General Revenue Account

The results of the two non-revenue Statutory Boards and owned companies do not affect the balance on the Government's General Revenue Account as they are not funded and do not contribute directly to the General Revenue Account (with the exception of the annual dividend to Treasury from the Isle of Man Post Office, which is included with Treasury income).

2.4.3 Balance Sheet

The group balance sheet can be summarised as follows:





3 Statement of Responsibilities for the Statement of Accounts

The Treasury's Responsibilities

The Treasury is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its Officers has the responsibility for the administration of those affairs. That Officer is the Chief Financial Officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

The Treasury and the Chief Financial Officer's Responsibilities

The Treasury and the Chief Financial Officer are responsible for the preparation of the Statement of Accounts in accordance with applicable laws and regulations.

The Accounts and Audit Regulations 2018 made under the Audit Act 2006 require the Chief Financial Officer to prepare accounts for each financial year in accordance with UK Accounting Standards including FRS 102: The Financial Reporting Standard applicable in the UK and Ireland (as applicable to an Isle of Man entity).

The Treasury must not approve the accounts unless it is satisfied that they give a true and fair view of the state of affairs of the Isle of Man Government and of its surplus or deficit for that period. In preparing the Isle of Man Government's accounts, the Treasury and Chief Financial Officer are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the consolidated accounts; and
- comply with the Accounts and Audit Regulations 2018.
- assess the Group and Central Government's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Central Government or to cease operations, or have no realistic alternative but to do so.

The Chief Financial Officer is responsible for keeping adequate accounting records that are sufficient to show and explain the Isle of Man Government's transactions and disclose with reasonable accuracy at any time the financial position of the Isle of Man Government and enable them to ensure that the accounts comply with the Accounts and Audit Regulations 2018 made under the Audit Act 2006. The Chief Financial Officer is responsible for such internal control as it determines is necessary to enable the preparation of accounts that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Isle of Man Government and to prevent and detect fraud and other irregularities.

Certificate

I certify that the Statement of Accounts give a true and fair view of the income and expenditure of Isle of Man Government for the year ended 31 March 2018 and the financial position of Isle of Man Government as at 31 March 2018.

S Lowe ACA

Chief Financial Officer. Treasury Department

Date:



4 Statement on Internal Control - Year ended 31 March 2018

4.1 Scope of Responsibility

The Chief Financial Officer is appointed in accordance with the Treasury Act 1985 as the principal financial adviser to the Treasury and acts as the Accountable Officer of the Department. The Chief Financial Officer is responsible for ensuring that Government business is conducted within an adequate system of internal control so as to give a reasonable assurance that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

In discharging this responsibility, the Chief Financial Officer has received Statements on Internal Control or Assurance Certificates from the Accountable Officers of all parts of Government (being the designated bodies set out in the extract reproduced in the appendix); who have provided assurance that they, and their relevant financial and senior officers, have taken responsibility for having in place proper arrangements for the governance of their affairs and the stewardship of the resources at their disposal.

In essence, the Statement on Internal Control can be seen as a means of measuring and evidencing the health of the Government in the context of the above obligations.

4.2 The Risk Management and Control Framework

The Government operates a control environment based upon the Civil Service Regulations, the Financial Regulations, a framework of functions and responsibilities delegated to individual officers within detailed job descriptions, codes of conduct and an internal reporting mechanism within each designated body through the relevant senior management teams to the Accountable Officer.

These foundations set the overall framework for internal control, and the particular responsibilities of the Ministers, Members, Accountable Officers, departmental committees, and officers in respect of the:

- accomplishment of established goals and objectives;
- compliance with policies, plans, procedures, law, and other regulations;
- reliability and integrity of management information;
- economical and efficient use of all resources; and
- safeguarding of all assets.

Individual responsibility and accountability for internal control is vested wholly in each individual Accountable Officer.

Treasury maintains a central accounting system through which all financial transactions undertaken by central Government Departments are made. The Manx Utilities Authority and the Isle of Man Post Office maintain their own accounting systems.

4.3 Review of Effectiveness

The Government's systems of internal control are designed to manage rather than eliminate the risk of failing to achieve objectives: they can only provide *reasonable* and not *absolute* assurance. Accordingly, reasonable assurance is given that, except for the matters listed below, the Government's corporate governance arrangements are adequate and operate effectively.

The review of the effectiveness of the Government's internal controls is informed by the work of the management of designated bodies, the Treasury's Audit Advisory Division, the public auditors and by other external inspection bodies. The established audit committees of the Manx Utilities Authority, Isle of Man Post Office, and Financial Services Authority, further enhance control assurance in those organisations. The Statement on Internal Control or Assurance Certificate produced by each designated body is then used as a basis for this Government-wide Statement on Internal Control.



Statement on Internal Control (Continued)

4.4 Management Assurances

To inform my review of effectiveness I have considered the views of Accountable Officers and senior managers across Government, who have completed questionnaires which review internal control, risk management and corporate governance arrangements. In providing their assurances the Accountable Officers and managers have given specific consideration to each of the following operating risks within their areas of responsibility:

- business continuity;
- performance management;
- financial management & compliance;
- procurement;
- information management;
- value for money;
- human resources;
- change management;
- health and safety;
- environment; and
- corporate governance.

An Assurance Certificate or Statement on Internal Control for each designated body has been produced, derived from the self-review questionnaires completed for each of its functional areas, and covering each of the specific operating risks listed above. These returns have not identified any material areas of weakness in the Isle of Man Government system of internal control.

4.5 System of Internal Audit

In accordance with the Audit Act 2006, the Government maintains an internal audit system which operates in accordance with the Government Internal Audit Standards.

I am informed by the Director of Audit Advisory Division that the results of the work undertaken during the 2017-18 assurance programme provide adequate (reasonable) assurance on the overall adequacy and effectiveness of the Government's framework of governance, risk management and control; with the exception of the Department of Health and Social Care Acute Services (due to a limitation of scope) and the other issues highlighted below.

In cases where control weaknesses have been identified, follow-up reviews indicated that reasonable action had been taken by management to strengthen relevant internal controls.

However there have been instances over the period where concerns have been raised over the appropriate application of Treasury's Financial Regulations, in particular those relating to the procurement of goods and services.

In addition, key changes were made to the required policy and procedures in relation to Government procurement with the approval (by Tynwald in July 2017) of the *Isle of Man Government Procurement Policy* (GD 2017/026). The new requirements were subsequently implemented via a revised set of Financial Regulations issued by Treasury on 1st August and full assurance in relation to Departments' compliance with the new policy will not be able to be provided until a post-implementation review has been completed in 2018-19.

4.6 External Reviews

In addition to the internal review processes described above, the Government is subject to external review and assessment, including external audit. Assurance is taken from these external reviews in respect of our adherence to and compliance with applicable international standards.



Statement on Internal Control (Continued)

Government and its operations and governance are also subject to the parliamentary scrutiny of Tynwald. Accordingly, I have given appropriate consideration to any significant issues arising in Tynwald; and in particular to the work of the Standing Committee of Tynwald on Public Accounts; and the three Policy Review standing committees.

Potentially significant issues arising from recent external reviews which I consider to be relevant to this statement include:

- the use of modern financing structures to enable key infrastructure schemes and major projects to be enabled;
- overspending at Nobles Hospital;
- the issues raised by the West Midlands Quality Review Service in the reviews undertaken by them commissioned by the Department of Health and Social Care;
- the continuing resolution of the issues raised by the Council of Europe's MONEYVAL Committee.

4.7 Planned Areas for Review

There are several key significant risk areas that are currently subject to substantial review and these include:

- Internal Financial Control (the modernisation of the Isle of Man Government Financial Regulations);
- Data Protection and in particular compliance with the General Data Protection Regulation;
- BREXIT preparedness;
- the delivery of cost savings (the Government SAVE Programme);
- Public Service pensions provision;
- Government's Core Human Resources & Payroll systems (the People Information Programme);
- the financial governance framework in relation to the Government and the Manx Museum and National Trust;
- the Provision of Health & Social Care (the Independent Review led by Sir Jonathan Michael).

However a continuous review of effectiveness is the responsibility of each Accountable Officer; as informed by the Audit Advisory Division of Treasury, external auditors, third party review and self-assessment. Each Accountable Officer must produce and put into effect plans to address control weaknesses when they arise (including those highlighted above) and must ensure continuous improvement of the systems and procedures in place.

Signed: 
S Lowe
Chief Financial Officer, Treasury

Appendix

The Isle of Man Corporate Governance Principles and Code of Conduct apply to all "designated bodies" and "departments of Government" within the meaning of the Treasury Act 1985.

The following were "designated bodies" for the purpose of the 2017-18 SIC:

all departments (Cabinet Office; Department of Education, Sport and Culture; Department for Enterprise; Department of Environment, Food and Agriculture; Department of Home Affairs; Department of Health and Social Care; Department of Infrastructure; and Treasury; that is the bodies established by the Government Departments Act 1987); Note that whilst Treasury is a Department and considered within the scope of the SIC, it is not a designated body within the meaning of the Treasury Act 1985.



Statement on Internal Control (Continued)

all Statutory Boards (the Communications Commission; Financial Services Authority; Isle of Man Gambling Supervision Commission; Isle of Man Office of Fair Trading; Public Sector Pensions Authority; Isle of Man Post Office; and the Manx Utilities Authority, that is the bodies to whom the Statutory Boards Act 1987 applies);

any other body or authority (other than a local government body) constituted by any enactment for any purposes involving the expenditure of public moneys or the receipt of public moneys for the purposes of that body or authority or for the public revenue. For example Manx National Heritage or the Financial Intelligence Unit; and

any other body designated as such for the purposes of the Treasury Act 1985 by order of the Council of Ministers.

For the purposes of this document, the term "department of Government" includes the: Attorney General's Chambers, General Registry, Isle of Man Information Commissioner, Industrial Relations Service, Road Traffic Licensing Committee and Veterans' Welfare Service.



5 Report of the Independent Auditors, KPMG Audit LLC, to the Treasury Department of Isle of Man Government

5.1 Basis on the Accounts

We have audited the Accounts of the Isle of Man Government for the year ended 31 March 2018 which comprise the Income and Expenditure Accounts (Group and Central Government), the Statement of Total Movement on the General Revenue Account Balance (Group and Central Government), the Statement of Comprehensive Income (Group and Central Government), the Balance Sheet (Group and Central Government), the Statement of Changes in Equity, the Cash Flow Statement (Group and Central Government) and the related notes, including the accounting policies in Note 7. Central Government Accounts comprise Departments, Offices and revenue-funded Statutory Boards of Isle of Man Government. Group Accounts comprise Central Government plus the two non-revenue Funded Statutory Boards and companies owned by Central Government.

In our opinion the Accounts:

- give a true and fair view of the state of the Group's and Central Government's affairs as at 31 March 2018 and of the Group's and Central Government's deficit for the year then ended;
- have been properly prepared in accordance with UK Accounting Standards including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, as applicable to an Isle of Man entity and as modified by any Directions issued by Treasury under Section 13 of the Audit Act 2006;
- have been properly prepared in accordance with the requirements of the Accounts and Audit Regulations 2018 made under section 12 of the Audit Act 2006.

5.2 Basis For Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

5.3 Going Concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the Accounts. We have nothing to report in these respects.

5.4 Other Information

Treasury is responsible for the other information presented with the Accounts. Our opinion on the Accounts does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our Accounts audit work, the information therein is materially misstated or inconsistent with the Accounts or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

We review the Statement of Internal Control prepared by the Treasury in accordance with the Accounts and Audit Regulations 2018 made under the Audit Act 2006. We report if the Statement of Internal Control is misleading or inconsistent with other information we are aware of from our audit of the Accounts. We are not required to consider, nor have we considered, whether the Statement on Internal Control covers all risks and controls.



Report of the Independent Auditors, KPMG Audit LLC, to the Treasury Department of Isle of Man Government (continued)

5.5 Matters on which we are required to report by exception

In accordance with section 6(2) of the Audit Act 2006, we are required to include a statement in our audit report providing particulars where in relation to the Accounts we:

- (a) are not satisfied as to any of the matters specified in section 4(1) of the Audit Act 2006;
- (b) consider that any matter specified in section 4(2) of the Audit Act 2006 is contrary to law, or;
- (c) consider that the relevant body has failed in any respect mentioned in section 4(3) of the Audit Act 2006.

As stated in paragraph 4.5 on page 16 of the Accounts, there were instances where Treasury's Financial Regulations were not appropriately applied, including those relating to the procurement of goods and services.

With regard to section 4(3) of the Audit Act 2006, recommendations in respect of internal control matters identified during the course of our audit are reported to Treasury in a separate Management Letter document.

Except as noted above, we have nothing to report in respect of the matters on which we are required to report by exception.

5.6 The Treasury's and the Chief Financial Officer's responsibilities

As explained more fully in the Responsibilities Statement set out on page 14, the Treasury and the Chief Financial Officer are responsible for: the preparation of the Accounts and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of Accounts that are free from material misstatement, whether due to fraud or error; assessing Central Government's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate Central Government or to cease operations, or have no realistic alternative but to do so. Treasury are responsible for approving the Accounts.

5.7 Auditor's Responsibilities

Our objectives are to obtain reasonable assurance about whether the Accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Accounts. A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

5.8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Treasury in accordance with Section 4 of the Audit Act 2006. Our audit work has been undertaken so that we might state to the Treasury those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Treasury, for our audit work, for this report, or for the opinions we have formed.

KPMG Audit LLC
Chartered Accountants
Heritage Court
41 Athol Street
Douglas
Isle of Man. IM99 1HN

Date:



6 Statement of Accounts

6.1 Income and Expenditure Account – Reconciliation

INCOME & EXPENDITURE ACCOUNT RECONCILIATION						
A	2017-18					Government Audited Accounts G £000
	Detailed Government Accounts B £000	Adjustments			Consolidation F £000	
		Fixed Assets C £000	Pensions D £000	Other E £000		
Treasury Department						
Customs and Excise	358,746	-	-	68	-	358,814
Income Tax	232,897	-	-	(2,969)	-	229,928
Social Security	208,703	-	-	-	-	208,703
Other Treasury Income	10,905	-	-	(302)	(1,500)	9,103
Treasury Reserves Income	-	-	-	69,596	-	69,596
Total Treasury Income	811,251	-	-	66,393	(1,500)	876,144
Other Departments						
Cabinet Office	(30,012)	(232)	(4,688)	(20)	-	(34,952)
Enterprise	(3,363)	1,063	(2,866)	25	-	(5,141)
Education, Sport & Culture	(96,614)	(12,512)	(21,026)	(4)	-	(130,156)
Environment, Food & Agriculture	(15,712)	(288)	(2,251)	(2)	-	(18,253)
Health & Social Care	(219,178)	(4,295)	(35,736)	-	-	(259,209)
Home Affairs	(33,365)	(699)	(7,051)	(157)	-	(41,272)
Infrastructure	(58,738)	(49,244)	(11,232)	3,426	-	(115,788)
Treasury Gross Expenditure	(314,363)	609	(3,962)	(23,059)	2,075	(338,700)
	(771,345)	(65,598)	(88,812)	(19,791)	2,075	(943,471)
Other bodies						
Executive Government	(9,175)	(3)	71,511	(16)	-	62,317
Manx National Heritage	(4,403)	498	(880)	12	-	(4,773)
Road Transport Licensing Committee	-	-	-	-	-	-
Statutory Boards (Revenue Funded)	1,325	(11)	(1,949)	6	-	(629)
	(12,253)	484	68,682	2	-	56,915
Expenses of the Legislature	(4,506)	340	(869)	(1)	-	(5,036)
Net Voted Income/(Expenditure)	23,147	(64,774)	(20,999)	46,603	575	(15,448)
Statutory Boards (Non-Revenue Funded)						
Isle of Man Post Office	-	-	-	-	(920)	(920)
Manx Utilities Authority	-	-	-	-	5,394	5,394
	-	-	-	-	4,474	4,474
Owned Companies						
Laxey Glen Mills Limited	-	-	-	-	(8)	(8)
Radio Manx Limited	-	-	-	-	(913)	(913)
	-	-	-	-	(921)	(921)
Interest payable and similar charges	-	-	(102,000)	(1,690)	(19,054)	(122,744)
Interest and investment income	-	-	-	-	1,319	1,319
Gain on forward purchases	-	-	-	-	2,436	2,436
Unrealised loss on investments	-	-	-	(60,424)	-	(60,424)
Total Surplus/(Deficit)	23,147	(64,774)	(122,999)	(15,511)	(11,171)	(191,308)
Statement of Total Movement in General Revenue Account Balance						
Depreciation of fixed assets	-	117,868	-	-	-	117,868
Net loss on disposal of fixed assets	-	(600)	-	-	-	(600)
Net charges made for retirement benefits	-	-	122,999	-	-	122,999
Unrealised gain on investments	-	-	-	60,424	-	60,424
Other adjustments	-	-	-	94,929	-	94,929
Loan Charges for Capital Financing	-	(39,174)	-	-	-	(39,174)
Net Capital Expenditure charge in-year	-	8,638	-	-	-	8,638
Net transfer to earmarked reserves	-	-	-	(156,450)	11,171	(145,279)
Increase/(Decrease) in General Revenue Account	23,147	21,958	-	(16,608)	-	28,497

All results derive from continuing activities. The Notes on pages 30 to 82 form part of these Accounts. Notes for section 6.1 are on the following page.



Notes:

- i. Column B shows the amounts originally reported in the Detailed Government Accounts (GD 2018/0038) in July 2018, showing the Surplus of £23.147 million.
- ii. Column C shows the adjustments applied to Department expenditure in respect of fixed assets.
- iii. Column D shows the adjustments applied to Department expenditure in respect of pension costs.
- iv. Column E shows the adjustments applied to Department net expenditure in respect of other adjustments required to comply with Accounting Standard FRS102. The main adjustments are recognising total income from Government reserves and inclusion of certain amounts which will be repayable (debts) to Government.
- v. Column F shows the adjustments in respect of the additional bodies included with the audited Government Accounts and adjusts gross expenditure where one part of Government is paying another part of Government, to avoid double counting of income and expenditure.
- vi. Column G shows the adjusted amounts presented in the Group Income and Expenditure Account shown on page 23.
- vii. The adjustments shown in Columns C, D, E and F are reversed in the Statement of Total Movement on the General Revenue Account Balance on page 25 of the audited Government Accounts, to result in the 'Increase/(decrease) in General Revenue Account balance', the resultant deficit for the year of £191.3 million.



6.2 Income and Expenditure Account – Group

INCOME & EXPENDITURE ACCOUNT					
	<i>Note</i>	Group			
		2017-18			2016-17
		Gross Spend £000	Gross Income £000	Net (Spend)/ Income £000	Net (Spend)/ Income £000
Treasury Department					
Customs and Excise	7.3.1	-	358,814	358,814	346,839
Income Tax	7.3.2	-	229,928	229,928	219,617
Social Security	7.3.3	-	208,703	208,703	210,138
Other Treasury Income	7.3.4	-	9,103	9,103	9,519
Treasury Reserves Income	7.3.5	-	69,596	69,596	67,589
Sub-Total Treasury Income		-	876,144	876,144	853,702
Government Departments					
Cabinet Office		(37,222)	2,270	(34,952)	(34,045)
Enterprise		(34,328)	29,187	(5,141)	(5,634)
Education, Sport & Culture		(133,644)	3,488	(130,156)	(121,578)
Environment, Food & Agriculture		(21,584)	3,331	(18,253)	(16,571)
Health & Social Care		(313,656)	54,447	(259,209)	(241,385)
Home Affairs		(42,521)	1,249	(41,272)	(40,691)
Infrastructure		(170,745)	54,957	(115,788)	(119,948)
Treasury		(338,700)	-	(338,700)	(318,318)
Sub-total Government Departments		(1,092,400)	148,929	(943,471)	(898,170)
Other Bodies					
Executive Government		(3,292)	65,609	62,317	57,959
Manx National Heritage		(5,832)	1,059	(4,773)	(4,884)
Road Transport Licensing Comm.		-	-	-	(105)
Statutory Boards (Revenue Funded)		(9,465)	8,836	(629)	(1,129)
Sub-total Other Bodies		(18,589)	75,504	56,915	51,841
Legislature		(5,095)	59	(5,036)	(4,739)
Sub-total Central Government	7.4.2	(1,116,084)	1,100,636	(15,448)	2,634
Statutory Boards (Non-Revenue Funded)					
Isle of Man Post Office		-	(920)	(920)	1,408
Manx Utilities Authority		-	5,394	5,394	15,986
		-	4,474	4,474	17,394
Owned Companies					
Isle of Man Film Limited		(40)	40	-	-
Isle of Man Limited		-	-	-	-
Isle of Man National Transport Limited		-	-	-	-
Laxey Glen Mills Limited		(8)	-	(8)	(41)
Radio Manx Limited		(913)	-	(913)	(957)
		(961)	40	(921)	(998)
Surplus/(Deficit) before Interest		(1,117,045)	1,105,150	(11,895)	19,030
Interest payable and similar charges	7.7	(122,744)	-	(122,744)	(121,940)
Interest and investment income		-	1,319	1,319	1,735
Gain/(loss) on forward purchases		-	2,436	2,436	7,368
Unrealised gain/(loss) on investments		(60,424)	-	(60,424)	114,254
Surplus/(Deficit) for the year		(1,300,213)	1,108,905	(191,308)	20,447

All results derive from continuing activities. The Notes on pages 30 to 82 form part of these Accounts.



6.3 Income and Expenditure Account – Central Government

Income and Expenditure Account					
	<i>Note</i>	Central Government			
		2017-18			2016-17
		Gross Spend £000	Gross Income £000	Net (Spend)/ Income £000	Net (Spend)/ Income £000
Treasury Department					
Customs and Excise	7.3.1	-	358,814	358,814	346,839
Income Tax	7.3.2	-	229,928	229,928	219,617
Social Security	7.3.3	-	208,703	208,703	210,138
Other Treasury Income	7.3.4	-	10,603	10,603	11,019
Treasury Reserves Income	7.3.5	-	69,596	69,596	67,589
Total Treasury		-	877,644	877,644	855,202
Other Departments					
Cabinet Office	8.2	(37,222)	2,270	(34,952)	(34,045)
Enterprise	8.2	(34,328)	29,187	(5,141)	(5,634)
Education, Sport & Culture	8.2	(133,644)	3,488	(130,156)	(121,578)
Environment, Food & Agriculture	8.2	(21,584)	3,331	(18,253)	(16,571)
Health & Social Care	8.2	(313,656)	54,447	(259,209)	(241,385)
Home Affairs	8.2	(42,521)	1,249	(41,272)	(40,691)
Infrastructure	8.2	(170,745)	54,957	(115,788)	(119,948)
Treasury Gross Expenditure	8.2	(340,775)	-	(340,775)	(321,393)
Sub-total Government Departments		(1,094,475)	148,929	(945,546)	(901,245)
Other bodies					
Executive Government	8.2	(3,292)	65,609	62,317	57,959
Manx National Heritage	8.2	(5,832)	1,059	(4,773)	(4,884)
Road Transport Licensing Committee	8.2	-	-	-	(105)
Statutory Boards (Revenue Funded)	8.2	(9,465)	8,836	(629)	(1,129)
		(18,589)	75,504	56,915	51,841
Legislature	8.2	(5,095)	59	(5,036)	(4,739)
Total Expenditure	8.2	(1,118,159)	224,492	(893,667)	(854,143)
Net Voted Income	7.4.2	(1,118,159)	1,102,136	(16,023)	1,059
Surplus before Interest		(1,118,159)	1,102,136	(16,023)	1,059
Interest payable and similar charges	7.7	(103,690)	-	(103,690)	(106,791)
Unrealised gain/(loss) on investments		(60,903)	-	(60,903)	114,241
(Deficit) / Surplus for the year		(1,282,752)	1,102,136	(180,616)	8,509

All results derive from continuing activities. The Notes on pages 30 to 82 form part of these Accounts.



6.4 Statement of Total Movement on the General Revenue Account Balance

MOVEMENT ON THE GENERAL REVENUE ACCOUNT BALANCE				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Amounts included in the Income and Expenditure Account but required to be excluded when determining the movement on the General Revenue Account balance for the year				
- Depreciation and impairment of fixed assets	117,868	95,609	95,910	95,609
- Net (gain) or loss on disposal of fixed assets	(600)	(654)	(600)	(654)
- Net charges made for retirement benefits	122,999	109,000	122,999	109,000
- Unrealised loss / (gain) on investments	60,424	(114,254)	60,903	(114,241)
- Other adjustments	94,929	(1,581)	(71)	(1,581)
	395,620	88,120	279,141	88,133
Amounts not included in the Income and Expenditure Account but required to be included when determining the movement on the General Revenue Account balance for the year				
- Loan Charges for Capital Financing	(39,174)	(27,789)	(39,174)	(27,789)
- Net Capital Expenditure charge in-year to the General Revenue Adjustment Account	8,638	9,622	8,638	9,622
	(30,536)	(18,167)	(30,536)	(18,167)
Transfers that are required to be taken into account when determining the movement on the General Revenue Account balance for the year				
- Net transfer to reserves	(167,307)	(93,071)	(61,520)	(81,146)
	(167,307)	(93,071)	(61,520)	(81,146)
Net additional amount required to be credited / (charged) to the General Revenue Account balance	197,777	(23,118)	187,085	(11,180)
(Deficit)/Surplus for the year on the Income and Expenditure Account	(169,280)	20,447	(158,588)	8,509
Decrease/(increase) in General Revenue Account balance for the year	28,497	(2,671)	28,497	(2,671)
- General Revenue Account balance brought forward	62,716	65,387	62,716	65,387
General Revenue Account balance carried forward	91,213	62,716	91,213	62,716

The Notes on pages 30 to 82 form part of these Accounts.



6.5 Statement of Comprehensive Income

STATEMENT OF COMPREHENSIVE INCOME					
	<i>Note</i>	Group		Central Government	
		2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Income and Expenditure Account – surplus/(deficit) for the year		(191,308)	20,447	(180,616)	8,509
Other Comprehensive Income:					
- Surplus on revaluation of fixed assets		(1,047)	1,802	-	1,727
- Re-measurement of net defined benefit obligation	7.24.8	234,889	(731,308)	223,000	(723,000)
Total other comprehensive income for the year		233,842	(729,506)	223,000	(721,273)
Total comprehensive income for the year		42,534	(709,059)	42,384	(712,764)

The Notes on pages 30 to 82 form part of these Accounts.



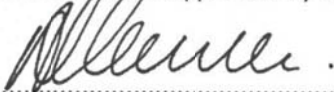
6.6 Balance Sheet

BALANCE SHEET					
	Note	Group		Central Government	
		2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Long Term Assets					
Fixed Assets	7.10	2,602,965	2,698,669	2,126,013	2,197,388
Long Term Investments	7.14.1	1,318,565	1,320,612	1,318,565	1,320,612
Long Term Debtors	7.16.1	26,627	26,290	453,900	557,891
		3,948,157	4,045,571	3,898,478	4,075,891
Current Assets					
Stocks and Work in Progress	7.17	11,693	12,900	4,602	5,534
Debtors and Prepayments	7.16.2	64,900	78,984	65,745	61,997
Financial Assets	722.2	2,803	2,634	-	-
Short Term Deposits		345,666	267,799	343,656	265,798
Cash at Bank and in Hand	7.18.1	204,420	245,892	159,066	216,419
		629,482	608,209	573,069	549,748
Current Liabilities					
Creditors	7.19.1	(80,798)	(65,458)	(67,576)	(51,575)
Finance Debt	7.19.1	(6,370)	(7,907)	(1,818)	(1,713)
Loans Payable	7.18.2	(3,450)	(165)	-	-
Bank Overdrafts	7.18.1	(11,985)	(15,010)	(11,909)	(14,943)
		(102,603)	(88,540)	(81,303)	(68,231)
Net Current Assets		526,879	519,669	491,766	481,517
Long Term Liabilities					
Loans Payable	7.21.2	(264,311)	(262,540)	(262,075)	(260,000)
Pension Scheme Liability	7.24.3	(3,726,016)	(3,836,189)	(3,723,000)	(3,823,000)
Finance Debt	7.19.2	(50,688)	(54,258)	(25,637)	(27,456)
Deferred Income	7.19.2	(12,856)	(12,595)	-	-
		(4,053,871)	(4,165,582)	(4,010,712)	(4,110,456)
Total Net Assets		421,165	399,658	379,532	446,952
Represented by					
Net General Revenue Account		91,213	62,716	91,213	62,716
General Revenue Adjustments Account	7.23.2	(1,337,333)	(1,290,208)	(1,339,276)	(1,292,151)
Hospital Estates Development Fund	7.14.5 i	35,137	38,820	35,137	38,820
Manx Currency Account	7.14.5 i	84,453	82,238	84,453	82,238
Media Development Fund	7.14.5 i	21,400	22,743	21,400	22,743
National Insurance Fund	7.14.5 ii	858,964	850,986	858,964	850,986
Public Service Employees Pension Reserve	7.14.5 i	144,609	181,382	144,609	181,382
Reserve Fund	7.14.5 i	351,325	375,686	351,325	375,686
MUA Bond Repayment Fund	7.14.5 i	58,622	58,842	58,622	58,842
Enterprise Development Fund	7.14.5 i	11,539	9,736	11,539	9,736
Internal Funds and Reserves	7.23.5	101,236	6,717	61,546	55,954
		421,165	399,658	379,532	446,952

The notes on pages 30 to 82 form part of these Accounts.

The Accounts were approved by the Treasury on

November 2018 and signed on its behalf by:



Hon. A L Cannan, MHK, Minister for the Treasury

.....

S Lowe, Chief Financial Officer



6.7 Cash Flow Statement

CASH FLOW STATEMENT				
	Group		Central Government	
	2017-18	2016-17	2017-18	2016-17
	£000	£000	£000	£000
Net Cash Inflow / (Outflow) from Operating Activities	70,872	54,732	19,839	10,214
Cash flow from Investing Activities				
Interest received	16,437	16,680	27,042	26,842
Investment income	73,669	71,426	73,670	71,425
Net (purchases)/sales of investments	(57,030)	(281,608)	(58,948)	(271,400)
Payments to acquire tangible fixed assets	(118,784)	(149,689)	(107,779)	(130,858)
Proceeds from disposal of tangible fixed assets	7,708	1,684	6,015	1,447
Repayments	75,826	78,812	75,786	78,732
Deferred income received - customers' contributions	-	507	-	-
Net cash generated from investing activities	(2,174)	(262,188)	15,786	(223,812)
Cash flow from Financing Activities				
Repayment of loan	(1,171)	(3,706)	-	-
New loan finance arranged	4,539	25,269	-	-
Repayment of lease finance	(8,975)	(7,988)	1,716	1,616
Interest paid	(24,529)	(19,258)	(14,163)	(14,163)
Net cash used in financing activities	(30,136)	(5,683)	(12,447)	(12,547)
Net increase/(decrease) in cash & cash equivalents	38,562	(213,139)	23,178	(226,145)
Cash and cash equivalents at the beginning of the year	176,445	389,525	178,105	404,250
Exchange gains/(losses) on cash and cash equivalents	1,078	59	-	-
Cash and cash equivalents at the end of the year	216,085	176,445	201,283	178,105
Cash and cash equivalents comprises:				
Cash Balances	204,420	245,892	159,066	216,419
Short term deposits (maturity of 3 months or less)	345,666	267,799	343,656	265,798
Bank Overdrafts and Loans Payable	(334,001)	(337,246)	(301,439)	(304,112)
Total	216,085	176,445	201,283	178,105

Presentation of the prior year Group figure has been adjusted to include the MUA Loan Balances and movement.

The Notes on pages 30 to 82 form part of these Accounts.



6.8 Statement of Changes in Equity

STATEMENT OF CHANGES IN EQUITY - GROUP					
	Net General Revenue Account £000	General Revenue Adjustments Account £000	External Funds £000	Internal Funds and Reserves £000	Total Equity £000
Balance at 31 Mar 16	65,387	(395,014)	1,462,938	8,165	1,141,476
2016-17					
Surplus/(Deficit) for the year	21,729	(185,327)	168,455	15,590	20,447
Other Comprehensive Income	-	(721,273)	-	(8,233)	(729,506)
Total Comprehensive Income	21,729	(906,600)	168,455	7,357	(709,059)
Transfers	(24,400)	11,406	(10,960)	(8,805)	(32,759)
Total adjustment during the year	(2,671)	(895,194)	157,495	(1,448)	(741,818)
Balance at 31 Mar 17	62,716	(1,290,208)	1,620,433	6,717	399,658
2017-18					
Surplus/(Deficit) for the year	23,147	(188,822)	(18,599)	(7,034)	(191,308)
Other Comprehensive Income	-	223,000	-	10,842	233,842
Total Comprehensive Income	23,147	34,178	(18,599)	3,808	42,534
Transfers	5,350	(81,303)	(35,785)	90,711	(21,027)
Total adjustment during the year	28,497	(47,125)	(54,384)	94,519	21,507
Balance at 31 Mar 18	91,213	(1,337,333)	1,566,049	101,236	421,165

The Notes on pages 30 to 82 form part of these Accounts.



7 Notes to the Statement of Accounts

7.1 Accounting Policies

7.1.1 Basis of Preparation

The Statement of Accounts has been prepared on a going concern basis and under the historical cost convention, as modified by the recognition of certain assets and liabilities measured at fair value.

The Accounts have been drawn up in accordance with the Audit Act 2006 and the Accounts and Audit Regulations 2018 as representing proper accounting practices, unless superseded by United Kingdom Accounting Standards.

The Accounts have also been prepared in compliance with United Kingdom Accounting Standards as applicable to an Isle of Man Entity, including Financial Reporting Standard 102 (FRS102).

The principal accounting policies applied in presentation of these Statement of Accounts are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

The preparation of these Statement of Accounts requires the use of certain critical accounting estimates. It also requires Government to exercise its judgement in the process of applying the Group and Central Government accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Statement of Accounts, are disclosed in Note 7.2.

The accounts are prepared using figures extracted from the Government financial systems rounded to the nearest thousand. This may cause some totals to appear as if they do not add up.

7.1.2 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for the below items:

Direct and indirect taxes are accounted for as income during the year in which the assessments are raised and issued;

Fees, charges and rents due from customers are accounted for as income at the date the Government provides the relevant goods or services;

7.1.3 Interest Income

Interest income is recognised using the effective interest rate method.

7.1.4 Borrowing costs

All borrowing costs are recognised in the Income and Expenditure Account in the period in which they are incurred. Issue costs are expensed over the life of the debt on an effective interest basis.

7.1.5 Tangible Fixed Assets

Recognition

Expenditure on the acquisition, creation or enhancement of tangible fixed assets has been capitalised on an accruals basis. Where such expenditure is less than a specified de-minimis level it is not capitalised but is charged to the Income and Expenditure Account in the year in which it is incurred. Capital expenditure incurred on fixed assets that does not materially add to the value of those assets is written off to the Income and Expenditure Account. All other tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs. Where such expenditure is less than a specified de-minimus level it is not capitalised but is charged to the Income and Expenditure Account in the year in which it is incurred



Depreciation

Depreciation is provided on all assets with a finite useful life, other than freehold land. Depreciation is calculated from the date of valuation based on the remaining useful economic life of the asset.

Where depreciation is provided for, assets are depreciated by applying the straight line method to Balance Sheet values over periods reflecting their estimated useful lives. The following estimated useful lives are applied:

Depreciation Policy – Tangible Assets	
	Years
Land and Buildings	
Land (freehold)	None
Buildings (freehold)	10-50 years
Land and Buildings (leasehold)	Over period of lease
Vehicles, Plant and Equipment	
Vehicles	4-7 years
Plant – short term	5-10 years
Plant – long term	20-25 years
Infrastructure Assets	
Impounding Reservoirs	150 years
Coastal Defences	60 years
Distribution networks	40-60 years
Highways	20-30 years
Railway Permanent Way	20-40 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each year. The effect of any change is accounted for prospectively.

Revaluation

Certain long term assets and assets without a relevant purchase cost have been valued by suitably qualified valuers within Government. Any gain on revaluation has been applied to the Statement of Other Comprehensive Income. Where valuers are unable to provide a definitive value, for example due to the non-existence of comparable assets or any active market for sale of the assets, the value is determined by the Treasury Department on a best estimate basis, taking into account factors such as replacement costs. Revaluation of fixed assets takes place across each Government Department, on a Department by Department basis. Revaluations shall be made on a three to five year cycle to ensure that the carrying amount does not differ materially from that which would be determined using fair value.

Subsequent Additions and Major Components

Subsequent costs, including major inspections, are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that economic benefits associated with the item will flow to the Group and the cost can be measured reliably. The carrying amount of any replaced asset is derecognised. Where such expenditure is less than a specified de-minimus level it is not capitalised but is charged to the Income and Expenditure Account in the year in which it is incurred.

Major components are treated as a separate asset where they have significantly different patterns of consumption of economic benefits and are depreciated separately over its useful life.

Assets in the Course of Construction

Expenditure on assets in the course of construction is included within Tangible Fixed Assets. These assets are not depreciated until they are available for use. Where such expenditure is less than a specified de-minimus level it is not capitalised but is charged to the Income and Expenditure Account in the year in which it is incurred.



Impairment

The value at which each category of assets is included in the Balance Sheet is reviewed at the end of each year. Where values have changed materially in the year, the valuations are adjusted to reflect the change. When a major change in asset values occurs due to physical damage etc. the impairment loss is recognised in the Income and Expenditure Account.

For items not carried at fair value, the carrying amount is compared to the recoverable amount to determine any impairment indication. The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the Income and Expenditure Account.

Disposals

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the sale proceeds and current carrying value of the asset disposed (i.e. the gain or loss on disposal) is applied to the Income and Expenditure Account.

7.1.6 Heritage Assets

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Non-operational assets are those held primarily for this purpose. Operational heritage assets are those that are also used for other activities or to provide other services. Operational heritage assets are accounted for within the principal asset category to which they relate.

Non-operational assets (including for example works of art and antiques), have not been valued where the incomparable nature of the assets means a reliable valuation is not possible, or the level of costs of valuation greatly exceed the additional benefits derived by users of the accounts. In these cases, no value is reported for these assets in the Balance Sheet. Information about the non-operational heritage assets is included in Note 7.11.

7.1.7 Intangible Fixed Assets

Recognition

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated, using the straight-line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives.

Costs associated with the acquisition, creation or enhancement of intangible fixed assets has been capitalised on an accruals basis. Where such expenditure is less than a specified de-minimus level it is not capitalised but is charged to the Income and Expenditure Account in the year in which it is incurred. Capital expenditure incurred on intangible fixed assets that does not materially add to the value of those assets is written off to the Income and Expenditure Account.

The following estimated useful lives are applied:

Depreciation Policy - Intangible Assets	
	Years
Software	3 years
Licences	3 years, or period of licence



Amortisation is charged to the Income and Expenditure Account. Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances.

Impairment

The value at which each category of assets is included in the Balance Sheet is reviewed at the end of each year. Where values have changed materially in the year, the valuations are adjusted to reflect the change. When a major change in asset values is due to a consumption of economic benefits, the impairment loss is recognised in the Income and Expenditure Account.

7.1.8 Leases

The Government has acquired a variety of assets ranging from vehicles to computer equipment by means of leases. These transfer the risks and rewards of ownership without transferring title of the assets.

Finance Leases

Assets acquired under finance leases are capitalised at commencement of the lease and included in the Balance Sheet except for leases that are in secondary rental periods, where there are no future obligations of material significance.

Finance leases capitalised are recognised at the fair value of the leased asset or, if lower, the present value of the minimum lease payments calculated using the interest rate implicit in the lease. Where the implicit rate cannot be determined the Group's incremental borrowing rate is used. Incremental direct costs, incurred in negotiating and arranging the lease, are included in the cost of the asset. Assets acquired under finance leases are depreciated over the lease period if this is shorter than their estimated useful life.

The capital element of lease obligations is recorded as a liability on inception of the arrangement. Lease payments are apportioned between capital repayment and finance charge, using the effective interest rate method, to produce a constant rate of charge on the balance of the capital repayments outstanding.

Operating Leases

Operating leases are those leases that do not transfer the risks and rewards of ownership to the Government. Rentals payable, net of benefits received or receivable (such as cash incentives or rent free periods), are charged to the Income and Expenditure Account on a straight line basis over the lease term and transactions are disclosed as a Note to the Accounts.

7.1.9 Financial Instruments

The Group has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial Assets

Basic financial assets, including loan receivables, trade and other receivables, short term deposits and cash at bank, are initially recognised at transaction price, unless the arrangement constitutes a financing arrangement, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the Income and Expenditure Account.

Other financial assets, including investments, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in the Income and Expenditure Account, except that investments in equity instruments that are not publically traded and whose fair values cannot be measured reliably are measured at cost less impairment.



Financial Assets (continued)

Financial assets are derecognised when (i) the contractual rights to the cash flows from the asset expire or are settled, or (ii) substantially all the risks and rewards of ownership of the asset are transferred to another party or (iii) despite having retained some significant risk and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial Liabilities

Basic financial liabilities, including creditors and loans payable, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derivatives are not basic financial instruments. They are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in the Income and Expenditure Account in finance costs or finance income as appropriate.

Financial liabilities are derecognised when the liability is extinguished, which is when the contractual obligation is discharged, cancelled or expires.

Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

7.1.10 Deferred Income

Customer contributions in respect of tangible assets are treated as deferred income. Deferred income is released to the Income and Expenditure Account over a 40 year period.

7.1.11 Value Added Tax

Value Added Tax on expenditure is included in the Income and Expenditure Account, whether of a capital or revenue nature, only to the extent that it is irrecoverable.

7.1.12 Stocks and Work in Progress

Stocks and work in progress have been valued at the lower of cost and estimated selling price less costs to sell. They are recognised as an expense in the period in which the related revenue is recognised.

At the end of each reporting period inventories are assessed for impairment. A provision is made against slow-moving, obsolete, surplus, deteriorated and unusable stocks at the end of the reporting period. Where a reversal of the provision is required the charge is reversed up to the original provision, and is recognised as a credit in the Income and Expenditure Account.

7.1.13 Cash and Cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.



7.1.14 Foreign Currency

The Accounts are presented in pound sterling and rounded to thousands. The Group and Central Government's functional and presentation currency is the pound sterling.

Income and expenditure arising from a transaction in foreign currency is translated into Sterling at the exchange rate in operation on the date on which the transaction occurred. Where rates do not fluctuate significantly, an appropriate average rate is used as an approximation. Monetary assets and liabilities held in a foreign currency at the Balance Sheet date are translated by using the closing rate or any fixed rate imposed by the relevant transactions.

Differences on translation of balances from foreign currencies to Sterling relating to Government income and expenditure are applied to the Income and Expenditure Account. Generally, transactions and balances are denominated in Sterling and differences arising on translation to Sterling are negligible.

Differences arising on financial assets denominated in non-Sterling currencies held by external investment managers are applied to the reserve funds that the underlying assets relate to.

7.1.15 Short Term Benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

7.1.16 Pension Costs

Government operates a defined benefit plan for employees. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets at the reporting date.

The defined benefit obligation is calculated using the projected unit credit method. Annually Government engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and have terms approximating the estimated period of future payments (discount rate).

The fair value of plan assets is measured in accordance with FRS 102 fair value hierarchy and in accordance with Government's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to Other Comprehensive Income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'Re-measurement of net defined benefit liability'.

The cost of the defined benefit plan, recognised in Income and Expenditure Account as employee costs, where included in the cost of an asset, comprises:

- (a) the increase in pension benefit liability arising from employee service during the period; and
- (b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in Income and Expenditure as 'Interest payable and similar charges'



7.1.17 Reserves

Reserves include earmarked reserves set aside for specific policy purposes and balances which represent resources set aside for purposes such as general contingencies and cash flow management. The Government maintains the following significant reserves:

- Manx Currency Account – to provide asset backing for Manx Currency issued by the Treasury under the Currency Act 1992;
- National Insurance Fund – to meet certain on-going social security liabilities for payment of contributory benefit liabilities;
- Public Service Employees' Pension Reserve – to meet the emerging pensions liability in respect of public sector pensions; and
- Reserve Fund – set up to act as a buffer against the potential risks of increased expenditure to be charged to future years' Accounts.

7.1.18 Provisions and Contingencies

Provisions are recognised when the Government has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Contingent liabilities are not recognised. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Government's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable. The nature and estimated financial effect of each item are disclosed.

7.1.19 Exceptional Items, Extraordinary Items and Prior Year Adjustments

Exceptional items and extraordinary items are included in the cost of the relevant service or on the face of the Income and Expenditure Account, as appropriate. Prior year adjustments arising from natural corrections associated with estimates used in the Accounts are accounted for in the year in which they are recognised. Adjustments arising from changes in accounting policies or material errors are accounted for by restating preceding year comparative figures and opening balances on reserves. Appropriate disclosures are made where relevant.



7.1.20 Events after the Balance Sheet date

Post Balance Sheet events, whether favourable or unfavourable, that affect the conditions existing at the Balance Sheet date are adjusted in the Accounts and disclosures. For events occurring after the Balance Sheet date relating to conditions that arose after that date, adjustments are not made in the Accounts but details are disclosed in a note to the Balance Sheet. These principles apply up to the date when the Accounts are authorised for issue.

The responsibilities of Government are such that significant areas of new expenditure are frequently identified, although the actual expenditure is subject to approval by Tynwald. No attempt has been made to disclose or account for material items of new expenditure which arise in the period between the year end and the date of signing the Accounts and which relate to circumstances in existence at year end. Such items are accounted for in the year in which the budget is approved.

7.1.21 Basis of Consolidation

Central Government Accounts

The Central Government Accounts show the transactions and balances for Central Government as a single entity, as defined by the Accounts and Audit Regulations 2018. This comprises all Government Departments, the revenue funded Statutory Boards (being the Office of Fair Trading, the Financial Services Authority, the Gambling Supervision Commission and the Communications Commission), Offices of Government and the Legislature, the Road Transport Licensing Committee, Manx National Heritage and the Financial Intelligence Unit.

Transactions and balances relating to the Consolidated Loans Fund are eliminated on consolidation in the Central Government Accounts as these are, in effect, loans from Treasury to other Government Departments. Similarly, the capital loans from Government to the Manx Utilities Authority are eliminated on consolidation of the Group Accounts.

Group Accounts

The Group Accounts incorporate the Accounts of Central Government, the two non-Revenue Funded Statutory Boards and companies owned by Central Government or the Statutory Boards. The two non-Revenue Funded Statutory Boards are:

- Isle of Man Post Office; and
- Manx Utilities Authority.

The transactions and balances of Depositors' Compensation Schemes (initiated under the Banking Business (Compensation of Depositors) Regulations 1991 and the Compensation of Depositors Regulations 2008) are not consolidated within the Group Accounts on the basis the assets managed under these schemes relate to third parties. Amounts due from or to such schemes are included within Government debtors and creditors.

Accounting Year

The Accounting Year used for reporting purposes is the twelve months ending 31 March each year, as defined in the Accounts and Audit Regulations 2018.



Elimination of Transactions and Balances on Consolidation

The following transactions and balances are eliminated on consolidation:

- Year-end debtor and creditor balances between Central Government and the two non-revenue funded Statutory Boards
- Year-end debtor and creditor balances between Central Government and the owned companies: Isle of Man Film Limited and Laxey Glen Mills Limited;
- Transactions relating to the contribution to Government from the Isle of Man Post Office;
- Transactions relating to interest on the Bonds issued by Treasury on behalf of the Manx Utilities Authority;
- Transactions relating to the subvention paid to Radio Manx Limited by Central Government and revenue transactions relating to the contribution to Government from Laxey Glen Mills Limited; and
- Share capital (including Share Premium) in owned companies.

7.2 Critical Accounting Judgements and Estimation Uncertainty

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group and Authority accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are set out below.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances

7.2.1 Valuation and useful economic lives of tangible assets

The valuation of long term tangible fixed assets and assets without a relevant purchase cost involves the use of valuation techniques. Suitably qualified valuers are used to estimate fair values, which includes the use of assumptions.

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets.

See note 7.10 for the carrying amount of tangible assets and note 7.1.5 for the useful economic lives of each asset class.

7.2.2 Defined benefit pension scheme

The Government has obligations to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimate these factors in determining the pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 7.24.

7.2.3 Provisions

Provision is made for asset retirement obligations. These provisions require management's best estimate of the costs that will be incurred based on legislative and contractual requirements. In addition, the timing of the cash flows and discount rates used to establish net present value of the obligations require management's judgement.



7.3 Analysis of Treasury Income

Treasury income comprises five main areas – income from Customs and Excise duties, income from Income Tax, Social Security income (mainly National Insurance receipts), Treasury Reserves Income and other Treasury Income. Further details of this income are set out below:

7.3.1 Customs and Excise

CUSTOMS AND EXCISE INCOME				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Shared Revenue				
Value Added Tax	314,232	304,811	314,232	304,811
Excise Duty	31,528	31,460	31,528	31,460
Cost of Collection Adjustment	199	(1,020)	199	(1,020)
Non-Shared Revenue				
Gambling Duty	5,199	5,107	5,199	5,107
Air Passenger Duty	5,054	4,533	5,054	4,533
Lottery Duty	1,916	1,352	1,916	1,352
Non-Revenue Receipts	686	596	686	596
Total	358,814	346,839	358,814	346,839

Notes:

- Income reported in the Detailed Government Accounts was £358.7 million (2016/17 £348.5 million). The difference between those figures and these above arises from movements on debtor balances not included within the Detailed Government Accounts, which are prepared on a cash basis for Customs income.



7.3.2 Income Tax

INCOME TAX				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Resident Tax	55,204	55,428	55,204	55,428
Company Tax	15,662	15,564	15,662	15,564
Non Resident Tax	14,133	10,649	14,133	10,649
Income Tax Instalment Payments (ITIP)	141,943	135,012	141,943	135,012
Sub-Contractors	3,005	2,929	3,005	2,929
EU Savings Directive	-	3	-	3
Other	(19)	32	(19)	32
Total	229,928	219,617	229,928	219,617

Notes:

- Income reported in the Detailed Government Accounts was £232.9 million (2016/17 £216.8 million). The difference between those figures and these above arises from movements on debtor balances not included within the Detailed Government Accounts, which are prepared on a cash basis for Income Tax income.

7.3.3 Social Security Income

SOCIAL SECURITY INCOME				
INCOME	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
National Insurance Fund				
Contributions - Class 1	191,438	181,922	191,438	181,922
Contributions - Class 2	1,590	1,479	1,590	1,479
Contributions - Class 3	414	322	414	322
Contributions - Class 4	4,268	3,360	4,268	3,360
Less: allocated to Manx NHS	(38,510)	(37,908)	(38,510)	(37,908)
Contributions Equivalent Premium	50	48	50	48
Agency Settlement With UK DHSS	50,945	56,232	50,945	56,232
Class 1 National Insurance Refunds	(1,225)	(401)	(1,225)	(401)
Class 2 National Insurance Refunds	(50)	(29)	(50)	(29)
Class 3 National Insurance Refunds	(5)	(6)	(5)	(6)
Class 4 National Insurance Refunds	(284)	(210)	(284)	(210)
Other Services - Other Services	(0)	(0)	(0)	(0)
Property Rents	72	72	72	72
Transfers (from)/to NIIA*	-	5,256	-	5,256
TOTAL	208,703	210,138	208,703	210,138

* National Insurance Investment Account

Notes:

- No adjustments have been made to the income reported in the Detailed Government Accounts.



7.3.4 Other Treasury Income

OTHER TREASURY INCOME				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Contribution from IOM PO	-	215	1,500	1,715
Fines and Fixed Penalties	799	727	799	727
Interest on Investments:				
- Manx Currency Account	(94)	513	(94)	513
- Reserve Fund	7,734	7,000	7,734	7,000
- Interest Allocation	-	-	-	-
Miscellaneous income	664	1,064	664	1,064
Total	9,103	9,519	10,603	11,019

Notes:

- Compared to the Detailed Government Accounts, income of £302k (from Assurance Advisory Division, Legal Aid and Corporate Strategy) has been transferred to net off with Treasury expense in order to remain consistent with the prior year.

7.3.5 Treasury Reserves Income

TREASURY RESERVES INCOME				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
External Funds				
- Investment Income	38,636	32,838	38,636	32,838
- Net Profit on Sale of Investments	34,942	38,612	34,942	38,612
<i>Less income within the above already transferred to Other Treasury Income:</i>				
- Manx Currency Account	94	(513)	94	(513)
- Reserve Fund	(7,734)	(7,000)	(7,734)	(7,000)
Internal Funds				
- Investment Income	717	756	717	756
- Sales of Properties (Housing Res. Fund)	2,602	2,829	2,602	2,829
- Other Receipts (Seized Asset Fund)	339	67	339	67
Total	69,596	67,589	69,596	67,589

Notes:

- Treasury Reserves Income relates to receipts, income and realised investment income in respect of Treasury's external and internal reserve funds. This income does not form part of the Government Net General Revenue Account and is transferred to the reserve funds to which it relates in the Statement of Total Movement on the General Revenue Account Balance.



7.4 Surplus/(Deficit) for the Year

7.4.1 The Surplus/(Deficit) for the Year

The surplus/(deficit) on the Income and Expenditure Account is arrived at after charging:

SURPLUS/(DEFICIT) FOR THE YEAR IS ARRIVED AT AFTER CHARGING:					
	Note	Group		Central Government	
		2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Auditors' remuneration	7.9	169	154	113	105
Depreciation	7.10.3 & 7.10.4	117,405	117,025	95,461	95,137
Amortisation	7.10.5	463	472	449	472
Pension costs	7.24.6	199,671	179,631	197,000	178,000
Irrecoverable VAT		342	352	-	-
Gain/(loss) on disposal and impairment of fixed assets		(11,370)	386	600	654
Rentals payable under leases		8,137	7,591	3,576	3,574

Notes:

- Auditors' remuneration excludes amounts paid in respect of Depositors' Compensation Schemes and other entities outside the scope of the group consolidation.

7.4.2 Department Expenditure

An analysis of Department Expenditure is included in the Detailed Government Accounts and summarised at Section 8. The following adjustments have been applied to reflect different basis of preparation to the Detailed Government Accounts.

RECONCILIATION OF DEPARTMENTAL EXPENDITURE				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Total Revenue Expenditure, per Section 8	(788,104)	(765,118)	(788,104)	(765,118)
<u>Accounting Standards Adjustments</u>				
Fixed Assets Adjustments	(64,774)	(76,788)	(64,774)	(76,788)
Pension Adjustments	(20,999)	(4,000)	(20,999)	(4,000)
Other	(19,791)	(8,237)	(19,790)	(8,237)
<u>Consolidation Adjustments</u>				
Treasury - Grant to MUA	1,200	2,200	-	-
Treasury - Manx Radio Subvention	875	875	-	-
Net Voted Expenditure	(891,593)	(851,068)	(893,667)	(854,143)
Treasury Income	876,145	853,702	877,644	855,202
Net Voted Income	(15,448)	2,634	(16,023)	1,059

Notes:

Other adjustments include the reversal of lease costs paid by the Department of Infrastructure in respect of the Energy from Waste plant (the financing cost is included within Interest Payable and Similar Charges), the movement on House Purchase Assistance Schemes' balances for the Department of Infrastructure and the movement on the value of the strategic oil reserve (which is excluded from the Detailed Government Accounts).



7.5 Staff Remuneration

Numbers of employees and Members whose remuneration of £50,000 or greater is included in these Accounts as at 31 March for each year:

STAFF REMUNERATION				
Remuneration Band	Group		Central Government	
	2017-18	2016-17	2017-18	2016-17
£350,000 to £374,999	1	-	1	-
£325,000 to £349,999	1	-	1	-
£300,000 to £324,999	-	1	-	1
£275,000 to £299,999	-	1	-	1
£250,000 to £274,999	4	4	4	4
£225,000 to £249,999	11	10	11	10
£200,000 to £224,999	9	8	9	8
£175,000 to £199,999	23	14	23	14
£150,000 to £174,999	22	22	22	22
£125,000 to £149,999	26	23	25	22
£100,000 to £124,999	56	54	54	52
£75,000 to £99,999	164	125	155	114
£50,000 to £74,999	799	739	716	671

Notes:

- i. The above figures include gross pay amounts as remuneration (including compensation payments made in connection with their employment) but exclude employers’ contributions (for example, employers’ pension contributions), settlement payments, compromise agreements etc.
- ii. The figures are based on the total remuneration for an individual employee regardless of how many posts that individual may have held. For example, where an individual was employed by two different Departments for two different tasks, the employee is classified above based on their amalgamated remuneration for both posts.

7.6 Key Management Compensation

The compensation paid or payable to key management for employee services is shown below:

KEY MANAGEMENT COMPENSATION				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Total Compensation Paid/Payable	3,847	3,935	2,892	2,743

Notes:

- i. For Central Government, “Key Management” has been interpreted to be the Minister and Chief Officer of each Department, Board or Office.
- ii. In respect of the Group Accounts, “Key Management” includes the Board Members, Directors and Senior Management team.



7.7 Interest Payable and Similar Charges

INTEREST PAYABLE AND SIMILAR CHARGES				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Isle of Man Treasury Bond 2034	(10,803)	(9,944)	-	-
Isle of Man Treasury Bond 2030	(4,219)	(4,219)	-	-
Consolidated Loans Fund	-	2,593	-	-
Local Authority loan interest	(146)	(151)	-	-
Lease finance	(5,793)	(4,647)	(1,690)	(1,791)
Other finance charges	(35)	(51)	-	-
Rates discounts allowed	(1)	-	-	-
Unrealised gain/(loss) on currency balances	1,078	59	-	-
Amortisation of bond issue expenses	(505)	(454)	-	-
Net interest expense on post-employment benefits	(102,320)	(105,126)	(102,000)	(105,000)
Total	(122,744)	(121,940)	(103,690)	(106,791)

7.8 Financial Commitments

7.8.1 Operating Leases

The Government's future minimum operating leases payments are as follows:

OPERATING LEASES - PAYABLE				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Within one year	5,945	7,462	1,936	2,654
Between one and five years	20,532	23,622	4,423	4,317
After five years	343	6,051	343	1,253
Total	26,820	37,135	6,702	8,224

The Government's future minimum operating leases receipts are as follows:

OPERATING LEASES - RECEIVABLE				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Within one year	9,511	5,472	8,286	4,247
Between one and five years	31,766	11,234	26,866	6,334
After five years	99,882	57,370	65,582	21,845
Total	141,159	74,076	100,734	32,426

Note: Where lease is linked to inflation, a rate of 2% has been used. Where leases are pooled and not all are linked to inflation, no inflationary increase has been taken into account. This is consistent with prior year.



7.9 External Audit Fees

EXTERNAL AUDIT FEES				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Fees payable with regard to external audit services carried out by the appointed auditors	169	154	113	105
Fees payable with regard to other services carried out by the appointed auditors	206	206	204	204
	375	360	317	309

Following a tender process, the External Auditor (KPMG Audit LLC) for Central Government was appointed for a 3-year term commencing 1 April 2015, with an option for a further extension for a further two years. KPMG Audit LLC was the incumbent external auditor immediately prior to the tender process.

An associated company, KPMG LLC, is appointed as Scheme Agent of the Banking Business (Compensation of Depositors) Regulations 1991 and the Compensation of Depositors Regulations 2008 by the Financial Services Authority. The above figures with regard to other services include payments made to KPMG LLC in respect of these Regulations. The transactions and balances of the depositors' compensation schemes, including the fees above, are not consolidated into these Accounts.

As part of a separate tender process another firm, Grant Thornton Limited (previous firms, including PKF (Isle of Man) LLC), were appointed auditors of Local Authority and related accounts. Grant Thornton Limited is also the appointed external auditor of Laxey Glen Mills Limited and PricewaterhouseCoopers LLC is the appointed external auditor of Radio Manx Limited. The audit fees for each of these are included within the Group figures.



7.10 Fixed Assets

7.10.1 Summary of Fixed Assets

SUMMARY OF FIXED ASSETS - NET BOOK VALUE					
	Note	Group		Central Government	
		2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Tangible Fixed Assets	7.10.3/4	2,602,518	2,698,089	2,125,593	2,196,849
Intangible Fixed Assets	7.10.5	447	580	420	539
Total		2,602,965	2,698,669	2,126,013	2,197,388

7.10.2 Valuations

The Government has a current policy of looking to revalue certain key assets over a period of 3 to 5 years.

Therefore many of the Group's land and buildings, including both freehold and leasehold assets, have been revalued during the last three years on the basis of existing use or depreciated replacement cost by qualified valuers. The valuations were undertaken by the Treasury's Valuation Office in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors in the United Kingdom.

Depreciation is being charged based upon the revalued amounts and revised estimated useful economic life of the buildings.

The freehold land and buildings have been categorised into Departments and will be revalued on a 3-5 year cycle, as follows:

- 2017/18 – No formal valuation completed, review of assets confirmed the carrying value is appropriate and formal valuation is carried over to 2018/19
- 2018/19 – Department of Infrastructure and Department of Health and Social Care and the Department of Education, Sport and Culture
- 2019/20 – Department of Environment, Forestry and Agriculture and Home Affairs



7.10.3 Tangible Fixed Assets – Group

TANGIBLE FIXED ASSETS						
	Group					
	Freehold Land & Buildings £000	Vehicles, Plant & Equipment £000	Infra-structure assets £000	Assets Under Course of Construction £000	Investment Property £000	Total £000
As at 31 March 2017						
Cost or Valuation	1,440,023	487,890	1,852,204	21,829	1,792	3,803,738
Accumulated Depreciation	(306,046)	(304,107)	(495,439)	-	(57)	(1,105,649)
Net Book Value	1,133,977	183,783	1,356,765	21,829	1,735	2,698,089
Year end 31 March 2018						
Opening Net Book Value	1,133,977	183,783	1,356,765	21,829	1,735	2,698,089
Additions	6,942	17,165	7,351	6,332	-	37,790
Disposals / Impairment	(2,696)	(2,044)	(5,415)	-	(1,295)	(11,450)
Transfers	4,981	6,039	3,336	(8,236)	-	6,120
Depreciation	(42,042)	(20,410)	(54,953)	-	-	(117,405)
Revaluations	(2,073)	(5,675)	(2,878)	-	-	(10,626)
Closing Net Book Value	1,099,089	178,858	1,304,206	19,925	440	2,602,518
As at 31 March 2018						
Cost	1,446,947	469,499	1,855,765	19,744	497	3,825,572
Accumulated Depreciation	(347,858)	(290,641)	(551,559)	-	(57)	(1,223,054)
Closing Net Book Value	1,099,089	178,858	1,304,206	19,744	440	2,602,518

Notes

Included within tangible fixed assets at 31 March 2018 is freehold land amounting to £56.9 million (2016/17: £59.9 million) which has not been depreciated.

The net book value of fixed assets held under finance leases and hire purchase contracts was £58.1 million (2016/17: £61.3 million). Depreciation of £3.2 million (2016/7: £3.2 million) was charged in the year on these assets.

Included within Disposals/Impairment is an amount of £1.5m relating plant and equipment and £3.2m relating to infrastructure within Manx Utilities Authority. This was determined following a review and reassessment of the carrying values as at 31 March 2018.



7.10.4 Tangible Fixed Assets – Central Government

TANGIBLE FIXED ASSETS					
	Central Government				
	Freehold Land & Buildings £000	Vehicles, Plant & Equipment £000	Infra- structure assets £000	Assets Under Course of Construction £000	Total £000
As at 31 March 2017					
Cost / Valuation	1,372,867	190,934	1,393,488	21,693	2,978,982
Accumulated Depreciation	(281,007)	(145,566)	(355,560)	-	(782,133)
Net Book Value	1,091,860	45,368	1,037,928	21,693	2,196,849
Year end 31 March 2018					
Opening Net Book Value	1,091,860	45,368	1,037,928	21,693	2,196,849
Additions	6,942	8,895	4,607	6,310	26,754
Disposals	(2,535)	(14)	-	-	(2,549)
Transfers	5,791	-	2,445	(8,236)	-
Depreciation	(40,377)	(10,136)	(44,948)	-	(95,461)
Revaluations	-	-	-	-	-
Impairment	-	-	-	-	-
Closing Net Book Value	1,061,681	44,113	1,000,032	19,767	2,125,593
As at 31 March 2018					
Cost	1,382,757	166,202	1,400,540	19,767	2,969,266
Accumulated Depreciation	(321,076)	(122,089)	(400,508)	-	(843,673)
Net Book Value	1,061,681	44,113	1,000,032	19,767	2,125,593

Included within tangible fixed assets at 31 March 2018 is freehold land amounting to £52.1 million (2016/17: £52.2 million) which has not been depreciated.

The net book value of fixed assets held under finance leases and hire purchase contracts was £13.3 million (2016/17: £15.5 million). Depreciation of £2.2 million (2016/17: £2.2 million) was charged in the year on these assets



7.10.5 Intangible fixed assets

INTANGIBLE FIXED ASSETS		
	Group	Central Government
	Intangible Assets £000	Intangible Assets £000
As at 31 March 2017		
Cost or Valuation	1,909	1,868
Accumulated Depreciation	(1,329)	(1,329)
Net Book Value	580	539
Year end 31 March 2018		
Opening Net Book Value	580	539
Additions	330	330
Disposals	-	-
Transfers	-	-
Amortisation	(463)	(449)
Revaluations	-	-
Impairment	-	-
Closing Net Book Value	447	420
As at 31 March 2018		
Cost	1,927	1,886
Accumulated Depreciation	(1,480)	(1,466)
Closing Net Book Value	447	420

Intangible fixed assets mainly consist of purchased software packages.



7.11 Heritage Assets

7.11.1 Nature and scale of assets

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical value. Heritage assets include historic buildings, archaeological sites, monuments, statues, military and scientific equipment of historic importance, museum collections and works of art.

The majority of Heritage Assets are held by Manx Museum and National Trust and cover both a wide cross-section of the Island's natural visitor attractions and Museum artefacts considered to be of national importance.

Heritage Assets currently include:

- Land and Buildings – such as Snaefell, The Sound, Cregneash, Skye Hill, Castle Rushen, Peel Castle, Rushen Abbey, Laxey Wheel, The Grove Museum, the Old House of Keys and the old Grammar School.
- Transport – including the Horse Trams, Electric Railway, Mountain Railway, Steam Railway.
- Other Artefacts – such as Paintings, ornaments, Viking hoards of silver and gold plus items such as the 18th century yacht 'The Peggy', a skeleton of a giant deer and the Sword of State.

Policy for acquisition, preservation, management and disposal of Heritage Assets

The Manx Museum and National Trust is a charitable Trust operating under the name Manx National Heritage, governed by a board of Trustees. Overall governance is provided in legislation by the Manx Museum and National Trust Act 1959. The Act determines that the Trust shall operate a Museum and shall keep the Museum and any additions thereto in good order and repair. The Museum shall be used for storing, classifying, and exhibiting objects of art, or of antiquarian, scientific, literary, historical, or educational interest, whether the property of such Trust or of any other person or body.

The Museum is currently open to the Public 5 days a week. In addition, the Trust has a Large Objects Store which is open from time-to-time for guided tours mainly for "Friends of Manx National Heritage" (a registered charity committed to supporting the work of Manx National Heritage).

The Trust is supported by the Isle of Man Government which provides funding for core activities and some capital projects.

The Department of Infrastructure has responsibility for the preservation and maintenance of the transport assets listed above. These are operational assets in daily (seasonal) use and are therefore maintained to a standard suitable for public use.

Accounting treatment of Heritage Assets

The transport assets identified above are included within the Accounts under "Vehicles, Plant and Equipment" as these are operational assets. The accounting treatment of these assets is consistent with the policy for Vehicles – in general the vehicles have a life of 6 years. In addition, the value of the railway tracks is included within the Accounts under "Infrastructure assets" with a life of 20-40 years as per the accounting policy.

However the value of Heritage Assets owned by the Manx Museum and National Trust are not included within the Accounts. These assets have generally not been acquired by way of purchase and therefore have no associated purchase cost. Additionally, many of the assets would be difficult to value as there would be no commercial market for them. In terms of Heritage Assets the two principal 'values' that can be reasonably attached are historical importance & visitor importance and attaching values to these would be highly subjective.



7.11.2 Heritage Assets – Group

The Isle of Man Post Office owns a number of heritage assets that are not included in the balance sheet position at 31 March 2018. The assets comprise:

1. A collection of paintings, representing the original artwork for stamps produced during the 1970's and 1980's.
2. A memorial World War 1 plaque designed by Archibald Knox.
3. A memorial World War 2 plaque.

These assets were purchased historically. It is the view of the Post Office Board that the costs incurred to reliably value these assets on an ongoing basis, even if such values could be obtained, would be disproportionate to any additional benefits derived by the Post Office or users of the Accounts.

7.12 Capital Commitments

The estimated commitments for capital expenditure that had started, or legal contracts entered into, as at 31 March 2018 are set out below. This amount predominantly relates to capital schemes approved by Tynwald which were in the course of construction at the year end.

Further details of approved Capital Schemes are set out in the Isle of Man Budget 2018-19 (GD 2018/0001).

CAPITAL COMMITMENTS				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Central Government	12,557	4,321	12,557	4,321
Manx Utilities Authority	2,012	15,556	-	-
Total	14,569	19,877	12,557	4,321



7.13 Financial Instruments

The Group has the following financial instruments:

FINANCIAL INSTRUMENTS					
	Note	Group		Central Government	
		2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Financial assets at fair value through profit or loss:					
- Long term investments	7.14.1	1,318,565	1,320,612	1,318,565	1,320,612
- Derivative financial instruments	7.22.2	2,803	2,634	-	-
Financial assets that are debt instruments measured at amortised cost:					
- Loans receivable	7.16.1	27,865	27,487	468,539	565,537
- Trade debtors		24,433	33,989	14,569	13,996
- Other debtors	7.16.2	38,705	42,934	36,537	40,355
- Short term deposits		345,666	267,799	343,656	265,798
- Cash at bank	7.18	204,420	245,892	159,066	216,419
		641,089	618,101	1,022,367	1,102,105
Total Assets		1,962,457	1,941,347	2,340,932	2,422,717
Financial liabilities at fair value through profit or loss:					
- Derivative financial instruments	7.22.2	79	2,261	-	-
Financial liabilities measured at amortised cost:					
- Loans payable	7.21.2	276,296	277,550	273,984	274,943
- Trade creditors	7.19.1	12,495	17,124	9,005	13,398
- Accruals	7.19.1	40,793	39,123	31,446	29,426
- Other creditors	7.19.1	10,674	9,211	10,289	8,751
- Financial leases	7.22.1	56,979	59,904	27,455	29,169
- Retirement benefit obligation	7.24.3	3,726,016	3,836,189	3,723,000	3,823,000
		4,123,253	4,239,101	4,075,179	4,178,687
Total Liabilities		4,123,332	4,241,362	4,075,179	4,178,687



7.14 Long Term Investments

7.14.1 Investments

The market value and classification of the Long Term Investments held is as follows:

INVESTMENT VALUE BY ASSET CLASS				
	Market Value	Book Value	Market Value	Book Value
	31 March 2018	31 March 2018	31 March 2017	31 March 2017
	£000	£000	£000	£000
Property	725	408	725	408
Investment in Films	7,030	7,031	8,483	8,483
United Kingdom Fixed Interest	392,938	381,635	391,242	371,234
United Kingdom Equities	342,226	328,182	374,958	339,369
Overseas Fixed Interest	42,306	42,667	31,390	29,573
Overseas Equities	448,558	374,381	448,554	350,920
Other Investments	84,782	84,905	65,260	60,273
TOTAL	1,318,565	1,219,209	1,320,612	1,160,260

7.14.2 Balances on Externally Managed Funds

The investments relate to eight externally managed funds. In addition to the investments above, the external Investment Managers and Treasury also hold cash balances in respect of these funds, details of which are set out below:

BALANCES ON EXTERNALLY MANAGED FUNDS				
	Market Value	Book Value	Market Value	Book Value
	31 March 2018	31 March 2018	31 March 2017	31 March 2017
	£000	£000	£000	£000
Long Term Investments	1,318,565	1,219,209	1,320,612	1,160,260
Cash & Cash Instruments	154,238	154,159	212,305	212,317
Cash funds held by Treasury	78,912	78,912	74,670	74,670
Total	1,551,715	1,452,280	1,607,587	1,447,247

Notes

- i. The majority of funds are valued through listed holdings on the open market.
- ii. The Media Development Fund is not traded on an open market and is valued by an industry expert, being £21.4 million at 31 March 2018 (2016/17: £22.7 million). The valuation is based on the original investment less write-downs & provisions. When determining the level of write down to recommend to Treasury, the advisors consider to what extent sums invested into productions are unlikely to materialise into recoupment returns, as a result of changing market sales conditions.



7.14.3 Financial Risk

This note provides information about financial risk which is material in the context of the accounts as a whole.

1. Investments

Investment Manager Risk

The appointment of investment managers follows a rigorous process in which prospective managers are required to provide evidence of the company's ability to achieve a strong track record of performance against benchmarks, including how investment performance is achieved and risk controlled in volatile markets. All prospective investment managers must hold the relevant licence from the Isle of Man Financial Services Authority.

In order to mitigate risk and achieve satisfactory diversification, several investment managers are appointed (2017/18: 5; 2016/17: 5) and the portfolio is spread amongst them, as this limits the risk exposure with any single investment manager.

The performance of each manager is reviewed on a quarterly basis by Treasury's investment advisor who in turn provides a report for scrutiny by the Investment Committee.

The investment managers are invited to meet the Investment Committee twice a year to discuss current performance and discuss upcoming risks and issues.

In addition Treasury has appointed a master custodian who provides the following functions which serve toward risk management associated with the investment managers:

- safekeeping of assets/securities such as stocks, bonds, and currency (cash)
- arranging settlement of any purchases and sales and deliveries in/out of such securities and currency
- collect information on and income from such assets and administer related tax withholding documents and foreign tax reclamation
- administer voluntary and involuntary corporate actions
- provide information on the securities and their issuers such as annual general meetings and related proxies
- maintain currency/cash bank accounts, effect deposits and withdrawals and manage other cash transactions
- perform additional services including portfolio accounting, reconciliation and administration and performance measurement
- provide online information and reports
- dedicated client relationship manager.

Market Risk

Market risk arises from investments held for which prices in the future are uncertain. The risk is managed through diversification and selection of securities. Selection of securities is delegated to investment managers who in turn must comply with the conditions that apply to the investment mandates that Treasury has in place. The mandates provide certain constraints around the investment profile in order to achieve the investment objective. Treasury currently has two investment mandates:



	Investment Mandate	
Conditions	(1) Absolute Return Funds	(2) Absolute Return Funds (Fixed Income Funds)
Benchmark	To outperform the Bank of England Base Rate +3% over rolling three year periods.	To outperform the Bank of England Base Rate +1% over rolling three year periods.
Investment Objective	To achieve moderate capital appreciation over the medium term without excessive volatility.	Capital preservation over the medium term with reduced volatility.
Time Horizon	3 – 5 years.	3 – 5 years.
Risk Tolerance	A moderate tolerance for risk commensurate with the investment objective.	A low tolerance for risk commensurate with the investment objective.
Equities	Up to 80% of the market value of the total assets of the portfolio. No more than 15% of the market value of the total assets of the portfolio to be invested in any one equity sector. No more than 6% of the market value of the total assets of the portfolio to be invested in any one share.	No more than 20% of total assets of the market value of the total assets of the portfolio.
Bonds & Cash	Up to 100% of the market value of the total assets of the portfolio. No more than 10% of the total portfolio may be exposed to bonds rated below Investment Grade.	Up to 100% of the market value of the total assets of the portfolio. No more that 10% of the total portfolio may be exposed to bonds rated below Investment Grade.
Currency Exposure	No more than 40% of the market value of the total assets of the portfolio to be held in non-sterling assets.	No more than 10% of the assets of the portfolio to be held in non-sterling assets.
Isle of Man Companies	No dealing in shares of companies registered in the Isle of Man without prior Treasury consent.	No dealing in shares of companies registered in the Isle of Man without prior Treasury consent.
Unquoted Securities	No dealing in unquoted securities without prior Treasury consent.	No dealing in unquoted securities without prior Treasury consent.
Banking Arrangements	No more than 5% of the market value of the total assets of the portfolio to be held in cash with any bank forming part of the investment manager's group. Cash assets above 5% of the total market value of the portfolio should be deposited with other institutions. No more than £15 million or 15% of the market value of the portfolio, whichever is the greater, may be held with institutions within any one banking group.	No more than 10% of the market value of the total assets of the portfolio to be held in cash with any bank forming part of the investment manager's group. Cash assets above 10% of the total market value of the portfolio should be deposited with other institutions. No more than £8 million or 15% of the market value of the portfolio, whichever is the greater, may be held with institutions within any one banking group.
Derivatives	Derivatives can only be used to provide downside protection to assets held by the portfolio. Prior written permission is required for the use of any derivatives other than Index Futures, Stock Futures, Call Options and Put Options. Use of derivatives is subject to the certain limits.	No dealing in derivatives without prior Treasury consent.
Use of Collective Investment Schemes	No investment in any collective investment schemes or other in-house products operated by the investment manager or the investment manager's group without prior Treasury consent.	No investment in any collective investment schemes or other in-house products operated by the investment manager or the investment manager's group without prior Treasury consent.



Market Risk (Continued)

Investment Mandate		
Conditions	Absolute Return Funds	Absolute Return Funds (Fixed Income Funds)
Liquidity	No investment should be made which is not realisable within a reasonable period, maximum 3 months, without prior Treasury consent.	No investment should be made which is not realisable within a reasonable period, maximum 3 months, without prior Treasury consent.
Other	Treasury accepts that funds do routinely use a variety of instruments, including derivatives however at least 98% of the value of the underlying investments of the portfolio must consist of investments which if held directly would be compliant with the above conditions.	

Credit Risk

Credit risk is the risk that a counterparty will be unable to pay amounts owed to Government in full when due. Risk areas for Government are primarily investments and cash and cash equivalents. The risk with investments is managed within the terms of the mandates outlined above.

2. Cash

Treasury considers cash management guidelines at least once per year. The guidelines were last amended and approved by Treasury in October 2016. The limits applying to institutions under the current guidelines are based on the short term credit rating awarded to the local institution’s parent by the Fitch credit rating agency. The short term Fitch rating has been used as the primary basis for determining the amount to be placed with an institution under the cash guidelines for over 13 years.

The guidelines are as follows:

- a. The overall total of deposits placed with an F1+ and F1 rated bank (with G-SIFI² status) not to exceed 40% of the Treasury’s total sterling on deposit;
- b. The overall total of deposits placed with an F1 rated bank (without G-SIFI status) not to exceed 30% of the Treasury’s total sterling on deposit;
- c. F1 rated bank (without G-SIFI status) maximum duration is 12 months with a restriction of a maximum deposit limit of £20m for deposits held for greater than three months;
- d. The following limits to apply to the placing of all new sterling funds with any one institution

Fitch Short Rating	Limit as % of Deposits	Maximum Maturity
F1+	40%	24 months
F1 with G-SIFI status	40%	12 months
F1 and F2 (without G-SIFI status)	30%	12 months (up to a maximum of £20 million in excess of 3 months)
F2	5%	1 month
F3 and no Fitch Rating	£1,000,000	1 month

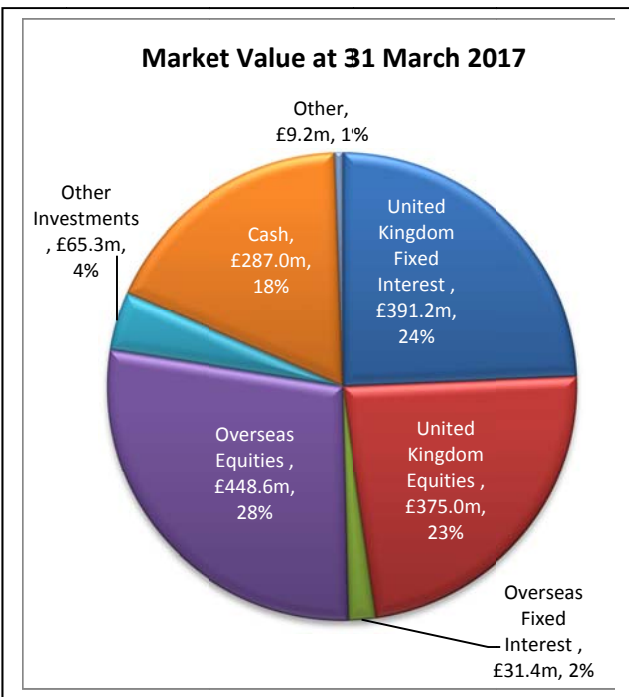
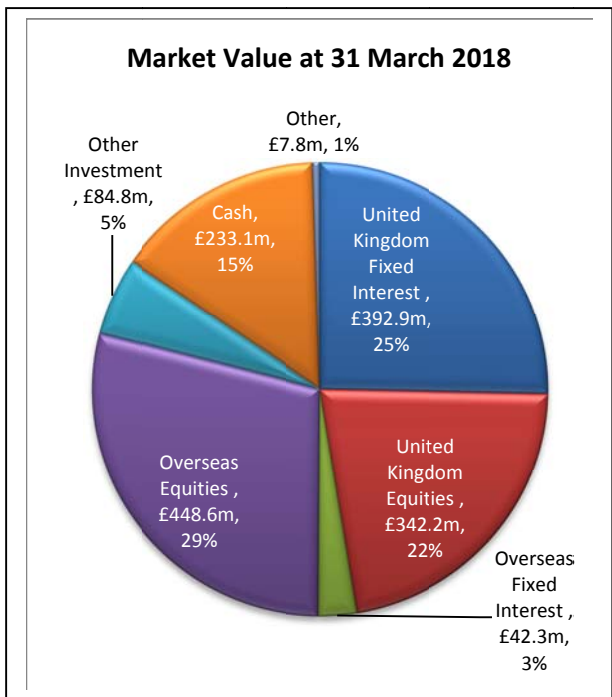
- e. The maximum to be deposited with subsidiaries of any one banking group is based on the lowest rated relevant subsidiary.
- f. A maximum limit of £1,000,000 in cash deposits may be held with any individual institution or group that has an F3 rating or does not have a credit rating.

² Global Systematically Important Financial Institutions

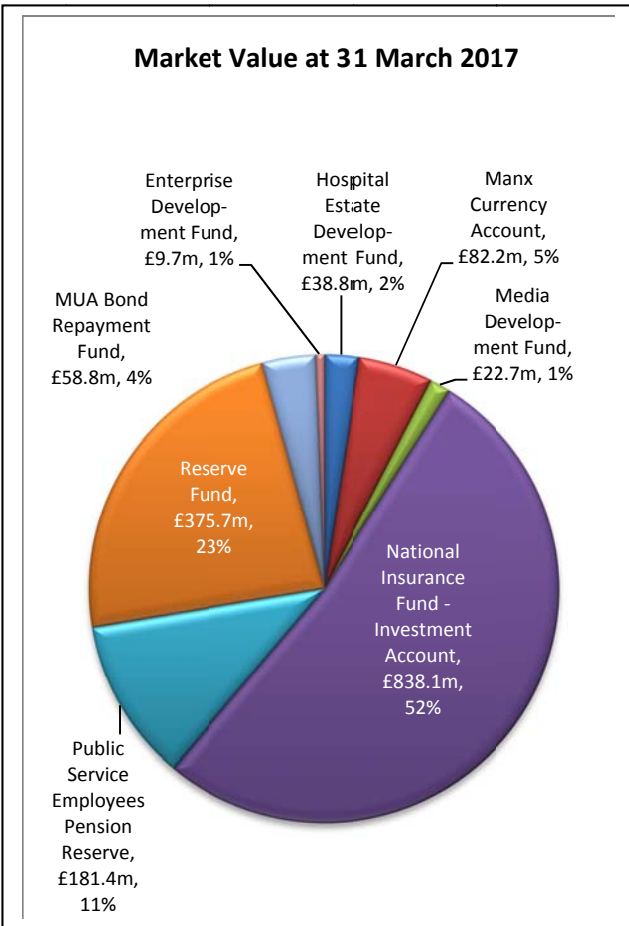
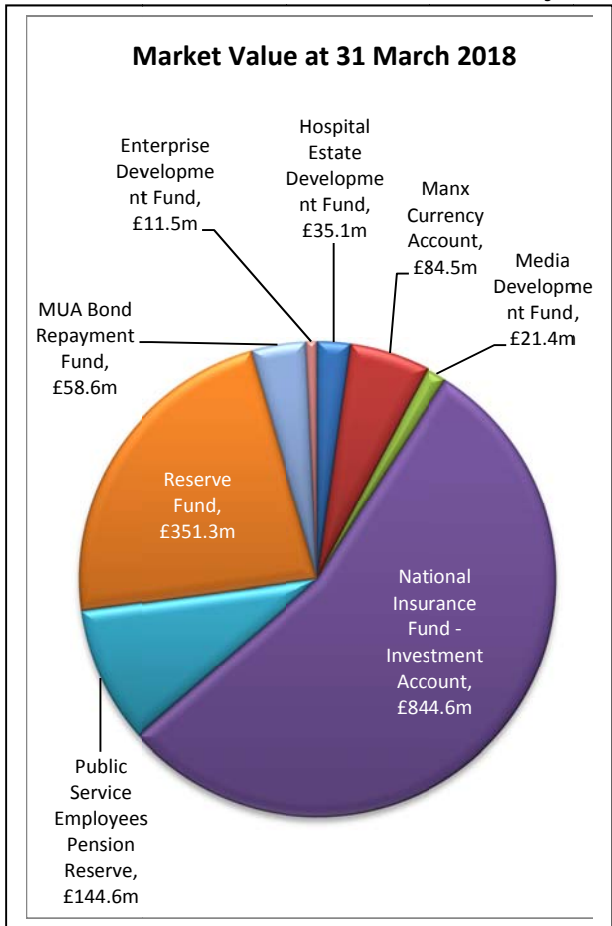


7.14.4 Market Value of Externally Managed Funds

The total market value of externally managed fund assets held at 31 March 2018 can be shown by asset type as follows:



The assets are allocated across the externally managed funds as follows:





7.14.5 Movements on Externally Managed Funds

An analysis of the fund balances and movements during the year is set out below:

MOVEMENT ON EXTERNALLY MANAGED FUNDS							
Invested Fund	Balances Brought Forward 1 April 2017 £000	Income			Unrealised gain/(loss) on Investments £000	Expenditure Expenses & Transfers to Internal Accounts £000	Balances Carried Forward 31 March 2018 £000
		Contributions Seizures & Other £000	Investment Income £000	Net Profit on Sale of Investments £000			
Hospital Estate Development Fund	38,820	-	890	239	(1,285)	(3,526)	35,138
Manx Currency Account	82,238	3,139	947	66	(822)	(1,116)	84,452
Media Development Fund	22,743	-	99	(755)	1	(688)	21,400
National Insurance Fund - Investment Account	838,140	-	21,383	16,285	(29,318)	(1,860)	844,630
Public Service Employees Pension Reserve	181,382	-	3,747	5,600	(8,559)	(37,561)	144,609
Reserve Fund	375,686	-	10,292	12,906	(19,002)	(28,557)	351,325
MUA Bond Repayment Fund	58,842	-	1,219	601	(1,918)	(122)	58,622
Enterprise Development Fund	9,736	2,000	59	-	-	(256)	11,539
Total	1,607,587	5,139	38,636	34,942	(60,903)	(73,686)	1,551,715

Notes:

- i. The market values and book cost of each of the externally managed funds is shown below:

FUND VALUES				
	Market Value 31 March 2018 £000	Book Value 31 March 2018 £000	Market Value 31 March 2017 £000	Book Value 31 March 2017 £000
Hospital Estate Development Fund	35,138	35,183	38,820	37,580
Manx Currency Account	84,452	84,623	82,238	81,586
Media Development Fund	21,400	21,400	22,743	22,743
National Insurance Fund - Investment Account	844,630	779,408	838,140	743,600
Public Service Employees Pension Reserve	144,609	138,164	181,382	166,378
Reserve Fund	351,325	327,374	375,686	332,733
MUA Bond Repayment Fund	58,622	54,589	58,842	52,891
Enterprise Development Fund	11,539	11,539	9,736	9,736
TOTAL	1,551,715	1,452,280	1,607,587	1,447,247



- ii. The National Insurance Fund comprises an externally invested National Insurance Investment Account and an internally managed National Insurance Operating Account. The balances on these two funds are as follows:

NI FUND		
	31 March 2018	31 March 2017
	£000	£000
Operating Account	14,333	12,846
Investment Account	844,630	838,140
Total	858,963	850,986

- iii. The face value of the Manx Currency in circulation at 31 March 2018 was £80.6 million (2016/17: £77.8million). At that date the Currency Account Surplus, being the amount by which the Manx Currency Account exceeds the face value of Manx Currency in circulation, was £4 million (2016/17: £3.8 million).
- iv. Included in the Enterprise Development Fund are unquoted investments amounting to £3,085,000.



7.15 Government Owned Companies

7.15.1 Central Government

The Isle of Man Government hold all the shares in the following six companies, the accounts of which have been consolidated with the Government's Group Accounts in accordance with the Accounts and Audit Regulations 2018:

GOVERNMENT OWNED COMPANIES			
Company	Principal activity	Country of Incorporation	Proportion of voting rights and shares held
Isle of Man Film Ltd	Film investment	Isle of Man	100%
Isle of Man Film (DOI) Ltd	Dormant	Isle of Man	100%
Isle of Man Ltd	Dormant	United Kingdom	100%
Isle of Man National Transport Ltd	Dormant	Isle of Man	100%
Laxey Glen Mills Ltd	Flour milling	Isle of Man	100%
Radio Manx Ltd	Commercial radio	Isle of Man	100%

The Accounts of the three trading Companies are required to be laid before Tynwald annually. Further details of the non-dormant companies' activities during the year are set out below:

Isle of Man Film Ltd ("IOMFL")

IOMFL previously made investments in film productions on behalf of Government and remits receipts from film sales to the Media Development Fund.

Isle of Man Film (DOI) Ltd is a wholly-owned subsidiary of IOMFL but is now dormant.

Laxey Glen Mills Ltd ("LGML")

Government provides subsidies to LGML in respect of flour sales, advances funds for LGML to purchase grain and provides grants to pay bonuses to growers.

Radio Manx Ltd ("RML")

Government provides an annual subvention to RML. In addition, Government organisations purchase services from and sell services to RML on an arm's length basis.



7.15.2 Group Accounts

Manx Utilities Authority

In addition to 7.15.1, the Manx Utilities Authority hold all the shares in the following three companies, the accounts of which have been consolidated with the Government's Group Accounts, on the basis that they are consolidated within the Manx Utilities Authority's own Group Accounts:

COMPANIES OWNED BY THE MANX UTILITIES AUTHORITY			
Company	Principal activity	Country of Incorporation	Proportion of voting rights and shares held
Manx Cable Company Limited	Electricity cable link	Isle of Man	100%
PGT Limited	Dormant	Isle of Man	100%
e-Ilan Communications Limited	Wholesale telecom services	Isle of Man	100%

Isle of Man Post Office

As part of the acquisition of property at Barleyfields, Isle of Man Business Park, the Post Office acquired 40 shares of Isle of Man Business Park (No4) Management Company Limited. The principal activity of the company is the management of the shared element of the property acquired.

The Post Office share of the profits or losses of associates or its interest in their net assets have not been consolidated with the Government's Group Accounts, on the basis that its transactions and balances are not material.

COMPANIES IN WHICH THE ISLE OF MAN POST OFFICE HAS SHARES			
Company	Principal activity	Country of Incorporation	Proportion of voting rights and shares held
Isle of Man Business Park (No4) Management Company Limited	Property management	Isle of Man	40%



7.16 Debtors and prepayments

7.16.1 Long Term Debtors

Long Term Debtor balances comprise loans schemes funded by the Consolidated Loans Fund. An analysis of the closing balances on these schemes is shown below:

LONG TERM DEBTORS				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Loan Schemes				
Agricultural Holdings Scheme 1978	106	157	106	157
Agricultural Holdings Scheme 2000	516	548	516	548
Agricultural Credits Acts 1924-66	15	24	15	24
Fishing Industry	41	52	41	52
Building By Private Enterprise Schemes 1968/74	-	-	-	-
House Purchase Assistance Schemes	24,765	23,947	24,765	23,947
House Purchase Schemes	30	38	30	38
House Purchase & Refurbishment Scheme 1991	477	703	477	703
Royal British Legion Housing Association	338	338	338	338
Local Authorities	1,577	1,680	1,577	1,680
	27,865	27,487	27,865	27,487
Loans to Statutory Boards				
Manx Utilities Authority		-	440,634	537,970
e-Ilan Loan (MUA)	-	-	40	80
	27,865	27,487	468,539	565,537
Total Loans Outstanding				
Due within 12 months	(1,238)	(1,197)	(14,639)	(7,646)
	26,627	26,290	453,900	557,891
Total Due After 12 Months				

Notes:

- The criteria for the House Purchase Assistance schemes have varied across the years but in general have been offered at 1% below the Bank of England base rate. In 2014 a Shared Equity Scheme was introduced which offered a 2 year interest-free period then charged at 1%, increasing incrementally by 1% each subsequent year or Bank of England Base Rate plus 5% whichever is the lesser.
- The MUA loan includes Isle of Man Treasury Bonds that comprise a Bond with a £75 million nominal value at 5.625% per annum with a maturity date of 29 March 2030, and a Bond with a £185 million nominal value at 5.375% per annum with a maturity date of 14 August 2034. The balance of the loan amount relates to loans from the Capital Loans Fund. During the year, £95 million of the Capital Loans Fund was written off by Central Government in respect of the outstanding loan to the MUA.
- In 2008-09 an amount of £400,000 was advanced from The Economic Development Fund to fund the initial capital investment of e-Ilan Communications Limited. This loan is repayable over ten years.
- The Local Authority Loans are in respect of obligations taken on for sewer mains and sewerage assets transferred to the Authority prior to 2007.
- Interest payable on the Consolidated Loans Fund is at a variable interest rate as determined annually by Isle of Man Government Treasury. For the year under review the interest rate was set at 1.5% (2016/17: 1.5%).



7.16.2 Current Debtors

CURRENT DEBTORS				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Trade Debtors	24,433	33,989	14,569	13,996
Prepayments	524	864	-	-
Loan Schemes	1,238	1,197	14,639	7,646
Sub-total	26,195	36,050	29,208	21,642
Taxation Debtors	23,202	26,101	23,201	26,101
Other Debtors	15,503	16,833	13,336	14,254
Sub-total	38,705	42,934	36,537	40,355
Total	64,900	78,984	65,745	61,997

Notes

- Included within Trade Debtors and Prepayments for both the Group and Central Government is an amount of £1.5 million (2016/17: £1.5 million) in respect of the Kaupthing Singer & Friedlander (Isle of Man) Limited Early Payment Schemes and Depositors' Compensation Schemes. A provision of £1.1 million (2016/17: £1.1 million) has been applied against this balance to give a net balance of £0.4 million (2016/17: £0.4 million).
- Taxation Debtors include amounts in respect of direct and indirect taxation where assessments have been raised and are expected to be paid. Income Tax assessments which are under review and for which the assessed value may change are excluded from the Taxation Debtors amount as the amount and timing of payment is uncertain.
- Other Debtors include an amount of £nil (2016/17: £4.1 million) payable by the United Kingdom's HM Revenue & Customs in respect of the VAT sharing arrangement.

7.17 Stocks and Work in Progress

STOCKS AND WORK-IN-PROGRESS				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Raw Materials and Consumables	9,874	9,927	2,922	2,744
Work in Progress	1,980	1,911	1,980	1,911
Goods for Resale	889	1,062	750	879
Stock Provision	(1,050)	-	(1,050)	-
Total	11,693	12,900	4,602	5,534

Notes

- During the year the Department of Infrastructure started a full stock reconciliation exercise and as a result made a provision of £1.05 million against the stock balance.



7.18 Cash Balances

7.18.1 Cash Balances

CASH BALANCES				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Cash re: external funds	205,417	261,500	205,417	261,500
Cash re: loans fund	58,753	34,422	58,753	34,422
Other cash balances	(59,750)	(50,030)	(105,104)	(79,503)
Cash at Bank and in Hand	204,420	245,892	159,066	216,419
Bank Overdrafts	(11,985)	(15,010)	(11,909)	(14,943)
Total	192,435	230,882	147,157	201,476

The above represents cash held in Government bank accounts and cash held by the Government's External Investment Managers (see Note 7.14 Long Term Investments). In addition, Treasury also places short term cash deposits on wholesale money markets.

Cash balances in respect of the Consolidated Loans Fund (Capital cash balance) are funded from General Revenue and are therefore shown as both a positive (in respect of the Consolidated Loans Fund) and a negative (overdrawn, in respect of General Revenue) cash balance with 'Other cash balances' above.

7.18.2 Bank Overdrafts and Loans Payable

BANK OVERDRAFTS AND LOANS PAYABLE				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Current Liabilities				
Finance Debt	(3,567)	(5,273)	(1,818)	(1,713)
Loans Payable – Local Authorities	(3,450)	(165)	-	-
Bank Overdrafts and Loans Payable	(11,985)	(15,010)	(11,909)	(14,943)
	(19,002)	(20,448)	(13,727)	(16,656)
Long Term Liabilities				
Loans Payable - Bonds	(262,075)	(260,000)	(262,075)	(260,000)
Loans Payable – Local Authorities	(2,236)	(2,540)	-	-
Finance Debt	(50,688)	(54,258)	(25,637)	(27,456)
	(314,999)	(316,798)	(287,712)	(287,456)
Total	(334,001)	(337,246)	(301,439)	(304,112)

The Treasury reviews its banking arrangements annually and currently has lending facilities in place with the Isle of Man Bank Limited as follows:

LENDING FACILITIES IN PLACE	
Account	Limit £
Forward Foreign Exchange	£1,545,000
NatWest One Card	£115,000
NatWest Purchasing Card	£2,000,000
BACS	£69,000,000
General Charges Account	£10,000,000



7.19 Creditors and Third Party Funds

7.19.1 Creditors: Amounts falling due within one year

CURRENT LIABILITIES					
	Note	Group		Central Government	
		2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Trade creditors		12,495	17,124	9,005	13,398
Accruals		40,793	39,123	31,446	29,426
Other creditors		10,674	9,211	10,289	8,751
Provision for repayment to UK HMRC		16,836	-	16,836	-
Sub-total		80,798	65,458	67,576	51,575
Finance debt	7.22	6,291	5,646	1,818	1,713
Derivatives		79	2,261	-	-
Sub-total		6,370	7,907	1,818	1,713
Total		87,168	73,365	69,394	53,288

7.19.2 Creditors: Amounts falling due after more than one year

LONG-TERM LIABILITIES					
	Note	Group		Central Government	
		2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Finance debt	7.22	50,688	54,258	25,637	27,456
Sub-total		50,688	54,258	25,637	27,456
Deferred income	7.20	12,856	12,595	-	-
Sub-total		12,856	12,595	-	-
Total		63,544	66,853	25,637	27,456

7.20 Deferred Income

DEFERRED INCOME				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Falling due after more than one year				
Customers' Contributions				
Opening Balance	12,595	12,425	-	-
Received in the year	768	677	-	-
Released to I&E Account in the year	(507)	(507)	-	-
Closing Balance	12,856	12,595	-	-

Deferred income represents amounts paid in advance by customers of the Manx Utilities Authority.



7.21 Loans Payable

7.21.1 Central Government

The external debt of Government (other than temporary borrowing by way of Bank overdraft) comprises Bonds issued under the Isle of Man Loans Act 1958-74.

Loans payable comprise £260 million (2016/17: £260 million) in respect of loans issued from the Consolidated Loans Fund to the Manx Utilities Authority. These amounts relate to amounts raised by Treasury through a Bond Issue on behalf of the Statutory Board, the proceeds of which were then loaned to the Statutory Board.

The Bonds have the following details:

MANX UTILITIES AUTHORITY BONDS			
Statutory Board	Amount	Interest rate	Maturity Date
Manx Utilities Authority (former Isle of Man Water and Sewerage Authority)	£75 million	5.625% (fixed)	29 March 2030
Manx Utilities Authority (former Manx Electricity Authority)	£185 million	5.375% (fixed)	14 August 2034

7.21.2 Group Accounts

Loans payable includes £2.2 million (2016/17: £2.5 million) due to local authorities by the Manx Utilities Authority. The loans are in respect of obligations taken on for sewer mains and sewerage assets transferred to the Authority prior to 2007.

The bonds are accounted for on an effective interest basis and include accrued interest applicable to the financial year 2017/18.

LOANS PAYABLE				
	Group		Central Government	
	2017-18	2016-17	2017-18	2016-17
	£000	£000	£000	£000
5.625% Bonds repayable March 2030	72,450	75,000	72,450	75,000
5.375% Bonds repayable August 2034	189,625	185,000	189,625	185,000
Local Authority loans taken over (MUA)	2,236	2,540	-	-
Total Long Term Loans	264,311	262,540	262,075	260,000
Bank Overdrafts	11,985	15,010	11,909	14,943
Total Loans Payable	276,296	277,550	273,984	274,943



7.22 Other Financial Assets and Liabilities

7.22.1 Finance leases

The future minimum finance lease payments are as follows:

FINANCE LEASE OBLIGATIONS				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Payments Due:				
Falling due within one year:				
Within one year	6,291	5,646	1,818	1,713
Falling due after one year:				
Between one and five years	35,332	33,506	10,283	9,686
Later than five years	15,356	20,752	15,354	17,770
Sub-Total	50,688	54,258	25,637	27,456
Total	56,979	59,904	27,455	29,169

Central Government

At 31 March 2018 there was one material finance lease in existence in respect of the Energy from Waste Plant in Braddan, which was the subject of a sale and lease back agreement in 2004. During the year to 31 March 2018 the annual rental of £3.4 million (2016/17: £3.4 million) was charged to the Income and Expenditure Account of the Department of Infrastructure. That amount is payable until the final payment which is due on 28 September 2028.

The finance liability represents the present value of expected future capacity payments discounted at an interest rate of 6.2% per annum. This amount has been included in fixed assets and is depreciated over 20 years.

Group Accounts

In 2002, the Manx Electricity Authority entered into contractual arrangements to obtain capacity on the natural gas inter-connector between the UK and the Republic of Ireland and to construct a spur pipeline to connect the Isle of Man to the inter-connector. These contractual arrangements were entered into by the Authority in order to bring natural gas to the Isle of Man to supply the Authority and other third party users.

The Isle of Man Pipeline Connection Agreement relates to the use of the spur pipeline linking the Moffat Distribution System and the west coast of the Isle of Man. Under the terms of the agreement, the Manx Utilities Authority pays the operator for the construction costs of the spur pipeline until 30 September 2023.

The finance liability represents the present value of expected future capacity payments discounted at an interest rate of 10.7% per annum (2016/17: 10.6%), initially they were discounted at 5.5%. The effective interest rate has been reassessed based on the value of payments made each year. This amount has been included in tangible assets and is depreciated over 60 years. Operating and maintenance charges also arise under the spur inter-connector Agreement and are charged to the Income and Expenditure account.

The amounts due under this agreement are payable in Euros (€). At 31 March 2018 the Manx Utilities Authority had contracts in place for monthly commitments to purchase Euros at a predefined rate until March 2018. The total nominal amount of these contracts at 31 March 2018 was €13.2 million which equates to a Sterling commitment of £11.7 million (2016/17: €13.2 million, £10.2 million).



7.22.2 Derivatives

FINANCIAL ASSETS				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Forward purchases of currency	-	396	-	-
Forward purchase of natural gas	2,803	2,238	-	-
Total	2,803	2,634	-	-

FINANCIAL LIABILITIES				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Falling due within 1 year				
Forward purchase of natural gas	-	2,261	-	-
Forward purchases of currency	79	-	-	-
Sub-total	79	2,261	-	-
Falling due after 1 year				
Forward purchase of natural gas	-	-	-	-
Forward purchases of currency	-	-	-	-
Sub-total	-	-	-	-
Total	79	2,261	-	-

Derivative financial instruments – Forward Purchase Contracts

- The Manx Utilities Authority has entered into a number of contracts to purchase gas at a pre-determined price for delivery between April 2016 and March 2019, in order to hedge against gas price volatility. At the Balance Sheet date the amount of these commitments was £32.7 million (2016/17: £25.1 million).
- The contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key inputs used in valuing the derivatives are the forward market price at the balance sheet date and the quantity of gas purchased. The fair value of the forward natural gas purchase contracts is an asset of £2.8 million (2016/17: £nil), being the market value of the contracts of £35.5 million (2016/17: £25.1 million) less the contractual commitments of £32.7 million.
- Additionally, the Manx Utilities Authority enters into forward contracts to purchase Euros in order to protect against foreign currency exchange volatility on charges paid in respect of the Gas Interconnector and the Spur Pipeline, which are invoiced in Euros. At the Balance Sheet date Manx Utilities had contracts in place for monthly commitments to purchase Euros at a pre-defined rate until March 2018. The nominal amount of these contracts at 31 March 2018 was €13.2 million which equates to a Sterling commitment of £11.7 million.
- The forward currency contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key inputs used in valuing the derivatives are the forward exchange rates for Sterling to Euros. The fair value of the forward foreign currency contracts is an asset of £0.3 million (2016/17: 0.4 million), being the market value of the contracts of £11.6 million (2016/17: £11.3 million) less the contractual commitments of £11.7 million (2016/17: 10.2 million).



7.23 Movements on Reserves

7.23.1 Net General Revenue Account

The movement on the General Revenue Account is shown in the Statement of Total Movement on the General Revenue Account Balance (Section 6.4).

7.23.2 General Revenue Adjustments Account

GENERAL REVENUE ADJUSTMENTS ACCOUNT				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Balance brought forward	(1,290,208)	(395,014)	(1,292,151)	(396,948)
Fixed assets adjustments	(145,181)	(60,767)	(145,181)	(60,767)
Pensions adjustments	100,000	(832,000)	100,000	(832,000)
Other	(1,944)	(2,427)	(1,944)	(2,436)
Total	(1,337,333)	(1,290,208)	(1,339,276)	(1,292,151)

Adjustments which are required to comply with current applicable Accounting Standards and are applied to the Income and Expenditure Account but which are not included in the Government's budget are applied to the General Revenue Adjustments Account and not the Net General Revenue Account.

7.23.3 External Funds and Reserves

The Government has eight externally managed funds and reserves. These are reserves where the invested assets relating to each reserve are managed by external investment managers.

Details of balances and movements on externally managed funds and reserves are provided in Note 7.14.5.



7.23.4 Internal Funds – Central Government

INTERNAL FUNDS - CENTRAL GOVERNMENT						
Internal Revenue Fund or Reserve	Balances brought Forward 31 Mar 17 £000	Income			Expenditure	Balances Carried Forward 31 Mar 18 £000
		Transfers to/from Operating Account £000	Contributions Seizures & other £000	Investment Income £000	Transfers to Internal Accounts £000	
Academic Business Planning Fund	450	-	902	8	393	967
Agriculture and Forestry Fund	2,338	-	-	26	-	2,364
Brexit Fund	-	1,000	-	6	-	1,006
Contingency Fund	5,194	3,000	26	64	-	8,284
Digital Strategy Fund	7,452	2,000	12	82	2,408	7,138
Economic Development Fund	9,298	-	527	173	-	9,998
Government Marketing Initiatives Fund	4,846	-	-	52	494	4,404
Healthcare Transformation Fund	3,814	-	2,585	85	1,430	5,054
Housing Reserve Fund	8,021	1,500	2,602	49	3,489	8,683
Invest to Save Fund	3,949	1,000	-	40	1,832	3,157
Land & Property Acquisition Reserve	1,699	2,000	-	30	475	3,254
Legal Costs Reserve	1,359	1,000	-	15	1,005	1,369
Medical Indemnity Fund	3,441	1,000	-	40	839	3,642
Seized Assets Fund	2,479	-	339	34	1,382	1,470
Town & Village Centre Regen. Fund	1,614	150	-	13	1,019	758
Total	55,954	12,650	6,993	717	14,766	61,548

The internally managed funds are funds allocated from General Revenue to provide funding for a specific purpose. The assets invested for each fund comprise cash deposits based with local banks and are not separately identifiable from other General Revenue cash deposits.

Details of each fund, including a brief description of the purpose of each fund, can be found in Section 9 of the Detailed Government Accounts. There are some slight rounding differences in the table above compared to the Detailed Government Accounts.



7.23.5 Internal Funds – Group Accounts

INTERNAL FUNDS - GROUP					
	Balances brought Forward 31 Mar 17 £000	Income		Expenditure	Balances Carried Forward 31 Mar 18 £000
		Contributions Seizures & Other £000	Realised Income £000	Internal Transfers and Other Expenses £000	
Treasury funds					
Internally managed funds	55,954	19,641	717	(14,766)	61,546
Other funds					
<u>Isle of Man Post Office</u>					
Reserves	6,311	-	-	8,452	14,763
<u>Manx Utilities Authority</u>					
Reserves	(56,269)	-	-	80,521	24,252
<u>Owned Companies</u>					
Reserves	721	(45)	-	(1)	675
Total	6,717	19,596	717	74,206	101,236



7.24 Pensions

7.24.1 Overview

The Isle of Man Government operates a number of pensions for staff employed under a variety of pay agreements. These schemes apply to personnel in the various Departments, Boards and Offices within the scope of the Central Government Accounts. The schemes are managed and administered by the Public Sector Pensions Authority, a statutory board of Government. The transactions and balances in respect of these schemes are included within the Central Government figures below.

Whilst the Treasury has established a reserve fund to address the emerging pension liability, these schemes are accounted for as unfunded schemes as the Public Service Employees' Pension Reserve is not exclusively used to meet pension scheme liabilities and its assets are not allocated to specific schemes.

The schemes operated by Central Government comprise the following:

- Government Unified Scheme
- *Judicial Pension Scheme 1992 (closed scheme)*
- Judicial Pension Scheme 2004
- *Police Pension Regulations 1991 (closed scheme)*
- Police Pension Regulations 2010
- *Superannuation Manual Workers (No 1) Pension Scheme 1973 (closed scheme)*
- Teachers Superannuation Order 2007

The Isle of Man Post Office operates a separate defined benefit scheme, the transactions and balances of which are included in the Group figures below. The scheme is a funded scheme, contributions to which are determined by a firm of independent actuaries employed by the Trustees.

The scheme operated by the Isle of Man Post Office is as follows:

- The Isle of Man Post Office Superannuation Scheme

7.24.2 Assumptions used

The financial assumptions used to calculate scheme liabilities under FRS 102 Section 28 are as follows:

PENSION ASSUMPTIONS USED				
	Group		Central Government	
	2017-18	2016-17	2017-18	2016-17
Discount rate	2.70%	2.60%	2.70%	2.60%
Salary increase rate	4.31%	4.34%	4.40%	4.40%
Rate of revaluation in deferment	2.20%	2.30%	n/a	n/a
Pension increase rate	2.38%	2.39%	2.40%	2.40%
Expected return on scheme assets	2.65%	2.55%	n/a	n/a
Price inflation rate - Consumer Price Index (CPI)	2.39%	2.40%	2.40%	2.40%

Assumptions regarding life expectancy of members are based on published statistics and mortality tables.

The expected return on scheme assets is determined as the best estimate of returns expected over the period from dividends, interest and capital gains, taking into account the expected returns for individual asset categories.

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions determined by the Accounting Standard which, due to the timescale covered, may not necessarily be borne out in practice.



7.24.3 Amounts recognised in the Balance Sheet

PENSION AMOUNTS RECOGNISED IN THE BALANCE SHEET				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Equities	49,417	49,084	-	-
Property	14,693	13,173	-	-
Bonds	15,805	15,710	-	-
Other	6,762	4,468	-	-
Fair value of scheme assets	86,677	82,435	-	-
Present value of liabilities	(3,812,693)	(3,918,624)	(3,723,000)	(3,823,000)
Net pension liability	(3,726,016)	(3,836,189)	(3,723,000)	(3,823,000)

The fair value of the schemes' assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the schemes' liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were as follows:

7.24.4 Reconciliation of scheme liabilities

RECONCILIATION OF SCHEME LIABILITIES				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
At beginning of period	3,918,624	3,064,726	3,823,000	2,991,000
Benefits paid	(96,221)	(90,610)	(94,000)	(88,000)
Employee contributions	20,487	19,472	20,000	19,000
Current service cost	97,351	74,505	95,000	73,000
Interest Cost	104,412	107,574	102,000	105,000
- Actuarial (gains)/losses	(231,960)	742,957	(223,000)	723,000
At end of period	3,812,693	3,918,624	3,723,000	3,823,000

7.24.5 Changes in the fair value of scheme assets

CHANGES IN THE FAIR VALUE OF SCHEME ASSETS				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
At beginning of period	82,435	69,550	-	-
Benefits paid	(2,221)	(2,610)	-	-
Employee contributions	487	472	-	-
Expected return on assets	2,092	2,448	-	-
Sponsor contributions	955	926	-	-
Actuarial (losses)/gains	2,929	11,649	-	-
At end of period	86,677	82,435	-	-



7.24.6 Amounts recognised in the Income and Expenditure Account

AMOUNTS RECOGNISED IN THE INCOME AND EXPENDITURE ACCOUNT				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Current service cost	97,351	74,505	95,000	73,000
Interest on scheme liabilities	104,412	107,574	102,000	105,000
Expected return on scheme assets	(2,092)	(2,448)	-	-
Total expense	199,671	179,631	197,000	178,000
Actual return on scheme assets	5,021	14,097	-	-

7.24.7 Return on plan assets

RETURN ON PLAN ASSETS				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Actual Return on Plan Assets	5,021	14,097	-	-
Actual Return on Plan Assets	5,021	14,097	-	-

7.24.8 Amounts recognised in the Statement of Comprehensive Income

AMOUNTS RECOGNISED IN THE STATEMENT OF COMPREHENSIVE INCOME				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Actual return less expected return on scheme assets	2,929	11,649	-	-
Experience gains and losses arising on scheme liabilities	(31,655)	25,804	(32,000)	26,000
Change in assumptions underlying present value of scheme liabilities	263,615	(768,761)	255,000	(749,000)
Net actuarial (losses)/gains recognised in the period	234,889	(731,308)	223,000	(723,000)

7.24.9 Reconciliation of Movement on the General Revenue Account Balance

RECONCILIATION FOR MOVEMENT ON GENERAL REVENUE ACCOUNT BALANCE				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Amount recognised in the I&E Account	197,000	178,000	197,000	178,000
Add Back:				
Employee Contributions	20,000	19,000	20,000	19,000
Benefits Paid	(94,000)	(88,000)	(94,000)	(88,000)
Total	123,000	109,000	123,000	109,000

Note – IOM Post Office movements do not impact the General Revenue Account.



7.24.10 Cumulative net actuarial gains and losses recognised in the Statement of Comprehensive Income

CUMULATIVE NET ACTUARIAL (GAINS)/LOSSES RECOGNISED IN THE STATEMENT OF COMPREHENSIVE INCOME				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
At beginning of period	1,701,627	970,319	1,689,000	966,000
Actuarial (gain)/loss on pension scheme	(234,889)	731,308	(223,000)	723,000
At end of period	1,466,738	1,701,627	1,466,000	1,689,000

Cumulative net actuarial (gains)/losses for Central Government have been determined as the amounts recognised in the Statement of Comprehensive Income since the period ended 31 March 2010. Cumulative net actuarial (gains)/losses for other Group entities have been determined as the amounts recognised in the Statement of Comprehensive Income since the period ended 31 March 2004.

The £223 million net actuarial gain for Central Government for 2017-18 includes a £148 million gain for changes in longevity assumptions and a £75 million gain for changes in financial assumptions underlying the present value of scheme liabilities. This compares to 2016/17 which saw a £749 million loss for changes in financial assumptions underlying the present value of scheme liabilities and an 'Other experience' gain of £26 million.

7.24.11 Historical Information

HISTORICAL INFORMATION					
	Group				
	2018 £000	2017 £000	2016 £000	2015 £000	2014 £000
Present value of scheme Liabilities	(3,812,693)	(3,918,624)	(3,064,726)	(3,085,585)	(2,384,127)
Fair value of scheme assets	86,677	82,435	69,550	71,340	64,186
Net scheme deficit	(3,726,016)	(3,836,189)	(2,995,176)	(3,014,245)	(2,319,941)
Experience adjustments on scheme liabilities	31,655	(25,804)	(23,433)	191,367	(174,104)
Experience adjustments on scheme assets	2,929	11,649	(2,984)	5,270	(1,157)
	Central Government				
	2018 £000	2017 £000	2016 £000	2015 £000	2014 £000
Present value of scheme Liabilities	(3,723,000)	(3,823,000)	(2,991,000)	(3,009,000)	(2,318,000)
Fair value of scheme assets	-	-	-	-	-
Net scheme deficit	(3,723,000)	(3,823,000)	(2,991,000)	(3,009,000)	(2,318,000)
Experience adjustments on scheme liabilities	32,000	(26,000)	(23,000)	194,000	(175,000)
Experience adjustments on scheme assets	-	-	-	-	-



7.25 Contingent Assets

As at 31 March 2018, grants totalling £17.5 million had been issued under House Purchase Assistance Schemes currently operated by the Department of Infrastructure (unchanged from 2016/17 as grants are no longer issued). These grants depreciate by 20% of the original value at 5 year intervals, and outstanding grants are repayable on disposal of the property. Total currently outstanding (i.e. less depreciation and repayment) is £6.7 million (2016/17: £7.9 million).

At the same date, loans totalling £24.8 million (including accrued interest) (2016/17: £23.9 million) had also been issued under House Purchase Assistance Schemes (since 1999) to date. The current loan balance outstanding is £17.5 million (2016/17: £17.8 million).

7.26 Contingent Liabilities

CONTINGENT LIABILITIES					
	Note	Group		Central Government	
		2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Local Authority Borrowing	i	215,053	214,116	215,053	214,116
Medical Indemnity Fund	ii	8,961	9,503	8,961	9,503
Insurance		4,500	4,211	4,500	4,211
Meat Plant	iii	1,000	300	1,000	300
Economic Development Fund	iv	410	410	410	410
Student Loans	v	130	161	130	161
Bord Gais Energy limited	vi	25,000	25,000	-	-
Total		255,054	253,701	230,054	228,701

This statement records Government's identified potential liabilities and specific guarantees. No provision for threatened or pending legal actions outstanding has been made in these Accounts as the likelihood of these actions giving rise to material liabilities is considered remote.

Specific guarantees or potential liabilities at 31 March 2018 totalled £255.1 million (2016/17: £253.7 million), as set out below:

- i. Local Authority Borrowing relates to Letters of Comfort issued by Treasury to Bankers in relation to authorised Local Authority borrowing to a value of £275.0 million at 31 March 2018 (2016/17: £275.0 million).
- ii. The Medical Indemnity Fund and Insurance amounts relate to notified insurance claims. The amounts represent the maximum anticipated liability for these incidents, although it is still to be determined if Government has a liability in each case. The amount payable will depend on the final agreement of the liability for each claim with the claimant and the claims will be paid, if required, following this agreement.
- iii. The Meat Plant amount relates to guarantees to farmers in respect of stock submitted for slaughter within 21 days of closure.
- iv. The Economic Development Fund amounts relate to guarantees issued from that Fund.
- v. The Department of Education, Sport and Culture and the Treasury have signed an agreement with the Isle of Man Bank Limited to indemnify the bank for losses in respect of student loans issued by the bank. The maximum amount guaranteed under this facility is £10.0 million (2016/17: £10.0 million).
- vi. During 2016/2017 Treasury provided a guarantee in support of the Manx Utility Authority's "Route to Market" trading framework agreement with Bord Gais Energy limited, to the maximum value of £25 million. The guarantee provides security of supply to the Island's natural gas pipeline, and reduces gas price risk for the Authority.
- vii. Additionally, Isle of Man Government has given an undertaking to financially support the Manx Utilities Authority.



7.27 Post Balance Sheet Events

On the 23rd May 2018, The Isle of Man Government acquired 100% of the shareholding in MIOM Ltd, the parent company of the Isle of Man Steam Packet Company Ltd, for £48.2 million. A loan of £75.9 million was provided on the same date which is repayable at 31 December 2018. Interest is due on the 29th of each month and charged at 2.5% per annum.

7.28 Related Party Transactions

Section 33 of FRS102 requires an entity to disclose within its financial statements material transactions with related parties, that is bodies or individuals, that have the potential to control or influence Government Departments, Boards and Offices, or to be controlled or influenced by the same.

Disclosure of these transactions allows the readers to assess the extent to which the Government might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Government. Due to the nature of Isle of Man Government's business, the main related parties considered are Members of Tynwald Court and senior management of Government.

7.28.1 Group

In accordance with FRS102 Section 33 transactions and balances between the Isle of Man Government, the Manx Utilities Authority, the Isle of Man Post Office and the Government-owned companies are not disclosed in this note.

Details of balances held are disclosed in the Accounts of those bodies, however.

Manx Utilities Authority

Apart from transactions with Isle of Man Government, the other related party transactions were with wholly owned subsidiaries and so have also not been disclosed.

There were no transactions with key management personnel during the year other than in respect of the supply of utility services and contracts of employment on Manx Utilities' standard term and conditions. The total value of compensation to key management is included at note 7.6.

Isle of Man Post Office

The Board of the Isle of Man Post Office considers the main related parties are the Isle of Man Post Office Superannuation Scheme ("the Scheme"), members of the Board and Senior Management of the Isle of Man Post Office.

In respect of the Scheme the Post Office pays pensions and other certain costs on behalf of the Scheme as well as making contributions to the Scheme. These balances are settled by recharges between the scheme and the Post Office during the year.

ISLE OF MAN POST OFFICE SUPERANNUATION SCHEME		
	31 Mar 18	31 Mar 17
	£000	£000
Pensions paid on behalf of the Scheme	1,821	1,813
Net recharges made to the Scheme	426	410
Balance owed by the Scheme	(43)	(175)

The Isle of Man Post Office has an interest in a company and the relevant disclosure can be found in Note 7.15.2.

The total value of compensation to key management is included at Note 7.6.



7.28.2 Related Party Transactions - Central Government

(i) 2017/2018

RELATED PARTY TRANSACTIONS - 2017/18					
Related Party	Company in receipt of payment	Related Party relationship to Company	£ Paid to Company by Govt	Type of payment made to company	Year End balance 31/03/2018
Dr A Allinson, MHK	Ramsey Group Practice	Equity Partner	£1,830,767	GP services - payment is a gross payment to the Practice against which expenses are incurred	-
	Motiv8	Director	£288,640	Provision of services	-
Mr T Baker	IOM Meat Company Ltd (From 9th January 2018)	Director & Chairman	£2,076,258 (Full Year amount)	Payments made against relevant supplier invoices	£6,554
Mrs K J Beecroft, MHK	Manx Home Care Ltd	Director	£103,787	Payments made against relevant supplier invoices	£271
Mr J Clarke, Financial Services Authority Board Member	Capital International Group Limited	Non-Executive Director of Capital International Fund Managers Ltd	£754,661	Payments made against relevant supplier invoices	-
Mr C G Corkish, MLC	IOM Anti-Cancer Association	Director	£4,080	Payments made against relevant supplier invoices	-
Mrs C A Corlett, MHK	Niarbyl Catering	Director	£3,664	Payments made against relevant supplier invoices	-
Mr G Karran, Financial Services Authority Board Member	Standard Bank (IOM) Limited	Non-Executive Director	£4,000	Payments made against relevant supplier invoices	-
Mrs S Lowe, Chief Financial Officer, The Treasury	Small Countries Financial Management	Board Member as part of CFO role	£300,000	Payments made against relevant supplier invoices	-
Dr P McEvoy, Director of Agriculture, DEFA	Manx Wildlife Trust	Director	£120,924	Payments made against relevant supplier invoices	£18,000
	Laxey Glen Mills	Director	£55,209	Payments made against relevant supplier invoices	£10,385
	IOM Meat Company Ltd	Director	£2,076,258	Payments made against relevant supplier invoices	£6,554
Mr G R Peake, MHK	Professional Lighting Design Ltd	Director	£2,400	Payments made against relevant supplier invoices	-

2017/18 related party note continues on next page.



7.28.2 Related Party Transactions - Central Government (Continued)

RELATED PARTY TRANSACTIONS - 2017/18 (Continued)					
Related Party	Company in receipt of payment	Related Party relationship to Company	£ Paid to Company by Govt	Type of payment made to company	Year End balance 31/03/2018
Mr J L M Quinn, Attorney General & his Son	The Sefton Group	Mr Quinn is a Shareholder/ debtor	£59,359	Payments made against relevant supplier invoices	£2,794
				Government Loan issued, repayable 31/03/2019	£1,300,000
	Quinn Legal Advocates Ltd	Mr Quinn's Son is a Director	£55,239	Advocate Fees and Court Costs Awarded	£1,998
Mr C Randall, Financial Controller, The Treasury	Laxey Glen Mills	Shareholder as part of FC role	£55,209	Payments made against relevant supplier invoices	£10,385
Mr S C Rodan, MLC	Laxey Chemist Ltd	Director	£527,889	Payments made against relevant supplier invoices and reimbursement of pharmaceutical costs. This is the gross amount and covers the reimbursement of items dispensed under NHS prescriptions and related services. The pharmacy also has to cover expenses out of the amount received.	£700
Mr L D Skelly, MHK Mrs Skelly	Manx Inspirations	Director	£14,443	Payments made against relevant supplier invoices	-
Mr A Smith, Financial Services Authority Board Member	Capital International Group Limited	Director	£754,661	Payments made against relevant supplier invoices	-
Mr E Southworth, Director, MNH	Age Concern	Close family member - CEO	£3,062	Payments made against relevant supplier invoices	-
Mr W Wannenburg, Solicitor General	FTR Transcripts	Wife - Transcriber	£1,466	Payments made against relevant supplier invoices at the Attorney General's Chambers only	-
Mr J P Watterson, MHK	Southern Befrienders Ltd	Treasurer/ Director	£10,000	Payments made against relevant supplier invoices	-

Notes

- i. On 12 March 2018 there was an election in which a number of Members of Legislative Council changed. The amounts above therefore only relate to the period during which the Member served.
- ii. Members of Tynwald are required to register certain interests in the Register of Members' Interests, a copy of which can be inspected at the Tynwald Library.
- iii. Details of the remuneration paid to Members of Tynwald Court is published by the Clerk of Tynwald's Office and can be accessed via the Tynwald website at <http://www.tynwald.org.im/memoff/remall/Pages/default.aspx>.
- iv. Ministers of Departments are considered to be 'key management' so the compensation paid to Ministers during the year has been included within the note 7.6.
- v. The Government has interests in companies and the relevant disclosures can be found in Note 7.15.



(ii) Related Parties - 2016/2017

RELATED PARTY TRANSACTIONS - 2016/17					
Related Party	Company in receipt of payment	Related Party relationship to Company	Amount Paid to Company by Govt	Type of payment made to company	Year End balance 31/03/2017
Dr A Allinson, MHK from September 2016	Ramsey Group Practice	Equity Partner	£1,067,545	GP services - payment is a gross payment to the Practice against which expenses are incurred	£198
	Motiv8	Director	£141,880	Provision of services	-
Mr D M Anderson MLC	Anderson Farms Ltd	Owner/ Director	£18,679	Consisting of Agricultural Development Scheme grant, and other relevant payments	-
Mr T S Baker, MHK from September 2016 and Mrs Baker	Buffalo Bowling & Leisure Ltd	Director	£2,998	Payments made against relevant supplier invoices	-
Mrs K J Beecroft MHK	Manx Home Care Ltd	Director	£127,077	Payments made against relevant supplier invoices	-
Mrs C Christian, President of Tynwald until July 2016	Ballafayle Farm Ltd	Owner	£729	Consisting of Agricultural Development Scheme Grant	-
Mr C G Corkish MLC	Douglas Buxton Music Trust	Chairman / Director	£1,522	Payments made against relevant supplier invoices	-
	IOM/Anti-Cancer Association	Director	£4,407	Payments made against relevant supplier invoices	-
Mrs C A Corlett, MHK from September 2016	Niarbyl Catering	Director	£1,764	Payments made against relevant supplier invoices	-
Mr J Clarke, Financial Services Authority Board Member	Capital International Fund Managers Limited	Non-Executive Director	£641,081	Payments made against relevant supplier invoices	-
Mr G D Cregeen MHK	IOM Gymnastics Association	Chairman / Director	£2,450	Payments made against relevant supplier invoices	£2,820
Mr P A Gawne, MHK until September 2016	Mooijer Veggey	Chairman / Director	£8,313	Payments made against relevant supplier invoices	-
Mrs S Lowe, Chief Financial Officer, The Treasury	Small Countries Financial Management	Board Member as part of CFO role	£307,218	Payments made against relevant supplier invoices	-
Mr P McEvoy, Director of Agriculture, DEFA	Manx Wildlife Trust	Director	£109,452	Payments made against relevant supplier invoices	-
Mr G R Peake MHK	Professional Lighting Design Ltd	Director	£11,850	Payments made against relevant supplier invoices	-
	Peake Enterprises Ltd	Director until January 2017	£5,532	Payments made against relevant supplier invoices	-
Mr M J Perkins, MHK from September 2016	Manx Engineers Ltd	Director until 30/01/2017	£31,190	Payments made against relevant supplier invoices	-

2016/17 related party note continues on next page.



7.28.2 Related Party Transactions - Central Government (Continued)

RELATED PARTY TRANSACTIONS - 2016/17 (Continued)					
Related Party	Company in receipt of payment	Related Party relationship to Company	Amount Paid to Company by Govt	Type of payment made to company	Year End balance 31/03/2017
Mr R H Quayle MHK	Ballavitchel Estates Ltd	Owner/ Director	£6,521	Payments of Agricultural Development Scheme	-
Mr J L M Quinn Attorney General & his Son	The Sefton Group	Mr Quinn is a Shareholder/ debtor	£74,926	Payments made against relevant supplier invoices	£1,526
				Government Loan issued, repayable 31/03/2018	£1,300,000
	Kilkenny Farms Ltd	Owner	£1,054	Payments of Agricultural Development Scheme	-
	Quinn Legal Advocates Ltd	Mr Quinn's son is a Director	£91,901	Advocate Fees	-
Mr S C Rodan MLC	Laxey Chemist Ltd	Director	£547,050	Payments made against relevant supplier invoices and reimbursement of pharmaceutical costs. This is the gross amount and covers the reimbursement of items dispensed under NHS prescriptions and related services. The pharmacy also has to cover expenses out of the amount received.	£561
Mr L D Skelly MHK Mrs Skelly	Manx Inspirations	Director	£18,306	Payments made against relevant supplier invoices	£844
Mr J P Watterson MHK	Southern Befrienders Ltd	Treasurer/ Director	£10,000	Payments made against relevant supplier invoices	-
	Rushen Heritage Trust	Director	£2,675	Payments made against relevant supplier invoices	-

Notes

- i. On 22nd September 2016 there was a general election in which a number of Members of Tynwald changed. The amounts above therefore only relate to the period during which the Member served.
- ii. The 2016/17 note has been updated to reflect payments made under NHS contracts to the Ramsey Group Practice and Laxey Chemist. These payments are not made via the Government's Purchase Ledger system.
- iii. Additionally the 2016/17 note has been updated to include Mr Quinn's son who is a director at Quinn Legal Advocates Ltd.



7.29 Reconciliation of Net Cash Flow from Operating Activities

RECONCILIATION OF NET CASH FLOW FROM OPERATING ACTIVITIES				
	Group		Central Government	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Surplus/(Deficit) Before Interest	(11,895)	19,030	(16,023)	1,059
- Net transfer to reserves	(145,279)	(93,071)	(39,492)	(81,146)
Operating (Deficit)	(157,174)	(74,041)	(55,515)	(80,087)
Depreciation and amortisation charges	117,868	118,174	95,910	95,609
Loss(Gain) on Revaluation	217	153	-	-
Deferred income release	(507)	(507)	-	-
Movement on bond Issue Costs	2,075	-	-	-
Net transfer (to)/from external reserves	43,755	(10,390)	(61,174)	(23,847)
Loss/(gain) on disposal and impairment of fixed assets	11,370	(386)	(600)	(654)
Unrealised gain/(loss) on forward purchase contracts	2,436	7,374	-	-
Unrealised (loss)/gain on currency revaluation	7,024	(4,727)	-	-
Defined benefit scheme - current service cost in excess of contributions	22,395	4,579	20,999	4,000
Movements in working capital:				-
- (Increase)/decrease in stocks	1,183	(1,681)	908	(1,359)
- (Increase)/decrease in debtors	7,831	6,795	3,310	7,502
- Increase/(decrease) in creditors	12,399	9,389	16,001	9,050
Net cash inflow/(outflow) from operating activities	70,872	54,732	19,839	10,214



8 Reconciliation of Expenditure of Departments and Other Bodies

8.1 Overview

Detailed information in respect of Central Government income and expenditure is reported in the Detailed Government Accounts (GD 2018/0038).

The Detailed Government Accounts are prepared on the same basis as the Government Budget for the year, which is intended to present income and expenditure figures which are consistent year on year and represent an accurate presentation of the costs of the major services provided by Government through funds voted by Tynwald.

As the annual Audited Accounts are required to be prepared in accordance with the Audit Act 2006, which requires United Kingdom Accounting Standards to be applied, differences between income and expenditure figures reported in the Detailed Government Accounts and the annual Audited Accounts arise as a result.

The approved budget comprises amounts authorised by Tynwald at the time the original budget was presented for approval together with any subsequent approvals authorised by Tynwald or Treasury up to the date when the Detailed Government Accounts were prepared. Any subsequent approvals or transfers (virements) are not included.

8.2 Reconciliation of Department Expenditure

The following tables show net expenditure by Department for 2017/18 and 2016/17 as reported in the Detailed Government Accounts and the adjustments applied to re-state the net expenditure figures to the required United Kingdom Accounting Standards basis.

Fixed assets adjustments relate to the capitalisation of expenditure, application of depreciation and elimination of loan charges.

Pension adjustments apply the current service cost for the year apportioned to Departments based on actual salary costs and eliminate the cost of pensions paid.

Other adjustments include the reversal of lease costs paid by the Department of Infrastructure in respect of the Energy from Waste plant (the financing cost is included within Interest Payable and Similar Charges), the movement on House Purchase Assistance Schemes' balances for the Department of Infrastructure and the movement on the value of the strategic oil reserve (which is excluded from the Detailed Government Accounts).



8.2 - Reconciliation of Department Expenditure (Continued)

RECONCILIATION OF NET DEPARTMENT EXPENDITURE					
	2017-18				
	As Reported £000	Fixed Assets Adjustments £000	Pension Adjustments £000	Other £000	As Adjusted £000
Government Departments					
Cabinet Office	30,012	232	4,688	20	34,952
Enterprise	3,363	(1,063)	2,866	(25)	5,141
Education, Sport & Culture	96,614	12,512	21,026	4	130,156
Environment, Food & Agriculture	15,712	288	2,251	2	18,253
Health & Social Care	219,178	4,295	35,736	-	259,209
Home Affairs	33,365	699	7,051	157	41,272
Infrastructure	58,738	49,244	11,232	(3,426)	115,788
Treasury	314,363	(609)	3,962	23,059	340,775
	771,345	65,598	88,812	19,791	945,546
Other bodies					
Executive Government	9,175	3	(71,511)	16	(62,317)
Manx Museum and National Trust	4,403	(498)	880	(12)	4,773
Stat. Boards (Revenue Funded)	(1,325)	11	1,949	(6)	629
	12,253	(484)	(68,682)	(2)	(56,915)
Expenses of the Legislature	4,506	(340)	869	1	5,036
Total Voted Expenditure	788,104	64,774	20,999	19,790	893,667

RECONCILIATION OF NET DEPARTMENT EXPENDITURE					
	2016-17				
	As Reported £000	Fixed Assets Adjustments £000	Pension Adjustments £000	Other £000	As Adjusted £000
Government Departments					
Cabinet Office	30,385	318	3,362	(20)	34,045
Enterprise	2,646	495	2,428	65	5,634
Education, Sport & Culture	95,418	9,481	16,650	29	121,578
Environment, Food & Agriculture	14,783	276	1,496	16	16,571
Health & Social Care	209,583	3,795	26,014	1,993	241,385
Home Affairs	31,528	1,872	6,942	349	40,691
Infrastructure	53,529	61,084	8,213	(2,878)	119,948
Treasury	309,808	(163)	3,067	8,681	321,393
	747,680	77,158	68,172	8,235	901,245
Other bodies					
Executive Government	9,029	1	(67,010)	21	(57,959)
Manx Museum and National Trust	4,285	(39)	642	(4)	4,884
Road Transport Licensing Comm.	85	-	20	-	105
Stat. Boards (Revenue Funded)	(409)	8	1,546	(16)	1,129
	12,990	(30)	(64,802)	1	(51,841)
Expenses of the Legislature	4,448	(340)	630	1	4,739
Total Voted Expenditure	765,118	76,788	4,000	8,237	854,143



8.2 - Reconciliation of Department Expenditure (Continued)

DEPARTMENT NET EXPENDITURE - VARIANCE TO PRIOR YEAR					
	Variance to Prior Year				
	As Reported £000	Fixed Assets Adjustments £000	Pension Adjustments £000	Other £000	As Adjusted £000
Government Departments					
Cabinet Office	373	86	(1,326)	(40)	(907)
Enterprise	(717)	1,558	(438)	90	493
Education, Sport & Culture	(1,196)	(3,031)	(4,376)	25	(8,578)
Environment, Food & Agriculture	(929)	(12)	(755)	14	(1,682)
Health & Social Care	(9,595)	(500)	(9,722)	1,993	(17,824)
Home Affairs	(1,837)	1,173	(109)	192	(581)
Infrastructure	(5,209)	11,840	(3,019)	548	4,160
Treasury	(4,555)	446	(895)	(14,378)	(19,382)
	(23,665)	11,560	(20,640)	(11,556)	(44,301)
Other bodies					
Executive Government	(146)	(2)	4,501	5	4,358
Manx Museum and National Trust	(118)	459	(238)	8	111
Road Transport Licensing Comm.	85	-	20	-	105
Stat. Boards (Revenue Funded)	916	(3)	(403)	(10)	500
	737	454	3,880	3	5,074
Expenses of the Legislature	(58)	-	(239)	-	(297)
Total Voted Expenditure	(22,986)	12,014	(16,999)	(11,553)	(39,524)

The above table is the variance in expenditure between 2017/18 and the prior year, 2016/17.

In 2016/17 a net zero was budgeted for pensions expenditure in the Public Sector Pensions Authority (PSPA, part of Executive Government), as Government Departments contributed an additional £22.4 million towards the cost.

This additional contribution to pension costs manifests itself as additional spending in Departments. A full breakdown of Departmental pension contributions can be seen in section 5 of the Detailed Government Accounts.

The “Other” adjustments include a movement on the employee holiday accrual, which has increased following pay awards.



9 Consolidated Loans Fund

9.1 Overview

Detailed information in respect of Central Government capital income and expenditure is reported in the Detailed Government Accounts (GD 2018/0038). The Consolidated Loans Fund provides funding to Departments and other bodies where expenditure will be incurred over a number of years. Its operation is governed by the Isle of Man Loans Act 1974 and it provides a mechanism for allocating funding and funding costs to Departments.

The funding for the Consolidated Loans Fund is currently provided by the Capital Fund (an internal fund) and Fixed Rate Bonds issued by Treasury on behalf of the Manx Utilities Authority. Most of the transactions of the Consolidated Loans Fund are between the Treasury and other Government Departments and other bodies and are therefore eliminated on consolidation. The following section summarises information provided within the Detailed Government Accounts and is prior to consolidation adjustments.

9.2 Consolidated Loans Fund Balance Sheet

CONSOLIDATED LOANS FUND BALANCE SHEET		
	Central Government	
		Restated
	2017-18 £000	2016-17 £000
Assets		
Advances to Borrowing Accounts:-		
Fixed Assets - Central Government	1,599,697	1,458,768
Loans to Statutory Boards	440,634	537,968
Long Term Loans	3,101	3,541
Cash at Bank	58,753	34,422
Total	2,102,185	2,034,699
Liabilities		
Loans Outstanding:-		
Bond Issues	262,075	260,000
Capital Fund	797,933	880,054
Capital Discharged	1,042,177	894,645
Total	2,102,185	2,034,699

Notes:

- i. Fixed Assets represent gross expenditure on assets purchased from Capital Financing. Long Term Loans are shown net of repayments.
- ii. Capital expenditure in 2017/18 totalled £41.5 million (2016/17: £66.1 million).
- iii. The Bond issues referred to above were made by the Treasury on behalf of the Manx Utilities Authority. These amounts relate to amounts raised by Treasury through a Bond Issue, the proceeds of which were then loaned to the Manx Utilities Authority through the Consolidated Loans Fund.
- iv. Apart from the earmarked Bond issues, all of Government Departments' current capital financing requirements is met from internal resources, and all other external debt has been repaid. The sources of funding for Government's on-going capital programme were the interest on the Capital Fund, Departmental principal repayments, Capital Receipts and contributions from the Housing Reserve Fund and the Land and Property Acquisition Reserve.



9.2 Consolidated Loans Fund Balance Sheet Notes (Continued)

- v. Capital Discharged represents the accumulated payments that have been made out of revenue to pay for capital expenditure, as follows:
- vi. Net interest of £12.6 million (2016/17: £12.5 million) was paid to the Capital Fund from Departments during the year, as the interest rate was set at 1.50% (2016/17: 1.50%).

RECONCILIATION OF CAPITAL DISCHARGED		
	Central Government	
		Restated
	2017-18	2016-17
	£000	£000
Advances to Borrowing Accounts:-		
Fixed Assets	2,040,331	1,996,736
Long Term Loans	3,101	3,541
Capital Discharged	(1,042,177)	(894,645)
Net Advances Outstanding	1,001,255	1,105,632

9.3 Consolidated Loans Fund Interest Transactions

CONSOLIDATED LOANS FUND INTEREST TRANSACTIONS		
	Central Government	
		Restated
	2017-18	2016-17
	£000	£000
Income		
Investment Interest	262	201
Bond Interest recharged to MUA (ex WASA)	4,219	4,219
Bond Interest recharged to MUA (ex MEA)	10,144	9,944
Balance received from Departments	12,617	12,479
Total income	27,242	26,843
Expenditure		
Interest on Bond Issues	14,363	14,163
Interest on Capital Fund	12,879	12,680
Total expenditure	27,242	26,843
Net income/expenditure	-	-

Notes:

- i. The balance on the Interest Transactions Accounts represents net interest charged to Borrowing Accounts in the year ended 31 March 2018 at an average rate of 1.50% (2016/17: 1.50%).
- ii. Interest on the Manx Utilities Authority Bond Issue of £14.3 million was charged in full to the Authority during the year (2016/17: £14.1 million).



9.4 Summary of Capital Advances

SUMMARY OF CAPITAL ADVANCES							
DEPARTMENT	Revised advances outstanding at	Advances		Repayments			Advances outstanding at
		Year	Total to	Advances repaid	Capital receipts etc.	Total Repaid to	
		1 Apr 17 £000	2017-18 £000	31 Mar 18 £000	2017-18 £000	2017-18 £000	
Cabinet Office	84	99	280	72	-	169	111
Enterprise	12,131	66	36,200	1,280	-	25,283	10,917
Education, Sport & Culture	101,129	1,094	190,697	5,636	342	94,452	96,245
Environment, Food & Agriculture	14,368	676	32,213	691	-	17,860	14,353
Health and Social Care	132,565	4,350	221,271	7,240	1,281	92,877	128,394
Home Affairs	56,099	2,143	82,569	2,790	294	27,411	55,158
Infrastructure	229,522	23,582	559,046	14,123	3,964	324,029	235,017
Treasury	6,146	44	110,627	746	-	105,183	5,444
Manx National Heritage	10,204	519	23,828	815	-	13,920	9,908
Expenses of the Legislature	5,416	-	10,257	342	-	5,183	5,074
Sub-Total Central Government	567,664	32,573	1,266,988	33,735	5,881	706,367	560,621
<u>Borrowing Authorities</u>							
Manx Utilities	537,968	8,948	668,819	107,882	475	230,260	438,559
MUA bond issue costs	-	2,075	2,075	-	-	-	2,075
Sub-Total Borrowing Authorities	537,968	11,023	670,894	107,882	475	230,260	440,634
TOTAL CAPITAL ADVANCES	1,105,632	43,596	1,937,882	141,617	6,356	936,627	1,001,255
Less:							
Loan Schemes	3,541	-	3,541	440	-	440	3,101
House Purchase Assistance Schemes	-	-	-	-	-	-	-
Net Central Government	564,123	32,573	1,263,447	33,295	5,881	705,927	557,520

The opening balances by Department are slightly different to the closing balances reported in 2016/17 due to transfers of some schemes between Departments. A reconciliation is provided in the Detailed Government Accounts (section 6.6).

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