

Department of Infrastructure Financial Plan

It should be noted that in a changeable year (*particularly the energy markets), the DOI Financial Plan for 2024/25 was correct as at the time of writing.

The first draft of this document was prepared in July 2023.



Department of Infrastructure

Department Financial Plan 2024/25

Contents

- Executive summary.....2
- Background2
- Overview of funding assessment.....9
- Summary of expected benefits17
- Total funding assessment / request.....18
- Approvals19

- **Executive summary**



This 2024/25 financial plan unpins the both the Isle of Man Government Island Plan and Economic Strategy.

The plan is one of re-focus, against a significant backdrop of economic challenge. The Department of Infrastructure primary objective is to keep critical national infrastructure safe and operational.



The Economic Strategy aims to further develop the infrastructure and services for our community to plan for an estimated population of 100,000 by 2037 by investing in key services and infrastructure that attract and retain economically active people. As the population increases investment in transportation, roads and infrastructure needs to be commensurate with growth to the standard of living and economic productivity for our Island residents.

This plan sets out the background, relevant aspects of macro financial landscape, the funding start position and an assessment for its suitability to deliver on the key challenges faced by the Department.

- **Background**

The 2023/24 financial budget for the Department of Infrastructure is set-out as follows;

DEPARTMENT OF INFRASTRUCTURE - BY DIVISION	
NET EXPENDITURE BY DIVISION	
£000	Budget
Central Support & Change Division	3,145
Airport Division	6,376
Highway Services Division	-3,629
Harbours	-2,159
Public Estates	21,855
Flood Management	1,510
Rail	3,574
Bus	5,049
Shared Fleet Services (New)	4,610
Waste Services	4,912
Housing Deficiency	6,537
Housing Services	-3,752
NET (SURPLUS)/DEFICIT	47,888

In prioritising the use of this budget the core focus of the Department is to keep services operational for the residents of the Isle of Man. This means in terms of service prioritisation (1&2) the Department will look to prioritise as follows;

- 1) Strategic connectivity services such as the Airport, Bus, Highways and Harbours.

Core services to the public, such as Housing and Waste Services

- 2) Satisfice (satisfy minimum requirements for) "Cost of Government" services, such as our Public Estates and condition of Fleet services.

Relevant macroeconomic indicators and legislative change

Macroeconomic indicators affecting the Department are complex and interwoven. The most relevant of these indicators include;

- 1) Manx Consumer Price Index (CPI)
- 2) The Bank of England Base rate
- 3) Energy markets and futures pricing
- 4) Construction market indices such as the;
 - a. Labour Cost indices
 - b. Material Cost indices

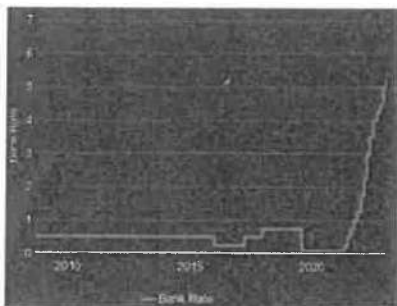
1) Manx Consumer Price Index (CPI)

CPI serves to put considerable pressures on the Department's budget in real terms. The contracts the Department operates are indexed against a range of rates from the previous financial year. This ranged from 6.4% to 10.8% in 2022/23. Meaning the minimum increase based on CPI would be 6.4%.

	January	February	March	April	May	June	July	August	September	October	November	December	January	February	March
CPI Inflation rate	8.00%	8.50%	8.70%	9.00%	8.10%	9.10%	10.80%	10.40%	9.80%	10.1%	7.50%	7.10%	8.00%	9.00%	9.10%

Figure 2.0 – CPI Baseline source * <http://gov.im/inflation>

2) Inflationary impact on the Base rate



The Bank of England's Monetary Policy committee in response to UK inflation has rapidly increased. The Base Rate across the prior reporting period, at the time of writing moving to 5.25% in August 2023.

Figure 3 – Office Bank Rate *1 Source – Bank of England (<http://bankofengland.co.uk>)

This applies immediate upward pressure on the Department's budget due to the Department operating a "Housing Deficiency" funding line. This budget is a mechanism to defray the cost of loans for the Local Authorities across the Isle of Man and ensures minimum standards are preserved for tenants of social housing.

The Department currently has in excess of £203m of loans managed through Housing Deficiency portfolio, £94.5m of these are subject to a variable elements linked to the Base Rate. The increases in Base Rate over the prior financial year applies immediate significant **£1m-£2m** pressure to the Department's available funding for these. Financial markets now price the Bank of England rate peaking at 5.75% in November 23.

3) Energy Markets

The energy markets have a considerable impact on the Department of Infrastructure budget. The most significant elements are electricity, gas and fuel. Overall in 2022/23 DOI spent in excess of £12m across the energy related categories.

Electricity

The cost of wholesale electricity is suffering price volatility (see Figure 4.0 below), particularly throughout 2022 and the early stages of 2023. This highlights the impact of current geopolitical tensions on the EU's electricity market.

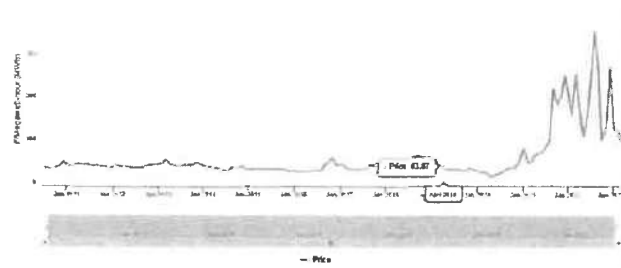


Figure 4 – Energy Pricing *Source <http://ofgem.gov.uk>

The Department of Infrastructure manages the majority of the Isle of Man Government's estates portfolio with electricity costs 22/23 in excess of £4m linked to the Retail price of electricity which takes into account the cost of MU servicing their asset base.

Gas

Gas futures pricing in Q1 2023/24 began to show signs of stabilisation from the volatility seen in 2022/23 (Figure 5 below) and at the time was estimated at between 120p-140p GBp/thm.

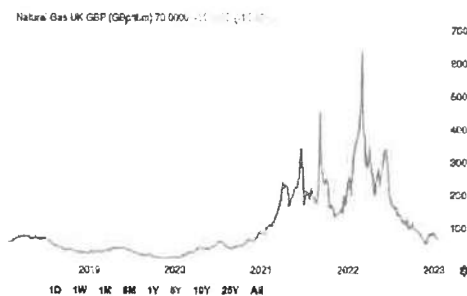


Figure 5 – UK Natural Gas (GBP/thm) *Source <https://tradingeconomics.com/commodity/uk-natural-gas>

The DOI portfolio represents a mix of commercial rates and cost plus contracts derived from this rate which are directly impacted by price volatility. In 2022/23 DOI spent a total of £3.5m on gas. Examples of recent volatility include risk of strikes in Australia. With considerable spend in this category the continual movement in forecasts presents risk to the Department.

Fuel

The cost of fuel has begun to stabilise in early 2023 (Figure 6 below), although prudently this still represents approximately a 10% rise above available budgets before the move into the 2024/25 period. Due to the volatility in the 22/23 financial year this saw the Department exceed its budget for core fuel types by £1.2m. In 2023/24 the cost pressure for the Department for fuel related expenditure against budget fell back to be in the region of £353k.



In April 2022 new UK legislation came into effect whereby all red diesel bought from that point onwards must be for vehicles, machines and industries that meet the new exemptions. The policy has been introduced as part of the UK government's commitment to end to its contribution to global warming by 2050. These included:

- for vehicles and machinery used in agriculture, horticulture, fish farming & forestry; and
- for heating and electricity generation in non-commercial premises.

This has introduced cost pressures to specific areas of the Department of Infrastructure portfolio including equipment used by our Fleet services, Flood Division and Quarry as none of the current fleet and equipment satisfies the exemption criteria. There is also the additional cost impact of this is being passed through subcontractors back to the Department.

4) Construction market

As our economy has emerged from the effects of the Covid pandemic, the cost of construction materials as a result of global demand and logistical issues saw a 40-year high as reported by the Royal Institute of Chartered Surveyors. Brexit has further exacerbated the situation, acutely impacting the construction sector.

Labour shortages continue to be a key area of concern alongside and driving financial constraints. Labour shortages also serve to create an increase in single tender responses at elevated cost due to many contractors being occupied on non-Government projects and not engaging in the tendering process.

5) Other legislative impact assessments

The following table highlights the legislation applicable to the different Divisions of the Department of Infrastructure. In preparation of this financial plan consideration is given to the evolving cost of compliance. Costs are incurred in both the upkeep of the legislation but also the compliance to ensure the Department's own legal obligations are met.

In addition to these the Department also provides oversight to a number of sponsored bodies including local authorities and Manx Utilities.

Harbours Division <ul style="list-style-type: none"> • Harbours Act 2010 • Fisheries Act 2012 • Wreck and Salvage (Ships and Aircraft) Act 1979 • Customs Management Act 1986 • Factories and Workshops (Amendment) Act 1936 • International Maritime Standards Act 2021 • Oil Pollution Act 1986 	Highways Division (including Quarry) <ul style="list-style-type: none"> • Road of Transport Act 2001 • Road Traffic A • Road Traffic (Amendment) Acts 1981 and 2001 and 2015 • Highways Act 1986 • Road Traffic and Highways (Miscellaneous Amendments) Act 2012 • Road Races Act 2016 • Road Races Act 1985 • Licensing and Registration of Vehicles Act 1985 • Road Traffic (International Agreements) Act 1974 • Motor Vehicles (International Circulation) Act 1955 • Minerals Act 1986
Airport <ul style="list-style-type: none"> • Airports and Civil Aviation Act 1987 • Airports and Civil Aviation (Amendment) Act 2018 	Bus and Rail <ul style="list-style-type: none"> • Isle of Man Passenger Transport Act 1982 • Douglas Bay Tramway Act 1876 • Government Property Trustees (Railway Easements) Act 1982 • Concessionary Travel Schemes Act 2016
Public Estates and Housing <ul style="list-style-type: none"> • Government Property Act 1971 • Housing Act 1995 • Housing (Miscellaneous Provisions) Acts 1976 and 2011 • Landlord and Tenant (Miscellaneous Provisions) Act 1976 • Landlord Registration (Private Housing) Act 2021 • Property Service Charges Act 1989 • Housing (Rent Control) Act 1948 	Waste Services <ul style="list-style-type: none"> • Public Health Act 1990 • Water Pollution Act 1993
Corporate <ul style="list-style-type: none"> • Equality Act 2017 • Freedom of Information Act 2015 • Climate Change Act 2021 • Treasury Act 1985 • The Health & Safety Act and all legislation pertaining to health and safety at work 	Flood <ul style="list-style-type: none"> • Flood Risk Management Act 2013
	Central Strategy & Change <ul style="list-style-type: none"> • Local Government Act 2006 • Marine Infrastructure Act 2016

2022/23 financial year summary

Prudent management of the budget in 2022/23 saw the Department of Infrastructure **balance its revenue budget** drawing less from reserves in contingency funding for elements such as energy contingency than approved by Treasury. This can be seen in the summary below;

DEPARTMENT OF INFRASTRUCTURE										
INCOME & EXPENDITURE BY CATEGORY - PERIOD TO 31/03/2023										
£000	YTD		Variance To Budget	Variance by Division						
	Actual	Budget		CS&Change	Airport	Highways	Harbours	PubEstates	Transport	Flood
INCOME										
Taxation Income	-13,410	-14,004	-594	0	-4	-593	4	0	0	0
Third Party Contributions	-1,835	-3,464	-1,629	0	0	0	0	-3,629	0	0
Operating Income	-40,186	-39,837	350	1,395	-4,416	409	3,155	16	-207	-2
Grant Income	0	0	0	0	0	0	0	0	0	0
Other Non-Trading Income	-3,739	-3,677	62	80	34	11	0	-103	43	0
Total Income	-59,170	-60,982	-1,812	1,474	-4,386	-173	3,158	-1,717	-166	-2
EXPENDITURE										
Employee Costs	45,254	44,063	-1,191	85	-476	570	-108	266	-1,632	105
Infrastructure Costs	37,887	33,642	-4,245	-377	175	905	-278	-2,878	46	-27
Transport Costs	8,842	5,442	-3,400	29	-613	6	-39	0	-2,734	0
Supplies & Services	12,222	14,052	1,870	-176	-205	1,183	264	696	64	45
Agency & Contracted Services	1,813	4,548	2,735	0	0	0	0	2,735	0	0
Fund Claims	-4,659	0	4,659	0	640	4	8	1,505	2,501	0
Other Costs	1,040	2,473	1,383	110	112	213	84	376	429	59
Total Expenditure	102,398	104,210	1,812	-378	-368	1,979	-69	2,701	-1,375	381
NET EXPENDITURE	-43,228	-43,228	0	1,097	-4,754	897	3,089	984	-1,497	379

Two immediate areas of variation are evident: Firstly the Airport Division; the aviation industry continues to transition back to pre-pandemic income levels by 2024, secondly employee cost pressure in the Transport Division which at the time included the Bus, Rail and Fleet subdivisions.

Notable successes

To achieve this out-turn budget at the end of financial year the Department implemented an early recruitment freeze across the year for non-core roles and established energy use measures across the Government estate to help mitigate against the already rising cost of fuel.

In finalising the financial year favourable Housing Deficiency revenue helped achieve a balanced outturn and reduce further claims against Government's contingency reserves. This was predominantly as a result of the Base rate remaining low in the first half of the financial year (i.e. ranging from 0.75% to 1.75%). This will not be the case in the closure of the 2023/24 financial year.

The period also saw successes in;

- Community flood alleviation schemes in Laxey;
- Further delivery against Community surface water, river flooding and coastal defence improvement schemes;
- The creation of an Airport Shadow Board;
- Subvention of core air routes to London to protect and maintain strategic connectivity for our Island whilst the aviation industry continues to recover from the changes in working trends post pandemic;
- Circa 190,000m² of road highways redressed;
- Release of Hamilton House from the Government portfolio leveraging savings;
- Re-establishing the operation of the horse tramway.

As at June 2023 the management accounts for the Department of Infrastructure are tracking closely with year to date budgets, notwithstanding significant cost risks, pressures and dependencies.

The year to date account variances were reported as follows;

DEPARTMENT OF INFRASTRUCTURE															
INCOME & EXPENDITURE BY CATEGORY - PERIOD TO 30/06/2023															
(\$'000)	YTD Actual	FY23 Budget	Variance												
			To Budget	CS&C	Waste	Airport	Highways	Marine	Public estates	Rail	Sea	Fleet	Heritage	Housing D	Flood
INCOME															
Taxation Income	3,801	3,675	125	0	0	1	125	1	-0	0	0	0	0	0	0
Third Party Contributors	250	909	-649	0	0	0	0	0	-437	0	0	3	-215	0	0
Operating Income	11,094	9,710	1,384	1	431	16	100	107	-76	247	343	-115	204	0	-3
Grant Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Non-Trading Income	874	-951	-77	0	-72	-12	3	-0	3	5	3	0	0	0	0
Total Income	-14,029	-15,246	783	1	358	4	228	108	-446	252	348	-111	69	0	-3
EXPENDITURE															
Employee Costs	11,824	11,677	148	450	7	56	147	82	-79	150	-36	-63	29	0	-2
Infrastructure Costs	9,839	8,920	-1,019	0	129	60	65	125	109	-4	-3	-3	263	0	25
Transport Costs	2,201	1,478	723	-0	-5	595	2	-0	0	-34	-75	11	0	0	0
Supplies & Services	2,984	3,400	415	8	94	-40	194	88	19	112	65	6	1	-24	12
Agency & Contracted Services	1,453	1,501	48	0	0	0	0	0	0	0	0	0	0	0	0
Fund Claims	-606	0	606	0	0	606	0	0	0	0	0	0	0	0	0
Other Costs	1,205	1,208	3	0	0	0	1	0	0	0	0	0	0	0	0
Total Expenditure	29,801	26,184	-3,617	457	-43	-29	-122	119	189	-78	-470	-70	-181	-24	56
NET EXPENDITURE	15,772	10,938	-4,834	456	314	35	106	-11	-675	174	-127	141	-116	24	53

Notable variances in the year to date figures, include Public Estates and Housing recovering less income from work undertaken brought about by the challenging labour market resulting in elevated vacancy levels.

Two subdivisions that were part of the former Transport Division (Bus and Fleet) continue to see elevated staff costs as a result of the high cost of servicing service level agreements and elevated costs for driving coverage for bus services.

- **Overview of funding assessment**

The methodology used to calculate the overall funding assessment for the Department is;

Assessment =

*Budget proposed in Pink Book^{*1} – (current forecast 23/24^{*2} + cost pressures (24/25^{3a&b}))*

Please note, cost pressure is NOT the same as forecast. The current forecast for 23/24 includes existing cost pressures and operational mitigations and savings.

At the time this Annual plan was prepared, the table below shows a full year forecast for 2023/24 for the Department.

^{*1} - The 2024/25 financial year (as noted in the 2023/24 budget Pink Book) has the following provisional budget;

Category	Budget ('000s)
Income	£62,201
Employee Costs	£47,641
Infrastructure Costs	£35,819
Transport Costs	£5,551
Supplies and Services	£14,926
Agency and Contracted Services	£4,639
Other	£2,423
NET BUDGET	£48.8m^{*1}

DEPARTMENT OF INFRASTRUCTURE																		
INCOME & EXPENDITURE BY CATEGORY - FULL YEAR FORECAST																		
£000	Forecast	Budget	Variance															
			To Budget	CSAC	Waste	Airport	Highways	Rebusars	Publiccars	Rail	Bus	Fees	Planning	Manpower	D	Flood		
INCOME																		
Taxation Income	14,949	-14,702	247	0	0	0	249	1	-0	0	0	0	0	0	0	0	0	0
Third Party Contributions	-1,781	-3,638	-1,857	0	0	0	0	0	972	0	0	-24	-850	0	0	0	0	0
Operating Income	41,367	-38,639	2,529	1	528	232	251	373	230	128	-61	21	1,337	0	-3			
Grant Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Non-Trading Income	-3,523	-3,804	-281	0	-292	-5	24	0	-10	9	3	0	0	0	0	0	0	0
Total Income	-61,621	-60,982	639	1	635	225	523	374	-1,213	-139	-58	-3	277	0	-3			
EXPENDITURE																		
Employee Costs	47,377	46,707	-670	1,764	-23	-784	37	-323	185	-399	1,004	270	120	0	25			
Infrastructure Costs	37,701	35,680	2,022	0	-792	-54	478	-121	225	15	-14	-17	-316	0	10			
Transport Costs	9,044	5,914	-3,131	0	-3	-2,395	4	0	0	-500	213	650	0	0	0			
Supplies & Services	14,095	13,599	-497	-4	-129	-665	7	77	-61	331	-54	-13	0	0	14			
Agency & Contracted Services	4,828	3,942	-886	0	0	0	0	0	0	0	0	0	0	0	0			
Fund Claims	-2,423	0	2,423	0	0	2,423	0	0	0	0	0	0	0	0	0			
Other Costs	3,030	3,029	-1	0	-0	0	-1	0	0	0	0	0	0	0	0			
Total Expenditure	113,653	108,870	-4,782	1,761	-946	-1,475	-430	-366	-102	-384	-859	-950	-396	-805	50			
NET EXPENDITURE	52,032	47,888	-4,144	1,762	-310	-1,250	93	5	-1,315	502	-917	-952	81	-885	47			

The 2023/24 full year forecast is **£52m^{*2}** which is adverse to budget by **£4.1m**.

This forecast includes;

- 1) An accrual for 2023/24 pay award at 6%. Based on budget this represents a **£2.6m** cost pressure;
- 2) Predicted electricity cost increases of **£2.5m**;
- 3) Predicted fuel cost increases of **£0.35m**;
- 4) Part year increase in Airport Security contract [REDACTED];
- 5) Recognition of Bus Vannin employee cost and SLA pressure **£0.76m**; and

Noting this is reduced back by subdivisions able to achieve forecast underspends.

Common pressures and issues forecast are as follows;

For the purposes of the 2024/25 financial year a further 6% pay award has been assumed in the cost pressures. Should the PSC pay award decision be greater than 6% then this has not been budgeted for.

The Department is only able to influence the pay award for one business area, and this relates to Bus Vannin for drivers. At the time of the financial plan being produced this award is still under negotiation but will likely continue to be influenced by the PSC award decision. Therefore this introduces a further element of risk to the financial forecast.

Finally, inflation excluding housing deficiency and energy applies to circa £50m of expenses. The assumed mean indexation rate is 5%, (based on inflation falling back in the second half of 2023/24). This introduces a **£2.34m** cost pressure to goods and services purchased by the Department.

- **Summary Cost Pressure**

In summary the cost pressures and new requirements for the Department are as follows;

Cost pressures			
Description	Indicator	2023/24 Pressure	2024/25 Pressure
Employee cost pressure (6% assumption)	Inflation	£0m Funded by Treasury	£2.76m
Inflation on expenses (23/24 – 8.5% assumption, 24/25 - 5% assumption), excl. Housing deficiency and energy.	Inflation	£3.66m	£2.34m
Energy from Waste operating cost	Indexation	Included in above calculation	Included in above calculation
Electricity cost pressure for Government Estate (specific pricing)	Energy pricing	£2.5m	continues
Departmental fuel cost pressure (based 10% increase)	Fuel pricing	£0.35m	continues
Cleaning cost pressure for Government Estate (£0.8m)	Indexation (multiple years)	£0.8m	continues
Bus Vannin driver cover & SLA pressures	Labour market		
Airport Security	Sickness levels and SLA gap analysis	£0.76m	continues
Public Estates – prior market rating commitments	Inflation and contract pricing		Included in new requirements below
Rail - increased cost of coal	Labour market	£0.137m	continues
Housing Deficiency (dependant on LA requirements)	Fuel pricing	£0.12m	continues
Subtotals	Base Rate	£1-2m (range)	continues
		£9.84m- £10.7m *included in forecast shown for information only	£5.1m ^{3a}
Total cost pressure		£14.26m-£15.26m	

New requirements		
Description	Indicator	Cost
Airport Operating costs (offset with forecast increased income)	Inflation & risk	£1.25m
Liverpool Ferry terminal, (dependant on lease agreement)	Risk	£0-£0.45m (range)
Public Estates key trade staffing shortfall	Labour Market / Compliance	£0.42m
Subventions for Strategic Air and Patient transfer	Direct market engagement	£0 (proposed continue drawing against reserves)
Total		£1.67m-£2.12m^{*3b}

Therefore the optimistic cost pressures faced by the Department in 2024/25 is **£6.77m** with **£9.84m** pressure carried over from the prior financial year. A total of **~£16.6m** cost pressure.

Noting that any element of the cost pressures for the 2023/24 financial year unable to be mitigated successfully by the Department may be requested as a supplemental vote to Treasury in the same financial year.

In calculating the **overall Departmental cost pressure** there has been considerations of the following aspects;



Highway Services

Highway Services, is subject to inflation and pay award cost pressures as faced by the Department as a whole. The Division is maintaining a watching brief on the Vehicle Duty Order income and the impact of the decision to implement a six month payment option.



Public Estates

PEH Energy

Public Estates bear considerable cost impact from the price movements of electricity due to the nature of managing the Government estate. Furthermore, low levels of capital investment mean that Government's estate continues to age and as such this applies upward cost pressure on ongoing maintenance costs on the upkeep of buildings and assets.

On current electricity rate and usage there is an additional **£2.5m** electricity cost pressure on the Division against available budget with £1.1m arising from Manx Utilities in 2023 increases alone.

PEH Cleaning

Cleaning services, the Division has been running a cost improvement initiative to reduce the cost of these services by reducing the scope, generating on average a 7.3% reduction. However for new contracts being placed and due to the current rates of inflation the cost of re-contracting incorporates rate increases of 7%. As such there remains **£800k** pressure remains on cleaning resourcing and materials.

PEH Payroll

In 2022/23 OHR job evaluations included;

- A market rating process which commenced in 2019 and this resulted in between 4% & 12% uprating to craft posts (plumbers, electricians, joiners etc.). This has introduced an unbudgeted £92k employee cost pressure to this Division.
- Terms and conditions fair pay alignment between PSC and NHS-Whitley Council has introduced further employee cost pressure for the Division. Estimated at £45k.

These has not yet been subject to a further budgetary provision and as such represent a **£137k** cost pressure.

Pressure on payroll budgets across recent years from labour market increases and the increasing cost of compliance (in particular for Manx Care) through providing services in line with British standards (e.g. water hygiene, fire alarms/doors, boilers etc.) has led to a structural deficiency in the Public Estates payroll budget.

The facilities section are under significant pressure as the payroll budget is insufficient to manage the services required. The payroll deficit for the trade and facilities management posts is **£420k**.

It should be noted that other unplanned costs for Division include the legacy from the initial Covid response i.e. Manx Care commissioned an Oxygen plant at the hospital i.e. £70k p.a. (electricity £50k, maintenance £20k p.a.) Now that the initial peak of the pandemic has passed if Manx Care require to keep this in operation it is intended to appropriately account for this as part of the cost of service in Manx Care.

There is a requirement to change the Public Estates facilities management model for rechargeable works, reducing income targets and expense budget alike. This will be the subject of virement request from Treasury and will see the removal of an income target from the Facilities management team.



Housing

Changes in the Bank of England Base rate has seen a shift from 0.75% to 5% in the space of one financial year. An increase in Base rate of +4.25% against a variable loan portfolio of £94.5m nominally reflects a maximum requirement increase of £4m. The net effect of this against Housing Deficiency budgets without introducing additional requirements or cost pressures from the Local Authorities falls in the range of **£1-£2m**. The Department is investigating alternative methods of making this provision.



Waste Services

Upward pressure from indexation on the Energy from Waste contract has seen a direct **£568k** cost increase in the current year with a likely further similar amount in 24/25 which is not currently passed onto service users.

The Energy from Waste plant lease is under a 25 year term and historically the Department has recovered income matched against the lease. The impact of the budget process in previous years increasing income targets has meant a significant amount of this was not passed on to meet these targets. With the exception of 23/24 financial year the impact of this is in the region of £70k annually.

There is an emerging challenge with the disposal of lithium batteries (including those from Electric Vehicles), a new DEFA has been introduced policy around the conditions attached to waste disposal licences including end of life vehicle management and required shipping measures. This will see a cost increase flow back to the Department following the placement of new service tenders.



Fleet Services

The Fleet Service revenue has **£190k** of the Governments' fuel related cost pressure in 2023/24. This is despite recent price reductions pricing remains circa 10% higher than the 2022/23 baseline. Gradual increases in fleet size and usage, along with the cost impact of the change from red to white diesel also contribute to this. This gap will worsen as funding as fleet growth is approved to support the Economic Strategy, both in fuel and maintenance. This is unless the associated revenue costs are included in Departments bid submissions and where there is sub-optimisation that this managed through "user pays" style fleet SLA's.

In pursuit of an electric fleet strategy operating costs will begin to rise as a result of a number of items ranging from electrical/mechanical training to tactical charging infrastructure are required. These may be funded from a mix of Climate Change funding and offsetting by reducing fuel costs and maintenance intervals.



Rail

Heritage Rail services in 2023/24 financial year saw the capital budget line for Heritage rail contract back by **£2.25m**. This will put considerable pressure on revenue budgets to maintain urgent repair and maintenance work and lead to an in-year reduction in quality for this overall asset.

The supply price for Coal is budgeted at **£180** per tonne but changes in the social environment as a result of Climate change mean that this cost has increased to **£450** per tonne due to reduced sourcing options. This equates to a **£120k** per annum cost pressure.

Finally, work is underway to understand the economic benefits to the Island from Rail services and to provide an assurance check that the income achieved from Bus and Rail services from combined Go cards is accurately accounted for.



Bus

Bus Vannin is presently facing a number of financial pressures. The first is the cost of cover for periods of absence where the total cost of this (including cover) has previously been estimated to cost in excess of **£260k**. Secondly, the service area that provides minibus services to Manx Care is showing a structural budget deficiency of at least **£500k** against the service being delivered currently, changes to the requirement of the service provision, if not passed to Manx Care, will add further cost pressures to the Division.

Bus is also directly impacted by fuel inflation. Furthermore, the 2023/24 pay negotiations have yet to conclude which presents an element of uncertainty.

Isle of Man Airport

The Isle of Man Airport has a number of significant cost pressures which affect the annual financial plan, these can be summarised with the following high level assumptions;

- 1) Core security services. This service was re-tendered in the 2022/23 financial year and resulted in a cost increase of £1.2m. A further review of minimal viable operating standards reduced the cost impact of the service contract back to a £0.2m impact.
- 2) Air traffic control, the headcount for air traffic controllers be increased from 14 ATC to 18 ATC plus two trainees being continuously in seat. This equates to an annual cost pressure of £450k.
- 3) Passengers with reduced mobility. To fully service this requirement will require an additional revenue investment of up to £600k of ongoing revenue if the CAA requirements from the UK are adopted in the Isle of Man.
- 4) Operational resilience in airport operations £600k to ensure compliance with the Airport certificate in providing continuous response capability.
- 5) Operating costs of £48k per annum for Simulation and recovery equipment maintenance,

The total revenue cost pressure of the Airport (excluding the capital investment programme) is £2.7m, with this pressure offset by income opportunities from aviation passenger growth (net £1.2m increase - estimating an additional 175,000 passengers in 2023/24), airline contracting and consultation on land use.

Flood

Flood services are subject to inflation and pay award cost pressures as faced by the Department as a whole.

Harbours

The operational running cost of the Liverpool Ferry terminal is presently under negotiation with the IOM Steam packet. The financial requirements to operate this facility are estimated at £450k which is intended to be managed through commercial arrangements in place with the Steam packet company. No additional revenue budget for this facility was granted in the 2023/24 budget round.

Cost Improvement Plan

The Department's cost improvement plan operates to offset pressure on the Public purse through driving efficiencies through the revenue budget. At a high level for the 2023-24 period this includes the following, please note some of the below have been implemented and some are still under review/assessment;

1. Commercial review of Government buildings and where appropriate ensuring the maximisation of commercial opportunity or cost reduction;
2. Service reductions (incl. cleaning services for Government's buildings);
3. Review rail shoulder seasons & reducing manned position requirements where appropriate;
4. Strategic bus service review commenced to evaluate the needs of the service and how to optimise the delivery of these services between user pays and tax payer funding models;
5. Bus service SLA's review – e.g. minibuss services and appropriate service level agreements;
6. Waste – review of waste charging models, including elements of user pays for elements that sit outside the Department's obligations under the Public Health Act;
7. Fleet services
 - a. Investigation of sourcing options;
 - b. Consolidation of workshop spaces; and
 - c. Telematics systems to reduce fuel usage and optimal driving behaviour.
8. Highways, extending online services for vehicle licencing and registration.
9. Housing Deficiency cost containment, options review (incl. alternative service delivery models e.g. Housing Association); and
10. Harbours maintenance management system to safeguard assets from premature failure;

Opportunities for increases to income

The Department of Infrastructure adopts the core principle that in the pursuit of fairness the cost of services should be pursued under a “service user pays” model as opposed to placing the burden directly on the tax payer. Where appropriate core statutory services may remain tax payer funded and services that relate to a specific user groups may be fairly recovered from the consumers of the service so as to not unduly burden the tax payer.

In this spirit, opportunities in progress/under investigation for income revenue include;

- a. Airport Growth Strategy
 - a. Airline contracting review;
 - b. Extension fees (these are underway);
 - c. Incident cost recovery (e.g. oil spills etc.); and
 - d. Consultation on land use opportunities.
- b. Waste Services
 - a. Increasing electricity generated by the Energy from waste plant by increasing combustible mix; and
 - b. Consideration whether the true cost of managing animal waste recovery is passed on to improve the transparency of all subventions for the farming sector.
- c. Harbours
 - a. The future of seabed licencing e.g. wind farms;
 - b. Passive income indexation from the existing provisions of the Sea Services agreement;
 - c. Increased berthing fees and land leases for wind farm associated activity;
 - d. Review of Harbours assets for income opportunities, and general improvements in these environments for the public; and
 - e. Reduction of silt management costs through processing to generate marketable commodities.
- Fleet Services
 - a. Growth of fleet services to include selected statutory bodies (or external), bringing further cost efficiencies from scale.
- Highways
 - a. Investigation into the lane rental schemes.
- Flood
 - a. Review of income opportunities such as; property searches, application of a drainage rate, pre application planning advice etc.
- Rail
 - a. Structural review of Rail fares (currently being monitored)
 - b. Review of rail wayleave charges
 - c. Asset commercialisation.
- Public Estates
 - a. Review of car parking charges, particularly Drumgold St, Chester St, and the Tongue; and
 - b. Chester St (vaccination centre) opportunity cost realisation.

Use of reserves in 2024/25

Subject to the outcomes of the Strategic Air Group and the Strategic Air Services strategy, the Department of Infrastructure is evaluating the requirement for subvention for strategic air services for core London routes and patient transfer services. The cost for these services for 2024/25 have been left out of scope of the revenue budget.

Subject to Treasury approval, and the outcome of the 2024/25 financial plan, elements of the cost pressures detailed in this document, whilst prudent, may require additional consideration for funding from Government's reserves, such as contingency. In the event that this is required to be moved to a revenue funding source further Treasury approval would need to be sought.

- **Summary of expected benefits**

The Department of Infrastructure as a business as usual service provider will continue to deliver its statutory functions, these include;

- 1) Registration of Vehicles
- 2) Issuing of driving licences
- 3) Maintenance of the Public Highway
- 4) Maintenance of the Rail permanent way including fencing and vegetation.
- 5) Continuous improvement of Highway safety
- 6) Provision of social sector housing and oversight of Local Authority Housing services.
- 7) Providing a disposal route for Local Authority collected waste
- 8) Operation of the Island's Bus services and routes
- 9) Operation of the Island Airport and Harbours
- 10) Sustain a safe and credible vehicle fleet in accordance with current regulations.
- 11) Oversight and strategic leadership of flood risk & coastal erosion
- 12) Provide Meteorological services to meet CAA regulatory requirements as defined in European Common Requirements

- **Total funding assessment / request**

In 2023/24 other than relaxing income targets and awarding pay at the budgeted 6%, the Department of Infrastructure had no specific revenue budget uplifts. As such the Departments request for funding for the 2024/25 period incorporates 2023/24 cost pressures, immediate cost pressures, intended cost improvements and new requirements.


This can be seen in the table below;

	23/24 Forecast	2024/25 Budget from Pink Book ('000's)	2024/25 Forecast incl. 2024/25 cost pressures & savings	Variance	Narrative
Income	-£61,621	-£62,201	-£63,194	-£993	Airport Income forecast to be exceeded, PEH income forecast improved as a result of Chester St commercialisation
Employee costs	£47,377	£47,641	£52,342	£4,701	Pay award & airport requirements
Infrastructure costs	£37,701	£35,819	£38,201	£2,382	
Transport costs	£9,044	£5,551	£9,494	£3,943	Strategic Air cost, historic shortfalls & fuel cost Increase Increase in the cost of Coal for rail.
Supplies & services	£14,095	£14,926	£16,436	£1,510	Inflation based on 5%, assumption that inflation will fall in Q3-Q4 23/24.
Other	£5,435	£7,062	£5,435	-£1,627	Elevated Base Rate & Housing Deficiency, reduced by strategic air subvention
TOTALS	£52,031	£48,798	£58,714	£9,916	


Overall this assessment represents a **£9.92m +/ £1.45m** risk shortfall against available budget.

- Approvals

Designated Finance Officer

Name:	Andrew Patrick
Title:	Senior Finance Business Partner
Date:	13 09 23
Signature:	

Accountable Officer/Chief Officer

Name:	Emily Curphey
Title:	Chief Officer
Date:	13 09 23
Signature:	

Minister/Chair

Name:	Hon Minister Crookall MHK
Title:	MINISTER
Date:	27/9/23
Signature:	