

OUR ISLAND, OUR FUTURE

Isle of Man Economic Strategy

10-15 YEARS

Building a secure, vibrant and sustainable
future for our Island: November 2022





Isle of Man
Government

Reillys Ellan Vannin



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01

FOREWORD:

Securing the future of the Isle of Man's economy



Chief Minister
Hon Alfred Cannan,
MHK

The Isle of Man Economic Strategy 2022 – 2032 sets out our vision and ambition for the Isle of Man which surpasses the reach of this administration, and sets the foundations for investment and economic security for the next 10 years and beyond.

We have a once in a generation opportunity for a seismic shift to benefit the future direction of the Isle of Man's economic outlook.

As it stands, our economy is in reasonably fair shape. A lot of our businesses are successful, some sectors are thriving, Government income is steady and many of our residents are enjoying a good quality of life. For a number of years now we have followed this tried and tested path which we could continue, with some wins and some losses to be expected over the next few years.

However, there are a growing number of headwinds coming that are beyond our control which mean we need to think bigger and with the longer term in mind. Global challenges such as digitisation, taxation and increasing demand for skilled workers are highlighting the somewhat precarious nature of our current economic situation.

We are heavily reliant on people, and the wages and income they earn to generate Government income which in turn is reinvested into public services. This is an arrangement which is under threat due to our high dependency ratios in terms of demographic challenges ahead. While we have achieved success in diversifying our economy we are still dependent on a small number of sectors for our GDP and employment. Furthermore, although we have a beautiful Island to call home we do not necessarily have the full scope of infrastructure and facilities to achieve a truly exceptional quality of life.

At the time of this report, there remains a significant number of advertised vacancies across our economy. This is acting as a constraint on

parts of our economy, as well as some areas of the public service and importantly public income to invest further. The need for key skills remains the number one business concern across the whole economy, and whilst the long term strategy seeks to grow the active working population, there is also the real opportunity to address this constraint in a targeted response, to help businesses, and our Island generally by supporting the demand for key vacancies.

So in the face of these challenges, we are choosing to do things differently. We are choosing greater investment in our economic future, we are choosing to put our people at the centre of our economic model, and we are choosing to build a future Isle of Man that people will hold up as an incredible place to live, visit, work and do business.

Our vision is to build a strong and diverse economy, which is sustainable, ambitious and built on firm foundations to provide economic success, rewarding career opportunities and prosperity which positively impacts all residents on the Isle of Man.

Through following the actions and goals set out in this Strategy we will create:

- A leading, sustainable Island
- A highly skilled, highly productive workforce
- Better paid jobs and rewarding career opportunities for all
- A more diverse economy, with growth in established and new sectors
- A modern, business-friendly environment
- Infrastructure and amenities to be proud of
- Healthy Government finances with a broader revenue base
- A larger, younger, more diverse population
- Improved health and wellbeing

To do this we must get our foundations right.

We must ensure our educational system is meeting future skills needs, our health service is delivering high quality services, our tax system is updated, our amenities and leisure facilities are attractive and our housing provision is suitable for all.

This will require a significant amount of investment, across Government reserves, private sector funding, new income streams and

more. It will also require a fundamental change in the way we are working and how we integrate accountability and measurement in our delivery of the Strategy and the various components held across departments.

This updated version of the Economic Strategy has been developed over the summer of 2022 through an extensive, Island-wide consultation process.

The draft Economic Strategy was presented to Tynwald in July 2022, since then the document has been subject to a public consultation, garnering over 440 responses giving detailed feedback on the proposed economic shifts and wider initiatives. This important exercise helped to crystallise the core challenges and opportunities our Island is facing, and gave a real indication of the concerns and support for the future direction of the Isle of Man.

The consultation was also the leading theme at the Island's inaugural Government Conference in September, offering Q&A panels and discussions on key topics across the strategy.

From this feedback it is clear that, overall, respondents agreed that the priorities and strategic themes are important to pursue.

The public agree that our economic strategy needs to make the Island an attractive place to live and work, with diverse and sustainable public finances to support the best quality of life, in order to positively benefit all residents of the Isle of Man.

In addition to the high level themes, there was a great deal of feedback on specific actions and policy points which will be invaluable as we start to plot out the delivery of this ambitious programme.

Whilst inevitably the research leading up to the Economic Strategy, and the document itself looks at many of our challenges, we must also recognise the significant strengths on which to base our way forward, and the opportunities we have to explore. Some of our strengths as covered in Chapter 7 are hugely important to our economic success to date, not least of which 96% of businesses believing the Island offers a safe and secure place to do business. In a world of global uncertainty our stability – economic, political and fiscal is of huge value.

This is the first time we have captured in one place a wide-reaching series of initiatives, backed by a bold strategic direction with a significant amount of investment proposed. This Economic Strategy sets out a roadmap to radically change our approach to population policy and private and public sector investment, through making key economic shifts with clear objectives in mind – **to bring more prosperity for the people of the Isle of Man and to secure our economic future.**

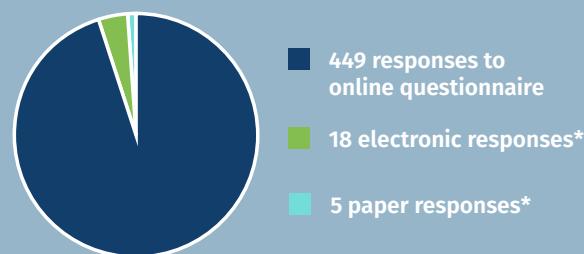
02 CONSULTATION SUMMARY

Throughout August and September 2022, a consultation was run giving the public an opportunity to provide their views on the key themes of the Draft Economic Strategy, as well as a wide-ranging opportunity to put forward their ideas around how these priorities could be effectively delivered.

The Isle of Man Government Conference, held in September, also focussed on the proposals outlined in the draft Economic Strategy, giving members of the public the opportunity to give feedback, ask questions and generate ideas for the Island's future.

An initial review of all responses has been undertaken, looking primarily at the overall themes and respondents' reaction to them. A more detailed review of ideas around the delivery of the Economic Strategy will be considered during the delivery phase of the strategy.

Summary of responses

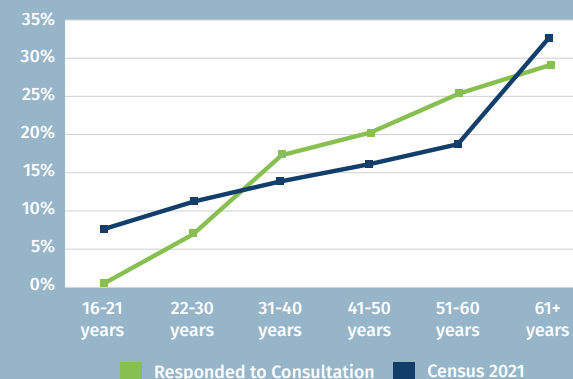


*The majority of these responses were 'freeform' commentary on the content of the draft strategy, rather than responses to the online questionnaire.

Breakdown of respondents



Age groups



Overall sentiment

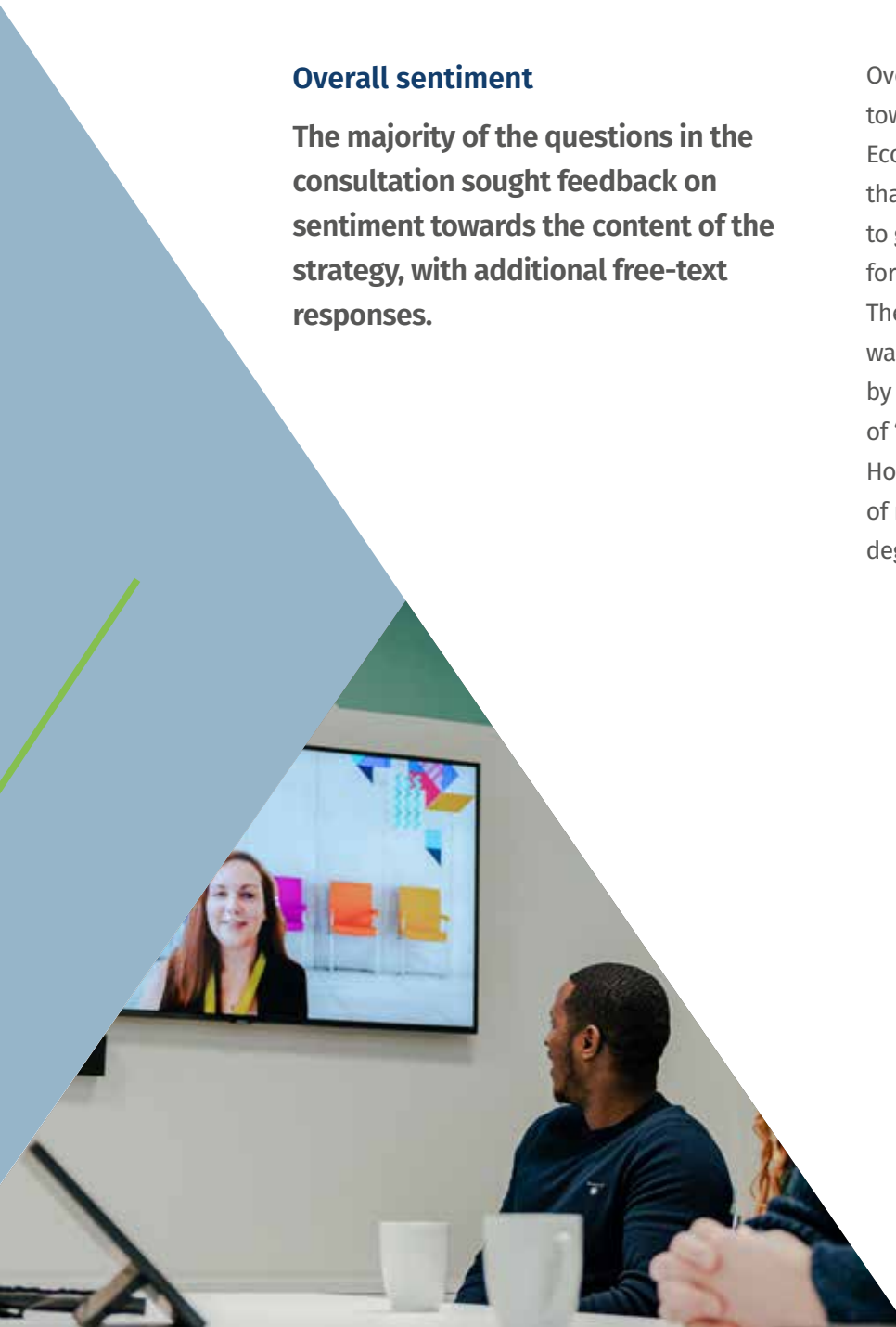
The majority of the questions in the consultation sought feedback on sentiment towards the content of the strategy, with additional free-text responses.

Overall, the sentiment from respondents towards the four key ambitions of the Economic Strategy were positive. The ambition that was ranked most important was the aim to generate additional Government revenue for reinvestment in services and quality of life. The ambition that was ranked least important was to grow the Island’s population to 100,000 by 2037, and which had the largest number of ‘not at all important’ responses (28%). However, it is important to note that over 2/3 of respondents felt it was important to some degree.

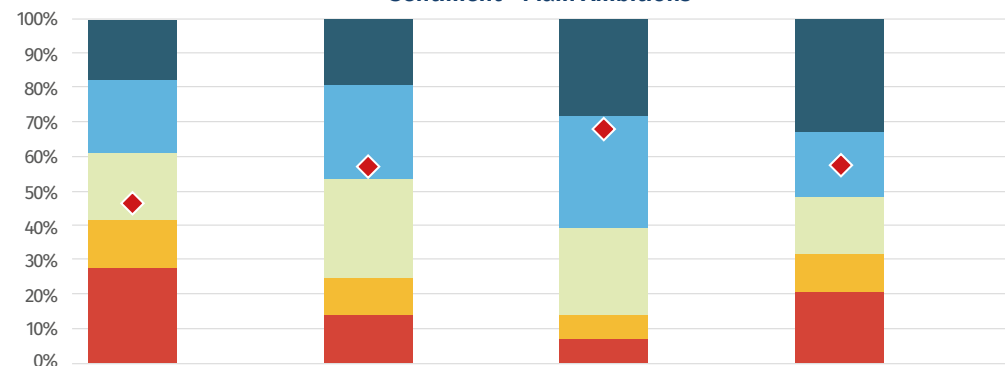
As the overall picture is one of support for the priorities set out in the economic strategy, so the focus in the full analysis was given to areas of particularly strong support (e.g. ‘very’ and ‘extremely important’ as responses) and areas where there is a lower level of support (e.g. ‘slightly’ and ‘not at all important’). There were no questions where ‘not at all important’ made up the majority of responses.

The full Economic Strategy Consultation analysis report can be [read here](https://www.gov.im/economicstrategy):

<https://www.gov.im/economicstrategy>



Sentiment - Main Ambitions



Grow the Island's population to 100,000 residents by 2037, driven by the inward migration and retention of the economically active people and the recruitment of key workers

We should aim to reach to GDP of £10Bn by 2032, across enabling sectors, existing key sectors and new sectors, with 5,000 new jobs created and filled

We should aim by 2032, to generate over £200m of additional annual income to reinvest in services and quality of life

We should aim to substantially decarbonise the services part of our economy by 2030, supporting an overall reduction of 35% in the Island's Green House Gas emissions

■ Not at all important ■ Slightly important ■ Moderately important ■ Very important ■ Extremely important ◆ Weighted Importance

03 KEY CHANGES

Broadly speaking, there was strong support for the vision behind the strategy and what it should look to address, as well as wide support for the headline ambitions of the strategy.

However, there were many comments that expressed concerns around the detail associated with each of the Economic Shifts, which have been addressed in the following key changes made to the strategy:

- At the heart of this Economic Strategy is a focus on the shape of the economy and need to create and fill an additional 5,000 new jobs by 2032. Originally the second ambition, taking on board the feedback from the consultation it is clear that the need to sustain existing economic activity, as well as creating and filling jobs is critically important and hence this has been moved to the forefront of the Economic Strategy.
- In support of this, the ambition around population then follows, however it will now be re-named 'Infrastructure & Services' and will emphasise the services our Island needs in order for our community to plan for an estimated population increase of 15,000 by 2037.
- The third aspiration on public finances stays as it previously was but now highlights how growth and diversification of Government revenues will create long term financial sustainability, including efficient and effective delivery of Public Services.
- Finally, based on feedback from the consultation exercise, both energy security and maximising natural resources were widely considered very important. Consequently, the Energy Strategy has now been amplified within this economic shift.



SHAPE OF THE ECONOMY

Create and fill **5,000 new jobs** across new, enabling and existing key sectors, by 2032, reaching an overall GDP of £10bn.

By **actively investing in skills, productivity, infrastructure, businesses and sectors** to deliver a **strong and diverse economy**

INFRASTRUCTURE & SERVICES

Further develop the **infrastructure and services** for our community to plan for an estimated population of 100,000 by 2037.

By **actively investing in key services & infrastructure that attract and retain economically active people**, supported by a range of **incentives and disincentives** to **sustain targeted growth**



PUBLIC FINANCES

By 2032, to generate **over £200m** of additional annual income to **reinvest in services and quality of life**.

To **grow and diversify Government revenues** with a broader range of sources for **long term financial sustainability**, including efficient and effective delivery of Public Services.

SUSTAINABILITY

Substantially decarbonise the services parts of our economy **by 2030**, supporting an overall **reduction of 35%** in the Island's GHG emissions.

By accelerating our **Energy Strategy** to provide **long term security, stability**, and decarbonisation, and consciously and proactively **investing in the Climate Change Action Plan**, placing **sustainability at the heart of the economy**.



04 EXECUTIVE SUMMARY

VISION

The Isle of Man’s vision is to develop a **strong and diverse economy**, which is **sustainable, ambitious** and built on **firm foundations** to provide **economic success**, rewarding **career opportunities** and prosperity which positively impacts **all residents** on the Isle of Man.

To achieve this vision, we aim to make the Island a more **attractive and prosperous** place to **live and work**, which in turn will **sustain and grow productive businesses and services**. Combined, this will provide more diverse and sustainable public finances that support the best possible public services and quality of life for all of our Island residents.

We will achieve this through a significant £1bn long term public and private investment programme – investing in **our people, our economy, our Island and our public services** to secure **5,000 new jobs** and a **£10bn economy** with infrastructure that can support **100,000 Island** residents over the **next fifteen years**, with appropriate **incentives / disincentives to achieve targeted and sustainable population growth**.

ECONOMIC AMBITIONS & SHIFTS



SHAPE OF THE ECONOMY
Create and fill **5,000 new jobs** across new, enabling and existing key sectors, **by 2032**, reaching an overall **GDP of £10bn**.



By actively investing in **skills, productivity, infrastructure, businesses and sectors** to deliver a **strong and diverse economy**.



INFRASTRUCTURE & SERVICES
Further develop the **infrastructure and services** for our community to plan for an estimated population of **100,000** by 2037.



By actively investing in **key services & infrastructure** that **attract and retain economically active people**, supported by a range of **targeted incentives and disincentives** to sustain **targeted growth**.



PUBLIC FINANCES
To generate **over £200m** of additional annual income to **reinvest in services and quality of life** by 2032.



To **grow and diversify Government revenues** with a broader range of sources for **long term financial sustainability**, including **efficient and effective delivery of Public Services**.



SUSTAINABILITY
Substantially decarbonise the services parts of our economy **by 2030**, supporting an overall **reduction of 35%** in the Island’s GHG emissions.



By accelerating our **Energy Strategy** to provide **long term security, stability, and decarbonisation**, and consciously and proactively **investing in the Climate Change Action Plan**, placing **sustainability at the heart of the economy**.


£1BN LONG TERM PRIVATE/PUBLIC INVESTMENT PROGRAMME - SUPPORTED BY AN INITIAL £100M ECONOMIC STRATEGY FUND

Re-prioritisation	Borrowing	Reserves & NI	Private Sector Investment
Personal Tax	Corporate Tax	New Income	Economic Growth

STRUCTURED DELIVERY PROGRAMME

Sustained commitment & results driven	Leverage private sector skills & investment	Economic policy decision making	Efficient Government
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ECONOMIC OBJECTIVES AND SUB-OBJECTIVES FROM KPMG PHASE 3 REPORT

 Prosperity for people and communities	 Prosperity for business	 Resilient and sustainable economy	 Protect, nurture and grow key sectors of the economy
<p>This means...</p> <ul style="list-style-type: none"> › Increase to median earnings › Reduce the income inequality gap › Invest in improving public services & infrastructure <p>Example initiatives:</p> <ul style="list-style-type: none"> › Review of tax structure: Individual tax › Further support Island's education & skills offering <ul style="list-style-type: none"> › Childcare Strategy - affordable and accessible childcare › Education & skills strategy › Household focused digital adoption › Health - facilities, wages, public awareness › Infrastructure – Cultural, Leisure & Transport facilities › Housing - especially for 20-40 year olds 	<p>This means...</p> <ul style="list-style-type: none"> › Increase business productivity › Increase business innovation & investment to drive new revenue streams › Improve quality & grow size of workforce <p>Example initiatives:</p> <ul style="list-style-type: none"> › Business-focused digital and technology adoption and infrastructure investment › Business growth support programmes and incentives › Access to finance › Refinements to regulation and regulatory remits › Infrastructure investment and regeneration: reform planning policy legislation › Support labour market: Migration and employment enablement › Policy in support of improving individuals' business-ready skills, knowledge and experiences: <ul style="list-style-type: none"> › Education & skills: business-focused measures 	<p>This means...</p> <ul style="list-style-type: none"> › Balance the age profile of the population & reduce dependency ratio › Maintain healthy Government finances over the long term › Improve the Island's environmental and social sustainability <p>Example initiatives:</p> <ul style="list-style-type: none"> › Environmental sustainability policy - Climate Change Plan › Review of tax structure: Corporate Tax (domestic) › Impact of OECD 'pillar-two' solution - Corporate Tax (international) › Monetising the green economy 	<p>This means...</p> <ul style="list-style-type: none"> › Adapt & modernise enabling sectors of the economy › Maintain or grow current key sectors › Grow new sectors <p>Example initiatives:</p> <ul style="list-style-type: none"> › Adapt & modernise enabling sectors – consider active support/ investment for; Retail, Hospitality, Leisure, Property & Energy being attractive to people and business › Protect, nurture and grow the current key sectors – through investment & support to find new markets, support productivity & innovation to remain relevant including: Financial Services, Digital, Production & Visitor Economies › Develop and grow new sectors – through active product development & investment including: knowledge, data & green economies

OUTCOMES

Larger, more diverse, younger population	Highly skilled, highly productive workforce	Better paid jobs & career opportunities	More diverse economy with growth	Modern, business friendly environment	Infrastructure & amenities to be proud of	Healthy Gov. finances with broader tax base	A leading sustainable Island	Improved health & wellbeing
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05

BACKGROUND

Our Island Plan

The 2021 'Our Island Plan', approved by Tynwald in February 2022, sets out a vision for the Island's future economy and a commitment to deliver a comprehensive future Economic Strategy for the Isle of Man.

The Island Plan sets out a clear vision for the Island's future economy:

SECURE

Supporting and providing the right conditions for the **development, diversification, growth and opportunity** for the Island's economy and business sectors.

Meeting or exceeding global standards and enhancing our reputation as an internationally **responsible** and increasingly **sustainable** jurisdiction.

Ensuring **supporting infrastructure** is world class and provides a **resilient and business friendly environment**.

VIBRANT

Ensuring our Island is a place where people have **opportunities to fulfil their potential**.

Creating the environment for **vibrant economies** where everyone, including entrepreneurs can achieve and prosper, recognising the important role they play in making the Isle of Man an attractive place to live, work and invest.

Recognising our **diverse international workforce** and the value that it brings to our economy.

A **tourism offering which is more diverse**, supports our Island all year round, and is a valued and growing part of our Island's proposition for both visitors and residents.

Attracting our graduates and alumni back to the Island.

SUSTAINABLE

Considering how our **Climate Change commitments** can inform and positively influence our economic growth, opportunities and stability over the long term.

Wages that allow for higher living standards being achieved in an economy where people are supported into work, **opportunities exist for career progression and quality of life is maximised**.

Stewardship of sustainable public finances.

Robust technology and related infrastructure that enhance the Island as a place to live, work and invest as a tech-enabled and future-ready jurisdiction, embracing the opportunities of digital technologies.

Taking account of and addressing demographic challenges.

These themes and objectives are weaved throughout the Economic Strategy and form the basis of the key vision and objectives. The Strategy proposed provides the investment and focus in support of the aims that are contained in the Island Plan.

‘Our Big Picture’ report delivery

KPMG were appointed as strategic partner to help inform a five to ten year Economic Strategy for the Island, following a competitive process that attracted international responses for tender in 2021.

KPMG set out to deliver a four phase report to develop a fundamental review and understanding of the Isle of Man’s current economy, looking at the wider global opportunities and threats, developing strategic direction and finally providing a monitoring and delivery framework. The international team worked across a number of themes and sectors, drawing intelligence and stakeholder engagement from local and global sources to pull together their four phase report:



Virtual events

150+ local participants outside Government attended one or more in-person or virtual events connected with the project



Specialist interaction

Direct interaction with more than 25 specialists from across KPMG’s network and alliance partner network in areas including: Biotech, Cannabis, Digital, eGaming, Financial Services, the Green Economy, Space/Aerospace, the Visitor Economy, Geopolitics and Skills

- **Phase zero:** Initial scoping with industry and politicians on what the vision may look like (completed in 2021)
- **Phase one:** Current situation research and review (completed end of 2021)
- **Phase two:** Developing policy levers (completed spring 2022)
- **Phase three:** Strategic economic framework (completed summer 2022)
- **Phase four:** Monitor delivery of action plan (to be completed end of 2022)

This four phase report informs and guides this overarching document, giving a clear, objective analysis and evidence base for the creation of future policy and development for the Isle of Man.

The reports are all available on the Island Plan website: gov.im/economicstrategy



06 VISION & OBJECTIVES

OUR VISION:

Our vision is to develop a strong and diverse economy, which is sustainable, ambitious and built on firm foundations to provide economic success, rewarding career opportunities and prosperity which positively impacts all residents on the Isle of Man.

Strong and diverse economy:

This means that our economy is made up of a diverse breadth of sectors operating in a range of local and global markets. This diversity will support economic resilience to global shocks and provide flexibility to grow and adapt to economic conditions in the 2030s and beyond.

Career opportunities:

This means that residents will be able to pursue rewarding careers at all levels and across multiple sectors. These opportunities will help make the Island a more attractive proposition for our younger generations, while allowing those already working to explore new career paths.

All residents:

This means putting the prosperity and needs of the people of the Isle of Man first.

Firm foundations:

This means that we have invested in our infrastructure, Government, and society to give us the scope to take advantage of opportunities and develop our economy. By having modern infrastructure, secure Government revenue streams, and a flexible workforce, we will be well placed to develop and grow our economy.

Economic success:

This means we will achieve strong economic growth, bringing prosperity to our residents and supporting high-quality, sustainable public services.

Prosperity:

This means success and fulfilment both economically and socially.

To achieve this vision we aim to make the Island a more attractive place to live and work, which in turn will sustain and grow productive businesses and services. Combined, this will provide more diverse and sustainable public finances that support the best possible public services and quality of lives for all of our Island residents.

We will achieve this through a significant £1bn long term public and private investment programme – investing in **our people, our economy, our Island and our public services** to secure **5,000 new jobs** and a **£10bn economy** with infrastructure that can support **100,000 Island residents** over the **next fifteen years**, with appropriate **incentives / disincentives to achieve targeted and sustainable population growth**.

This translates to four key strategic objectives:

1. Prosperity for people and communities
2. Prosperity for business
3. Resilient and sustainable economy
4. Protect, nurture and grow key sectors of the economy

Which in turn will help make the Isle of Man:

- **An attractive, enterprising, competitive and business-friendly Island, with a productive, highly skilled, business-ready workforce.**
- **A more vibrant place for residents to live, building great communities with better services, and a higher quality of life. With improved public services and outcomes for residents, enabled by stronger and more sustainable public finances.**
- **A sustainable and responsible Island, representing forward-thinking approaches to environment, taxation, and regulation, with increased Government income and improved facilities for all ages.**
- **A competitive and fair economy which is strong and diverse, and supports a number of enabling, existing and future sectors.**



07 WHERE WE ARE NOW

The Island's economy has grown well over the past decade, a leader among the Crown Dependencies. Government reserves are in a good place, and the economy is diverse, with a proven ability to grow new sectors.

This is summarised in Phase One of the KPMG work, which looked in detail at the Island's economic position and made a number of observations as a result.

Two sectors in particular – eGaming and Insurance – have experienced very strong growth and have been the powerhouses behind the Island's impressive GDP growth.

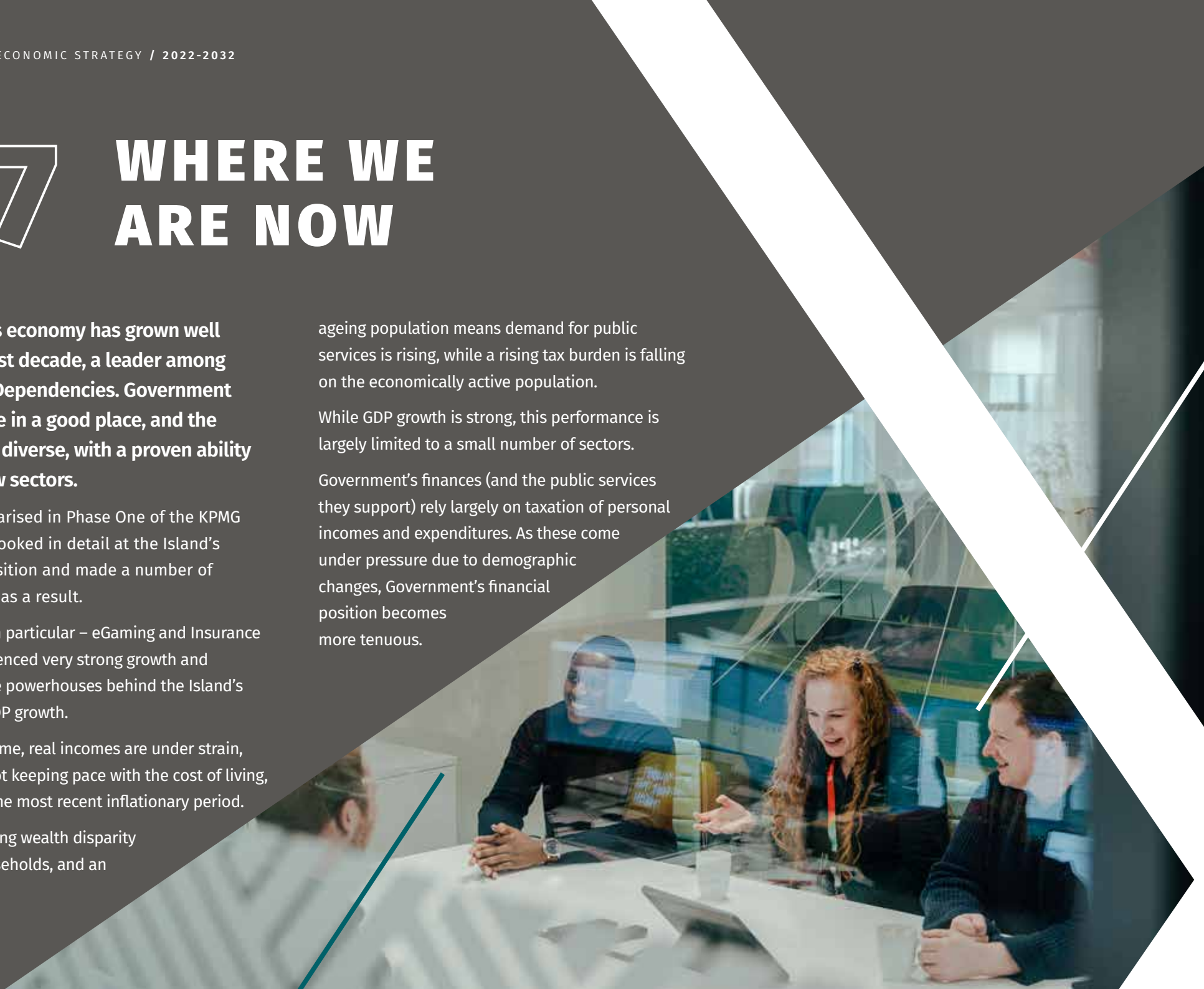
At the same time, real incomes are under strain, with wages not keeping pace with the cost of living, even before the most recent inflationary period.

There is growing wealth disparity between households, and an

ageing population means demand for public services is rising, while a rising tax burden is falling on the economically active population.

While GDP growth is strong, this performance is largely limited to a small number of sectors.

Government's finances (and the public services they support) rely largely on taxation of personal incomes and expenditures. As these come under pressure due to demographic changes, Government's financial position becomes more tenuous.



Key strengths



GDP growth across the decade and leader in the Crown Dependencies in most years.



Strongest Government reserves when compared to peers in 2019.



High 4G coverage and fibre passing over 50% of premises.

84%

of businesses surveyed recognised technology is integral to their business. (8-10 on 10pt scale)



Host to a large number of prominent and high quality global brands in each of its key sectors.



Well respected internationally.



A more diverse economy than peer tax neutral islands.

96%

surveyed strongly agree that IoM is a safe place to do business. (2019)



Publicly stated net zero emissions target.



Wealth of natural resources.



A large level of untapped economic value-driving opportunities.



Proven ability to regulate and grow niche or new sectors.



Visitor spending is up over the decade; increasing proportion of leisure visitors.

Key challenges



Growing wealth disparity across households.



Cost of living in the Isle of Man is high compared to the UK and is not fully offset by higher average wages.



Ageing population:

- Over 65s account for 22.1% of the population (2021) – higher than peer jurisdictions. Likewise, Island's dependency ratio is higher than others at 58%.



High level of economically inactive people in the population – 49% (2021).



Consistent excess levels of vacancies (through either skills or resource gaps) are inhibiting economic growth.



GDP growth has mainly been driven by only two sectors - Insurance and eGaming, both of which are highly concentrated due to consolidation.



Sustainability and energy policies are not yet established, yet important to the business community; GHG emissions per capita exceed the comparator group.



Business confidence surveys show relatively low satisfaction with quality and cost of business-related services. (2017-2019)



Low volume of high quality commercial facilities.



Government is not perceived to be digitally enabled and is suboptimal in its use of data.



Stakeholder feedback indicated that innovation and business dynamism were not a strong feature of the IoM's business culture.



Regulation and red tape (particularly in financial services) and access to capital were indicated as key obstacles for growth and innovation.



Global headwinds



Digitisation

Some manual and administrative work in areas such as retail and services is clearly vulnerable to automation. A recent report by PWC indicates up to 1/3 of jobs on the Island may be at risk over the next 10 - 15 years.



Global skills shortage

While some jobs are being automated, workers with the skills of the future are in critically short supply. Unless the Island can attract, retain and provide people with these skills, it will not be able to compete on the world stage.



Global tax and regulation

Changes to Corporate Tax and regulation are moving apace, and the Island cannot afford to stand still in this area while remaining a responsible member of the international community.



Sustainability

As with tax, jurisdictions are facing increasing scrutiny of their environmental and social sustainability credentials, especially in the area of climate change. The Island's current commitments are not yet finalised and may soon be under the spotlight.



Maturity of emerging markets

Some aspects of the Island's economy have grown so well because of their servicing of emerging markets around the world. As these markets mature and local alternatives arise, the Island's proposition needs to continue to evolve.

Summarised from KPMG Phase Three Report

08 WHERE WE ARE HEADING IF NOTHING CHANGES...

The Island could conceivably continue with the current economic model, relying on the strong growth of a small number of increasingly established sectors. Due to both global and local economic headwinds this is not a risk-free or conservative approach.

We look to develop a strong and diverse economy, which is sustainable, ambitious and built on firm foundations to provide economic success, rewarding career opportunities and prosperity which positively impacts all residents on the Isle of Man. There is a risk that by continuing with the existing approach the Isle of Man will not be able to meet this vision.

The Island could continue to develop based on past successes – a small number of specialist sectors remain the main powerhouse of growth, and as a result the economic future of the Island is increasingly reliant on a narrow range of businesses and sectors.

Without investment and direction, the competitiveness of the Island as a place to do business could gradually erode. It may be difficult to attract in-demand skilled workers, and a high number of job roles are increasingly at risk from automation.



As demographic challenges worsen, with an ageing population and an increasingly unsustainable taxation model, the Island may face reduced funding across public services and a continuing negative feedback loop as the economically active population is faced with higher taxation.

A lack of infrastructure investment may further dent the Island's competitiveness as a place to live and work. Not proactively addressing global issues may mean responsible international businesses increasingly consider locating elsewhere.

It follows from this that the sustainability of public finances and the outcomes for residents may come under threat as the Island's dependency ratio increases with less people paying in and more taking out.

This could ultimately result in an increased need to support public services through increased personal and corporate taxation, possibly making the Island a less attractive place for people and businesses.



09

WHERE WE COULD BE IF WE CHANGE OUR APPROACH..

The Island has a number of strengths that mean it is well-positioned to take advantage of changes in the global economy for the benefit of Island residents. The Island's business confidence, experience in sector development, beautiful setting and adaptability make it primed for a new approach and increased investment.

Changing our approach means re-prioritising existing work, putting forward cultural change, unlocking structural change and creating a data driven approach with accountability for results.

To meet our vision and our objectives we must deliver the direction and objectives of the Economic Strategy into action with a dedicated investment programme with significant funding and resources required to make a real difference.

By delivering the required changes, we can aspire for 2032 to have the following benefits.

- A leading sustainable Island
- Highly skilled, highly productive workforce
- Better paid jobs & rewarding career opportunities for all
- A more diverse economy, with growth in established and new sectors
- A modern, business-friendly environment
- Infrastructure and amenities to be proud of
- Healthy Government finances with broader revenue base
- Larger, younger, more diverse population
- Improved health and wellbeing

This would make us an attractive, enterprising, competitive and business-friendly Island, with a productive, highly skilled, business-ready workforce.

We would become a more vibrant place for residents to live, with better services, and a higher quality of life. With improved public services and outcomes for residents, enabled by stronger and more sustainable public finances.

We would be presented as a sustainable and responsible Island, representing forward-thinking approaches to environment, taxation, and regulation, with increased Government income and improved facilities for all ages.

Ultimately we would be home to a competitive and fair economy which is strong and diverse, and supports a number of enabling, new and future sectors.



10

WHAT WE NEED TO DO TO GET THERE - ECONOMIC SHIFTS

To achieve our new vision the Strategy proposes fundamental economic shifts through a long term targeted investment programme.

1. Shape of the economy

One of the most fundamental of these is the overall shape of the economy and how it will need to develop to both support the ambitious objectives of this Strategy, and to take advantage of economic growth opportunities. This will need to include improvements to productivity, investment, and innovation in existing and emerging sectors.

2. Infrastructure & services

Growing and rebalancing the Island's population underpins the economic growth and growth to Government revenues that will support high-quality

Government services and address the demographic issues that we face. This must be supported by essential infrastructure and services to ensure the Island can manage an estimated population increase of 15,000 by 2037.

3. Public finances

Further shifts are required in the area of Government finances to diversify and develop income streams and provide the necessary security for the future.

4. Sustainability

At the heart of the economy must be our commitment to sustainability, consciously and proactively investing in the Climate Change Action Plan and our energy strategy including decarbonisation.

1. Shape of the economy

Current situation/challenge:

Our economic success over the past decade has been created through the successes of a narrow grouping of economic sectors. While these sectors have experienced phenomenal growth, other areas of the economy have been stagnant. This imbalance puts the Island's future success at risk, as without investment in enabling sectors of the economy, it is challenging to continue to grow existing sectors or develop new opportunities.

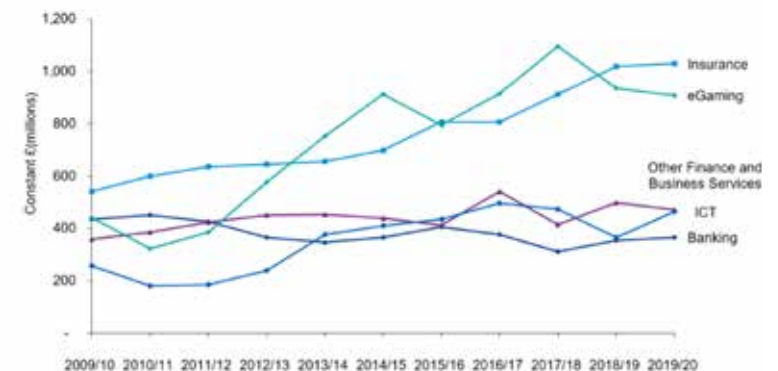
Solution:

In order to rebalance we must actively invest in skills, productivity, infrastructure and business sectors to deliver a strong and diverse economy:

- **Invest in the enabling sectors and core infrastructure needed:** this will involve developing the infrastructure that supports the domestic economy and ultimately underpins the Island's attractiveness as a place for residents and businesses.
- **Protect, nurture, and develop export sectors:** continue to build on the internationally-focussed sectors of the economy including Finance, Digital, Producing, and Tourism to provide a strong base for economic growth.
- **Pursue new opportunities:** where the Island has competitive advantages, develop new economic sectors that will become key parts of our economy in the 2030s.

It should be noted that economic modelling is highly complex and dependent upon decisions the Island will make as well as external factors. As such at this stage there is no single modelled package of measures under the strategy. As part of this project, KPMG are providing an Economic Modelling tool which can be used by Isle of Man Government over the life of the strategy to model various interventions which may be considered to support the overall ambitions.

GDP contribution by major internationally-facing sectors



With a comprehensive package of measures to grow and develop our economy, we will be able to increase economic activity and provide productive and fulfilling jobs to Island residents.



Ambition:

Create and fill 5,000 new jobs across new, enabling and existing key sectors by 2032, reaching an overall GDP of £10bn.



By actively investing in skills, productivity, infrastructure, businesses and sectors to deliver a strong and diverse economy.

2. Infrastructure & services

Current situation/challenge:

As with other developed countries, the Island is facing significant demographic challenges which pose a threat to the sustainability of public services.

An ageing population brings with it huge challenges relating to funding of services, particularly healthcare, while an increasing tax burden falls on the economically-active population.

The Isle of Man Strategic Plan (2016) assumed that the population would grow to c94,000 by 2026, however based on current trends the population would not reach this level by that time. As of the 2021 Census the Island has a resident population of c84,000. In addition, the Island's current offering is particularly attractive when it comes to the inward migration of individuals who are not economically-active (for example where the Island's strengths in stability and safety lead it to be an attractive place to retire).

Unlike comparator jurisdictions, the Island does not place controls on the inward migration of non-economically active individuals.

The subject of long term rebalancing of our population is clearly one that needs careful and considered attention as we progress through our Economic Strategy and ultimately through population growth. The work of the Population Rebalancing Committee which is due to report shortly will be hugely important in helping shape the response and the longer term positioning the Island may need to take.

Solution:

In order to address the growing demographic challenge the Isle of Man must:

- Build the infrastructure to attract and retain the economically-active population and actively incentivise them, for example:
 - Suitable and affordable housing
 - Career opportunities and well-paid graduate jobs
 - Leisure infrastructure and more things to do
- Conversely also consider how to balance the attractiveness of the Island for everyone, with the costs of sustaining those who are not economically active, and consider disincentives for these:
 - Health insurance requirements
 - Minimum levels of savings
 - Access to property markets
- **Re-adjust the Island's offering to target new younger workers and families, while encouraging our young people to stay and build their futures on the Island.**



Ambition:

We will further develop the infrastructure and services for our community to plan for an estimated population of 100,000 by 2037.



By actively investing in key services & infrastructure that attract and retain economically active people, supported by a range of incentives and disincentives to sustain targeted growth.

3. Public finances

Current situation/challenge:

Government revenue is largely ‘people-based’ and therefore reliant on on-Island employment and consumption. This means that Government finances are vulnerable to changes in population, incomes, and consumer confidence.

Strong GDP growth in recent years has been driven by corporate profits – this has meant Government incomes have not grown by the same amount as these profits are not taxed (with a few exceptions). This means that society as a whole is not benefiting to the full extent from the economic activity taking place in the Island.

This also puts pressure on supporting investment in public services and developing the economy as any development must ultimately be funded through increasing personal taxation burdens.

Solution:

To change the make-up of our public finances we must:

- **Grow and diversify Government revenues with a broader range of sources for long term sustainability.**
- Develop new income streams, such as the monetisation of resources and growth of new economic sectors.

While the policy interventions set out in this strategy are expected to generate economic growth and income, many will require upfront investment or result in reduced Government revenues in some areas. Our ambition is to generate sufficient additional income to repay this increased spending, and in particular through growing the working population, improving productivity, and tapping new income streams, we expect to grow Government revenues while ensuring a fair deal for Island residents and businesses.



Ambition:

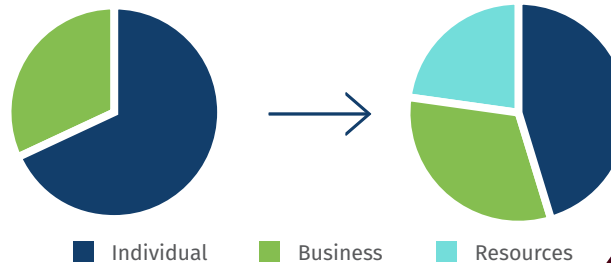
By 2032, to generate over £200m of additional annual income to reinvest in services and quality of life.

To grow and diversify Government revenues with a broader range of sources for long term financial sustainability, including efficient and effective delivery of Public Services.



Funding principles

Shift in balance of Government income





4. Sustainability

Current situation/challenge:

Currently, according to the KPMG research, the Island is perceived to be lagging behind competitors in the area of sustainability, including in progress towards net zero and in the availability of green power options for businesses. There is also no clear, overarching decarbonisation plans for businesses and industries.

As Environmental-Social-Governance (ESG) considerations move increasingly to the forefront of business planning, the Island cannot afford to stand still. This is especially illustrated by various 2030 decarbonisation plans of leading international businesses, and the Island's place as a home for responsible business will be increasingly under threat if these commitments cannot be supported.

Solution:

In order for the Island to stand at the forefront of environmentally sustainable jurisdictions, we must consciously and proactively invest in the Climate Change Action Plan, and energy decarbonisation, to place sustainability at the heart of the economy.

We must:

- Put the objectives of the Climate Change Action Plan at the centre of our economic planning, ensuring that growth of new and existing industries supports both our economic and

climate goals, with Government support to industries tailored accordingly.

- Prioritise the decarbonisation of our electricity system by 2030 as set out in the Climate Change Action Plan – this will ensure that businesses and residents have access to clean, affordable, and sustainable energy supplies and help businesses to achieve their ESG objectives.
- Enabled by the above, support the services sector (which makes up the majority of economic activity on the Island) to substantially decarbonise by 2030.



Ambition:

Substantially decarbonise the services parts of our economy by 2030, supporting an overall reduction of 35% in the Island's Greenhouse Gas (GHG) emissions.



By accelerating our Energy Strategy to provide long term security, stability, and decarbonisation, and consciously and proactively investing in the Climate Change Action Plan, placing sustainability at the heart of the economy.







11

KEY OBJECTIVES & EXAMPLE INITIATIVES

OBJECTIVES

EXAMPLE INITIATIVES

 Prosperity for people and communities	 Prosperity for business	 Resilient and sustainable economy	 Protect, nurture and grow key sectors of the economy
<ul style="list-style-type: none"> ➢ Review of tax structure: Individual tax ➢ Further support Island’s education & skills offering <ul style="list-style-type: none"> ➢ Childcare Strategy - affordable and accessible childcare ➢ Education & skills strategy ➢ Household focused digital adoption ➢ Health - facilities, wages, public awareness ➢ Infrastructure - Cultural, Leisure & Transport facilities ➢ Housing - especially for 20-40 year olds 	<ul style="list-style-type: none"> ➢ Business-focused digital and technology adoption and infrastructure investment ➢ Business growth support programmes and incentives ➢ Access to finance ➢ Refinements to regulation and regulatory remits ➢ Infrastructure investment and regeneration: reform planning policy legislation ➢ Support labour market: Migration and employment enablement ➢ Policy in support of improving individuals’ business-ready skills, knowledge and experiences: <ul style="list-style-type: none"> ➢ Education & skills: business-focused measures 	<ul style="list-style-type: none"> ➢ Environmental Sustainability Policy - climate change plan ➢ Review of tax structure: Corporate Tax (domestic) <ul style="list-style-type: none"> ➢ Impact of OECD ‘pillar-two’ solution ➢ Monetising the green economy 	<ul style="list-style-type: none"> ➢ Adapt & modernise enabling sectors - consider active support/investment for; Retail, Hospitality, Leisure, Property & Energy being attractive to people and business ➢ Protect, nurture & grow the current key sectors – through investment & support to find new markets, support productivity & innovation to remain relevant including: Financial Services, Digital, Production and Visitor Economies ➢ Develop & grow new sectors through active product development and investment including: knowledge, data and green economies

This page and those following summarise the example initiatives contained in KPMG’s Phase Three Report and set out a general direction to consider. Over the coming 12 months further work will be required to develop out these policy areas and example initiatives with options and impact assessments completed for each. At this stage they are simply presented as part of a collective package of changes, all of which may be relevant to some extent as part of a broad programme of work.



Prosperity for people and communities

What this means:

To make the Island more attractive to the economically active and younger population. Within the prosperity for people and communities objective, the intention is to improve education and employment opportunities for the Island's people with a focus on delivering rewarding careers, reskilling/upskilling and enhanced earning potential in an economy with high-quality education, healthcare and infrastructure, including housing, transport and amenities. For example, a tax policy review to ensure the Island's personal tax system is sufficiently attractive to those on lower to middle incomes – including the younger economically active people that the Island should seek to attract and retain – would contribute towards delivery of a reduction in income inequality and by being financially competitive to key migration target markets which will improve the ability of the Island's businesses to effectively recruit off-Island workers when required.

Suggested priority outcomes:

1. Increase to median earnings
2. Reduce the income inequality gap
3. Invest in improving public services & infrastructure

Current challenges:

- Growing income inequality driving disparities in quality of life, including access to housing
- Demographic challenges placing unsustainable pressure on public finances
- Measures of health and education outcomes lagging behind key comparators
- Tax advantages do not outweigh high cost of living for low-middle incomes, when comparing to UK

Ongoing work:

- Education and skills – Workforce and Skills Strategy
- Quality and affordable childcare – Childcare Strategy
- Affordable homes for all – Housing and Communities Board
- Vibrant leisure infrastructure – Built Environment Reform and Manx Development Corporation
- Quality healthcare – Healthcare Transformation / Manx Care
- Improving cost of living – Living Wage and Taxation Strategy

Example initiatives:

- Review of tax structure: **Individual tax**
- Further support Island's **education & skills** offering
- Education strategy: **early childhood**
- **Education & Skills Strategy**
- **Household focused digital adoption**
- **Health** – facilities, wages, public awareness
- **Infrastructure** – Cultural, Leisure & Transport facilities
- **Housing** – especially for 20-40 year olds



EXAMPLE INITIATIVE: HOUSING

Good housing stock plays a large part in offering prosperity for people and communities and in enhancing the attractiveness of the Island to a larger, more diverse population. An adequate supply of affordable and attractive housing is an important component in an area's attractiveness to workers. Poor access to housing can create a number of problems for a place looking to grow and develop as it hinders a place's ability to attract new workers and causes hardship for residents on fixed incomes who face rising housing costs.

The Economic Strategy puts forward actions to ensure that more properties – particularly those required by residents/prospective residents in the 20-40 age group – are available and affordable, for both rental and purchase as an owner/occupier. There must also be more help for first time buyers wishing to get onto the housing ladder.

In addition, the Housing and Communities Board 2022/23 Action Plan lays out actions to support the vision set out in the Island Plan of 'building great communities'. The Board will

work to integrate and modernise all housing policy, law and provision into a national housing strategy with the following policy objectives:

- Everyone having a suitable and affordable place to call 'home'; and
- The Island's housing stock meeting the needs of the population now and into the future

Achieving these objectives would contribute toward the delivery of the economic vision for the Island and it is important that housing delivery is prioritised in order to provide the housing stock to support the growth of the Island's population, employment and economic growth. Without this, the economic potential of the Island will be held back and other policy measures will be less effective.





Prosperity for business

What this means:

To ensure we have businesses and jobs for generations to come. Within prosperity for business, the intention is to create an ecosystem that supports and encourages entrepreneurship, innovation and investment, with the infrastructure, access to funding, skilled workforce and tax and regulatory environment to support existing businesses, international and domestic, and start-ups to flourish. For example, providing targeted support to businesses where the product offering needs investment in innovation to remain relevant to the future market will help those businesses to manage headwinds while fulfilling their growth potential.

Suggested priority outcomes:

1. Increase in business productivity
2. Increase business innovation & investment
3. Improve the quality & grow size of workforce

Current challenges:

- Digitisation expected to impact 30% of jobs in the Isle of Man over the next 15 years - all businesses will need to continue to invest in digitisation to remain competitive
- Skills shortages – key skills for the economies of 2030 are in critically short supply – the Island needs to be an attractive place to locate to for businesses to thrive
- Tax and regulation – global developments could change fundamental aspects of doing business in the Isle of Man
- Innovation – growth is increasingly centred on a small number of businesses in increasingly established markets and these sectors may need support to continue to evolve to ensure they remain strong and relevant

Ongoing work:

- Business Premises - Built environment reform & Manx Development Corporation
- Transport - Aviation strategy
- Government IT - Digital strategy
- Start-up ecosystem – Review all Enterprise grants
- Business support and advice
- Business Innovation – Department for Enterprise Executive Agencies – Finance, Digital, Business and Visit - to continually look for new ideas and initiatives across promotion, product development and policy input working together with industry and Chamber of Commerce

Example initiatives:

- Business-focused digital and **technology adoption** and **infrastructure investment**
- Business growth **support programmes** and **incentives**
- **Access to finance**
- Refinements to **regulation**
- **Infrastructure investment and regeneration** planning policy and legislation
- Support labour market: **Migration** and **employment** enablement
- Policy in support of improving individuals' **business-ready skills**, knowledge, and experience
- Education & skills: **business-focused measures**



EXAMPLE INITIATIVE: INFRASTRUCTURE

The Isle of Man is lagging behind in its regeneration and investment in business premises, housing and leisure and cultural facilities. Creating places that appeal to a broader mix of age profiles, but in particular to a younger, more diverse population is key to attracting more people to live and work in the Isle of Man.

To achieve this the Economic Strategy will be looking at reviewing and developing planning policy so that it best supports place-based regeneration and aligns with the Island's economic and climate strategies. It will also move forward proposals to simplify the planning process for the construction or modification of premises to support growth of key existing and target sectors. Addressing issues in respect to business-related infrastructure would directly support the prosperity for business objectives and the sub-objectives of supporting improvements in firms' productivity.

In parallel to this document, also coming forward is the proposed "Built Environment Reform Programme" which seeks to layout a two year programme of reforms to support these goals.





Resilient and sustainable economy

What this means:

Address our population challenges including reducing the inequalities and making the Island more viable to the economically active population will require a clear commitment and focus on long term sustainability, and securing and developing public finances in order to invest in high quality public services in support of our ambitions. Within the resilient and sustainable economy objective, the intention is to develop an economy that is resilient over the long term, including in relation to Government finances, and that the transition is made to a net zero and sustainable economy where social and environmental factors are fully embedded in economic policy-setting and businesses are supported to achieve Environmental, Social and Governance ('ESG') goals. For example, introducing legislation and regulation to permit the leasing of the Island's natural resources for renewable power generation and carbon capture would diversify Government revenue, create a new sector for workforce displaced by automation and digitisation whilst contributing to the maintenance of healthy Government finances and improvement of the Island's sustainability credentials.

Suggested priority outcomes:

1. Rebalance the age profile of the population & reduce dependency ratio
2. Maintain healthy Government finances over the long term
3. Improve Island's environmental and social sustainability

Current challenges:

- Environmental performance and policies are lagging behind peers, which has implications for attracting businesses and skilled workers
- People-based taxation, falling on the economically-active population, leading to pressure on Government finances and services
- Existing tax regime will be impacted by global taxation developments, with knock-on impact on receipts and economic growth
- Local services and infrastructure require investment to bring them up to a competitive standard

Ongoing work:

- Delivering ESG – Energy strategy and optimising mix of renewables
- Climate Change commitments – Climate Change plan
- Rebalancing taxation – Taxation strategy
- Securing new revenue sources – Energy strategy – maximising natural resources
- Protecting natural environment – Climate Change Act – Planning
- Reducing inequality – Living wage and taxation strategy

Example initiatives:

- **Environmental Sustainability** Policy Survey - Climate Change plan
- Review of corporate tax structure: **Corporate Tax (domestic)**
- Impact of OECD pillar two solution: **Corporate Tax (international)**
- Monetising the **green economy**



EXAMPLE INITIATIVE: TAX REVIEW

The Isle of Man has always striven to be a responsible international jurisdiction in regards to taxation. Expected new international tax rules (the OECD's two pillar plan) will see significant changes to the existing international taxation system. The Isle of Man, like all jurisdictions around the world, will need to respond to these changes that relate to the taxation of the largest multinational companies. The Island will continue to follow best practice in this area while remaining a competitive location for businesses.

As part of the Economic Strategy individual and corporate taxation will be reviewed within the wider Isle of Man Taxation Strategy. This will carefully consider and consult upon options for deepening and diversifying the tax base, while reviewing taxation for low-earners. At the same time it will seek to maintain the Island's position as an attractive destination for people and businesses.





Protect, nurture and grow key sectors of the economy

What this means:

To create new opportunities for prosperity for businesses and residents, while securing our economy and Government finances against headwinds. Within the protect, nurture and grow key sectors of the economy objective, the intention is to develop and deliver a sector strategy that embraces new opportunities in data, knowledge and the green economy, builds on and develops the Island's current key sector strengths, including in digital and financial services sectors, and recognises the importance of Government investing and supporting the Island's enabling sectors as foundations for all sectors and the Island's communities. For example, the qualification and development of a new opportunity to expand product offerings within the Financial Services sector – such as in the domain of sustainable finance – would contribute to growth of key sectors of the economy, such as Insurance, Banking, Asset Management and Corporate Service Providers (CSPs). In that particular case, it would also contribute directly to the Island's sustainability credentials.

Current challenges:

- Growth centred on a small number of sectors
- Large parts of the economy not growing or declining in size
- Some parts of economy under threat following years of disruption due to COVID-19 followed by inflationary pressure

Ongoing work:

- Department for Enterprise Executive Agency work:
 - Visitor strategy
 - Digital sector development
 - Finance sector diversification
 - Medicinal cannabis sector development
- Island's proposition as a centre for testing new technologies and ideas

Suggested priority outcomes:

1. Maintain or grow current key sectors of the economy
2. Grow new sectors of the economy
3. Adapt & modernise enabling sectors of the economy

Example initiatives:

- Adapt & modernise enabling sectors - consider active support and investment across:
 - Retail, hospitality, leisure, property, and energy propositions being attractive to people and business.
- Protect, nurture and grow the current key sectors – through investment & support to find new markets, support productivity & innovation to remain relevant including:
 - Financial services, digital, production, and visitor economies.
- Develop and grow new sectors through active product development and investment including:
 - Knowledge, data, and green economies.



EXAMPLE INITIATIVE: ISLAND CAMPUS

In collaboration with other off-Island interested parties, such as small Islands and leading UK universities, one of the ideas KPMG has proposed based on stakeholder groups is the concept of having a knowledge economy as a new sector, of which an Island campus bringing in large volumes of off-Island students could be an economic initiative in its own right rather than just an educational option.

The Isle of Man could develop an 'Island Campus' education offering, with a curriculum that is relevant to industry requirements and future employment trends.

Establishing close links with work placements and graduate schemes would provide an influx of skilled people into the Island's key business sectors.

An Island Campus would offer students a unique range of experiences, reducing challenges with the retention of graduates and delivering to Island businesses young professionals with the skills that they need. It would be attractive to both on-

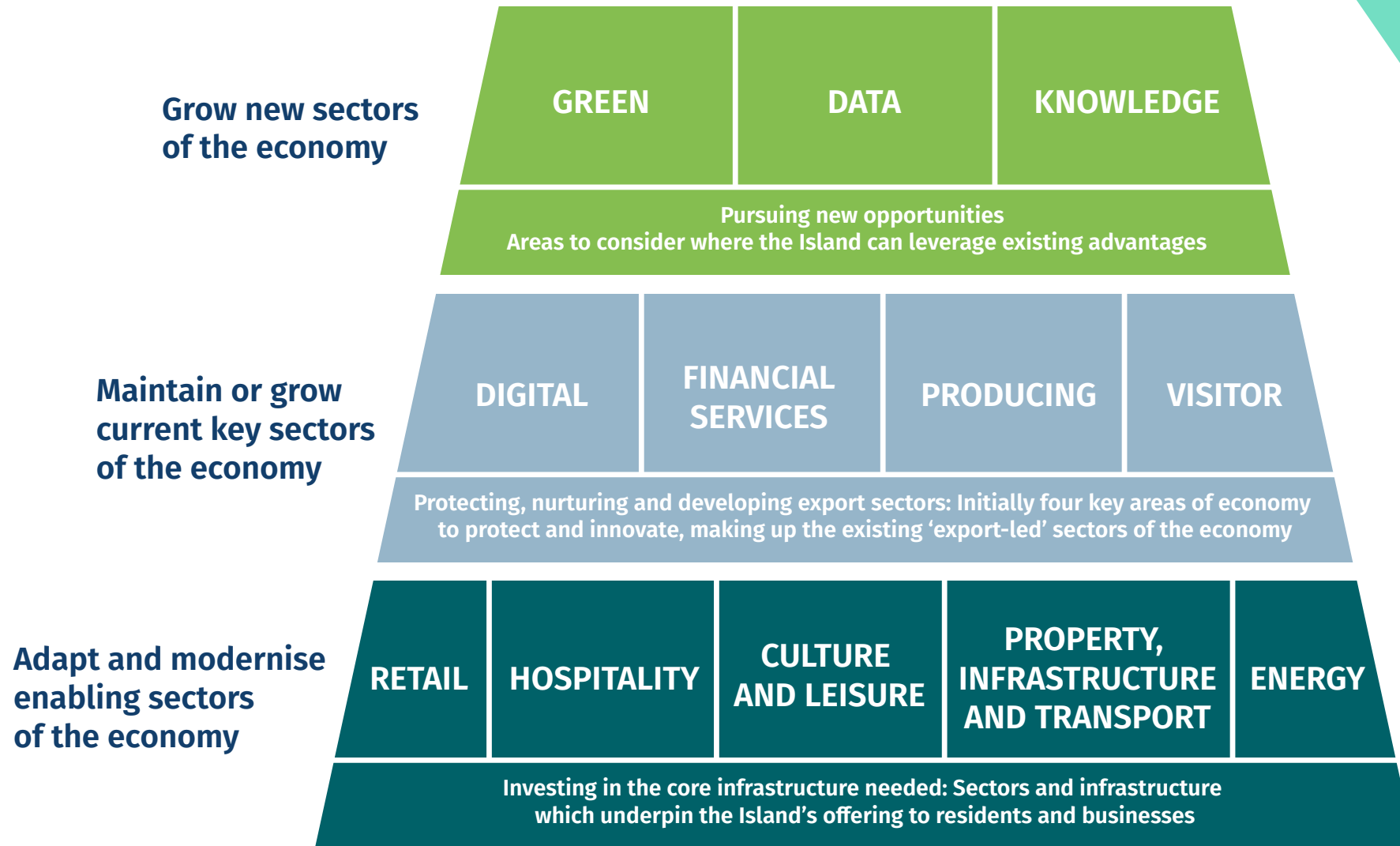
and off-Island students and help to support the wider objective of attracting more economically active people to the Isle of Man.

As an additional benefit, a large student population would be able to support more diverse and vibrant leisure and hospitality facilities, both on the demand side and through seasonal complementary working.

Having a facility to provide reskilling into new skills would also be a significant tool in responding to ongoing digital revolution.



How this changes the shape of the economy



Adapted from KPMG Phase Three report

ENABLING SECTORS

- Underpinning the other sectors which are largely driven by export business, the enabling sectors are crucial to ensuring the Island is an attractive place to live and work:
 - **Retail** – Improve quality and choice, while keeping abreast of challenges from online retail and a move to experience-based retail.
 - **Hospitality** – Improve the quality and range of hospitality venues, especially the offering for younger demographics.
 - **Culture and Leisure** – Expand the availability of facilities and activities for target demographics, in particular improving options for children, young people, and families.
 - **Property** – Widen and improve housing choices, leisure facilities and commercial property offerings and incentivise development, especially in town centre brownfield sites.
 - **Energy** – Make renewable and green energy available for Island residents and businesses through a clear energy strategy.



EXAMPLE INITIATIVE: HOSPITALITY

The Island's domestic economy is an essential part of the Economic Strategy's ambitions to attract a younger, more diverse population, as well as the commitment to improve the prosperity and quality of life for all residents of the Isle of Man.

The Island's hospitality sector was among the hardest hit by the COVID-19 pandemic and associated restrictions, leaving many existing businesses in the sector with depleted resources, inhibiting their ability to invest. Further development and innovation is urgently needed in this sector. A high-quality and diverse range of cafés, bars and restaurants is a key part of making the Island more attractive to residents and visitors alike.

CURRENT SECTORS

- Acknowledging that existing sectors will remain a major driver of economic performance, the Island needs to continue to support and develop:
 - **Digital** – continuing to diversify and expand digital businesses both within the eGaming sector and more widely.
 - **Financial Services** – delivering new services and products for the future economy and increasing productivity of the labour force.
 - **Producing** – expanding on the theme of low-volume/high-value manufacturing, target and further develop specialised engineering and biotech businesses, as well as niche markets.
 - **Visitor** – deliver on the 2022 Visitor Economy Strategy to modernise and expand the proposition while contributing to the attractiveness of the Island for residents.



EXAMPLE INITIATIVE: FINANCIAL SERVICES

Financial Services is the largest sector on the Island in terms of GDP, with the Life Insurance industry within it representing a significant source of GDP growth over the last decade. The sector as a whole is also one of the most significant employers. The Island is well-regarded for its high quality independent regulation of the sector. The Island already pursues diversification and expansion of the sector via the Finance Isle of Man Executive Agency of the Department for Enterprise. Many of the potential opportunities for the Island identified fall directly within the sector or would be closely linked to it.

There are global headwinds coming that will affect this sector. As part of the Economic Strategy there is a need to help the finance sector digitise, engage with ESG, innovate, and manage increasing regulatory pressure. Measures to improve growth in this sector would also be expected to include ensuring that the Island's existing offering remains relevant to changing market needs and enabling the delivery of new services relevant to the future economy. In combination, this would be expected to boost productivity and innovation and increase overall skill levels within the sector's workforce, contributing to improvements in median earnings.

NEW SECTORS

➤ The Island has strengths that can be leveraged to develop and grow new sectors of the economy. These sectors represent emerging areas characterised by innovation and strong growth potential:

- **Green economy** – making the most of our natural resources, as well as research and development.
- **Data economy** – acknowledging that data is one of the most valuable assets of the 21st century, and leveraging the Island's strengths in regulation and security to offer a unique proposition for data businesses.
- **Knowledge economy** – developing niche educational and training campuses based on the Island's sector strengths.



EXAMPLE INITIATIVE: GREEN ECONOMY

The further development of green business on the Island is well-aligned with the strategic objectives contained in this Economic Strategy and for the Island more broadly. Pursuit of development within this sector aligns well with aspirations to attract and retain more young people and increase the number of highly skilled jobs. It also has the clear potential to support achievement of the environmental and social sustainability sub-objective within the 'resilient and sustainable economy' objective.

Offshore wind production with hydrogen storage/supply is a key example. The green hydrogen economy is in its infancy and significant technological challenges remain to efficient production, storage, transport and use at scale. However, hydrogen is expected to be a significant source of energy in a decarbonised economy. There are opportunities for the Island to use its abundant offshore wind resources to produce green hydrogen to use locally as part of a closed loop carbon neutral economy and/or to export to key demand centres in the UK, EU and beyond.

12 TRANSFORMATION PRINCIPLES

This Economic Strategy outlines a clear direction of travel for the Island's economy, with four outcomes based on clear ambitions driving the ultimate development of policies and initiatives. Backed by a significant programme of investment, the Economic Strategy has the ability to shift the Island's current economic outlook into a positive cycle where the returns produced by economic growth and new revenue sources are actively reinvested into key public services, bringing an improved quality of life for all residents of the Isle of Man.

The current desire to have high quality public services is increasingly unsustainable on the current economic model, and when combined with dramatic shifts in individual and corporate behaviour following COVID-19 and subsequent global challenges, the approach to investment and economic policy planning must significantly change.

Delivering against this Economic Strategy will involve an extensive and challenging programme of work, requiring close collaboration and coordination both across Government and with external stakeholders.



To make this shift we must embed the following principles:

1. Sustained commitment



Have **sustained commitment** to the Strategy in all policy settings. **Focus on** short, medium and long term **results**: Government policies and strategies would consider in detail how their outcomes will contribute to the economic objectives in this Strategy. The delivery arm of the Strategy will monitor performance against the key indicators of success, and review particular policies that are likely to make a major positive or negative contribution toward achieving the objectives.

2. Economic policy-based decision making



Transition to **economic policy-based decision making** where economic, social, and environmental value is maximised: When decisions are made, formal economic appraisals of impacts will be carried out. This will be backed up by clear guidance and criteria for estimating economic, social, and environmental impacts of policies. This will require the creation of a Government Economic Appraisal Framework to ensure that projects are assessed on an equal basis, taking into account trade-offs between different kinds of benefits.

3. Effective Government



Make Government as effective as possible through coordination of the Strategy implementation and a culture of monitoring, evaluation, and accountability: As seen during the COVID-19 pandemic, structures will be set up within Government to deliver on the key objectives of the strategies. These structures will bring with them the relevant expertise, resource, and accountability to ensure the Economic Strategy is delivered effectively.

By aligning across Government these high level ambitions, there is a real opportunity to align risk appetite and decision making, breaking down silos, and ultimately delivering the best possible outcomes.

4. Leverage skills and investment



Leverage skills and investment appetite of the private sector with Government acting as an enabler to delivery: A key theme of the Economic Strategy is that while Government may need to undertake some initial projects - including around investment in infrastructure – the private sector will play a crucial role in supporting economic growth and in contributing to the transformational changes needed. By enabling private sector investment and signalling direction, Government can use investment to leverage much greater returns than could be achieved in isolation.

Source: KPMG Phase Three Report

13 FUNDING

Bringing about these sea changes in our economy will require investment from both the public and private sectors.

Government's role will be to 'pump prime' investment, signalling that the Island is open for business, and providing a clear direction for markets in order to give confidence.

At the early stage, it is anticipated that Government will investigate innovative ways to generate income, reprioritise existing spending and expand the tax base, while ensuring the Island remains competitive.

The economic growth attached to achieving the Economic Strategy's objectives means investment at this stage will bring about large returns over the 10 year period and beyond.

If the Island maintains the status quo, the challenge to fund public services will increase. This is not sustainable and will be a further detriment to the quality of services. Increasing the amount of additional public income will provide essential funding for more doctors and nurses, teachers, police and key public services that have a categorical impact on all Isle of Man residents.

Attracting more economically active people will help generate further income to be reinvested into the Island. A larger population contributing towards public services will mean the Island can benefit from economies of scale, with fixed costs spread over a larger number of people, therefore reducing the individual cost of the service.

Ultimately, targeted spending at the outset will mean this Strategy will be self-funding, with the return on investment after 10 years exceeding the outlay.

Re-prioritising capital schemes: Existing capital schemes are not necessarily prioritised to deliver the objectives of the Economic Strategy. By implementing the shifts in Government as set out in this Strategy, there is scope to place economic considerations at the heart of the capital programme and change priorities accordingly.

Investing NI fund and reserves: The NI fund and reserves are currently invested commercially – there is scope for some of these funds to be allocated to commercial projects in the Isle of Man. This would need to be a commercial investment with commercial returns, such as key public infrastructure with a guaranteed income.

Borrowing: The Island can consider additional borrowing for schemes, as with the sustainable bond. Borrowing would have to be managed to ensure the Island retains its strong financial rating.

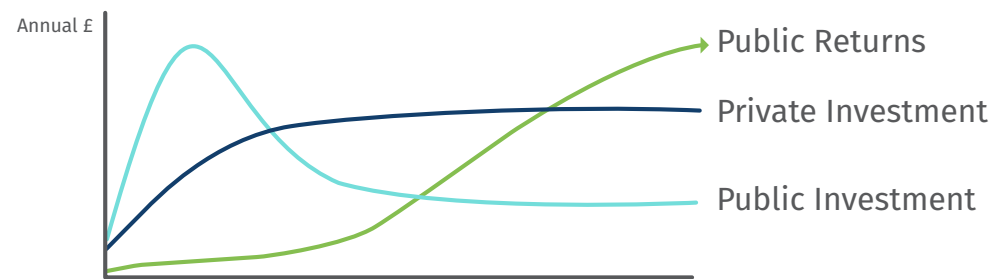
Leverage private sector funding: Through a Government-led investment programme we can expect to build confidence in the private sector to fund or partially fund a number of projects. The increasing population will also help to sustain further private sector funding as new initiatives become more commercially viable.

New funding streams: This could take the form of monetisation of resources / green economy and changes to taxation.

To start this journey it is proposed that an initial £100m Economic Strategy Fund is established to support the initiatives as they are developed.

It should be acknowledged that a mix of funding will then be required for the implementation of this Strategy. Different funding streams are appropriate for different uses, for example using NI investments for long term national infrastructure with defined returns.

Given the challenges set out in this Strategy, it is likely initial investment will be needed from Government in order to generate the population and economic growth that will then become self-sustaining and open up private investment. Further more detailed work will take place to ensure that funding is used appropriately for the right projects



Illustrative only.

14 DELIVERY & GOVERNANCE

The success of the Economic Strategy will involve an extensive and challenging programme of work, requiring close collaboration and coordination both across Government and with external stakeholders.

- The Economic Strategy Board will continually review and develop the Economic Strategy, reporting into Treasury and the Council of Ministers on progress.
- Central to the aforementioned prioritisation of the Economic Strategy across Government will be the comprehensive measurement of progress against objectives.
- The measurement used to assess the progress of the strategy will be considered in Phase Four of KPMG's delivery plan.

KPMG Phase Four

KPMG will deliver a proposed monitoring and evaluation plan with correspondent draft measures by the end of the year.

High level delivery draft road map

1. Laying the foundations:

Addressing matters that have been identified as foundational to the Island's future success, predominantly relating to its attractiveness to people, which will be crucial if the Island is to build and retain the workforce required to support business growth. Work in many of these foundational areas is already underway in connection with the broader Island Plan.

1. Attract a younger, economically active population through improving leisure infrastructure, childcare, housing and tax reviews
2. Clearly signal Government intention re: sustainability and international tax standards
3. Improve quality and availability of data for policy making and planning

2. Enhancing the offer to enterprise

Pursuing measures designed to improve the Island's businesses enabling environment, including the provision of targeted assistance to support the growth of existing businesses and to attract new business to the Island.

1. Business growth and support programmes
2. Access to finance measures
3. Refinements to regulation
4. Ensure a green energy supply is available for businesses
5. Develop new economic sector opportunities

3. Securing our future

Seeking to address the long term resilience of the Island's economy, diversifying sources of Government finance and taking further measures towards improvement of the Island's sustainability more broadly.

1. Diversify Government revenue and finance streams including consideration of further reform to corporate taxation
2. Bolstering sustainability measures
3. Improving digital access to Government services



15 NEXT STEPS

The Economic Strategy provides a strong evidence base and clear economic aspirations in order to achieve the overarching goals as laid out in the Island Plan, and we must ensure that all of our decision making and prioritisation is tethered to these key shifts.

Subject to Tynwald approval, the decision has therefore been taken to update the next iteration of the Island Plan with key elements of the Economic Strategy, ensuring the two are intertwined as we move forward with a number of important initiatives over the next few years.

The Island Plan remains the core focus of this Administration, however the Economic Strategy is central to this and seeks to lay out the direction and the ambitions for the next 10 – 15 years.

Starting with the three elements which make up the core vision from the Island Plan - to build a secure, vibrant and sustainable future, we will ensure the four economic ambitions and associated objectives are central to the prioritisation across Government, and within Departments and their plans. From here, the five strategic programmes from within the Island Plan will feed into the ambitions and subsequently, the achievement of our Vision.

The updated Island Plan document will crystallise the overarching goals of the current administration, the strategic priorities of all Departments, and engender a clear delivery framework to ensure this work is carried out carefully and with the right resources and capabilities in place.

This document will be brought forward for debate in Tynwald in early 2023.

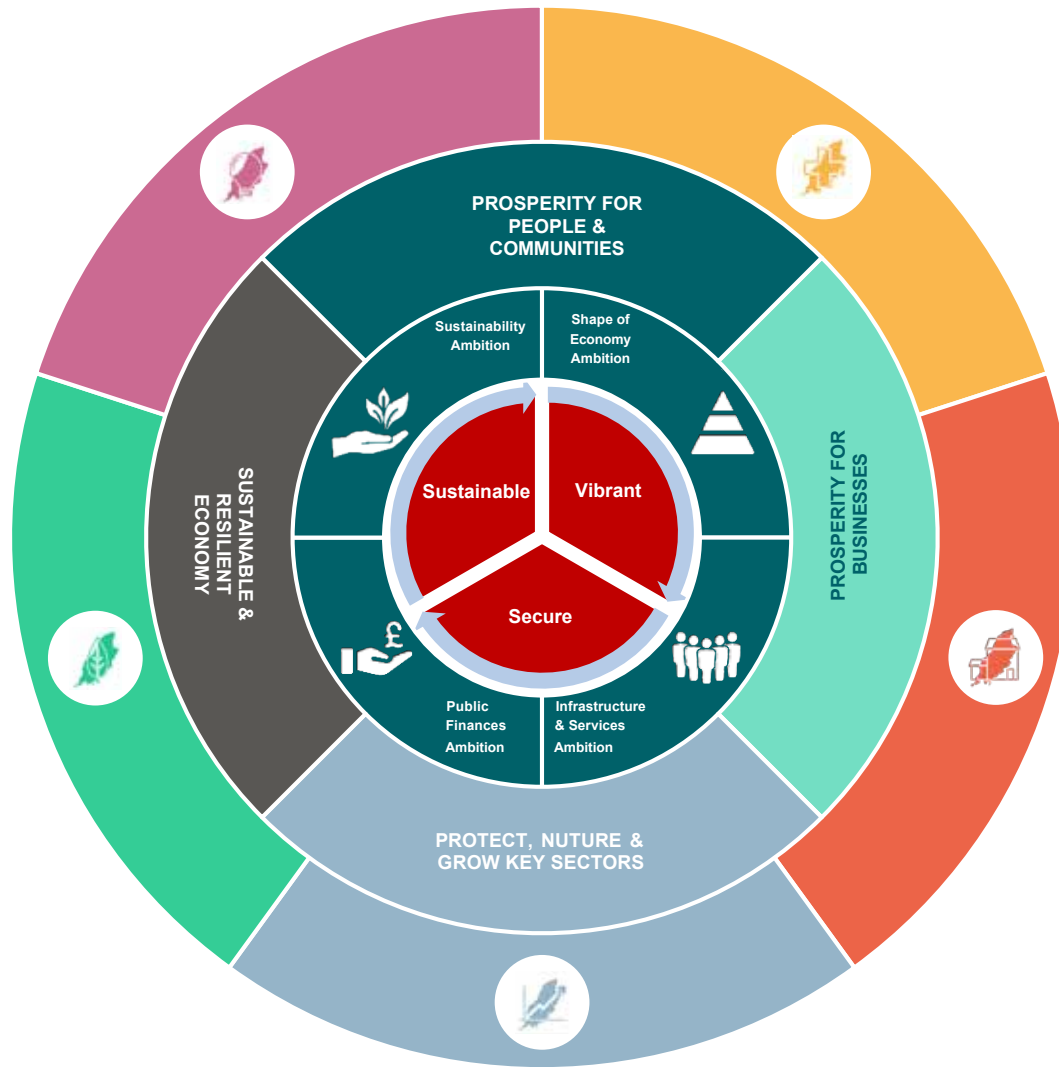
Outstanding lifelong learning and development opportunities for all

An environment we can be proud of

A strong and diverse economy

An Island of health and wellbeing

Building great communities



Isle of Man
Government
Reillys Ellan Vannin



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