



# Financial Services Authority

## Department Financial Plan 2024/25

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## **1. Executive summary**

The Isle of Man Financial Services Authority (“the Authority”) continues to operate within existing budget constraints to deliver its regulatory objectives of protecting consumers, reducing financial crime and maintaining confidence in the finance sector.

The Authority remains focused on keeping pace with a rapidly evolving industry in order to remain relevant, responsive and effective. We play a key role in driving innovation and sustainability in the financial services sector to support the ambitions highlighted in Our Island Plan and the Island’s Economic Strategy.

Like many organisations, the Authority is seeking to future-proof its operations at the same time as dealing with inflationary pressures, increasing demands on resources, and mounting international scrutiny. We are embracing transformational change in order to achieve internal efficiencies and adapt to shifting expectations, while enhancing the core supervisory, oversight and enforcement activities that safeguard the Island’s positive international reputation. A budget uplift is required to ensure the Authority can support new opportunities to protect, diversify and grow the Manx economy, without compromising its ability to deliver value-added supervision.

The Authority is currently moving towards a predominantly industry-funded model, which will result in a proportionate – and significant – reduction in the level of subvention provided by the Isle of Man Government. At its March sitting, Tynwald approved the fees payable by firms for the next three years and, as such, there is no scope for the Authority to generate additional income from industry during this transition period. Consequently, the Authority is seeking Treasury approval for the funding set out in this paper.

### **1.1 Retention of Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) and Enforcement officers**

Financial support is required to ensure the retention of the AML/CFT and Enforcement officers being recruited by the Authority following Treasury’s approval of a multi-agency funding bid in June 2023 to strengthen the Island’s overall AML/CFT resources.

This will ensure the Authority can work collaboratively with Government and industry to deliver essential progress on behalf of Isle of Man PLC, without diverting resources from its more ‘business as usual’ regulatory functions. As part of the multi-agency bid, the Authority received agreement for funding of up to £465,000 in respect of an additional nine full-time AML/CFT roles, and two full-time Enforcement roles for the latter half of the 2023/24 financial year. The Authority’s ability to retain this headcount over the longer term is crucial to enabling us to deliver effective AML/CFT supervision of Isle of Man-regulated financial institutions and Designated Non-Financial Businesses. As part of our financial plan, we are therefore seeking full funding from 2024/25 onwards for the 11 additional roles being recruited to during 2023/24.

## **1.2 Inflationary pressures and IT development**

The impact of inflation, which has been running at close to 10%, needs to be factored in to the Authority's current budget forecasts. In light of this, we are seeking an increase in respect of employee costs of 6% and an increase in relation to non-employee costs of 3%.

An uplift is also requested to cover the additional licensing and IT support costs arising from the introduction of the new systems required to enhance automation, achieve efficiencies, and improve our interaction with firms.

## **1.3 Backfilling key roles**

The focus on AML/CFT, and the absence of any additional funding in 2023/24, resulted in the Authority diverting existing resources from other frontline functions to meet the current and increasing demand within the AML/CFT Supervision Division. In order to backfill key positions and allocate support to priority projects, the Authority is seeking to fund the allocation of dedicated resources to the following areas:

- Innovation
- Governance & Control

The Authority is currently addressing these matters on a best endeavours basis, and believes that additional funding will unlock the potential benefits to the Island's economic prosperity and international reputation.

## **2. Jurisdictional benchmarking**

The Island's Economic Strategy outlines a vision to reach a GDP of £10bn and fill 5,000 new jobs by 2032 across existing and new business sectors. The Chief Minister has said that: 'We have reached a point in our economy where we must evolve again if we are to create longer term economic success.'

A well-regulated and internationally-respected financial services industry is crucial to the future success of the Isle of Man's economy. The Authority is committed to playing its part in seizing new opportunities, while ensuring the appropriate level of compliance and consumer protection.

Therefore, it is imperative that the Authority is well positioned to encourage fintech innovation and to adequately fund IT developments to achieve greater automation and efficiencies. Similarly, it is essential for us to remain in step with international standards, play a vital role in preparations for the next Moneyval evaluation, and bring additional rigour to our projects and processes.

*Funding will unlock opportunities for economic growth*

While a certain degree of progress has been accomplished within current constraints, we believe that additional funding will provide some much-needed impetus and help to secure significant benefits. Existing resources are fully allocated, with no scope for the further redeployment of personnel to new roles without having a detrimental impact on frontline supervision and the initiatives being pursued to improve efficiency, such as the new data management systems.

In a wider context, evidence shows that the Authority is striving to deliver a high level of performance across multiple work streams with significantly less resource than competitor jurisdictions. For example, according to 2019 statistics:

National income derived from financial services –

- Isle of Man £5.43 billion
- Jersey £4.89bn
- Guernsey £3.25bn
- Gibraltar £2.34bn

Regulator expenditure as a percentage of national income in the finance industry –

- 1.16% Gibraltar Financial Services Commission
- 1.13% Guernsey Financial Services Commission
- 1.04% Jersey Financial Services Commission
- 0.32% Isle of Man Financial Services Authority

Regulator staff as a percentage of national jobs in the finance industry –

- 0.58% Guernsey Financial Services Commission
- 0.38% Jersey Financial Services Commission
- 0.36 Gibraltar Financial Services Commission
- 0.22% Isle of Man Financial Services Authority

While the remit of the regulatory authorities is not identical, the above statistics do offer a high-level comparison, highlighting that the Isle of Man Authority is providing significant value for money to the Island.

### **3. Background**

#### **3.1 Fee structure**

The Authority is currently progressing the phased implementation of a new fee structure for Island firms. Tynwald approved the Fees Orders and Regulations 2023 in March 2023, marking a key milestone in the transition to an updated funding approach for the regulation and oversight of the Island's finance industry.

The legislation establishes the revised fees that regulated entities, designated businesses and new applicants are required to pay in 2023/24, 2024/25, and 2025/26. The move to a predominantly industry-funded model is being introduced over three years to allow fee payers time to adjust and to provide them with as much certainty as possible during what is a challenging global environment.

Extensive engagement took place in order to develop a simplified, proportionate and more sustainable funding approach that aligns with international best practice, while being mindful of the Island's competitive position. A number of factors were considered as part of the review, including input from independent advisers, the views of industry bodies, and feedback to three public consultations.

Throughout the process, the Authority was conscious that the fee structure should reflect its current expenditure and level of resourcing. This was critical to ensuring that the revised charges would be perceived as fair and achievable for industry.

#### *Impact on Government subvention*

Increasing the fees paid by Island firms will lead to a proportionate decrease in the subvention provided to the Authority by the Treasury. This will create significant savings for the Isle of Man Government. However, during the transition period, we are seeking Treasury support in order to meet the additional budget requested in this paper.

For the next two years we have committed to keeping the fees payable by firms at the levels already approved by Tynwald. Consequently, demanding a bigger contribution from industry is not an option for generating the additional budget required to fund the recruitment of specialist resource. It is intended to review the ongoing need for the additional funding/resourcing after the three-year period covered in the legislation.

Additionally, the Authority's existing resources are fully allocated and there is no scope for further redeployment of personnel to new roles without having a detrimental impact on frontline supervision. And while the Authority has achieved a number of operational efficiencies in recent years in a bid to reduce costs, growing internal and external pressures mean that reducing expenditure below current levels is extremely difficult to achieve.

### **3.2 Inflation**

The fee structure for Island firms approved by Tynwald for the next three years includes an annual uplift of 2%. This adjustment was built into the calculations at a time when inflation was running at historically low levels. It also reflected the 1% annual increase in budget allocated by Treasury to Government Departments and Statutory Boards.

However, the international landscape has changed dramatically in recent times and the impact of inflation, which has been running at close to 10%, needs to be factored in to current

budget forecasts. A funding increase in line with inflation is required simply to achieve a 'stand still' position for the Authority.

### *Substantial inflationary impact*

Employee costs represent 84% of the Authority's expenditure, so inflationary pressures and annual pay awards have a substantial impact on our overall budget and ability to respond to new and changing demands. The additional funding allocated by Treasury in 2022 was particularly welcome as it enabled the Authority to pay an increment to its staff above the 2% awarded in April. This brought the Authority more into line with the Public Services Commission pay settlement of 6%.

In the highly competitive Isle of Man employment market, some finance industry firms have responded to cost of living pressures by making substantially higher pay awards to their staff. The Authority has to compete directly with the private sector to recruit and retain the key skills needed to fulfil its regulatory remit.

Any inability to offer competitive pay awards will undermine our ability to attract new talent and will result in experienced staff being encouraged to move into the private sector in order to maintain or enhance their standard of living. Competitor jurisdictions have already reported that they are experiencing a high level of vacancies as a result of more substantial packages offered by private firms.

### **3.3 Operational efficiencies**

The Authority is undergoing a period of significant transformational change in order to position itself for the future.

Central to our ambitions has been the implementation of a more risk- and impact-led model for financial supervision. The supervisory divisions of Portfolio, Prudential, High & Medium Impact (HMI), and AML/CFT are being embedded as part of a refresh of our internal structure and areas of responsibility. The updated approach will help to achieve better outcomes by driving a consistent, proactive, and value-added programme of supervisory engagement – underpinned by the better use of data and technology.

The Authority is also continuing to seek efficiencies through automation. Our teams are leveraging technology and enhancing our means of gathering, triaging and managing data, thereby strengthening our ability to make informed, evidence-based decisions. Our back-office system Atlas, which enables us to report on all supervision activity from one central point, is now supported by a new Data Warehouse. This will improve our interaction with stakeholders and ensure that we can devote more resources to where they are most needed.

## **4. Overview of funding assessment**

### **4.1 AML/CFT**

The Authority makes a vital contribution to the Isle of Man's reputation as a well-regulated international finance centre and will be at the forefront of the response to further scrutiny in the years ahead. In terms of compliance with global standards, the Island is scheduled to undergo its next Moneyval review, possibly as early as 2025.

Significant preparation is needed to ensure the best possible outcome for this key event, which has major implications for the Island's future economic success. While the Island's Moneyval response will be coordinated by the Cabinet Office, the Authority will have a significant contribution.

As set out in the Executive Summary, it is essential that the Authority has in place the full funding required to retain the nine AML/CFT officers and two Enforcement officers being recruited in 2023 following Treasury's approval of a multi-agency funding bid in June.

### **4.2 Inflation**

For the reasons set out in this paper, the Authority is not in a position to derive additional income from fees over the next two years. However, it is essential that we are able to address the inflation gap in order to retain existing staff and to attract and retain new talent. Any resourcing problems would have a negative impact on the Authority's ability to deliver its core functions, while also affecting its contribution to cross-Government initiatives aimed at growing the economy and defending the Island's international reputation. We are therefore seeking an increase in respect of employee costs of 6% and an increase in relation to non-employee costs of 3%. These increases, both well below the current rate of inflation, have been considered with the intention of achieving cost savings (by applying a rate below inflation) while still providing the minimum uplift required to maintain current levels of efficiency and staff satisfaction.

### **4.3 Additional resource**

The Authority continually assesses its resourcing needs, taking into account its operational and strategic plans, the rapidly changing financial services landscape, and the ambitions for a 'strong and diverse economy' set out in Our Island Plan and the Island's Economic Strategy.

With this in mind, the Authority last year sought support for:

- Innovation – to seize new opportunities for fintech growth and jobs, ease the compliance burden for firms, increase productivity and secure cost efficiencies.
- Governance & Control – to test the existing corporate governance framework and controls to ensure compliance and incorporate best practices.
- Environmental, Social and Governance (“ESG”) – to drive sustainability initiatives in the finance sector in line with Our Island Plan and international standards.

While the Authority's bid for 2023/24 was unsuccessful, the need for resources in those key areas remains. We have subsequently reassessed our options and sought to be proactive in order to press ahead with our plans. In this respect, the Authority has submitted a paper to the Economic Strategy Board (ESB) to request funding to recruit an ESG resource.

AML/CFT work remains the top priority for the Authority and in addition to funding provided by Treasury in June 2023, we have reassigned officers from other parts of the organisation in an attempt to address some of current and projected increase in workload within the AML/CFT Supervision Division. This reallocation of resources has been at the expense of other key functions within the organisation and has had an impact on frontline services and some priority projects.

Taking into the range of factors set out above, this paper seeks Treasury funding to support the recruitment of special resource in the following areas, the cases for which are outlined below:

- Innovation (x2)
- Governance & Control

#### **4.4 Innovation**

The Authority is placing a greater emphasis on innovation in order to encourage new ways of doing business within a dynamic, appropriately-regulated finance sector. This aligns with the ambitions of Our Island Plan and the Economic Strategy.

##### *Collaboration to attract innovative new business*

Progress to date includes the approval of the Island's first digital banking licence, the development of new technology platforms, and the introduction of crowdfunding as a regulated activity. The Authority has developed a dedicated website for innovation and recently approved a licence for a pioneering e-money and payment services company. This is the first firm to enter the 'regulatory sandbox' and we forecast that demand in this area will increase in the time ahead.

The Authority is also collaborating with the Department for Enterprise to build on the impetus of the Fintech Innovation Challenge and Insurtech Accelerator Programme. A joint approach is also being taken to provide a seamless entry point via the Finnovation Hub for firms seeking to enter the innovation space.

##### *Automation to reduce compliance burden/increase speed to market*

Innovation continues to be a significant disruptor – both to traditional methods of delivering financial services and products, and to the Authority's approach to oversight and supervision. The risks and opportunities associated with this upsurge in innovation requires regulators to expand their skills, expertise and specialist knowledge. The better use of technology within the Authority will enhance application and authorisation processes by supporting evidence-based decision making. This will help to increase the speed to market for lower risk entities.



### *Supporting fintech and product innovation*

As well as supporting the current innovation programme, dedicated resource is required to scan the horizon and consider emerging trends in the financial services sector. This will involve active engagement with a broad range of innovation-related stakeholders, including academics, industry bodies and other regulators, to ensure the Isle of Man remains at the forefront of the latest developments. Efforts are underway to establish working groups comprising industry, DfE and the Authority to discuss innovation in products and services within existing firms. There is immediate need to adequately resource the Authority in order to convert enquiries into new business or the automation of existing processes. As highlighted in the section on jurisdictional benchmarking, regulators in competitor nations are currently better resourced to take advantage of fintech opportunities.

### *A strong pipeline of enquiries*

The Authority has witnessed an increase in licence applications of approximately 20% year on year, and continues to experience a strong pipeline of enquiries. Many of these applicants, whilst operating within the existing regulatory perimeter, have innovative technologies and strategies at the heart of their business models. Considerable time and resource is required to engage with these enquiries and applicants, including at build-out stage. Such applicants are often less familiar with traditional regulatory frameworks and requirements, thus requiring more intensive interaction. In addition, the Authority's assessment of the applicant needs to adequately address the risks to its regulatory objectives. These resource demands extend into supervisory focus, with particular focus on early and ongoing post-licencing engagement.

To support the Isle of Man Government's commitment for a 'strong and diverse economy' highlighted in Our Island Plan, it is important that the Authority can effectively and efficiently process and engage with new licence applications, including those focused on innovation. The emergence of quality new licenceholders will strengthen the economic diversification for the Island and lead to new income streams.

### **4.5 Governance & Control**

The Authority believes that the benefits of a Governance & Control function will be twofold – helping to bring additional rigour to a broad range of internal processes, as well as identifying opportunities to improve operational performance and culture in line with expectations highlighted by the Isle of Man Government in May 2022 following a much-publicised employment tribunal.

As a regulatory body that promotes good corporate governance and risk management in the entities that it oversees, it is crucial for the Authority to evidence best practice within its own processes. The introduction of a Governance & Control function will strengthen the Authority's 'third line of defence' in its approach to risk management. The role will be independent of the existing operational management structure, reporting directly to the Chair of the Risk and Control Committee. With the proposed changes to the regulatory

funding model, it is more important than ever for the Authority to have in place – and be able to demonstrate – robust risk management and control frameworks.

#### *Authority entering a critical phase in its journey*

In addition to bringing a systematic, disciplined approach to risk management, control and governance processes, the appointment of a Governance & Control officer will form a key part of our commitment to reviewing and improving operational performance. The Authority is entering a critical phase in its journey. It is continuing to deliver the core functions of supervision, oversight and enforcement, while also negotiating a period of transition. Changes are being introduced in a number of important areas, for example, the Authority funding model, the collection and analysis of data, the supervisory methodology, and the approach to innovation.

#### *Benefits and cost savings*

The additional quality control inspections carried out by a Governance & Control officer will provide the Authority with a fresh perspective on how to make improvements, both operationally and strategically, across its remit. Benefits would likely include smoother processes, increased productivity, and the potential to achieve cost savings.

Increased Governance & Control will also help to generate greater transparency within the Authority and reduce the likelihood of any serious concerns arising by maintaining a firm focus **on compliance**, operational efficiency, and cost effectiveness. This is in line with the expectations set out by the Chief Minister in his recent announcement of a series of Government reviews.

Similarly, an effective a Governance & Control function will provide critical assurance to our stakeholders and international standard setters. The additional resource will act as the eyes and ears of the Authority's Board and Executive, and become an essential component in our system of checks and balances.

#### **4.6 No direct cross-departmental impacts**

There are no direct cross-Departmental impacts arising from this bid, although the Authority having dedicated resource for innovation will support collaboration with DfE's Finance and Digital agencies to make the already sound partnership stronger, more effective and outcome focused.

#### **4.7 Associated staff costs**

The recruitment of new officers will result in a proportionate increase in associated staff costs, such as IT equipment, training and professional subscriptions.

#### **4.8 Information Technology**

The Authority's IT budget is fully allocated to recurring support, usage and licensing costs. The Authority, together with other Government agencies, has received initial agreement for

funding through the Seized Asset Fund to purchase AML/CFT analytics software. This system will automate the analysis of AML returns, providing automated AML/CFT risk scores that will be translated into supervisory strategy, thereby securing the dual benefits of enhanced data and resource efficiencies.

#### *Automation to achieve efficiencies*

Based on a recommendation from GTS, the Authority is also looking to progress the implementation of Laserfiche as its preferred document management system. Laserfiche will be implemented across both the Authority and the Gambling Supervision Commission to provide necessary integration with the Atlas supervisory system. In addition, Laserfiche capabilities can effectively be adopted by the Authority in respect of non-Atlas related document management, providing significant improvements on the current use of network folders and SharePoint. The automation capabilities of Laserfiche will ensure efficiencies to working practices and processes, as well as enhancements to data integrity and the Authority's compliance with data management and GDPR.

#### *Support costs for IT systems*

The estimated ongoing annual licencing cost to the Authority is ██████ for the AML/CFT analytics software, and ██████ for the Laserfiche system, both of which we are unable to support within our current IT budget. Therefore, the Authority is seeking a total uplift of ██████ to its IT budget on a recurring basis, in the main to cover the additional licensing and support costs arising from the introduction of the new systems.

The development of the Atlas system has met with some challenges, leading to delayed implementation as well as the delayed development of certain core functionality, including a portal for secure data transfer between regulated entities and the Authority. As a result of this delay, the Authority remains reliant on legacy systems for certain functionality and continues to incur the cost of third party support for those systems. Looking ahead to the implementation of additional Atlas functionality, the Authority expects to retire those legacy systems, with the associated support costs therefore falling away and the potential for some savings within its recurring IT costs. With this in mind, the Authority aims to review the additional funding requirement of ██████ after a three-year period.

## **5. Cost and savings analysis**

The Authority is progressing the phased transition to a new fee structure for Island firms. This will effectively result in the Authority doubling the income it collects from industry over the five-year period 2021/22 to 2025/26.

The Authority has made a commitment not to seek additional income from any further increase in fees beyond the levels agreed by Tynwald in March 2023. When setting the level of industry funding, we were conscious that fees should reflect the Authority's expenditure at that time and should not be used as a means to fund additional expenditure.

Many of our budget areas are fully allocated to recurring costs with limited options for discretionary spend. For employee costs, as noted, the aggregate salary costs for full staffing is running close to the budgeted staffing expenditure. This does not allow for any increase to salaries to account for increasingly high inflation.

The introduction of new technology and increased automation of administrative processes will generate new efficiencies in the future – both internally (via straight-through processing and automated data analysis) and externally with businesses (via submission of returns through a dedicated portal, with built-in validation to assist data quality). Resource efficiencies generated from the increased automation will be redirected to our core functions of supervision, oversight and enforcement. This has already been built into our current staffing levels and the further redeployment of existing resources cannot take place without a serious impact on the delivery of the Authority’s statutory objectives in line with our published risk appetite.

## **6. Summary of expected benefits**

### **6.1 AML/CFT**

#### *Benefits*

- Deliver effective AML/CFT supervision of IOM-regulated financial institutions and Designated Non-Financial Businesses.
- Work collaboratively with Government departments and agencies to achieve a positive outcome from any international standards assessments.
- Strengthen the Authority’s ability to positively deliver as a key agency in AML/CFT assessment across a number of Financial Action Task Force immediate outcomes (effectiveness).
- Implement a new AML/CFT risk assessment system to assist and evidence robust risk assessment and a risk-based approach.

#### *Key risks and dependencies*

- Failure to achieve a positive outcome from international standards assessment may lead to the Financial Action Task Force (FATF) ‘greylisting’ of the Isle of Man, which would have a significant and long lasting negative impact on the economy of the Isle of Man and on the Island’s Strategic plans.
- The breadth and volume of actions recommended following the mock AML/CFT assessment of the Island, which require input from the Authority, cannot be managed or delivered from existing resources.
- The FSA recommended actions agreed by the Financial Crime Strategic Board and the AM/CFT Effectiveness Group require development and increases in inspection numbers and outcomes and then to maintain those increased delivery numbers year on year. (Long term resource requirement.)

## **6.2 Innovation**

### *Benefits*

- Support the strong pipeline of licence applications in the innovation space with specialist knowledge
- Strengthen the authorisations process and potentially increase the speed to market for lower risk traditional and innovative businesses
- Enhance collaboration with the Digital and Finance Agencies to support the Fintech Innovation Challenge and Finnovation Hub, and to crystallise new products and services with existing industry stakeholders
- Boost international awareness of the Isle of Man as a centre for fintech innovation and attract further entrants with long-term economic potential

### *Key risks and dependencies*

- The Authority is unable to develop protocols suitable for the timely response to innovative business models, leading to customers not having access to innovative products and ultimately damaging the Isle of Man's reputation as an innovative jurisdiction
- The Authority is unable to effectively and efficiently handle licence applications leading to innovators considering other jurisdictions that are able to better/faster support these business models

## **6.3 Governance & Control**

### *Benefits*

- Bring additional rigour to a broad range of internal processes
- Identify opportunities to improve operational performance and processes
- Strengthen the Authority's 'third line of defence' in its approach to risk management
- Recommend smoother processes to lead to increased productivity and cost savings

### *Key risks and dependencies*

- Result in the Authority falling behind best practice and not being able to act as an example to regulated entities in terms of the highest standards of governance and control
- Leave the Authority exposed to challenges resulting from the transition to a new funding model
- Lead to missed opportunities for efficiencies and savings

## **6.4 IT development**

### *Benefits*

- Improve our means of gathering, triaging and managing data to strengthen evidence-based decisions.

- Integrate with Atlas to enable the Authority to report on all supervision activity from one central point to enhance the transparency through additional metrics to stakeholders.
- Greater automation and the removal of manual processes will help to ease the compliance burden for firms.
- Ensure that we can devote more of our resources to value-added and risk-based supervision in line with our regulatory objectives.

#### *Key risks and dependencies*

- Compromise the Authority's ability to fully integrate working practices with the Atlas system, leading to loss of potential benefits and efficiencies. Manual methods of dealing with annual returns will continue, increasing the compliance burden for industry and prolonging inefficiencies within the Authority.
- Result in under-utilisation of the Atlas system, thereby not recouping value for money
- Mean that Authority staff continue to work across varying platforms for document management which presents additional obstacles to becoming fully, and continuing to be, GDPR compliant.
- Result in the Authority falling behind its counterparts in respect of AML/CFT data collection and risk analysis.
- Negatively impact the Authority and Isle of Man's reputation as an innovative and forward-looking jurisdiction, as that narrative is not supported by automated capabilities.

## **7. Total funding request**

The Authority is requesting an overall uplift to its budget of £1,600,159 as detailed in the table below.

In addition to supporting IT development and the allocation of dedicated resource in key areas, based on the prevailing rate of inflation – and with higher levels of inflation, relative to historic rates, expected to continue into 2024/25 and potentially beyond – the Authority is seeking an incremental increase to total staff costs (salary, NI and pension). As already evidenced, the Authority's staffing is lean compared with regulatory bodies in other jurisdictions.

In order to maintain existing and historic levels of performance, it is imperative that the Authority has the ability to retain staff. Salary levels are an important factor in that regard and it is becoming increasingly challenging for the Authority to compete in the current jobs market. We have already seen private sector organisations respond to high inflation by increasing staff remuneration, while the principle financial regulator in the UK has also recently announced substantial pay increases for all its staff<sup>1</sup>.

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<sup>1</sup> <https://www.fca.org.uk/publication/corporate/fca-employment-offer.pdf>

The Authority must strive to remain competitive against private sector employers and ensure that staff wages are not significantly eroded in real terms. The Authority is therefore seeking a 6% increase on its current base employee costs budget for 2024/25.

Expenditure	2024-25	Recurring*
<b>New Employee Costs – including NI and superannuation</b>		
<i>Inflationary element of 6% included</i>		
9 x AML/CFT – various grades 2 x Enforcement	£966,720	Yes
2 x Innovation	£136,232	Yes
1 x Governance and Control	£68,116	Yes
Associated Employee Costs (travel/training)	£32,990	Yes
<b>Total</b>	<b>£1,204,058</b>	
<b>Associated Non-Employee Costs</b>		
IT Addition to core budget	██████████	Yes
All non-employee costs	£13,463	
<b>Total</b>	██████████	

\* The recurring impact on Treasury to be reviewed to reflect transition to a predominantly industry-funded model.

Summary of Revisions to Budget

	2024/25 Budgeted*	Uplift	2024/25 Revised
Employee Costs – New AML/CFT roles	-	992,641	992,641
Employee Costs – New other roles (as above)	-	211,417	211,417
Employee Costs – Existing roles	7,285,193	291,408	7,576,601
<b>Total Employee Costs</b>	<b>7,285,193</b>	<b>1,495,466</b>	<b>8,780,659</b>
<b>Non-Employee Costs</b>	<b>1,346,312</b>	██████████	██████████

<b>Total Budget</b>	<b>8,631,505</b>		<b>10,212,584</b>
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\* Budgeted includes 2% increase across all budget areas. Uplift to employee costs for existing roles of 6% has been adjusted down to 4% to reflect this; non-employee costs have been adjusted down from 3% to 1%.


	<b>2024/25 funding from Pink Book</b>	<b>Anticipated additional income/cost savings balancing grant figure</b>	<b>Additional cost pressures identified</b>	<b>Net position 2024/25</b>
Income	-8,631,505	-1,581,079		-10,212,584
Employee costs	7,285,193		1,495,466	8,780,659
Infrastructure costs	378,915		3,789	382,704
Transport costs	0		0	0
Supplies & services	967,397			1,049,221
Other			0	0
<b>Net expenditure</b>	<b>8,631,505</b>		<b>1,581,079</b>	<b>0</b>




## 8. Approvals

- Approval of the document by DFO, AO/CO and Minister

### Designated Finance Officer

Name:	Scott Quayle
Title:	Head of Operations
Date:	04/08/2023
Signature:	

### Accountable Officer/Chief Officer

Name:	Bettina Roth
Title:	Chief Executive
Date:	04/08/2023
Signature:	

### Minister/Chair

Name:	Lillian Boyle
Title:	Chair of the Board
Date:	04/08/2023
Signature:	