



Our Big Picture
Strategic
Economic
Framework:
Phase 3 Report

29 June 2022

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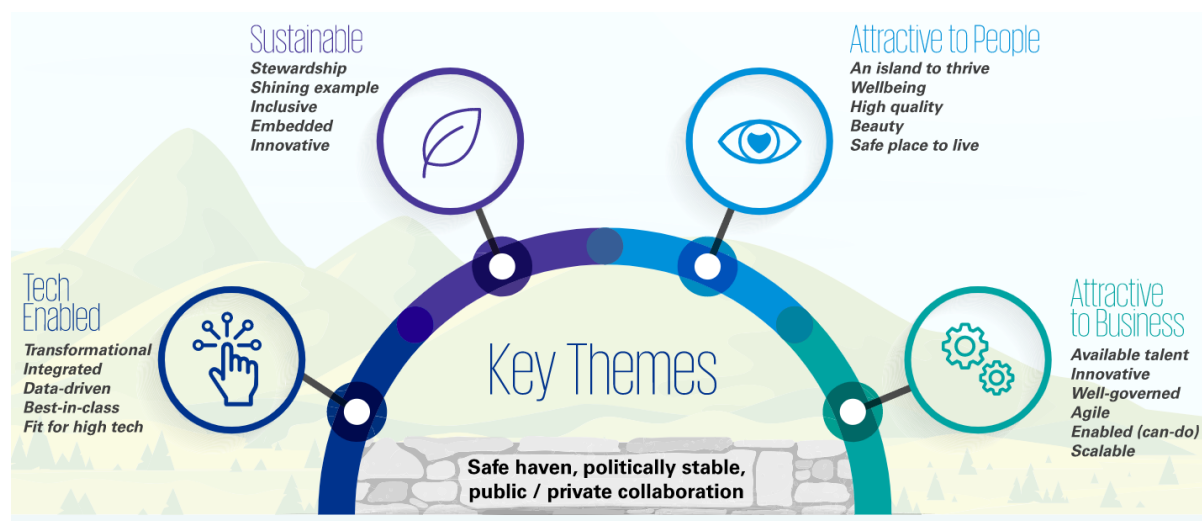
Foreword

In April 2021, the Isle of Man Government (“IOMG”, “Government”) commissioned a project to deliver a Strategic Economic Framework, later named ‘Our Big Picture’, to support the Island’s economic performance for the next 5 to 10 years. The work has been split into Phases 0 to 4, this Report being an output of Phase 3. The narrative, findings and, importantly, the evidence base of this Report builds on the findings from earlier phases and should be read in conjunction with them. This brief foreword pulls together all phases of our work to date into a combined narrative that links key findings, recommendations, and conclusions.

The Strategic Economic Framework described in this Report has been formulated having regard to the economic vision contained in IOMG’s ‘Our Island Plan’¹ (“Island Plan”) – “*Our vision is for 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 of the Isle of Man*”. Notably this aligns well with the vision suggested by business community stakeholders at the outset of the review.

Stakeholder input and that of our strategists were the basis of the key themes of the future economy, which are set out in Figure 1 below.

Figure 1 Strategic themes identified during Phase 0 stakeholder workshops



The Isle of Man is a well-respected jurisdiction and the largest economy in the Crown Dependencies by GDP. The Isle of Man economy is more diversified than peer jurisdictions, although predominantly service-based, principally Financial Services (Insurance, Banking and Professional Services) and Digital services (eGaming and ICT). During times of recessionary pressures this relative diversity has helped the Island’s economic performance. However, over the past decade most sectors, except Life Insurance and eGaming, have had little to no growth in GDP terms. Furthermore, sector contribution to GDP is not in proportion to its contribution to employment. This means that growth of the key sectors is not proportionately leading to increased employment opportunities or government revenues due to the Island being a low corporate tax jurisdiction. While evidence from the Isle of Man Business Confidence Surveys point to the Island being “safe for business” and the majority of respondents would recommend the Isle of Man for business, wider evidence, including from stakeholder workshops/interviews and the Isle of Man Government Our Big Picture Survey, pointed to key obstacles to business success as well as some lack of ambition and agility from Government to identify, pursue and realise larger, game-

¹ Isle of Man Government (2022). [‘Our Island Plan – June 2022 Interim Update’](#)

changing opportunities for business growth. Obstacles to success manifested themselves in findings of our work in several ways, most notably in the evidence of growing skills gaps, low levels of digital adoption by government, and the lagging rollout of high-speed connectivity through say fibre or 5G compared to neighbouring countries and peers, noting the Island had lost the perception of being an early adopter for connectivity in the view of the business community. Low levels of innovation and business dynamism were also noted. All of this has resulted in suboptimal economic performance and ambition over time.

The Island's recent success has been driven by a small number of companies in two sectors and indeed the GDP of the jurisdiction fluctuated in 2015 due to a corporate restructure of just one company. Both growth sectors, as well as other key sectors from a government revenue perspective, face various global and economic headwinds which will need to be overcome. These headwinds will come from regulation, innovation, sustainability, digitisation, and global taxation.

Over the past decade, the largest sector in GDP terms, life insurance, has significantly consolidated, resulting in nearly two-thirds of the sector being controlled by two private equity-owned businesses – a shift from nearly a dozen global financial services household brands 15 years ago. Equally, the sector predominantly sells one product type of insurance which needs to advance and innovate to remain relevant with consumer trends and regulatory evolution. Similarly, consolidation and acquisitions in the eGaming sector may lead to roles moving off-island. To maintain current levels of government revenue to fund the public services required to support good quality of life, it is critical that the Island creates a more dynamic business ecosystem supporting business scale-up, innovation and investment, which will drive business productivity and growth improvements, both in terms of GDP and employment. The Island must also protect its existing sectors whilst remaining a regulatorily robust jurisdiction, help businesses to navigate headwinds, nurture the emerging success stories of tomorrow and develop new sectors, as there will be others that continue to mature over the next 5 to 10 years. Without focussing on this, the existing employment base could become less relevant to its global marketplace, leading to risks to employment and government revenue.

The important sectors to government revenue are predominantly service-related. Surveys and stakeholder feedback have noted that those entering the workforce do not have the appropriate skills to succeed in the workplace. If not addressed, this will lead to roles moving off-island or reduce the attractiveness of the Island to new businesses. Looking forward, there are risks to government revenue as the service economy evolves with a growing level of digitisation and automation such that, according to a 2020 PwC report², over 30% of roles on-island are at risk of displacement by 2035.

With the Island being a tax neutral jurisdiction with few areas of positive-rated corporate taxation, government revenue, and to a great extent economic strategy and policy, have been focussed on raising funds based on the activities of the resident individual – be it from consumption (indirect tax) or employment (income tax and National Insurance). Whilst corporate productivity (and profits) would be expected to be increased by digitisation and technological innovation, the numbers of residents employed would decrease, at least temporarily, whilst residents are reskilled and/or rehired. This risk can be managed in a number of ways – development of new sectors to ensure new roles are created for the displaced to transition into, reskilling the displaced workforce to maximise their contribution to the economic success of the new sectors and upskilling the working population and future workforce to ensure they have the digital skills that will be required in the workplace of the future. Additionally, diversifying government revenues away from sources associated with individual consumption and employment to other forms of income will protect reserves from risks to employment and encourage diversification of the Island's economy into new sectors and sources of revenue, for example lease income from natural resources and a broader corporate tax base.

Consistent with many other developed economies, the Isle of Man's population is ageing, with the average age of the population increasing from 42 to 44 years between the 2016 and 2021 censuses – a meaningful shift in a short period. The Island has a strong trend throughout the past decade of low unemployment and high levels, relatively speaking, of unfilled vacancies. As of 2021, the pressure on

² PwC (2020) '[Upskilling the Isle of Man's workforce for a digital world](#)'

the Island's working population is greater than Jersey, say, due to a relatively high level of economically inactive residents – individuals of working age who are not in work and who are not seeking work (eg. students of working age, long term sick, stay at home parents, unpaid carers, disabled and retired individuals). Whilst further analysis in this area is required, we understand from feedback that availability and affordability of childcare is a key factor for some individuals in this position. However, perhaps more critical is the age distribution of the population: there is a large population of retired residents beyond working age, including migrants to the Island, which increases the burden on public services whilst not always being recovered or funded through individual taxation. Furthermore, growth in the working age population between 2016 and 2021 has largely been in older age groups with far fewer people in the 20-39 age bands and relatively few people below working age following them into the workforce; if not addressed, the size of the retired population relative to the working population will increase over time, placing further pressure on public services and government revenue. Lastly, over the past decade as domestic cost pressures have continued to burden lower to middle income households, wealth inequality in society has widened. In essence, the wealthy have got wealthier, and the disposable income of lower income households has reduced³. Young, skilled economically active people are highly sought after by countries of all sizes and thus the environment for attracting them to a jurisdiction or employer needs to be incredibly competitive. While for those at higher income levels there are clear financial advantages to living on the Island, the advantages to the younger demographics – who are more likely to be at lower to middle income levels due to the stage of their career – of living on the Isle of Man has eroded over time and it is no longer financially advantageous for such individuals to move to the Island rather than remaining in the UK, the UK being a key source of migration to the Island.

The lack of financial benefits, combined with stakeholder feedback that the Island's leisure amenities and housing stock are not of sufficient variety, affordability, or quality to attract, or just as importantly retain, a younger demographic has left it hard for businesses to attract new talent. It has been noted in stakeholder forums throughout our work that businesses believe that the difficulty in filling vacancies and attracting certain skilled labour is a constraint on their ability to grow. There are examples of multi-jurisdictional business locating roles off-island because of the challenges to attract talent. Given the lack of corporate taxation, there is little benefit to the Island financially from this scenario.

In a service economy there are basic elements that are required to be successful – talent and resources, in particular financial resources. Access to finance was noted by certain specific sectors and broadly across the domestic economy as a challenge, predominantly as traditional banking avenues are often not available or at unattractive commercial terms. This is primarily due to the global banking institutions operating on the Island having low risk appetite and, in some cases, risk management understanding of the characteristics of particular sectors is somewhat lacking. Without access to finance, the growth rate of business will be slower, there will be less investment into discretionary areas such as product development, innovation, and digitisation and overall tends to lead to less ambitious growth plans.

Due to the composition of government revenues noted above, the lack of growth in population has not only been a drag on the economy, but has also placed a strain on the ability of Government to invest in and develop public services in line with the needs of communities, and of businesses to provide amenities and offerings desirable to a younger population. To grow the economically active population of the Island and fuel economic growth, certain key elements of public services and policy need to be enhanced in order to promote inward migration, in particular by migrants below the average age of the current population, in order to reverse demographic trends. These would include areas such as provision of quality education, provision of quality healthcare, provision of affordable quality housing, affordability of childcare, and sufficient leisure and cultural amenities to retain and attract a younger population. In addition to services are policies that would address a currently uncompetitive net of tax position for young families and both environmental and social sustainability, which are of great importance to the younger working population and international business.

³ This applied even prior to inflation and energy price pressures being experienced in 2022.

How will economic success be achieved?

All of these factors need to be addressed in order to achieve optimal economic success. If the Island is not considered sustainable it will not attract or retain people or international business; without an appropriately sized, skilled and digitally-enabled workforce businesses will not be able to prosper; without rewarding careers and a high quality of life the Island cannot grow its population and without protection of existing enabling sectors, nurturing businesses in current key sectors to fulfil their potential and growing new sectors the Island's economy will not flourish. All of these areas are required for a strong and diverse economy and, as referred to in the body of this Report, they are interconnected and symbiotic with one another.

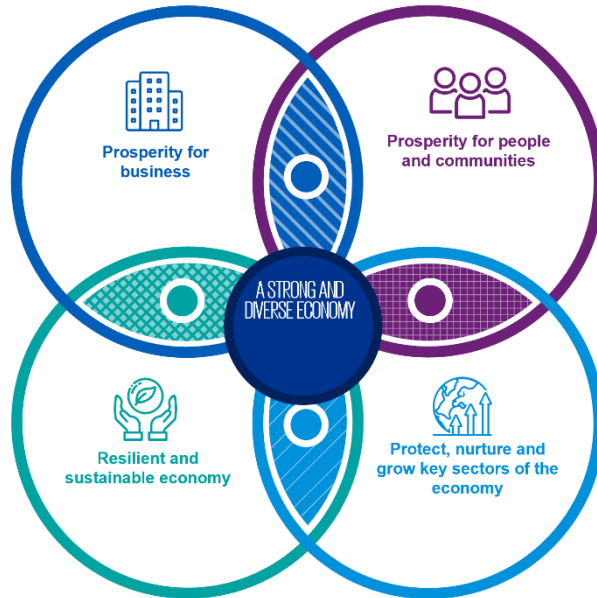
The economic strategy required to achieve the above will need to be ambitious and bold. Given the number of foundational elements in society that need to be addressed that are complementary to the economy, the scope of the strategic objectives and proposed interventions are broader than one might expect or might be seen in the economic strategies of larger developed nations.

We have developed a Strategic Economic Framework for the Island that is built on four key objectives with underlying sub-objectives. Each of the elements of the Strategic Economic Framework address managing the challenges, developing areas of weakness into strengths, playing to the Island's existing merits and enabling new sectors and revenue streams. These elements will be achieved through in-depth work to design tailored and targeted policies and reform to ignite economic success on the Island. This is a Strategic Economic Framework supported by an evidence base and one the business community will feel they have helped to shape, as set out in Figure 2 below.

Delivery on all objectives set out above will be required to achieve economic success. Economic success will translate into robust government revenues and drive societal-level prosperity that every resident should feel. The Island Plan is focussed on ensuring a good quality of life for all; without a thriving economy, this cannot be achieved. Similarly, a thriving economy cannot be achieved without strong foundations, including enabling social conditions, a strong business ecosystem and supporting infrastructure. Thus, the full delivery of the Island Plan is required to realise the economic vision.

Figure 2 Strategic objectives and example policy responses

The relationship between economic success, the business environment and the Island's people and communities is direct and symbiotic



Sub Objective	Prosperity for business	Prosperity for people and communities	Protect, nurture and grow key sectors of the economy	Resilient and sustainable economy
Examples	Policies and investments to build a start-up ecosystem and drive productivity and innovation: <ul style="list-style-type: none"> Access to finance measures Business support programmes Digital and technology adoption and infrastructure investment 	A package of measures to create a vibrant place for people to live and work: <ul style="list-style-type: none"> Education and skills strategy with a focus on upskilling and lifelong learning Quality Childcare and early education available and affordable for all Investments to provide infrastructure and amenities suitable for a larger, younger population Taxation reform to narrow inequalities 	<ul style="list-style-type: none"> Enhance legislation and regulation to be leading, relevant and support business and sectors growth Investment and support to capitalise on new opportunities including in offshore wind production, sustainable finance and data related services 	<ul style="list-style-type: none"> Modernise planning policy to drive sustainable energy, more affordable housing and improve business facilities Energy policy reform to permit multiple energy sources and drive a sustainable environment Sustainable tax policy measures such as green taxes on carbon emissions Taxation reform to adapt to international taxation but remain attractive to business

Economic Focus

Historically, the government has focussed very heavily on employment, and this has to some extent been successful, as reflected in the low levels of unemployment. However, over time this strategy has begun to negatively impact growth, as already referenced. Equally, by focussing on employment the Government has missed potential opportunities of revenue not directly related to employment. For

example, the Government has been slow to move forward in developing offshore wind opportunities due to the Island's focus on local employment rather than the bigger opportunity for seabed lease income.

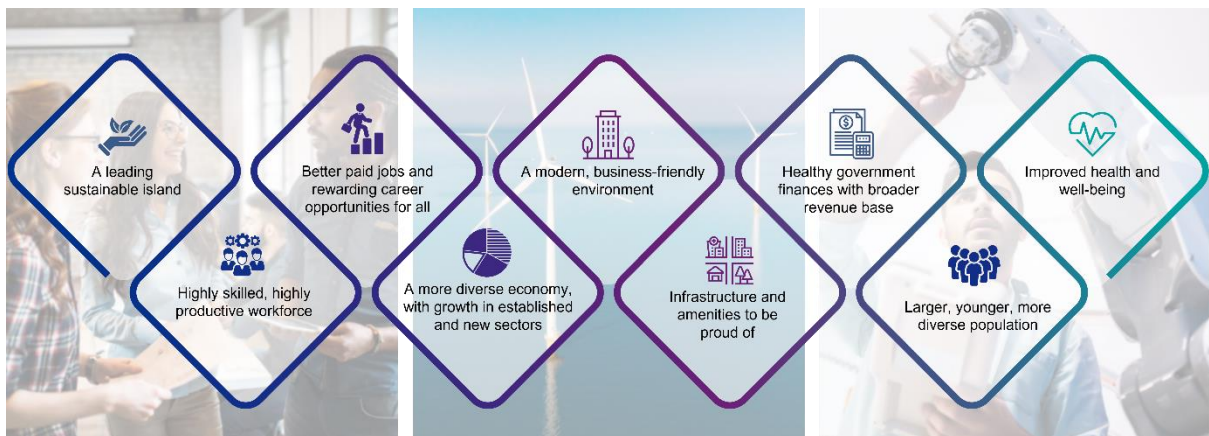
A shift in economic focus from employment to achieving a broader base of high value-adding opportunities and income streams will not only diversify revenue sources but grow them too. Diversification will also help to de-risk future pressures from employment disruption – be it temporarily whilst reskilling or while new sectors are coming online or the displacement arising from digitisation, especially within Financial Services. Further, the focus on alternative revenue streams will encourage innovation in the economy and new sectors.

$$\text{Government revenue} = \text{income from employment} + \text{income from companies} + \text{income from natural resources} + \text{income from consumption (goods or environment)}$$

Economic proposition

The driving forces behind the Strategic Economic Framework are both economic and social objectives that collectively lead to economic success. The Strategic Economic Framework is designed to achieve the outcomes set out in Figure 3 below.

Figure 3 A look into the future of the Isle of Man



These outcomes align well with the Island Plan. It is a vision that needs to resonate with residents of all ages and circumstances.

While this Report inevitably gives significant attention to the challenges the Island faces and ways in which the Island could strengthen and grow its economy, it is important to recognise that the Island has already achieved considerable success, attracting many businesses and residents who are proud to call the Island their home. We have received input from many of them during stakeholder engagement in connection with this work. Their passion and commitment to ensuring the Island meets its full potential has been evident in their willingness to give their valuable time and to share their thoughts, observations and experiences with us. We would like to acknowledge their invaluable input.

Ultimately to achieve this vision, as noted later in this report and in reports from earlier phases under the project, the ambition and risk appetite of decision makers need to be aligned throughout Government. Certain areas of government reform will be required to ensure decisions are made consistently with the Strategic Economic Framework and more timely than in the past. Decisions, where possible, need to be evidence-based with appropriate governance, such as accountability for

results. The level of policy and cultural change should not be underestimated, but following a strategy in a disciplined and committed fashion will align thinking and would drive a greater degree of success.

Closing

Growing the economically active population is vital to the growth of the future economy. In order to be achieved, this report recommends a broad range of policy focus areas. This is not simply a case of focussing purely on attracting more people to the Island. A focus is needed on the living conditions (housing, healthcare, education, sustainability (environmental and social), culture and amenities), the prosperity from residing on the Island being competitive (to ensure it is financially beneficial to move or remain on the Island) and rewarding careers being available on the Island. All of these will create a suite of pull factors to attract migration to the Island and encourage the young to remain on the Island.

The World Economic Forum (“WEF”) has said “Technologies are emerging and affecting our lives in ways that indicate we are at the beginning of a Fourth Industrial Revolution, a new era that builds and extends the impact of digitization in new and unanticipated ways”. The Fourth Industrial Revolution combined with opportunities arising from monetising the Island’s resources, driven by climate change and the ESG agenda, represent opportunities to continue diversifying the Island’s economy and government revenues.

In order for the population to be economically active, there needs to be a thriving business community operating in a well designed business environment. Achieving this will involve government taking a more active role in co-creating new sectors and helping all businesses remain relevant to their stakeholders by encouraging digitization, innovation and sustainability, among others, in a fast-changing world. These investments, through policy and incentives, will in turn drive improvements in productivity, lead to higher-paying job roles, more rewarding careers, economic growth and a higher contribution to government revenues through business and individual taxation. Further, the economy can grow not just based on its population working in businesses but by generating economic value from the Island’s existing resources, whether that is from brownfield sites, harnessing the energy from wind and sea or monetizing the value of data transmission through our skies. Recognition of this will lead to diversification in government revenues to pay for public services and allow the Island to evolve its role in global and domestic markets.

The Island’s economic strategy needs to focus on the broad package of measures discussed throughout this report in order to be successful and achieve its vision.

1 Executive Summary

1.1 Introduction

KPMG has been engaged by the Isle of Man Government to develop a Strategic Economic Framework to support the Island's economic performance for the next 5 to 10 years.

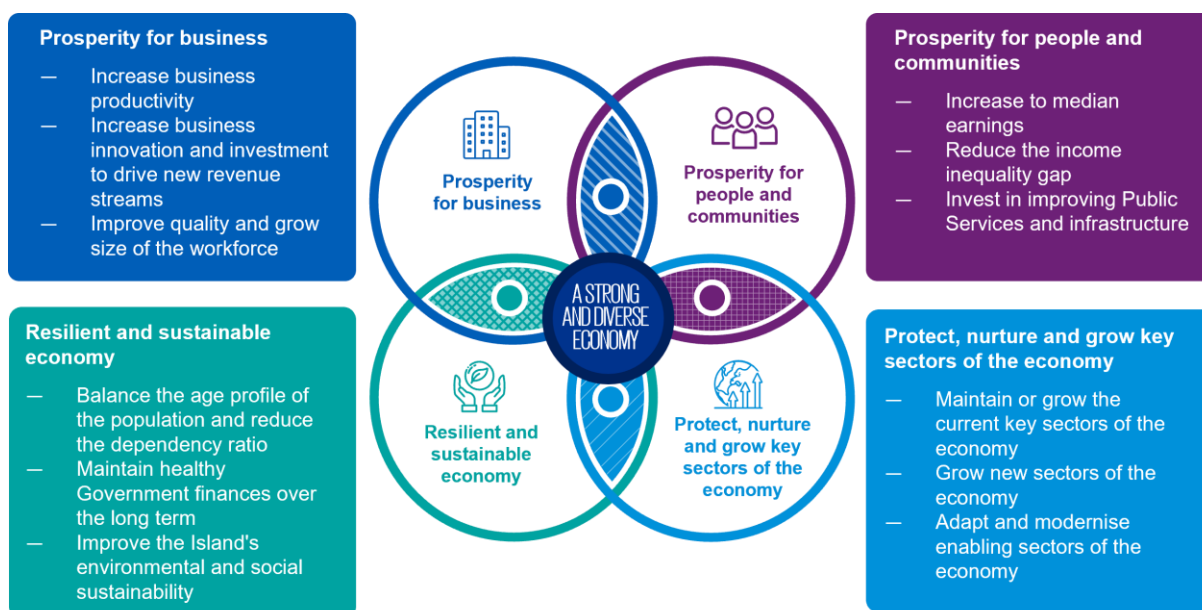
Having conducted a detailed analysis of the Island's areas of economic strength and weakness and having assessed the challenges and opportunities it faces in Phase 1 of the project, this Report sets out the resultant Strategic Economic Framework that summarises both those findings and details the proposed objectives and strategic priorities for the Island to focus on for the next 5 to 10 years in order to achieve its vision of a strong and diverse economy. Alongside this, a programme of high-level policy focus areas, and an outline of the proposed delivery approach that it is suggested should be adopted, have been developed to support IOMG to work towards achieving the Island's economic vision and objectives.

1.2 The vision for the Isle of Man's economy

IOMG's vision is for 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 of the Isle of Man.

In support of this, we have developed four strategic economic objectives for the Island, with sub-objectives developed against each, to reflect the areas identified as being important to drive **balanced, sustainable economic growth, productivity and employment** and, more broadly, to achieve each aspect of the economic vision. They have also been developed based on the evidence from our Phase 1 analysis of the strengths, challenges and opportunities for the Island, together with wider economic theory and evidence of the key components of a strong and diverse economy. The objectives and sub-objectives are summarised in Figure 1.1 below.

Figure 1.1 Strategic objectives and sub-objectives



All of the objectives are intrinsically interlinked, and the full potential of the Island's economy will not be reached unless there is success in all four areas. The objectives are symbiotic, and hence a well-coordinated response is required to achieve economic success, efficiently deliver overall economic, social and environmental value, and ultimately to deliver the Island's vision.

Together these objectives provide the foundations for the Strategic Economic Framework and the programme of work, as set out in Section 5.

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. In particular, the intention (as set out in the sub-objectives) is to: increase business productivity; increase business innovation and investment to drive new revenue streams; and improve the quality, and grow the size, of the workforce. 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 the headwinds (defensive) and fulfil their growth potential.

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. To achieve this, specific action needs to be taken to deliver against the sub-objectives of: an increase to median earnings; a reduction in the income inequality gap; and investing to improve Public Services and infrastructure. 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 – would contribute towards delivery of a reduction in income inequality and by being financially competitive to key migration target markets will improve the ability of the Island's businesses to effectively recruit off-island workers when required.

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. This is summarised into three sub-objectives, wherein the intention is for action to be taken to: balance the age profile of the population and reduce the dependency ratio; maintain healthy government finances over the long term; and improve the Island's environmental and social sustainability. 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.

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 the Island's enabling local service sectors as foundations for all sectors and the Island's communities. The sub-objectives linked to this are to: maintain or grow the current key sectors of the economy; grow new sectors of the economy; and adapt and modernise enabling sectors of the economy. 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 CSP's. In that particular case, it would also contribute directly to the Island's sustainability credentials.

The Strategic Economic Framework reflects the need for government action in each of these four areas – be this intervention in relation to services, such as education and skills provision, in relation to

infrastructure, or in terms of actions creating the market conditions for future prosperity, for example in relation to the tax and regulatory landscape. In respect of each of the domains where policy focus areas are identified within the Strategic Economic Framework, there is evidence from the Phase 1 analysis that, due to the persistence of the challenges, the trends observed over time and/or the external threats and headwinds, the Island will not succeed in meeting its economic vision without any Government action.

Equally, based on the evidence, there is little suggestion that the market would fully capitalise on the opportunities identified without initial support from Government, including in terms of creating the environment for success. Business stakeholders shared that the current environment is limiting the process of growth and that there is a need for greater agility, ambition and speed in pursuing potential new growth areas.

1.3 The Island's starting point

Understanding the current and historic performance of the Isle of Man is a crucial starting point for the development of the Strategic Economic Framework for the Island looking ahead for the next 5 to 10 years. This Strategic Economic Framework must be built on a robust evidence base to form a detailed understanding of the economic strengths and weaknesses of the Island. This will, in turn, lead to the identification of the available opportunities for growth and improvement, as well as the challenges that will need to be addressed.

In this regard, a review of the evidence presented in the Phase 1 Evidence Base Report ("Phase 1 Part 1 Report") is necessary as the foundation from which the strategic programme of policy focus areas has been developed. Key findings from this analysis are set out below and expanded in Section 3.1.

In terms of **economic performance**:

- Analysis shows that economic output has been steadily increasing, in GDP terms, over the last decade; however, much of this has been driven by a small number of strong sectors (eGaming and Insurance) and most other sectors have delivered flat or declining growth, in percentage terms based on constant prices. However, GDP does not fully reflect the prosperity of the Island's population, as it captures income associated with off-island activities of individuals and companies' resident on the Island. In addition to GDP, it is therefore necessary to consider other factors – such as employment and contribution to government revenues – in order to better to assess the impact of a sector on the Island's economy.
- While the Island's economy is somewhat more diversified than several comparator IFCs it is still concentrated in a relatively small number of sectors, leaving it exposed to the risks of external shocks and threats affecting these sectors.
- From a labour market perspective, the Island has sustained very low unemployment rates for over a decade, alongside growing numbers of individuals in employment. However, there is evidence of unfilled vacancies and difficulties in terms of availability of suitable employees for businesses to grow, leading to a drag on economic growth and the relocation of employment to other jurisdictions.
- The Island has a relatively high proportion of its population that is not economically active (c. 49% in 2021), driven largely by the age profile of its residents. Recent growth in the working age population is concentrated in the older age groups, with no growth in the proportion of the population in the 20-39 age bands and relatively small numbers under working age following them into the workforce. This suggests that, if unaddressed, the situation will worsen over time.
- Data on individual and household incomes presents a picture of widening inequality, with most income growth in recent years being enjoyed by those on higher incomes. Low wage growth combined with higher costs of living on the Island as compared to the UK (a key source of inward migration to the Island) creates a challenge for the Island in attracting and retaining people to fill roles that attract lower to middle salaries.

- In terms of government finances, the Isle of Man is in a relatively strong position, with budgets typically running a surplus over the last decade (excluding FY20/21 when a small deficit was run to fund COVID-19 measures).

In terms of the **business environment**:

- The Isle of Man is internationally well-respected in terms of regulation for the Financial Services and eGaming sectors, with high levels of political, legal, and regulatory stability.
- However, there are challenges and declining levels of satisfaction with respect to hotels and accommodation, reliable airlinks to international hubs, internet connectivity and availability of high-quality commercial facilities.
- Further, evidence shows an increasing proportion of young people on the Island are without necessary skills for the labour market, with particular gaps in soft skills, such as resilience and interpersonal skills. Challenges were also identified by businesses in being able to attract young professionals in many sectors to live and work on the Island.
- Many existing Island businesses are seen as having limited growth ambition and risk appetite consequently leading to under-investment, and there appear to be limited funding options for start-ups and scale-ups or for larger established businesses in certain sectors deemed 'high risk'.

In terms of the **population and Island community**:

- The Island was recognised by most stakeholders as an attractive place to live for those seeking to escape city life, with a beautiful and varied natural environment to explore, a good range of outdoor/sporting/cultural opportunities, short commutes and high levels of personal safety compared to many larger jurisdictions.
- Stakeholders expressed an overall sense that the quality, mix and price of the Island's housing stock is not a good fit for current needs, particularly those of younger economically active people.
- Evidence also suggested that improvements were necessary in terms of educational provision, healthcare services, hospitality and leisure amenities.
- While personal tax advantages are noted for higher income households on the Island, evidence also revealed that there are very limited tax advantages for households on lower to middle incomes, compared to the UK, and hence the financial advantage of remaining on, or moving to, the Island for such households is not clear, particularly when combined with comparatively high costs of living.
- Further, even prior to the current cost of living crisis, the cost of living on the Island was comparatively high and rising; the Island's most recent living wage analysis showing costs above UK levels for all household compositions analysed; significantly above UK levels in most cases.

In terms of the **technology-enabled** economy:

- The Isle of Man has sizeable technology-related economic activity relative to the Island's economy. The eGaming and ICT sectors combined account for approximately 25% of GDP and approximately 6% of on-island employment presenting significant areas of economic growth globally and the Island could achieve further growth in the development and delivery of digital services.
- Communications infrastructure on the Island is relatively strong, with multiple high-capacity undersea data links providing resilient connectivity and an accelerating roll-out of fibre internet services, which already passes over 60% of premises, and almost ubiquitous 4G coverage.
- However, in terms of skills, stakeholders have observed that digital skills of young people are lacking from the perspective of business needs, and relatedly, the Island has difficulty attracting young professionals from off-island with digital skills.

- Stakeholders also considered that digital government on the Island lags considerably behind leading jurisdictions, observed that the digital maturity of government services was low and that issues with the quality and availability of data limit the Island's ability to monitor the performance of the Island's economy and other relevant measures to the extent that would be desirable.

In terms of **sustainability**:

- The Island's performance on a range of hard measures relevant to environmental sustainability lags key competitors.
- While GHG emissions have been declining on the Island in conjunction with rising levels of GDP per capita, data for comparator jurisdictions suggests that on a per capita basis, the Isle of Man is not reducing GHG emissions at an equivalent rate which could deter opportunities for new businesses or residents to the Island.
- Overall, the Island's current performance does not position it well to attract and retain businesses that place significant value on environmental and social sustainability.

1.4 Strategic programme

In support of building on the strengths, addressing the challenges, and ultimately delivering the Island's vision, high-level policy focus areas have been identified. These cover areas where there is a strong rationale for intervention, based on the Phase 1 evidence and wider economic theory and literature, and where there is a clear role for Government to create the conditions for economic success of the Island.

While these policy focus areas have been aligned with particular strategic objectives, it is important to note that, due to the intrinsic interlinkages between the objectives within the Strategic Economic Framework and dependencies and co-relationships between each of the policy areas, the full potential of the Island's economy will not be reached unless a package of measures is introduced to deliver improvements against all four strategic objectives.

For example, **prosperity for people and communities** cannot be achieved in the absence of **prosperity for business** because it is through a prosperous business environment that rewarding employment opportunities are created for individuals and their communities. Equally, if the prosperity for people and communities objective is not met, individuals will have reduced incentives to stay on, or move to, the Island to live and work, stifling the ability of businesses to access the labour they need to succeed and grow. Similarly, a **resilient and sustainable economy** is a function of a prosperous business environment and the demographic composition of the Island's population; and a resilient and sustainable economy is critical in order to **protect, nurture and grow key sectors**, as well as to provide the foundations for growth in new sectors of the economy.

1.4.1 Prosperity for business

Given the intention to deliver **prosperity for business** through an ecosystem that supports and encourages entrepreneurship, innovation and investment, it is important that the strategic programme includes measures that create or enable the conditions for new and existing businesses to thrive. In particular, it is critical that the Isle of Man provides the right conditions to enable businesses to thrive and to attract new businesses to the Island, as well as support the success of start-ups and existing businesses, international and domestic. This requires a number of foundational factors, including high quality digital and transport infrastructure; a supportive government and regulatory conditions; a sufficiently sized, available and skilled workforce; and adequate access to finance to support business innovation and investment.

As such, policy focus areas identified under this objective include:

- Business growth support programmes and incentives;
- Access to finance;
- Business-focused digital and technology adoption and infrastructure investment;
- Refinements to regulation and regulatory remits;
- Migration;
- Employment enablement;
- Planning policy and legislation; and
- Education and skills

Specifically, the Economic Strategic Framework includes recommended policy focus areas for a package of policies and investments including: a new investment fund to enhance business access to finance; business support programmes, including intensive programmes targeting high growth potential, innovative firms; digital and technology adoption and infrastructure investments; and a recognition that the Island needs to remain attractive to business and globally competitive. The brief rationale for the inclusion of each focus area is set out in Table 1.1 below and discussed further in Section 5.2.

1.4.2 Prosperity for people and communities

Given the intention to deliver **prosperity for people and communities**, attracting and retaining a sufficiently sized and skilled economically active population to drive economic growth and provide the skills and human capital to enable start-ups and to retain and attract businesses, it is important that the strategic programme includes measures that create or promote an Island environment that is attractive to people, including high-quality public services and amenities, value-adding educational opportunities, rewarding careers and enhanced earning potential.

As such, policy focus areas identified under this objective include:

- Review of personal taxation;
- Childcare;
- Education and skills strategy;
- Household digital adoption;
- Health;
- Infrastructure investment and regeneration; and
- Housing.

In terms of attracting individuals to live and work on the Island and enabling **prosperity for people and communities**, the Isle of Man must offer high quality education and employment opportunities with a focus on rewarding careers and enhanced earning potential. Therefore, the Economic Strategic Framework includes recommended policy focus areas aimed at creating a vibrant place for people to live and work and share in the benefits of the Island's economic success, including: an education and skills strategy with a focus on upskilling and career-long learning; provision of quality and affordable childcare and early education for all; investments to provide infrastructure and amenities suitable for a larger, younger population; and a review of personal taxation to consider reforms to narrow income inequalities. The brief rationale for the inclusion of each focus area is set out in Table 1.2 below and discussed further in Section 5.3.

1.4.3 Resilient and sustainable economy

Given the intention to deliver a **resilient and sustainable economy**, which is sustainable over the long term, with a more balanced age profile, healthy government finances and having regard to the need for environmental and social sustainability, it is important that the strategic programme includes measures that promote or support those aims. In order to ensure **resilience** of the Island and its economy,

economic growth needs to be **sustainable**. This will support the Isle of Man to deliver long term improvements in economic, social and environmental outcomes, extending beyond GDP increases.

As such, policy focus areas identified under this objective include:

- Implementation of the OECD “Two-Pillar” solution;
- Wider review of corporate taxation;
- Environmental and social sustainability; and
- Monetisation of renewable natural resources.

Specifically, the recommended policy focus areas include modernisation of planning policy to drive sustainable energy adoption, the provision of more affordable housing and improvements to business facilities; energy policy reform to permit multiple energy sources and drive a sustainable environment; and sustainable tax policy measures. Furthermore, several of the policy focus areas identified under the ‘prosperity for people and communities’ objective also contribute to the achievement of this objective, particularly with regard to balancing of the Island’s age profile through greater appeal to young people. The brief rationale for the inclusion of each focus area is set out in Table 1.3 below and discussed further in Section 5.4.

Table 1.1 Summary of policy focus areas mapped to existing initiatives – Prosperity for business

Main Objective	Policy Area	Driving body	Existing/Planned Strategies and Initiatives	Rationale for inclusion
Prosperity for business	Business growth support programmes and incentives	DfE	Policy response to be scoped	Support firms in developing skills, knowledge and connections to enable them to invest, innovate and grow.
	Access to finance	DfE	Policy response to be scoped	Ensure firms have access to the financing they need to increase growth, productivity and employment.
	Business-focused digital and technology adoption and infrastructure investment	DfE	Policy response to be scoped	Improve competitiveness of firms by expanding the use of technology in core and emerging sectors, raising productivity and increasing output.
	Refinements to regulation and regulatory remits	CABO	Policy response to be scoped	Make the Island an attractive home for existing and new businesses by ensuring regulation is a good fit for current and future needs of businesses and consumers.
	Migration	DfE	Locate Strategy	Ensure that the Island can attract people with the skills and knowledge required by current and prospective businesses that cannot be sourced locally.

Main Objective	Policy Area	Driving body	Existing/Planned Strategies and Initiatives	Rationale for inclusion
	Employment enablement	DfE	Workforce and Skills Strategy	Ensure that the existing and prospective future workforce have the incentives, support and working conditions to enable and encourage them to enter or remain in the workforce.
	Planning policy and legislation	CABO	Manx Development Corporation; Housing and Communities Board	Support the development of the infrastructure required for existing businesses to enable the growth of key existing and target sectors.
	Education and skills	DESC + DfE	Workforce and Skills Strategy; Manx Reskill Scheme	Ensure firms have access to people with the skills aligned with current and anticipated future industry needs.

Table 1.2 Summary of policy focus areas mapped to existing initiatives – Prosperity for people and communities

Main Objective	Policy Area	Driving Body	Existing/Planned Strategies and Initiatives	Rationale for inclusion
Prosperity for people and communities	Review of personal taxation	Treasury	Tax Strategy	Ensure that the Island is a financially attractive place for economically active people at all levels to address demographic challenges.
	Childcare	DESC + DfE	Childcare Strategy	Encourage more people into the workforce through the availability and affordability of high-quality childcare for economically active people at all levels: both current and prospective residents.
	Education and skills strategy	DESC + DfE	Workforce and Skills Strategy	<p>Ensure that the high quality of educational opportunities on-island serves to attract and retain economically active people, including those with young families.</p> <p>Ensure firms have access to people with the skills aligned with current and anticipated future industry needs</p>
	Household digital adoption	DfE	National Telecoms Strategy/National Broadband Plan	Ensure households at all levels have access to high-speed digital connectivity, enabling them to participate fully in an increasingly digitally-enabled society, reducing inequality, improving productivity and skills, and spurring innovation.

Main Objective	Policy Area	Driving Body	Existing/Planned Strategies and Initiatives	Rationale for inclusion
	Health	DHSC	Health and Social Care Transformation Programme	<p>Ensure that the high quality of healthcare provision on-island serves to attract and retain economically active people, including those with young families and those who wish to have access locally to private facilities.</p> <p>Support the maintenance of a healthy working age population, with the associated benefits to productivity.</p>
	Infrastructure investment and regeneration	MDC	Manx Development Corporation	Ensure the Island has a built environment with the right mix of culture and leisure facilities to attract and retain economically active people.
	Housing	DoI	Housing and Communities Board	Ensure the Island has a built environment with the right mix of housing to attract and retain economically active people at all income levels.

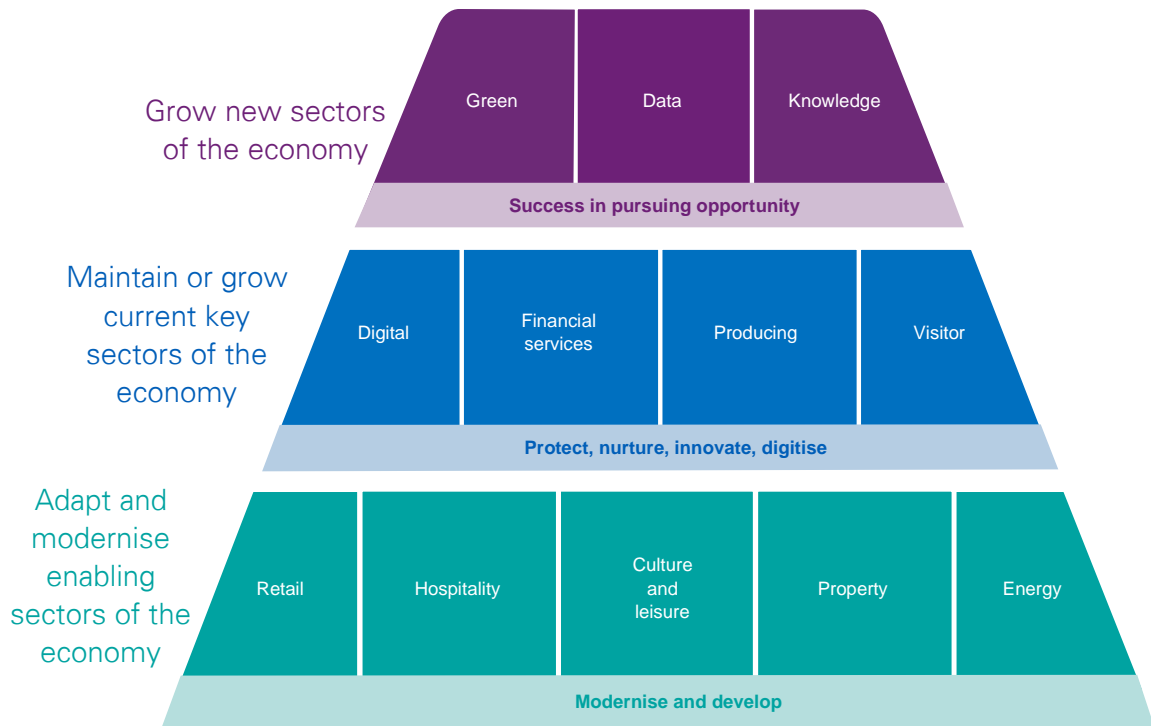
Table 1.3 Summary of policy focus areas mapped to existing initiatives – Resilient and sustainable economy

Main Objective	Policy Area	Driving body	Existing/Planned Strategies and Initiatives	Rationale for inclusion
Resilient and sustainable economy	Implementation of the OECD "Two-Pillar" solution	Treasury	Tax Strategy	Increase diversification of government revenues while minimising negative impact to the Island's competitive position.
	Wider review of corporate taxation	Treasury	Tax Strategy	Increase diversification of government revenues while minimising negative impact to the Island's competitive position.
	Environmental and social sustainability	DEFA	Policy response to be scoped	Ensure that the Island meets the expectation of progressive businesses and younger people in its sustainability performance.
	Monetisation of renewable natural resources	DEFA	Policy response to be scoped	Increase diversification of government revenues.

1.4.4 Protect, nurture and grow key sectors of the economy

In addition, the Isle of Man must develop a strategy **that protects, nurtures and grows key sectors of the economy** by: adapting the foundational, domestic components of the economy; building on the Island’s current sectors strengths; and embracing new opportunities in emerging sectors. The sector selection, as presented in Figure 1.2 below, has been derived from the work carried out in Phase 1 using KPMG’s subject matter experts, strategists, alliance partners and the business community.

Figure 1.2 The focus of the future economy by sector



The Strategic Economic Framework includes recommendations on policy focus areas including enhancements to legislation and regulation to be leading, relevant and support business and sectors growth; and investment and support to capitalise on new opportunities including in the green economy, sustainable finance and data-related services. The focus areas are important to ensuring that the Island’s existing sectors remain relevant to their future markets, that the Island successfully develops new strong sectors and the enabling sectors.

Furthermore, several of the policy focus areas identified under other objectives – particularly ‘prosperity to business’ – are also relevant to development of the Island’s sectors. For example, targeted business support and incentives could be used to target innovation in existing sectors or the attraction of businesses in new growth sectors. Measures associated with this objective are discussed further in Section 5.5.

1.5 Outcomes associated with successful delivery

Upon the Isle of Man successfully implementing an ambitious programme of policy interventions across each of the four core objective areas of the Strategic Economic Framework it is likely to make tangible progress in addressing the challenges already being faced by the Island, be more resilient in the face of future threats and headwinds, and benefit from the identified areas of opportunity.

The expected outcomes associated with this, including examples, are likely to include:

- A more **dynamic business environment**: including a higher rate of business start-ups on the Island, more businesses, and a higher level of business growth, driven by increased business investment (domestic and inward investment), innovation, and export activity. For example, measures to improve access to finance would enable more businesses to make the investments necessary to innovate their products and services to reach new markets.
- **Higher levels of productivity** (measured in terms of output per job): driven by improvements in business performance, growth in sectors of the economy that are higher value-adding, and through improvements to the education and skills levels of the workforce. For example, measures to improve the business-ready skills of school leavers would provide an immediate boost to the productivity of firms hiring entry-level staff.
- A more **highly-skilled current and future workforce**: with skills that better meet business demand and where skills are continually developed through an individuals' life to better future proof their employment opportunities and provide evolving career paths. For example, better coordination between educational providers and industry to anticipate and address emerging skills needs would increase the number of skilled workers available to industry, increasing the international competitiveness of the Island and its firms.
- An overall **higher wage economy**: driven by improved business and macroeconomic performance, new employment opportunities in higher value adding sectors, and through the higher skills levels of the workforce. For example, measures to support individuals in roles at risk of automation in acquiring new in-demand skills would improve their job prospects and earnings potential in emerging sectors and free up low paid workers to be reskilled into new sectors filling resource gaps.
- **Infrastructure and amenities** that the Island can be proud of including more housing and cultural and leisure facilities, driven by investment by Government where needed to kick-start private sector development, and by improvements in the business environment, including in relation to planning policies, which will help to leverage in greater levels of private sector investment. For example, measures to improve the availability and affordability of housing to buy or rent for young economically active people would remove a significant barrier to individuals and families considering relocation to the Island, bolstering the Island's workforce.
- A **larger population**: with a **younger, more diverse** mix of individuals, driven by improvements in the Island's infrastructure and amenities, a competitive and fair tax environment, and the improved business environment and business and sector growth that will create more rewarding job opportunities to help retain more young people on the Island and attract new residents. For example, tax measures to ensure that take home pay and net discretionary income for individuals that is competitive to migration target markets would reduce labour shortages in the affected sectors, improve the dependency ratio and enable growth in a younger population.
- A **regulatory environment**: where the overall cost of compliance burdens are lower, supportive regulatory frameworks are developed for new and growing areas of the economy, and where digitisation drives an improvement in the ease of doing business. For example, expanding the remit of the Island's regulators to include focus on competitiveness and innovation of the jurisdiction, such as support the credible delivery of a range of Sustainable Finance products that would potentially open up new markets to existing Island businesses and attract new businesses with innovative products in the space to set up on the Island.
- A **cleaner, greener Island**: where commitments around carbon neutrality are met over time, driven by a progressive and ambitious approach to pursuing environmental sustainability, including through growth opportunities in green sectors of the economy. For example, offering incentives or facilitating investment in promising green technology companies could encourage the growth of a hub on the Island.

These expected outcomes of intervention are summarised in Figure 1.3 below.

Figure 1.3 A look into the future of the Isle of Man



These transformational changes, delivered through the implementation of the Strategic Economic Framework and supporting package of measures, if effectively delivered, should strengthen and diversify the Island's economy which should also be reflected in improvements in key macroeconomic variables that are used to assess the overall economic performance of the Island. In particular, improved macroeconomic performance, should be reflected in higher levels of economic output (GDP) and employment in aggregate terms, and with more diversity across sectors.

In order to assess the potential future macroeconomic performance of the Island as part of the Strategic Economic Framework development, a set of interlinked macroeconomic and tax models have been built that model and forecast key macroeconomic indicators for the Isle of Man economy over a 5 to 10 year time horizon.⁴ These models have been used to understand the potential "do nothing" outlook for the Isle of Man economy and a downside scenario from this baseline as well as to assess the impact of policy interventions, which are modelled as shocks to the economy⁵.

Detailed forecast estimates arising from each modelled scenario are given in situ throughout the report, and, in summary indicate that under the baseline 'do nothing' scenario (and the downside scenario), the Isle of Man economy stands to perform less favourably in terms of key indicators (including GDP and fiscal revenues) than if selected interventions are carried out.

For example, an illustrative scenario has been modelled to reflect the impact of policies that would improve the Island's labour productivity (output per unit of labour input). This may arise as a result of a range of policy interventions that improve business performance, such as measures to boost investment and/or innovation (including access to finance and business support measures), as well as through education and skills policies that raise the human capital of the workforce (including through reskilling

⁴ It should be noted that the models were developed utilising existing macroeconomic data for the Island (which largely relates to the pre-COVID-19 period), while filling in any key wider data gaps with proxy estimates based on an economic literature review and information from benchmark economies. Due to data availability, the model was developed on the basis of the Island's pre-COVID-19 economic structure and relationships (e.g., in terms of sector linkages and agent behaviours) which one would expect to have altered during and post-COVID-19, albeit to unknown extents. Therefore, the model will need to be updated when Isle of Man economic data covering the COVID-19 period (in particular GDP data) becomes available. The assumptions and results produced by the current model, however, have been cross referenced against some data that does relate to the COVID-19 period (e.g. unemployment data), although this data is not directly applicable for use as inputs or parameters in the model itself.

⁵ For the non-tax policy assessment, our macroeconomic framework relies on the economic growth accounting equation derived in the Solow-Swan model (1956) where economic growth is broken down into labour growth, capital stock growth and total factor productivity.

and upskilling programmes) relative to the baseline forecast (see further below for details of the baseline forecasts).

This modelling forecasts that if **policies are introduced that, as an illustrative example, increase labour productivity growth to 4.4% per year** from the fourth year of the forecast period compared to 2.6% annual growth in the baseline⁶:

- Real GDP would reach £9.5bn in 2029/30, £1.5 billion higher compared to the baseline forecast;
- Personal income tax revenues would reach £343.3m in 2029/30, £39.8m higher compared to baseline; and
- Tax revenues from National Insurance Class 1 contributions would also increase to £335.0m in 2029/30, £43.0m higher compared to baseline.

A separate illustrative scenario has been modelled to assess the potential macroeconomic effects of increases in the Island's labour force (number of workers), which would be expected to arise as a result of interventions to attract and retain more young people on the Island as well as measures to support individuals to develop and maintain the skills required to take advantage of new sector growth opportunities and future-proof their careers against external threats, such as those brought about by digitisation. It should be noted that the Island's infrastructure would need to be significantly enhanced to have capacity to service a considerably larger population and the achievable increase in the population would need to be determined.

Under the **illustrative scenario of measures being introduced that are able to gradually increase the Island's workforce by 20,000 in total by 2029/30** (to reach 55,000), the modelling forecasts that:

- Real GDP would reach £10.2bn in 2029/30, £2.2bn higher compared to the baseline forecasts⁷;
- Personal income tax revenues would reach £364.3m in 2029/30, £60.8m higher compared to the baseline forecasts;⁸ and
- Tax revenues from National Insurance class 1 contributions would also increase to £384.9m in 2029/30, £92.9m higher compared to baseline⁹.

While all the results set out are illustrative and there remain uncertainties about the ability of the Island to achieve these levels of output and government revenues, they are indicative of the potential order of magnitude improvements in macroeconomic performance that *could* be achieved through an ambitious package of policy measures, targeted in priority areas. A combination of measures that both support the employment of a greater number of people in the Island's workforce, and increase the productivity of those workers, could have the potential to have more substantial impacts than those modelled in the above scenarios, which analyse each of these two effects in isolation.

⁶ In the period from 2016 to 2020⁶, IOM's labour productivity has observed a growth ranging between 0.5% to 5.5% and an average growth of 2.5%.

⁷ The Real GDP is higher under the increased labour force scenario compared to the increased labour productivity scenario because the shock to the labour force (from 1.1% annual growth in the baseline to 4.5%) is significantly higher than the shock to the labour productivity (from 2.6% annual growth in the baseline to 4.4%).

⁸ The personal income tax collections per-capita are lower compared to the baseline because of the following reasons: a) the pass through of increase in labour force to GDP is not complete i.e. a 1% increase in labour force leads to 0.8% increase in GDP b) increase in employment increases labour supply that in turns puts downward pressure on wages resulting in offsetting impact on personal tax collections c) personal income tax includes taxes on labour income and other income (property, dividends etc). For the scenario modelling, other income and taxes from other income grows at the same rate as under baseline scenario resulting in lower personal income tax collections per capita compared to baseline.

⁹ NI tax revenues per-capita are lower than the baseline due to the two above reasons a) and b) and given the regressive nature of NI tax where the effective tax rate falls after a certain wage threshold.

However, without any Government intervention in the form of the implementation of the Strategic Economic Framework and supporting package of measures, there are considerable uncertainties about the future outlook of the economy, driven by the many challenges and threats facing the Island. Due to the nature of these factors, they would act as domestic and external shocks to the economy.

In our **baseline “do nothing” scenario**, where post modelling adjustments have been made to the forecasts to capture these idiosyncratic risks, the economy is expected to grow at a rate of approximately 3.7% per year (in real GDP terms)¹⁰ and the baseline scenario forecasts:

- Real GDP of approximately £8bn in 2029/30, up £2.5bn from 2019/20; and
- Employment of approximately 39,698 in 2029/30, up approximately 4,000 from 2019/20, with an average annual growth rate of approximately 1.1% (and an unemployment rate of approximately 1.4% vs. an average of 1.1% in the five years up to 2019/20).

However, there are also potential downside risks to achieving these outcomes given uncertainties in the economic outlook. In the modelled **downside scenario**, in which the Island’s key sectors of financial services and digital perform less well compared to the baseline, real GDP of approximately £6.2bn and employment of approximately 37,192 is forecast for 2029/30.

It should be noted that for a range of reasons, including gaps in post-COVID-19 data for core modelling inputs and the likely structural changes in the economy, the nature of the Isle of Man economy and its high exposure to large domestic and external shocks, and as the detailed policy designs have not yet been developed, all model outcomes should be interpreted as medium-term forecasts and actual parameters for the Island might differ from the proxy estimates. All results, are for illustrative purposes and should be considered with these points in mind. Further details of modelling assumptions are given in situ throughout the report.

1.6 Delivery against the Strategic Economic Framework

Delivering against this Strategic Economic Framework will involve **an extensive and challenging programme of work**, requiring **close collaboration and coordination both across Government and with external stakeholders**. Given uncertainty regarding the content of policies and strategies that will be accepted for development it is not practical at this stage to develop detailed costings or delivery plans, but this section sets out relevant principles informed by observations received from stakeholders during the course of our work.

We recommend that the following high-level **guiding principles** are adopted by the transformation programme required to deliver against this Strategic Economic Framework:

- **Sustained commitment to the Strategic Economic Framework in all policy setting and an equal focus on short, medium and long-term objectives and results.** Feedback received has indicated that IOMG tends to be too short-term in its outlook. It will require significant resolve to ensure that reaction to short-term pressures does not undermine pursuit of the Island’s long-term strategic objectives.
- **Transition to economic policy decision making where economic, social and environmental value is maximised.** Recognising that economic growth at all costs is not consistent with the principles set out in this Report or in the Island Plan, decisions regarding pursuit of particular policies should have regard to their social and environmental impacts in addition to their economic effects.

¹⁰This is in line with the recent growth path of the economy and takes into account an expected mild slow-down in the financial services and digital sectors.

- **Government reform to drive the successful delivery against the Strategic Economic Framework, including centralised coordination and a culture of monitoring, evaluation and accountability.** A need for reform in the way IOMG works was widely recognised by stakeholders. As noted in this Report, the various strategic objectives required to deliver the Island's economic vision and policy focus areas associated with them are closely intertwined. Failure to recognise this and coordinate action between participating groups may lead to suboptimal allocation of resources, ultimately leading to efforts falling short in delivering against the objectives.
- **Leveraging the skills and investment appetite of the private sector, with Government acting as an enabler to delivery.** Developing and implementing policy interventions and pursuing opportunities intended to grow the Island's economy will achieve the most impact by involving industry closely throughout the process. Depending on the circumstances this could range from consulting on changes through to having private sector organisations directly involved in delivering change projects, investing in capital programmes, or delivering services on behalf of government.

In terms of funding, while individual measures and the overall programme of work will require detailed costing, when policies/initiatives are fully developed and prioritisation decisions have been made, it is evident from the scope and nature of measures identified that **to achieve the desired objectives will require significant levels of funding to be committed.** IOMG has numerous options to meet funding requirements – including tax changes (in particular from implementation of the OECD Two-Pillar Solution), realisation of new revenue streams, efficiency savings, prudent use of reserves, prudent use of borrowing and the possible use of public-private partnerships to fund the development of infrastructure and amenities. **Successful execution of the strategy would be expected to lead to additional growth and sustainable public finances in the long-term.**

Further, each policy proposed is expected to provide future economic, social and/or environmental benefits. These benefits include cash releasing benefits (such as increased tax revenues) and non-cash releasing benefits (such as improvements in wellbeing). These cash releasing benefits may arise directly (e.g., through increased employment or changes in tax rates) or indirectly (e.g., through skills improvements which will increase the earnings of individuals over time and therefore their personal tax contributions) and may take some time to materialise. While it is expected that there will be incremental government revenues over time, these will arise at different phases in the growth cycle upon execution of the Strategic Economic Framework. As a result, government will need to invest in policies and initiatives ahead of the benefits being generated and this will lead to a net cash outflow in the earlier periods of the economic development. The extent of net cash outflow would be expected to reduce over time as economic growth builds and is ultimately accretive.

Careful **prioritisation** and **timing** of measures could reduce wasted time and costs and importantly improve the impact of the intervention. For example, measures designed to encourage a significant increase in inward migration should not be pursued until IOMG has taken measures to ensure associated housing needs could be met. This will lead to complexity but will be vital to success. This can be done once the specific measures in each of the recommended policy focus areas have been completed by the relevant Government department.

While effective execution should be supported by a comprehensive programme management plan – consistent with the principles set out in the Island Plan – we would characterise the work required as being divided into three broad workstreams, which are also visualised in Figure 1.4 below:

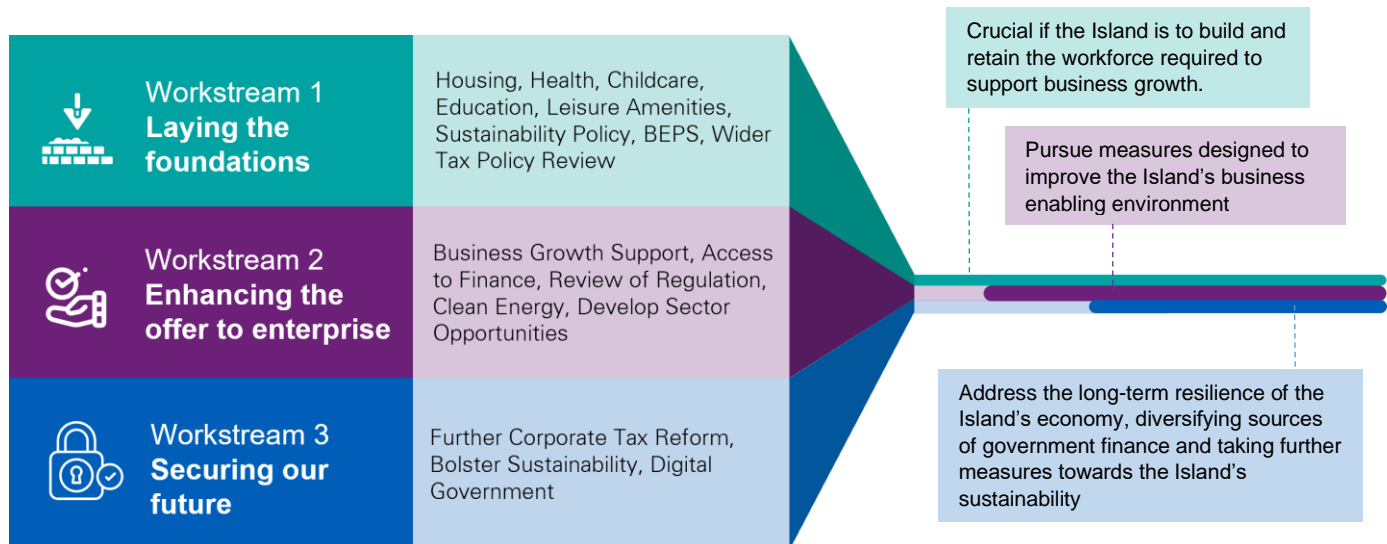
- **Workstream 1: Laying the foundations:** addressing matters that have been identified as foundational to the Island's future success, predominantly relating to its attractiveness to people, which will be crucial if the Island is to build and retain the workforce required to support business growth. Work in many of these foundational areas is already underway in connection with the broader Island Plan.

- **Workstream 2: Enhancing the offer to enterprise:** pursuing measures designed to improve the Island’s business enabling environment, including the provision of targeted assistance to support the growth of existing businesses and to attract new business to the Island.
- **Workstream 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.

Given the nature of the measures included under each phase, we anticipate that there would be scope to get work underway on some Workstream 2 measures at an early stage, although impacts may be constrained in the absence of substantial progress on Workstream 1.

Once commenced, we anticipate that all workstreams would continue to run along in parallel indefinitely. While individual measures associated with each will develop to the point that they become ‘business as usual’, we recommend that Government continues to identify appropriate ‘next moves’ within each area, recognising and responding to emerging challenges before they reach a critical stage.

Figure 1.4 High-level roadmap



1.7 Monitoring delivery against the Strategic Economic Framework

Phase 4 of our work will include the development of a detailed monitoring plan and associated dashboard of metrics. This will require establishing relevant monitoring indicators, as well as determining the systems, data collection points and reporting structures that will be needed.

In addition to the work under Phase 4, as section 6.3 notes it will be critical to create a forum charged with responsibility for the overall delivery of the Strategic Economic Framework and other underlying or linked strategies. This should help to provide energy, focus and accountability to drive delivery.

1.8 Next steps

Beyond completion of delivery of the remaining work required as part of 'Our Big Picture', Section 7 of this Report sets out a number of next steps for the Government to consider, such as:

- setting out positions on taxation, reserves and sustainability which underpin work on other policy focus areas;
- conducting further research to better understand key challenges identified in Phase 1, such as labour market participation, skills, housing, cost of living and a place-based regeneration, in order to support well-targeted policy interventions;
- build momentum by identifying and delivering against quick wins and taking tangible steps to explore specific high-impact opportunities.

2 Introduction

2.1 Background and context

KPMG has been engaged by IOMG to develop a Strategic Economic Framework for the Isle of Man to support the Island's economic performance for the next 5 to 10 years. The production of an economic strategy was conceived as part of the Island's Economic Recovery Plan following the onset of the COVID-19 pandemic. The work was commissioned in the final months of the prior administration with the intention that it would provide independent insight for the new administration, allowing it to set the Island on a course to achieve sustainable economic growth over the following 10 years.

The project is split into five phases, with phases 0 to 3 now complete:

- In Phase 0 (Kick-off, Vision and Strategic Themes) we gave Tynwald members and members of the business community the opportunity to articulate their vision for the Island's economy in 2030 and the themes underpinning that vision as a basis for exploration during subsequent phases. The starting points for this exercise were the vision and themes set out by IOMG in the Invitation to Tender for the project. These have since been updated in IOMG's 'Our Island Plan'¹¹.
- Phase 1 (Research and Review) involved building a picture of the Island and its economy as it currently stands and identifying potential economic opportunities in consultation with subject matter experts across a range of sectors.
- Phase 2 (Develop Policy Levers) considered high level policy options available to IOMG to capitalise on opportunities and address challenges as well as assessing the economic and wider impacts of those options to support political decision making¹².
- In Phase 3 (Strategic Economic Framework) we draw together the evidence base and policy levers development work and, having received input from political decisionmakers regarding agreed direction, a high-level action plan has been developed to support delivery of the agreed objectives. This Report is an output of this phase of work.
- In Phase 4 (Monitor Delivery of High-Level Action Plan) an approach will be developed to enable IOMG to monitor delivery against the high-level action plan and its objectives on an ongoing basis, including the development of a dashboard of key indicators.

This report sets out the conclusions of our work in Phases 2 and 3. It is intended to provide IOMG – and particularly the political administration – a clear understanding of:

- The objectives for the Island to focus on to achieve its economic vision, including the rationale supporting the prioritisation of these objectives.
- The policies and interventions which could be pursued to help to achieve the economic objectives and vision, including those that aim to address the challenges, and support the opportunities, identified in Phase 1.
- How the strengths of the Island can be leveraged to deliver the strategic objectives.
- Our view on guiding principles IOMG needs to adopt in order to deliver the change required.

¹¹ Isle of Man Government (2022) ['Our Island Plan: June 2022 Interim Update'](#)

¹² As per direction from IOMG, the criteria for policy assessment was expected to be high level.

2.2 High level approach to the development of the Strategic Economic Framework

2.2.1 Phase 0

The Strategic Economic Framework, set out in this document, has been developed to deliver against the ambition and vision set for the Island in IOMG's Our Island Plan. That vision was informed by preliminary vision testing conducted with stakeholders during Phase 0:

During Phase 0 we facilitated a series of workshops with (i) members of Tynwald, (ii) representatives from across the Island's business community.

- During these sessions, we first sought participants views on the appropriateness of the vision statement and underpinning themes set out in the tender document.
- We then broke out into smaller groups to discuss the participants' views around the critical elements to their understanding of the key themes and the key opportunities and challenges they saw as arising from the for the Island's economic development.
- Following the sessions, we synthesised the information collected, producing a tentative vision and information describing the significance of four strategic themes.

2.2.2 Phase 1

The Strategic Economic Framework is also built on a detailed evidence base of the Island's areas of strength, weakness, opportunity, and challenge, drawn together through an extensive process of data and evidence gathering, analysis and review.

In Phase 1, the current economic structure and performance of the Island was assessed, using a wide range of indicators and metrics. This involved collating, reviewing and analysing existing data over relevant time periods and against appropriate benchmark jurisdictions with a view to establishing the relative and absolute position of the Isle of Man in a global context. New data was also obtained through primary research to address key identified gaps in evidence base.

The quantitative data described above was supplemented by stakeholder views on the Island's strengths and weaknesses distilled from a series of one-to-one interviews with senior business leaders representing some of the Island's largest businesses and workshops with the executive agencies of the Department for Enterprise, Locate Isle of Man the Chamber of Commerce. Further views were also communicated to the project team on an ad hoc basis.

The findings set out in the Phase 1 Part 1 Report¹³ were presented to the Council of Ministers and their views were sought. The observations arising from the Phase 1 Part 1 Report form the foundation to the Phase 2 work, in which proposed policy levers were initially developed.

During Phase 1 we also engaged with subject matter experts throughout the KPMG network and with our alliance partners with expertise in a variety of domains, including: Biotech, Cannabis, Digital, eGaming, Financial Services, Green Economy, Skills, Space/Aerospace, Visitor Economy. They were given limited background regarding the Island and its economy and were asked to identify potential opportunities for the Island's economic development. These ideas have not been formally qualified but were fed back to relevant stakeholder groups as part of stakeholder engagement at the conclusion of the phase.

¹³ KPMG (2021) 'Phase 1 Evidence Base Report'

2.2.3 Phase 2

Having identified the Island's strengths, challenges and areas of opportunity, and in light of the associated economic theory regarding their respective impact on economic performance, an initial 'long list' of high-level policy options was developed. This policy development focussed on identifying and assessing policy levers which could be pursued to achieve the future economic vision for the Isle of Man (i.e. their strategic fit with the ambitions for the Island) and to address the challenges and opportunities identified in Phase 1 in areas where there is a clear rationale for government intervention.

Having refined the list of high-level policy options in consultation with IOMG, a prioritisation framework was developed to appraise the remaining potential policies. This established a series of criteria against which the high-level policies could be assessed in an objective and transparent way. This framework includes criteria to assess the proposed policies in terms of:

- strategic fit for the Island, based on the extent to which they would support the achievement of the Island vision and objectives and the strength of the evidence of a clear rationale for government intervention;
- potential value for money, based on an appraisal of the potential economic, social and environmental impacts of the policies versus the potential costs;
- potential affordability, including the high-level scale of financial costs of intervention and the wider impact of the intervention on government finances; and
- deliverability of the intervention, taking into account risks and resource constraints.

The assessments of the policies taken forward for development, against the prioritisation framework, are included in the Appendices. These assessments draw on the evidence gathered in Phase 1, wider evidence gathered in relation to the implementation of similar policies in both other jurisdictions, and from stakeholders within the Isle of Man Government, particularly in relation to the deliverability-related assessment criteria. Additionally, the assessment was supported by bespoke economic modelling conducted for the Isle of Man economy.

It should be noted that the work commissioned by IOMG was to identify high level policy proposals, which, if subsequently taken forward, IOMG recognised would require additional specific pieces of work to investigate the policies further, with a view to developing the proposals into specific projects with deliverables. Therefore, the level of detail both in relation to the specifics of the policies, such as their costs and how they would be implemented, and the granularity of the assessments of the economic impacts and wider value for money of the proposals is limited and further assessments would be needed when the policy proposals are further developed and refined.

2.2.3.1 Modelling approach

Through Phases 1 and 2 of the project, a bespoke framework was developed to model and forecast key macroeconomic indicators of the Isle of Man economy over a 5 to 10 year time horizon. This framework consists of a set of interlinked macroeconomic and tax models which are used to assess the impact of alternative policy levers on variables of interest for IOMG including Gross Domestic Product (GDP)¹⁴, the unemployment rate, sectoral Gross Value Added (GVA) and tax receipts.

¹⁴ It should be noted that while GDP is a useful, well-recognised metric for assessing macroeconomic performance, there are specific limitations to its use for the Isle of Man economy that should be kept in mind when interpreting analyses that use it. Specifically, for the Isle of Man, GDP is measured using the income approach, which includes income earned by companies, a portion of which is driven by off-Island activities of the companies that are resident on the Isle of Man. As such, it can be difficult to compare Manx GDP with that of jurisdictions where offshore activity makes up a smaller portion of measured economic activity

These models are estimated through a combination of econometric regressions, trend analysis and the future outlook of key economies that have close trade relationship with the Island's economy, such as the United Kingdom. Evidence from economic literature, for example on productivity and labour supply growth, has also been used to feed into the macroeconomic models to inform the assessment of a range of potential policy interventions.

The overarching approach taken was designed to exploit the existing macroeconomic data for the Island (which largely relates to the pre-COVID-19 period), while filling in any key wider data gaps with proxy estimates based on an economic literature review and information from benchmark economies. Due to data availability, the model was developed on the basis of the Island's pre-COVID-19 economic structure and relationships (e.g., in terms of sector linkages and agent behaviours) which one would expect to have altered during and post-COVID-19, albeit to unknown extents. Therefore, the model will need to be updated when Isle of Man economic data covering the COVID-19 period (in particular GDP data) becomes available. The assumptions and results produced by the current model, however, have been cross-referenced against some data that does relate to the COVID-19 period (e.g., unemployment data), although this data is not directly applicable for use as inputs or parameters in the model itself.

Due to the aforementioned gaps in post-COVID-19 data for core modelling inputs and the likely structural changes, together with the nature of the Isle of Man economy and its high exposure to large domestic and external shocks, all model outcomes should be interpreted as medium-term forecasts and actual parameters for the Island might differ from the proxy estimates.

In view of this, the modelling framework is flexible and allows users to adjust key parameters in order to apply policy-specific expert judgement or add additional information from leading economic indicators, when it becomes available, which can improve the accuracy of the short-term projections.

2.2.4 Phase 3

The Phase 3 work as set out in this report has synthesised the material developed in Phases 1 and 2 into an evidence based Strategic Economic Framework document and action plan. In preparing our report we have sought feedback from IOMG, including our Steering Board and the Council of Ministers. The intention is for this document to articulate IOMG's vision, and the identified priorities and programme of work that can be delivered over the next 5 to 10 years to support the achievement of this vision.

2.2.5 Phase 4

Phase 4 will entail development of a monitoring and evaluation plan to allow progress of the delivery of the action plan, as well as the resultant outcomes and impacts of the interventions on the economic performance of the Island, to be monitored. This work will be undertaken when the Strategic Economic Framework is agreed, although it will draw heavily on the work undertaken in Phase 1 where a wide range of indicators to assess the Island's economic performance were developed.

2.3 Structure of the report

The remainder of the report is structured as follows:

- **Section 3** reviews the Island's 'starting point', drawing on evidence from the Phase 1 Part 1 Report. The review is broken down into the following areas: economy; business environment; population and Island community; state of technology enablement; and sustainability. This broadly aligns with

and policy changes in the Isle of Man would largely affect on-Island activities only, rather than the broader corporate activities that are reflected in the GDP figures. Further, GDP is one of many measures of economic performance and it is important to consider multiple metrics – including, for example, household income, earnings and social metrics such as health and wellbeing, to assess the complete picture of economic performance and the impact of any policy interventions.

the strategic themes considered in the Phase 1 Part 1 Report. It also sets out significant external drivers and headwinds that are likely to impact the Island's economy.

- **Section 4** sets out the vision for the Isle of Man's economy in terms of the four overarching objectives and their respective sub-objectives.
- **Section 5** presents the strategic programme, linked to the vision set out in Section 4. This section is broken down into the four overarching objectives and sets out their respective intentions, the economic rationale underpinning their importance and a summary of the policies/proposals selected to deliver each objective.
- **Section 6** sets out the delivery approach, funding options, roles and responsibilities, and road map for realising the strategic vision, along with the associated monitoring plan.
- **Section 7** presents the next steps to take the strategy forward.
- **Appendix** contains the summary sheets of the final policies selected for inclusion in the Strategic Economic Framework and certain modelling assumptions referred to in the body of the report.

2.4 About this report

This Report has been prepared on the basis set out in our Framework Agreement with the Isle of Man Government (the "Client") dated 14 April 2021 and the Purchase Orders issued under it dated 28 September 2021 and 15 March 2022 (together, the "Agreement"), and should be read in conjunction with the Agreement.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the Agreement.

This Report has not been designed to be of benefit to anyone except the Client. In preparing this Report we have not taken into account the interests, needs or circumstances of anyone apart from the Client, even though we may have been aware that others might read this Report. We have prepared this Report for the benefit of the Client alone.

This Report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLC (other than the Client) for any purpose or in any context. Any party other than the Client that obtains access to this Report and chooses to rely on this Report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLC does not assume any responsibility and will not accept any liability in respect of this Report to any party other than the Client. In particular, and without limiting the general statement above, since we have prepared this Report for the benefit of the Client alone, this Report has not been prepared for the benefit of any other person or organisation who might have an interest in the matters discussed in this Report.

Our report is not an expert report for disclosure to any competent authority, or for use in litigation. Our procedures do not constitute any form of valuation, where a value is expressed on an entity or its business. We express no legal opinion in relation to our findings and recommend that legal advice should be taken as appropriate. We stress that an assessment of the described issues from a legal perspective is not part of our assignment.

We have not carried out any form of statutory audit as part of this engagement. Our procedures were not part of an audit, compilation, review, or attestation services as described in the pronouncements on professional standards issued by any international or local auditing guidelines. Accordingly, we do not express an opinion or any other form of assurance on the financial statements of any entity identified herein or any financial or other information.



Use of this report is limited – see Notice on page 34

Other limitations and assumptions are set out in the body of this Report.



Use of this report is limited – see Notice on page 34

3 The Island's starting point

3.1 The Island's economic performance

Understanding the current and historic economic performance of the Isle of Man is a crucial starting point for the development of the Strategic Economic Framework for the Island looking ahead for the next 5 to 10 years.

The Phase 1 research and review phase of work examined a wide range of data and evidence relating to the Island's economy, its attractiveness to business and people, and its performance in relation to sustainability and technology enablement. This work focussed on providing a clear understanding of:

- how the Island's economy is performing based on an analysis of available current and historic data, including relative to selected comparator jurisdictions; and
- the principal strengths and weaknesses of the Island that are pertinent to economic performance.

This robust and comprehensive evidence base, summarised in this Section and set out in full in the Phase 1 Part 1 report, provides a detailed understanding of the economic strengths and weaknesses of the Island. It serves as the foundations from which the Strategic Economic Framework has been developed. Figures 3.1 and 3.2 provide a high level summary of the strengths of the Island and challenges facing the Island.

Figure 3.1 Key strengths of the Island

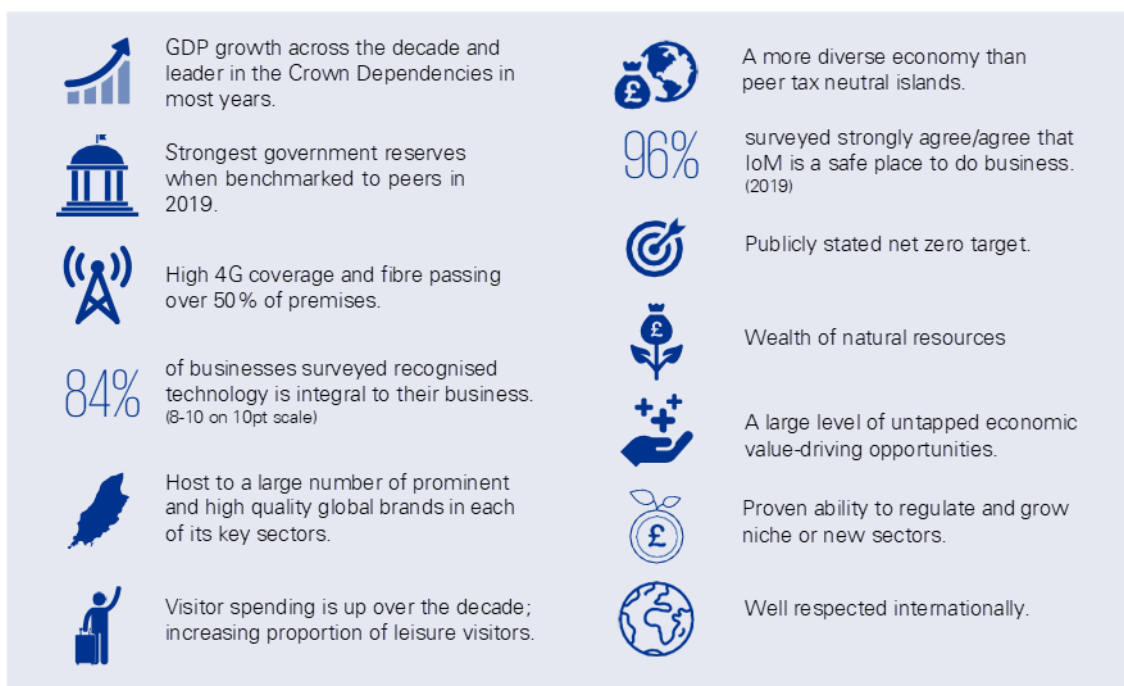


Figure 3.2 Key challenges facing the Island



3.1.1 Economy

The Island's GDP has been rising steadily over the past decade, exceeding average annual growth rates in the Crown Dependencies and across both the G7 and EU countries and considerably higher GDP per capita. However, the way GDP is measured for the Island captures income associated with off-island activities of individuals and companies' resident on the Island and is therefore not directly comparable with jurisdictions where offshore activity makes up a smaller portion of measured economic activity. For the same reason, GDP per capita does not fully reflect the prosperity of the population.

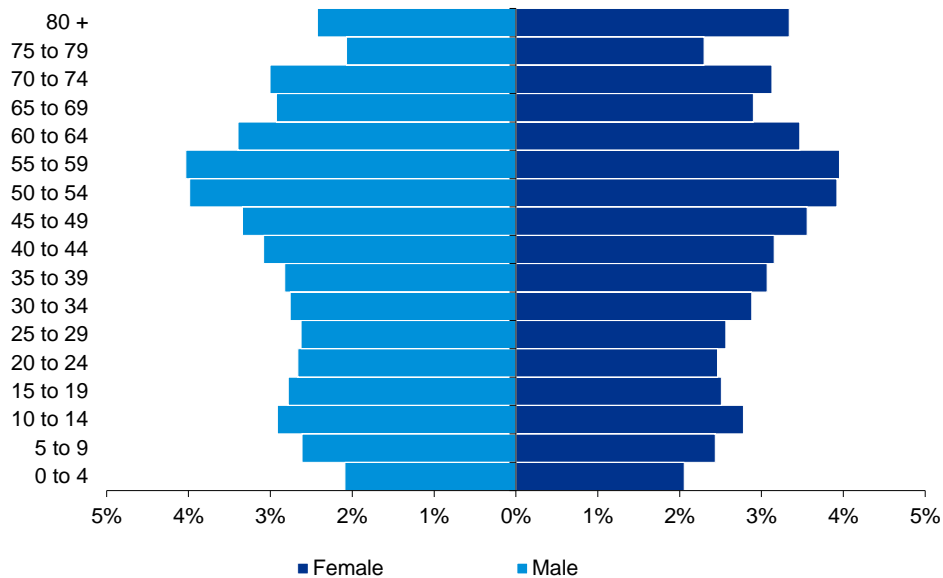
This disconnect between GDP and the prosperity of the population becomes evident when looking at the link between GDP and either employment or government revenues, where a low correlation exists between them. For example, the Retail sector is responsible for only 2% of GDP but approximately 6% of National Insurance Contributions and 4% of employee income tax, whereas the top five sectors in terms of contribution to GDP (accounting for 61% of GDP) contributed 40% of National Insurance Contributions and 42% of employee income tax. It is therefore necessary for IOMG to consider a broader range of measures when assessing the impact of a sector on the Island's economy.

Much of the Island's economic activity is concentrated in a small number of sectors – principally Financial Services and Digital Services – relative to most larger jurisdictions, albeit the economy is somewhat more diversified than comparator island jurisdictions, with its digital sector – driven by eGaming – representing the main differentiator. GDP growth within the Financial Services and Digital sectors over the last decade has been driven primary by the Life Insurance and eGaming industries specifically and, as such, the Island is exposed to the risks of external shocks and threats affecting these sectors, such as the impact of international changes in regulation and/or taxation.

In terms of its workforce, the Island has enjoyed a long period of very low unemployment within the working age population, with vacancies commonly exceeding the numbers of unemployed. This

suggests that economic growth may be stifled by lack of availability of suitably skilled workers. Furthermore, the age profile of the Island’s population is such that the working population is supporting a large and increasing population of residents in retirement. Given that there is a large cohort in the working age population in the older age groups, a ‘hollowing out’ in the 20-39 age bands, and relatively small numbers under working age following them into the workforce this suggests that, if unaddressed, the situation will worsen over time. While most developed economies face to some extent the challenge of ageing populations, the situation on the Island is particularly acute.

Figure 3.3 Isle of Man Population Pyramid 2021



Source: Isle of Man Census 2021

The incomes of individuals and households present a picture where rising incomes have disproportionately benefited those in higher income brackets: between 2012 and 2018 the top quartile of households were better off by 10% whereas households in the bottom quartile saw their incomes fall by 6%. When combined with only marginal differences in tax burdens at lower to middle income levels and unfavourable differences in the cost of living on the Island as compared to the UK, this growing disparity creates a challenge for the Island in attracting and retaining people to fill roles that attract lower to middle salaries.

3.1.2 Business environment

The Island has evidently been successful in attracting and retaining high-quality business in the Financial Services and Digital sectors over many years. Many stakeholders reflected that the regulatory regimes the Island has developed within the Financial Services and eGaming sectors were well-respected internationally and had been a significant contributor to that success, as were high levels of political, legal and regulatory stability.

However, survey data and stakeholder views also reflected a view that the quality of the business environment had not kept pace over time with the needs of the business community. Noted in particular were:

- Lack of regular, reliable air links to key international hubs¹⁵.
- Declining satisfaction with the quality and costs of hotels and accommodation services as relevant to business users.
- Declining satisfaction with the quality of telecoms services, which were seen as not keeping pace with competitor jurisdictions, particularly Jersey.
- Lack of readily available high-quality commercial premises on the Island.
- Government lagging peer jurisdictions in its adoption of digital government.

More positively, it was widely recognised that, compared to the other Crown Dependencies, the Island had considerably more space for growth.

Observations regarding the Island's attractiveness for people (summarised in Section 3.1.3 below) were also cited by business stakeholders as representing significant inhibitors to the growth of business on-island, limiting their ability to retain and attract workers to the Island, particularly young professionals.

In terms of those entering the workforce, survey data indicated that young people often left education without key skills needed to succeed in the workplace, leaving businesses with a shortage of suitable candidates for entry-level positions. Particular gaps were noted in soft skills, such as resilience and interpersonal skills.

The approach of many businesses on the Island was noted by stakeholders as being quite conservative, with high risk aversion and low growth ambition leading to underinvestment. Furthermore, it was recognised that funding options on the Island for start-ups, scale-ups and established businesses in high-risk sectors were limited.

3.1.3 Population and Island community

The Island was recognised by most stakeholders as an attractive place to live for those seeking to escape city life, with a beautiful and varied natural environment to explore, a good range of outdoor/sporting/cultural opportunities, short commutes and high levels of personal safety compared to many larger jurisdictions.

However, as in comments with respect to the business environment, it was considered that there were significant issues in the quality amenities, which could inhibit the Island's ability to retain and attract residents. In particular:

- There are concerns that the availability, affordability, quality and mix of housing on the Island is not a good fit for the needs of the population, with challenges commonly cited for younger economically active people in finding suitable accommodation for purchase or rental.
- There are concerns that the quality and mix of hospitality and leisure facilities on the Island requires updating, with particular shortages in the provision of indoor leisure facilities and facilities that appeal to young people and families.

¹⁵ This feedback was received before the recent reintroduction of flights to London Heathrow, London City and Dublin.

- There are concerns that the quality and mix of visitor accommodation is not a good fit for the needs of the current and future visitor economy. Issues noted above regarding hospitality and leisure facilities are also
- The performance of healthcare services is a concern, with the Island's performance on a number of key metrics lagging performance in England.
- Educational outcomes at the end of secondary education in terms of the proportion of top grades lags England and Jersey and there are concerns about large average class sizes.

Further to the observations in Section 3.1.1 above, we would emphasise that, while those on higher incomes enjoy significant tax advantages on the Island compared to many larger jurisdictions (including the UK, from which most inward migration to the Island originates), the Island is a much less attractive proposition financially for those on lower to middle incomes. Tax advantages compared to the UK at those levels are modest and, as noted above, the cost of living on-island compares unfavourably with the UK. This – taken in combination with other issues mentioned above – will inhibit the Island's ability to retain and attract individuals and households in those circumstances, impacting the Island's ability to attract younger working-age people that are required to address the demographic imbalances referred to in Section 3.1.1 above.

3.1.4 Technology-enabled economy

As noted in Section 3.1.1 the Island has a significant amount of technology-related activity relative to the Island's economy. The eGaming and ICT sectors combined account for approximately 25% of GDP and approximately 6% of employment. Growth in this area is already encouraged by IOMG: there is an executive agency of the Department for Enterprise with a remit to support the development of the Island's digital economy.

Perhaps as a consequence of the extent of digital business, the Island enjoys very good internet connectivity, with the resilience of multiple high-capacity undersea data links. The Island is also home to several highly-resilient data centres. While stakeholders have commented on the relatively slow roll out of Fibre To The Premises services throughout the Island – particularly in comparison to Jersey – over 60% of premises are now passed by fibre with further investment by IOMG accelerating the programme to complete the roll out island-wide within the next few years. In terms of mobile data, 4G coverage extends to over 99% of the population.

While the technical infrastructure is relatively strong, stakeholders indicated that the digital skills of young people entering the local employment market are lagging business needs and businesses struggle to recruit young professionals from off-island with the digital skills they need.

Furthermore, adoption of digital government on the Island was considered by stakeholders to be lagging considerably behind leading jurisdictions.

3.1.5 Sustainable economy

To date, the Island's performance on a range of hard measures relevant to environmental sustainability lags key competitors. In particular:

- Greenhouse Gas emission levels have decline gradually over the last decade, but reductions per capita have not kept pace with comparator jurisdictions.
- Production and use of energy from renewable sources is low.
- The Island has relatively older housing stock, with low energy efficiency.

- The Island’s population is heavily dependent on private vehicles for transport, with low uptake of active travel.
- The Island recycles low volumes of recyclable materials relative to comparators.

IOMG has made significant commitments regarding its response to climate change, including a commitment to producing net zero emissions by 2050 and it is noted that a number of measures have been commenced or announced to improve its performance in this regard.

3.2 External drivers and headwinds for the economy

The Island and its economy are heavily influenced by changes playing out that will affect economies worldwide. Technological innovation, geopolitical shifts, tax reforms and regulatory change, new ways of working and new business and consumer demands are resulting in new business models and complexities for industry and governments to navigate. In our earlier work we identified several trends likely to have an impact on the future economic performance of the Isle of Man, which are set out in this subsection.

3.2.1 Automation & Digitisation

Digitisation is widely considered to be the next industrial revolution and is already having a significant impact on global markets and business models. This presents opportunities for innovation and diversification for the Island, but also represents a potential threat to employment through the automation of roles. Businesses are digitising their processes and becoming increasingly data driven, enabling them to realise synergies and improve their customers’ experiences. Approximately 82.5% of roles on-island are in service sectors and, according to analysis by PwC, approximately 32.5% of existing jobs are at risk by 2035¹⁶. With sectors facing contrasting futures, employees in some industries will need to reskill to find work in other parts of the economy in addition to ensuring their digital skills remain current.

Switching careers results in an increase in transfer of skills into new contexts, especially as automation and augmentation replace tasks within roles. KPMG UK note that “Automation will see more routine roles disappear, driving the need to reskill displaced employees so that they can fill new ones. It will also have a profound impact on the jobs that remain. People will need to become more comfortable with technology as we move to a hybrid working world post COVID-19 and governments will need to be prepared for the changes afoot.”¹⁷

As noted by our analysis in Phase 1, outside core Digital sectors, levels of digitisation and innovation are relatively low on the Island. The Island needs to develop new skillsets within the working population and drive the development of new sectors less vulnerable to automation to ensure continued high levels of employment. Skill sets will need to remain relevant and future-proofed for the Island to be in a position to capitalise on economic growth opportunities. Upskilling and re-skilling will therefore be essential for sustained economic success.

3.2.2 Global Skills Shortage

While – as noted above – some roles are being automated away, at the same time organisations are facing unprecedented unmet demands for certain skills, creating significant competition for skilled individuals in the short term and pressures in the medium term to ensure that governments and businesses better anticipate required skills and that appropriate programmes are in place to deliver them.

¹⁶ PwC, 2020, Upskilling the Isle of Man’s workforce for a digital world

¹⁷ KPMG UK. (2021) ‘Voices of Place: The Skills City’

Digital skills are in critically short supply in many countries; it is a challenge that goes beyond specialist capabilities such as AI, coding and data science, as all employees need the ability to use the tools given to them. Meta-skills – ‘soft’ skills such as confidence, cross-disciplinary working, entrepreneurialism, adaptability, critical thinking, and innovation – will be critical to people’s ability to adapt to change. Businesses will need to devise a way to measure and identify these skills to recruit accordingly and the education system will need to have regard to business needs. Filling skills gaps is difficult when the landscape changes so rapidly. Pace and scale of change can be difficult to predict for businesses and for education providers to move quickly enough. Consequently, businesses and education providers need to collaborate and create bite-sized learning opportunities to top up existing transferable skills and remove barriers to upskilling while still working. Re-skilling also presents a lower cost option than hiring and training up new resource.

While intense competition for digital skills is a well-documented challenge internationally, it is by no means limited to that domain, with areas as diverse as financial services and construction reporting challenges. The skills shortage results in increased pressure and a competitive landscape when it comes to attracting and retaining talent and skillsets, and particularly as remote working has become more commonplace, and organisations can recruit further afield.

As with digitisation and automation, a focus on re-skilling will be essential, with support from employers and Government alike. It presents an opportunity to retain knowledge and the soft skills that are in short supply, as well as presenting opportunity in the knowledge sector.

3.2.3 Global tax

The Island sets its own tax rates and policies, but is strongly influenced by international developments, ensuring it meets expected compliance standards. A significant recent development has been the agreement of the OECD’s ‘Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy’¹⁸ which, when implemented, will ensure *inter alia* that large multinational enterprise (MNEs) in scope pay minimum rates of corporate tax globally.

In practice, the Island has limited freedom not to move with international developments: the impact of measures which reduce the Island’s tax competitiveness would pale in comparison to the impact of the countermeasures likely to be imposed upon the Island should it fail to comply.

It is therefore crucial for the Island to ensure that its broader offer to business is strong and a clear USP is developed to remain attractive.

3.2.4 Sustainability

Governments around the world are shaping national net-zero strategies, and broader plans for a sustainable society, where social and environmental factors are fully embedded in economic policy setting and businesses are supported to achieve ESG goals.

In 2021 the IPCC’s latest reports and the COP26 conference highlighted the severity and scale of risks related to climate change and the urgency of a global shift to a green economy. An effective response to climate change demands that individuals, organizations, and countries collaborate to an unprecedented degree, and act transparently and honestly. Whilst environmental issues have perhaps garnered the most attention there is also significant attention afforded to broader aspects of sustainability, including social and governance matters.

Businesses are starting to see more of their potential customers, investors and employees factoring sustainability performance into their decision-making processes. No longer a “nice to have”, sustainability is now crucial to the Island’s long-term economic success: As our subject matter experts

¹⁸ OECD (2020) [‘Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy’](#)

highlighted in Phase 1, sustainability presents an opportunity to access new sources of capital and innovation and there are numerous specific opportunities for the Island in terms of meeting the demand for sustainable products and services. However, the Island needs to improve its performance on key sustainability measures at a foundational level in order to remain attractive to both existing businesses and to attract new businesses and people to the Island.

3.2.5 Regulatory challenges

As in the domain of taxation, the Island's approach to regulation is heavily influenced by international standards, and these will continue to evolve. For example, financial regulators worldwide are currently grappling with the challenges presented by digital assets and with the wider implications of greater digitisation on business models and the appropriate means to regulate them.

Regulation of digital services – including, but not limited to, data protection – is also struggling to appropriately balance the need to protect consumers of globally-available services against the need to avoid stifling innovation.

In principle the Isle of Man should have the agility to recognise needs and implement robust regulatory regimes in new and developing areas, giving the Island a comparative advantage, as it has done in the past with online gambling.

3.2.6 Maturity of emerging markets

Historically, several of the Island's sectors have had significant success in providing services to emerging markets. As those markets continue to grow – in size and in wealth – this may have both positive and negative impacts on the Island businesses serving them:

- to the extent that Island businesses remain competitive, the increased market size could be expected to lead to business growth;
- however, as markets mature the likelihood of competitive local alternatives emerging also increase, potentially negatively impacting Island businesses' market share;
- furthermore, the likelihood of increased local regulatory maturity may add significant complexity to compliance for Island businesses or even potentially exclude them from the market.

As affected industries change with the markets, they will need to be supported through regulation and policy to be in a position to react quickly and innovate in order to target new markets and diversify in order to survive and secure growth.

3.3 The 'do nothing' scenario

The Island's recent success has been driven by predominantly two sectors of the economy (insurance and eGaming) and indeed the GDP, as a jurisdiction, fluctuated in 2015 due to a corporate restructure of just one company which belonged to one of these sectors. Both growing sectors, as well as other significant sectors from a government revenue perspective, face various regulatory and economic (domestic and global) headwinds (as detailed above) which will need to be overcome. Equally, the sector predominantly sells one product-type of insurance which needs to evolve to remain relevant with consumer trends and regulatory evolution.

Similarly, consolidation in the eGaming sector may lead to roles moving off-island.

Looking forward, there are also risks to government revenue, in particular, as the population continues to age and as the service economy evolves with a growing level of digitisation leading to job losses.

Some evidence suggests that continued digitisation could put c. 30% of the job roles in the Isle of Man's service economy at risk by 2035¹⁹ although we recognise that digitisation would likely also bring a range of positive economic benefits, such as improved productivity.

As explained in the Phase 1 Part 1 report, there is a disconnect between the Island's GDP and its employment and government revenue levels, in part driven by GDP measures capturing corporate revenues for firms headquartered in the Isle of Man, including those revenues from their activities off-Island. Some sectors that drive the GDP of the Island are generally not among those supporting the highest levels of employment. For example, digital sector makes up 25% of GDP but employs 6% of the workforce. This means that growth of some of the key sectors is not proportionately leading to increased employment opportunities. Further, with the Island being a low tax jurisdiction, with few areas of positive rated corporate taxation, this growth is also not proportionally driving increases in government revenues, given that a relatively large share of government revenue is from employment-related taxes (over 40%) and taxes on consumption.

In order to assess the potential future macroeconomic performance of the Island as part of the Strategic Economic Framework development, a set of interlinked macroeconomic and tax models have been built that model and forecast key macroeconomic indicators for the Isle of Man economy over a 5 to 10 year time horizon.

It should be noted that the models were developed utilising existing macroeconomic data for the Island (which largely relates to the pre-COVID-19 period), while filling in any key wider data gaps with proxy estimates based on an economic literature review and information from benchmark economies. Due to data availability, the model was developed on the basis of the Island's pre-COVID-19 economic structure and relationships (e.g., in terms of sector linkages and agent behaviours) which one would expect to have altered during and post-COVID-19, albeit to unknown extents. Therefore, the model will need to be updated when Isle of Man economic data covering the COVID-19 period (in particular GDP data) becomes available. The assumptions and results produced by the current model, however, have been cross referenced against some data that does relate to the COVID-19 period (e.g. unemployment data), although this data is not directly applicable for use as inputs or parameters in the model itself.

Due to the aforementioned gaps in post-COVID-19 data for core modelling inputs and the likely structural changes, together with the nature of the Isle of Man economy and its high exposure to large domestic and external shocks (discussed in Section 3.2), all model outcomes should be interpreted as medium-term forecasts and actual parameters for the Island might differ from the proxy estimates. There are considerable uncertainties about the future outlook of the economy, driven by the many challenges and threats facing the Island, including factors such as digitisation, global tax changes and tightening regulation (as summarised in Section 3.2) as well as specific domestic risks in relation to the economic performance of key Isle of Man sectors, including Insurance and eGaming. Due to the nature of these factors, they would act as domestic and external shocks to the economy. The inability of macroeconomic framework to model idiosyncratic risks such as firms leaving the Island or downturns in activity due to regulatory changes and the lack of post Covid-19 economic data requires post-modelling adjustments to the modelled baseline forecasts.

The macroeconomic and tax models were used to forecast a number of scenarios through to 2029/30, including a **baseline** scenario which would reflect a "do nothing" policy position.

Under the conditions of the baseline, the economy is expected to grow at a rate of approximately 3.7% per year (in real GDP terms), which is in line with the recent growth path of the economy and takes into account an expected mild slow-down in the financial services and digital sectors. The baseline scenario forecasts:

¹⁹ PwC. (2020). '[Upskilling the Isle of Man's workforce for a digital world](#)'.

- Real GDP of approximately **£8bn** in 2029/30, up £2.5bn from 2019/20, and an average annual growth rate of **3.7%**;
- Employment of approximately **39,698** in 2029/30, up approximately 4,000 from 2019/20, with an average annual growth rate of approximately **1.1%** (and an unemployment rate of approximately **1.4%** vs. an average of 1.1% in the five years up to 2019/20);
- An annual average growth rate in labour productivity of **2.6%** over the 10 year forecast period, as compared with an average of 2.5% in the four years to 2019/20;
- Personal income tax revenue of **£303.5m** in 2029/30, up approximately £100m on 2019/20, with an average annual growth rate of **4.2%** vs. 2.2% in 2018/19 and 2019/20;
- Tax revenues from National Insurance Class 1 contributions of **£292.0m** in 2029/30, up approximately £78.8m from 2019/20, with an average annual growth rate of **3.2%**;

Given the uncertainties in the economic outlook, however, a **downside** scenario has also been modelled in which the Island's key sectors of financial services and digital perform less well compared to the baseline with average annual growth rates of **1.7%** and **4.0%** respectively over the 10 year forecast period compared to 2.9% and 8.0% respectively under the baseline.

In this downside scenario, the modelling forecasts:

- Real GDP of approximately **£6.2bn** in 2029/30 (average annual growth rate of **1.2%**);
- Employment of approximately **37,192**, with an average annual growth rate of approximately **0.5%**;
- An annual average growth rate in labour productivity of **0.8%**;
- Personal income tax revenue of **£273.2m**, with an average annual growth rate of **3.1%**; and
- Tax revenues from National Insurance Class 1 contributions of **£248.6m**, with an average annual growth rate of **1.5%**.

The above illustrations demonstrate the possible impact of 'no-action' scenarios, wherein no intervention is taken by the Isle of Man Government to address the opportunities and challenges that have been identified. Section 4.3 presents an alternative set of scenarios, in which the impact of intervention is illustrated through the model.

4 The vision for the Isle of Man's economy

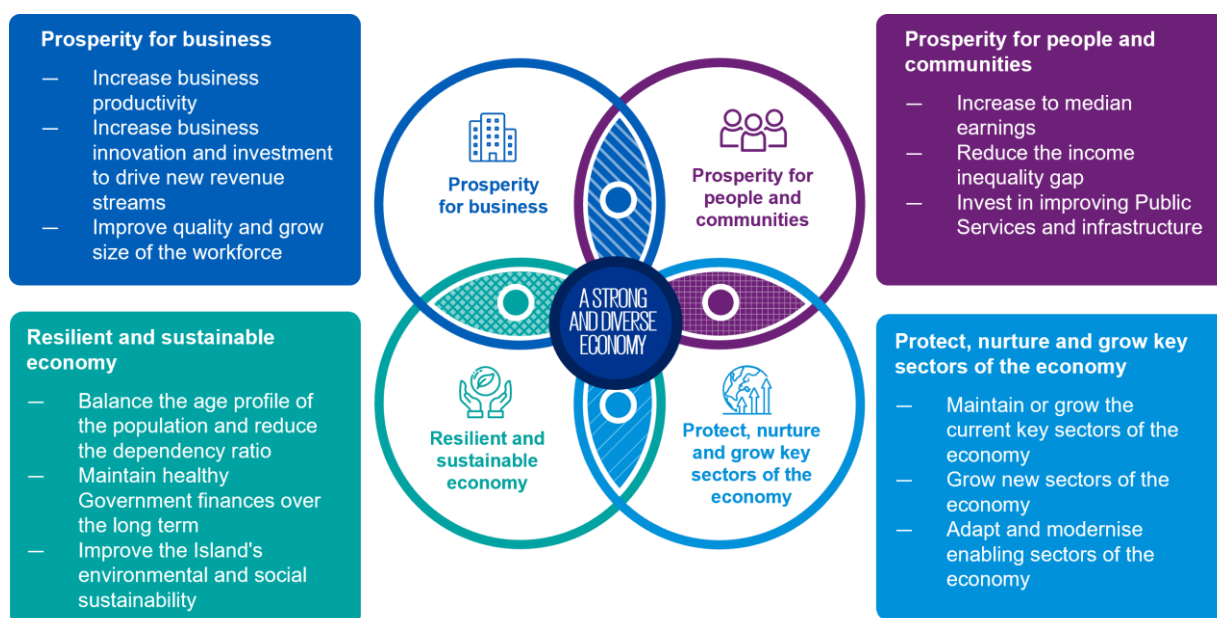
4.1 The vision and strategic objectives for achieving a strong and diverse economy

The vision for the Isle of Man's economy, as detailed in the Island Plan, is for 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 of the Isle of Man.

There are varied views as to what constitutes "strong" economic performance or "economic success", with a wide range of metrics that can be used to assess economic outcomes in relation to these. While an economy may appear to perform well based on one measure of performance, such as headline economic output, it may perform less strongly in other areas, such as productivity or skills levels, both of which are important drivers of future economic growth. It is therefore important to consider "success" through a range of different lenses and establish the specific short- and long-term objectives that the nation is seeking to achieve, as these provide the priority areas of focus.

The strategic economic objectives developed for the Isle of Man – as set out in Figure 4.1 below – reflect the areas identified as being important to drive balanced, sustainable economic growth, productivity and employment, based on economic theory and the evidence-based assessment of the Isle of Man economy (summarised in Section 3 above). More broadly, they have also been developed to achieve each aspect of the economic vision, including the focus on benefitting all.

Figure 4.1 The Isle of Man's symbiotic strategic objectives



It is important to note that, while four objectives have been set and a number of sub-objectives developed against each of these, all of the objectives are intrinsically interlinked, and the full potential of the Island's economy will not be reached unless there is success in all four areas.

There are clear relationships and co-dependencies between them. The future economic success of the Island will be achieved through creating a vibrant environment for people to live and work, where the Island is well-positioned to start-up, retain and attract leading businesses and supports them to succeed in a competitive and changing international market. This cannot be achieved without being built on strong foundations in all priority areas of the Island Plan. The relationship between economic success and the broader environment of the Island, including the health and wellbeing and education and skills of the population, are direct and symbiotic. Thus, the full delivery of the wider Island Plan is required to realise the economic vision.

Together these objectives provide the collective foundations for the Strategic Economic Framework and the strategic programme, as set out in Section 5.

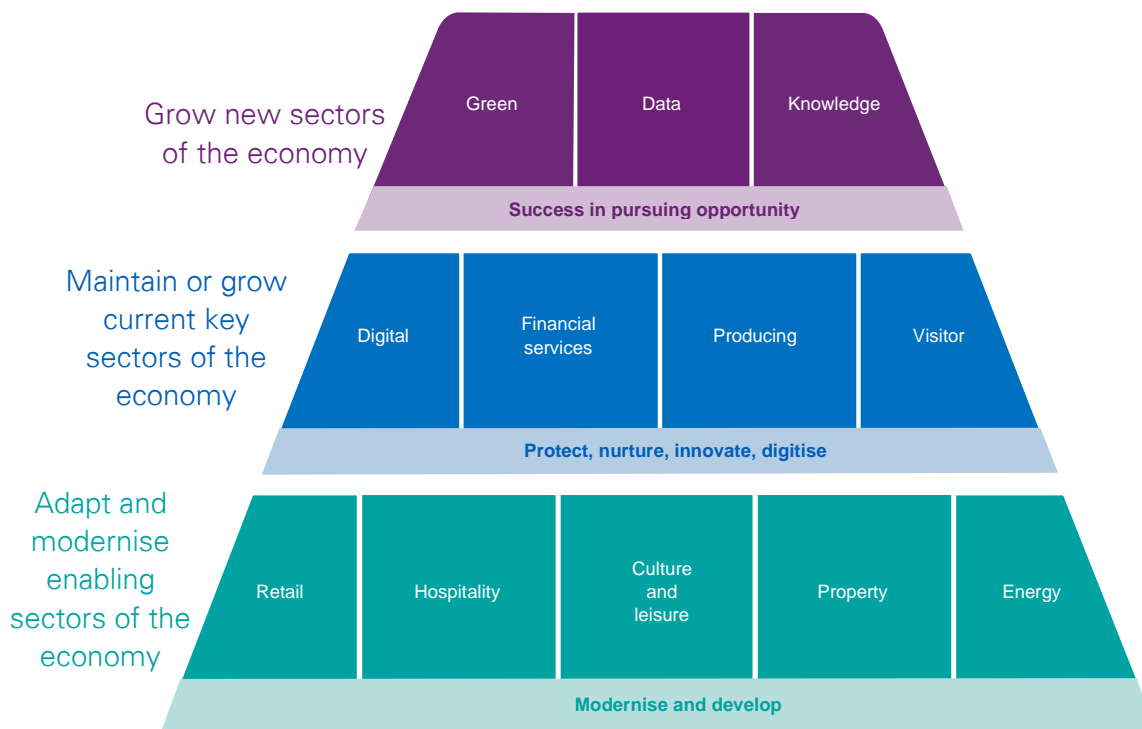
Within **prosperity for business**, the intention is to create an ecosystem that supports and encourages entrepreneurship, innovation and investment, with the infrastructure, access to funding, skilled workforce and tax and regulatory environment to support existing businesses and start-ups, to flourish. In particular, the intention (as set out in the sub-objectives) is to: increase business productivity; increase business innovation and investment to drive new revenue streams; and improve the quality, and grow the size, of the workforce.

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. To achieve this, specific action needs to be taken to deliver against the sub-objectives of: an increase to median earnings; a reduction in the income inequality gap; and investing to improve Public Services and infrastructure.

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 ESG goals. This is summarised into three sub-objectives, wherein the intention is for action to be taken to: balance the age profile of the population and reduce the dependency ratio; maintain healthy government finances over the long term; and improve the Island's environmental and social sustainability.

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 sector strengths, including in digital sectors and financial services, and recognises the importance of the Island's enabling local service sectors as foundations for all sectors and the Island's communities. The sub-objectives linked to this are to: maintain or grow the current key sectors of the economy; grow new sectors of the economy; and adapt and modernise enabling sectors of the economy. The diagram at Figure 4.2 sets out the sectors included under each sub-objective.

Figure 4.2 The focus of the future economy by sector



Further details of each of the four objectives, their rationale for inclusion in the Strategic Economic Framework, and the proposed high-level policy focus areas identified to help the Island meet these objectives and achieve the economic vision are set out in Section 5.

4.2 The supporting rationale for the strategic objectives

The four headline strategic objectives for the Island that form a central component of the Strategic Economic Framework were formed as a result of carrying out a detailed baseline assessment of the Isle of Man's economy to identify its strengths and areas of challenge, and a review of global threats and opportunities. They have also been developed based on evidence from wider economic literature relating to the key components of a strong and diverse economy.

The Strategic Economic Framework and the identified policy focus areas aim to best position the Island to build on areas of existing strength and capitalise on new opportunities, whilst also addressing the challenges and areas of relative weakness that are holding the Isle of Man back from reaching its economic potential and will prevent the Island from achieving its economic vision.

In terms of the key strengths of the Island, these include the sector strengths in Financial Services and eGaming, the well-respected regulatory frameworks for these core sectors, and the Island's proven ability to regulate and grow niche or new sectors. The safety and stability of the Island are also recognised strengths, bolstered by the government reserves position. The Island also provides a low tax environment with tax advantages over many large, developed economies for businesses and for some individuals, particularly high earners and High Net Worth Individuals, due to competitive marginal rates of tax and the ability to elect to take a tax cap.

Building on these core strengths forms a fundamental part of the Strategic Economic Framework, in particular those linked to the resilience and sustainability objective, and to protecting, nurturing and growing key sectors of the economy objective, and will contribute toward building a strong economy.

However, there is also a need to diversify the economy to strengthen it and to rebalance prosperity to help to make sure that future economic success positively impacts all economic agents – individuals/households, businesses and the State.

Notably, while the economy has been growing steadily, in GDP terms, over the last decade, much of this growth has been driven by those strong sectors of eGaming and Insurance, and most other sectors have delivered flat or declining growth, in percentage terms based on constant prices. This reliance on a small number of sectors presents a substantial risk to the Isle of Man. Wider challenges pertaining to the business environment, including limited access to finance, declining quality of business-related and Public Services infrastructure and increasing income inequality, were also highlighted through the Phase 1 analysis. Given the well-established components of a standard economic growth function (capital, labour and technology)²⁰, it is reasonable to expect that continued challenges in any of these areas would lead to difficulties in increasing economic output and productivity beyond its current path –before factoring in the economic and global headwinds, such as those outlined in Section 3.2, that many of the Island’s businesses will face.

Addressing these challenges forms a key part of the ‘prosperity for business’, ‘resilience and sustainability’, and ‘protect, nurture and grow’ objectives. Through these objectives, the intention is to drive an improvement in the business environment to support the success of all businesses and, from a sector perspective, to take action to protect, nurture, and grow the Island’s existing key sectors (as well as modernising and developing enabling sectors, such as retail and hospitality). This should provide a solid foundation from which to pursue opportunities in new sectors of the economy – such as in green, data and knowledge sectors. In so doing (and all other things being equal) the Island’s economy will be stronger, more diverse and more resilient, subject to less risk and exposure to external threats and headwinds.

Additional economic challenges that the Strategic Economic Framework and identified policy focus areas seek to address relate to the capacity and capability of the workforce, reflected in evidence of vacancies, low levels of unemployment, and skills gaps, including in relation to digital. The composition of the population will also present challenges for the Island if not addressed, with a relatively high dependency ratio and decline in the number of younger people choosing to study, live and work on the Island. This is a challenge in itself, but also contributes to further challenges pertaining to available skillsets and resources on the Island.

Addressing these population and workforce challenges is a key driver for the objective in relation to prosperity for people and communities, as it is only through improvements in relation to factors affecting the attractiveness of the Island to people that these challenges can be overcome. In doing so, this will contribute to the achievement of the wider objectives within the Strategic Economic Framework, specifically in terms of business prosperity wherein the intention is to improve the quality and increase the size of the workforce, which is most readily achieved with a highly skilled and abundant pool of individuals available to work. Equally, in terms of the objective relating to the development of a resilient and sustainable economy, a balanced age profile is necessary both to reduce pressure on the working age population and to help maintain healthy government finances (by balancing the need for public spending on an ageing population).

The Strategic Economic Framework reflects the need for government action in each of these areas – be this intervention in relation to services, such as education and skills provision, in relation to infrastructure, or in terms of actions creating the market conditions for future prosperity, for example in relation to the tax and regulatory landscape. In each of the domains where policy focus areas are identified within the Strategic Economic Framework, there is evidence from the Phase 1 analysis that, due to the persistence of the challenges, the trends observed over time and/or the external threats and headwinds, the Island will not succeed in meeting its economic vision without any government action.

Equally, based on the evidence, there was little suggestion that the market would fully capitalise on the opportunities identified without initial support from government, including in terms of creating the

²⁰ Department for Business Innovation and Skills (2010) ‘[Economic Growth](#)’.

environment for success. Business stakeholders shared that the current environment is limiting the process of growth and that there is a need for greater agility, ambition and speed in pursuing potential new growth areas.

Targeted intervention – taking into account the specific nature of the strengths, challenges and the intended outcome – is required to ‘unlock’ the full economic potential of the Isle of Man. This should focus on generating positive economic and societal externalities from the action, as well as removing the obstacles for businesses and people. Importantly, this needs to be considered not only from an economic output or employment perspective, but also from social, sustainability and environmental perspectives, which are key components of overall economic success and broad societal value.

Given the nature of the challenges, and the complex interlinkages that exist between them, intervention by Government in this case would work most effectively if delivered through a package of measures that are designed to work together to achieve the objectives collectively, rather than in isolation, since it is often not possible to disentangle individual issues. In light of this, a number of policy focus areas have been identified to support of the Isle of Man in achieving the four objectives, and in so doing, addressing the challenges and building on the opportunities. These are included within the strategic programme set out in Section 5.

In summary, they include:

- Policies and investments to build a start-up ecosystem and drive productivity and innovation, including: access to finance measures; business support programmes; digital and technology adoption and infrastructure investment; and taxation reform to adapt to international requirements but remain attractive to business.
- A package of measures to create a vibrant place for people to live and work, including: an education and skills strategy with a focus on reskilling, upskilling and career-long learning; provision of quality childcare and early education available and affordable for all; investments to provide infrastructure and amenities suitable for a larger, younger population; and taxation reform to narrow inequalities.
- Measures to support sustainable growth, including: modernisation of planning policy to drive sustainable energy, more affordable housing and improve business facilities; energy policy reform to permit multiple energy sources and drive a sustainable environment; and measures to rebalance government finances reducing dependence on the taxation of resident individuals.
- Sector-focussed policies and strategies, including: enhancements to legislation and regulation to be leading, relevant and support business and sector growth; and investment and support to capitalise on new opportunities including in offshore wind production, sustainable finance and data-related services.

Details of the strategic programme of identified policy focus areas, including the rationale for their inclusion and how they will support the achievement of the Strategic Economic Framework objectives, sub-objectives and ultimately the Island’s economic vision, is set out in Section 5.

4.3 A look into the future of the Isle of Man

As set out in Section 3.3, if IOMG does not take action to address the many domestic and external challenges and threats facing the Island, the future outlook of the economy is uncertain and the path the economy takes will likely fall below its true potential.

However, if the Isle of Man is able to successfully implement an ambitious programme of policy interventions across each of the four core objective areas of the Strategic Economic Framework it is likely to make tangible progress in addressing the challenges already being faced by the Island, be more resilient in the face of future threats and headwinds, and benefit from the identified areas of opportunity.

The expected outcomes associated with this, including their key drivers, are likely to include:

- A more **dynamic business environment**, including a higher rate of business start-ups on the Island, more businesses, and a higher level of business growth, driven by increased business investment (domestic and inward investment), innovation, and export activity.
- **Higher levels of productivity** (measured in terms of output per job), driven by improvements in business performance, growth in sectors of the economy that are higher value-adding, and through improvements to the education and skill levels of the workforce.
- A more **highly-skilled current and future workforce**, with skills better meeting business demand and where skills are continually developed through an individuals' life to better future proof their employment opportunities and provide evolving career paths.
- An overall **higher wage economy**, driven by improved business and macroeconomic performance, new employment opportunities in higher value adding sectors, and through the higher skills levels of the workforce.
- **Infrastructure and amenities** that the Island can be proud of, including more housing and cultural and leisure facilities, driven by investment by Government where needed to kick-start private sector development, and by improvements in the business environment, including in relation to planning policies, which will help to leverage in greater levels of private sector investment.
- A **larger population**, with a **younger, more diverse** mix of individuals, driven by improvements in the Island's infrastructure and amenities, a competitive and fair tax environment, and the improved business environment and business and sector growth that will create more rewarding job opportunities to help retain more young people on the Island and attract new residents.
- A **regulatory environment** where the overall cost of compliance burdens are lower, supportive regulatory frameworks are developed for new and growing areas of the economy, and where digitisation drives an improvement in the ease of doing business.
- A **cleaner, greener Island**, where commitments around carbon neutrality are met over time, driven by a progressive and ambitious approach to pursuing environmental sustainability, including through growth opportunities in green sectors of the economy.

These expected outcomes of intervention are summarised in Figure 4.3 below.

Figure 4.3 Aspects of the Island's future economy



These transformational changes, delivered through the implementation of the Strategic Economic Framework and supporting strategic programme of policies, if effectively delivered, should strengthen and diversify the Island's economy which should also be reflected in improvements in key macroeconomic variables that are used to assess the overall economic performance of the Island. In particular, improved macroeconomic performance, should be reflected in higher levels of economic output (GDP) and employment in aggregate terms, and with more diversity across sectors. This would be driven by a range of factors, including improvements in the business environment and sector growth across more sectors of the economy and in new areas, rather than it being driven predominantly only by the Insurance and eGaming sectors, as has been the case in recent years.

The suite of macroeconomic models developed for the Island can also be used to assess the impact of policy interventions, which are modelled as shocks to the economy²¹. In order to demonstrate the potential scale of economic impact that such interventions could have, in addition to assessment of the economic impacts associated with individual policies (set out in Section 5), a number of illustrative scenarios have been developed, demonstrating how a package of measures to enhance the Island's productivity and increase its workforce could translate in to changes in macroeconomic indicators of the Island's performance in the medium and long run²².

It should be noted that there a number of key dependencies to achieving the scale of impacts forecast, including the specific details of individual policies implemented, the requirement for a package of measures covering each of the objectives within the Strategic Economic Framework (reflecting the co-dependencies and interlinkages between the areas) and the timings of implementation. Also, as explained previously, data included in our models is based on Isle of Man data up to March 2020 and our forecasts do not include effects driven by COVID-19 due to lag in data publication. Therefore, the model will need to be updated when Isle of Man economic data covering the COVID-19 period (in particular GDP data) becomes available. Due to these factors, all results are therefore for illustrative purposes and should be interpreted with these points in mind.

Firstly, a scenario illustrating the potential macroeconomic effect of improvements to the Island's labour productivity, that is the output per unit of labour input, has been modelled:

- The objective of the scenario is to present the potential magnitude of economic impact through a strong improvement in productivity consistently over seven years²³. Such productivity improvements may arise as a result of a range of policy interventions that improve business performance, such as measures to boost investment and/or innovation (including access to finance and business support measures), as well as through education and skills policies that raise the human capital of the workforce (including through reskilling and upskilling programmes). We have relied on academic literature to assess the impact of improvement in labour productivity on economic growth. For example, a recent study from the International Labour Organization shows that the pass-through of shocks to labour productivity to GDP is almost complete.²⁴
- In the period from 2016 to 2020²⁵, IOM's labour productivity has observed a growth ranging between 0.5% to 5.5% and an average growth of 2.5%. The average growth in labour productivity is expected to be 2.6% in our baseline scenario. If policies are introduced that, as an illustrative example, increase labour productivity growth to 4.4% per year from the fourth year of the forecast period compared to 2.6% annual growth in the baseline, the modelling forecasts that:

²¹ For the non-tax policy assessment, our macroeconomic framework relies on the economic growth accounting equation derived in the Solow-Swan model (1956) where economic growth is broken down into labour growth, capital stock growth and total factor productivity.

²² The effects of the policy shock are delayed in time and are modelled to impact the GDP from the 4th year of the forecast horizon - e.g. considering 2020/21 as first year of the forecast horizon, the effects of the policy will be visible as of 2023/24.

²³ The actual realisation of scenario is dependent on a large number of assumptions including modelling assumptions such as the use of proxy estimates, reliance on academic literature, baseline growth of external economic environment, successful implementation of the policy etc.

²⁴ http://ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_202326.pdf

²⁵ Employment data is available for last 4 years.

- o Real GDP would reach £9.5bn in 2029/30, £1.5bn higher compared to the baseline forecast (average annual growth of 5.5% vs 3.7% in the baseline);
- o Personal income tax revenues would reach £343.3m in 2029/30, £39.8m higher compared to baseline, with an average annual growth in revenues 5.5% vs 4.2% in the baseline; and
- o Tax revenues from National Insurance Class 1 contributions would also increase to £335.0m in 2029/30, £43.0m higher compared to baseline, with an average annual growth in revenues of 4.6% vs 3.2% in the baseline.

An illustrative scenario to assess the potential macroeconomic effects of increases in the Island's labour force (number of workers) has also been modelled. This is a separate illustrative example and does not capture within it productivity improvements (as modelled in the scenario above):

- Such increases in the workforce would be expected to arise as a result of interventions to attract and retain more young people on the Island as well as measures to support individuals to develop and maintain the skills required to take advantage of new sector growth opportunities and future-proof their careers against external threats, such as those brought about by digitisation. It is also noted that the Island's infrastructure would need to be significantly enhanced to have capacity to service a considerably larger population.
- We have relied on academic literature to assess the impact of improvements in labour force growth on economic growth. Following the Bank of England (2017)²⁶ estimates, we assume a pass-through of shocks to employment to GDP to be equal to 0.8.
- In the period from 2016 to 2020, the Island's workforce has grown by 1.0% p.a. on average standing at around 35,000 employees in 2019/20. The objective of the scenario is present the potential magnitude of economic impact through a strong increase in the workforce over 10 years. Notwithstanding the caveats to the modelling as explained further above, if, as an illustrative example, measures are introduced that are able to gradually increase the Island's workforce by 20,000 in total by 2029/30 (to reach 55,000), the modelling forecasts that:
 - o Real GDP would reach £10.2bn in 2029/30, £2.2bn higher compared to the baseline forecasts (average annual growth of 6.3% vs 3.7% in the baseline)²⁷.
 - o Personal income tax revenues would reach £364.3m in 2029/30, £60.8m higher compared to the baseline forecasts (average annual growth of 6.1% vs 4.2% in the baseline)²⁸.
 - o Tax revenues from National Insurance Class 1 contributions would also increase to £384.9m in 2029/30, £92.9m higher compared to baseline, with an average annual growth in revenues of 6.1% vs 3.2% in the baseline²⁹.

²⁶ Bank of England. 2017. '[Research datasets - A millennium of macroeconomic data for the UK: The Bank of England's collection of historical macroeconomic and financial statistics](#)'.

²⁷ The Real GDP is higher under the increased labour force scenario compared to the increased labour productivity scenario because the shock to the labour force (from 1.1% annual growth in the baseline to 4.5%) is significantly higher than the shock to the labour productivity (from 2.6% annual growth in the baseline to 4.4%).

²⁸ The personal income tax collections per-capita are lower compared to the baseline because of the following reasons: a) the pass through of increase in labour force to GDP is not complete i.e. a 1% increase in labour force leads to 0.8% increase in GDP b) increase in employment increases labour supply that in turns puts downward pressure on wages resulting in offsetting impact on personal tax collections c) personal income tax includes taxes on labour income and other income (property, dividends etc). For the scenario modelling, other income and taxes from other income grows at the same rate as under baseline scenario resulting in lower personal income tax collections per capita compared to baseline.

²⁹ NI tax revenues per-capita are lower than the baseline due to the two above reasons a) and b) and given the regressive nature of NI tax where the effective tax rate falls after a certain wage threshold.

While all the results set out are illustrative and there remain uncertainties about the ability of the Island to achieve these levels of output and government revenues, they are indicative of the potential order of magnitude improvements in macroeconomic performance that could be achieved through an ambitious package of policy measures, targeted in priority areas. A combination of measures that both support the employment of a greater number of people in the Island's workforce, and increase the productivity of those workers, could have the potential to have more substantial impacts than those modelled in the above scenarios, which analyse each of these two effects in isolation.

5 Strategic programme

5.1 Overview

Having set out in Section 4 the Isle of Man's **vision for the future economy** and objectives to deliver this, together with an overview of the **current position** of the Island in Section 3, this section presents the rationale for proposed government action against each of the objectives and the policy focus areas to take the Isle of Man from its current position to the economy in its future vision.

This section of the report also provides an overview of how achievement of the objectives, through government action, is likely to transform the economy, and specific details for the expected impacts associated with specific policy focus areas is detailed in the following four sub-sections of the report (Sections 5.2– 5.5). These sub-sections also detail the policy focus areas and opportunities for the Isle of Man Government to take forward to deliver against the objectives and sub-objectives in the Economic Strategy Framework. They also provide further detail of the specific rationale for each of the measures and how they link to the achievement of the strategic objectives.

It is important to note that, while the four objectives have been looked at in this section individually, all of the objectives are intrinsically interlinked, and the full potential of the Island's economy will not be reached unless there is success in all four areas. For example, prosperity for people and communities cannot be achieved in the absence of prosperity for business because it is through a prosperous business environment that rewarding employment opportunities are created for individuals and their communities. Equally, if the prosperity for people and communities objectives are not met, individuals will have reduced incentives to stay on, or move to, the Island to live and work, stifling the ability of businesses to access the labour they need to succeed and grow. Similarly, a resilient and sustainable economy is a function of a prosperous business environment and the demographic composition of the Island's population; and a resilient and sustainable economy is critical in order to protect, nurture and grow key sectors, as well as to provide the foundations for growth in new sectors of the economy.

There are clear relationships and co-dependencies between the objectives within the Strategic Economic Framework, hence a co-dependent package of policies is required to achieve economic success, deliver overall economic, social and environmental value, and ultimately to deliver the Island's vision. As such, an ambitious package of policies to better position the Island competitively, might include:

- Targeted, intensive business support programmes aimed at stimulating and attracting up-and-coming homegrown and inbound businesses;
- Access to finance for businesses of today and tomorrow;
- An education and skills strategy that delivers career-long opportunities, including for reskilling and upskilling, embracing the digital revolution;
- Visionary investment, and private sector collaboration, to create a fulfilling culture and leisure offering for a larger, younger, more diverse population;
- Tax measures to narrow wealth disparity and make the Island more attractive to early-stage professionals and lower income earners;
- Revolutionising planning policy to drive sustainable development, deliver more affordable housing, and advance business facility offerings;

- Regulatory updates, resulting in leading and current legislation to support and inspire new sector growth and unrivalled innovation; and
- Investment in securing a sustainable future for the Island.

The order in which measures are implemented will also be important to consider carefully, in order to achieve the greatest potential benefits from intervention and avoid any negative unintended consequences. For example, it will be important to develop the Island's infrastructure such that it has the capacity to effectively support a larger population (e.g., in terms of housing), before measures are introduced that would serve to grow the Island's population (such as migration policy changes). Views of the high-level potential roadmap for the introduction of policies are set out in Section 6.4.

5.2 Prosperity for business

5.2.1 Key objectives and strategic priorities for the future of the Island

One of the 'Key Themes' assessed in the Phase 1 Part 1 Report was the extent to which the Isle of Man is considered 'Attractive to Business' – assessed in terms of the Island's ability to provide a business environment that is: innovative, well-governed, agile, enabled, scalable and that offers a skilled workforce. In this regard, and as detailed in the Island Plan, it is important that the Isle of Man provides the right conditions not only to *attract* businesses to the Island, but also to retain existing businesses and enable businesses to prosper, including across key and emerging sectors (see Section 5.5 for further detail on sector-specific economic objectives).

Specifically, under the 'Island Plan Economic Vision' outlined in Section 4 above, the sub-objectives we have developed, associated with delivering prosperity for business, are to:

- Increase business productivity;
- Increase business innovation and investment; and
- Improve the quality and grow the size of the appropriately skilled workforce.

In so doing, the intention is to create a vibrant and secure business environment, with enabling support, regulation, and infrastructure. Not only will this help to protect and grow existing and new industries, it will also encourage start-ups and attract higher levels of inward investment, potentially including collaboration with other countries and organisations, including academic institutions. This can be expected to further support business and sector growth, and ultimately drive greater economic resilience. The aim is to create a business ecosystem that supports and encourages entrepreneurship, innovation and investment with the infrastructure, access to funding, skilled workforce and tax and regulatory environment to drive start-ups, growth and productivity.

This sub-section sets out the economic theory and evidence from the Phase 1 Part 1 Report relating to the rationale for the objectives discussed here and how delivering against them will support the future economic performance of the Island. This will include detail on the way in which each of the foundational components supports delivery of each of the Island's objectives; this has been used to inform the development of relevant policy focus areas thereafter (set out in Section 5.2.2).

At the microeconomic level, individual firm performance is a key driver of the overall level of economic activity on the Isle of Man and therefore overall macroeconomic performance. This is through the income generated by businesses domiciled on the Island, the employment they create and the wages these firms pay to their workers. The level of business activity also has implications for government revenues, through the taxes firms pay directly, e.g., corporate tax where applicable to the firm and sector, employment-related taxes, and the consumption taxes linked to businesses' products and services and the spending of their employees.

As highlighted in BIS (2010)³⁰, a strong enterprise culture and dynamic small business sector is central to restoring strong, sustainable, long-term growth. This is due to the impact enterprise has on employment and productivity, thereby underpinning economic growth, and due to the role new and dynamic businesses have in stimulating innovation by creating a competitive spur to existing businesses to enhance their productivity and market offerings. The ONS (2020) notes that a steady rate of business creation and closure is necessary for an economy to grow in the long run because it allows new ideas to flourish. A lack of business dynamism could lead to halted productivity and wage growth and therefore the survival of unprofitable firms.³¹

The ability of businesses to start-up, grow and be successful on the Island is crucial to the overall success of the economy.

Economic evidence shows that there are a range of factors in the business environment which affect the productivity of firms and the effective functioning of the economy as a whole. As summarised below, these include factors such as infrastructure, that support firms to access resources and markets, both in terms of facilitating access as well as lowering the cost of access, as well as market conditions which affect firms' ability and incentives to invest, be enterprising and innovate.

- Robust business infrastructure and services, including:
 - **Digital infrastructure:** Strong digital infrastructure, including connectivity and innovative technology offerings, are crucial aspects of creating a well-functioning business environment. Access to a fast and reliable internet network is critical for businesses seeking to connect with customers and clients, as well as improve their productivity. It also helps to facilitate access to workers and enables new business opportunities to be created. From a business perspective, having high quality, reliable digital connectivity is likely to have become increasingly important over recent years as more economic activity has moved online (particularly through the COVID-19 pandemic). Digital and technological offerings are also significant with respect to social and environmental spillovers, which are of increasing importance in terms of attracting individuals to the Island to both live and work.
 - **Transport infrastructure:** It is widely recognised that transport connectivity is vital for economic growth and job creation, as well as for building houses and creating social cohesion. As noted in KPMG's Framework for Growth (2020), the quality of transport infrastructure affects the level of productivity of an economy and there is evidence that an increase in transport capacity is associated with an increase in average wages and of GDP levels for metropolitan areas.³²
 - **Business premises:** Provision of office space and other business premises is another important indicator of business-readiness. While planning regulations perform important cultural and national heritage protection functions, shortages of office space can represent a constraint and subsequently prevent opportunities for growth.
- **Government and regulation:** The OECD (2011) notes that regulations are essential for the proper functioning of economies and societies by underpinning markets, protecting the rights and safety of citizens, and ensuring the delivery of public goods and services.³³ Effective regulatory policy, together with market openness, can inspire increased innovation and entrepreneurship and subsequently encourage investment from new businesses;³⁴ and

³⁰ Department for Business Innovation and Skills (2010) '[Economic Growth](#)'.

³¹ ONS (2020). '[Business dynamism in the UK economy](#)'.

³² KPMG. (2020). '[UK regions: a framework for growth](#)'.

³³ OECD. (2011). '[Regulatory Policy and Governance: Supporting Economic Growth and Serving Public Interest](#)'.

³⁴ OECD. (2010). '[Regulatory Policy and the Road to Sustainable Growth](#)'.

- **People and skills:** As noted in KPMG (2020),³⁵ from a business perspective it is particularly important that firms have access to the appropriate stock of employees and that these employees have the relevant skills and experience to enable them to perform the required business roles effectively. When choosing a new business location, companies are likely to take these factors in to account, and, when established in a place, businesses will need an effective workforce in order to operate productively and to maintain or grow output.
- **Access to finance:** According to the literature, access to finance is essential for firms' growth and evidence suggests that firms that can access capital see a higher increase in labour productivity and innovation, which in turn leads to growth of employment and GDP in those sectors. KPMG's framework for growth report notes that public intervention in this area can help to unleash the potential of high-growth SMEs, providing an additional impetus to the economy as a result of a more productive environment.³⁶ See policy focus area discussed in Section 5.2.2.2.

As KPMG (2020) states, a fertile business environment is an important structural component of the blueprint for the success of a region.³⁷ This is achieved through helping local companies grow and attracting new businesses. In order to prosper, businesses need a stable but stimulating environment, with supportive infrastructure, innovation, and access to capital. Fostering such an environment is important not only because it is associated with increasing output in GDP terms, but also because of the indirect, induced and spillover impacts that are brought about as a function of successful business activity in an economy. These include:

- Increased levels of employment and therefore the potential for improved societal wellbeing and social value;
- Increased opportunities for innovation and broader contribution globally;
- Increased government revenue as a result of increased fiscal contribution and reduced welfare burden;
- Potential for improved public services as a result of increased government budget; and
- Development of a vibrant and attractive place in which live, work and visit – which are further associated with respective revenue streams and onward economic opportunity.

In order to build a prosperous business environment and achieve the objectives set out in this section, the economic evidence summarised above suggests that the economic strategy and supporting policies will need to focus on a number of areas - from infrastructure and skills to regulation and access to markets and funding. This is supported by the evidence from the Phase 1 Part 1 Report in relation to the Isle of Man's current business environment. Our analysis found that while the Island is internationally well-respected in terms of regulation for its core sectors (Financial Services and eGaming), and offers high levels of political, legal and regulatory stability, there are several specific challenges in relation to a number of foundational components that are necessary for a prosperous business environment and enhance the attractiveness of the Island to new businesses, including:

- **Access to finance and funding**, particularly for start-ups, scale-ups, larger established businesses in certain sectors deemed as 'high risk', or businesses principally serving the domestic economy;
- **Digital adoption and quality of services**, where analysis highlights that the Island is not keeping pace with competitor jurisdictions;

³⁵ KPMG. (2020). ['UK regions: a framework for growth'](#).

³⁶ KPMG. (2020). ['UK regions: a framework for growth'](#).

³⁷ KPMG. (2020). ['UK regions: a framework for growth'](#).

- **Business services and commercial facilities**, with business users reporting declining levels of satisfaction regarding quality and cost of hotels and accommodation services, and limited commercial facilities on the Island; and
- **People and skills**, in relation to which evidence shows that there are skills shortages and skills gaps, with an increasing proportion of young people on the Island without necessary skills for the labour market, including digital skills.

5.2.2 Policy focus areas and opportunities

In view of the prosperity for business objectives and the underlying economic rationale that highlights several factors that contribute toward business prosperity, a range of policy interventions are likely to be required to create a business ecosystem with the conditions that support and encourage entrepreneurship, innovation and investment, for the Island's existing businesses and potential new businesses, both homegrown start-ups and inward investors.

Several policy focus areas have been developed by KPMG in conjunction with IOMG and are summarised below. Further details of each policy focus area and its respective appraisals within the prioritisation framework can be found in the Appendices to this report.

We also note that IOMG, as part of the Island Plan, has developed/is developing a number of policies and strategies that are also a key part of delivery against the Strategic Economic Framework. Those relevant to achieving the Prosperity for Business objective are also referred to in this Section. While these policies and initiatives are not covered in great detail, we have set out our understanding of them below and provide a high-level view on what we consider should be addressed in respect of the Strategic Economic Framework.

5.2.2.1 Business growth support programmes and incentives

It is a long-established practice for governments to intervene to support growth and job creation among small businesses³⁸. Many OECD countries have made entrepreneurship an explicit policy priority in recent years and government policies seek to affect the rate and type of entrepreneurship³⁹. In the UK, for example, it is a government objective to promote growth through making it easier for businesses to set up and thrive⁴⁰. This is important, since SME's drive economic growth by stimulating innovation and thus competition, which, in turn leads to increased productivity and broader job creation⁴¹.

As noted in the Phase 1 Part 1 Report, approximately 94% of businesses in the Isle of Man are considered to be SMEs (with fewer than 250 employees), with the vast majority of these employer companies having fewer than 5 employees and only 5% of employer companies having greater than 25 employees in Q1 2021. Many of these businesses cited challenges with growth and innovation during stakeholder engagement.

In addition to providing financial support measures (considered in the following sub-section) it is proposed that IOMG also provides focussed, non-financial business support, in particular to help businesses to develop the skills, knowledge and connections to support them to invest, innovate and grow. This can be done through a range of broader support programmes/initiatives, including through provision of advice, training, the facilitation of collaboration opportunities and product development and commercialisation support. The emphasis of these support schemes would be non-financial and would not involve giving grants/ funding to business.

³⁸ Enterprise Research Centre. (2015). '[Feasibility Study – Exploring the Long-Term Impact of Business Improvement Services](#)'.

³⁹ OECD (2008) in Enterprise Research Centre. (2015). '[Feasibility Study – Exploring the Long-Term Impact of Business Improvement Services](#)'.

⁴⁰ Department for Business Innovation & Skills. (2014). '[Evaluation of the Business Support Helpline and GOV.UK](#)'.

⁴¹ Ibid.

In particular, the following forms of non-financial business support, examples of which have been seen in comparator jurisdictions (references for which are given in brackets against each), are likely to be required for business in the Isle of Man to support their ability to innovate, invest and grow:

- Services to provide advice or offer opportunities (e.g., the Business Support Helpline in the UK);
- Initiatives to help firms with low productivity by sharing best practice tools, mentoring, networks, leadership and management education (e.g., the ‘Be the Business’ scheme in the UK);
- Sector or region-specific training to support international competitiveness (e.g., the ‘Sharing in Growth’ scheme in the UK); and/or
- Schemes that bring together academic organisations and businesses, by funding student placements in organisations and applying their academic knowledge to a commercial project (e.g., Knowledge Transfer Partnerships in the UK)⁴².

Providing a base level of non-financial business support to all SMEs to assist their survival and growth, focussing on specific areas such as business planning, leadership or export support (areas where there is evidence that this can lead to improvements in business revenues) may deliver value for money both directly, through business growth that translates in to increased tax revenues, as well as indirectly through the role such support schemes play in creating a fertile business environment that encourages entrepreneurship and attracts businesses. Achieving small increases in business improvement across a larger cohort of business can cumulatively add value across the economy.

In addition to the more general business support services described above, which would be open to all businesses on the Island, IOMG should also consider introducing more intensive support targeted at specific types of business, in particular those with the highest growth potential and/or those seeking to innovate, given that these types of firms have better potential to raise GDP, productivity and/or employment. This could be done through the introduction of business accelerators/incubators, potentially in collaboration with leading academic institutes or business schools, and/or through tailored innovation or scale up programme that provide bespoke, specialist support to businesses to address the types of growth challenges that businesses generally face, such as in relation to access to markets, connections, and resources and in the development of financing and funding strategies to become investment ready.

By designing schemes particularly targeting high growth potential firms it may be possible to achieve a greater economic impact, albeit benefitting fewer firms, and this would be balanced against likely higher costs of providing the more intensive support through an incubator/accelerator or scale up programme.

5.2.2.2 Access to finance measures

‘Access to finance’ measures are business-focused interventions that can help to improve firm performance⁴³. Schemes can include public- or government-subsidised or backed debt or equity finance for firms, that are intended to support and stimulate economic growth by providing financing where the market fails to⁴⁴.

As such, access to finance policies can bring about increased firm growth, productivity and employment and most evaluations into the impact of access to finance schemes tend to find positive effects on firm performance⁴⁵. However, specific impacts on firm performance can be mixed, and therefore a broader

⁴² National Audit Office. (2020). ‘[Business support schemes](#)’.

⁴³ What works centre for local economic growth. (2022). ‘[Access to Finance](#)’.

⁴⁴ Ibid.

⁴⁵ Ibid.

package of policy measures is required to achieve the largest overall positive impact for an economy such as the Isle of Man's.

Investment funds (of varying types) are an example of a finance measure that could be used within an access to finance policy programme. A financial fund, such as a business investment fund, is an allocation of capital which can be used to support business growth or specific business initiatives, subject to the type of fund that it is.

In this case, several different potential types of fund should be considered by IOMG, based on the evidence arising from the Phase 1 Part 1 Report regarding the challenges, risks and investment propensities that exists on the Isle of Man, including: growth and innovation investment funds; funds focussed on specific priority areas, such as certain sectors, or on green investments; patient capital; venture capital; and Angel capital.

Economic theory and supporting analysis from the literature has shown that increasing access to finance is positively associated with an increase in economic output, as a function of increased productivity, upskilling and job creation. Each of these elements can be expected to further stimulate investment from other sources, as well as position the Island competitively as a destination for businesses and for people to live and work.

In addition to evidence from the literature and in order to demonstrate the potential impact of increasing or introducing access to finance measures based on characteristics of the Isle of Man economy specifically, we have composed an illustrative scenario of the potential impact of an access to finance scheme on the Isle of Man economy, modelled using the bespoke macroeconomic framework developed for the purpose of the Big Picture project:

- Economic literature reports that firms backed by venture capital schemes saw a 9.9% increase in labour productivity in the first years after the initial investments, relative to equivalent firms who did not receive funding.⁴⁶ This provides evidence to use in the modelling for the productivity shock to be applied to the baseline forecasts for the Isle of Man if an equivalent scheme were to be introduced.
- As the details of the scheme, including eligibility criteria, have not yet been determined, for illustrative purposes the modelling assumes that such a scheme is introduced at the beginning of the forecast horizon and benefits the 30% of the Island's firms with more than 100 employees for one year. However, the positive effects of the policy on firms' labour productivity are assumed to be visible as of the fourth year of the forecast horizon, with the effect of the policy gradually fading away by the end of it⁴⁷.
- Based on the findings from the economic literature around productivity uplifts from venture capital support and the assumptions outlined above, if a scheme increased labour productivity growth to 3.3% per year from the fourth year of the forecast period compared to 2.6% annual growth in the baseline, **with** employment growth remaining stable at 1.1%, the model forecasts that:
 - o Real GDP would reach £8.5bn in 2029/30, £0.5bn higher compared to the baseline forecast (average annual growth of 4.4% vs 3.7% in the baseline);
 - o Personal income tax revenues would reach £317.1m in 2029/30, £13.6m higher compared to baseline, with an average annual growth in revenues of 4.7% vs 4.2% in the baseline; and

⁴⁶ Croce, A., Martí, J. and Murtinu, S. (2013). The impact of venture capital on the productivity growth of European entrepreneurial firms: 'screening' or 'value added' effect? *Journal of Business Venturing*, vol. 28, no. 4, pp. 489–510

⁴⁷ The labour productivity uplift is estimated by applying the 9.9% increase in labour productivity to 30% of the firms that have more than 100 employees and form 52% of the Island's turnover.

- o Tax revenues from National Insurance Class 1 contributions would also increase to £308.0m in 2029/30, £16.0m higher compared to baseline, with an average annual growth in revenues of 3.7% vs 3.2% in the baseline.

As previously noted in relation to results from the modelling, these are provided for indicative purposes only and actual parameters for the Isle of Man might differ from the proxy estimates. This is due to various factors including gaps in post-COVID-19 data for core modelling inputs and the likely structural changes resulting from COVID-19, the nature of the Isle of Man economy and its high exposure to large domestic and external shocks, and as specific details of the policies and package of future Government interventions have not yet been determined.

In addition to the illustrative evidence set out above, the strategic fit and rationale for access to finance interventions are clear, and consistent with the objectives outlined in the Island Plan. They would also support many of the challenges detailed in the Phase 1 Part 1 Report, specifically those shared by stakeholders regarding limited funding options across a range of sectors, firm sizes and stages of company development.

The strategic fit and rationale for access to finance interventions are clear, and consistent with the objectives outlined in the Island Plan. They would also support many of the challenges detailed in the Phase 1 Part 1 Report, specifically those shared by stakeholders regarding limited funding options across a range of sectors, firm sizes and stages of company development.

By focussing equity investment in areas where there are likely to be returns on investment over the longer term, and through appropriately targeting the funds at relevant businesses, sectors, or to achieve certain policy objectives (e.g., Net Zero) the funds can be designed to achieve good value for money. Evidence from similar schemes in the UK, however, suggests that there can be challenges in terms of additionality; however, displacement is likely to be more limited for the Isle of Man due to size and investment opportunities.

While market testing would need to be undertaken to fully develop the specific details of the appropriate Fund, including the delivery approach and Fund size and business eligibility criteria, there is a clear opportunity and need for the Isle of Man to address the access to finance gaps faced by domestic businesses and be in a stronger position to compete effectively to attract new inward investment. It is recognised that the Isle of Man's previous £50m Fund was not successful. However, in view of the Isle of Man Government's increased ambition, in conjunction with broader learnings about why previous schemes have not performed as anticipated, there could be sufficient demand to consider a larger fund, possibly exceeding the previous £50m. This would require sufficiently skilled and available fund managers and personnel, as well as wider improvements in the business ecosystem to enhance to attractiveness of the Island to businesses and to support wider business innovation and growth.

5.2.2.3 Business-focused digital and technology adoption and infrastructure investment

Evidence in the Phase 1 Part 1 Report points to a lack of digital proficiency among the workforce on the Isle of Man, together with a lack of adoption of digital technology among firms – both of which will be preventing the Island from reaching its productive potential and increasing output. This provides a clear rationale for policy intervention to address these issues.

Policy in this area could include the introduction of specific and dedicated government support to increase the ability of businesses to **use** (through training) and/or **adopt/access** technology/digital infrastructure (through grants/subsidies) with a view to raising business productivity, improving business performance and increasing output.

This could be targeted to support business growth in core and emerging sectors of the Isle of Man economy, with GDP impacts from revenue growth. There may also be indirect effects such as further

investment that the government support may catalyse, as well as spillover impacts from training and upskilling.

Examples of similar schemes in the UK include:

- The recently (January 2022) launched '**Help to Grow**' digital scheme⁴⁸: which aims to support small businesses with discounted software and free advice, including in digital skills support. In light of the challenges identified in the Phase 1 Part 1 Report regarding the digital skills level of the current workforce – together with the high proportion of small firms on the Isle (accounting for approximately 94%) – targeted schemes of this nature should be considered, alongside broader business support measures.
- Scotland's **digital support for businesses strategy**⁴⁹: which is focused on increasing effective use of digital technologies including through skills training. This has been designed as a result of a current lack of people with necessary digital skills in Scotland – a challenge also identified by business in the Isle of Man. Details of the strategy, such as distribution of funding across individual work packages and target objectives could be considered when designing the criteria for a similar scheme on the Isle of Man; and
- The '**Made Smarter Adoption**' programme⁵⁰: to support businesses across the Midlands and North of the UK to adopt digital technology with a view to helping them modernise, 'go digital' and create new jobs. The scheme piloted in 2019 with success in terms of increasing productivity and employment, together with sector-specific evidence of innovation including creation of 'smart factories' to increase product quality and reduce waste.

The strategic fit and rationale for schemes to support greater business adoption of digital technology and to equip the workforce with the skills to utilise such technologies/perform roles in digital sectors is clear, and consistent with the objectives outlined in the Island Plan. It would also support many of the challenges detailed in the Phase 1 Part 1 Report, specifically those shared by businesses regarding limited digital skills among current and future employees and a desire to grow business through innovation.

Options for the eligibility criteria of business include having relatively tight criteria to target support (particularly financial support) on firms aiming to innovate and with scale-up and growth potential, where more intensive, specialist support may have a great impact at the individual firm level but would capture few businesses overall. Alternatively, there may be a case for having wide eligibility criteria and a more generic support scheme in order to improve the base level of digital skills and adoption of all businesses. While the improvements at the individual firm level may be relatively small, in reaching a larger cohort of business it could have sizeable positive impacts in aggregate. This more general digital skills/adoption support could be included as part of a wider business support package (as proposed under another policy focus area).

There will be a need for schemes to be well-designed and appropriately targeted to achieve the greatest potential benefits relative to costs of delivery and to achieve value for money. In particular, given that businesses may already be planning to invest in these areas, there will also be a need to design support to focus on gaps in provision and areas of underinvestment in digital skills and technologies so that any Government support provided is incremental to planned business activity rather than displacing it.

5.2.2.4 Refinements to regulation and regulatory remits

The relationship between regulation, innovation and growth is complex. Regulation can be used to protect and benefit people, businesses, and the environment. It can also support economic growth and

⁴⁸ Gov.uk. (2022). '[Government backs UK entrepreneurs with tech support and software to help them grow](#)'.

⁴⁹ Gov.scot. (2022). '[Digital support for businesses](#)'.

⁵⁰ Gov.uk. (2021). '[£8 million government boost for manufacturers across England to go digital](#)'.

lead to innovation through improved confidence in a sector, support a level playing field and a competitive environment in which to operate⁵¹. However, it can also lead to additional compliance costs and has the potential to negatively affect growth and impact overall levels of innovation.

Due to the nature of the Island's sectors, the quality of the Island's regulation and reputation of its regulators are key aspects in attracting and retaining international businesses. All recommendations and policy adjustments should be considered with this in mind. That said, the world's leading regulators still support the development of their industries, drive innovation, and seek ease of understanding and application of regulations.

In view of the strengths, challenges and opportunities noted during Phase 1, policy in this area is recommended to include:

- **Introducing new regulation** in select areas where it would act as a means of creating greater certainty and thereby increasing the confidence of businesses and their prospective customers that their respective interests are adequately protected, and obligations clearly defined. This could include:
 - Seeking to set new standards in domains – whether through expansion within existing 'regulated sectors' or applying regulation to previously unregulated domains – where to do so could confer a competitive advantage. For example, the Island's early move into the regulation of online gambling is widely credited as a key factor in attracting significant volumes of business to the Island.
 - Alignment of regulation in relevant areas with international standards (or the requirements in key export markets) in order to create an environment which supports businesses' participation in global markets.
- Measures designed to **reduce the burden of regulation on businesses** through (i) the removal of regulation that is unnecessary/where the compliance costs outweigh the benefits the regulations deliver, or (ii) redesigning existing regulation in a way that seeks to better balance its benefits against its costs e.g., by simplifying compliance measures. An example of this is the 'One-in, One-out' principle which formed part of the UK Government's programme in 2010⁵²(subsequently updated to One-in, Two-out, then One-in, Three-out). This policy sought to ensure that the additional net cost to business of any new measures was at least offset by reductions in net cost to business through the removal or streamlining of existing measures.

Furthermore, it may be appropriate to **revise the remit of key regulators** to include supporting the long-term competitiveness of sectors through, for example, horizon scanning and support for the development of innovative products. This has been included in the responsibilities of regulators in other jurisdictions. For example, the Swiss Financial Market Supervision Act states that the financial markets regulator (FINMA) should have regard in discharging its duties to "*the effect that regulation has on competition, innovative ability and the international competitiveness of Switzerland's financial centre*"⁵³. In addition, ensuring that regulation is presented to the market in a clear and accessible way may increase innovation by existing market players (e.g., increasing the use of digital signatures by existing licence holders, where requirements are not currently well understood) and increase interest in the jurisdiction from potential new entrants.

In view of the appraisal components it is reasonable to conclude that appropriately targeted refinements to regulation would be associated with positive outcomes for the Island.

⁵¹ National Audit Office (2017). ['A Short Guide to Regulation'](#)

⁵² HM Government (2010). ['The Coalition: our programme for government'](#)

⁵³ Swiss Government (2007). ['Federal Act on the Swiss Financial Market Supervisory Authority'](#)

The strategic fit and rationale for refinement to regulation is clear, and consistent with the objectives outlined in the Island Plan. Furthermore, in relation to our Phase 1 work:

- A number of the potential opportunities identified by subject matter experts would depend on the creation of new regulatory frameworks, or the expansion of existing frameworks.
- Survey evidence noted that regulatory burdens act as a constraint to growth, and stakeholder feedback highlighted that regulatory barriers negatively impact Isle of Man businesses' ability to compete internationally.

There is evidence that **smart regulation** can deliver a range of positive economic impacts, in particular in support of improvements in economic output and productivity that would arise through overall improvements in the business environment and ease of doing business. Taken together, the extent of direct GDP, job creation, and potential wider social and environmental benefits that may come about (dependent on the specifics of regulatory changes), positively positions this policy focus areas as important as part of the broader suite of policy measures adopted by IOMG.

However, there will be a need to appropriately target changes for design and implementation, prioritising those changes anticipated to have significant net positive impacts to business: whether through regulatory changes that support the creation of new markets, the expansion of existing markets, or help to reduce the regulatory burden for businesses.

5.2.2.5 Policy in support of increasing the Isle of Man's labour market

This sub-section looks at high level policy levers in support of Isle of Man's labour market and specifically seeks to address the prosperity for business sub-objective to increase the quality and size of the workforce through developing strategy regarding:

- Ease of migration; and
- Employment enablement measures.

The Island has sustained very low unemployment rates for over a decade, alongside growing numbers of individuals in employment. While this is positive in that those economically active individuals are largely all in employment, there is evidence of unfilled vacancies and difficulties in terms of availability of suitable employees for businesses to grow. A limited workforce affects the total productive capacity of an economy and holds back its potential.

As outlined above in Section 5.2.1, it is important that firms have access to the appropriate stock of employees to fill vacancies, and that these employees have the relevant skills and experience – as well as the right circumstances – to enable them to carry out the required business roles effectively.

When choosing a new business location, companies are likely to take these factors in to account, and, when established in a place, businesses will need an effective, skilled workforce in order to operate productively and to maintain or grow output. This is supported by economic literature, which notes that a location will not be successful if it does not attract people to live and work in it.⁵⁴ A number of wider factors affect a place's ability to attract people, such as their ability to access employment opportunities, amenities and public services, such as education and healthcare. These are considered separately in Section 5.2.2.6 (infrastructure) and Section 5.2.2.7 (education and skills).

In support of developing its labour market, we understand that Isle of Man Government is developing policy, including with respect to the current immigration process and through the Workforce and Skills

⁵⁴ KPMG (2020). ['UK regions: a framework for growth'](#).

strategy, both of which are important policy areas to support the delivery of the economic objectives within the Strategic Economic Framework, as explained below.

Migration

As advanced economies typically have lower birth rates, often below the replacement level, they can be dependent on a level of working-age immigration to maintain a sustainable dependency ratio. Small jurisdictions, such as the Isle of Man, often also face substantial outflows of young adults, with many leaving the Island to pursue education, economic and/or social opportunities elsewhere. This is demonstrated through data on post-high school placements for Isle of Man students, which reveals that the proportion of Year 13/14 students taking up placements off-island was approximately 75% in 2020.

As such, it is important for the Isle of Man to offer an immigration process that is conducive to attracting individuals of working age to support the labour market and, in particular to bring individuals with high-quality skillsets, generating opportunities for fresh thinking and innovation. Policy changes in this area were supported by business leaders engaged with as part of this project. Many expressed that the Island needs to actively promote itself to encourage inward migration of economically active people that are a good fit for the needs of existing businesses and strategic growth sectors.

In view of this, we suggest that the Government:

- Reviews the immigration process for workers, particularly those with in-demand skills or experience, to minimise friction and understand barriers e.g. simplifying the process and documentation required and/or reducing wait times; and
- Considers introducing grant-based incentives to encourage entrepreneurial, skilled individuals wanting to start a business on the Island to relocate.

We are aware that a revised **Locate Strategy** is due to be brought to Tynwald by July 2022 followed by an implementation plan for delivery of the strategy. The objective is to help ensure the Island can attract skills and knowledge required by on-island businesses that cannot be sourced locally. Proposals in this area will form an important part of the delivery of the economic vision for the Island, in particular in relation to the prosperity for business sub-objective of growing the size, and improving the quality of, the Island's workforce.

Employment enablement

To support business prosperity and increase the productivity of firms on the Island it is important that the existing, and prospective future, workforce have the incentives, support and working conditions to enable and encourage them to enter or remain in the workforce.

Employment-enabling factors – such as flexible working conditions – have a range of economic benefits, including in terms of labour productivity, workforce size, and resultant government revenues from employment. They have also been found to have positive effects on health and wellbeing of workers, as well as broader social benefits⁵⁵

As such, we propose that the Government considers the following measures to encourage individuals into work as part of its broader labour market support strategy:

- Progressive employment law provisions, including:
 - measures supporting shared paternity leave; and

⁵⁵ Joyce, K., *et al.* (2010). '[Flexible working conditions and their effects on employee health and wellbeing](#)'.

- provisions for flexible working, including: job sharing, working from home, part time contracts and flexitime.
- Improved childcare provision, in terms of affordability and availability.
- Improved communication regarding career opportunities so that individuals are more aware of the range of options available.
- Improved collaboration between industry and the education sector to ensure that appropriate connections are made e.g. work placements and greater understanding of required skills and future skills set trajectory.

We understand that the **Workforce and Skills strategy** is due to be brought to Tynwald by July 2022 and that this will include a range of measures that aim to attract people to the Island, as well as support those entering employment for the first time, changing employment or returning to the workforce. It aims to deliver this by:

- Ensuring the immigration strategy and work permit system are attracting those with the skills needed to support the continued growth in the economically active population and supporting our domestic economy to ensure the Island offers vibrant communities.
- More people access rewarding training and employment both from on and off-island and employers access the skills they need to grow their businesses.

Similar to the plans for the Locate strategy, proposals in this area will form an important part of the delivery of the economic vision for the Island, in particular in relation to growing the size, and improving the quality of, the Island's workforce.

5.2.2.6 Infrastructure investment and regeneration: planning policy and legislation

The Phase 1 Part 1 report noted the different forms of infrastructure that are necessary to support business performance, including: transport, digital and business premises. These are collectively vital for business growth and thus job creation because they respectively impact connectivity, productivity and the ability to businesses to establish themselves on the Island and expand operations. Further, there are agglomeration benefits associated with supporting infrastructure, which the Isle of Man could maximise with appropriate policy in place that would result in the regeneration and improvement of the quality and stock of current infrastructure. Addressing issues in respect to business-related infrastructure would directly support the prosperity for business objective and the sub-objective of supporting improvements in firms' productivity.

In view of this, we propose that the Government considers:

- Simplifying the planning process for the construction or modification of premises to support growth of key existing and target sectors.
- Review and develop planning policy so that it best supports place-based regeneration and aligns with the Island's economic and climate strategies.

Section 5.3.2.6 details the remit of the Manx Development Corporation (MDC). We note that a Housing & Communities Board has also been established and an initial 12 month action plan to support the delivery of the vision set out in the Island Plan of 'Building Great Communities' was laid before Tynwald in March 2022. It is, however, unclear which department or body will be responsible for reviewing and making recommendations to update and change planning policy and legislation. Clear ownership and accountability would be required to maximise success.

In respect of transport: we note that the Government has undertaken a review of air links and has recently entered into an underwriting agreement with Loganair to run regular flights to London City and London Heathrow airports in response to stakeholder feedback.

5.2.2.7 Policy in support of improving individuals' business-ready skills, knowledge, and experience (human capital)

Thus far in the Strategic Economic Framework, high level policy levers in support of improving prosperity for business have been detailed covering access to finance; business support; digital adoption for businesses; regulation; size of and access into the labour market; and infrastructure regeneration-related policies. The achievement of the 'prosperity for business' objective will also rely on a range of policies that work to improve the quality of education and skills, specifically for the business environment and for individuals who have previously been economically inactive.

In order to achieve prosperity for business, the Isle of Man needs to provide the necessary skills and human capital to enable individuals to succeed in their roles. As noted in the Phase 1 Part 1 report, survey data and stakeholder feedback indicate recruiting young people with the right skills is a challenge for the Island's businesses as it stands.

The Work Bank (2021)⁵⁶ explains that global mega trends – such as the increasing role of technology, climate change, demographic evolution, and globalisation of value chains – are changing the nature of work and skills demand. It states that the skills required by today's labour market include:

- Cognitive skills: the ability to understand complex ideas, adapt to the environment and learn from experience;
- Socio-emotional skills: including interpersonal, leadership and teamwork;
- Technical skills: knowledge, expertise, and interactions necessary to perform a specific task; and
- Digital skills: including (among others) the ability to access, manage, understand, communicate, and evaluate information safely.

One of the sources of evidence that is currently available to assess the Island's performance in this regard is the Isle of Man Business Confidence survey (2017-2019). This considers a number of the above factors when asking respondents about the extent to which they believe young people on the Island have necessary skills.

Evidence from this survey reveals that an increasing proportion of respondents do not think that young people on the Isle of Man have the necessary skills – rising from 18% of business respondents stating this in October 2017 to 31% in October 2019. In 2019, the proportion of respondents who did not think that young people have necessary skills was more than twice as large as the proportion of respondents who do think young people have necessary skills.

This trend is a cause for concern – especially with an ageing population on the Isle of Man – as more experienced older workers leave the workforce there will be a need for the younger population to fill this gap if business output and productivity on the Island is to be maintained.

In view of this, there is a clear opportunity to develop strategy and policies in support of improving business-readiness education, upskilling and reskilling, which can be done in a number of ways, and targeted specifically for different cohorts of the population where the gains from varying methods of intervention would be greatest. Two approaches are summarised in the following sub-sections.

⁵⁶ Work Bank. (2021). '[Skills Development](#)'.

Education and skills: business-focussed measures

We suggest that the Government puts in place measures that support close collaboration between the education sector and industry to ensure a supply of appropriately-skilled employees, especially at the entry level. Consideration should also be given to the design of programmes that are relevant to the changing structure of the economy in terms of key sectors and growth sectors (as referred to in Section 5.5).

Such policies should target individuals in education who might benefit from industry-led or guided programmes of study to ensure their skillsets are developed in accordance with current and future industry needs. Such education/industry collaboration might also include opportunities for workplace-based placements, experiences, or apprenticeships to provide 'real world' experience and support the development of specific skills, in particular those skills felt lacking by respondents to the Island's Business Confidence Survey and those noted by the World Bank as required by today's labour market.

Education and skills: measures targeting inactive individuals

We also propose that measures are put in place to support individuals who are seeking to enter the labour market from a period of economic inactivity and might therefore benefit from re-skilling and support to develop essential business skills. Such measures would support the growth of the size of the workforce, its productivity, and by getting more individuals in work would grow government revenues through employment-related taxes.

Policies for consideration could include:

- Re-training and upskilling programmes specifically designed for individuals who have been economically inactive, and with a focus on digital skills which will be necessary to enable individuals to effectively contribute in the current workforce at a value-adding level.
- Courses/workshops to develop business-necessary skills (e.g. communication and presentational skills) and interview/assessment centre skills.

We note that, to this end, the Government has recently announced the introduction of a **Manx Reskill Scheme**⁵⁷. However, we note that eligibility for the scheme as announced is restricted to those who have been inactive for at least one year due to illness. As such, it may exclude other categories of long-term economically inactive individuals who would also benefit from participation and could further boost the workforce available to the Island's businesses.

5.3 Prosperity for people and communities

5.3.1 Key objectives and strategic priorities for the future of the Island

In order to support a healthy economy and deliver prosperity for business, the Isle of Man needs to attract and retain a sufficiently sized and skilled economically active population to drive economic growth and provide the skills and human capital (workforce skills, knowledge and experience) to enable start-ups and to retain and attract businesses, as discussed in Section 5.2, above.

In recognition of this, one of the strategic objectives for the Strategic Economic Framework for the Island relates to Prosperity for people and communities, linked to the findings from the theme explored in the Phase 1 Part 1 Report around the attractiveness of the Island to people. In order to attract individuals to live and work on the Island, the environment must offer the opportunity for high levels of prosperity for people and communities across all age cohorts and socio-economic circumstances.

⁵⁷ Isle of Man Treasury (2022). ['Manx Reskill Scheme to help people with health conditions return to work'](#)

The overarching objective of prosperity for people and communities is for the Island to provide improved education and employment opportunities for the Island's people with a focus on rewarding careers, career-long re/up-skilling, and enhanced earning potential. The aim is to achieve this in an economy where there is high-quality education, healthcare and infrastructure, including transport and housing infrastructure and cultural and leisure amenities. As noted in KPMG (2020) workers and business owners will be inclined to live in places that provide high-quality amenities and services – including education and upskilling opportunities⁵⁸.

To achieve the overarching 'prosperity for people and communities' objective, three sub-objectives have been defined within the Economic Strategy:

- Increase to median earnings;
- Reduce the income inequality gap; and
- Invest in improving Public Services and infrastructure.

Each of these links to specific issues identified through the Phase 1 review of the strengths and challenges for the Isle of Man and relates to areas where economic evidence indicates that they will contribute toward quality of life, balanced growth and overall economic performance.

By achieving each of the above sub-objectives, the intention is to create a vibrant, forward-looking and secure Island community, with measures to encourage individuals to stay on, or return to the Island to live and work through a focus on providing rewarding careers, career-long re/up-skilling and enhanced earning potential. In so doing, businesses will be equipped with the labour resources and human capital and knowledge with the workforce to enable them to thrive, and the Island will be in a stronger position to attract further individuals to live, work and visit.

In order to create such a vibrant, forward-looking and secure Island community, a number of foundational criteria are necessary:

- **Earnings proportionate to the cost of living:** high costs of living and insufficient earnings may encourage outward migration – especially among groups that may more readily move or that have lower earnings, such as young people. Similarly, it may be difficult to attract economically active people to an area where earnings are low, and the cost of living is high, relative to other locations these individuals could live and work. As such, various measures, including personal tax levers or National Insurance incentives could be used to encourage individuals to consider the Island, together with high value-add job opportunities.
- **Education and upskilling opportunities:** these are important for fostering the skills, knowledge and experience of individuals in a place, which has been cited as being more important to growth than physical capital.⁵⁹ Educational institutions are important as access points to the labour market, however primary and early years education is also important as it impacts educational attainment later in life. Workers and business owners who establish families will also seek to live where they are able to send their children to quality schools. Additionally, as the pace of new technology adoption accelerates, post-school up-skilling will become increasingly important, with workers expected to embrace a career-long approach to learning.
- **Conditions that support health and wellbeing:** this includes access to timely and high-quality healthcare services and interventions. Additionally, amenities and activities available in a location could be linked to better mental and/or physical wellbeing, which in turn is a reflection of how attractive a particular location is to the people already there or considering moving there. Similar to

⁵⁸ KPMG. (2020). '[UK regions: a framework for growth](#)'.

⁵⁹ KPMG. (2020). '[UK regions: a framework for growth](#)'.

education provision, individuals will take into consideration the availability of quality health and social care provision when making relocation decisions.

- **A rich environment of leisure and wider cultural activities:** the cultural and creative sectors have a unique role in local economies due to their close links with the wider creative and knowledge economies, as well as their importance in making an area attractive to newcomers and visitors. Critically, evidence also suggests that certain types of cultural amenities increase the attractiveness of a region to workers with higher levels of education and skills and can therefore help to improve economic performance. Additionally, nature and living in proximity to a green or blue area is generally associated with better health outcomes for all age groups⁶⁰.
- **Good housing stock:** 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. It is important to consider where housing is located as part of local planning, ensuring it is close to existing and new transport networks. In the context of rapid economic growth, the pressure generated by rising costs of housing have severe adverse impacts for local residents, whose incomes do not keep pace. This means that areas of deprivation can co-exist even within highly dynamic economies.

5.3.2 Policy focus areas and opportunities

In view of the 'Prosperity for People and Communities' objectives and the underlying economic rationale set out above that highlights a number of factors that contribute toward a location's attractiveness to people, a range of policy interventions are likely to be required to ensure that the Island moves towards being among the best places in the world for people to live and work.

KPMG has developed a policy focus area in relation to the structure of individual taxation on the Island, which is summarised below.

We also note that IOMG, as part of the Island Plan, has developed/is developing a number of policies and strategies that are also a key part of delivery against the Strategic Economic Framework. Those relevant to achieving the Prosperity for People and Communities objective are also referred to in this section. While these policies and initiatives are not covered in great detail, we have set out our understanding of them below and provide a high-level view on what we consider should be addressed in respect of the Strategic Economic Framework.

5.3.2.1 Review of tax structure: individual tax

It is evident from our Phase 1 work that the Island has significant challenges in retaining and attracting younger economically active people to live and work on the Island. While we have identified various issues that need to be addressed it is clear from our analysis that for those on lower to middle incomes – which would include many younger people, who are at an early stage in their career – the Island's tax system only offers marginal advantages compared to the UK; when taking into account the higher cost of living on-island some households will be financially worse off than in the UK. As a large and near neighbour, the UK has historically been the most significant source of inward migration to the Island and a common destination for outward migration, and hence it is a relevant comparator.

In order to achieve the objective of prosperity for *all* people, it is suggested that the government considers revising the personal tax system to put more money into the pockets of residents on lower to middle incomes, improving their ability to withstand the extra costs of living they face and making the Island a more attractive proposition. Taking into account tax subject matter expert feedback that

⁶⁰ KPMG. (2020). '[UK regions: a framework for growth](#)'.

simplicity is a key strength of the Island's tax system, the simplest way to accomplish this may be to increase the personal allowance, thereby reducing the portion of income upon which tax is paid.

However, while such a measure would be straightforward to implement, increasing the allowances to a level that would have a meaningful impact on take-home pay would – all else being equal – significantly reduce government revenue from employment and the effect would not be limited to only those workers on lower incomes, but would apply to all taxpayers. In order to maintain similar levels of government revenue overall, it would be necessary to raise taxes or charges elsewhere to offset these reductions in revenues from increased personal allowances

For those on higher incomes, the Island's existing income tax regime is very favourable compared to the UK and most other large jurisdictions. The government could therefore consider measures to increase the levels of income tax paid by those on higher incomes in order to help to fund measures to achieve prosperity for *all* people while maintaining sustainable government finances over the long term. We would suggest that the government considers tapering away allowances and reliefs for taxpayers above a certain income threshold. In this way, the effective rate the taxpayer pays rises to the headline rate after tapering. There is precedent for this approach in other tax-competitive jurisdictions: Jersey reformed its tax system in the 2000's, introducing a '20 means 20' (%) principle for those on higher incomes. Guernsey now also withdraws allowances from those on higher incomes.

In the economic literature, it is generally the case that reducing taxes – particularly direct taxes – tends to increase economic growth and vice versa. However, we should note that the literature predominantly addresses the dynamics in large countries, which tend to have significantly higher headline and effective rates of both personal and corporate tax. It is likely that the dynamics in a low tax jurisdiction will be somewhat different. While further research is advised, a modest rebalancing of the personal tax system would appear unlikely to cause an exodus of high earners, assuming that those affected would still be substantially better off under a revised Isle of Man personal tax regime than in the UK and at a comparable level to the other Crown Dependencies.

Preliminary modelling⁶¹ has been conducted based on the Island's current workforce tax revenues and employment levels. It does not factor in any changes to employment or wages and does not capture impacts on National Insurance and VAT, nor second order effects such as the impacts of income tax changes on GDP and employment. This indicates that increasing personal allowances to an extent that might be expected to have a significant positive impact on the financial position of those on lower to middle incomes would be costly:

- If the threshold is increased to £22,500, which should lift those working full-time at Isle of Man living wage levels out of the income tax net⁶², and no other changes were made, it would reduce receipts from income tax by approximately £64.3m per year compared to our baseline projections;
- If the threshold increased to £22,500, an aggressive approach in tapering away allowances (between £75k and £100k) was taken and the headline rate was increased to 22%, receipts from income tax would reduce by approximately £29.8m per year compared to our baseline projections;
- If the threshold increased to £22,500, the 20% headline rate was maintained and there is tapering between £100k and £150k, this would reduce receipts by approximately £55.7m per year compared to our baseline projections.

We would caution that significant increases in the personal tax burden for those on higher incomes could potentially damage the Island's competitive proposition.

We recommend that changes to personal taxation are therefore considered as part of a wider appraisal of the Island's tax strategy in order to ensure that the anticipated combined effects of any proposed

⁶¹ This uses 2019/20 as a base and considers only the direct effects of tested changes on income tax receipts.

⁶² Isle of Man Government (2021). ['Isle of Man Living Wage 2021'](#)

changes on government revenues are analysed and well understood. For example, reductions in income from personal taxation could be offset by increases in the scope of corporate taxation and/or new revenue streams introduced by opportunities referred to elsewhere in this document.

5.3.2.2 Policy in support of enhancing the Island's education and skills offer

Section 5.2.2.7 looked at measures to develop the Isle of Man workforce's business-ready skills, knowledge and experience, that is, strategy to provide educational programmes that are industry-relevant, together with upskilling and reskilling, as well as broader employment support to individuals looking to enter into the workforce following a period of economic inactivity.

There are also several mechanisms by which education is important for creating prosperity for people and communities, and consequently driving economic growth. People may factor into their decision making about whether to locate in a certain place the education and skill provision, both for themselves as well as their families. This may include the quality of formal school education provision, as well as post-secondary/further/ongoing education opportunities. As the pace of new technology adoption accelerates, post-school upskilling and career-long learning (discussed in Section 5.2.2.7) may become increasingly important for the workforce. Equally, evidence suggests that even early learning influences student attainment in later life⁶³, and so is likely important in people's decisions on where to locate their families.

The following sub-sections look at high level policy levers in support of developing the Isle of Man's education and skills offer more broadly, considering factors that are important to make the Island more attractive to people and raise individuals' prosperity, including in terms of:

- Support for early childhood education;
- Education and skills across the age and career spectrum; and
- Digital adoption and use at the household level.

Education strategy: support for early childhood education

In 2020, there were approximately 5,500 primary school aged children on the Island and around the same number of secondary school aged children. These numbers have remained broadly stable since 2005. However, the number of under 5s has dramatically fallen from 2012 onwards: the average number of children in this age range each year in 2006-2011 was around 1,200-1,300 whilst from 2012 onwards this has decreased by around a third to c. 800 in 2018-2020. Some stakeholder evidence from the Phase 1 work indicated that insufficient early childhood education opportunities, and/or access to affordable childcare, is negatively impacting the Isle of Man's attractiveness as a place to raise young children.

We recognise that the Government has published a draft **Childcare Strategy**⁶⁴ as part of the delivery of the Island Plan, with the objective of ensuring that "every child has an opportunity to access high quality childcare and early education and every parent has the choice to access childcare". A final strategy is due to be brought to Tynwald by July 2022.

Measures to improve the availability and affordability of high-quality childcare to improve children's educational outcomes and encourage more parents into work will contribute toward the achievement of the economic strategy, in that it should serve to increase the attractiveness of the Island to people, help to grow the Island's workforce over time and increase the skills of the workforce of the future.

⁶³ KPMG (2020), 'UK regions: a framework for growth', January, p. 21.

⁶⁴ Isle of Man Government (2022) '[Childcare Strategy](#)'

Education and skills strategy

Isle of Man data relating to education provision and opportunities at secondary school level and for higher education students suggests that provision could be improved, with the Isle of Man having a higher pupil-teacher ratio (proportionally fewer teachers per student) than either the UK overall or the Channel Islands. Further, data shows that around 10% or fewer secondary students remain on-Island for post-secondary education and the Island also sees proportionally fewer students receiving top marks on Level 3 and Level 2 qualifications than England or Jersey.

In view of this, we propose that the Government reviews the current education and skills offerings on the Island – including for university students who may be about to enter the labour market for the first time – and reviews the adequacy of the provision of infrastructure (including availability of teachers and resources) that supports learning and development, particularly for the needs of the current and future industries on-island.

The quality and availability of education and skills provision is particularly important for macroeconomic performance, in that it impacts individuals' career opportunities and earnings potential as well as affecting labour productivity and hence business performance. It is important that businesses are able to draw on an appropriately skilled workforce to be able to succeed and grow.

As referenced elsewhere, we are aware that a **Workforce and Skills Strategy** is due to be delivered to Tynwald in July 2022, which aims to attract people to the Island and supports those entering employment for the first time, changing employment or returning to the workforce. As part of this, to support delivery against the Strategic Economic Framework and achieve the economic vision for the Island, in relation to education and skills, we recommend that the Government considers:

- Investing into courses, education facilities and career support that offer in-person and online learning methods;
- Bringing forward measures to raise awareness of career opportunities among the existing workforce;
- Bringing forward measures that will support students and young people on the Island in developing the necessary skills to enter rewarding careers on the Island, encouraging them to remain on the Island to study or to return after a period of off-island study.

Household-focused digital adoption

In addition to formal educational opportunities, the ability to access and use the latest digital technologies at the household and individual level is important from the perspective of developing skills and familiarity with tools that will be necessary to prosper in business as well as in society on the Isle of Man.

Evidence in the literature states that communications is an essential component of a successful infrastructure strategy and, as noted in relation to prosperity for business, access to a fast and reliable internet network is imperative for businesses seeking to connect with customers and improve their productivity.⁶⁵

It is also important outside of the business environment because it acts as a portal for knowledge and data⁶⁶, and could therefore help to reduce inequality in terms of accessing information. This could

⁶⁵ KPMG (2020), '[UK regions: a framework for growth](#)'.

⁶⁶ Advergize. (2022). '[10+ Advantages of Technology on Personal, Work & Social Life](#)'.

manifest itself in building greater awareness of employment or educational opportunities, as well as ability to access online learning and training opportunities.

More broadly, access to, and adoption of, technology can have wide ranging economic, social and environmental benefits, including supporting innovation and the development of more online services such as online banking and m-health solutions, as well as increase and improve communication, aid efficiency and productivity and increase connectivity to products, services and people⁶⁷. As noted by the UN (2019), those yet to be digitally connected remain cut off from the benefits of this new era and will, therefore, remain further behind, thus increasing the inequality gap – the reduction of which is a sub-objective within the Strategic Economic Framework⁶⁸.

According to the data, the Isle of Man currently has average internet download speeds at a similar level to the UK and in excess of Guernsey but significantly behind other comparators, notably Jersey, whose data speeds are world-leading. The roll-out of fibre connectivity across the Island has accelerated and is currently available to over 60% of premises, although uptake is currently low (8% of households as at Q1 2021). 4G coverage extends to 99% of the population, although the Island is not currently building a 5G network.

However, feedback from stakeholders interviewed/attending workshops included views that the Island was not currently considered a leader in end user connectivity, although acceleration in the rollout of fibre services was noted. In terms of mobile connectivity, the lack of rollout of 5G networks was seen as sending a negative signal to technology businesses, which typically prefer to operate in jurisdictions at the vanguard in terms of digital infrastructure.

To make some improvements in terms of digital adoption on the Island and specifically to address potential risks around increases in inequality driven by digital exclusion, we propose that the Government considers introducing measures that would increase the uptake of high-speed internet connectivity among low-income households. This could include the introduction of discounted social tariffs available to eligible households and training particularly focused on digital inclusion of older generations

The **National Broadband Plan (NBP)** started 1st July 2021, and as outlined in the Isle of Man's **National Telecoms Strategy**, sets out to deliver ultrafast fibre broadband (FTTP) past more than 99% of the Island's premises. Since the commencement of the NBP, the Isle of Man Government has committed funds to accelerate the roll out of ultrafast fibre broadband to pass >99% of homes from five years to four. However, we are not aware of plans to introduce social tariffs to increase uptake of the new services.

5.3.2.3 Health

Factors affecting health, wellbeing and life satisfaction can be important in people's decisions to remain in a location or to move. Additionally, access to quality healthcare is important to attracting people to live in a location, as this may influence and support health and wellbeing.

According to evidence from the Phase 1 Part 1 report, life expectancy appears to have decreased over the period 2017 to 2020, and even noting that there may be an impact in 2020 due to the COVID-19 pandemic, life expectancy had decreased in the two years prior to this. For a location with an ageing population, a declining life expectancy may be of particular concern.

Therefore, in order to deliver prosperity for people and communities – specifically the sub-objective relating to improving the quality of public services and infrastructure – we propose the strategic

⁶⁷ Ibid.

⁶⁸ United Nations (2019). [‘The impact of digital technologies’](#).

programme for the Economic Framework includes measures to support the development of a sustainable, high-quality health service, including in terms of:

- Facilities and infrastructure
- Wage/benefits/incentives for healthcare professionals to ensure the sector is well-supported and attractive to new entrants into the labour market
- Public awareness materials in support of a healthy working age population, such as:
 - Promoting good health and wellbeing such as benefits of walking (which would also support sustainability initiatives)
 - Greater awareness of negative health and wellbeing impacts associated with being out of work
- The availability of private healthcare facilities on-island, which would be expected to reduce pressures on Manx Care and be an attractive feature for people in roles with an expectation of private health insurance.

We note that the Island's health and social care services are currently undergoing a period of transformation, aligned with the recommendations for reform made by Sir Jonathan Michael.

5.3.2.4 Infrastructure investment and regeneration: culture and leisure amenities

As discussed in the literature⁶⁹, no location will be successful if it does not attract people to live and work in it, or provide its existing population with the means to prosper. Places need to be planned as attractive locations to live, with adequate housing supply and cultural and recreation offerings, as well as a supportive infrastructure network to ensure the accessibility of amenities. Workers and business owners will only want to live in places that provide high-quality amenities, including health, education and upskilling opportunities, as well as a rich environment of leisure activities, and good housing stock⁷⁰.

Specific locations will have a different set of priorities that they will need to address but there are a number of areas where government can help make a difference, including in terms of funding for permanent sport and cultural facilities and providing the market conditions to drive investment in, and development of, housing.

A focus on cultural as well as other leisure amenities can impart a unique identity on a local economy, as well as increase its ability to attract and retain talent by raising the overall quality of living in the area. It is also important to recognise the long-lasting benefits that cultural facilities can bring to residents⁷¹.

The critical point for cultural investments is in ensuring a lasting legacy that improves the attractiveness of a place from the perspective of potential residents. There is a potential successful pathway to economic development through investment in cultural amenities as many examples around the world demonstrate. Importantly, cultural amenities increase the attractiveness of a region to workers with higher levels of education and skills and can therefore, indirectly, drive improvements in economic performance⁷².

In view of the above economic rationale supporting development of culture and leisure amenities, we propose that the Government considers introducing place-based regeneration measures focused on

⁶⁹ KPMG (2020), '[UK regions: a framework for growth](#)'.

⁷⁰ Ibid.

⁷¹ Ibid.

⁷² Ibid.

creating places that appeal to a broader mix of age profiles, but in particular to a younger, more diverse population. We would expect strategies and initiatives to consider, as a first step toward driving improvements in the Island's leisure and cultural infrastructure, to include:

- Investigation of perceived barriers to brownfield site development.
- Leveraging the skills and investment appetite of the private sector with Government acting as an enabler to delivery.
- Developing a detailed regeneration and place-based strategy across the Island to holistically prioritise projects and investments to meet the needs of a future, larger, younger and more diverse population.

We are aware that the **Manx Development Corporation (MDC)** was established in 2021 to “*be a catalyst for the positive transformation of the Island's urban landscape for the benefit of all Manx Citizens*”. The Brownfield Regeneration Steering Group (BRSG), a sub-committee of the Council of Ministers, provides strategic direction and oversees the outcomes of the MDC. It is our understanding that the priority roles for the MDC are:

- The development of unoccupied or previously developed sites transferred to the Manx Development Corporation, in line with Government strategies, urban regeneration masterplans and the Island Development Plan.
- Facilitate, enable, and broker the development of unoccupied or previously developed sites in private ownership for the purpose of sustainable and suitable development, ensuring alignment with Government strategies, urban regeneration masterplans and the Island Development Plan.
- Activities could include shouldering some of the risks preventing privately funded development and regeneration.
- The provision of strategic and research support for Government in support of island-wide urban regeneration.

These priorities are well aligned to addressing some of the findings of the Phase 1 review and our views in relation to the need to leverage private sector skills and investment appetite whilst stimulating activity through the release of redundant land and buildings. The Westmoreland Road project, for example, will provide additional housing by converting a site with little to no existing economic contribution. There is a need however, to develop a full place-based regeneration masterplan for the Island considering specific infrastructure needs to make the Island better placed to attract and retain working age individuals in particular young people. This should consider the amenities required, the scale of these, the most appropriate sites to locate such infrastructure and the collective offer comprising: cultural, leisure, housing and broader infrastructure amenities across the Island.

5.3.2.5 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. We recommend that the Government considers taking measures 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.
- Help first time buyers wishing to get onto the housing ladder.

While currently available data regarding the state of the Island's housing market is insufficient to recommend it, modifications to the existing property registration fees in order to disincentivise certain types of buyer may form part of the appropriate policy response.

As noted above, a **Housing & Communities Board** has been established and an initial action plan laid before Tynwald in March 2022. This Housing and Communities Board 2022/23 Action Plan lays out the initial 12-month 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 of:

- 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.

5.4 Resilient and sustainable economy

5.4.1 Key objectives and strategic priorities for the future of the Island

The third broad objective within the Strategic Economic Framework relates to the Island's resilience and sustainability. Economic growth needs to be sustainable if the Isle of Man is to deliver long-term improvements in economic, social and environmental outcomes, extending beyond increases in GDP.

Resilience and sustainability can relate to a wide range of factors. In the context of the economic vision for the Island and the Island's current performance, as assessed in the Phase 1 work, the following sub-objectives have been developed in relation to achieving a resilient and sustainable economy:

- Balance the age profile of the population and reduce the dependency ratio;
- Maintain healthy government finances over the long term; and
- Improve the Island's environmental and social sustainability.

The overall intention is to create an economy that is resilient over the long term, including in relation to its demographics and government finances, and to support the transition to an economy where social and environmental factors are fully embedded within economic policy-setting and businesses are supported to achieve ESG goals.

5.4.1.1 Balance the age profile of the population and reduce the dependency ratio

As noted by the World Economic Forum, populations growing older is cause for celebration, but it also poses economic and fiscal challenges⁷³. Results from a separate World Economic Forum simulation into the impact of population change found that a relative increase in the share of young dependants and retirees decreases output growth and investment, while an increase in workers does the opposite⁷⁴.

As noted throughout the Phase 1 report, the Isle of Man has an ageing population that is somewhat unbalanced, particularly relative to some comparator jurisdictions. Evidence in relation to the current

⁷³ World Economic Forum. 2015. '[What are the economic implications of ageing populations?](#)'.

⁷⁴ World Economic Forum. 2015. '[How will an ageing population affect the economy?](#)'

composition of the Isle of Man's population points to declining numbers of younger people on the Island, and an increase in the size of the older age groups within the working age population.

There is also a clear link between the composition of population and the requirements for public sector spending, for example in terms of education, health and social care, and welfare support. This is generally measured through the economic dependency ratio which reflects the extent to which a given population is supported by members of the adult population who are economically active⁷⁵. A lower dependency ratio means that there are more of the population in the labour force.

While the 2021 Census data shows that there has been an increase in the size of the working age population over the last four years, the increase has occurred towards the older age groups. This, taken together with the continued decline in the number of young people on the Island, could put increased pressure on government finances and place a greater reliance on individuals in the working age population to support public service spending.

As such, the intention of the first sub-objective is to develop an economy and living environment that is conducive and attractive to individuals of all ages with a view to expanding the population and making it, on average, younger and more diverse, thereby reducing the pressure on the working population and on associated public sector resources (continuing the trend seen in the 2021 Census data of a falling dependency ratio), as well as helping to expand the workforce to support business growth.

5.4.1.2 Maintain healthy government finances over the long term

The ability for a government to raise revenue, fund public services and pay debts is important to create a stable environment for investment and economic activity. In turn, this will support the economy's resilience over the long term and will encourage inward investment to the economy.

In smaller jurisdictions, such as the Isle of Man and other Crown Dependencies, there is a particular importance of maintaining a strong financial position. While large nations can maintain substantial government deficits through long-term borrowing, smaller jurisdictions often maintain balanced budgets and hold large investments to maintain their ability to weather the financial pressure of economic downturns and external economic shocks.

The relatively small size of the Isle of Man's economy increases the risk to the overall economy and government finances of an economic shock that may affect only a few sectors, as small economies are typically less diversified than larger ones. Therefore, it is important for government revenues not to be too dependent on a small number of sectors and/or sources of revenue, and for there to be access to a variety of different revenue-raising measures. In particular, new sectors, brown field sites, excess building stock and land and the monetization of natural resources represent opportunities to diversify government revenue away from the concentration of income from individual related activities. Such natural resources could be the creation of carbon credits to assist businesses with carbon offsetting and the leasing of seabed or land for energy production.

As such, the intention of this sub-objective is to ensure IOMG is well-placed to provide the necessary funding in support, for example, of policy focus areas proposed as part of the Strategic Economic Framework, which will in turn provide a broad mix of inward funding opportunities to subsequently add to government revenues.

The intention is that this sub-objective should be met over the long term, rather than on an annual basis, recognising that investment will be needed to deliver the measures identified as part of the Strategic Economic Framework in order to achieve the economic vision set out in the Island Plan.

⁷⁵ ONS. (2019). ['Living longer and old-age dependency – what does the future hold?'](#)

5.4.1.3 Improve the Island's environmental and social sustainability

There is a clear and compelling economic rationale for action to be taken in relation to climate change. Recent evidence from the World Economic Forum (2021) states that the global economy could lose 10% of its total economic value by 2050 due to climate change, stating that climate change is the most impactful risk facing the planet. This is particularly concerning in the context of an already challenged global community that is struggling to mitigate the impact of COVID-19.

Furthermore, the OECD⁷⁶ has highlighted that reducing emissions and pollution is crucial to ensuring that gains in growth and well-being are sustainable in the long term, meaning that environmental considerations should be key in the setting of national and global reform priorities.

As discussed in the Phase 1 Part 1 Report, while the Island has a well-protected natural environment, holding UNESCO's Biosphere designation, and has made some positive steps in relation to sustainability, including through bringing forward a Climate Change Bill and putting out to consultation a Climate Action Plan, based on the environmental sustainability metrics reviewed in Phase 1 the Island's current environmental sustainability-related performance is poor. Failure to take action to address this performance would affect the economic success of the Island going forward.

For example, the Island's sustainability position could impact the ability of global organisations based on the Island to profitably remain here if the Island does not align itself with their values and net zero commitments. Over 75% of the largest companies on the Island (over 250 employees) have net zero commitments or were compiling them as at September 2021, with survey evidence showing that over 50% of firms 'Always', 'Very Frequently' or 'Frequently' consider ESG factors when making investment and/or purchasing decisions.

Furthermore, it could negatively impact the attractiveness of the Island to potential residents and inward investors and also impact the wellbeing of the Island's existing residents. A study by the University of Oxford finds that an increase in firms' environmental, social and governance (ESG) practices is positively associated with living standards in the firms' respective country, in terms of GDP per capita.

5.4.2 Policy focus areas and opportunities

In view of the Resilient and Sustainable Economy objectives and the underlying economic rationale, a range of policy interventions are likely to be required to ensure that the Island is able to grow sustainably.

KPMG has developed a policy focus area in relation to the structure of corporate taxation on the Island, which is summarised below. We would note that – in respect of social sustainability – most of the policy interventions referred to under the 'Prosperity for people and communities' are also relevant to social sustainability.

We also note that IOMG, as part of the Island Plan, has developed/is developing a number of policies and strategies that are also a key part of delivery against the Strategic Economic Framework. Those relevant to achieving the Resilient and Sustainable Economy objective are also referred to in this section. While these policies and initiatives are not covered in great detail, we have set out our understanding of them below and provide a high-level view on what we consider should be addressed in respect of the Strategic Economic Framework.

5.4.2.1 Review corporate tax structure (domestic)

While yet to be fully costed, we would expect that the level of transformational change that IOMG wishes to achieve in respect of its economy (and life on the Island more broadly) will require significant financial

⁷⁶ OECD. (2021). ['Economic Policy Reforms 2019: Going for Growth'](#)

resources to deliver. The sub-objective to 'Maintain healthy government finances over the long term' recognises that the way those changes are funded needs to be sustainable.

As identified in our Phase 1 report, IOMG's revenues are currently derived from several sources, principally:

- Customs and Excise (including VAT and duties): approximately 36% in 2020/21;
- Income Taxes (personal and corporate): approximately 22% in 2020/21;
- Social Security (including National Insurance Contributions): approximately 21% in 2020/21; and
- Other Income (such as fees and charges): approximately 21% in 2020/21.

While the types of government revenue are relatively more diversified on-island than in other Crown Dependencies, much of that revenue is currently linked to the employment or consumption of individuals. As we observed in Phase 1, the correlation between economic output, as measured by GDP, and employment or government revenues is not a strong one, such that GDP alone is not a good measure of the level of prosperity that the measured economic activity generates locally.

Most companies on the Island are charged corporate income tax at a 0% rate. The only exceptions to this are:

- Deposit-taking banks and large retailers⁷⁷, which are taxed at 10%;
- Income from local real estate, which is taxed at 20%; and
- Companies specifically electing to be taxed, which are taxed at 10%.

As noted in respect of personal taxation in Section 5.3.2.1 above, economic theory would generally indicate that increasing rates of tax is likely to have a negative impact on economic growth. Such conclusions are typically based on studies examining data from jurisdictions which apply corporate tax significantly more broadly and at higher effective rates than jurisdictions such as the Isle of Man.

While further research would be recommended, we anticipate that, in principle, carefully targeted expansions of the 10% rate of corporate tax into additional sectors could generate additional government revenue and reduce the Island's dependence on personal taxation of income and consumption without significantly reducing the financial attractiveness of the Island versus some of its key competitors. For example, the other Crown Dependencies already extend corporate tax to broader sections of their economies. While precise implementation differs, both jurisdictions:

- Tax most of their financial services sector at 10%; and
- Tax large retailers, utilities companies, oil companies, companies in the cannabis sector and income on local real estate at 20%.

The regime on the Island also offers companies significant advantages over the UK, where corporate tax is levied on most companies in most sectors at a rate of 19%.

⁷⁷ With profits in the year exceeding £500k.

In terms of the impact of any corporate tax increase over time, some level of activity loss could reasonably be expected all else being equal, as increasing rates of corporate tax, for example reduces profit after tax available for investment or as dividend payments to shareholders.

As noted in respect of personal taxation described in Section 5.3.2.1 above, it is desirable that any possible changes to corporate taxation are considered as part of a broader tax strategy in order to capture their combined effects.

5.4.2.2 Environmental sustainability policy

As public and business consciousness regarding the wider impacts of their actions on the physical and social world in which they live expands, sustainability performance is becoming a critical factor in the economic decisions stakeholders make. For example:

- Large companies, especially globally owned ones, are taking into account jurisdictional sustainability performance in reviewing their global footprints and deciding where to maintain bases and where to expand;
- In procurement, corporate customers' evaluation criteria are taking into account alignment of prospective suppliers, such as data centres, commercial property and telecoms, with good sustainability principles and practices;
- Institutional and retail investors are taking sustainability into account in their investment decisions; and
- Employees – particularly those in younger age groups – are paying more attention to the sustainability performance of potential employers in deciding which job opportunities to pursue.

In light of the above, we consider that creating an environment where sustainability is valued and where measures taken by individuals and companies to be better corporate citizens are supported are consistent with the Island's long-term success.

It is worth noting, that if the Island is unable to develop local facilities for carbon offsetting, businesses will purchase them off-island and funds will regularly leave the economy – increasingly so towards 2030 and beyond.

As noted in Section 5.4.1.3, our Phase 1 analysis showed that the Island is current lagging peers in its performance on a range of hard environmental sustainability metrics. We note that the Island is committed to achieving net zero greenhouse gas emissions by 2050, has set an interim target of 45% reduction by 2035, and that IOMG is due to bring forward a new Climate Change Plan imminently. The Island has the opportunity to still be world-leading and should take that opportunity.

We recommend that the Government ensures that its Climate Change Plan:

- is clearly articulated and highly visible;
- is embedded across all departments and policy areas to gain traction;
- supports businesses in meeting international standards and market expectations in terms of sustainability;
- encourages corporate investment in carbon reduction through public disclosure (akin to TCFD);

- supports the availability of energy options to Island businesses such that they are able to meet their goals and their stakeholders' expectations in terms of low/no carbon energy usage; and
- invests in sustainability initiatives which position the Island as an attractive place to live and work, particularly for target groups that place a high value on sustainability, including the younger demographics that are critical to the Island's future economic development.

5.4.2.3 Sustainable tax policy: monetising the green economy

As noted in respect of corporate tax at Section 5.4.2.1 above and in accordance with the sub-objective to maintain healthy government finances in the long term it would be desirable for IOMG to diversify its sources of revenue, which are currently based on the taxation of individuals' employment and consumption.

It was recognised in Phase 1 that the Island has abundant renewable natural resources and that these could become a significant source of revenue to the Island in their own right. In particular at Section 5.5.2.2 below we set out in brief the opportunity for the Island to lease areas of its seabed for offshore wind generation. The Island's location in the North Irish Sea is very valuable territory for the siting of such facilities and, indeed, large wind farms already exist just beyond the limit of the Island's territorial waters, raising significant sums for the UK Crown Estates as part of a series of auctions for the development of offshore wind in various areas of water around the UK.

Valuing the potential economic value is subject to wide number of variables and choices by the Government, in particular the extent and locations of the seabeds to lease. In order to the understand the magnitude of the opportunity we note the following:

- The Crown Estate estimated during its study supporting the Offshore Wind Leasing Round 4 held in 2021 that the Isle of Man had seabed capacity, using a blend of fixed and floating platforms, of approximately 12GW.⁷⁸
- This estimate was made by the Crown Estate ahead of the Round 4 8GW Offshore Wind Leasing auction run by the Crown Estate in February 2021 which raised £879m in annual option fees ("AOF") regardless of production. When the profits of the operation are taxed total revenues would increase.
- Specifically for the UK waters surrounding the Island the average option fees were £115,297 per MW.⁷⁹
- If the Island was to utilise even 2GW of seabed for leasing, at similar pricing this could be worth c. £230m to the government per year in option fees. Note a 3GW export assumption was estimated with just the Orsted lease agreed in 2014.⁸⁰
- Since Round 4, and Phase 1 of this review, a 'Scotwind' auction was held which attracted lower prices than Round 4 due to the potential of the sites but still attracted AOF from Shell for a 2 GW site of £86m per annum.⁸¹

New technologies are being developed and brought to market at an incredible pace, especially since COP26. Many of these are applicable to the Island in regard to hydrogen, wind, solar, waste to energy and others.

⁷⁸ Crown Estate

⁷⁹ Crown Estate

⁸⁰ <https://www.gov.im/media/1368069/appendix-16-offshore-wind.pdf>

⁸¹ <https://www.crownestatescotland.com/news/scotwind-offshore-wind-leasing-delivers-major-boost-to-scotlands-net-zero-aspirations>

We recommend that the Government considers developing new revenue streams from its renewable natural resources. In particular, we consider that the Island is well-positioned to capitalise on the appetite in the adjacent isles for the development of offshore wind power by leasing areas of the seabed within its territorial waters.

5.4.2.4 Impact of the OECD ‘Two-Pillar’ Solution

As explained in Section 3.2.3, a significant recent development in global taxation has been the agreement of the OECD’s ‘Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy’ which, when implemented, will ensure *inter alia* that large multinational enterprise (MNEs) in scope pay minimum rates of corporate tax globally.

On 20 December 2021, the OECD/G20 Inclusive Framework (IF) on Base Erosion and Profit Shifting (BEPS) released Model Global Anti-Base Erosion (GloBE) rules (Model Rules) under Pillar Two. These Model Rules set forth the “common approach” for a Global Minimum Tax at 15% for MNEs with a turnover of more than EUR750 million. Commentary related to the Model Rules was released on 14 March 2022. Timing in relation to the introduction of the new rules is currently uncertain. The earliest timeframe being considered is for the rules to be effective in 2023 for the Income Inclusion Rule (IIR) and 2024 for the Undertaxed Payments Rule (UTPR).

In practice, the Island has limited freedom not to move with international developments: the impact of measures which reduce the Island’s tax competitiveness would pale in comparison to the impact of the countermeasures likely to be imposed upon the Island should it fail to comply.

It is evident that implementing the GloBE rules under Pillar Two would enable the Island to collect additional tax revenue locally that would otherwise be collected by other countries. Such tax may already be collected by other countries on Isle of Man activities. However, for the reasons noted in Section 5.4.2.1 above in respect of corporate tax in general, there remains a downside risk that – all else being equal – the imposition of such taxes may still lead to some level of activity loss to the Island as is typically seen by other economies. Reduced profits can lead to reduced investment in systems, innovation or people. This logic is captured in models provided to IOMG. The Island can best mitigate this risk by ensuring that its broader attractiveness to business is strong through, for example, implementation of other measures set out in this Strategic Economic Framework. Further, given Pillar Two would be potentially adopted by peer jurisdictions at the same time, based on stakeholder feedback, it is less likely that an entire operation relocates to a peer due to Pillar Two local implementation.

As noted in respect of personal taxation described in Section 5.3.2.1 above and corporate tax more generally in Section 5.4.2.1 above, it is desirable that any possible changes to corporate taxation are considered as part of a broader tax strategy in order to capture their combined effects.

5.5 Protect, nurture and grow key sectors of the economy

5.5.1 Key objectives and strategic priorities for the future of the Island

Analysis and stakeholder feedback in Phase 1 indicated that, while the Island’s economy is already more diversified than many other tax neutral IFCs, it is still quite concentrated in a small number of sectors. Furthermore, much of the Island’s GDP growth is currently concentrated in two industries – Life Insurance (within the Financial Services sector) and eGaming (within the Digital sector) – with others largely stagnant. While the Island’s reputation in these industries remains strong, dependence on them as drivers of growth leaves the Island vulnerable to negative shocks affecting either industry. It is therefore advisable for the Island to broaden the base of its economy that is contributing to growth, employment and Government revenues, which is the overarching intention of this fourth objective.

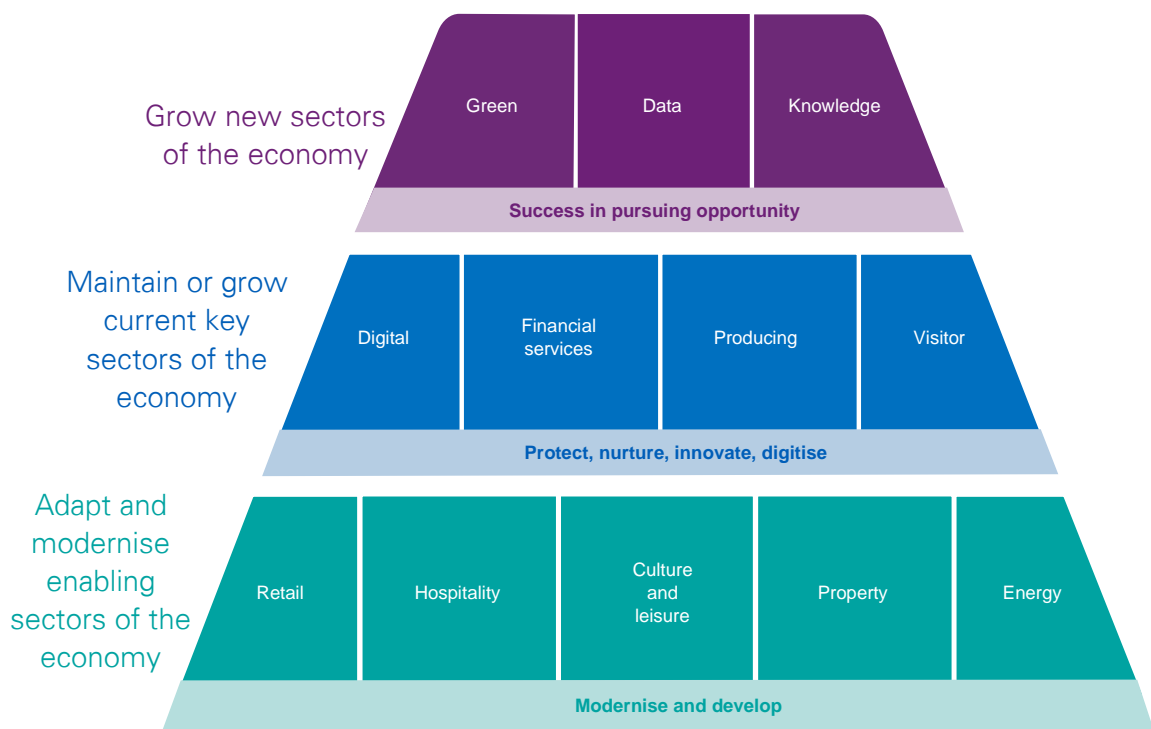
Achieving this objective would also contribute significantly to achievement of the other objectives within the Strategic Economic Framework:

- A more diverse economy will create new opportunities for existing and prospective businesses and residents, promoting the objectives of prosperity for business and prosperity for people and communities.
- A more diverse economy will be better placed to withstand headwinds, contributing to achievement of the objective of resilience and sustainability and particularly the sub-objective in respect of maintaining healthy government finances over the long-term.

Given the Island’s size and resources, it is not realistic for it to pursue diversification across most, or all, sectors: it is necessary for the Island to be more selective.

We have identified three broad categories of sectors, as set out in Figure 5.1 below.

Figure 5.1 The focus of the future economy by sector



The three sub-objectives reflect the different approaches required in respect of different aspects of the economy:

- **Adapt and modernise enabling sectors of the economy:** several sectors in the domestic economy are significant sources of employment and/or VAT receipts and play a critical role in the social fabric of the Island, making it an attractive place to live, work and visit. During our Phase 1 work it was recognised by stakeholders that the Island’s offer in these areas was lacking. The rationale for inclusion of each sector in this group is set out in Section 5.5.1.1 below.

- **Maintain or grow current key sectors of the economy:** this segment includes the principal existing export-generating sectors of the Island's economy. In combination, these sectors account for a large portion of the Island's current GDP and employment and – through Insurance and eGaming – have generated the majority of recent GDP growth. Equally Corporate Service Providers and Banking are significant to government revenues. Ongoing work is needed to ensure that the Island remains an attractive home for businesses in these sectors as the competitive landscape changes, their respective markets develop and new opportunities emerge. The rationale for inclusion of each sector in this group is set out in Section 5.5.1.2 below.
- **Grow new sectors of the economy:** this segment includes several sectors where, based on feedback from our subject matter experts and alliance partners, the Island has the potential to pursue new avenues for growth. IOMG should carefully evaluate opportunities in each area and measures that could be taken to develop them. The rationale for inclusion of each sector in this group is set out in Section 5.5.1.3 below.

5.5.1.1 Adapt and modernise enabling sectors of the economy

As noted above, the sectors included under this sub-objective are foundational to the overall functioning of the Island's economy⁸² and need to be adapted and modernised to meet the requirements of an evolving population and business community. In turn, this will support, particularly, the second objective regarding prosperity for people and communities, by supporting the development of a domestic economy that is varied and vibrant, with high-quality amenities that make the Island an attractive place to live, work and visit.

We set out below the rationale for each of the sectors included under this sub-objective:

- **Retail:** the overall quality and choice of retail businesses on-island was indicated by stakeholders in Phase 1 as lacking. This was seen as having a negative impact on the Island's ability to attract and retain people to live and work, and limiting the attractiveness of the Island's offer to visitors. It is evident that parts of the industry are facing headwinds globally, with the rise of online shopping having impacts on the ability of 'bricks and mortar' retailers – particularly smaller, independent retailers – to compete. On the Island in particular, stakeholders also noted that the size of the local target market is too small to attract some major brands to establish a presence here, without incentives or subsidies, and that the additional logistics and costs involved in maintaining operations on-island are a further challenge.
- **Hospitality:** stakeholders in Phase 1 also referred to deficiencies in the Island's hospitality offer. While recognising that there were some excellent options, the overall quality of the offer was often compared unfavourably to the other Crown Dependencies. A high-quality and diverse range of cafes, bars and restaurants was seen as a key part of making the Island more attractive to residents and visitors alike. Hospitality 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.
- **Culture and Leisure:** while the Island was recognised as having a beautiful natural environment, a range of heritage attractions and other excellent facilities, stakeholders noted that modernisation of some existing facilities is needed to improve their attractiveness to residents and visitors. Furthermore, key demographics critical to the future prosperity of the Island are underserved by current facilities. For example, there were considered to be limited options for children and younger people, particularly high-quality indoor attractions suitable for periods of poor weather. Similar to the retail sector, the limited population of current residents and visitors in relevant target markets limit the number and scale of facilities for which viable business cases can be made.

⁸² Similar to the foundational nature of public services and housing as noted elsewhere in this report and recognised in the Island Plan.

- **Property:** deficiencies have been recognised in the availability and affordability of suitable residential properties for purchase or rent, limiting the attractiveness of the Island to existing residents and limiting the ability of the Island to address workforce shortages through inward migration. Similarly, while several high-quality commercial developments do exist, the overall quality of available commercial premises was not considered to be a good fit for current market needs. Stakeholders familiar with the sector have cited a range of factors inhibiting development, including planning processes, labour shortages, and costs of materials. Given the added complexity and associated risks involved, the ability to realise a sufficient rate of return was also cited as a reason for limited development of brownfield sites.
- **Energy:** a jurisdiction's performance on sustainability metrics is increasingly becoming a factor for many businesses in deciding where to establish or grow, for investors and for individuals in considering where to live and work. At present, most of the Island's electricity is generated from natural gas. There are currently no options for residents and limited options for businesses seeking to ensure that their energy needs are met by renewable or low carbon sources. We note that several of the potential opportunities identified by our subject matter experts would be dependent on the ability of businesses to source renewable energy.

It is expected that growth in the economically active and overall population of the Island would have positive impacts on the domestic economy and the businesses that are able to thrive within it, particularly in respect of the first three sectors listed above. In the short term, however, it may be appropriate for Government to extend business growth support and investment to businesses within these sectors to boost quality and choice to a level that attracts greater numbers of residents and visitors, making businesses in the domestic economy more viable and reducing the need for intervention in the longer term.

5.5.1.2 Maintain or grow current key sectors of the economy

As noted above, the sectors included under this sub-objective are among the current key sectors of the economy, for which there is a need maintain and grow economic activity.

We set out below the rationale for each of the sectors included under this sub-objective:

- **Digital:** The Island's digital sector – driven by eGaming – has been a significant source of economic growth over the past decade. The Island is already pursuing diversification and expansion of digital business via the Digital Isle of Man executive agency of the Department for Enterprise. Furthermore, many of the potential opportunities for the Island identified by subject matter experts fell directly within the digital sector or would be closely linked to it. Strong growth in the digital economy globally is expected to continue. Digital businesses can be highly scalable and many have relatively low dependence on close geographic proximity to relevant target markets. The Island has resilient internet connectivity through multiple fibre links and several large, highly resilient data centres. Furthermore, the Island's corporate and personal tax regimes are attractive for founders and highly-skilled, highly-paid employees. Growth in this sector would contribute to the 'Prosperity for business' objective, particularly the sub-objectives relating to increasing productivity and business innovation; the increase in highly-skilled jobs would also contribute to the 'Prosperity for people and communities' objective, particularly the sub-objective relating to increasing median earnings.
- **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 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 by subject matter experts fell directly within the sector or would be closely linked to it. As for Digital, Financial Services businesses can be scalable and many have relatively low dependence on close geographic proximity to relevant target markets. Measures to improve growth in this sector would be expected to include ensuring that the Island's

existing offer 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.

- **Producing:** This captures various sectors on the Island engaged in the production and export of physical goods. While currently small in GDP and employment terms compared to the sectors mentioned above, the Island is host to a number of specialised engineering and biotech firms, which offer highly-skilled roles. While the Island's size and location are not conducive to attracting companies engaged in high-volume, low-value manufacturing, our subject matter experts considered that the Island does have the opportunity to position itself as a hub within one or more niches involving low-volume and high-value production. It could also be an attractive location for founders for product development and subsequent domiciling of intellectual property in order to realise tax advantages, with large-scale production potentially being performed in other locations. The Island already pursues development of the export economy via the Business Isle of Man executive agency of the Department for Enterprise. Expanding the footprint on-island of specialised engineering and biotech businesses would be expected to contribute to all of the sub-objectives listed under 'Prosperity for business' and the increase in median earnings sub-objective under 'Prosperity for people and communities'.
- **Visitor:** Prior to the growth of the Island's Finance sector and the increased affordability and popularity of international travel in the last century, tourism was a mainstay of the Island's economy. It is currently a much smaller component of economic output but is nevertheless recognised as an established internationally-focused sector. The Island's current visitor economy caters to a number of interests, including motorsport, heritage and outdoor pursuits. The Island's position close to large addressable markets combined with reduced appetite for long-haul travel following the COVID-19 pandemic and due to increased sustainability concerns represent opportunities for the Island to grow its visitor economy. The Island already pursues development of the visitor economy via the Visit Isle of Man executive agency of the Department for Enterprise. A **Visitor Economy Strategy** was approved by the May 2022 sitting of Tynwald. Growth of the Visitor Economy would contribute to the 'Prosperity for business' objective and its sub-objectives. Furthermore, within the 'Prosperity for people and communities' sub-objective the existence of a vibrant visitor economy would contribute to the viability of businesses and facilities that also make the Island an attractive place to live and work, such as hospitality, culture and leisure attractions, as set out in Section 5.5.1.1 above.

It is evident that there is no 'one size fits all' approach either within or between sectors captured under this objective that IOMG would be advised to adopt. A variety of the interventions proposed under other objectives could be relevant to businesses included in this group, depending on their scale, lifecycle stage and the particular challenges they face. For example:

- A large Financial Services business in the regulated space could benefit from revision to regulation that enables it to evolve its products to better meet existing market needs or address new markets.
- A fledgling specialty manufacturer may benefit from business support in respect of export requirements.
- A long-established visitor economy business may benefit from support in building its digital presence and extending its marketing reach.
- The founders of a digital start-up may need support in gaining access to funding.

We recommend that IOM takes a flexible approach. It should continue to listen to the needs of businesses – both individually and through established channels, such as the executive agencies of the Department for Enterprise – in order to connect them with the appropriate information or support, or to identify currently unmet needs of business that it may be able to resolve. As acknowledged in Our Island Plan: *'...we must seek not to express what we "can't do" but rather find out what we "can do" to take the*

Island forward... Section 5.5.2.1 below sets out examples of opportunities for growth of current key sectors of the economy.

5.5.1.3 Grow new sectors of the economy

By ensuring development of enabling sectors, together with the protection and growth of current key sectors of the economy, the Isle of Man will also be in a position to explore new opportunities in areas such as a data, knowledge and the green economy.

Several new sector opportunities have been identified that could deliver economic growth and that are well-aligned with the Island's strengths and aspirations. The rationale for their inclusion within the Strategic Economic Framework is set out below.

- **Green:** The further development of green business on the Island is well-aligned with the strategic objectives contained in this Report and for the Island more broadly. Based on input from subject matter experts, the Island is well-placed to attract such businesses in a number of areas aligned with available natural resources (e.g., wind power, marine resources), with its small size (e.g., as a good location for trialling of new technologies), or due to its strengths in other supporting domains (e.g., as a hub for sustainable finance). Pursuit of development within this sector aligns well with aspirations to attract and retain more younger people and increase the numbers 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.
- **Data:** Building on the Island's existing capabilities in the digital sector, subject matter specialists and alliance partners have identified a number of potential opportunities for the Island in the area of data-related services. Opportunities include:
 - o establishing the Island as a 'global home for data', a politically neutral jurisdiction becoming the legal, and potentially physical, home of global data, supporting organisations seeking to efficiently comply with international requirements regarding data security and processing of data; and
 - o establishing the Island as a hub for specialised data processing in particular domains e.g., space data, bioinformatics data.

The Island has the size and agility to be able to develop regulatory frameworks that respond to the needs of data owners and processors in different domains. Note that there are a number of ecosystem needs that this industry and other in the digital sector would need to succeed, such as renewable energy and energy security. Successful development of these markets aligns well with the objectives under 'Prosperity for business' and through an influx of highly skilled roles would also support achievement of the sub-objective to increase median earnings within the 'Prosperity for people and communities' objective.

- **Knowledge:** Subject matter experts have identified several potential opportunities for the Island to build educational campuses aligned with the Island's existing and identified niche and growth sectors. The opportunity is not targeting island-based learners but also in remote learning where there are gaps in the global market. In addition to generating significant value directly, the existence of such facilities on Island could increase the attractiveness of the Island as a hub for businesses in industries aligned with the institutions' focus areas. This area is well-aligned with the sub-objectives under the 'Prosperity for business' objective, the sub-objective to increase median earnings under 'Prosperity for people and communities' and the objective to balance the age profile of the population under the 'Resilient and sustainable economy' objective.

The new sectors identified above and the opportunities within them vary in terms of their complexity and in the roles Government has to play in their realisation.

Section 5.5.2.2 below sets out examples of opportunities in new sectors of the economy.

5.5.2 Policy focus areas and opportunities

This sub-section sets out a summary of sector-specific opportunities within the context of the Isle of Man's broader Strategic Economic Framework.

As part of Phase 1 of our work, we consulted with subject matter experts within our network and with alliance partners to identify a number of potential opportunities for the Island's economic development within their areas of expertise. These opportunities are, as yet, unqualified, but provide a sense of the broad range of possibilities available to the Island in pursuing economic diversification. We would further note that the Government is already pursuing other opportunities in a number of areas, principally through the executive agencies of the Department for Enterprise.

While several of the potential opportunities set out are opportunities in their own right, they are also foundational to enabling others, creating the optimal environment, and setting strategic direction for the Island. Many are also dependent on – or would benefit from – the policy interventions suggested in the earlier parts of Section 5.

Given the volume and breadth of opportunities available, it is evident that some degree of selectivity and prioritisation will be required in order to avoid resources being spread too thinly to have a meaningful impact. Government has selected several of the identified opportunities for further qualification, including examples of both the development of new sectors and the expansion of existing key sectors. Other opportunities have been recognised as being relevant to existing strategies or pursuits or have been allocated suitable owners for further consideration at the appropriate juncture. In the following sub-sections, we set out brief summaries of a selection of potential opportunities with the current or new sectors of the economy to which they principally relate. In some cases, opportunities arguably have relevance across more than one sector.

5.5.2.1 Current sectors of the economy

Digital

Tokenised company foundation: enable businesses to be founded and registered virtually and remotely and for their shares and other issued instruments to be tokenised as standard. Streamlining company formation and reducing bureaucracy promotes innovators to found companies. Tokenisation provides for smoother transactions at any stage in the company's lifecycle. A range of other businesses are anticipated to emerge to support the growth in demand for digital assets. It could also represent a new service offering for the CSP industry.

Digital Exchanges: provide in regulation for the streamlined exchange of tokenised assets, such as shares, between digitally identified entities. A reputable digital exchange of tokenised assets would have cost and efficiency benefits and would attract listings to the Island, provided it was regulated such that it could be used by customers in other jurisdictions.

Simplification of Settlements: provide in regulation for a fully digital trading and settlement system for physical assets that offers faster and more transparent tracking of ownership. Such a system would have cost and efficiency benefits and reduce the risk of fraud in transactions.

Pay-per-use enabled by blockchain: provide in regulation for distributed ledger technologies in the delivery of pay-per-use business models (such as XaaS). Automation of such industries require a trusted system of record keeping that is free from fraud. An effective system of regulation and oversight would create that trust.

ESG proposition in eGaming: position the Island as a leading jurisdiction in supporting gaming companies to fulfil their ESG targets, partnering with other jurisdictions where appropriate. Investors are

increasingly alive to the ESG profile of companies and sectors in their decision making, with many listed gaming stocks excluded from ESG funds and many investors precluded from the sector because of related concerns, particularly around safer gambling. A strong stance on ESG would potentially enhance the Island's reputation and act as an attractor for high-quality, progressive businesses in the sector.

Financial Services

Digitise existing life insurance products: support and encourage life insurers to innovate their customer digital experience. Improving digital experience to meet or exceed customer expectations would assist life insurers in extending relationships with existing customers and growing in emerging markets, where expectations regarding digital services are high.

Innovate the existing life insurance product mix to suit the consumer of tomorrow: support and encourage life insurers to innovate their product mix to meet evolving customer needs. Much of the Island's insurance industry is reliant on a single type of product; innovation is necessary to compete in a changing market.

Non-life insurance centre for emerging risks: develop the Island as a centre of excellence in insurance with respect to emerging risks, such as ESG, Cyber and Intellectual Property. The insurance market is evolving to offer coverage and related services in respect of a variety of emerging risks. The Island could seek to establish itself as a hub specialising in the handling of one or more of these emerging risks. This could also benefit other sectors in addition to insurance e.g., a specialism in cyber insurance could attract related digital and professional services businesses.

Alternative payments: seek to encourage further growth of the digital payments ecosystem on the Island. Payments is a high-growth sector globally and the Island has a number of existing players in this space, driven partly by the presence of an eGaming industry that has itself driven innovation in payments.

International carbon credit trading exchange: develop the Island as a home for an international carbon credit trading exchange. Demand for robust international carbon markets is increasing. We are aware of efforts to introduce platforms in London and Singapore but are not aware of other tax neutral IFCs developing offerings in this space.

Sustainable Finance product suite, including green bonds: develop the Island's offering as a progressive and well-regulated market for green financial products, including bonds, insurance, funds and securitisations. The global push towards decarbonisation presents opportunities for jurisdictions that are able to move quickly to develop and, credibly and appropriately, regulate a variety of emerging green financial products.

Crowdfunding: review regulation and the ecosystem around crowdfunding on the Island with a view to increasing competitiveness. Crowdfunding has become a popular source of finance during the last decade, particularly for smaller scale products, where it provides individuals an opportunity to participate in projects they are passionate about, such as climate action. We expect that it will continue to grow.

ESG corporate structuring: improve awareness of the Island's 'Ethical Structured Companies' offer and investigate introduction of companies legislation that directly appeals to the ESG agenda. Given an increased focus globally on ESG, improved uptake of Ethical Structured Companies and development of further products with an ESG focus could aid the corporate services market.

Producing

Bioinformatics Cluster: the Island could seek to build on its existing digital focus and establish a bioinformatics cluster. Bioinformatics is a large and growing domain globally which has widespread applications in diagnostics and in developing treatments.



Specialty Biologics Cluster: the Island could seek to attract businesses developing or manufacturing niche biological products, such as enzymes or food ingredients. The development and manufacture of such products can be undertaken at a scale that would potentially be a good fit for the Island.

Waste Management Testbed: the Island could establish itself as an ideal testbed location for biotechnology applications in waste management and recycling. The Island's small size would make it an ideal location to pilot new waste management and recycling methods and is a good fit for a focus on sustainability.

Niche Technology Specialisation Hub: Develop the Island as a hub for niche space or aerospace technology manufacturing. Given its size the Island could struggle to establish a broad manufacturing base, but through smart targeting it could establish itself as an attractive home for particular specialisations within the sector.

Visitor

Recreational cannabis tourism: develop the Island as a location for cannabis-based tourism from neighbouring jurisdictions. While recreational use of cannabis in the UK and Ireland remains illegal, liberalisation of the law on the Island would attract visitors.

5.5.2.2 New sectors of the economy

Green

Offshore wind production: develop the Island's capacity for the generation of offshore wind to feed into the UK or Irish grids. Investment in offshore wind internationally is high and continuing to grow. While the UK and Ireland are already building capacity in their own waters both have ambitious plans to extend the generation of energy from renewable sources.

Offshore wind production with hydrogen storage/supply: use offshore wind to produce green hydrogen. 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.

Marine energy innovation and development: encourage the use of the Island as a base for the development and testing of marine energy solutions. Marine energy is at a relatively early stage of development compared to wind, but it is expected to grow significantly to be an important part of the renewable energy mix. The Island could offer a supportive home for technological innovation in this sector.

Small island nations development: establish the Island as a leader in the promotion, development and adoption of clean technology solutions for small island nations. The Island's adjacency to the UK and its participation in the Commonwealth could make the Island an attractive partner to the UK in supporting the development of clean technology solutions for small island nations in the wider Commonwealth and beyond. The development of specialised financial products to fund the development of clean technology projects in small island nations is another potential opportunity for the Island.

Decarbonisation innovation accelerator: develop the Island as a welcoming hub for green tech, bringing together innovators with investors, partner organisations and locations for pilots, and experience in commercialisation, supported by a digital innovation exchange. While there is already significant innovation ongoing in this space, an unprecedented level of new technology will be required to meet ambitious global targets. The Island has the potential to establish itself as a focal point for innovation.

Data

The World's Data Bank: establish the Island as a secure, independent, and progressively-regulated cloud location and a global steward of data privacy. With a plethora of data compliance requirements, by establishing itself as the gold standard location for secure, reliable storage of sensitive data, the Island can become an attractive location for multinational organisations.

Space Data Analytics: develop and promote the Island as an attractive home for the management and analysis of space data. The Island has existing connections to the space industry, and the concept is a good fit with the Island's existing focus on developing a digital economy.

Sustainable Data Centres: develop and promote the Island as an attractive location for data centres powered and cooled using sustainable energy sources. Digital businesses are focused on their performance against ESG metrics, with their enterprise and individual customers increasingly taking sustainability performance into account in supplier selection.

Knowledge

Islands Campus: develop an 'Islands Campus' university in collaboration with other small island nations, offering a curriculum that is relevant to industry requirements and future employment trends. Establish close links with work placements and graduate schemes across all participating Islands.

A multi-island university 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.

Space Skills Academy: establish an academy for Space Skills on the Island. Demand outstrips supply for space sector skills. The Island could seek to develop a centre of excellence from which high-quality space education could be delivered or exported through online channels.

6 Delivery of the economic strategy

6.1 Transformation programme/delivery approach

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

We recommend that the following high-level guiding principles are adopted by the transformation programme required to deliver against this Strategic Economic Framework:

- **Sustained commitment to the Strategic Economic Framework in all policy-setting and an equal focus on short, medium and long-term objectives and results**

Execution against the Strategic Economic Framework will require the pursuit of measures that will take some time to deliver results. Feedback received has indicated that IOMG tends to be too short-term in its outlook. It will require significant resolve to ensure that reaction to short-term pressures does not undermine pursuit of the Island's long-term strategic objectives.

Nevertheless, tracking, communicating and celebrating progress in reaching intermediate goals will be critical to maintaining the motivation of those involved in delivery and to maintaining the support of all stakeholders.

It will also be important for consideration of the economic objectives within the Strategy to be embedded in policy-setting and decision making. Therefore, as part of policy appraisals and approval processes, including for any business cases and spending decisions, it is suggested that there is an assessment of the strategic fit of any initiatives with the objectives included within the Strategic Economic Framework to make sure that measures taken contribute towards the achievement of these objectives and the overall economic vision for the Island.

- **Transition to economic policy decision making where economic, social and environmental value is maximised**

Recognising that economic growth at all costs is not consistent with the principles set out in this document or in the Island Plan, decisions regarding the pursuit of particular policies should have regard to their social and environmental impacts in addition to their economic effects.

Therefore, in addition to considering the strategic fit of any new policies or initiatives with the Strategic Economic Framework, value for money assessments should consider the full breadth of societal impacts (economic, social and environmental) and demonstrate the benefits of IOMG intervention, in particular linked to those societal benefits aligned to the delivery of the economic objectives and vision in the Framework.

- **Government reform to drive the successful delivery against the Strategic Economic Framework, including centralised coordination and a culture of monitoring, evaluation and accountability**

A need for reform in the way IOMG works was widely recognised by stakeholders. While many had noted improvements in IOMG's level of engagement with industry in recent years and had been impressed with its agility in responding to economic challenges during the COVID-19 pandemic, reservations were expressed regarding the ability of IOMG to deliver the transformational changes required to achieve ambitious improvements to economic performance within the desired timescales. It was observed that developments were often stymied by the siloed structure of

government, the complexity of decision-making processes, resource bottlenecks in some areas, resistance to change, and a low risk appetite.

As we have noted in this Report, the various strategic objectives required to deliver the Island's economic vision are closely intertwined. Similarly, there are likely to be interdependencies between designed policy interventions. A failure to recognise this and to coordinate action between participating groups may lead to suboptimal allocation of resources, ultimately leading to efforts falling short in delivering against the objectives.

Effectively addressing these concerns may require significant changes in the way that IOMG operates. While beyond the scope of our work, we note that the Island Plan recognises the need for reform, and that a recent announcement by the Chief Minister indicates further measures that will be taken.

— **Leveraging the skills and investment appetite of the private sector, with Government acting as an enabler to delivery**

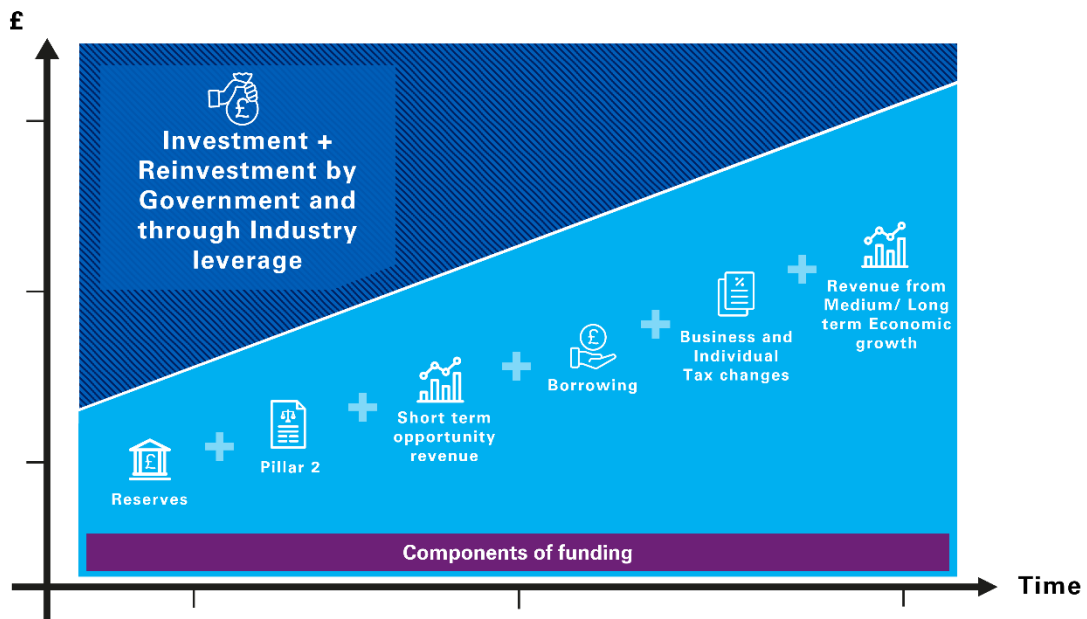
Developing and implementing policy interventions and pursuing opportunities intended to grow the Island's economy will achieve the most impact by involving industry closely throughout the process. This would be anticipated to include:

- Input received via the Department for Enterprise's executive agency boards and other outreach activity;
- Input received through consultation on planned changes from interested parties, including relevant trade associations;
- Participation of private sector organisations in delivering discrete change projects as part of the wider transformation programme;
- Providing a source of investment in relation to capital programmes; and
- Delivering services on behalf of Government.

6.2 Funding

While individual measures and the overall programme of work will require detailed costing, when policies/initiatives are fully developed and prioritisation decisions have been made, it is evident from the scope and nature of measures identified that **achieving the desired objectives will require significant levels of funding to be committed**. Full costing cannot be estimated until the scope of each strategic area is known.

As highlighted elsewhere in the report, policies and investment requirements address a multitude of threats and opportunities. For several sectors and business areas the required investment is defensive to protect employment, economic activity and the associated government revenues, whilst others are to innovate and develop existing and new sectors or to improve the offering when retaining and attracting talent.



Each policy proposed is expected to provide future economic, social and/or environmental benefits. These benefits include cash releasing benefits (such as increased tax revenues) and non-cash releasing benefits (such as improvements in wellbeing). These cash releasing benefits may arise directly (e.g. through increased employment or changes in tax rates) or indirectly (e.g. through skills improvements which will increase the earnings of individuals overtime and therefore their personal tax contributions) and may take some time to materialise. While it is expected that there will be incremental government revenues over time, these will arise at different phases in the growth cycle upon execution of the Strategic Economic Framework. As a result, government will need to invest in policies and initiatives ahead of the benefits being generated and will lead to a net cash outflow in the earlier periods of the economic development. The extent of net cash outflow would be expected to reduce over time as economic growth builds and is ultimately accretive.

There are a number of possible sources available to the government to meet the demand for funding and investment. It would be expected that a funding strategy would include a combination of items, such as the following:

- Growth in existing categories of revenue through appropriate measures. For example, tapering of personal tax allowances and reliefs at higher incomes.
- Collection of additional corporate tax revenue through the implementation of the OECD Two-Pillar Solution.
- Generation of new categories of revenue through pursuit of identified opportunities, such as seabed leasing for offshore wind.
- Growth in tax revenues (and reductions in social security payments) generated through the economic growth and employment stimulated as the impacts of the programme begin to be felt.
- Efficiency savings generated through government reform, such as the digitisation of government services.
- Prudent use of reserves. For example, investing a greater portion of the Island's reserves into promising island-based opportunities, while recognising the importance of diversified portfolios. We

note that an assessment of reserves needs to be completed to assess any extent of surplus available (or not).

- Prudent use of borrowing to bridge funding gaps, like the recent issuance of sustainability bonds.
- Use of Public Private Partnerships or similar mechanisms, where appropriate, to fund the development of infrastructure and amenities. This may include requirements for match funding/leverage as part of any government spending approvals.

When the key policy and investment responses have been formulated and quantified, leading to the development of the Roadmap (see Section 6.4) then a detailed funding strategy can be formulated. There are a number of key government revenue generating initiatives that will potentially help fund policy interventions. For example, the proposed individual tax policy in this report demonstrates that it may not be the case that tax breaks to lower income households would be fully funded by an increase in the effective tax rate for higher earners. However, this net cost could be met through the increased receipts from international tax of qualifying organisations (“Pillar 2”), say.

Further, during our work there have been enquiries from the private sector and financial institutions regarding involvement in developing a university to support the knowledge sector economic opportunity and renewable energy infrastructure to support the sustainability goals of the Island. Both of these examples demonstrate that the Government does not necessarily need to fund all of the economic and policy development under the Strategic Economic Framework itself and leveraging the skills and investment capital of the private sector will also help to deliver improved value for money.

We note that IOMG intends to develop a Tax Strategy and a Reserve Strategy ahead of the next budget both of these are critical to understanding the extent of funding required from other sources.

More broadly, it also will be important to collectively assess the costs and cash-relating benefits of the full package of measures that are to be taken forward and determine the expected profile of the timing of the costs and benefits in order to assess financial affordability and the funding requirements in each year.

6.3 Roles and responsibilities

Delivering the programme will require the participation of numerous stakeholders. We would propose the following as a suitable overall structure:

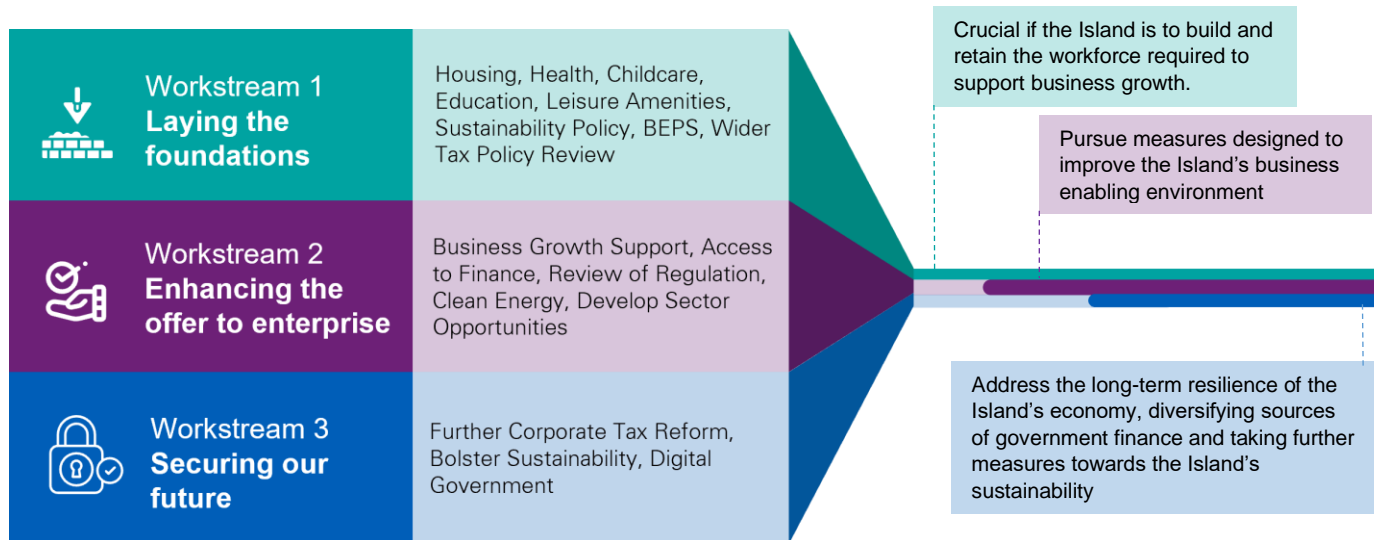
- Ultimate responsibility for setting strategic direction and making decisions regarding the measures to be pursued and the resources to be allocated lies with the Council of Ministers in consultation with, and subject to approval by, Tynwald.
- Overall responsibility for execution of the strategy should sit with an individual at the Chief Officer level within IOMG sitting over all departments, with the participation of their counterparts from other departments involved in execution of elements of the programme.
- A dedicated programme management office should be established to coordinate and track overall progress of the activities required in delivery of the programme, resolving conflicts between projects in terms of access to resource where required. This could be delivered by Government or on an outsourced basis.
- Each project forming part of the overall programme should have an assigned project manager responsible for coordination and progress tracking in respect of their project, reporting into the programme manager and consulting with external stakeholders where appropriate.

- Each project team should include members assembled from across the various internal and external teams that may be required to deliver the project with sufficient capacity to perform required duties. The sizes of teams required will vary, as will the required time commitments of each team member and we would anticipate that project teams would therefore be constituted and governed to differing levels of formality.

We consider that this approach aligns well with the delivery principles set out in the Island Plan.

6.4 Roadmap

Figure 6.1 High level roadmap



Effective execution should be supported by a comprehensive programme management plan. In the absence of details of all potentially relevant strategies or the resources available to deliver the programme it is not possible to prepare a detailed plan but, at a high level, we would characterise the work as being divided into three broad workstreams:

6.4.1 Workstream 1 – Laying the foundations

In this workstream, the Government would seek to address 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.

Several items in this workstream are likely to take some time to yield significant results. Furthermore, we anticipate that the absence of sufficient progress in these areas would limit the positive impact of further measures. Therefore, we consider it critical to success to devote sufficient attention to them at an early stage.

Work commenced in this workstream would include measures to:

- improve the availability and affordability of housing;
- improve the healthcare system;
- ensure childcare and educational provision are a good fit for the future needs of the Island;

- improve the Island's offer in terms of leisure amenities to increase the Island's attractiveness to younger economically active people and families;
- clearly signal the Government's intentions regarding sustainability;
- subject to international progress, implement the OECD Two-Pillar Solution;
- undertake a wider tax policy review, to consider in particular measures to increase the Island's attractiveness to those at an early stage in their careers and/or on lower to middle incomes; and
- improve the quality and availability of data required to measure key aspects of the Island's performance in order to support policymaking and planning on an ongoing basis.

We note that most of these areas are specifically recognised in Our Island Plan and that, in several areas, work is already underway or at an advanced stage of planning.

6.4.2 Workstream 2 – Enhancing the offer to enterprise

In this workstream, the Government would pursue measures designed to improve the Island's business enabling environment, including the provision of targeted assistance to support the growth of existing businesses and to attract new business to the Island.

Work commenced in this workstream would include many of the measures described under the 'Prosperity for Business' objective, including:

- Business growth support programmes and incentives;
- Access to finance measures;
- Refinements to regulation (to the extent not covered in respect of other specific measures);
- Securing the Island's future supply of renewable energy; and
- Implementation of changes required to support the development of selected and qualified sector opportunities.

We anticipate that there would be scope to commence work in respect of some measures within this workstream at an early stage, given that many may not be dependent to a significant extent on work by teams involved in the development and delivery of the measures included in Workstream 1. However, impacts may be somewhat constrained in the absence of substantial progress on Workstream 1.

In the shorter term, measures pursued within this workstream could seek to target opportunities that don't place additional burdens on infrastructure e.g., that don't require significant short-term expansion of the local workforce through inward migration, which would exacerbate housing challenges. As foundational challenges become less acute, these measures could subsequently be broadened.

6.4.3 Workstream 3 – 'Securing our future'

In this workstream, the Government – having established momentum in respect of measures covered under the preceding workstreams – would seek 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.

Work commenced in this workstream would include:

- Consideration of further reform to corporate taxation (to the extent not mandated earlier by international requirements)
- Bolstering of sustainability measures (beyond measures that may have been taken earlier in support of other specific policies or in support of pursued opportunities, such as sustainable finance); and
- Extending and improving the digital experience of government services.

We would anticipate that, once commenced, these workstreams will continue to run along in parallel indefinitely. While individual measures associated with each of these will develop to the point that they become 'business as usual', we recommend that the Government continues to identify appropriate 'next moves' within each area, recognising and responding to emerging challenges before they reach a critical stage.

6.5 Monitoring delivery against the Strategic Economic Framework

Once the package of policy measures is fully designed by IOMG, it will be necessary to develop a monitoring and evaluation plan to measure the success of the policies against the overarching objectives. This will support IOMG in successfully delivering the strategic vision and achieving the intended scale of change. Monitoring and evaluating performance on an ongoing basis will also help the IOMG to understand what is and isn't working, and thus take remedial actions, where needed, and build on successes.

Phase 4 of our work will include the development of a detailed monitoring plan and associated dashboard of metrics. This will require establishing relevant monitoring indicators, as well as determining the systems, data collection points and reporting structures that will be needed.

7 Recommended next steps

To accompany this report, the databooks and economic models will be shared along with a user guide and training session on the model.

In Phase 4 we will develop a monitoring plan and dashboard that can be used by Treasury to measure and monitor performance against delivery of the objectives and sub-objectives in the Strategic Economic Framework produced in Phase 3.

We are aware that a Government response to the KPMG report will be available to the public and suggest a communications strategy is prepared as a priority, recognising the potential requirement for consultation with the general public at an early stage in the policy-forming process to secure buy in. In the meantime, it is understood there will be consultation with Tynwald members in July before release of the draft strategy to the general public.

As detailed in Table 1 of the Executive Summary and Section 5 there are a large number of policy focus areas recommended under the Strategic Economic Framework. Table 1 refers to the strategies and initiatives either planned or underway. During the project, KPMG have been unable to obtain confirmation that the policy focus areas and associated objectives and outcomes are met by the scope of Government department activities. As a matter of urgency, this needs to be assessed and confirmed that the workstreams are appropriately scoped with fit for purpose governance and accountability for achieving results.

It should be noted that there are potentially policy focus areas whereby no initiatives are underway or where responsibilities are unclear.

Once the policy focus areas have been assigned sufficient resources and it has been confirmed that appropriate project management governance is in place for each, the next key task is to prioritise the policy responses based on their nature and codependencies with other policy reform.

Specifically, we would note that the following should be seen as a key priority, as other policy focus areas are dependent on their outcome:

- Taxation Strategy – taxation is likely to be a key policy lever in many areas and a potential funding mechanism for reform;
- Reserve Strategy – similar to taxation, it is necessary to understand the financial position of the governments reserve under a selection of scenarios and the possible future strategic options to assess the extent of funding available for the policy reform;
- Sustainability Strategy – in order to qualify a number of the sector-based growth opportunities identified as part of Phase 1 it is necessary to have a documented sustainability strategy for the Island and a clear pathway to achieving its goals in order for businesses to assess the attractiveness of the Island for certain activities; and
- Population/Migration Strategy – as recognised by Tynwald in its establishment of a Select Committee on Population Rebalancing, addressing identified demographic imbalances is a complex problem, and – as reflected in this report – success in this area is likely to be a critical component to the economic success of the Island.

Further granular evidence is required to fully understand specific challenges identified in Phase 1 in order that appropriate policy options can be designed to ensure maximum impact with minimal financial waste. The areas previously identified include:

- Labour market participation
 - Barriers to participation; and
 - Approaches to encouraging participation and broader economic contribution.
- Labour market optimisation: training and upskilling
 - Review of the underlying factors contributing to skills shortages
 - Understand current and future sectors and focus areas for future planning
- Cost of living and housing
 - Further investigation of the underlying factors related to the cost of living on the Isle of Man compared to peers, and more specifically issues relating to availability of housing and associated affordability.
 - To identify the specific challenges faced by each sub-set of the population.
- Place-based regeneration
 - A deep dive review of the current composition and geographic distribution of Isle of Man's amenities, infrastructure and commercial and logistical offerings.

It has also been noted that there are government revenues or sector-level initiatives that are either low cost but potentially highly impactful or could be economic generative in a short space of time without causing increasing pressure on public services (whilst reform and remedial actions are being taken). These include:

- A review of legislation and regulation, particularly for regulated sectors - to ensure appropriate regulation is in place to protect the Island's reputation and that of its stakeholders whilst being easy to understand and competitive. This may include adjusting the remit of the Island's regulators to align with the Strategic Economic Framework and its associated risk appetite and vision;
- Sustainable Finance – we note that a deep dive workstream, in conjunction with the Finance Agency (DfE) has been commissioned under this contract to perform further investigations into the opportunities;
- Data economy – we note that a deep dive workstream, in conjunction with the Digital Agency (DfE), has been commissioned under this contract to perform further investigations into a specific opportunity in the data economy. A broader review should be conducted; and
- Offshore Wind – it is anticipated that a procurement process will be announced to design a strategic response to the opportunity.

Appendices

Access to finance measures

Executive Summary

Based on the evidence arising from the Phase 1 Part 1 Report regarding the challenges associated with firms' accessing finance on the Isle of Man and the risk appetites and investment propensities, in order to realise improvements in business productivity, innovation and growth there is a case for Government intervention to put in place access to finance schemes to address the financing gaps. Access to finance schemes identified as high level policy options, include: debt and/or equity finance schemes targeting growth and innovation investment funds and potentially focussed on specific priorities areas, such as certain sectors, or on green investments; patient capital; venture capital; and Angel capital.

The intention of such access to finance schemes would be to focus on firms seeking funding for investment, innovation, and growth rather than survival. The focus should be on commercial opportunities with repayments/returns generated over time, rather than grant provision.

While market testing would need to be undertaken to fully develop the specific details of the appropriate Fund, including the delivery approach, eligibility criteria, and Fund size, there is a clear opportunity and need for the Isle of Man to address the access to finance gaps faced by domestic businesses and be in a stronger position to compete effectively to attract new inward investment.

It is recognised that the Isle of Man's previous £50m Fund was not successful. However, in view of the Isle of Man Government's increased ambition, in conjunction with broader learnings about why previous schemes have not performed as anticipated, there could be sufficient demand to consider a larger fund, possibly exceeding the previous £50m. This would require sufficiently skilled and available fund managers and personnel, as well as wider improvements in the business ecosystem to enhance to attractiveness of the Island to businesses and to support wider business innovation and growth.

Overview of 'Access to finance' as a policy option

As detailed in economic literature, access to finance programmes/schemes are business-focused interventions that can help improve firm performance.⁸³ Specifically, access to finance schemes can include public or government-subsidised or backed debt or equity finance for firms that are intended to support and stimulate economic growth by providing financing where the market fails to.⁸⁴ Access to finance policies can bring about increased firm growth, productivity and employment, and most evaluations into the impact of access to finance schemes tend to find positive effects on firm performance.⁸⁵ However, specific impacts on firm performance can be mixed, and as such, a broader package of policy measures is required to achieve the largest overall positive impact for an economy such as the Isle of Man's.

The following description sets out an overview of the different types of finance levers that could be leveraged as part of an access to finance policy programme for businesses in the Isle of Man.

Description of options

A financial fund, such as a business investment fund, is an allocation of capital which can be used to support business growth or specific business initiatives, subject to the type of fund that it is. In this case, several different potential types of fund have been considered, based on the evidence arising from the Phase 1 Evidence Base

⁸³ What works centre for local economic growth. (2022). '[Access to Finance](#)'.

⁸⁴ Ibid.

⁸⁵ Ibid.

Report (“Phase 1 report”) regarding the challenges and risk and investment appetite that exists on the Isle of Man.

Examples of fund types:

Growth/ innovation investment funds and sector-specific funds:

This type of fund could target specific businesses through the setting of eligibility criteria (e.g. based on growth potential and/or purpose of funding), sectors (e.g. key and emerging industries for the Isle of Man) and/or have set strategic priorities linked to addressing specific challenges and opportunities. For example, funds could be targeted specifically at high growth firms in sectors where the Isle of Man has existing strengths and/or ambitions to grow/diversify into new sectors/areas. This could include digital sectors where evidence from the Phase 1 reported highlighted challenges in access to funding among firms in higher risk sectors. This would support increasing innovation among these firms (in which the Isle of Man has a comparative advantage), as well as enabling technical and knowledge spillovers and the potential for industry clusters. The ongoing cycle would be expected to bring about increased competition and further productivity across the economy.

Finance could also be targeted at businesses where there is the ability to also attract potential investments (leverage or match funding) from the private sector.⁸⁶

Such an access to finance fund could support:

- Access to finance from alternative sources; and
- Equity/ debt capital funding needed to support business investment, innovation and growth (new businesses and incumbents), such as patient capital (PC) and venture capital (VC), explained further below.

Examples of similar funds in the UK – which is likely to be a competitor for inward investment opportunities - include the Manchester Business Investment Fund and the UK Innovation Investment Fund (UKIIF) from the British Business Bank (BBB).

Green-focused investment funds:

Green investment funds aim to seek out investment opportunities that will also benefit the natural environment, such as investments in renewable energies and technologies (for example, wind, solar and hydropower), greener transportation, pollution control and water.⁸⁷

This type of fund could be part of a wider growth/innovation fund, with one of the strategic priorities linked to Net Zero or another environmental sustainability-focused objective. As above, the fund could support access to finance and equity/debt capital funding, as well as supporting business growth in ‘green’/low carbon sectors.

An example of a green fund is the London Green fund, which invests in schemes that aim to cut London’s carbon emissions, with funding coming from a mixture of public and private bodies.⁸⁸ In the context of the Isle of Man, a potential focus could be on green-technology businesses that are aimed at solving green issues for small jurisdictions.

Patient capital (PC):

PC refers to long term investment (including capital investment and R&D investment), wherein investors will expect a return at a point in the future (approximately 3 to 5 years in some sectors, and up to 10 to 15 years in others). Examples of PC funds include pension funds and sovereign wealth funds. PC aims to maximise positive social or environmental impacts of investment, alongside financial gains, as opposed to focussing on maximising immediate returns to shareholders.⁸⁹

⁸⁶ Department for Business Innovation and Skills. (2012). [‘Early assessment of the UK innovation investment funds’](#).

⁸⁷ Investopedia. (2022). [‘Top Green Investing Opportunities’](#).

⁸⁸ Greater London Authority. (2022). [‘The London Green Fund’](#).

⁸⁹ Beauhurst. (2021). [‘Understanding Patient Capital & Why It’s Important For Startups’](#).

An example of a patient capital fund in the UK is the British Patient Capital which enables long-term investment in innovative UK companies, ensuring high-growth companies have access to the right funding at the right time of their life cycle.⁹⁰

Venture capital (VC):

VC, similar to PC, seeks a return on investment, but instead of focusing on long-term growth, the aim of VC is to prioritise more immediate financial returns.⁹¹ VC is a form of private equity and financing that investors provide to start-ups and small to medium businesses (SMEs) which have long-term growth potential. It is generally funded by investors, investment banks and financial institutions.⁹²

Angel investment:

Angel investors are individuals who invest their own money into SMEs in exchange for a minority stake in the business. Investors usually tend to be entrepreneurs or individuals with experience in business, who also provide mentoring and support, alongside financial investment, meaning businesses normally benefit from the time, skills, contacts, and business knowledge of the investor.⁹³

PC, VC, and angel investment can all be used to target SMEs (including domestic businesses and scale-ups) and/or start-ups that traditionally struggle to secure private investment. These investments can drive long-term productivity, economic growth, skills, and competition, by facilitating investment and innovation, subsequently leading to revenue growth, job creation and economic output.⁹⁴

In the UK, business angel syndicates and initial equity investments of between £100,000 and £1 million towards SMEs who have fewer than 250 employees and a turnover less than £40 million, are typically considered.⁹⁵ Clearly these parameters would need to be adjusted in accordance with the profile of businesses on the Isle of Man and in alignment with evidence from the Phase 1 report.

Option size and scope

Market testing would need to be undertaken to fully develop the specific details of the appropriate Fund, including the delivery approach, eligibility criteria, and Fund size. If a decision is taken to progress this proposal, the market testing would be key part of the next steps of work required to build up a detailed business case and delivery plan for the policy proposal.

In terms of potential fund size, while it is recognised that the previous fund of £50m on the Isle of Man, was not successful, in view of the Isle of Man Government's increased ambition, taken in conjunction with broader learnings about why previous schemes have lacked success (as well as the significant widening of the scope), there could be sufficient demand to consider a larger fund, possibly exceeding the previous £50m.

This would require sufficiently skilled and available fund managers and personnel, and hence policies in this area must be considered in accordance with others that support upskilling, training and growth more generally of the Isle of Man's workforce. To support this, opportunities for joint venture/alliances could be considered, which would also serve as a way to improve awareness of the Island – for example in the UK – while also helping to reduce risk.

⁹⁰ British Patient Capital. (2022). '[About us](#)'.

⁹¹ Beauhurst. (2021). '[Understanding Patient Capital & Why It's Important For Startups](#)'.

⁹² Investopedia. (2022). '[Venture Capital](#)'.

⁹³ British Business Bank. (2021). '[Angel investment](#)'.

⁹⁴ Economic output at the firm/ industry level can be measured in terms of gross value added (GVA).

⁹⁵ Department for Business Innovation and Skills. (2012). '[SME access to finance schemes – measures to support SME growth](#)'.

Prioritisation framework

The specific details of the selected fund option(s), including size, eligibility criteria, and delivery approach, will determine the exact nature of their respective impacts – particularly in terms of timeline and extent of scope – but the economic theory underpinning the concept of investment funds is broadly consistent and is set out in the prioritisation framework further below for consideration.

Criteria	Sub-criteria	Evaluation
Strategic fit and rationale for intervention	Fit with strategic priorities (in terms of economy, AtB, AtP, sustainability and tech-enablement)	<ul style="list-style-type: none"> – Successful implementation of access to finance policies such as those outlined above could support a number of the objectives in the economic strategy, including: <ul style="list-style-type: none"> – Business productivity; – Business innovation and investment in new revenue streams; – Growth of GDP and employment – in existing key sectors and new sectors; – Increased diversification within sectors; and – Environmental sustainability. – As such, policy in this area would offer a strategically strong fit with the Isle of Man’s Island Plan and Big Picture Vision, particularly with respect to the following objectives: <ul style="list-style-type: none"> – Prosperity for business; – Resilient and sustainable economy. – Successful design, implementation and delivery of investment fund policy (and other individual policies more broadly) will require alignment with the wider suite of policies that are implemented at the same time – policies must be complementary to one another in order for the greatest impacts to be achieved. – Similarly, a number of key foundational criteria are required in order to optimise the benefits of each policy; for example, relevant individuals and associated skillsets among employees to deliver increased business growth that greater access to finance can help to facilitate.
	Rationale for policy	<ul style="list-style-type: none"> – Evidence from the Phase 1 report and data from the Isle of Man Business Confidence Survey indicated that businesses in certain sectors/ of a certain size, experience constraints in access to funding, e.g.: <ul style="list-style-type: none"> – Limited external funding for start-up and scale-up businesses; – Conservative approach to lending by banks on-Island. – Some developments are being made in response to these challenges: Following the introduction of the Alternative Banking Regime by the FSA, a new banking licence has been issued to Capital International Group – a bank with an objective of providing services to CSPs and eGaming. – However, companies on the Island could benefit from further support in accessing funding, particularly smaller firms and those in emerging sectors. – This is in alignment with objectives set out in the Island plan: to not only support current key sectors of the economy, but new sectors also. – According to stakeholders, (see Phase 1 report) businesses on the Isle of Man tend to have a lower appetite for risk and thus investment from market sources – particularly into higher risk

		<p>sectors/businesses – is less likely to be forthcoming. In the absence of this, there is a need for government intervention.</p> <ul style="list-style-type: none"> – It should be noted that surrounding and neighbouring regions/jurisdictions are similarly seeking to attract new businesses to their economies, and therefore access to finance measures offered by the Isle of Man ought to be in line with measures being offered by surrounding jurisdictions, in order to remain competitive for inward investment and be considered as a viable location to set up and grow a business.
	Support from stakeholders	<ul style="list-style-type: none"> – The need for economic partnerships and routes to VC and sources of funding for start-ups did arise in stakeholder workshops as part of discussion on the business environment conditions required. – Consultation undertaken by IOMG in connection with the introduction of the Enterprise Development Scheme indicated that there would be adequate support for access to finance policy, in principle. However, as noted later in this analysis, EDS was not a great success, and this may to some extent negatively impact support for future schemes.
Potential Value for Money (VFM)	GDP impact	<ul style="list-style-type: none"> – In line with economic theory, we would expect increased access to finance through government provision or backing of investment funds (as outlined in overview) to support business growth and subsequent sector GDP growth. – This could be achieved through greater levels of investment being targeted at capital or labour improvements and/or new innovations, with potential positive impacts in terms of job creation, increased productivity, increased business offerings and attracting further investment from other sources. – As noted above, evidence from the Phase 1 report and data from the Isle of Man Business Confidence Survey found that some businesses in the Isle of Man face constraints in access to funding. This will limit their ability to invest and innovate and consequently to compete and grow, and, as a result, limit GDP growth in their respective sectors. – It is well established in economic literature that access to finance is essential for firms' growth, and evidence suggests that it should come from more than one source in order to minimise risks associated with heavy single-source dependency.⁹⁶ – The transmission mechanism through which GDP is impacted will depend on the type and nature of the investment funds. – For example, funds that support investments for innovation (such as equity investment and patient capital) can enable firms to use their resources in more efficient ways, meaning firms can compete more effectively and achieve faster growth, leading to a growth in GDP in these sectors. – The literature shows that companies that have high levels of innovation typically grow faster.⁹⁷ According to analysis by Nesta (2009), a high-growth firm that sees a 10 percentage point increase in innovation (as measured by the percentage of sales coming from new products – a common measure of innovation success), adds almost 1.5 percentage points to its employment growth rate.⁹⁸ – Literature, on the impacts of equity finance schemes, shows that that venture capital (VC) backed firms that a 9.9% greater increase in

⁹⁶ KPMG. (2020). [‘UK regions: a framework for growth’](#).

⁹⁷ Nesta. (2009). [‘Business Growth and Innovation – The wider impact of rapidly-growing firms in UK city-regions’](#).

⁹⁸ Ibid.

		<p>labour productivity in the first and second years after the initial investments relative to equivalent firms who did not receive funding.⁹⁹</p> <ul style="list-style-type: none"> — Similarly, a report by LSE and the Resolution Foundation Think Tank, on productivity in the UK, found that a 5 percentage point increase in funded business investments would generate an increase of GDP growth by 8 percentage points over the next 20 years. However, this is normally resourced with either increased net imports or lower domestic consumption that would result in a squeeze in household consumption that would take 15 years to recover from.¹⁰⁰ — The report also states that increasing the productivity of the lowest-productivity firms (employing 40% of workers) by 10% would increase productivity by 1.2% and increasing productivity of the highest-productivity firms would increase GDP by 7.5%.¹⁰¹ — Funding targeted at priority, high growth sectors on the Island, which have economically and industrially significant clusters or have evidence of innovation readiness, can also improve the productivity of other firms on the Island, including those in other sectors,¹⁰² thus leading to GDP growth in both the priority sectors and other sectors within the supply chains. — Funding which specifically targets business in/from the Isle of Man and supports the growth of a cluster (including supply chains) can deliver greater benefits for the Island more broadly by ensuring less leakage of impacts off-Island. — Funds that are designed to attract inward investment, such as providing finance to businesses who relocate and invest on the Island, can increase the overall scale of business activity on the Island and support the growth of new sectors and enhance diversification as well as strengthen existing core sectors. This could lead to higher overall employment, GVA and productivity on the Island. — The size of the fund overall and the level of investment made in each individual business will also be important to the impact on GDP. Larger funds would be able to support more businesses and thus provide more benefits but should be sized in accordance with market demand.
	Impact on jobs	<ul style="list-style-type: none"> — As outlined above, access to finance can support business growth through job creation and increased productivity. — Literature explains that economic growth and employment are generally closely related, with growth being driven by the combined effects of increases in employment and productivity. — In this sense, an economy could seek to grow through increased employment and productivity, and increased access to finance would support both of these transmission mechanisms. — As explained in the Phase 1 report, it is not only the number of jobs available within an economy that is important, but also the quality of those jobs in terms of the level of output produced per unit of labour input.

⁹⁹ Croce, A., Martí, J. and Murtinu, S. (2013). The impact of venture capital on the productivity growth of European entrepreneurial firms: 'screening' or 'value added' effect? Journal of Business Venturing, vol. 28, no. 4, pp. 489–510

¹⁰⁰ <https://economy2030.resolutionfoundation.org/wp-content/uploads/2021/11/Business-time.pdf> and <https://www.reuters.com/business/weak-investment-innovation-management-hamper-uk-productivity-2021-11-15/>

¹⁰¹ <https://economy2030.resolutionfoundation.org/wp-content/uploads/2021/11/Business-time.pdf>

¹⁰² Ibid.

		<ul style="list-style-type: none"> — However, by nature, increasing productivity (as a result of increased access to finance) will lead to an increase in jobs in the long run, through increased sales leading to an increase in the demand for workers, and thus growth in employment. — The type and nature of the fund will determine the specific impact on job creation and quality of jobs in the market, but in general we would expect an overall increase in the number of jobs. For example: <ul style="list-style-type: none"> – Literature from a European academic study on the impact of VC on firm performance found that employment growth in VC backed firms was 34% higher than that of equivalent non-VC backed firms.¹⁰³ – Analysis into the impact of increased access to finance on firm-level and wider employment shows that in 55% and 67% of cases, respectively, there was a positive impact on employment following increased access to finance.¹⁰⁴ – A report from the World Bank finds that overall, firms with access to finance show employment growth of between 1 and 3 percentage points more than firms with no access to finance.¹⁰⁵ — Funds that can increase business investment, such as equity finance, can lead to an increase of the scale of business activity and an improvement business performance, which subsequently, can lead to higher overall employment, GVA and productivity on the Island.¹⁰⁶ — As outlined in the GDP section above, government-backed investment – such as the forms discussed as part of this policy option – can attract further investment, for example, inward investment from overseas. This can subsequently bring about a further increase in employment, as a function of increased capacity to hire workers and produce goods/ output. — This is supported by evidence from a Department of International Trade (DIT) report, which finds that foreign direct investment (FDI) can be an important contributing factor to economic growth due to its potential to enhance productivity and innovation and create employment. ¹⁰⁷ — Literature also shows that venture capital (VC) can lead to an increase in labour productivity, particularly after the first years following the investment event.¹⁰⁸
	Impact on skills	<ul style="list-style-type: none"> — The impact of access to finance schemes on skills in the Isle of Man is likely to be largely indirect and achieved over time, driven by increased investment and growth in higher productivity sectors where greater skills levels are needed for business success and/or where skills improvements are generated through spillover effects from cluster generation/ growth. — Access to finance – particularly funding targeted at investment in innovation and priority sectors with economically and industrially significant clusters (as mentioned in the GDP section) – is expected to lead to a broader increase in skills level through spillovers and cluster formations, including: knowledge, technical, human capital spillovers, as well as network and cluster formations.

¹⁰³ Ibid.

¹⁰⁴ What works centre for local economic growth. (2022). '[Evidence Outcome Table](#)'.

¹⁰⁵ World Bank. (2016) <https://blogs.worldbank.org/allaboutfinance/access-finance-and-job-growth>

¹⁰⁶ What works centre for local economic growth. (2022). '[Evidence Outcome Table](#)'.

¹⁰⁷ DIT. (2021) '[Understanding FDI and its impact in the United Kingdom for DIT's investment promotion activities and services: phase 2 analytical report](#)'.

¹⁰⁸ Croce, A., Marti, J. and Murtinu, S. (2013). "The impact of venture capital on the productivity growth of European entrepreneurial firms: 'screening' or 'value added' effect?" *Journal of Business Venturing* Vol. 28(4): 489–510

	<ul style="list-style-type: none"> — Spillover effects are impacts of economic activity that affect economic actors, such as society, businesses, and government, that are not directly undertaking the activity; 109 said another way, impacts that proliferate (or 'spill') out across the economy into other areas following an initial intervention (injection of finance). — As individuals experience upskilling in one area, it is possible that the benefit of those skills will extend beyond the initial firm through which they were obtained, and the broader skills level of the Island could subsequently increase. — The types of spillover effects relevant in this context are as follows: <ul style="list-style-type: none"> – Knowledge and technological spillovers: the voluntary exchange or involuntary leakage of knowledge or information between individuals and/or companies, due to innovative firms being able to appropriate benefits of higher technologies or capabilities. 110 These spillovers can lead to higher productivity through the transfer of knowledge/ skills and the appropriation of new technologies. – Human capital spillovers: the transfer of skills and knowledge between individuals or organisations which leads to productivity gains. – Network and cluster spillovers: generated by a cluster of competing, collaborating and interdependent companies which are connected by a system of market and non-market links. 111 — There could also be some direct impacts on skills if the access to finance support is sought for investment by business in labour improvements such as training. This could be in the form of sector-specific upskilling or relevant, formal qualifications. Examples of this include the Flexible Workforce Development Fund (FWDF) in Scotland 112, which is designed to help businesses invest in workforce upskilling and reskilling; and the UK's government-backed £56m fund allocated to support management and leadership training for small businesses with a view to increasing productivity. 113
Environmental impact	<ul style="list-style-type: none"> — The Island has recently made significant commitments in relation to climate change, including a commitment to achieving Net Zero emissions by 2050 and it was recognised by stakeholders as increasingly important to the Island's economic development. — Investment funds specifically targeted at supporting Net Zero or associated initiatives could enable businesses to achieve 2050 targets more readily and/ or support the growth of low carbon sectors in the Isle of Man economy, e.g., through attracting inward investment in these areas.
Social impact	<ul style="list-style-type: none"> — Social impacts arising from access to finance policies are likely to be limited and be second or third order benefits arising from the direct impacts on GDP and job creation.
Additionality/Value for money (VFM)	<ul style="list-style-type: none"> — In view of the above components, it is reasonable to conclude that increased provision of finance through government-backed funding packages would be associated with broadly positive outcomes for the Isle of Man. — The strategic fit and rationale are clear, and consistent with the objectives outlined in the Island Plan. It would also support many of

¹⁰⁹ U.S. Bureau of Labor Statistics. (2015). '[How knowledge spillover contributes to economic growth in metro areas](#)'.

¹¹⁰ Girma, S., Greenaway, D., and Wakelin, K. (2001). "Who Benefits from Foreign Direct Investment in the UK?" *Scottish Journal of Political Economy* Vol.48(2): 119-133.

¹¹¹ Department of Trade and Industry. 1998. *Our competitive future: Building the knowledge driven economy*. London: HMSO.

¹¹² Dumfries and Galloway News. (2020). '[Upskilling & Reskilling Opportunities To Be Funded](#)'.

¹¹³ GOV.UK. (2019). '[£56 million to boost business productivity](#)'.

		<p>the challenges detailed in the Phase 1 report, specifically those shared by stakeholders regarding limited funding options across a range of sectors, firm sizes and stages of company development.</p> <ul style="list-style-type: none"> — While there are limited, direct social, environmental or distributional benefits, there are likely to be significant GDP and employment benefits which would be further associated with second-order social, environmental and distributional effects. — In the first instance, economic theory and supporting analysis from the literature has shown that increasing access to finance is positively associated with an increase in economic output, as a function of increased productivity, upskilling and job creation. Each of these elements can be expected to further stimulate investment from other sources, as well as position by Island competitively as a destination for businesses and for people to live and work. — By focussing equity investment in areas where there are likely to be returns on investment over the longer term and appropriately targeting the funds at relevant businesses, sectors, or to achieve certain policy objectives (e.g., net zero) the funds can be designed to achieve good value for money. — Evidence from similar schemes in the UK, including the Northern Powerhouse Investment Fund and the Midlands Engine Investment Fund, suggests that there can be challenges in terms of achieving finance additionality – that is, whether the impacts would have been achieved without government intervention through firms accessing finance through other routes.
Leverage	Leverage of private sector investment	<ul style="list-style-type: none"> — It would be expected that the government-backed investment through schemes discussed as part of this policy option – would leverage <i>further</i> private sector investment. This may come in several forms including co-investment as well as wider investment catalysed over time by the growth and success of the beneficiary firms. — The schemes could be designed such that a degree of leveraged investment is required to secure the government backed investment, with targets set either at the scheme level or firm level. — There is evidence that such wider investment can be, and has been, successfully leveraged through other schemes. — An example of securing investment from the private sector through government-backed funding or access to finance schemes is through angel investors, who also provide mentoring and support, alongside financial investment, meaning businesses normally benefit from the time, skills, contacts, and business knowledge of the investor.¹¹⁴The UK’s Angel CoFund, which, alongside syndicates of business angels, makes equity investments of between £100,000 and £1m to UK SMEs with strong growth potential; and according to the BBB, every £1 invested by Angel CoFund has leveraged around £5 from business angel syndicates.¹¹⁵ — Other UK investment schemes such as the Northern Powerhouse Investment Fund have also successfully leveraged private sector funding to boost overall investment levels. For example, in 2021 evidence shows that the Fund completed over 300 deals at a value of £87m, with an additional £145m leveraged from the private sector¹¹⁶. Similarly, £150m of investment by the Midlands Engine Investment Fund over time has helped to leverage an additional £251m of private sector investment.¹¹⁷

¹¹⁴ British Business Bank. (2021). ‘[Angel investment](#)’.

¹¹⁵ <https://www.british-business-bank.co.uk/ourpartners/angel-cofund/>

¹¹⁶ [Northern Powerhouse Investment Fund celebrates one deal every working day in 2021 - Northern Powerhouse Investment Fund \(npif.co.uk\)](#)

¹¹⁷ [£150 million investment exceeded by Midlands Engine Investment Fund | LLEP](#)

Potential affordability	Financial cost of intervention	<ul style="list-style-type: none"> — As mentioned in the overview, success/failure of previous funds will provide some indication of the size of fund, but further work would be needed to determine this. In the case of Isle of Man, given the Government's scale of ambition through the Strategic Economic Framework, a fund size of c. £50m over 10-years may be appropriate. — The direct public cost to the Island of such a scheme would comprise the cost of administering the fund programme and the economic cost of capital invested. — After a certain point in time, dependent on the scheme design, returns and repayments will be made on the investments to allow for reinvestment and to allow the costs of administering the remaining loans can be managed under business as usual.
	Wider impact on Government finances	<ul style="list-style-type: none"> — From above, greater access to finance is expected to lead to an increase in firm output. Dependent on the sectors in which the investments are made and the associated level of corporate tax, if any, they pay, this may generate some corporate tax revenues through increased business activity. — Evidence included further above also indicates that there are likely to be positive employment impacts associated with access to finance schemes. This increase in employment will positively impact government finances through employment-related tax receipts and also through taxes associated with consumption (which is likely to increase based on increased household income).
Deliverability and risks	Risk management and mitigation	<ul style="list-style-type: none"> — Isle of Man Government has delivered such schemes before, so we anticipate that time to implement would be shorter than it was initially. However, we would note that the Enterprise Development Scheme was not considered a success; lessons arising regarding the criteria for management and investment would need to be reviewed. — The following potential risks should be considered: <ul style="list-style-type: none"> - Evolving strategic objectives and priorities of Isle of Man Government; - Performance of the fund against objectives; - Management of the fund; and - External events.
	Resource availability	<ul style="list-style-type: none"> — Lack of resource was an issue when the previous Enterprise Development Scheme was created. At that time Isle of Man Government employed a third-party fund manager from the UK. However, they were also running a fund for the North West region of England. — Appropriate resource (in terms of both capacity and capability) will need to be put in to establishing the fund, managing and attracting the pipeline of investments, and monitoring and reporting performance over time. Specialists in the area are likely to be needed, including consideration of an external fund manager given the expertise and investment relationships required for such a scheme to be successful.
	Deliverability	<ul style="list-style-type: none"> — Policy and legal infrastructure should already be in place from the prior scheme, but as noted above the Enterprise Development Scheme was not considered a success, therefore amendments will be needed. Market testing will be particularly important as a next step in the design of the policy. — Market appetite from fund managers will need to be gauged and the pipeline of potential investment opportunities established.

	Governance requirements	<ul style="list-style-type: none"> — As noted above, there is precedent for Isle of Man Government putting in place investment schemes, but governance structures should be reviewed to ensure lessons arising from prior schemes are addressed and that the funds are adequately monitored and evaluated to drive performance — It would be expected that: <ul style="list-style-type: none"> - A fund board would be established to monitor the progress of the fund against objectives/strategy; - Associated progress reports would be produced at agreed intervals; - Appropriate resources would be allocated to support management of the fund; and - Risk management processes would be established.
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Business Growth Support

Executive Summary

In addition to providing financial support measures (considered as a separate policy recommendation – Access to Finance) it is proposed that IOMG also provides focussed, non-financial business support, in particular to help businesses to invest, innovate and grow. This can be done through a range of broader support programmes/initiatives, including through provision of advice, training, the facilitation of collaboration opportunities and product development and commercialisation support. The emphasis of these support schemes will be non-financial and it would not involve giving grants/funding to business.

By designing support services particularly targeting high growth potential firms it may be possible to achieve a greater economic impact, although this would be balanced against likely higher costs of providing the more intensive support through an incubator/accelerator programme. Scale-up programmes could also provide bespoke, specialist support to businesses to address the types of growth challenges that businesses generally face, such as in relation to access to markets, connections, and resources and in the development of financing and funding strategies to become investment-ready.

Providing a base level of non-financial business support to all enterprises SMEs to assist their survival and growth, focussing on specific areas such as business planning, leadership or export support (areas where there is evidence that this can lead to improvements in business revenues) may also deliver value for money both directly, through business growth that translates in to increased tax revenues, as well as indirectly through the role such support schemes play in creating a fertile business environment that encourages entrepreneurship and attracts businesses. Achieving small increases in business improvement across a larger cohort of business can cumulatively add value across the economy.

Overview of ‘Business growth support programmes’ as a policy option

It is a long-established practice for governments to intervene to support growth and job creation among small businesses.¹¹⁸ Many OECD countries have made entrepreneurship an explicit policy priority in recent years and government policies seek to affect the rate and type of entrepreneurship.¹¹⁹ In the UK, it is a government objective to promote growth through making it easier for businesses to set up and thrive.¹²⁰ This is important since SME’s drive economic growth by stimulating innovation and thus competition, which, in turn leads to increased productivity and broader job creation.¹²¹ As noted in the Phase 1 Part 1 Report, approximately 94% of businesses in the Isle of Man are considered to be SMEs (with fewer than 250 employees) many of which cited challenges with growth and innovation during stakeholder engagement, providing a clear rationale for the implementation of business growth support policies.

In this regard, governments could provide policy support in one of two (or both) broad categories: financial support and/or non-financial support. The former is addressed in a separate policy focus area (‘Access to finance measures’) and the latter is addressed below, wherein we have considered a range of business support options that are aimed at supporting business growth through the provision of schemes, programmes and advice services.

The following description sets out an overview of the different types of support schemes that could be established as part of a broader business growth support policy for businesses in the Isle of Man.

Description of options

Non-financial business support measures could include: services set up to provide advice or offer opportunities (e.g., the Business Support Helpline in the UK); initiatives to help firms with low productivity by sharing best practice tools, mentoring, networks, leadership and management education (e.g., the ‘Be the Business’ scheme in the UK); sector or region specific training to support international competitiveness (e.g., the ‘Sharing in Growth’

¹¹⁸ Enterprise Research Centre. (2015). [‘Feasibility Study – Exploring the Long-Term Impact of Business Improvement Services’](#).

¹¹⁹ OECD (2008) in Enterprise Research Centre. (2015). [‘Feasibility Study – Exploring the Long-Term Impact of Business Improvement Services’](#).

¹²⁰ Department for Business Innovation & Skills. (2014). [‘Evaluation of the Business Support Helpline and GOV.UK’](#).

¹²¹ Ibid.

scheme in the UK); and/or schemes that bring together academic organisations and businesses, by funding student placements in organisations and apply their academic knowledge to a commercial project (e.g., Knowledge Transfer Partnerships in the UK).¹²²

Support can also be targeted at specific types of business, in particular those with the highest growth potential and/or those seeking to innovate given that these types of firms have better potential to raise GDP, productivity and/or employment. Examples of such schemes are set out below:

Business accelerator/ incubator programmes:

One of the ways in which the Isle of Man could position itself competitively amongst comparator jurisdictions is through provision of start-up and scale-up support programmes, such as business accelerator¹²³ and incubator¹²⁴ schemes which – alongside other forms of support – could offer a range of services and resources as follows:

- **Business Accelerators:** support for start-up businesses through investment, mentoring and training. The goal of Business Accelerators is to support the growth of new businesses, so they are able to grow, become more profitable and make a return on investment more quickly.
- **Business Incubators:** to provide start-up businesses with support and resources they might otherwise find difficult to access; this could include: networks, investor support, mentoring and co-working alongside other businesses.
- **Scale up programmes:** to provide bespoke, specialist support to businesses to address the types of growth challenges that businesses generally face, such as in relation to access to markets, connections, and resources and in the development of financing and funding strategies to become investment ready.

These can be tailored to support business start-ups on the Isle of Man and can align to existing innovation support schemes on the Island. It would also provide an opportunity to engage the business community and to build strong collaboration with leading academic institutions that could also be brought in to provide programmes/support.

Innovation programmes:

Examples in the UK include: Innovate UK¹²⁵ and Catapults:¹²⁶

- **Innovate UK:** Innovate UK is a non-departmental public body sponsored by the Department of Business, Energy, and Industrial Strategy (BEIS). As the UK's largest public funder of research and innovation, it brings together nine organisations to help connect research communities, institutions, business, and society, in the UK and globally. It has a range of programmes in place, including those targeting high growth potential firms and bespoke scale-up programmes.
- **UK Catapult Centres:** The Catapult Network supports businesses by helping them transform ideas into products and services through a network of technology and innovation centres established by Innovate UK. The Catapult Network supports businesses by helping them transform ideas into products and services through a network of technology and innovation centres established by Innovate UK.

Isle of Man Business Incubators and Accelerators

We are aware that there are currently no privately owned venture capital (VC) backed business start-up accelerators or incubators on the Island that have the scale to achieve a stage change in economic impacts.¹²⁷

There was a not-for-profit business accelerator and investment network – Bridge – to promote entrepreneurship on the Island between 2016 and 2019. It ceased operations for a number of reasons, including: changes in the Enterprise Development Scheme and within the Department for Enterprise; change in strategic direction; and

¹²² National Audit Office. (2020). '[Business support schemes](#)'.

¹²³ British Business Bank. (2022). '[What is a Business Accelerator?](#)'.

¹²⁴ British Business Bank. (2022). '[What is a business incubator?](#)'.

¹²⁵ UK Research and Innovation. (2022). '[About us](#)'.

¹²⁶ Catapult Network. (2022) '[Welcome to the Catapult Network](#)'.

¹²⁷ Startup Manufactory Ltd. (2019). '[Isle of Man Entrepreneurship Ecosystem Review](#)'.

owing to the FSA seeking to regulate it.¹²⁸ When designing new programmes for support such as those outlined here more detailed reasons for it ceasing would need to be assessed, together with monitoring/evaluation of its success, including outcomes and learnings arising from the scheme to appropriately develop a suitable programme of support.

Prioritisation framework

Criteria	Sub-criteria	Evaluation
Strategic fit and rationale for intervention	Fit with strategic priorities (in terms of economy, AtB, AtP, sustainability and tech-enablement)	<ul style="list-style-type: none"> — Successful implementation of business support schemes, such as those outlined above, could assist in achieving a number of the sub-objectives contained within the main focus areas of the Island Plan through providing necessary tools and guidance to SMEs on the Island. The policy would specifically support: <ul style="list-style-type: none"> – Business productivity; – Business innovation and investment in new revenue streams; – Growth of employment and output in existing key sectors and new sectors; and – Increased diversification within sectors. — As such, this policy area can be considered a strategically strong fit with the Isle of Man’s Vision particularly with respect to the following overarching objectives: <ul style="list-style-type: none"> – Prosperity for business; – Protect, grow, nurture key sectors of the economy. — Successful design, implementation and delivery of the business growth support policy (and other individual policies more broadly) will require alignment with the wider suite of policies that are implemented at the same time – policies must be complementary to one another in order for the greatest impacts to be achieved. — Similarly, a number of key foundational criteria are required in order to optimise the benefits of each policy; for example, relevant individuals and associated skillsets among employees to deliver increased business growth that access to business support would facilitate. Businesses also need to be performing sufficiently in order to benefit from increased business support measures, e.g., displaying high growth potential.
	Rationale for policy	<ul style="list-style-type: none"> — As noted above, approximately 94% of businesses in the Isle of Man are considered to be SMEs (73% of employer firms have between 1 and 5 employees; 21% of employer firms have 6 to 25 employees; and 5% of employers had greater than 25 employees), many of which cited challenges with growth and innovation during stakeholder engagement — Business support schemes can be specifically tailored to support SMEs and evidence suggests that businesses which access such schemes are indeed more likely to grow than those that do not.^{129,130} — By providing appropriate business support, and in particular targeting those businesses with the greatest potential to innovate and grow, it would help to boost productivity and economic output (GDP) but also contribute toward a more dynamic, entrepreneurial and fertile business environment. There is a particular role for

¹²⁸ Isle of Man Today. (2019). '[Governor’s tribute as Bridge Angel Network faces closure](#)'.

¹²⁹ Department for Business Innovation & Skills. (2014). '[Evaluation of the Business Support Helpline and GOV.UK](#)'.

¹³⁰ Enterprise Research Centre. (2015). '[Feasibility Study – Exploring the Long-Term Impact of Business Improvement Services](#)'.

		<p>Government in intervening in this way due to the positive externalities associated with this, including spillover effects, and to address specific challenges that businesses face in successfully scaling and due to the convening power that government can achieve across business, finance and academic stakeholders through incubator and accelerator programmes.</p>
	Support from stakeholders	<ul style="list-style-type: none"> — In addition to challenges around access to finance – particularly for start-ups and scale-ups – noted in the relevant policy summary sheet, stakeholders also observed that many Island businesses underperformed due to limited ambition and lack of a growth mindset. — Stakeholders also noted that small business owners don't have good access to the coaching that they need to innovate their business models and thrive, or recognise that their offering is no longer viable. — Stakeholders also felt that 'concierge services' were only being made available to relocating business, but would also benefit existing island-based businesses. — Several specific areas where business support were mentioned during stakeholder engagement: <ul style="list-style-type: none"> - Support in coordinated and effective promotion of the Island and its businesses at off-island events was perceived to be vital to smaller businesses. - More generally it was noted that support for existing exporters or smaller local producers looking to make the progression to export would be very welcome. - In respect of engineering and manufacturing start-ups it was observed that many such businesses tended to have a heavy technical focus and could benefit from support in commercial aspects of development which would spur their growth. — Having regard to the above, it is anticipated that well-designed business growth support would be positively received by industry.
Potential Value for Money (VFM)	GDP impact	<ul style="list-style-type: none"> — According to the US Small Business Administration, about half of all businesses survive five years or longer and only about a third survive 10 years or longer in the US¹³¹. — Similarly, according to the International Centre for Trade and Sustainable Development (ICTSD), almost one in five new businesses in the UK fail within its first five years.¹³² — Many new businesses require support in order to successfully 'get off the ground' and to nurture their businesses within the early years. This kind of support could be targeted at all businesses with the scale of GDP impact for each individually relatively limited, as it would not focus specifically on the more intensive support for high growth potential firms. — In order to scale-up and achieve high growth, a combination of financial and non-financial support measures are commonly required by businesses. Such targeted support would be aimed at a relatively narrow subset of businesses with the objective of having a greater impact through more intensive support. — In view of this, provision of accelerators and incubators would support the growth of specific new and emerging business into more established businesses and ultimately create business growth which will lead to increased GDP in the respective sectors. — Successful integration of this type of support in the economy and subsequent increase in the number of successful start-ups on the

¹³¹ U.S. Small Business Administration. (2018). '[About Small Business](#)'.

¹³² ICSTD. (2022). '[How Many Small Businesses Fail UK?](#)'

		<p>Island could position the Isle of Man as a destination for further start-ups by entrepreneurs in other countries.</p> <ul style="list-style-type: none"> — Evidence from a report by BEIS, into the impact of business accelerators and incubators in the UK, shows that there is strong evidence that accelerators can: increase the speed at which start-up businesses raise investment, gain customer traction, grow their number of employees and reduce the time it takes for them to be acquired. There is also evidence that accelerators may increase the speed at which businesses grow their revenues.¹³³ — Evidence from the report also shows that incubators may promote the creation of high-quality jobs in their region and accelerators may increase Venture Capital (VC) funding to firms in the sectors as well as non-accelerated firms through spillover effects.¹³⁴ This would lead business growth and subsequent GDP growth in these sectors. — According to analysis by the Enterprise Research Centre, businesses that were recipients of an 'intensive assist' (in the form of Business Link) experienced an average annual growth rate of 7.8%, as compared with a growth rate of 4.1% for non-assisted firms.¹³⁵
	Impact on jobs	<ul style="list-style-type: none"> — In the short term, provision of more generic, widely accessed business support would be expected to assist businesses to maintain their current operations (rather than a counterfactual possibility of ceasing to operate); as such job creation would, initially, be limited. This is in line with findings from the literature that note the time lag between the initial support and impacts on employment growth.¹³⁶ — However, for more intensive, targeted accelerator or incubator programmes, the scale of impact, including job creation, could be greater at the firm level, although would focus on fewer firms. The Enterprise Research Centre finds that intensive assistance increases employment rate by around 24.5 percentage points. — Additionally, evidence from the BEIS report shows that incubators may promote the creation of high-quality jobs in their region and accelerators may generate VC funding to firms in the sectors as well as non-accelerated firms through spillover effects.¹³⁷ — A 2011 NESTA report estimated that there were 900 incubators in the EU at the time of the report, which led to the creation of approximately 40,000 new net jobs, with the UK having 300 incubators supporting 12,000 high-growth technology businesses.¹³⁸ — Further to the above, it is possible that business support – in conjunction with additional measures from a wider suite of policy options – would eventually lead to the formation of sectoral clusters, thus stimulating further job creation on-island and increasing the possibility of attracting new business and individuals to the Isle of Man, further encouraging second and third round effect job creation.
	Impact on skills	<p>Certain business support schemes are specifically designed to provide upskilling, re-training, sector-specific training, as well as leadership and management training. In those instances, it is</p>

¹³³ Department for Business, Energy & Industrial Strategy. (2019). [‘The impact of business accelerators and incubators in the UK’](#).

¹³⁴ Ibid.

¹³⁵ Enterprise Research Centre. (2015). [‘Feasibility Study – Exploring the Long-Term Impact of Business Improvement Services’](#).

¹³⁶ Ibid.

¹³⁷ Ibid. Department for Business, Energy & Industrial Strategy. (2019). [‘The impact of business accelerators and incubators in the UK’](#).

¹³⁸ Nesta. (2011). [‘Incubation for Growth’](#).

		<p>expected that those individuals/businesses participating in the schemes would see an increase in associated skill level.</p> <ul style="list-style-type: none"> — Business accelerators and incubators normally offer a wide range of resources and services beyond funding, such as training and mentoring which new start-up firms on the Island can take advantage of. — As with other policies that support upskilling, the impact is likely to proliferate beyond the initial point of intervention (e.g., the firm that received specific support or training) and may, over time, ‘spillover’ into other sectors and areas of the economy and could lead to formation of knowledge clusters and networks.
	Distributional impact	<ul style="list-style-type: none"> — Distributional impacts arising from business support programmes may be limited, subject to the type of scheme implemented; however, region or location-specific programmes are not uncommon and present the opportunity to further proliferate the initial impacts of the policy.
	Social impact	<ul style="list-style-type: none"> — As with other business support measures – such as those outlined in the ‘Access to finance’ policy option, impacts arising directly from business growth support programmes are likely to be limited and would be considered second or third order benefits after the more direct impacts noted here, in terms of GDP, job creation and skills development.
	Additionality/Value for money (VFM)	<ul style="list-style-type: none"> — In view of the areas outlined here and evidence from other schemes in operation in other jurisdictions, it is reasonable to conclude that non-financial measures in support of business growth and innovation – particularly for SMEs which form the majority of businesses on the Isle of Man – would be associated with positive outcomes for the Island. — By designing schemes particularly targeting high growth potential firms it may be possible to achieve a greater economic impact, although this would be balanced against likely higher costs of providing the more intensive support through an incubator/accelerator programme. Providing a base level of business support to all enterprises to support their survival and growth, focussing on specific areas such as leadership or export support where there is evidence that this can lead to improvements in business revenues may also deliver value for money both directly as well as indirectly through the role such support schemes play in creating a fertile business environment that encourages entrepreneurship and attracts businesses. — The strategic fit and rationale are clear, and consistent with the objectives outlined in the Island Plan. It would also support many of the challenges detailed in the Phase 1 report, specifically those shared by businesses regarding limited appetite for innovation and challenges regarding workforce skill levels.
Leverage	Leverage of private sector investment	<ul style="list-style-type: none"> — Provision of business support services need not be a solely government-funded and operated endeavour. Indeed, close partnership with industry would be critical to success. — The Island already offers a number of co-working spaces, include a Barclay’s Eagle Lab facility, which also offers access to a broader range of services and events. — The Island also has a number of business and professional services firms and independent consultants able to deliver training, coaching, advice and support. In addition, there are industry bodies and other non-profits on the Island which convene events including both local and off-island experts.

		<ul style="list-style-type: none"> Whether through the provision of practical or financial support, it is likely that a range of existing businesses may welcome the opportunity to be associated with credible incubator programmes or other support mechanisms for fledgling Island business, whether as a means of connecting with potential future customers/investment prospects and/or in fulfilment of their ESG objectives.
Potential affordability	Financial cost of intervention	<ul style="list-style-type: none"> The direct cost to Government of such intervention would depend largely on the scope of assistance provided, the number of participants to which assistance is provided and the extent to which it is able to leverage private sector investment in delivering that support. It may be prudent initially – both in terms of cost and regarding challenges noted elsewhere – to target attention at supporting the growth of existing Island businesses before expanding out to attract off-island entrepreneurs or develop new sectors.
	Wider impact on Government finances	<ul style="list-style-type: none"> Depending on the nature of the businesses supported, additional corporate tax receipts may be generated through increased business activity facilitated by the intervention. Furthermore, as noted in the evidence above, effective business support would be expected to lead to positive employment impacts. This increase in employment will positively impact government finances through employment related tax receipts and also through taxes associated with consumption (which is likely to increase based on increased household income).
Deliverability and risks	Risk management and mitigation	<ul style="list-style-type: none"> Evidence would suggest that effectiveness of such intervention depends on appropriate targeting of support to those businesses most likely to benefit. Following this principle could lead to businesses being aggrieved at having been denied the opportunity to participate, resulting in possible reputational issues for Government. Clearly specifying well-reasoned eligibility criteria and following a transparent decision-making process could reduce the risk of such issues arising. Depending on the scope of assistance provided, this type of intervention is likely to require close coordination between multiple service providers. Government needs resource with the capacity and capability to take on a coordinating role in those conditions, or alternatively be willing to delegate the role to an appropriate service provider. Government should be aware of the risk that it is seen to be effectively competing with private business, providing for free services that participating businesses could and would otherwise purchase in the open market. This risk could be reduced by engaging with businesses in the private sector to deliver services through a transparent procurement process.
	Resource availability	<ul style="list-style-type: none"> Evidence suggests that incubators and accelerators see the cost of financing programs as the biggest barrier to having more impact, with the availability of quality ventures and availability or cost of suitable premises being another key challenge.¹³⁹ As noted above, the Isle of Man Government has access to a range of potential partners to offer business support services. Depending on the types of businesses targeted for the intervention the Island may lack the necessarily expertise on-island, but has prior experience in engaging with specialists in the UK and beyond where needed.

¹³⁹ Department for Business, Energy & Industrial Strategy. (2019). [‘The impact of business accelerators and incubators in the UK’](#).

		<ul style="list-style-type: none"> — Furthermore, if targeting innovation in specialised domains these may require access to specialised facilities and equipment that may not be readily available on-island and would need to be developed prior to launch.
	Deliverability	<ul style="list-style-type: none"> — Based on stakeholder feedback there is a degree of scepticism regarding Government's ability to deliver complex support to business in a timely manner. — Working closely with the business community in the design and delivery of intervention may lead to the best outcomes. Prior feedback from stakeholders suggests that Government's increased willingness to work closely with industry – as exemplified by the introduction of the agency model within the Department for Enterprise – has been appreciated as a means to accelerate work towards common goals.
	Governance requirements	<ul style="list-style-type: none"> — It would be expected that: <ul style="list-style-type: none"> – Eligibility criteria for participation in support schemes would be clearly specified and regularly reviewed. – Decision making process regarding scheme participation and the selection of appropriate service providers would be transparent and subject to regular review. – Criteria for scheme success would be defined and subject to periodic measurement, reporting, review and, where necessary, refinements to scheme design would be made. – Risk management processes would be established.

Business-focused digital adoption and infrastructure investment support

Executive Summary

Evidence in the Phase 1 Part 1 Report points to a lack of digital proficiency among the workforce on the Isle of Man, together with a lack of adoption of digital technology among firms – both of which will be preventing the Island from reaching its productive potential and increasing output. This provides a clear rationale for policy intervention to address these issues.

Policy in this area could include the introduction of specific and dedicated government support to increase the ability of businesses and their employees to **use** (through training) and/or **adopt/access** technology/digital infrastructure (through grants/subsidies) with a view to raising business productivity, improving business performance and increasing output.

The strategic fit and rationale for schemes to support greater business adoption of digital technology and to equip the workforce with the skills to utilise such technologies/perform roles in digital sectors is clear, and consistent with the objectives outlined in the Island Plan. It would also support many of the challenges detailed in the Phase 1 Part 1 Report, specifically those shared by businesses regarding limited digital skills among current and future employees and a desire to grow business through innovation. Eligibility criteria for the schemes could be set such that they achieve the best value for money by targeting support (particularly financial support) where it will deliver the greatest impact, for example by focussing on firms aiming to innovate and with scale-up and growth potential. Improving the base level of digital skills and adoption of all businesses, however, is likely to be required, and cumulatively making relatively small improvements across a larger cohort of business could have sizeable positive impacts in aggregate.

Description of options

Policy in this area could include the introduction of specific and dedicated government support to increase the ability of businesses and their employees to use (through training) and/or adopt/access technology/digital infrastructure (through grants/subsidies) with a view to raising business productivity, improving business performance and increasing output.

Support could be channelled through a number of transmission mechanisms, including:

- **Support schemes:** training programmes in support of retraining and/or upskilling workers to enable them to use digital technologies and/or develop the skills to move in to new digital/technology-focussed roles and in so doing be more productive at work and/or move into new roles in the economy; and
- **Grants or subsidies:** to support businesses in adopting digital technologies and infrastructure to support them to grow and innovate.

Examples of similar schemes in the UK include:

- The recently (January 2022) launched **'Help to Grow'** digital scheme¹⁴⁰: which aims to support small businesses with discounted software and free advice, including in digital skills support. In light of the challenges identified in the Phase 1 Evidence Base report ("Phase 1 report") regarding digital skills level of the current workforce – together with the high proportion of small firms on the Island (accounting for approximately 94%) – targeted schemes of this nature should be considered, alongside broader business support measures.
- Scotland's **digital support for businesses strategy**¹⁴¹: which is focused on increasing effective use of digital technologies including through skills training. This has been designed as a result of a current lack of people with necessary digital skills in Scotland – a challenge also identified by business in the Isle of Man.

¹⁴⁰ Gov.uk. (2022). '[Government backs UK entrepreneurs with tech support and software to help them grow](#)'.

¹⁴¹ Gov.scot. (2022). '[Digital support for businesses](#)'.

Details of the strategy, such as distribution of funding across individual work packages and target objectives could be considered when designing the criteria for a similar scheme on the Isle of Man; and

- The **'Made Smarter Adoption'** programme:¹⁴² to support businesses across the Midlands and North of the UK to adopt digital technology with a view to helping them modernise, 'go digital' and create new jobs. The scheme piloted in 2019 with success in terms of increasing productivity and employment, together with sector-specific evidence of innovation including creation of 'smart factories' to increase product quality and reduce waste.

Current offerings on the Isle of Man:

- We note that Digital Isle of Man supports the technology sector (specifically tech-based companies),¹⁴³ and therefore policy suggested here would be in support of industry more broadly, for instance as per Digital Jersey,¹⁴⁴ which appears to support businesses on-Island across all sectors, as well as those in the tech-sector. We would note that Digital Isle of Man has recently worked with IT training company Readynez to offer free entry-level digital literacy skills training to Islanders¹⁴⁵.
- Similarly, we note that Isle of Man Government¹⁴⁶ offers business improvement support (including areas of digital support such as website development) as part of broader support packages. Therefore, the options outlined here are for dedicated and specific digital adoption and retaining/upskilling policies, rather than areas within wider categories of support and assistance.

Evidence of the take-up and the outputs, outcomes and impacts of these schemes, relative to their costs, should be used to shape the detailed policy design, including in terms of eligibility criteria for support (both financial and non-financial) in order to achieve best value for money.

Options for the eligibility criteria include having relatively tight criteria to target support (particularly financial support) on firms aiming to innovate and with scale-up and growth potential, where more intensive, specialist support may have the great impact at the individual firm level but would capture few businesses overall. Alternatively, there may be a case for having wide eligibility criteria and a more generic support scheme in order to improve the base level of digital skills and adoption of all businesses. While the improvements at the individual firm level may be relatively small, in reaching a larger cohort of business it could have sizeable positive impacts in aggregate. This more general digital skills/adoption support could be included as part of a wider business support package (as proposed under another policy proposal)

As noted across all Policy Summary Sheets, the specific details of the final digital strategy/policies will determine the exact nature of their respective impacts – particularly in terms of timeline and extent of scope ultimately proposed – but the economic theory underpinning the concept of digital adoption is broadly consistent and is set out in the below table for consideration.

Prioritisation framework

Criteria	Sub-criteria	Evaluation
Strategic fit and rationale for intervention	Fit with strategic priorities (in terms of economy, AtB, AtP, sustainability and tech-enablement)	<ul style="list-style-type: none"> — Successful implementation of measures in support of digital adoption and infrastructure investment – such as those outlined above – could support: <ul style="list-style-type: none"> – Increased digital skill levels among workforce on-Island and greater workforce resilience in response to digitisation/automation of roles; – Business productivity;

¹⁴² Gov.uk. (2021). '[£8 million government boost for manufacturers across England to go digital](#)'.

¹⁴³ Digital Isle of Man. (2022). '[Digital Isle of Man – Home](#)'.

¹⁴⁴ Digital Jersey. (2022). '[Business Funding, Support and Resources](#)'.

¹⁴⁵ Digital Isle of Man (2021). '[Digital Isle of Man partners with Readynez to offer 300 free places on a digital literacy course](#)'

¹⁴⁶ Gov.im. (2022). '[Business Support and assistance](#)'.

		<ul style="list-style-type: none"> - Growth of employment and GDP – in existing key sectors and new sectors. — As such, policy in this area would offer a strategically strong fit with the Isle of Man’s Island Plan and Big Picture Vision, particularly with respect to the following objectives: <ul style="list-style-type: none"> - Prosperity for business; - Prosperity for people and communities. — Successful design, implementation and delivery of digital adoption programmes (and other individual policies more broadly) will require alignment with the wider suite of policies that are implemented at the same time – policies must be complementary to one another in order for the greatest impacts to be achieved. — Similarly, a number of key foundational criteria are required in order to optimise the benefits of each policy; for example, relevant individuals and associated digital literacy among employees would be necessary to fully benefit from increased digital adoption and associated infrastructure investment.
	<p>Rationale for policy</p>	<ul style="list-style-type: none"> — As noted in the policy overview, businesses on the Isle of Man have reported digital skills gaps among employees, with only 22% stating that their workforces are fully equipped to with the skills to meet their business’ digital technology needs. Where applicable, all others reported at least some, if not considerable, digital skills gaps. — In the first instance, this evidence supports the need for digital training, and possibly the adoption of more efficient technology and infrastructure to support associated training and business needs. — In almost 70% of cases (68%), businesses stated that they would take action to develop employees’ technology skills, for example through training. This suggests that there is sufficient demand for programmes and schemes on the Island and therefore an opportunity to develop targeted and relevant offerings based on current business characteristics and requirements. — Further to this, survey evidence discussed in the Phase 1 report revealed that there has been increasing dissatisfaction with the support for innovation and emerging technologies on the Island – particularly among certain sectors (including Financial Services – a core sector of the economy). — In this regard, support for the adoption of digital and technological infrastructure would likely be welcomed and could help to generate appetite for greater innovation among businesses, the current propensity for which is limited. — However, digital automation can have a negative effect of jobs, with a report from PricewaterhouseCoopers (PwC) reporting that approximately 30% of jobs are potential at risk of automation by mid-2030s.¹⁴⁷ — The report states that, in the long run, less well-educated workers could be at risk to job losses due to automation, therefore it is important to increase investment in lifelong learning and retraining.¹⁴⁸ — A possible approach to mitigating wide-spread job loss through increased automation would be to digitally upskill and train employees, with a view to supporting the transition to increased automation – which will ultimately still require ongoing human facilitation and development by individuals who are sufficiently skilled.

¹⁴⁷ PwC. (2018). [‘Will robots really steal our jobs?’](#).

¹⁴⁸ Ibid.

	Support from stakeholders	<ul style="list-style-type: none"> — When testing the vision for the Island’s economy, business stakeholders expressed a strong desire for the Island to become early adopters in digital infrastructure and a recognition that skills gaps need to be addressed, including in relation to digital skills. — In order for such infrastructure to be fully utilised, it will be important for businesses to be supported to adopt and better utilise digital infrastructure and for their workforce to have the relevant skillsets to utilise it. — In this regard, we would expect strong support and interest from business stakeholders around the introduction of dedicated business-focused digital infrastructure support schemes.
Potential Value for Money (VFM)	GDP impact	<ul style="list-style-type: none"> — The link between digital adoption and increased GDP is well established in economic literature. For example: <ul style="list-style-type: none"> - The OECD (2021) notes that, ‘the potential of digital transformation to boost productivity and living standards is vast’, and that, ‘digital technologies give firms new tools to design, produce and sell goods and services, and provide individuals with new ways for social and economic interactions’. It goes on to state that, ‘technology adoption and improved digital skills have the potential to increase the contribution of capital and labour to productivity and growth’.¹⁴⁹ - The Confederation of British Industry (CBI) estimates that encouraging firms to adopt technology and management practices could be worth approximately £100bn in GVA to the UK economy.¹⁵⁰ - A report by the House of Commons (2016),¹⁵¹ the digital skills gap costs the UK economy approximately £63bn a year in lost additional GDP. Results from the aforementioned OECD study reveal that increased digital skills intensity (as measured by the employment share of software specialists) can improve firm’s labour productivity by up to approximately 10% per year, with the report concluding that, ‘these findings point to the importance of policies supporting adequate digital skill supply to reap productivity benefits, including policies supporting the re-skilling and up-skilling of workers’.¹⁵² — In this regard, we would expect increased access and ability to use digital technology and development of workforce skills in digital and STEM skill related areas to better equip them for jobs of the future across all sectors and specifically to support growth of tech-enabled and digital firms. This could be expected to have a direct positive impact on GDP via increased firm-level productivity, as well as, over time, through spillover impacts from technology and skills improvements. — In terms of appropriately targeting support at relevant businesses, research from the OECD (2019) notes that, ‘the most productive firms have benefitted relatively more from digitalisation in the past’ – which has contributed to a widening productivity gap with less productive firms. The OECD goes on to state, therefore, that ‘policies should create the conditions for efficient adoption by less productive firms, which would help them to catch up, achieving a double dividend in terms of growth and inclusiveness.’ It further notes that, ‘enhancing skills has a key role to play in this area since less productive firms suffer relatively more from skill shortages’.¹⁵⁴

¹⁴⁹ OECD. (2021). [‘The impact of digitalisation on productivity: firm-level evidence from the Netherlands’](#).

¹⁵⁰ Department for Business, Energy and Industrial Strategy. (2019). [‘Business Basics: Attitudes to Adoption’](#).

¹⁵¹ House of Commons. (2016). [‘Digital skills crisis’](#)

¹⁵² OECD. (2021). [‘The impact of digitalisation on productivity: firm-level evidence from the Netherlands’](#).

¹⁵³ It should be noted that this evidence must be taken in context and used with caution owing to potentially different characteristics and composition on the Island.

¹⁵⁴ OECD. (2019). [‘Digital Dividend: Policies to Harness the Productivity Potential of Digital Technologies’](#).

	Impact on jobs	<ul style="list-style-type: none"> — Greater business adoption of digital technology may have some direct impacts in terms of job losses as increased digitisation and automation displaces job roles in some areas. There is evidence in the literature that highlights the possibility of job risks owing to increased levels of automation. Approximately 32.5% of jobs are potentially at risk in the Isle of Man between 2022 and 2035.¹⁵⁵ — However, upskilling/retraining workers to be better placed to perform tech-enabled/digital sector roles and/or use digital technologies in wider industries may help to safeguard jobs and employment levels overall. Supporting the growth of firms in the digital sector and giving employees the skills for roles of the future is also likely to lead to some new job creation on Island. Such job creation – in particular across technology and digital sectors – may also serve as incentives to individuals from other jurisdictions to consider relocating to the Island to take up employment in tech roles. — This is important in the context of findings from the Phase 1 report which revealed that, ‘It is difficult for the Island to attract young professionals’ – and while issue was recognised as affecting multiple disciplines, it was noted that the global market for digital skills was among the most competitive. As a result, businesses find it challenging to build complete technology teams on-Island, with some maintaining sites elsewhere or engaging remote workers. — Where firms are able to successfully adopt technologies and achieve growth through this there is also evidence to suggest that this may support job creation elsewhere in the economy through multiplier impacts. — The World Economic Forum (2013) notes that, ‘in the US, for each job in the high-tech industry, five additional jobs on average are created in other sectors’.¹⁵⁶
	Impact on skills	<ul style="list-style-type: none"> — The impact on skills will depend on the specific training provided and the targeting of this. However, implementation of digital skills training, such as through the schemes outlined above, would be expected to increase digital literacy levels for employees, which could readily be transferred (spilled) into other areas of life (see social impacts). — The impact of increased digital skills level would be expected to manifest itself through increased business productivity and, over the longer term, increased innovation. — According to the literature¹⁵⁷, 66% of employers expect to get a return on investment for upskilling and reskilling within one year, and businesses that successfully undergo digital transformation have seen uplifts across various business improvements metrics, including: <ul style="list-style-type: none"> – 17% higher profit margin over three years; and – 84% increase in time spent innovating.
	Environmental impact	<ul style="list-style-type: none"> — Although not the primary impact of digital adoption and upskilling/training schemes, there is some evidence to suggest there may be some environmental benefits that could results from increased digital adoption/ tech-enablement of businesses. — Adoption of modern technologies might be associated with improvements in functionality and efficiency that could subsequently reduce the environmental burden through reduction of waste and production of emissions. For example, evidence from the ‘Made Smarter’ technology scheme in the UK points to examples of

¹⁵⁵ PwC. (2020). ‘[Upskilling the Isle of Man's workforce for a digital world](#)’.

¹⁵⁶ World Economic Forum. (2013). ‘[Five ways technology can help the economy](#)’.

¹⁵⁷ PwC. (2022). ‘[Getting started on your digital transformation journey](#)’.

		<p>businesses where the support provided enabled a beneficiary firm to create a smart factory for the production of its products and in so doing achieved a 'substantial' reduction in waste.¹⁵⁸ Indeed, it is the ambition of the 'Made Smarter' scheme to build 'greener' economies across the regions that has targeted to support.¹⁵⁹</p> <ul style="list-style-type: none"> — Additionally, The World Economic Forum notes that 'the more digitally literate we are, the more we are able to create efficiencies that contribute to environmental sustainability.'¹⁶⁰ — Further evidence has shown that upskilling (including through access to technology and digital training) is associated with three times the improvement in innovation in the context of ESG.¹⁶¹
	Social impact	<ul style="list-style-type: none"> — Increased digital proficiency for business is associated with a wage premium, since earnings are often linked to labour productivity.¹⁶² — As such, digital upskilling would be expected to bring about an uplift in quality of life through the potential for increased disposable income. — Further, digital skills gained through training acquired at work will be immediately transferable and applicable to other areas of life and society, supporting a broader levelling up of the population and reduction in incomplete information across communities.
	Additionality/Value for money (VFM)	<ul style="list-style-type: none"> — In view of the areas outlined here, it is reasonable to conclude that financial and non-financial measures in support of digital adoption and infrastructure investment programmes – particularly for SMEs which form a majority proportion of businesses on the Isle of Man – would be associated with positive outcomes for the Island. — The strategic fit and rationale for schemes to support greater business adoption of digital technology and to equip the workforce with the skills to utilise such technologies/perform roles in digital sectors is clear, and consistent with the objectives outlined in the Island Plan. It would also support many of the challenges detailed in the Phase 1 report, specifically those shared by businesses regarding limited digital skills among current and future employees and a desire to grow business through innovation. — There is evidence that such schemes can deliver a range of positive economic impacts, in particular in support of improvements in economic output, productivity and skills. There may also be additional benefits across other components of the value for money criteria – pertaining to social and environmental effects — Taken together, the extent of direct GDP, job creation, skills uplift, social impacts and environmental benefits arising from digital adoption schemes should position the policy option as important as part of the broader suite of policy measures adopted by Isle of Man Government. — However, there will be a need for schemes to be well designed and appropriately targeted at relevant individuals and businesses to achieve the greatest potential benefits relative to costs of delivery and to achieve value for money. Given that businesses may already be planning to invest in these areas, there will also be a need to design support so that it is incremental to planned business activity rather than displacing it by focussing on gaps in provision and areas of underinvestment in digital skills and technologies.

¹⁵⁸ Gov.uk. (2021). '[£8 million government boost for manufacturers across England to go digital](#)'.

¹⁵⁹ Ibid.

¹⁶⁰ World Economic Forum. (2021). '[Why digital upskilling is a crucial part of sustainability](#)'.

¹⁶¹ PwC2. (2021). '[Why upskilling needs to be a part of your ESG strategy](#)'.

¹⁶² Dolton, P., and Pelkonen, P. (2004). '[The Impact of Computer Use, Computer Skills and Computer Use Intensity: Evidence from WERS 2004](#)'.

Leverage	Leverage of private sector investment	<ul style="list-style-type: none"> — Provision of the types of support described need not be a solely government-funded and operated endeavour. Indeed, close partnership with industry would be critical to success. — In addition to some degree of technology training expertise existing within public bodies such as UCM there are also various on- and off-island providers that could be engaged in both training and broader digital adoption support. As noted above, Digital Isle of Man has recently engaged UK-based provider Readynez to provide digital literacy training to local learners. — Given its size and isolation it is conceivable that the Island may be an attractive alliance partner for one or more digital learning platforms as a pilot location to demonstrate the possibilities of such platforms to deliver national/regional upskilling programmes. This could potentially reduce the cost to Government of obtaining access for its residents. Similar alliances could also be envisaged with technology companies in respect of digital adoption more broadly. — Given the clear value of digital upskilling and digital adoption, it is likely that government could partially subsidise the cost of delivering the support required rather than fully funding it, with participating businesses covering the remainder.
Potential affordability	Financial cost of intervention	<ul style="list-style-type: none"> — The direct cost to Government of such intervention would depend largely on the scope of assistance provided, the number of participants to which assistance is provided and the extent to which it is able to leverage private sector investment in delivering that support. — More targeted initial intervention would enable costs to be better controlled while efficacy is established, and any required refinements are identified.
	Wider impact on Government finances	<ul style="list-style-type: none"> — Depending on the nature of the businesses supported, additional corporate tax receipts may be generated through increased business activity facilitated by the intervention. — Given the various potential impacts on employment noted above the overall outcome of this intervention on government revenue from employment-related taxes and associated increased consumption are less clear. However, the Island and its businesses would not be immune from competitive pressures arising from increasing digitalisation in the global economy, so arguably Government's income derived from employment is likely to be improved in the long term relative to a counterfactual situation in which Island businesses were not supported in effective digital adoption.
Deliverability and risks	Risk management and mitigation	<ul style="list-style-type: none"> — There is a risk that decision makers in businesses most able to benefit from the proposed support don't recognise the imperative in digital adoption and increased innovation and therefore decline to participate. This risk could be reduced through communication that both informs potential participants and effectively addresses perceived barriers.¹⁶³ — Evidence would suggest that effectiveness of such intervention depends on appropriate targeting of support to those businesses most likely to benefit. Following this principle could lead to businesses being aggrieved at having been denied the opportunity to participate, resulting in possible reputational issues for Government. Clearly specifying well-reasoned eligibility criteria and following a transparent decision-making process could reduce the risk of such issues arising.

¹⁶³ See: Department for Business, Energy and Industrial Strategy. (2019). 'Business Basics: Attitudes to Adoption' for understanding barriers to the adoption of best practice technologies (particularly by SMEs)

		<ul style="list-style-type: none"> — Depending on the scope of assistance provided, this type of intervention is likely to require close coordination between multiple service providers. Government needs resource with the capacity and capability to take on a coordinating role in those conditions, or alternatively be willing to delegate the role to an appropriate service provider. — Government should be aware of the risk that it is seen to be effectively competing with private business, providing for free services that participating businesses could and would otherwise purchase in the open market. This risk could be reduced by engaging with businesses in the private sector to deliver services through a transparent procurement process.
	Resource availability	<ul style="list-style-type: none"> — It is anticipated that much of the support offered in an intervention of this nature would be delivered by third-parties, who would be selected on the basis of having sufficient resources to deliver to the required spec. — Government would clearly need to oversee delivery of the intervention, and should ensure that team members with the appropriate capabilities and sufficient capacity are assigned.
	Deliverability	<ul style="list-style-type: none"> — Based on stakeholder feedback there is a degree of scepticism regarding Government's ability to deliver complex support to business in a timely manner. — Working closely with the business community in the design and delivery of intervention may lead to the best outcomes. Prior feedback from stakeholders suggests that Government's increased willingness to work closely with industry – as exemplified by the introduction of the agency model within the Department for Enterprise – has been appreciated as a means to accelerate work towards common goals.
	Governance requirements	<ul style="list-style-type: none"> — It would be expected that: <ul style="list-style-type: none"> – Eligibility criteria for participation in support schemes would be clearly specified and regularly reviewed. – Decision making process regarding scheme participation and the selection of appropriate service providers would be transparent and subject to regular review. – Criteria for scheme success would be defined and subject to periodic measurement, reporting, review and, where necessary, refinements to scheme design would be made. – Risk management processes would be established.

Refinements to regulation and regulatory remits

Executive Summary

Evidence in the Phase 1 Part 1 Report indicates that quality and reputation is a key strength for the Island in certain areas, while other stakeholders pointed to regulation as a constraint on business growth and regulators as being insufficiently agile in their support of innovation, where it requires regulation.

In response, we propose ongoing review measures that would:

- Identify and develop regulation which enables the Island and its businesses to compete effectively in an international market;
- Identify and remove or refactor regulation which imposes an unnecessary burden on businesses; and
- Consider possible changes to the remits of key regulators, requiring them to promote innovation and have regard to the competitiveness of the jurisdiction.

Smart changes to regulation would be a good strategic fit and – depending on the nature of the change – deliver a variety of benefits.

Overview

The relationship between regulation, innovation and growth is complex. Regulation can be used to protect and benefit people, businesses, and the environment and to support economic growth and can lead to innovation through improved confidence in a sector, support a level playing field and a competitive environment in which to operate¹⁶⁴. However, it can also lead to additional compliance costs and has the potential to negatively affect growth.

Regulation comes in many forms and can be designed to accomplish a number of objectives. The UK National Audit Office (NAO, 2017) identifies the following examples:

- **Business:** To ensure a level playing field for business to compete
- **Workforce/people:** To protect rights, safety and citizenship
- **Products/interactions:** To protect consumers and businesses when buying/selling goods and services
- **Public services:** To maintain standards in education, health and social care
- **Places and processes:** To ensure safety, public health, environmental standards are met
- **Finance:** To ensure stability and integrity and protect consumers
- **Capital infrastructure:** To ensure efficient investment, safety and planning standards are met
- **Specific markets:** To control prices and maintain certain service standards in industries and services which are monopolistic
- **Economy:** To ensure competition

¹⁶⁴ National Audit Office (2017). [‘A Short Guide to Regulation’](#)

An examination of the wider public policy reasons for regulation and regulatory change is beyond the scope of this document, which will focus on impacts directly relevant to economic strategy.

There are various mechanisms by which changes to regulation could give rise to economic benefits. In broad terms these may include:

- **Introducing new regulation** in select areas where it would act as a means of creating greater certainty and thereby increasing the confidence of businesses and their prospective customers that their respective interests are adequately protected, and obligations clearly defined. This could include:
 - Seeking to set new standards in domains – whether through expansion within existing ‘regulated sectors’ or applying regulation to previously unregulated domains – where to do so could confer a competitive advantage. For example, the Island’s early move into the regulation of online gambling is widely credited as a key factor in attracting significant volumes of business to the Island.
 - Alignment of regulation in relevant areas with international standards (or the requirements in key export markets) in order to create an environment which supports businesses’ participation in global markets.
- Measures designed to **reduce the burden of regulation on businesses** through (i) the removal of regulation that is unnecessary/where the compliance costs outweigh the benefits the regulations deliver, or (ii) redesigning existing regulation in a way that seeks to better balance its benefits against its costs e.g., by simplifying compliance measures. An example of this is the ‘One-in, One-out’ principle which formed part of the UK Government’s programme in 2010¹⁶⁵(subsequently updated to One-in, Two-out, then One-in, Three-out). This policy sought to ensure that the additional net cost to business of any new measures was at least offset by reductions in net cost to business through the removal or streamlining of existing measures.

Furthermore, it may be appropriate to **revise the remit of key regulators** to include supporting the long-term competitiveness of sectors through, for example, horizon scanning and support for the development of innovative products. This has been included in the responsibilities of regulators in other jurisdictions. For example, the Swiss Financial Market Supervision Act states that the financial markets regulator (FINMA) should have regard in discharging its duties to “*the effect that regulation has on competition, innovative ability and the international competitiveness of Switzerland’s financial centre*”¹⁶⁶. In addition, ensuring that regulation is presented to the market in a clear and accessible way may increase innovation by existing market players (e.g., increasing the use of digital signatures by existing licence holders, where requirements are not currently well understood) and increase interest in the jurisdiction from potential new entrants.

Evidence from Phase 1

The evidence gathered in Phase 1 of this project included a number of observations relevant to regulation:

- The positive reputation of the Island’s Financial and Gambling regulators internationally was generally regarded by stakeholders as supporting the Island in terms of its ability to attract and retain high-quality business.
- However, stakeholders and survey respondents also frequently noted regulatory burdens acting as a constraint to their growth: both within ‘regulated sectors’ such as Financial Services and in areas more generally applicable to business.
- Furthermore, questions were raised regarding the ability of the Island’s regulators to act quickly enough in flexing the Island’s regulations to support the development of existing and new business areas to maintain and enhance the Island’s competitive position.
- It was noted that, in some cases, the Island’s regulatory framework put local businesses at a disadvantage to competitors in other jurisdictions. For example, we understand that export regulations in respect of dual

¹⁶⁵ HM Government (2010). [‘The Coalition: our programme for government’](#)

¹⁶⁶ Swiss Government (2007). [‘Federal Act on the Swiss Financial Market Supervisory Authority’](#)

use goods limit the Island’s high tech manufacturing sector’s ability to win contracts with key commissioners in the space industry compared to their UK-based counterparts.

In addition, several of the potential opportunities for the Island identified during Phase 1 would depend on the creation of new regulatory frameworks, or the expansion of existing frameworks. For example:

- Positioning the Island to become a ‘Home for Global Data’
- Positioning the Island to take advantage of growth in Sustainable Finance
- Enabling the Island’s businesses to clearly demonstrate their compliance with emerging standards in ESG reporting.

Prioritisation framework

Criteria	Sub-criteria	Evaluation
Strategic fit and rationale for intervention	Fit with strategic priorities (in terms of economy, AtB, AtP, sustainability and tech-enablement)	<ul style="list-style-type: none"> — Successful implementation of regulatory reform as outlined above could support a number of the sub-objectives in the economic strategy, including: <ul style="list-style-type: none"> – Increasing business productivity; – Increasing business innovation and investment to drive new revenue streams; – Improving the Island’s environmental sustainability; and – Growing GDP and employment in key, new and enabling sectors of the economy. — As such, policy in this area would offer a strategically strong fit with the Island Plan and Big Picture Vision, particularly with respect to the following high-level objectives: <ul style="list-style-type: none"> – Prosperity for business; and – Protect, nurture and grow key sectors of the economy. — Successful design, implementation and delivery of regulatory reform (and other individual policies more broadly) will require alignment with the wider suite of policies that are implemented at the same time – policies must be complementary to one another in order for the greatest impacts to be achieved. — Similarly, a number of key foundational criteria are required in order to optimise the benefits of each policy; for example, relevant individuals and associated skillsets among employees to deliver increased business growth that regulatory reform could help to facilitate.
	Rationale for policy	<ul style="list-style-type: none"> — Evidence from the Phase 1 report and data from the Isle of Man Business Confidence Survey indicated that, while business recognises the contribution of regulation to the Island’s reputation, it can also play a role in constraining growth. — 96% of respondents to the most recent Business Confidence Survey agreed/strongly agreed that the Island is safe for business. This view was supported by stakeholder feedback, which noted that the Island’s regulators in financial services and gambling generally

		<p>have a good reputation internationally, and that this helps the Island in attracting quality business.</p> <ul style="list-style-type: none"> — However, 44% of respondents to a survey conducted in connection with our work cited regulation and red tape as an obstacle to business success. Within the latter category, the most commonly cited areas of regulation causing challenges were financial services regulations (43%) and employment regulations (30%). Stakeholder feedback also indicated a number of challenges with regulation: <ul style="list-style-type: none"> ○ Concerns were expressed by some participants that the Financial Services Authority was moving away from a proportionate, risk-based approach towards more prescriptive measures that created additional compliance challenges and costs for regulated businesses on the Island. ○ Various stakeholders also considered that the Island was not living up to its promise as a smaller jurisdiction of being agile and innovative in its response to industry developments in order to capitalise on the opportunities they presented. — Based on the available evidence the Island would need to strike a careful balance to ensure the Island’s reputation for safety and stability is not compromised, while updating its regulatory framework to ensure that its offer to business is attractive in a competitive and changing international market. — Economic literature recognises the challenges in disentangling the effects of regulation and specific regulatory changes from other aspects of the business environment¹⁶⁷. However, it would clearly be desirable for the Island to implement a suitably rigorous process for identifying appropriate regulatory changes and quantifying their expected impact to ensure that resources are deployed in a way which prioritises those measures with the greatest likelihood to effect the greatest positive changes in economic, social and environmental performance in accordance with the proposed strategic principles.
	Support from stakeholders	<ul style="list-style-type: none"> — There is clear evidence from interaction with business stakeholders as documented above that they recognise shortcomings in regulation on the Island and are therefore likely to welcome efforts by Government to redress this. — A consultation process in respect of significant proposed changes is desirable so that interested stakeholders can scrutinise and potentially identify deficiencies or unintended consequences before implementation. While there is limited economic literature on this specific point, it tends to support transparency and good governance over regulatory change as tending to improve economic outcomes¹⁶⁸. — We note that the Financial Services Authority have taken several steps in recognition of the need to improve support for innovation, including the announcement of a FinTech Innovation Challenge¹⁶⁹, an online hub to support FinTech innovation¹⁷⁰ and a new consultation¹⁷¹.

¹⁶⁷ Parker and Kirkpatrick (2012). [‘Measuring Regulatory Performance’](#)

¹⁶⁸ See Parker and Kirkpatrick (2012) referred to above for a summary of literature in this area.

¹⁶⁹ Digital Isle of Man (2021). [‘Collaboration to launch Fintech Innovation Challenge in 2022’](#)

¹⁷⁰ Isle of Man Financial Services Authority (2022a). [‘Online hub to support fintech innovation’](#)

¹⁷¹ Isle of Man Financial Services Authority (2022b) [‘Feedback will shape approach to innovation’](#)

Potential Value for Money (VFM)	GDP impact	<ul style="list-style-type: none"> — The is significant economic literature supporting the general proposition that reducing regulatory burdens on business tends to correlate with increased GDP growth¹⁷². — However, there is also clear recognition that the position is nuanced and that the right regulation in the right circumstances can improve GDP growth¹⁷³¹⁷⁴. For example, regulation which opens local firm's access to international markets would be expected to offer a productivity boost. — The transmission mechanism will vary widely depending on the nature of the change and the circumstances in which it is applied. For example: <ul style="list-style-type: none"> ○ changes that reduce regulatory burdens may have the effect of increasing individual firm productivity and potentially reduce barriers to entry and thereby increase competitiveness within impacted sectors; ○ changes expanding the scope of regulation may create new markets for products or services. — It is evident that not all changes would have the same associated costs and benefits. The literature recognises that the existence of robust governance of overall regulatory policy, including the presence of Regulatory Impact Assessments (RIAs) would tend to improve outcomes¹⁷⁵.
	Impact on jobs	<ul style="list-style-type: none"> — Further to the comments concerning GDP above, it is evident from the literature that improvements to regulation can have positive impacts on employment¹⁷⁶. — Where reform involves the reduction of regulatory burdens this may reduce the amount of resource that firms need to devote to compliance with those regulations. — However, to the extent that regulatory changes enable new firms to establish and existing firms to grow at an accelerated rate it is likely that this will lead to job creation.
	Impact on skills	<ul style="list-style-type: none"> — The impact of changes to regulation on skills is likely to be largely indirect, driven by growth in sectors where greater skill levels are needed for business success. — However, to the extent that changes in regulation create new specialised markets or substantially expand existing ones the impact on skills may be more direct and immediate, as skilled workers migrate in and existing workers upskill to realise the opportunity that has been created.
	Environmental impact	<ul style="list-style-type: none"> — To the extent that regulatory reform relates to environmental requirements these could clearly have an environmental impact. — Opportunities referred to above include the introduction of regulatory reporting standards in respect of sustainability performance, which could be expected to both prompt existing affected businesses to seek to improve their environmental performance and attract firms and investors who value sustainability.

¹⁷² See Parker and Kirkpatrick (2012) referred to above for a summary of literature in this area.

¹⁷³ Loayza et al (2010) '[Business Regulation and Economic Performance](#)'

¹⁷⁴ Djankov et al (2006). '[Regulation and Growth](#)'

¹⁷⁵ OECD (2021). '[Regulatory Policy and Governance: Supporting Economic Growth and Serving the Public Interest](#)'

¹⁷⁶ See for example Jacobzone et al (2010). '[Assessing the Impact of Regulatory Management Systems](#)'

	Social impact	<ul style="list-style-type: none"> Some regulatory reform is likely to involve changes that would be likely to have a social impact, as this is a common objective of regulation in certain domains e.g., improving labour conditions, reducing discriminatory practices.
	Additionality/Value for money (VFM)	<ul style="list-style-type: none"> Based on the commentary above, it is reasonable to conclude that well-managed regulatory reform would be associated with broadly positive outcomes for the Isle of Man. The strategic fit and rationale are clear, and consistent with the objectives outlined in the Island Plan. It would also support many of the challenges detailed in the Phase 1 report, specifically those shared by stakeholders regarding the barriers presented by existing regulation and the need for greater agility to realise opportunities. Specific opportunities identified by Subject Matter Experts would also require regulatory reform to realise. Subject to a careful analysis of impacts on a case-by-case basis, reductions in regulatory burden are likely to have positive effects on GDP growth and, largely through that growth, on employment. Introduction of new regulation as proposed in the overview would be closely associated with the creation of new markets or expansion of existing markets and thus associated with both GDP growth and job creation. Positive social and environmental impacts are likely to flow from certain changes, although this will depend on their nature. Evidence suggests that the best outcomes from regulation arise where Government is robust and deliberate in its assessment of proposed changes and seeks input from stakeholders to ensure that the benefits offered are weighed against their costs.
Leverage	Leverage of private sector investment	<ul style="list-style-type: none"> Implementation of regulation would typically be the sole preserve of Government and its statutory bodies. It is conceivable that interested parties in the private sector may be willing to directly fund certain developments associated with specific opportunities. For example, were Government to be considering introducing a new framework to support the development of a new sector on-island, private sector businesses interested in the development of that industry could be willing to contribute expertise and/or funding to realise that development. However, care would need to be taken in adopting such an approach that the involved businesses were not exerting undue influence over design, for example, by making recommendations that would weight regulation against the interests of consumers.
Potential affordability	Financial cost of intervention	<ul style="list-style-type: none"> The direct cost to government of implementing regulatory reform will depend on the nature and scale of the changes required and the availability of in-house expertise to deliver the changes and perform any required supervision functions on an ongoing basis. Net cost should be considered, as it is likely that at some changes may reduce supervisory burdens on government. We note that the Financial Services Authority is moving to a model where fees from licence holders cover a greater portion of its operating costs, reducing the required subvention from central government. Similar fee-based funding models could be implemented for any new regulatory frameworks introduced to minimise ongoing costs to government.

	Wider impact on Government finances	<ul style="list-style-type: none"> — As identified above, well-designed regulatory reform would be anticipated to lead to increase in firm output. Depending on the sectors impacted and the extant levels of corporate tax, if any, they pay, this may generate some corporate tax revenues through increased business activity. — It is also anticipated that well-designed regulatory reform would lead to increases in employment. This increase in employment will positively impact government finances through employment related tax receipts and also through taxes associated with consumption (which is likely to increase based on increased household income).
Deliverability and risks	Risk management and mitigation	<ul style="list-style-type: none"> — There are a number of areas of risk pertinent to regulatory reform in general including: <ul style="list-style-type: none"> – The need in practice to maintain alignment in many areas with international standards over which the Island has limited control. There is therefore a risk that considerable effort could be put into a change perceived to offer the Island a competitive advantage which is subsequently undermined by international changes. – The potential reputational risk to the Island through implementation of measures in a way that permit undesirable businesses and business practices to emerge. – The financial costs to the Island of maintaining regulatory frameworks should the eventual uptake be lower than anticipated. – The risk that the introduction of new regulation undermines existing businesses and business models. — It is anticipated that many of these risks could be reduced through a well-managed regulatory reform process, including careful analysis of the potential costs and benefits of new measures, consultation with business stakeholders and scrutiny by Government, the relevant statutory bodies, and Tynwald. — It is also noted that, while recognising the value of safety and stability, stakeholders have noted that the Island's risk appetite requires review if the Island is to realise desired levels of growth.
	Resource availability	<ul style="list-style-type: none"> — In implementing any specific measures, Government should carefully consider whether it has resources with the necessary capacity and capability to deliver, or whether it is able to procure such resources at reasonable cost. — Regulatory change would be likely to require significant input from the Attorney General's Office and the relevant statutory bodies/departments responsible for the legislation/regulation in question. It has been noted that the Island has limited legislative bandwidth given its relatively small size and broad scope of responsibilities for legislation. — Development of new frameworks in areas unfamiliar to the Island may require expertise which would need to be developed through upskilling existing resources, through recruitment, or through the engagement of third parties.
	Deliverability	<ul style="list-style-type: none"> — In general terms, Government can effect legislative and regulatory changes, although this is somewhat constrained by resource limitations discussed above. Such constraints may limit the speed at which Government can act, which may limit its ability to realise time-sensitive opportunities to seize a competitive advantage. — There is a degree of scepticism among business stakeholders regarding the Government's ability to deliver significant change on a timely basis, although it was noted that it had shown itself able to operate at greater pace during the COVID-19 pandemic.

		<ul style="list-style-type: none"> — In order to maximise impact, it may be appropriate to focus in the short term on ‘quick wins’ which would bring the most immediate positive impacts to existing business productivity with the minimum effort before embarking on more substantial reforms. — Where appropriate, Government could consider engaging the private sector to amplify its own efforts.
	<p>Governance requirements</p>	<ul style="list-style-type: none"> — Existing regulators – such as the Financial Services Authority and Gambling Supervision Commission – generally have mature approaches to governance. — Where regulatory reform would entail the introduction of regulation in new areas not falling within the ambit of an existing regulator, it may be necessary to create a new body to assume those responsibilities and create appropriate governance mechanisms. — Furthermore, having regard to the literature, it may be appropriate to create a new body or task an existing body with oversight of the overall package of regulatory reform relevant to economic strategy to ensure that (i) the case for implementation of each measure is robust, (ii) prioritisation of implementation is appropriate, (iii) sufficient resources have been allocated for delivery, and (iv) ongoing monitoring is carried out and, where appropriate, course corrections are made.

Review of tax structure: individual tax

Executive Summary

Evidence in the Phase 1 Part 1 Report indicates that, while the Island's approach to taxation of individual income has significant advantages over the UK (and other larger countries with more progressive personal taxation), the advantages for those on lower to middle incomes are less clear, especially taking into account the relatively high costs of living on the Island. This runs counter to objectives of balancing the age profile, given that it is likely to limit the Island's ability to attract and retain younger economically active people, who will generally have lower to middle earnings due to the stage they are at in their careers.

In response, we propose that Government considers as part of its Tax Strategy:

- Significantly increasing personal allowances to increase take home pay for those on lower to middle incomes.
- Seeking to offset at least part of the costs of doing this by tapering away personal allowances and other reliefs for those on higher incomes and, potentially making modest increases to the headline rate of income tax.

Overview

The need for the proposed changes can be quite simply stated:

- The Island faces significant challenges in attracting and retaining sufficient economically active people – particularly younger people – to fill existing vacancies that would support the growth of Island businesses.
- As noted in Phase 1, the tax advantages to living on the Island over the UK – a large source of inward migration and destination for outward migration – only become significant at higher income levels. At lower to middle income levels, the tax advantage is not as significant and, when taking into account higher costs of living on-island could weigh against the Island as a factor in individual and household decisions regarding moving to the Island.
- Furthermore, income inequality has been rising on the Island, with a disproportionate amount of income growth over recent years being concentrated within higher income households.

While the Government has limited means at its disposal to control living costs, it is able to use the tax system to leave taxpayers with more income in their pockets.

Our tax subject matter experts cautioned against complex interventions, such as highly-targeted measures, given the desirability of maintaining a simple tax system and given the relatively broad nature of the issue.

However, it was also recognised that increasing personal allowances to a level that would have a significant impact on take home pay would be costly in terms of Government revenue and would also benefit those on higher incomes, running counter to the objective of reducing inequality and potentially creating needless additional cost. Hence, it may be appropriate to somewhat increase the progressivity of personal tax. A relatively straightforward way to achieve this is for personal allowances and reliefs to be tapered away, such that – at the upper income bound of the taper range – an individual is paying the headline rate of income tax. If appropriate, this could be complemented by an increase in the headline rate.

While increases in personal taxation are inevitably somewhat unpopular, we consider that a well-justified and modest increase in the burden on higher income households would be generally accepted, providing that such taxpayers continued to enjoy (i) substantial advantages from living on the Island over moving to the UK; and (ii) similar levels of tax to competitor jurisdictions, such as the other Crown Dependencies.

We note that Jersey and Guernsey have both introduced measures which somewhat increase the tax burden on higher earners and that the UK also applies a tapering mechanism to personal allowances. Such a move would therefore not be unprecedented, and would not represent a significant weakening of the Island's competitive position.

Prioritisation framework

Criteria	Sub-criteria	Evaluation
Strategic fit and rationale for intervention	Fit with strategic priorities (in terms of economy, AtB, AtP, sustainability and tech-enablement)	<ul style="list-style-type: none"> — Reviewing individual taxation is well aligned with several sub-objectives, notably: <ul style="list-style-type: none"> – Balancing the Island's age profile by making employment on the Island financially more attractive to younger people; – Reducing income inequality by introducing a greater degree of progressivity to the Island's tax system. — As such, policy in this area would offer a strategically strong fit with the Island Plan and Big Picture Vision, particularly with respect to the following high-level objectives: <ul style="list-style-type: none"> – Prosperity for people and communities; and – Resilient and sustainable economy. — Successful design, implementation and delivery of such changes (and other individual policies more broadly) will require alignment with the wider suite of policies that are implemented at the same time – policies must be complementary to one another in order for the greatest impacts to be achieved. — Similarly, a number of key foundational criteria are required in order to optimise the benefits of each policy; for example, the Island needs to be well-placed in respect of other factors likely to guide individuals' decisions to remain on or move to the Island.
	Rationale for policy	<ul style="list-style-type: none"> — Evidence from the Phase 1 report indicates that tax advantages on the Island for those on lower-to-middle household incomes are marginal when compared to higher tax jurisdictions, particularly the UK¹⁷⁷. Combined with higher costs of living¹⁷⁸, the financial advantage for working families is not clear, limiting the Island's ability to retain and attract economically active people and thereby limiting the ability of Island businesses to grow. — Evidence from the Phase 1 report indicates that the Island has an ageing population, with a 'hollowing out' particularly pronounced in the 20-39 age bands. In order to support the long term health of the Island's economy it is essential that this imbalance is redressed. Due to the stage they are at in their careers, younger people are likely to have lower salaries than they might enjoy as they progress. Therefore, they are likely to be disproportionately represented in the lower to middle income categories compared to taxpayers in older age groups.

¹⁷⁷ Based on a range of simple scenarios using 2021/22 tax rates and thresholds.

¹⁷⁸ Based on figures in 'Isle of Man Living Wage 2021'.

	Support from stakeholders	<ul style="list-style-type: none"> — Increases in effective tax rates through tapering of personal allowances and reliefs is unlikely to be popular with many of those affected. However, the tax burden on such individuals is currently significantly lower on the Island than in most other jurisdictions; assuming the scale of increases was modest and the need for change clearly articulated we anticipate that it would be accepted and would be unlikely to lead to an exodus of those affected, given that the changes as proposed would not raise tax burdens to the extent that they would face in the UK or other high tax jurisdictions and would be comparable to low tax competitors such as the Channel Islands. — Reductions in tax burdens for those on lower incomes is likely to be popular among the beneficiaries of those reductions. As with any changes to the progressivity of personal tax, it may be resented by taxpayers who perceive that they are unfairly subsidising lower income households. While the challenges face by those on-island living on lower incomes have long been recognised, the wider 'cost of living crisis' playing out internationally has brought to a wider audience an appreciation that increases in the cost of living have a disproportionate impact on lower earners. Again, clear articulation of the need for change may limit the extent of such objections.
Potential Value for Money (VFM)	GDP impact	<ul style="list-style-type: none"> — While results vary and the difficulty in disentangling the effects of tax changes from other aspects of the economy are well known, the economic literature would indicate that, all else being equal, reducing taxes would generally be expected to have a positive impact on GDP and raising taxes would generally be expected to have a negative impact. — There is somewhat broader agreement that the distortionary impacts of taxes differ by type, with direct taxes on corporate income generally held to be the most distortionary, followed by direct taxes on personal income, taxes on consumption and taxes on immovable property in that order¹⁷⁹. — That said, it should be noted that much of the literature is based on the analysis of rates and the impact of changes in rates in jurisdictions which generally levy much higher rates of direct tax than the Island. The impacts observed may therefore not hold true. — We would also note that the proportion of additional income that is spent in the economy is typically higher for those in lower income bands than for those on higher incomes¹⁸⁰. — Having regard to the above, we would anticipate that the modest changes envisaged would be unlikely to have a significant dampening effect on GDP and, through contribution to the attractiveness of the Island, could have positive second order effects in unlocking economic growth.
	Impact on jobs	<ul style="list-style-type: none"> — There is also evidence that reducing income tax burdens – particularly for low earners – tends to increase employment growth¹⁸¹. The changes may, therefore, reduce the noted challenges faced by businesses in recruiting into vacant positions. — Limiting the extent to which tax burdens are increased for those on higher incomes and tapering them away, rather than creating a 'cliff

¹⁷⁹ Arnold, J (2008) 'Do Tax Structures Affect Aggregate Economic Growth?: Empirical Evidence from a Panel of OECD Countries', OECD Economics Department Working Papers, No. 643.

¹⁸⁰ Carroll, C et al (2017) 'The distribution of wealth and the marginal propensity to consume', Quantitative Economics, 8(3), pp.977-1020.

¹⁸¹ Zidar, O (2019) 'Tax cuts for whom? Heterogeneous effects of income tax changes on growth and employment', Journal of Political Economy, 127(3), pp.1437-1472.

		edge' above which allowances are withdrawn, the measures described would not be expected to lead to significant disincentives to employment for those in highly-paid positions.
	Distributional impact	— The measures proposed would be expected by their design to reduce income inequality.
	Additionality/Value for money (VFM)	<ul style="list-style-type: none"> — We anticipate that well-designed and carefully communicated tax changes would be associated with broadly positive outcomes for the Isle of Man. — The strategic fit and rationale are clear, and consistent with the objectives outlined in the Island Plan. It would also support many of the challenges detailed in the Phase 1 report, specifically those relating to the attractiveness of the Island for those on lower and middle incomes, and particularly the ability of the Island to retain and attract more younger economically active people.
Potential affordability	Financial cost of intervention	<ul style="list-style-type: none"> — Based on consultation with relevant stakeholders, we anticipate that the cost to government to operationalise these policies would be relatively modest, given that the measures proposed would entail refinement of the existing tax system. — Detailed analysis would be required to estimate the impact of such changes on tax receipts; these would clearly vary depending on the combination of measures adopted and the rates and thresholds used.
	Wider impact on Government finances	<ul style="list-style-type: none"> — Increases in disposable income arising from reduced personal tax burdens would be expected to lead to increased spend in the local economy, leading to increased tax receipts associated with consumption. — It is also anticipated that tax changes would lead to increases in the Island's working population and reduce constraints on business growth imposed by recruitment challenges. Depending on the sectors impacted there are various mechanisms through which additional growth could have positive impacts on government finances.
Deliverability and risks	Risk management and mitigation	<ul style="list-style-type: none"> — There are various risks associated with personal tax changes including: <ul style="list-style-type: none"> – Impacts on the Island's competitive position – or perceived competitive position – arising from the changes. – Unintentional creation of loopholes that undermine the intended operation of the measures. — We consider that a combination of careful analysis of the expected impact of measures, scrutiny of implementing legislation at the legal drafting stage, and ongoing clear and credible communication regarding the impact of measures to be implemented should substantially mitigate the key risks,
	Resource availability	— Based on consultation with relevant stakeholders, we anticipate that proposed policies could be administered by existing resources; as noted above, the policies described represent refinements to the existing taxation system.

	Deliverability	<ul style="list-style-type: none"> Based on consultation with relevant stakeholders, we anticipate that proposed policies could be delivered within a 1-2 year timeframe. It is likely that the required changes could be achieved through modifications to the existing taxation system.
	Governance requirements	<ul style="list-style-type: none"> Governance mechanisms around changes to, and management of, the taxation system are well-established.

Review of tax structure: corporate tax

Executive Summary

The Island has a very competitive corporate tax system, with most businesses subject to corporate tax at a 0% rate. While low rates of direct corporate taxation are desirable from an economic perspective this needs to be balanced against the desirability of a diverse government revenue base that is sufficient to create and maintain an environment in which businesses and people can thrive.

Our Phase 1 work indicates that there is a significant disconnect between sectors' relative contributions to the Island's GDP, to employment and to government revenues. Furthermore, it is recognised that government revenues are currently driven largely by the employment and consumption of individuals.

Having regard to the above, we propose that Government considers as part of its Tax Strategy:

- Applying corporate tax at 15% to those businesses that would be captured by the OECD 'Two-Pillar' Solution.
- Increasing the scope of businesses subject to competitive rates of corporate tax to the extent that it would not significantly impair its competitive position against key comparator jurisdictions.

Overview

We note that corporate tax could be one of a range of sources that Government uses to fund public services and specific measures that it seeks to implement in line with its economic strategy.

In respect of tax that could be collected from Island entities within the scope of the OECD 'Two-Pillar' Solution, the rationale would seem to be fairly clear cut: if the Island does not tax such entities they will be liable to 'top up' tax elsewhere.

The rationale for unilaterally imposing non-zero rates of corporate tax on a wider range of businesses is less straightforward. In general, there would be expectation of some activity loss arising from such a change. However, this is more likely to arise if affected businesses are sensitive to corporate tax rates and – perhaps more importantly – can viably move to or establish in jurisdictions where they would enjoy a more favourable corporate tax environment.

Looking at the other Crown Dependencies as the Island's most obvious competitors in respect of corporate tax rates we would note that they already apply corporate tax more broadly than the Isle of Man. We therefore consider that there is scope to expand the Island's corporate tax base without significantly weakening its competitive position.

Prioritisation framework

Criteria	Sub-criteria	Evaluation
	Fit with strategic priorities (in terms of economy, AtB, AtP, sustainability)	– Reviewing corporate taxation is well aligned with the sub-objective of maintaining healthy Government finances over the long term by diversifying the sources of Government revenue.

Strategic fit and rationale for intervention	and tech-enablement)	<ul style="list-style-type: none"> — Indirectly, ensuring sufficient levels of Government revenue support the sub-objective of investing in improving public services and infrastructure. — As such, policy in this area would offer a strategically strong fit with the Island Plan and Big Picture Vision, particularly with respect to the following high-level objectives: <ul style="list-style-type: none"> – Resilient and sustainable economy; and – Prosperity for people and communities. — The medium-term financial strategy referred to in the Island Plan requires delivering “a tax system which supports the economic aims and raises sufficient revenues to support public services”, which this policy aligns well with. — Successful design, implementation and delivery of such changes (and other individual policies more broadly) will require alignment with the wider suite of policies that are implemented at the same time – policies must be complementary to one another in order for the greatest impacts to be achieved. — Similarly, a number of key foundational criteria are required in order to optimise the benefits of each policy; for example, Government needs to clearly demonstrate to businesses its ability to efficiently use the financial resources generated through such taxes to ensure that the Island is creating and maintaining an environment in which businesses thrive.
	Rationale for policy	<ul style="list-style-type: none"> — Evidence from Phase 1 indicates that the Government revenue base is heavily dependent on the employment and consumption of individuals; it would be desirable for Government finances to come from a more diverse range of sources. — Evidence from Phase 1 indicates that GDP as a measure of business activity is not well correlated with employment or Government finances; it would be desirable for the Island to ensure that business activity is more fully translated into prosperity for the Island and its people.
	Support from stakeholders	<ul style="list-style-type: none"> — While consultation with affected businesses would be recommended, we anticipate that levying tax at the agreed minimum rate on entities in scope of the OECD ‘Two-Pillar’ Solution would be unlikely to face significant resistance: it would simply capture locally tax which would otherwise be levied elsewhere. — Applying corporate tax to businesses more generally within a broader range of sectors is likely to be unpopular with affected businesses. While tax rises are rarely popular, careful analysis would be recommended to ensure that negative impacts – particularly in terms of possible activity loss – are managed. — While imposition of taxes on business is likely to be of less direct concern to individuals, they may be affected as customers of businesses who seek to raise prices in response to the change.
Potential Value for Money (VFM)	GDP impact	<ul style="list-style-type: none"> — As noted in respect of individual taxation, while results vary and the difficulty in disentangling the effects of tax changes from other aspects of the economy are well known, the economic literature would indicate that, all else being equal, reducing taxes would generally be expected to have a positive impact on GDP and raising taxes would generally be expected to have a negative impact. — There is somewhat broader agreement that the distortionary impacts of taxes differ by type, with direct taxes on corporate income generally held to be the most distortionary, followed by

		<p>direct taxes on personal income, taxes on consumption and taxes on immovable property in that order¹⁸².</p> <ul style="list-style-type: none"> — That said, it should be noted that much of the literature is based on the analysis of rates and the impact of changes in rates in jurisdictions which generally levy much higher rates of direct tax than the Island. The impacts observed may therefore not hold true. — The risk that the imposition of taxation causes some businesses to leave or reduce the scale of their operation on the Island should be taken into account in decisions around whether and to what extent the scope of corporate tax is expanded.
	Impact on jobs	<ul style="list-style-type: none"> — There is a risk that, faced with new tax burdens, some businesses may seek to maintain levels of return by improving efficiency, which could manifest in job losses. — The economic literature tends to indicate reductions in employment growth associated with increases in corporate tax¹⁸³.
	Distributional impact	<ul style="list-style-type: none"> — There is a risk that, faced with new tax burdens, some businesses may seek to maintain levels of return by increasing prices. Depending on the nature and scale of the affected businesses this could have negative impacts on cost of living. — The economic literature tends to indicate that at least some of the impact of corporate tax is ultimately borne by the consumer¹⁸⁴.
	Additionality/Value for money (VFM)	<ul style="list-style-type: none"> — We anticipate that well-designed and carefully communicated tax changes would be associated with broadly positive outcomes for the Isle of Man. — The strategic fit and rationale are clear, and consistent with the objectives outlined in the Island Plan. Increasing revenue from corporate tax could be an important source of funding for improvements in public services and other investments with broader impacts on the health of the economy..
Potential affordability	Financial cost of intervention	<ul style="list-style-type: none"> — Based on consultation with relevant stakeholders, we anticipate that the cost to government to operationalise these policies would be relatively modest, given that the measures proposed would entail refinement of the existing tax system. — Detailed analysis would be required to estimate the impact of such changes on tax receipts; these would clearly vary depending on the types/sectors of businesses affected and the rates used.
	Wider impact on Government finances	<ul style="list-style-type: none"> — As noted above, there are risks of activity loss associated with increases to corporate tax which could have knock-on impacts on employment and employment-related revenues within affected sectors.

¹⁸² Arnold, J (2008) 'Do Tax Structures Affect Aggregate Economic Growth?: Empirical Evidence from a Panel of OECD Countries', OECD Economics Department Working Papers, No. 643.

¹⁸³ Shevlin, T et al (2019) 'Macroeconomic effects of corporate tax policy', Journal of Accounting and Economics, 68(1), p.101233.

¹⁸⁴ Baker, SR et al (2020) 'Corporate taxes and retail prices', National Bureau of Economic Research, w27058.

Deliverability and risks	Risk management and mitigation	<ul style="list-style-type: none"> — There are various risks associated with corporate tax changes including: <ul style="list-style-type: none"> – Impacts on the Island’s competitive position – or perceived competitive position – arising from the changes. – Unintentional creation of loopholes that undermine the intended operation of the measures. — We consider that a combination of careful analysis of the expected impact of measures, scrutiny of implementing legislation at the legal drafting stage, and ongoing clear and credible communication regarding the impact of measures to be implemented should substantially mitigate the key risks,
	Resource availability	<ul style="list-style-type: none"> — Based on consultation with relevant stakeholders, we anticipate that proposed policies could be administered by existing resources; as noted above, the policies described represent refinements to the existing taxation system.
	Deliverability	<ul style="list-style-type: none"> — Based on consultation with relevant stakeholders, we anticipate that proposed policies could be delivered within a 3-5 year timeframe. It is likely that the required changes could be achieved through modifications to the existing taxation system.
	Governance requirements	<ul style="list-style-type: none"> — Governance mechanisms around changes to, and management of, the taxation system are well-established.