



Financial Intelligence Unit

Financial Plan 2024/25

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1. Executive summary

- Overall summary of the financial plan for the department for the coming year and going forward

1.1 The Isle of Man Financial Intelligence Unit (FIU)'s work is central to both the financial security and economic wellbeing of the IOM. The FIU has statutory responsibility for a number of essential functions. It also plays a key role in ensuring that the IOM meets and can evidence meeting, the required international standards of AML/CFT effectiveness.

1.2 Current global economic and security issues which impact upon the IOM have coincided with a critical period of preparation for the IOM's next international assessment. It is anticipated that Money Val¹ will carry out a Mutual Evaluation (ME) in 2025/26. This new round of evaluation will be focused on "effectiveness" (results and outcomes) and the bar will be set at a higher standard than the 2016 evaluation.

1.3 It is therefore appropriate that the FIU is seeking additional funding at this time. If granted, the new budget will directly fund the continual enhancement of the FIU's fulfilment of its core functions through increased staffing, as well as innovative additional measures, such as:

- a) Digital initiatives to enable the FIU to keep pace with the rise of global financial technology;
- b) To identify and promote access to the widest possible range of financial intelligence to identify viable potential cases of international standalone money laundering; and facilitate
- c) Further emphasis upon analysis and development of intelligence received to ensure further multi-agency action in all necessary cases of suspicious activity.

1.4 These have been identified as necessary to meet or exceed global standards, as per the IOM's ambition set out in "Our Island Plan 2022" (the Plan).

1.5 Since its inception in 2016, the FIU has shown itself to be a responsible steward of the budget required to fulfil its functions. In appropriate circumstances, the FIU has successfully applied to the Seized Assets Fund (SAF), thereby avoiding unnecessary drain upon the general revenue, and demonstrating that recovered proceeds of crime are actively channelled back into the IOM's AML/CFT efforts. A review of FIU performance in October 2022 concluded that the IOMFIU had made remarkable progress since inception in 2016 and was ready for development to the next level. This financial plan supports that ambition to develop a FIU that meets the FATF international standards. The FIU is a critical agency in preventing the Isle of Man from becoming subject to Moneyval remedial measures and a FATF grey listing.

1.6 The cornerstones of the FIU's Financial Plan 2024/25 are:

- i) the imperative need for additional resources;
- ii) Improving retention and recruitment, securing quality staff with capabilities to deliver in this complex, essential and challenging business area.
- iii) a request for the allocation of budget appropriate to that need, and;
- iv) a demonstrable and continuing commitment to using all funding with the utmost conscientiousness and effectiveness.

- All areas of the document to be linked to the priorities of Our Island Plan to demonstrate how the department is delivering on the overall Government plan

¹ <https://www.coe.int/en/web/moneyval>

1.7 In addition to the Plan, the FIU plays a key role in the IOM's Financial Crime Strategy and National Risk Assessment and wider assessment of risk.

1.8 The FIU successfully applied to the Seized Asset Fund (SAF) for initial funding to establish the Public Private Partnership, also now known as the Isle of Man Financial Crime Partnership. The need for this venture forms part of the FIU's Annual Plan 2023 to 2024. Two members of staff subsequently commenced their roles on 1 June 2023. The FIU received SAF funding to a maximum of £458,145 spread over three years. This figure includes salary for SEO and HEO grades, new desks and computers, travel and training. The FIU seek an uplift in revenue funding for the financial year 2024/25. The FIU will require £156,020* pa to cover salaries, travel and training expenses.

1.9 To review FIU recruitment and retention but recognise the significant importance of the FIU and the critical influence of retention issues on achieving the necessary performance. The FIU remains the lowest paid in the AML sector and this does not reflect the complexity and skills required to deliver. Pay parity with the two Regulators should be achieved to ensure suitably skilled staff are retained and recruited. Cost £373,617 *

1.10 In line with the Medium-Term Financial Strategy, the FIU will be reviewing and considering the need for an additional four roles to ensure the delivery of International Standards for the financial year 2024/25. At today's costs £229,824* per annum.

1.11 Due to legal support situated in the FIU returning to the AG's Chambers in June 2023 the FIU has no longer access to internal legal support. The FIU is involved in complex money laundering case development and litigation risk is high. Provision should be made for internal legal support £100,000 is the estimated cost to provide for this.

1.12 At a Treasury meeting on the 28th June 2023 the following bid was approved by Treasury

395/23 (c) Financial Intelligence Unit: Strengthening and Resourcing the FIU following FTA Report (Treasury Paper 23/429)

Having considered the briefing paper provided, Treasury concurred to a bid of up to £153,000 from its revenue contingency fund for the Financial Intelligence Unit to meet ongoing Moneyval obligations.

Drawdown would only be permitted once the applicant has demonstrated that it would not produce an underspend in the period.

The final amount of funding permitted would be subject to discussions with Treasury Officers at year-end based on actual amounts spent and overall costs incurred.

Treasury agreed to work with the applicant through next year's budget process to ensure that permanent posts recruited during 2023/24 would be adequately funded in future years.

Based on the authorised figures this will equate to an additional annual budget of £306,000.

2. Background

- Summary of the department's current position, based on the current year budget, with any issues that have been faced and any successes that the department has achieved

2.1 This is the second formal financial plan to be produced by the FIU. The FIU's finances are dealt with by a Financial Intelligence Supervisor and overseen by the Director, who is the Accountable Officer. The FIU's current annual budget is £1,102,788

2.2 One financial challenge faced by the FIU is the requirement for ongoing improvement and upgrades to the online suspicious activity reporting system, 'Themis'. This is an essential bespoke product provided by an IOM-based technology services provider, and the FIU has successfully managed development costs in conjunction with the FIU's of Guernsey and Gibraltar. In addition, the majority of funding for Themis changes and improvements has been obtained from the SAF. The FIU has re-negotiated the contract for the support and maintenance of Themis, allowing for the future costings to be more easily identified and budgeted for. The values presented in this request will only ever be impacted by the Government approved inflation rates.

2.3 The FIU has identified a recruitment and retention issue. The FIU is in receipt of the lowest level of pay of government departments engaged in AML/CFT. The work of the FIU is a most critical component of the mutual evaluation process and will contribute to all eleven immediate outcomes. The FIU role is of higher critical importance than the two Regulators. Like for like comparators indicate a very significant gap between pay and pay scales. A limited term appointment has been approved to formally review and report on this issue. Whilst not predetermining the outcome of this review, we anticipate that an uplift to the FIU salary budget of **££373,617** *per annum will be required.

- Any department specific requirements or statutory obligations that would impact on budgeting – what does the department have to deliver that cannot be avoided

2.4 The FIU has an obligation to fulfil the following statutory functions:

- *Receiving, gathering, analysing, storing and sharing information about financial crime (whether in the Island or elsewhere);*
- *Assisting with the prevention and detection of crime, and in particular, financial crime (whether in the Island or elsewhere);*
- *Cooperating with law enforcement agencies;*
- *Contributing to the reduction of crime, and in particular, financial crime and to the mitigation of its consequences.*

2.5 The FIU has specific IT requirements in relation to its provision of Themis, the online suspicious activity reporting system referred to above. Despite the relatively small size of the FIU compared to other Departments, it is necessary to have in-house full-time IT support.

2.6 Other specialist roles necessary to the functions are a Senior manager PPP, Senior strategic Analyst and Legal Officer.

2.7 The FIU contributes the intelligence that ultimately leads to the confiscation of significant amounts of the proceeds of crime from both a domestic and international perspective. These confiscated sums² are far in excess of the FIU's annual budget costs (in the region of three to four times). In addition, intelligence is shared with Income Tax Division and again supports the recovery of the proceeds of tax evasion, whilst this hasn't been quantified it does further evidence the FIU

² In the period 2017 - 2022 £15,400,707 has been Confiscated or forfeited as the proceeds of crime and paid into seized assets. FIU running costs in same period circa £4million. Additionally a further £17,000,000 has been repatriated to victims or asset shared with other jurisdictions.

as a “revenue earner”. Similarly, intelligence is shared with the Treasury, Customs & Excise Division with respect to VAT and other Customs related financial crime.

2.8 The FIU also conducts outreach work to the finance sector to assist in the upskilling of the private sector. This support involves the development of strategic analysis products, which inform the IOM of its risks of financial crime.

2.9 In response to the challenges in meeting the FATF international standards the FIU alongside the IOM Constabulary submitted a revenue bid³, to be funded by seized assets in the first three years.

2.10 Four new FIU roles, one at HEO, two at EO and one at AO have been funded for three years through budget allocated from Seized Assets Fund which is administered by the FIU Board. This decision received Treasury Board approval and approval of the Council of Ministers at their meeting on 22nd September 2022.

3. Overview of funding assessment

- Summary of department plans, anticipated changes and developments

3.1 It is worth repeating that the IOM may have an uphill struggle to convince MoneyVal evaluators that it is sufficiently compliant with the FATF Standards and should not be Grey Listed. The FIU had this in mind when producing its 2023/24 Annual Plan (which has been approved by the FIU Board and Tynwald). The Annual Plan’s strategic objectives are:

Pillar 1. Consolidate digital transformation for the FIU adoption of digital tools and methods, keeping up with the pace of change in digital technologies. With a view to changing organisational culture and relationships to users, as well as business processes. Enhance a FIU risk-based approach to operations.

Pillar 2. To review and deliver the recommendations of the Financial Transparency Advisors (FTA) Diagnostic report. To continue to review and monitor FIU performance with regard to the relevant FATF Immediate Outcomes.

Pillar 3. Support the implementation and establishment, as a key contributor to the Isle of Man AML/CFT regime, of the Isle of Man Financial Crime Partnership (IOMFCP)

Pillar 4. To better understand the threat and risk presented to the Isle of Man through international Tax Crimes. To work with the Isle of Man Tax Authority to better understand the value of the Isle of Mans SAR regime.

3.2 The FIU and IOMC drafted documents designed to provide for a re-structure that would allow for the attainment of a **Substantial** level of effectiveness in IOs 6, 7 and 8. These were combined into a single funding bid, titled *Business Case for additional resources for the countering of money laundering on the Isle of Man* and was submitted to the SAF to cover the three financial years 2022- 25. The FIU Board supported the SAF bid, and it subsequently referred to Treasury for concurrence. Concurrence

³ Business case for additional resources for the countering of money laundering on the Isle of Man - Department of Home Affairs.

was provided (reference 506/ 22), and the approval was subsequently ratified by the Council of Ministers. This will fall within the 2024/25 Financial Plan **the FIU element of the approved Business Case will require £229,824⁴ pa additional revenue from 2024 once the budgetary support from the SAF ends.**

- Include other areas that the department would like to develop with justification as to why this is a priority and how it links to the Our Island Plan

3.3 A stated priority of the FIU, endorsed by the FIU Board, is the retention of existing staff. The FIU have lost key staff members to public and private sectors over the years and this trait continues to happen mid-2023, they take with them valuable knowledge and skills built up over many years. This has a negative impact on the FIU's operations and delivery and ultimately, its wider effectiveness. Therefore, additional resources in the form of the ability to provide salary uplifts to deliver salary parity with the Regulators where appropriate have also been identified and requested. The FIU is the key area to deliver effectiveness, reaching all agencies. Without a high functioning FIU, the Island will be vulnerable and struggle to demonstrate effectiveness.

3.4 Analysis has been conducted to assess the estimated cost of achieving pay parity with the two Regulators. A Treasury approved application for a LTA HR expert to conduct a recruitment and retention review was agreed and is in the process of being sourced. Whilst the outcome is not yet known, we estimate that the additional cost could be £373,617* this should be uplifted annually thereafter. Should pay parity be agreed the FIU would propose to build in a performance related payment when prescribed levels of performance are achieved.

4. Cost and savings analysis

- Analysis of current base budget and departmental performance against that budget

4.1 The FIU is a small department and expends to its budget limits and delivers a service commensurate with this budget.

- Activity growth – details of any additional services that are being considered with cost implications

New and additional work

4.2 The FIU senior management team has undertaken a horizon scan of new areas of business that can be further exploited or developed that will improve the quality of financial intelligence and more importantly identify potential cases for ML investigation.

4.3 Adopting these new work streams will significantly enhance the IOM effectiveness performance across all of the IOs, when IOM is measured against the FATF standards in 2025/26.

PPP's - The Isle of Man Financial Crime Partnership (IOMFCP)

4.4 The IOMFCP is now operational. The IOMFCP is located and managed from within the FIU and two additional resources have been recruited. They will manage all matters related to the PPP under the ultimate direction of the FIU Director. New work streams are being developed jointly with private

⁴ Salaries including NI and Superannuation

partners and will enhance Isle of Man's capacity in both tactical and strategic work leveraging the knowledge and expertise of the private sector.

4.5 The FIU resources specific to the IOMFCP will manage all aspects of the PPP. They will not, however, have the capacity to develop potential ML cases from the new and additional reports anticipated. This activity will fall to the existing financial intelligence analysts within the FIU, creating an additional workload that will largely focus on the resource intensive case development.

Technical - Continued Themis Management and Licence Costs

4.6 The FIU has continued to develop the internal management system utilising the SAF to good effect and several significant improvements have been developed. This development continues with the fund, but as features are added, so do the annual fees for support and maintenance of the software. A number of these have been factored into the initial SAF bids for the first 12 months after development, but as these are maturing the FIU must continue to fund the licence for Themis. Themis also increases against the Retail Price Index.

Technical - IT Budget Increase

Contract negotiations with the developer of Themis has resulted in a more manageable process for implementing changes, however under the previous agreement the annual support increased by approximately £22,000.

The overall fee is linked to the cost-of-living index, currently at 6.9% (June 2023) so it is believed that the overall contract fee will increase by approximately £5,500.

With the contract changes, future uplifts on maintenance is easier to manage overall, and will be included in relevant SAF bids and other funding bids.

- Themis Management & Licence - £27,500
- IT Budget Increase - £3000 (for additional 6 staff users), this covers annual licence fees for Adobe and other consumable items.

Operational Costs

4.7 If the FIU is to continue to support and up-skill staff to the standard required additional operational funding must be sought.

4.8 The current budget for 16 staff members for training, international meetings and operational travel is currently agreed at £48,138 (approximately £3000 per person). As 10 new posts are being created, it is requested that this budget be increased by £30,000.

- Cost pressures – details of general cost pressures but also department/sector specific factors that the department would like to highlight

4.9 None

- Income growth – details of any areas where the department sees opportunities to increase income through service development or increased charging

4.10 Not directly applicable but improved capability and capacity will likely increase monies confiscated or forfeited.

- Cost improvement plan – the departments should demonstrate how they are seeking to deliver efficiencies and what savings they expect to be able to deliver in the coming year

4.11 In respect of the FIU's current budget for staff salaries and salary related costs (basic pay, allowance, ERNI and ERSA), when all posts are filled, the FIU salary costs slightly exceed that allocated in the budget. This was due to the FIU contributing up to 40% of the total costs of a senior advocate from the AGC who worked in the FIU two days per week. Despite the FIU having substantial periods when it has not been at full strength and therefore should have had spare salary funds, in practice these were never available as the full salary budget is not allocated to the Director, rather actual costs where needed are paid. Therefore, practically speaking, the FIU has never had the funds to pay the full 40% contribution to the AGC and this has since been recognised by the AGC. With effect from 12th June 2023 this vital position has returned to the Attorney General's Chambers, this was as a consequence of the FIU having no budget to pay the salary costs. The FIU will need legal advice from a suitably qualified advocate or lawyer in respect of AML/ CTF and an additional £100,000 per annum for this purpose.

Alternatively, the FIU will need legal advice from a suitably qualified advocate or lawyer in respect of AML/ CTF and if replaced like for like at 2 days per week, an additional £56,000 per annum is required.

5. Summary of expected benefits

- Summary of what the department will deliver in the coming year from its current budget and how this is expected to compare to the prior year

5.1 The FIU, from current budget, will continue to deliver effectively its functions under the FIU Act 2016. High-level analysis has concluded that this will not be enough to achieve the FATF international standards. In summary whilst business will continue to be delivered it is highly unlikely to achieve those international standards to maintain the Isle of Man's international standing commensurate with the aspirations of the Island Plan.

- What benefits will be delivered from any increase in funding that might be awarded

5.2 The development of intelligence cases will support the investigation and prosecution of international standalone money laundering commensurate with substantial levels of effectiveness with IOs 6, 7, and 8. The FIU contributes across all of the 11 immediate outcomes and is the critical agency along with Law Enforcement who have the opportunity to evidence the substantial levels of effectiveness required.

5.3 This area of work is essential, and improvements must be made before the MoneyVal MER forecasted to commence in late 2025/26. Evidence directly linking the use of Financial Intelligence to successful Financial Investigations, Prosecutions and the restraint of the Proceeds of Crime is urgently needed. Significant risk assessment work also needs to be conducted and new resources required to deliver the evidence required.

5.4 The FIU will be able to continuously measure the success and results of its plan through the ongoing work of the multi-agency "effectiveness group" and its eventual outcome when assessed by MoneyVal against the new (6th) round of the FATF international standards on combatting money laundering and the financing of terrorism and proliferation.

- All benefits should be linked to either statutory obligations, other defined requirements or the priorities within the Our Island Plan document

6. Total funding request

- Overall summary of current budget plus growth and cost pressures less efficiencies
- Final level of funding being requested if all items are included and agreed

Provision of legal advice and support	£100,000
Additional Technical Funding	£30,500
Additional Operational Funding	£30,000
Pay parity / market rates	£373,617*
Additional staff to support PIMLIT	£229,824*
IOMFCP staff funding	£156,020*
Strengthening and Resourcing the FIU (Treasury Paper 23/429)	£306,000
Total	£1,225,961

*includes assumed 6% pay award

7. Approvals

7.1 DESIGNATED FINANCE OFFICER:

Name:	Terry Stephen
Title:	Designated Finance Officer / DFO
Date:	15 th August 2023
Signature:	
Comments:	

7.2 ACCOUNTABLE OFFICER:

Name:	Philip Hunkin
Title:	Director
Date:	15 th August 2023
Signature:	
Comments:	

7.3 MINISTER:

Name:	
Title:	Minister
Date:	
Signature:	
Comments:	