PP 2025/0207

ECONOMIC POLICY REVIEW COMMITTEE

First Report for the Session 2025-26

The Role of the Treasury, the Structural Deficit and the Use of Reserves

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The Role of the Treasury, the Structural Deficit and the Use of Reserves

1.1 There shall be three Policy Review Committees which shall be Standing Committees of the Court. Subject to Standing Order 5.6(3) they may scrutinise the established (but not emergent) policies, as deemed necessary by each Committee, of the Departments and Offices indicated in this paragraph together with the associated Statutory Boards and other bodies:

Economic Policy Review Committee: Cabinet Office; Treasury; and Department for Enterprise.

Each Policy Review Committee shall in addition be entitled to take evidence from witnesses, whether representing a Department, Office, Statutory Board or other organisation within its remit or not, in cases where the subject matter cuts across different areas of responsibility of different Departments, Offices, Statutory Boards or other organisations. The Policy Review Committees may also hold joint sittings for deliberative purposes or to take evidence. The Chairmen of the Policy Review Committees shall agree on the scope of a Policy Review Committee's inquiry where the subject cuts across the respective boundaries of the Policy Review Committees' remits.

1.2 Each Policy Review Committee shall have

(a) a Chairman elected by Tynwald,

(b) two other Members.

1.3 Members of Tynwald shall not be eligible for membership of the Committee, if, for the time being, they hold any of the following offices: President of Tynwald, member of the Council of Ministers, member of the Treasury Department referred to in section 1(2)(b) of the Government Departments Act 1987.

1.4 The Policy Review Committees shall be authorised to require the attendance of Ministers for the purpose of assisting the Committee (or Committees, if sitting jointly).

1.5 Should the need arise in relation to a particular matter, such as a conflict of interest, Tynwald may elect an alternate member for the purpose and duration of a Policy Review Committee's consideration of that matter. A conflicted member so replaced shall continue to serve as a member of the Committee for all other purposes.

1.6 Each Policy Review Committee shall determine within six months of a General Election whether it will report on a year ending on the last day of March, August or December. Once that determination has been made, the Committee must make an annual report within six months of its year-end, unless during that period it has made an end-of-term report under paragraph 1.7. An annual report may be in the form of a statement.

1.7 Each Policy Review Committee shall, no sooner than three months before a Dissolution, make an end-of-term report on its activities during each term of the House of Keys.

The powers, privileges and immunities relating to the work of a committee of Tynwald include those conferred by the Tynwald Proceedings Act 1876, the Privileges of Tynwald (Publications) Act 1973, the Tynwald Proceedings Act 1984 and by the Standing Orders of Tynwald Court.

Committee Membership

Mr J Moorhouse MHK (Arbory, Castletown and Malew) (Chair)

Ms K Lord-Brennan MHK (Glenfaba and Peel)

Mr J Wannenburgh MHK (Douglas North)

Copies of this Report may be obtained from the Office of the Clerk of Tynwald, Legislative Buildings, Finch Road, Douglas, IM1 3PW (Tel: 01624 685500) or may be consulted at www.tynwald.org.im.

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To: The Hon Laurence David Skelly MLC, President of Tynwald,

and the Hon Council and Keys in Tynwald assembled

ECONOMIC POLICY REVIEW COMMITTEE
First Report for the Session 2025-26

The Role of the Treasury, the Structural Deficit and the Use of Reserves

I. Summary

1. The public is increasingly concerned by the Government's systemic reliance on reserves. Public sector overspending is no longer treated as the last resort – Treasury now treats it as normal and routine. If this continues, the repercussions will be significant: the reserves and the National Insurance Fund will be depleted, and future generations will pay the price.

2. The structural deficit was reducing in the years prior to the COVID-19 pandemic, and the financial year 2019-20 resulted in a structural surplus. Getting back to this point does not currently appear to be a priority for the Treasury, and during this administration the structural deficit has persisted at levels of around £100 million despite rising Government income. This indicates that the problem is structural; the scale and cost of Government and its activities has grown beyond what the economy and the Island's taxpayers can sustain.

3. Our overreliance on the use of reserves to fund ordinary Government activity now means we may not be in a robust position to adequately deal with future economic shocks. Investment returns in the last four years have been impacted directly by the removal of

£374.3 million at a time of high returns,[1] and indirectly as a consequence of this asset now having zero value and generating no returns within future reserve calculations. The Island's finances would be in a much better position had we not been making such large drawdowns on the reserves, and we had instead prudently spent our increased income on invested reserves.

4. As a further result of the Government spending more than it can afford, use of what is termed the NHS Allocation from the National Insurance Fund has been significantly increased. In effect this is used as a balancing figure to fund the contribution to healthcare needed, where Government general operating costs mean this cannot be accommodated otherwise. This passes the cost of healthcare onto the National Insurance Fund to a greater degree, endangering the pensions and social security benefits of future generations. The cost should be met through ordinary means, without increasing the NHS Allocation, and could be were it not for the decisions which have been taken by the current Government.

5. It is neither fair nor sensible to compensate for the bloat of Government by extracting more and more income from our Island's businesses and working residents. The steep increase on the minimum wage is not an effective means of putting more money back into people's pockets and the economy so long as personal allowances and tax thresholds stagnate – it is instead effectively a tax on businesses and harms the economy and is by no means as beneficial to the lowest paid as it might appear, as their tax contribution has increased hugely.

6. To control spending and for a healthy economy, the size and scope of Government must be reduced. The Island's economy requires a small, focused public sector; not a Government that consistently overextends its services beyond what can be afforded.

7. By our assessment, the efforts taken by Treasury to control public spending have thus far been limited and hands-off. We believe that, in part, this lack of effective control is indicative of the fact that we need to look beyond the current structure of Government if we are to have a more appropriate management of public finances. The current cost and structure of Government – with eight Departments and an additional eight Statutory Boards – makes it impossible to adopt priority-based budgeting on a holistic Government-wide

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[1] Based on summed figures within the Pink Books published during this administration, not including the budgeted use of reserves for 2025-26.
GD 2025/0001: 2025-26 Budget, p. 42 at Table 21 ('Total Use of Reserves' – 'Actual 2023-24' and 'Probable 2024-25'), https://www.tynwald.org.im/spfile?file=/business/opqp/sittings/20212026/2025-GD-0001a.pdf#page=44
GD 2024/0001: 2024-25 Budget, p. 46 at Table 21 ('Use of Reserves' – 'Actual 2022-23'), https://www.tynwald.org.im/spfile?file=/business/opqp/sittings/20212026/2024-GD-0001.pdf#page=48
GD 2023/0001: 2023-24 Budget, p. 45 at Table 21 ('Use of Reserves' – 'Actual 2021-22'), https://www.tynwald.org.im/spfile?file=/business/opqp/sittings/20212026/2023-GD-0001.pdf#page=47

basis. Instead, it promotes silo and kingdom mentality, limits our ability to take a global view of Government priorities and services, and results in competing interests and the duplication of administrative functions.

8. It is therefore now an absolute necessity to establish a more effective Government structure: one that has robust lines of Department accountability, that centralises tax policy and budgetary control, and that sets policy from the executive to Departments top-down.

Consolidated Recommendations

Recommendation 1

The size of the public sector should not threaten or be competition to the private sector, and the recruitment control framework should be updated to reflect this, along with a clear set of aims benchmarked against the rate of growth in the private sector, as it once did under the Personnel Control Mechanism.

Recommendation 2

To restore the sustainability of public finances, the normalised use of reserves to close the gap in operational public expenditure must be dramatically reduced.

Recommendation 3

At the start of each administration, the Treasury Minister should set out the policies of the Treasury on the control of public expenditure and their views on taxation policy.

Recommendation 4

Fiscal decisions, particularly regarding taxation, must be considered not only in terms of funding the immediate and expected costs of current Government services, but also in terms of which activities and functions of Government and its related bodies could be reviewed, reduced, or ceased to lower overall costs.

Recommendation 5

Treasury oversight of Departments and financial responsibility should be strengthened through the use of Financial Regulations, and Departments should evidence that all activity delivers benefits for the public. Treasury should take an active interest in reducing Government costs and ensuring value for money.

Recommendation 6

Tax policy should not be set by the Treasury in isolation but should instead be developed and set by the Council of Ministers collectively, who are in a better position to ensure that decisions about tax are considered in the context of the

Island's wider strategic priorities and the goals of the Government programme of the day. The Treasury should play a technical advisory and costing role in taxation.

Recommendation 7

Personal allowances and tax thresholds should be increased to reflect cost-of-living rises over the last seven years, thereby increasing take-home pay and stimulating the economy.

Recommendation 8

Treasury should establish a consultative or advisory committee to provide expert, independent advice on tax policy.

Recommendation 9

The Cabinet Office should recommence work on an alternative and more cost effective Government structure that maintains robust lines of accountability, for consideration after the 2026 House of Keys election.

Recommendation 10

The Isle of Man Government should be established in law, and there should be a clear top-down structure in which the Council of Ministers, as the executive, sets and proposes overall policy direction and priorities, and Departments deliver against them within an agreed fiscal framework.

Recommendation 11

The Chief Executive Officer (Isle of Man Government) and the Cabinet Office should report on the Requirements issued by the Public Services Commission, as laid out in the Public Services Commission Report [GD 2024/0144], including progress made, future milestones, and areas requiring further attention.

II. Background

9. Until November 2024, our Membership consisted of Ms Claire Christian MHK as Chair, and Mr Jason Moorhouse MHK and Mr John Wannenburgh MHK as Members. Hon. Claire Christian MHK became the Minister of Health and Social Care in November 2024.[2] By operation of Standing Order 5.7 this appointment rendered her immediately ineligible to serve on the Committee. On 10th December 2024, Mr Moorhouse MHK was elected as the

[2] Isle of Man Government Website, 'Chief Minister announces changes to the Council of Ministers', 25 November 2024, gov.im, accessed 23 September 2025, https://www.gov.im/news/2024/nov/25/chief-minister-announces-changes-to-the-council-of-ministers/

new Committee Chair and Ms Kate Lord-Brennan MHK was elected as the new Committee Member.[3]

10. At our first meeting under the new Membership on 29th January 2025, we decided to consider the Government's use of reserves and the structural deficit, with a view to assessing whether robust plans are in place to bring these under control.

11. To this end, we undertook an analysis of the reserves, the structural deficit, and the NHS allocation, comparing actual figures with planned figures in the medium-term financial plans, and considering how the projections for each year have changed over the past ten years' Pink Books. This analysis – which was later updated following comments from the Treasury – is appended to this Report.[4]

12. On 9th September 2025, we took public oral evidence from the Treasury.[5]

III. The Health of the Island's Economy

13. Entrepreneurship is key to the Island's prosperity, which enables the freedom of its people and businesses to grow. Government's role is to create the conditions for success and then allow enterprise to lead. A healthy economy is built on the success of the private sector, with a wide range of small businesses and entrepreneurs able to grow and employ according to their needs. Delivering this requires a small, focused Government that enables rather than competes with private enterprise.

14. The Isle of Man's economy does not currently exhibit these strengths. Instead, we have a bloated public sector while local businesses have been placed under ever-increasing strain. Speaking to this issue, the number of self-employed people has substantially decreased since 2022,[6] while the number of public sector employees remains high at 7,837.87 FTE (as of 30th September 2025).[7] As of March 2025, registered unemployment stood at just 0.7%, while the Economic Dashboard reported between 650 and 1,086 vacancies.[8] There is furthermore evidence to suggest that the size and pay levels of the

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[3] Tynwald, 10 December 2024 (Item 8), 719 T142
https://tynwald.org.im/spfile?file=/business/hansard/20202040/t241210.pdf
Tynwald, 10 December 2024, 724 T142
https://tynwald.org.im/spfile?file=/business/hansard/20202040/t241210.pdf
[4] Annex 1
[5] Economic Policy Review Committee Oral Evidence Hearing with the Treasury, 9th September 2025
https://tynwald.org.im/spfile?file=/business/hansard/20202040/eprcsdur250909.pdf
[6] GD 2025/0111: Statistics Isle of Man, 'Isle of Man in Numbers 2025', September 2025, p. 9
https://www.tynwald.org.im/spfile?file=/links/tls/GD/2017/2025-GD-0111.pdf#page=10
[7] Isle of Man Government, 'Overview of the Public Service Workforce – July 2025 - September 2025', p. 4
https://www.gov.im/media/1390894/overview-of-the-public-service-workforce-july-to-sept-2025_compressed.pdf#page=2
[8] The Economic Dashboard states: 'The… chart shows the official vacancy figure compared to DfE's estimate of Vacancies. Vacancy data is compiled by the Department for Enterprise using job listings published with the Isle of Man Job Centre. An exercise is undertaken to remove duplicate jobs, especially where a job is advertised by

public sector are a hinderance to the private sector. The 2024 Earnings Survey Report, for example, showed that median public sector weekly earnings were £196 more than private sector earnings (before accounting for pension contributions, which are much higher in the public sector than in the private sector).[9]

Conclusion

Labour is in short supply in the private sector, while the public sector has become too large. Furthermore, the private sector cannot compete with public sector wages, which incentivises workers to seek employment within the civil service. A reduction in the headcount of Government would help release capacity back into productive parts of the economy.

15. The minimum wage has increased by approximately 48.5% since 2021 and – following Tynwald's approval of the increased minimum wage proposal in October 2025 – will, from April 2026, have increased by 63.15% since 2021. This represents a substantial rise in costs to businesses, particularly in retail and hospitality.

16. Despite this, rising taxes and living costs mean that many minimum-wage earners are unlikely to experience a significant improvement in their quality of life. The Chamber of Commerce reflected this view on behalf of its members, and the same point was raised by several Tynwald Members during the October debate: that the principal beneficiary of the increase is Treasury, through higher tax receipts.[10] This additional revenue is being used to fund Government, which should itself be smaller, and individual Government Departmental activities that the public find questionable.

17. Over the six-year period from 2021 to 2026, increases in the minimum wage will raise gross earnings for those on a full-time minimum wage from £17,160 to £27,996.80, an increase of 63.15%. Over the same period, net take-home minimum wage pay is set to increase by only 51.1%, rising from £15,771 to £23,811, as the proportion of income paid in tax and National Insurance is expected to rise from approximately 8% to 15%.

18. During the current administration, personal allowances have been increased by only £500, despite rising inflation and higher effective tax rates, which has limited the extent to which wage increases increase disposable income. By comparison, personal allowances were increased by £3,750 between 2016/17 and 2021/22, an uplift of 35.7%. Had allowances been uprated in line with inflation since 2021, they would now be closer to

multiple recruitment agencies, as well as to allocate jobs to economic sectors where this is not listed. Recruitment agency jobs are not included.'

[9] Statistics Isle of Man, 'Isle of Man Earnings Survey Report 2024', p. 26 https://www.gov.im/media/1389027/2024-earnings-survey-report.pdf#page=29

[10] Isle of Man Chamber of Commerce, 'Chamber's Reaction to the Minimum Wage Increase', 29 October 2025, accessed 3 December 2025, https://www.iomchamber.org.im/policy-voice/chamber-s-reaction-to-the-minimum-wage-increase/

£20,000 per person. In addition, employers face higher costs through employer National Insurance contributions of 12.8% on earnings above the threshold, which applies at a lower level in the Isle of Man than in the UK and has remained unchanged in recent years.

19. Once the Island's minimum wage increases in 2026, Isle of Man adult residents earning the minimum wage will pay almost double the national insurance of their UK counterparts – £40.74 per week in the Isle of Man compared to £21.31 in the UK.

20. As a result, increases in the minimum wage, without corresponding adjustments to tax and National Insurance thresholds, mean that a growing share of increased earnings is taken in tax, reducing the benefit to lower-paid workers and increasing costs for employers.

21. In our assessment, businesses and low and middle earners are footing the bill of Government's day-to-day activities. This is manifestly unfair when it is Government itself that needs to be addressed.

22. The need to reduce the size and scope of Government was identified in Government documents at least as early as in the 2006 Review of the Scope and Structure of Government. That review warned of the consequences of failing to act:

> Even if the structure has remained largely the same, Government itself has grown dramatically as a result of increasing demands for services. Economic good times have made this possible, but there is no guarantee that this will continue. There is a recognition that the current Government structure is unsustainable, and even if the economic growth which has made the dramatic growth in the public sector was to continue, the resulting stresses and strains could, if not addressed, impede the Island's further progress[…] It is imperative that the public sector should not grow any further – **ideally it should diminish or otherwise the Isle of Man Government, in twenty years, will be even more dominant than it already is – and the community will have to work even harder just to support the public sector.**[11]

23. This warning has now come true. Taxation and the use of reserves are financially supporting the size and scope of Government – with the public service salary bill increasing by about £124.5 million in the last five years as of June 2025 (including education and health spending)[12] – and the Island's economy is paying the price. If nothing changes, we fear that

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[11] Isle of Man Government, 'A Review of the Scope and Structure of Government in the Isle of Man – An Independent Report to the Council of Ministers', September 2006, p. 4 https://tynwald.org.im/business/committee/EPRC/Shared%20Documents/2006-NN-0035%20%20A%20Review%20of%20the%20Scope%20and%20Structure%20of%20Government%20in%20the%20IOM%20An%20Independenr%20Report%20to%20the%20Council%20of%20Ministers%202006.pdf#page=6 [emphasis added]

[12] Tynwald, Written Question W-202501-1600 (Answered 4 June 2025), https://tynwald.org.im/spfile?file=/business/BusinessHansardIndex2126/W-202501-1600.pdf

the rate of business closures will continue or accelerate. Rising costs and persistent labour shortages will deter new investment and limit productivity, while the erosion of competitiveness will lead to further contraction in real GDP – continuing the trend as seen in the Isle of Man in Numbers Report 2025.[13] A growing share of national income will be absorbed by the public sector simply to maintain its existing activities, leaving less capital for innovation, wage growth, and enterprise. Living standards will stagnate, young people will continue to seek opportunities elsewhere, and the Island's fiscal base will narrow further still.

24. In the past, the Government recognised these risks and sought to prevent them through firm controls on the growth of the public sector. Previously, the Personnel Control Mechanism (PCM) – which was in operation between 1991 and 2015 – explicitly linked the size of the public sector to two macro-level benchmarks:

- Growth in the private sector: The PCM stated that the rate of growth of the Government's workforce should not be allowed to exceed the rate of growth of employment in the private sector. This was measured by comparison with the size of the economically active population.
- Government income growth: The PCM required that any increase in public sector staffing should not surpass the rate of increase in real terms in Government income.[14]

25. The PCM was suspended in April 2015 and replaced with the Employment Costs Budgetary Control Mechanism (ECBCM). Departments were no longer restricted in how many staff they employed as long as the staffing costs stayed within the allocated budget. In January 2025, the Recruitment Control Framework (RCF) was introduced alongside the ECBCM to 'help restrict the growth of the public sector' and 'reduce the employee costs of Isle of Man Government'.[15]

26. The RCF applies to all employed roles within Government Departments and Offices (excluding Statutory Boards). It requires vacant roles below Senior Executive Officer (SEO) level must be deemed necessary according to the RCF's criteria for a Recruiting Manager to recruit into that role, or otherwise a detailed case must be submitted to the Accountable Officer. New roles require Accountable Officer approval. For all roles at or above SEO level, the Recruiting Manager must submit a detailed case to the Accountable Officer, who must

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[13] GD 2025/0111: Statistics Isle of Man, 'Isle of Man in Numbers 2025', September 2025, p. 6 https://www.tynwald.org.im/spfile?file=/links/tls/GD/2017/2025-GD-0111.pdf#page=7
[14] Isle of Man Government Council of Ministers, 'Personnel Control Policy and Mechanism', March 2006, accessed 3 December 2025, https://www.gov.im/media/622685/personnelcontrolpolicyandmechani.pdf
[15] Isle of Man Government Council of Ministers, 'Recruitment Control Mechanism', January 2025, accessed 3 December 2025, https://hr.gov.im/media/2775/recruitment-control-framework-uploaded-210125.pdf

give approval. The RCF also sets out monitoring and reporting requirements for Accountable Officers on recruitment.

27. Additionally, quarterly Overview of the Public Sector Workforce Reports have been published regularly to cover the periods from October 2024 to aid transparency, clarity and monitoring as to government and the public service jobs and any increase or reduction. These reports have highlighted growth in education and the health service.[16]

28. Whilst such monitoring is essential, notably absent from the RCF are the macro-level benchmarks stated above that existed within the PCM. Their removal means that recruitment control is now applied in isolation from the wider economic picture. Under the current system, a Department may continue to recruit as long as it can fund the post within its existing budget and justify the need for the post from an internal standpoint, even if at a global level, the size of the public sector is growing faster than Government income or private sector employment.

29. This separation has two major consequences. First, it weakens the link between public sector workforce decisions and fiscal sustainability. Departments can justify new appointments based on internal pressures or local need, but when viewed across the whole of Government, the cumulative effect will be continued high staff numbers and payroll costs. Second, it ignores the relationship between the public and private sectors. When labour is scarce, every additional Government appointment represents one fewer person available to private enterprise.

Conclusion

While the Recruitment Control Framework is an improvement on the Employment Costs Budgetary Control Mechanism, it does not go far enough to control the overall size of Government. The central aim of the original Personnel Control Mechanism – to ensure that public sector growth did not outpace the private sector – has been lost. Reinstating this link would benefit the economy.

Recommendation 1

The size of the public sector should not threaten or be competition to the private sector, and the recruitment control framework should be updated to reflect this, along with a clear set of aims benchmarked against the rate of growth in the private sector, as it once did under the Personnel Control Mechanism.

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[16] E.g., Isle of Man Government, 'Overview of the Public Sector Workforce April 2025 – June 2025', 30 June 2025, https://www.gov.im/media/1389631/overview-of-the-public-service-report-april-2025-to-june-2025_compressed.pdf

IV. Where We Are Now: A System that Normalises Overspend

The Structural Deficit

30. The analysis appended at Annex 1 displays the structural deficit figures over the last ten financial years. Table 1.1.1 within the analysis shows that the structural deficit was being steadily brought under control between 2016 and 2019, and at the end of the 2019-20 financial year, there was a structural surplus of £13.7 million. However, 2020-21 resulted in a structural deficit of £217.4 million due to excess costs and lost income arising largely as a result of the COVID-19 pandemic.

31. Since then, the structural deficit has remained high – varying between £91.4 million and £103.1 million.[17]

2016-17	**2017-18**	**2018-19**	**2019-20**	**2020-21**
£87.5 million (deficit)	£8.2 million (deficit)	£35.4 million (deficit)	£13.7 million (surplus)	£217.4 million (deficit)
2021-22	**2022-23**	**2023-24**	**2024-25**	
£95.6 million (deficit)	£94.2 million (deficit)	£103.1 million[18] (deficit)	£91.4 million[19] (deficit)	

32. During our oral evidence hearing with the Treasury, we asked the Minister whether the structural deficit remaining at around £100 million concerned him. The Minister replied that:

> **I disagree with your comment that it is hanging around at £100 million.** Basically, the structural deficit, as you are aware, is the difference between income and expenditure. When we are looking at long-term planning for the Isle of Man's finances and the provision of services to people in our community, there are lots of variables there, both in terms of income coming in, which has been positive and is encouraged by positive economic growth, but also overall Government expenditure, some of which can be slightly outside of our control, in

[17] Annex 1

[18] There was a presentational change in the NI surplus/deficit in the 2025-26 Budget such that the NI surplus/deficit is no longer included in the structural deficit. This figure does not include the NI surplus of £17.1 million – the total structural deficit is £86.0 million including this figure.

[19] This figure does not include the NI deficit of £7.0 million – the total structural deficit is £98.3 million including this figure.

terms of massive rises of inflation in terms of goods and services, but some of which is within our control.[20]

33. We found the Minister's denial of the £100 million structural deficit claim surprising and concerning given the clear figures published in the Pink Books.

34. The Treasury Minister's resistance to our assertion aside, we find the stagnation of the recovery of the structural deficit deeply troubling. It is clear that overspending is no longer treated by the Treasury as temporary or exceptional, and no clear route back to financial stability has been mapped out. While the Treasury has repeatedly discussed the importance of the Medium-Term Financial Plan to restoring the Island's finances,[21] our analysis of the Pink Books has shown a consistent pattern: for any given year of this administration, the figure set out in the initial five-year plan has been revised in subsequent plans, with the planned deficit for that year generally increasing each time.[22] Each Budget in this administration has therefore pushed back the year that we can expect to see the structural deficit recover; each successive revision not only delays recovery but also signals a lack of urgency in addressing overspending.

35. In this context, we are also concerned that Treasury projections to reduce reliance on reserves have consistently not been realised in practice. While successive Budgets and Medium-Term Financial Plans have pointed to a future reduction in reserve usage, these intentions have repeatedly been deferred, with planned improvements pushed into later years. As a result, projected progress towards greater financial resilience has not materialised, reinforcing a pattern in which difficult decisions are postponed rather than addressed, and reliance on future improvements is used to justify continued overspending in the present.

Conclusion

The structural deficit has remained high at around £100 million, and the Treasury has no clear plan to restore financial stability. Overspending is now treated as routine rather than exceptional, with Government failing year on year to live within its means, and successive revisions to the Medium-Term Financial Plan have consistently delayed recovery. Without stronger fiscal discipline and a credible strategy to bring

[20] Q3 [emphasis added]

[21] For example, in the 2025-26 Budget speech, the Minister stated: 'Key to the delivery of any Budget is maintaining financial discipline and adhering to the established medium-term financial plan, which aims to cut the structural deficit and allow us to return to a situation where we are able to start adding back to our reserves, rather than draw down on them in the short term.'
Tynwald, 18th February 2025 (Item 2), 1084 T142,
https://tynwald.org.im/spfile?file=/business/hansard/20202040/t250218.pdf#page=16

[22] Annex 1

expenditure in line with revenue, the Island's structural deficit will continue to constrain financial flexibility and impede long-term planning.

The Use of Reserves

36. We are equally concerned about the continued drawdowns on reserves. The 2025-26 Budget planned a drawdown of £110.6 million from reserves – a substantial increase on the £98.4 million drawdown in 2024-25. Despite repeated assurances from the Treasury that reliance on reserves will diminish, the direction of travel has been the reverse.

37. By our assessment, the reserves, which should serve as a safeguard against unforeseen shocks, have instead become a routine funding source for Government activity. Successive Budgets have acknowledged this reliance.[23]

38. When questioned on the use of reserves and their role in funding Government activity, the Treasury Minister told us that:

> When you look at the overall budget for this year in terms of incomings, which were predominantly VAT, resident Income Tax, National Insurance, but also company tax, the income is £1.38 billion. The outgoings were £1.38 billion. So in terms of day-to-day spend, we are living within our means. What that does not account for is some of the infrastructure investment, it does not account for some of the contingency funding that we have to provide to actually drive forward public services, but overall, we are managing a managed budget, albeit having to draw on reserves from time to time to meet some of the shortfalls.[24]

39. We do not accept this as a satisfactory distinction. Whether reserves are nominally drawn down on for infrastructure or for day-to-day activity, the effect is the same – they are supporting the ordinary costs of Government. If income is fully consumed by day-to-day spending, then any infrastructural investment from reserves is only possible because those reserves are relieving the pressure that core services put on revenue. Put simply, the overuse of reserves is subsidising the size and cost of Government.

40. A truly sustainable position is one in which both the Island's day-to-day operations and its programme of investment in infrastructure can be funded from revenue, without recourse to reserves. Until this position is reached, the Island risks steadily weakening its

[23] See the following examples – GD 2025/0001: 2025-26 Budget, p. 8, https://www.tynwald.org.im/spfile?file=/business/opqp/sittings/20212026/2025-GD-0001a.pdf#page=10; GD 2024/0001: 2024-25 Budget, p. 3, https://www.tynwald.org.im/spfile?file=/business/opqp/sittings/20212026/2024-GD-0001.pdf#page=5; GD 2023/0001: 2023-24 Budget, p. 4, https://www.tynwald.org.im/spfile?file=/business/opqp/sittings/20212026/2023-GD-0001.pdf#page=6.

[24] Q17

financial resilience, eroding the inheritance of future generations, and making us more vulnerable to economic shocks.

41. We note that the Budget states that the reserves are expected to remain 'relatively stable' in the near term:

> The indicative financial plan shows a generally improving position over the years presented however there will still be a level of reliance on the investment returns being generated by reserves in order to support the activities of Government[…] Overall reserves are forecast to remain relatively stable in the near-term due to improved investment performance being offset by the requirement to make drawdowns to fund Government activities, albeit these drawdowns are forecast to be at a reduced level.[25]

42. We believe that the Budget's description of the reserves as 'stable' masks a lack of genuine recovery. The reserves should not be stagnant; they should be rebuilding to a level that strengthens our resilience against future shocks. Furthermore, if the maintenance and relative safety of the reserves depends on strong investment returns rather than a surplus of revenue over expenditure, then their apparent stability rests on uncertain ground. The Treasury's current approach leaves the reserves more vulnerable than we think is appropriate and delays the point at which they can be rebuilt. Additionally, by using reserves to fund day-to-day Government activity, the Island is giving up potential investment returns and the opportunity to strengthen its financial resilience.

Conclusion

Government income has increased, yet reserves continue to fund ordinary spending rather than being preserved for their intended purpose. This reliance undermines investment returns and weakens future financial resilience. It is absolutely essential that we now reduce day-to-day spending to restore the proper role of reserves and safeguard the Island against shocks.

The NHS Allocation

43. The National Insurance (NI) system consists of the NI Fund, which holds contributions and investment income, and the NI Operating Account, which shows annual income (which includes NI contributions, agency income, and any transfer of investment income from the NI Fund) and outgoings. In addition to funding welfare benefit payments (including the state pension), each year, a proportion of NI contributions is paid out in the form of an NHS Allocation. This is a transfer from the NI Fund to the Department of Health and Social Care to contribute towards the costs of healthcare. If NI expenditure (including the NHS

[25] GD 2025/0001: 2025-26 Budget, p. 12
https://www.tynwald.org.im/spfile?file=/business/opqp/sittings/20212026/2025-GD-0001a.pdf#page=14

Allocation) exceeds the NI Operating Account's income for a given year, the NI Operating Account goes into deficit, which is then met by drawing on the accumulated reserves in the NI Fund.

44. In the 2025-26 Budget, the NHS Allocation was raised from a forecast £54.7 million in the 2024-25 Pink Book to £71 million. In large part due to this increase, the deficit on the NI Operating Account is budgeted to increase from £7 million to £23.8 million in 2025-26. The 2025-26 Pink Book states that this is:

> …due to the availability of more accurate statistical information alongside a policy based amendment to the calculation to facilitate additional funding to the NHS following the reduction in the income tax rate from 22% to 21%.[26]

45. Of the £16.3 million increase, the Pink Book attributes £6.3 million to the statistical revision and the remaining £10 million to the policy change raising the NHS Allocation from 19.3% to 24.8%.[27]

46. It is further clarified within the Explanatory Memorandum for the Social Security Administration Act 1992 (Application) (Amendment) Order 2025 [SD 2025/0058] – the Order that gave effect to the NHS Allocation increase – that:

> The changes provide an increased NHS Allocation to contribute towards health funding until a health levy is further investigated and allows for more accurate estimates to be made when a full set of data is available.[28]

47. We find this rationale deeply concerning. The NHS Allocation has become a mechanism by which National Insurance contributions, which are paid by workers to fund pensions and social security benefits, are being used to offset normal Government expenditure on healthcare. In effect, it is relieving pressure on general revenue and allowing Treasury to spend more elsewhere than would otherwise be possible. It is therefore an indirect subsidy from the NI Fund to ordinary Government expenditure.

48. In April 2023, the Treasury published a report by the UK Government Actuary on the Operation of the Social Security Acts in the Isle of Man for the period 1 April 2017 to 31 March 2022.[29] The purpose of the report was to assess the financial condition of the NI

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[26] GD 2025/0001: 2025-26 Budget, p. 8 https://www.gov.im/media/1387536/pink-book-2025-26-final-v3_compressed.pdf#page=10
[27] GD 2025/0001: 2025-26 Budget, p. 8 https://www.gov.im/media/1387536/pink-book-2025-26-final-v3_compressed.pdf#page=10
[28] Explanatory Memorandum to Tynwald Members Issued by the Department of Treasury for SD 2025/0058: Social Security Administration Act 1992 (Application) (Amendment) Order 2025, https://www.tynwald.org.im/spfile?file=/business/opqp/sittings/20212026/2025-SD-0058-memo.pdf
[29] GD 2023/0005: Report by the UK Government Actuary on the operation of the Social Security Acts in the Isle of Man for the period 1 April 2017 to 31 March 2022, April 2023, https://www.tynwald.org.im/spfile?file=/business/opqp/sittings/20212026/2023-GD-0005.pdf

Fund. The report predicts that, largely as a result of an ageing population – which increases demand for contributory benefits while reducing the size of the working-age population paying contributions – the NI Fund will begin to shrink from 2028-29 and, without additional financing, will be exhausted during 2047-48, even after allowing for the effect of investment income. Other pressures include the introduction of the Manx State Pension and the continuation of the triple lock. The report clarifies that the prediction assumes that the triple lock will apply throughout the projection period (except for 2022-23), and that contribution thresholds and limits generally increase in line with increases in earnings.

49. Given these projections, we regard the increase in the NHS Allocation as a short-sighted measure that plugs a revenue gap in the short term at the expense of the long-term sustainability of the NI Fund.

50. With the recent announcement that a NHS Health Levy will not be progressed,[30] and no solution to reduce the NHS Allocation yet forthcoming, we are all the more concerned that the Island's future generations will pay the price for today's Government's inability to live within its means.

> **Recommendation 2**
>
> **To restore the sustainability of public finances, the normalised use of reserves to close the gap in operational public expenditure must be dramatically reduced.**

Oversight, Fiscal Discipline, and the Treasury's Role

51. In our evidence hearing with the Treasury, we questioned them about what measures were being taken to bring spending back under control. One issue we sought to clarify was the urgency with which the issues discussed above are being treated by the Treasury, as Treasury is the only body that can set spending and mandate fiscal control across the whole Government; and further, as public sector pay awards had been cited as an issue in spending predictions, whether the Minister had considered the possibility of introducing a cap on pay awards across the public sector. The Minister stated:

> We are not at the point now of urging or mandating pay restraint, but we have to be cognisant that when you look at the overall figures of expenditure on the workforce, it is climbing year on year and consuming an increasing amount of overall Government expenditure.[31]

52. We are now at the point where we believe that mandatory pay restraint needs to be actively considered and signalled, recognising Treasury's ability to take this position as the

[30] Isle of Man Government Website, 'NHS Levy plans will not be progressed', 26 September 2025, accessed 26 November 2025, https://www.gov.im/news/2025/sep/26/nhs-levy-plans-will-not-be-progressed/
[31] Q7

holder of the purse strings outside of all employing and negotiating bodies. We think that the Treasury Minister's statements signify both a lack of recognition of the severity of the situation and an unwillingness to do what needs to be done to restore the Island's financial security.

53. Beyond a specific pay award cap announcement based on realistic budgets, we believe that the Treasury needs to exercise and require a higher degree of discipline and control of public expenditure rather than leave matters with Departments and to test with light-touch scrutiny panels. It is not enough to hope that the structural deficit and use of reserves will decrease. For the short- and medium-term benefit of the Island and its sustainability, determined action must be taken.

54. The Treasury has the power to enforce fiscal discipline across Departments, and this power has been exercised in previous administrations. For example, in 2009, the UK changed its Revenue Sharing Agreement with the Isle of Man, losing the Island £140 million in revenue; and following further revisions to the RSA in 2011, the Island was set to lose a further £75 million per year – a 14% reduction in the Island's annual income at the time.[32] As a result of these changes, in July 2011, then Treasury Minister Anne Craine MHK announced in Tynwald that future cuts in public spending were inevitable and would be 'rigorously applied'.[33]

55. It was announced in January 2012 that 266.14 FTE jobs had been cut from Government in the latter part of 2011, resulting in a reduction in Government employee working hours of 3.41%.[34] It was announced shortly afterwards by Chief Minister Allan Bell that hundreds of public sector workers would face wage reductions or redundancy so that the Government could reduce its annual bill by £30 million, or 10%, over the following 3-4 years and stabilise its finances.[35] It was acknowledged at the time that this would be tough but necessary for the Isle of Man to survive and thrive into the future. Further cuts were announced by the Treasury in the 2013 and 2014 Budgets.[36] These rebalanced the Government's finances

[32] Tynwald, 12th July 2011 (Item 6), 1574 T128, https://tynwald.org.im/spfile?file=/business/hansard/20002020/th110712.pdf#page=14

[33] Tynwald, 12th July 2011 (Item 6), 1575 T128, https://tynwald.org.im/spfile?file=/business/hansard/20002020/th110712.pdf#page=15

[34] Tynwald, 17th January 2012 (Question 12), 330 T129, https://tynwald.org.im/spfile?file=/business/hansard/20002020/th120117.pdf#page=28

[35] 'Bell confirms major cuts in national address', 23 January 2012, 3FM Isle of Man, accessed 26 November 2025, https://www.three.fm/news/isle-of-man-news/bell-confirms-major-cuts-in-national-address/

[36] GD 0001/13: The Isle of Man Budget 2013-14, https://www.tynwald.org.im/spfile?file=/business/opqp/sittings/20112014/2013-GD-0001.pdf; GD 2014/0001: The Isle of Man Budget 2014-15, https://www.tynwald.org.im/spfile?file=/business/opqp/sittings/20112014/2014-GD-0001.pdf

enough to allow for personal allowances to be raised significantly during the following administration.[37]

56. The administration of the day was right to implement these cuts and adapt. These decisions, while difficult, laid the groundwork for the prosperity of the following administration and enabled us to achieve a structural surplus in 2019-20 while putting more money back into people's pockets. An honest evaluation of the Government's current finances shows that these decisions must now be made again – not to undermine our essential public services, but instead, as was acknowledged in 2012, to secure the future of our essential public services. The current trend of passing the bill onto the taxpayer is not sustainable, as the continued need to draw down on reserves to fund the day-to-day operations of Government, despite increased income, demonstrates.

Conclusion

It is essential that Departments seriously examine which activities are necessary and conversely which activities can be stopped without major detriment to the public – and make cuts accordingly. Treasury, as the keeper of the public purse, can and must enforce this as it has done in previous administrations.

Recommendation 3

At the start of each administration, the Treasury Minister should set out the policies of the Treasury on the control of public expenditure and their views on taxation policy.

Recommendation 4

Fiscal decisions, particularly regarding taxation, must be considered not only in terms of funding the immediate and expected costs of current Government services, but also in terms of which activities and functions of Government and its related bodies could be reviewed, reduced, or ceased to lower overall costs.

Recommendation 5

Treasury oversight of Departments and financial responsibility should be strengthened through the use of Financial Regulations, and Departments should

[37] 'Budget 2015: rebalancing plan on track', Manx Radio, 17 February 2015, accessed 26 November 2025, https://www.manxradio.com/news/isle-of-man-news/budget-2015-rebalancing-plan-on-track/
Also see – GD 2017/0001: Isle of Man Budget 2017-18, https://www.tynwald.org.im/spfile?file=/business/opqp/sittings/Tynwald%2020162018/2017-GD-0001.pdf; GD 2018/0001: Isle of Man Budget 2018-19, https://www.tynwald.org.im/spfile?file=/business/opqp/sittings/Tynwald%2020162018/2018-GD-0001.pdf; GD 2019/0001: Isle of Man Budget 2019-20, https://www.tynwald.org.im/spfile?file=/business/opqp/sittings/20182021/2019-GD-0001.pdf

evidence that all activity delivers benefits for the public. Treasury should take an active interest in reducing Government costs and ensuring value for money.

V. Tax Policy

57. The current process for developing tax policy places the Treasury as the owners of these policies, with proposals formed within the Department before being taken to the Council of Ministers for approval. This means that strategic direction is often set after rather than before proposals come from Departments and policy is drafted, if strategic direction is set at all. The Council of Ministers may therefore have little direct input into tax policy and be under time pressure to approve policy that is not in line with overall Government priorities.

58. As we have already discussed throughout this Report, tax policy should not be used to facilitate Government overspending or to sustain the cost of an overextended public sector. When the size and activity of Government expand faster than the economy that supports it, the burden inevitably falls on workers through rising effective taxation.

59. We highlighted within our previous Report on Barriers to Population Growth that personal allowances for single people and jointly assessed couples were raised considerably during the previous administration – by 35.7% between 2016/17 and 2020/21 – whereas during this administration they have been stagnant.[38] At the time we published that Report, the personal allowance had increased by only 1.75% during the current administration. We therefore concluded within that Report:

> Personal allowances have stagnated in the current administration. To support the financial well-being of residents and attract people to work and live in the Isle of Man, it is imperative that the Government adopts a strategic approach to increasing personal allowances.[39]

60. We recommended:

> That Tynwald is of the opinion that not raising personal allowances disproportionately affects low to medium income earners; and that in preparing the next Budget, the Treasury should devise a strategy to address this.[40]

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[38] PP 2024/0147: Economic Policy Review Committee, First Report for the Session 2024-25, Economic Strategy: Barriers to Population Growth, p. 10 https://tynwald.org.im/spfile?file=/business/pp/Reports/2024-PP-0147.pdf#page=16

[39] PP 2024/0147: Economic Policy Review Committee, First Report for the Session 2024-25, Economic Strategy: Barriers to Population Growth, p. 11 https://tynwald.org.im/spfile?file=/business/pp/Reports/2024-PP-0147.pdf#page=17

[40] PP 2024/0147: Economic Policy Review Committee, First Report for the Session 2024-25, Economic Strategy: Barriers to Population Growth, p. 11 https://tynwald.org.im/spfile?file=/business/pp/Reports/2024-PP-0147.pdf#page=17

61. The Council of Ministers' response to this recommendation was that:

> Treasury recognises that decisions around the Personal Income Tax Allowance typically impact low-middle earners more than higher earners. This is especially the case since the introduction of the Personal Allowance Taper in 2023 which means that very high earners do not receive the Personal Allowance. As per the Tax Strategy 2024-26 (GD 2024/0021), Treasury has a stated policy aim to improve the position of low- and middle-earners providing it is fiscally responsible to do so and there are a range of fiscal measures that could be used to achieve this aim.[41]

62. After a Council of Ministers' amendment was approved, the ultimate resolution of Tynwald was:

> That Tynwald is of the opinion that tax policies should particularly address the impacts on low- and middle-earners, and that the Isle of Man Government should review Income Tax and National Insurance thresholds as part of each annual Budget.[42]

63. The Committee supports this resolution and draws attention to it in this Report.

64. In February 2025, the 2025-26 Budget increased the personal allowance for a single person by £250 and £500 for a jointly assessed couples[43] – an increase of 3.5% on the personal allowances as they stood at the start of the administration. During the February 2025 Tynwald sitting, following the Budget debate, Tynwald approved our Report's recommendation as amended by the Council of Ministers.[44] At the time, we were content to accept the Council of Ministers' amendment to our recommendation in large part because we felt that this would still achieve what our recommendation set out to do.

65. However, we have become convinced during this inquiry that the Treasury will not be able to afford to raise personal allowances and tax thresholds in line with the cost of living unless major changes are made to the way the Government operates, because under the status quo, the public needs to continue to pay for the Government's high levels of activity and headcount.

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[41] GD 2025/0011: Council of Ministers' Response to the Economic Policy Review Committee First Report for the Session 2024:25, Economic Strategy: Barriers to Population Growth, p. 5 https://www.tynwald.org.im/spfile?file=/business/opqp/sittings/20212026/2025-GD-0011.pdf

[42] PP 2025/0020: Tynwald Votes and Proceedings, 18th and 19th February 2025 (Item 8), https://tynwald.org.im/spfile?file=/business/vp/VP/2025-PP-0020.pdf#page=23

[43] GD 2025/0001: 2025-26 Budget, https://www.tynwald.org.im/spfile?file=/business/opqp/sittings/20212026/2025-GD-0001a.pdf

[44] Tynwald, 19th February 2025 (Item 8), 1272 T142, https://tynwald.org.im/spfile?file=/business/hansard/20202040/t250219.pdf#page=86

66. Furthermore, under the Treasury Act 1985 and Income Tax Act 1970,[45] the Treasury currently holds primary ownership of the Island's tax strategy and sets tax rates, yet taxation decisions sit at the heart of the Island's broader economic and social strategy. This concentration of ownership in a single Department has led to taxation being treated narrowly as a revenue-generation mechanism for Government activity rather than as an instrument of wider economic policy. As a result, there is a lack of coordination between tax policy and wider economic goals.

67. If the Island is to encourage economic growth and improve living standards, the focus of tax policy must shift decisively towards rewarding work and enterprise. Over the past seven years, the real value of personal allowances and thresholds has eroded significantly due to inflation and rising living costs. This has reduced household disposable income and weakened the spending of low and middle-income earners – the very people whose consumption drives the local economy. Increasing take-home pay through increasing personal allowances and tax thresholds will help to offset cost-of-living pressures, support local businesses through higher consumer spending, and reduce the need for compensatory Government social spending. The Island's prosperity depends on its population feeling that effort and enterprise are rewarded, not penalised.

68. In our view, Treasury's reluctance to raise personal allowances in line with the cost of living is symptomatic of the wider structural problem identified throughout this Report: that the Government's cost base has become too large, and so the public are required to subsidise inefficiency and bloat through taxation that rises in real terms. The solution is not to continue extracting more from taxpayers, but to realign the scale of Government activity to what the economy can sustain.

Conclusion

The 2024-26 Tax Strategy is a Treasury-led policy document, but taxation is too fundamental a policy lever for the enabling of the economy to be determined by one Department acting in isolation. This concentration of power in the Treasury has led to the stagnation in personal allowances, despite this being at odds with the interests of the economy.

Recommendation 6

Tax policy should not be set by the Treasury in isolation but should instead be developed and set by the Council of Ministers collectively, who are in a better position to ensure that decisions about tax are considered in the context of the

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[45] 'Treasury Act 1985', AT 25 of 1985
https://legislation.gov.im/cms/images/LEGISLATION/PRINCIPAL/1985/1985-0025/1985-0025_3.pdf
'Income Tax Act 1970', AT 3 of 1970,
https://legislation.gov.im/cms/images/LEGISLATION/PRINCIPAL/1970/1970-0003/1970-0003_50.pdf

Island's wider strategic priorities and the goals of the Government programme of the day. The Treasury should play a technical advisory and costing role in taxation.

Recommendation 7

Personal allowances and tax thresholds should be increased to reflect cost-of-living rises over the last seven years, thereby increasing take-home pay and stimulating the economy.

69. We understand that in the past, Treasury engaged much more widely ahead of setting its tax strategy and publishing the Budget. For example, have heard in oral evidence with the Chamber of Commerce during our previous inquiry that senior members within the Chamber who are tax experts used to be involved in consultative meetings with the Treasury, but that they are no longer invited to these.[46]

70. It is our view that, in relation to tax policy, the Treasury has become increasingly disconnected from the needs of residents and businesses and primarily acts to ensure that it collects enough money to fund the current level of Government activity. This is to the detriment of both the public and the economy.

71. In Jersey, there exists a Fiscal Policy Panel which has a statutory role to assess the medium- and long-term sustainability of Jersey's economy and finances, and provides Jersey's Minister for Treasury and Resources and States Members with independent advice on:

- the strength of the economy, the economic outlook, and the economic cycle in Jersey;
- the sustainability of public finances in the medium and long term, including the net asset position; and
- fiscal policy, including the balance of tax and spend and the use of the Strategic Reserve Fund and the Stabilisation Fund.[47]

72. The Panel also has an obligation to produce an Annual Report following the Budget.[48] This Report, as well as providing an overall assessment of Jersey's economic outlook and the Budget, highlights risks to Jersey's economy and provides recommendations on how these

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[46] Economic Policy Review Committee Oral Evidence Hearing with the Chamber of Commerce, 30th September 2024, Q141,
https://www.tynwald.org.im/spfile?file=/business/hansard/20202040/eprces240930.pdf#page=13
[47] Government of Jersey, 'Fiscal Policy Panel', accessed 26 November 2025,
https://www.gov.je/Government/Departments/Economy/pages/fiscalpolicypanel.aspx
[48] See here, for example:
https://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/Fiscal%20Policy%20Panel%20Annual%20Report%202025.pdf

risks should be mitigated. The Panel's most recent Annual Report highlighted many of the same concerns that we discuss here but in relation to Jersey, including rises in public expenditure and depletion of reserves, recruitment being difficult in a number of sectors, and the global economic outlook being uncertain. The recommendations included exercising further caution and preserving room in case global economic conditions deteriorate, curtailing day-to-day expenditure in future Budgets, and rebuilding the reserves to protect Jersey from economic shocks.

73. We think that the Isle of Man Government would clearly benefit from this kind of ongoing independent economic assessment and advice as it pertains to tax policy. This would enable a more complete and holistic evaluation of taxation in the context of the Island's wider economic conditions, and a better analysis of the possible implications of various tax policies.

Conclusion

The Isle of Man previously benefitted from more structured engagement between Treasury and external stakeholders on tax matters, but these arrangements have diminished over time. In our view, restoring a consultative mechanism – drawing on the demonstrable strengths of models such as Jersey's Fiscal Policy Panel – would help to ensure that the Treasury receives regular, expert input when developing tax policy, and would strengthen the connection between fiscal decisions, the wider economy, and the needs of residents and businesses.

Recommendation 8

Treasury should establish a consultative or advisory committee to provide expert, independent advice on tax policy.

VI. What Must Change: Resetting the Size, Role, and Structure of Government

The Departmental Pay "Budget"

74. The measures currently being taken by the Treasury to reduce Departmental spending are proving to be either ineffective in practice or unrealistic in expectations. For example, the Deputy Chief Financial Officer for the Treasury informed us that, regardless of the agreed pay award, Departmental budgets are uplifted 2% across the board for pay expenditure and 1% for non-pay expenditure. Any staff costs beyond that 2% must be absorbed within the Department's existing resources. Departments are therefore

theoretically incentivised to manage their staffing costs accordingly, which may require changes to recruitment or staffing levels.[49] In practice, this does not appear to happen.

75. While, as set out earlier in this Report, we agree that financial discipline must be exercised consistently across all Departments and enforced by the Treasury, we are concerned that the uniform 2% uplift for staff costs may have a disproportionate impact on Departments with higher proportions of staff-related expenditure for core frontline services. For example, the 2025-26 Budget figures show that staff costs are budgeted to account for approximately 86.5% of total expenditure in the Department of Home Affairs, making DHA particularly vulnerable to cost pressures arising from pay settlements.[50] This may compromise the Department's ability to provide statutory services, or else mean cutting back on programmes that – while providing short-term savings – will cost the Island more money in the long run or will compromise the safety of Manx residents. In contrast, some Departments that have fewer costs arising from frontline service provision may be able to reduce staff at no risk to the Island's population.

Conclusion

The so-called "budget" on Departmental pay uplifts is set at 2% across the board, but this is unrealistic in Departments with higher pay pressures resulting from core frontline services, such as the Department of Home Affairs. Expecting these Departments to operate within a flat uplift while still meeting their statutory obligations is not credible, and shows that the current approach is not grounded in the operational realities of service delivery. It also demonstrates that the realities of pay costs are not grasped.

Limits of Priority Based Budgeting Under the Current Departmental Model

76. In oral evidence, the Treasury Minister and Deputy Chief Financial Officer described the Government's current approach to priority-based budgeting, in which the Treasury sets an overall financial envelope for each Department, within which Departments are expected to allocate resources to their own priorities in line with the Island Plan. Departments are therefore expected to manage financial pressures internally, cutting back on some activities if they wish to fund others. The Minister explained that this approach had emerged partly in response to inflationary pressures, replacing the previous practice whereby Departments would submit multiple additional funding bids to Treasury each year.[51]

77. The Minister also informed us that Treasury had commissioned independent financial advisers to develop a more comprehensive model of priority-based budgeting across

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[49] Q7
[50] GD 2025/0001: 2025-26 Budget, p. 58 https://www.gov.im/media/1387536/pink-book-2025-26-final-v3_compressed.pdf#page=60
[51] Q29-31

Government.[52] It was said that this work involved analysing each Department's spending at a granular level, identifying statutory and non-statutory functions, and assessing where expenditure might be increased, reduced, or rationalised. The Minister stated that it is expected that, once this mapping exercise is completed, decisions will be made about which services should be prioritised for continued or enhanced funding, and which should receive reduced funding or be delivered differently. However, it was acknowledged that data on service costs is inconsistent and fragmented, and that gaining a global view of how allocation ought to be prioritised is a significant challenge.[53] We also feel that responsibilities and accountability for financial decisions need greater emphasis in public budget allocation and spending.

78. We do not believe that the difficulty in gaining a global view of Government finances is simply a matter of data availability, but is instead a structural problem. The current eight-Department structure makes it inherently difficult for Government, including at a political leadership level, to allocate resources strategically across portfolios. Each Department functions with significant autonomy, setting its own priorities and controlling its own budget, which hinders the ability to identify duplication, inefficiency, or competing demands across Government as a whole.

79. The Treasury's stated aim of achieving consistency in allocation across Government Departments cannot be realised within a structure that inhibits a helicopter or global view as to where public funds should be spent. So long as Departments are effectively self-contained entities, each managing its own priorities within its own financial envelope, there will be insufficient measures to ensure that spending decisions reflect the overall priorities of Government delivery rather than the internal preferences of Departments, which may be merely activity, not outcome delivery.

80. The current Departmental structure fosters silos and duplication of functions. Priority-based budgeting can only be effective when it is implemented globally and with complete information. We consider that the best way of achieving this is to have a single coordinating body responsible for determining cross-Government priorities and directing resources accordingly. We therefore believe that a broader review of the Departmental model is warranted, so that Government can determine how to structure itself to support effective financial management and sustainability.

81. For priority-based budgeting to work in practice, the responsibility for setting strategic priorities must emanate from the Council of Ministers, and from the top down. This requires a central function to coordinate financial planning, enforce consistency, and hold Departments accountable for outcomes. We envision that this function would not replace

[52] Q29
[53] Q31

the autonomy of Departments in managing their operational delivery, but would instead ensure that decisions about resource allocation are made within a clear, Government-wide framework of priorities.

Conclusion

The current structure of Government – with eight Departments and an additional eight Statutory Boards – makes it impossible to adopt priority-based budgeting on a holistic Government-wide basis. Instead, it promotes silo and kingdom mentality, limits the ability to take a global view of Government priorities, and results in competing interests and the duplication of functions.

Recommendation 9

The Cabinet Office should recommence work on an alternative and more cost effective Government structure that maintains robust lines of accountability, for consideration after the 2026 House of Keys election.

Recommendation 10

The Isle of Man Government should be established in law, and there should be a clear top-down structure in which the Council of Ministers, as the executive, sets and proposes overall policy direction and priorities, and Departments deliver against them within an agreed fiscal framework.

Civil Service Management and Accountability Reforms

82. We note that the Public Services Commission (PSC) Report [GD 2024/0144] set out a number of Requirements for the Chief Executive Officer (Isle of Man Government) and for Departmental Chief Officers.[54] These Requirements were intended to strengthen accountability across the public sector, improve management standards, and create a framework for consistent oversight of personnel and pay matters.

83. In reviewing the specific Requirements set out in the PSC report, we note that many of them go directly to the issues raised throughout this Report. Requirements such as annual reporting by the Chief Executive Officer (Isle of Man Government) on civil service performance, the strengthening of management standards, clearer reinforcement of the Government Code and Financial Regulations, and improved transparency around senior pay would address long-standing weaknesses in accountability, consistency, and corporate coordination across the Government. Other Requirements, including the review of staffing

[54] GD 2024/0144: Report of the Public Services Commission for the periods 1 April 2021 to 31 March 2023, pp. 5-7, https://hr.gov.im/media/2765/2024-gd-0144.pdf#page=6

structures and probation processes speak to the need for more effective methods in how Government Departments recruit and manage the workforce.

84. We wish to especially highlight the following Requirements, which clearly speak to the need for strong governance and restraint across the public sector with respect to staffing and ensuring efficiency, and for the maintenance of robust lines of accountability on these matters:

- Requirement 2: There must be promotion of good management throughout government Departments, led by the relevant Chief Officer/Accounting Officer. To support this, LEAD (Learning Education and Development) should update and promote a management handbook, and basic management training should be an essential requirement for any manager, with support for carrying out performance development reviews.
- Requirement 4: Chief Officers must ensure they understand and can report (with the assistance of OHR/their OHR business partner) on the personnel structure, functions, and management span within their depts. as accounting officer.
- Requirement 7: The effectiveness and utilisation of a six-month probation period for all new PSC employees should be reviewed, with the input of managers.
- Requirement 8: PSC related policies need to be ready for reform, outcomes of efficiencies programmes and any future long-term restructuring.
- Requirement 13: The number of staff needed in each department based on core functions and efficiency opportunities should be reviewed (establishment should be identified).[55]

85. We note that several of the PSC's Requirements will only be effective if the Commission itself is properly resourced to fulfil its oversight role. In particular, Requirement 10 calls for arrangements to resource the work, role, and administration of the Commission beyond basic secretariat provision. Requirement 11 states that a dedicated budget should be made available to the PSC to fund and support prompt independent investigations when needed. We think the implementation of these Requirements will be necessary for the PSC's reforms to gain traction across the whole of Government.

86. Given the significance of these Requirements and their potential impact, we think it is extremely important that progress is formally monitored and publicly reported. Reporting on these matters will help to ensure that the reforms are not only implemented but are also working as intended, which will allow for early identification of areas where additional

[55] GD 2024/0144: Report of the Public Services Commission for the periods 1 April 2021 to 31 March 2023, p. 6, https://hr.gov.im/media/2765/2024-gd-0144.pdf#page=7

support or corrective action is needed. Public visibility of progress will also reinforce accountability and engender trust in the Government.

Conclusion

Given the clear link between the Requirements outlined by the PSC and the issues discussed throughout this Report, we consider it essential that these Requirements are implemented and that progress on their implementation is monitored and publicly reported.

Recommendation 11

The Chief Executive Officer (Isle of Man Government) and the Cabinet Office should report on the Requirements issued by the Public Services Commission, as laid out in the Public Services Commission Report [GD 2024/0144], including progress made, future milestones, and areas requiring further attention.

J Moorhouse MHK (Chair)

K Lord-Brennan MHK

J Wannenburgh MHK

December 2025

ANNEX 1: THE PROJECTED VS. ACTUAL STRUCTURAL DEFICIT, USE OF RESERVES, AND NHS ALLOCATION ACROSS BUDGETS

Office of the Clerk of Tynwald
Research and Scrutiny Support

Projected vs. actual: structural deficit, use of reserves and NHS allocation - Updated

Issued 04/09/2025

For: Economic Policy Review Committee

From: Naomi Corlett, Assistant Clerk

Request: An analysis of the projected vs. actual: use of reserves, structural deficit, and NHS allocation in Budgets from the last 10 years

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Contents

1. Summary Position (Based on the estimated delivery of the Capital Programme)

1.1 Structural Surplus/Deficit

1.1.1 Budgeted vs. Actual vs. Initial Financial Plan

Structural Surplus/(Deficit) - £'000	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Budgeted		-79,400	-67,451	-58,829	-74,229	-128,529	-97,417	-152,870	-98,015	-86,798[1]
Probable/Actual	-87,507	-8,182	-35,423	13,749	-217,376	-95,551	-94,227	-103,120[2]	-91,368[3]	
Initial financial plan forecast*		-	-53,761	-47,913	-37,591	-23,394	-24,840	-15,660	14,231	-36,310

*I.e., as projected within the first financial plan that a figure for the year appeared in.

[1] There was a presentational change in the NI surplus/deficit in the 2025-26 Budget such that the NI surplus/deficit is no longer included in the structural deficit. This figure does not include the budgeted NI deficit of 23,807 – the total is 110,605 including this figure.
[2] This figure does not include the NI surplus of 17,132 – the total SD is 85,988 including this figure.
[3] This figure does not include the NI deficit of 7,011 – the total SD is 98,379 including this figure.

1.1.2 Changes in Planned Structural Deficit across Medium-Term Financial Plans (in £'000)

	Publication Year of Medium-Term Financial Plan								
Projected Year	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
2017-18	-79,400	-8,182							
2018-19	-53,761	-67,451	-35,423						
2019-20	-47,913	-62,287	-58,829	13,749					
2020-21	-37,591	-42,232	-58,440	-74,229	-217,376				
2021-22	-23,394	-35,449	-25,920	-49,393	-128,529	-95,551			
2022-23		-24,840	-13,190	-23,361	-46,136	-97,417	-94,227		
2023-24				-15,660	-12,501	-65,402	-152,370	-103,120	
2024-25					14,231	-47,181	-84,894	-98,015	-91,368
2025-26						-36,310	-51,816	-62,559	-86,798
2026-27						-32,366	-31,065	-46,568	-64,146
2027-28							-3,366	-35,803	-43,470
2028-29								-28,561	-38,395
2029-30									-31,572

Pink = Actual structural suplus (+)/deficit(-) for year on left

By following the rows from left to right, you can see how the projections for a particular year changed across financial plans and then (in pink) what the actual structural deficit for that year was. So, for example: the structural deficit for 2019-20 was planned to be (in £'000): -47,913 in 2017-18's Budget; -62,287 in 2018-19's Budget; -58,829 in 2019-20's Budget; and then it was published that the actual structural surplus for 2019-20 was 13,749.

1.2 Net Surplus/Deficit After Interest

Overall Net Suplus/Deficit After Interest - £'000	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Budgeted		-29,618	-16,648	-10,462	-10,931	-69,918	-31,066	-127,548	-25,578	-59,871
Probable/Actual	-36,882	69,100	32,083	80,858	-161,027	-35,685	-49,547	-20,693	-40,461	
Initial financial plan forecast			-3,039	1,560	15,372	32,417	28,488	47,296	70,950	28,032

1.2.1 Changes in Net Surplus (+)/Deficit (-) Projections across Medium-Term Financial Plans (in £'000)

	Publication Year of Medium-Term Financial Plan								
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
2017-18	-29,618	69,100							
2018-19	-3,039	-16,648	32,083						
2019-20	1,560	-13,856	-10,462	80,858					
2020-21	15,372	7,939	-12,746	-10,931	-161,027				
2021-22	32,417	16,183	20,681	12,149	-69,918	-35,685			
2022-23		28,488	37,701	38,320	9,871	-31,066	-49,547		
2023-24				47,291	41,831	-5,612	-127,548	-20,693	
2024-25					70,950	15,349	-60,029	-25,578	-40,461
2025-26						28,032	-27,031	14,055	-59,571
2026-27						33,842	-6,326	27,511	-24,046
2027-28							21,842	40,764	-3,123
2028-29								50,547	2,151
2029-30									9,821

Pink = Actual net surplus (+)/deficit (-) after interest for year on left

2. Reserves

2.1 Movement on the Operating Account: Transfers to Reserves

Movement on the Operating Account: Transfers to Reserves (£'000)	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Budgeted	2,000	20,000	9,650	14,000	6,750	17,700	55,250	94,943	80,816	21,650	27,750
Probable/Actual	2,000	22,000	14,650	12,000	46,750	45,700	131,404	126,398	89,465	16,650	
Initial Financial Plan Forecast			13,350[4]	13,960	14,000	14,000	10,000	10,000	12,000	12,000	27,250

[4] Figure received from the Treasury in correspondence

2.2 Total Transfer from Reserves

Total Transfer from Reserves as stated in Financial Plans - £'000	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Budgeted	93,575	68,886	70,175	47,316	48,516	84,046	35,594	77,507	43,295	70,292
Actual		47,927	59,601	41,840	147,793	49,093	50,707	14,549	48,896	
Initial Financial Plan Forecast			72,813	82,738	87,179	34,145	24,453	11,831	12,149	28,662

2.2.1 Changes in Transfer from Reserves Projections across Medium-Term Financial Plans (£'000)

Projected Year	Publication Year of Medium-Term Financial Plan								
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
2017-18	68,886	47,927							
2018-19	72,813	70,175	59,601						
2019-20	82,738	62,792	47,316	41,840					
2020-21	87,179	60,965	51,120	48,516	147,793				
2021-22	34,145	64,758	52,869	51,987	84,046	49,053			
2022-23		24,453	12,673	27,694	24,662	35,594	50,707		
2023-24				11,831	12,961	26,765	77,507	14,549	
2024-25					12,149	27,603	34,705	43,295	48,896
2025-26						28,662	15,973	32,658	70,292
2026-27						29,853	6,555	22,991	61,025
2027-28							-3,492	25,221	59,482
2028-29								27,559	57,029
2029-30									56,221

Pink = Actual total transfer from (+)/to (-) reserves for year on left

3. National Insurance Account Expenditure – NHS Allocation

3.1 NHS Allocation

NHS Allocation (£ million)	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Budgeted	37.3	38	38.5	39.7	40.9	38.9	40.3	41.1	45.1	52.7	71
Probable/Actual	36.5	37.9	38.5	39.7	40.9	38.9	41.4	43.3	45	52.7	
Initial financial plan forecast	37[5]	38[5]	38	39	40	41	42	44.6	43.6	44.4	45.6

[5] Figures received from the Treasury in correspondence

3.1.1 Changes in NHS Allocation Projections over Medium-Term Budgets (£ million)

Publication Year of Medium-Term Financial Plan

Projected Year	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
2017-18	38.5	38.5							
2018-19	39.7	39.7	39.7						
2019-20	40.8	40.9	40.9	40.9					
2020-21	42.1	42.1	42.1	38.9	38.9				
2021-22	43.3	43.3	43.3	40.3	40.3	41.4			
2022-23		44.6	44.6	41.9	41.9	41.1	43.3		
2023-24				43.6	43.6	42.5	45.1	45.0	
2024-25					44.4	44.0	45.6	52.7	52.7
2025-26						45.6	46.1	54.7	71.0
2026-27						46.6	46.6	56.9	73.4
2027-28							47.1	59.1	75.0
2028-29								61.5	76.4
2029-30									78.1

Pink = Actual total NHS allocation

ORAL EVIDENCE

9th September 2025 – Evidence of the Minister for the Treasury, Hon. Alex Allinson MHK; and Deputy Chief Officer for the Treasury, Sarah De Yoxall

STANDING COMMITTEE

OF

TYNWALD COURT OFFICIAL REPORT

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PROCEEDINGS

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ECONOMIC POLICY REVIEW COMMITTEE

The Structural Deficit and Use of Reserves

(HANSARD)

Douglas, Tuesday, 9th September 2025

PP2025/0118 **EPRC-SDUR, No. 1/2024-25**

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Finch Road, Douglas, Isle of Man, IM1 3PW.

Members Present:

Chair: Mr J R Moorhouse MHK
Ms K A Lord-Brennan MHK
Mr J C Wannenburgh MHK

Clerk:
Mr J D C King

Assistant Clerk:
Dr N Corlett

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Standing Committee of Tynwald on Economic Policy Review

The Structural Deficit and Use of Reserves

The Committee sat in public at 10.30 a.m.
in the Legislative Council Chamber,
Legislative Buildings, Douglas

[MR MOORHOUSE in the Chair]

Procedural

The Chair (Mr Moorhouse): Good morning and welcome to this meeting of the Economic Policy Review Committee. I am Jason Moorhouse MHK, Chair of this Committee, and with me are Kate Lord-Brennan MHK and John Wannenburgh MHK.

Please ensure that any mobile phones are silent or switched off, so that we do not have any disruptions. For the purposes of Hansard, I will be ensuring that only one person is speaking at a time.

Welcome all.

EVIDENCE OF
Hon. Alex Allinson MHK, Minister; and
Ms Sarah De-Yoxall, Deputy Chief Officer –
Treasury

Q1. The Chair: For the benefit of Hansard, could you please introduce yourself, including your title and how long you have been in post?

Thank you.

The Minister for the Treasury (Dr Allinson): Dr Alex Allinson; Treasury Minister since 2022.

Ms De-Yoxall: Sarah De-Yoxall; Deputy Chief Financial Officer; and I have been in post for 22 months.

Q2. The Chair: Thank you.

I would like to begin with a broad assessment of where we are today. With only nine months really remaining of this administration, perhaps slightly longer, how positive are you, Minister?

The Minister: In what respect?

The Chair: Just in terms of your role, in terms of where we are in the economy.

The Minister: Oh, the economy. Okay – because I tend to be a positive person; I can be positive about lots of things.

In terms of the economy in general, what I think we have seen, particularly over the last five years, is a remarkable resilience of the Isle of Man economy, considering the significant stresses that we have seen, both in terms of the pandemic, then the war in Ukraine and the knock-on effects there in terms of inflation. We are running at almost full employment; we are running also in terms of good economic growth. Looking at the last Statistics Isle of Man analysis, which is 2022-23, it was 3.6%. Moody's have forecast around about 2%; they downgraded it from 2.5% because of the UK economy outlook. But overall, the economy is doing very well.

The question is how it can do better and one of the aspects in terms of Treasury is to take that long-term view, which is why we will be talking about five-year financial plans. Although, as you said, we have got an election next year, the work of Treasury spans different administrations, and has to. Because what we need is a long-term plan, one, to meet the needs of the population of the Isle of Man through expenditure, but also raise sufficient income to provide those frontline services and drive efficiencies as well.

So looking at some of the parameters, you will note that the Economic Dashboard, which is available online, shows good employment, stable benefits payments, but also increasing reserves there as well, which are very important as that cushion for any issues that may come up.

I have to be honest though: we are trying to plan and have long-term plans at a time of almost unparalleled uncertainty, market volatility and geopolitical volatility. We have seen that really since 2019/2020, where initially the Government was very concerned by the knock-on effects of Brexit and we have seen since then a whole range of issues that have come, a lot of them external to the Isle of Man, but some of them internal as well, which have affected our projections and have affected our domestic economy as well.

Unfortunately, those have not abated in some ways. When you look at some of the political instability around the world, even the events in the French parliament yesterday, you can see that there is a huge amount of uncertainty. And so one of the roles of Government in general, but particularly Treasury, is to manage to instil confidence, both in terms of consumer and also economic confidence, for those people who want to do business on or with the Isle of Man.

Q3. The Chair: Thank you very much.

In terms of one of the challenges which potentially has been absorbed into thinking, we would like to just spend a few moments considering the structural deficit. It did hit a peak during COVID, but for the past four years, it has been hanging around £100 million a year. In terms of that figure, is it a figure that does concern you? Is it something you believe we have to live with?

The Minister: I disagree with your comment that it is hanging around at £100 million. Basically, the structural deficit, as you are aware, is the difference between income and expenditure. When we are looking at long-term planning for the Isle of Man's finances and the provision of services to people in our community, there are lots of variables there, both in terms of income coming in, which has been positive and is encouraged by positive economic growth, but also overall Government expenditure, some of which can be slightly outside of our control, in terms of massive rises of inflation in terms of goods and services, but some of which is within our control.

But what we have seen over the last couple of years is some issues in terms of particularly public sector pay, not having those long-term public sectors pay policies, which I think, from a Treasury perspective, are essential for long-term financial management. Also looking at the overall expenditure on Government services, particularly in terms of things like the headcount, which is why I think it is really applaudable that, through the work of the Cabinet Office, we have got the Overview of the Public Service Workforce now being published quarterly, and we have got the Operational Performance and Change Board that was set up to really drive those efficiencies.

But if I can hand over to Sarah De-Yoxall, in terms of the structural deficit and how that is calculated, because I think, as I said, I would correct you in terms of your assessment of £100 million.

Ms De-Yoxall: So the structural deficit is a plan and it covers a four- to five-year period. But if there are changes to that plan and things do not happen, then it pushes the plan out by another year. Which is why, looking at the progress, it pushes the plan on another year, which is what you are seeing in the movement year on year compared to where we budgeted for.

The structural deficit has seen challenges because of COVID, it has seen challenges because of cost of living and high inflation, it has seen challenges with healthcare spend and all of those aspects impact the structural deficit calculation. Also what impacts the structural deficit calculation is National Insurance surplus and deficit. So depending on the impact on revenue-funded benefits, so the state pension, what claimants actually apply for the state pension and how that transitions across in the year affects the structural deficit calculation and can push it on.

Ultimately, where we are always planning to get our structural deficit position to a reduced amount, because essentially we do not want to be drawing down on our reserves forever, and whenever we are looking at our plan every year, it does change, but it changes because we are trying to readjust the plan to get back into a more positive position in that five-year period. It is moving in the right direction. So the plan and the estimate numbers and the actual numbers are getting closer together after the period of the cost-of-living period that hit. So we are starting to stabilise a little bit more.

There is an element of prudency in there, which is reflected in our reserve numbers. So our reserve positions, the actual numbers are actually better than we project. That helps to protect our reserves and we are expecting that position to continue going forward. So from the last financial year, we are expecting that position to be better than planned.

Q4. The Chair: In terms of better than planned, (**Ms De-Yoxall:** Yes.) when do you see us returning to surplus? Is that something that is on the cards or are we just going to be talking about it going perhaps below £90 million?

Ms De-Yoxall: It is reliant on a number of factors. So it is reliant on inflation remaining stable, it is reliant on Income Tax receipts and the economy still performing as it is currently, and it is reliant on healthcare spend being under control. All of those elements will adjust that structural deficit position if they are not managed, and what we are trying to do is manage that position every year, to get back. But we are starting to see that structural deficit position reduce and we expect that position to reduce going forward. So it is hopeful that it will get to a surplus position, but only time will tell.

We are making some changes to the calculation for the next budget year to split the National Insurance surplus and deficit out from the normal general revenue position, which will provide more transparency around what our structural position is for our general revenue for Department spending and our structural deficit for National Insurance, and to show that against those reserves that are related to that spend. So that will help to provide more clarity on both aspects going forward.

The Minister: In terms of the structural deficit, as Ms De-Yoxall said, it is the balance between comings and outgoings. We have obviously made significant changes in terms of the Pillar Two Corporation Tax, which will be coming on board 2027 onwards. But in terms of expenditure in this year's Budget, we have got a total outgoing of close to £1.4 billion. When you look at the breakdown of that, Health and Social Care is now the predominant expenditure from Government at £387.4 million. And that surpassed Social Security benefits and payments at £366.5 million, which is predominantly pensions.

Obviously Tynwald has previously debated some of the internal demographic changes to the Isle of Man which are driving some of these changes in terms of an ageing population and also increasing healthcare costs, partly due to that, partly also due to some of the other demographic changes we have been seeing. So there are lots of variables here, and what we are trying to do consistently in terms of Treasury is trying to balance those out and make sure that we have that long-term policy, which can deliver long-term security.

I think Mr Wannenburgh has previously been concerned with drawdowns from reserves, and so am I. It is very important that we provide the right services within the budget we have, but do not use the gains from previous administrations to actually pay for that. What I would say is we have seen through prudent use of the reserves, but also investment income, a gradual growth of reserves now over the last two to three years, despite the structural deficit, and we aim to continue that.

The question really is how we can do that, once we get to, hopefully, a period of economic stability with the rest of the world, so we have that more stable inflationary environment, and also we can actually get in complete control of the Government expenditure, particularly in terms of some of the costs we have seen driving workforce costs.

Q5. Ms Lord-Brennan: Thank you, Chair.

Just two questions, to intervene as follow up to some of the contributions made. It has been stated effectively that the projections are reliable in terms of the structural deficit and bringing that back under control, or that it looks likely that they will improve. But Treasury must surely recognise that what has been projected in terms of the deficit reducing has consistently not been met over a number of years.

So for example, in the 2021-22 financial plan, that projected a structural surplus, but actually, for this year, 2024-25, the most recent estimate for that year is a structural deficit of in excess of £91 million. So how reliable, really, can the projections be? Do you acknowledge that there is a gap between what is being projected in terms of reducing the structural deficit and the reality?

The Minister: I think you are absolutely right. These are projections and they are projections based on a degree of stability; both internal and external stability. In terms of 2021-22, we were still facing the hangover from COVID and some of the COVID costs, and then we had a £10 million supplementary vote for DHSC. Then we went into 2022-23 with really high levels of inflation, a whole range of cost-of-living schemes to help our community and also some other stresses that were there.

When you look at the overall trend, there is instability in terms of the amount that we have to draw down on reserves from year to year, but what we are trying to do with the five-year financial plan is balance those out. So the ambition is that once we return to a more stable economic environment, we can actually keep far more on track in terms of the reduction of the structural deficit.

Ms Lord-Brennan: Okay.

Ms De-Yoxall: Yes, I think the key thing is it is a plan; and as plans do, they change over time. So what was expected and projected for 2024-25 in 2022-23 will be vastly different compared to what we are projecting last year. And that is because things have happened. So we have been finalising the Final Expenditure Revenue Sharing Arrangements (FERSA), we did not know where that would land. So there is a degree of provision in there, but until these things are settled, there is uncertainty there. And I think that is the case across all of the plan, is there are elements, they are based on assumptions, they are a plan based on assumptions, and as those assumptions change, then the plan will have to change. That is why it moves over every year.

Ultimately, in a stable period, that plan should be more accurate and reliable, but it does reflect the healthcare spend being under control and in line with budget. So every time there is a supplementary vote, that will impact the structural deficit position. If Income Tax receipts are higher than estimate, then that will affect the structural deficit calculation, but it is there for financial planning purposes. So that is why we have to move it every year, depending on what the most accurate set of information and data we have is.

Unfortunately, we have seen quite an unstable economy impacted by, as the Minister said, geopolitical issues and also the pandemic experiences that we have never had to go through before. COVID, as an example, took quite a substantial sum out of our reserves, and then the cost of living increase then further put more strain and pressure onto those positions. But Departments have had to readjust to get back to a sense of the new normal and you can see that through the plan changing over time. Ultimately, with inflation stabilising and hopefully continuing to, subject to what happens elsewhere in the world, that will help to stabilise our structural deficit position.

Q6. Ms Lord-Brennan: Just my next brief question. Minister, you mentioned a pay policy. Obviously pay policies cannot determine or limit actually what gets awarded or what may be negotiated. Sometimes, though, there would be a need to send a clear and firm message and it has been done before.

So my question to you is why have you not considered announcing a cap on pay awards, if the pressures are such that they are potentially attributable to the consistent expectation and possibility of negotiated pay awards arriving across the public service and in healthcare where they do? Why not announce a freeze on pay or a cap on pay awards?

The Minister: So what I was saying previously was one of the problems with long-term forecasting, or even short-term forecasting, is that in the past we have had two- or three-year pay negotiations and pay schedules. What we have seen particularly since 2020-21 is annual rounds of negotiations, which often have been completed the following financial year and then have had to be backdated, which makes long-term planning from a Treasury perspective extremely difficult, because you are accruing pay increases that actually are not being paid during that year. That has knock-on effects in terms of National Insurance and also pension contributions as well.

So I would much rather get that sense of stability that people working for the public sector know what their pay increases will be over a two-to-three-year period, Treasury can then balance that and budget for that. That gives a much better ability for us to give forecasts in terms of public expenditure.

The quantum of the increase, as you have said, is equally important, and I think we have seen, again since 2020, various unions arguing for pay restoration, which is above and beyond inflation and above and beyond economic growth. We have seen that in particular sectors such as the healthcare sector and education sector, which are dominant parts of our Government expenditure. Often those negotiations are done with off-Island unions, off-Island organisations, and some of our pay grades are tied to agreements made in the United Kingdom.

So it is difficult to have an across-the-board pay restraint or agreed formula for that, but I know that the Public Services Commission (PSC) have been working on that recently, to try to get a far more established mechanism for reasonable, fair pay awards, which can then be budgeted in terms of Government expenditure.

Q7. Ms Lord-Brennan: But you must recognise that Treasury is literally the only part of Government with the most clout to say that no more can be afforded and we have to set some kind of limit?

The Minister: Treasury do have the ability and have done that in the past. What we have been trying to do, though, I think consistently during the course of this administration, is work with the public sector to drive efficiencies, drive better productivity and reward those people for excelling at their jobs, which is the vast majority of people in the public sector.

We are not at the point now of urging or mandating pay restraint, but we have to be cognisant that when you look at the overall figures of expenditure on the workforce, it is climbing year on year and consuming an increasing amount of overall Government expenditure. But that undoubtedly – and we have seen from the quarterly reports – is being driven by increased remuneration and also increased employment, particularly within Health and Education and frontline services.

Ms De-Yoxall: Also, we have essentially put a cap on to some extent by capping the amount of budget that Departments are given. So irrespective of the pay award, the Department's pay has been uplifted by 2%. Anything beyond that uplift to their budgets they have to absorb. So there is incentive for Departments to manage their pay costs within an amount that is affordable as part of the budget.

Q8. The Chair: Just before we move further down this road, it is worth reflecting on your previous answer, in which you made reference to an unstable economy before reflecting back on COVID and the historical nature of things. What were you meaning by an unstable economy, please?

The Minister: An unstable economic environment. The economy of the Isle of Man, as I have said right from the outset, has been remarkably resilient, but the overall economic environment, whether that be interest rates, whether that be inflation rates, whether that be some of the extra costs that the Isle of Man has to deal with, have been increasingly volatile over the last couple of years, and the Isle of Man Government has had to try to meet those, both by obviously dealing with the day-to-day expenditure, but also looking at increased productivity and efficiency to manage and mitigate some of the significant increases we have seen, particularly in terms of energy costs.

Q9. The Chair: Twice so far you have disputed the fact that we are hanging around £100 million in terms of the structural deficit, but in the last four years, last year was £8.6 million below; the year prior to that, it was £3 million above; the year before that was £5.8 million below; and the year before that it was £4.5 million below. Going forward, are we going to be actually going back over £100 million in terms of the challenges you have outlined in the past 10 minutes, in terms of pay, in terms of Health and in terms of the departmental spend? Is it realistic to say we are actually going to move away from that £100 million? You have previously suggested twice that we are moving away from that.

The Minister: I think we are. When you look at some of the successes of this administration in terms of looking at spending, in terms of working with the individual Departments – and no doubt we will get on to priority-based budgeting as well – in terms of limiting their spend, in terms of driving efficiencies, in terms of workforce, we are in a much better situation now, particularly in terms of the data we have in terms of individual departmental spends, than I think we have ever been. Also, Treasury have been involved in regular scrutiny panels with all the Departments to actually analyse in real time their spending, rather than wait until the end of a quarter or the end of a financial year to then look at what has then become an overspend.

So I think we are in a much better position to actually look at the amount that we are spending. But also, again, in terms of the structural deficit, there is that need to drive income as well, which is why the Island Plan and the Economic Strategy are so important.

Q10. The Chair: And just in terms of the data and the challenges, do you feel confident that moving forward you actually have an accurate five-year plan in place?

The Minister: As we have already said, it is an accurate projection at this point of time, but there are a lot of circumstances that can affect that projection going forward, particularly as you get beyond two, to three, to four, and up to five years.

One of the aspects that we have been grappling with, both in terms of Treasury, but also other Departments, particularly DoI, is the capital programme and the performance of that, and trying to drive investment in infrastructure at a time of very high unit costs, and also a contraction of the construction industry on the Isle of Man, which has made it incredibly difficult to go out for tender on certain small and larger projects. So that is why, unfortunately, we have underperformed in terms of the capital programme, I think.

We have brought in the project development funding to try to get far better capital projections, but we are still working on that to make sure we can invest in the infrastructure in an affordable, reasonable and responsible manner.

Q11. The Chair: But given the issues in terms of the spend on capital projects is not going through, how can we have got a situation where as recently as 2024-25 in the Pink Book, the structural deficit planned for this year is £24 million lower than the figure now budgeted for in the 2025-26 Pink Book? Why have we still got that kind of issue?

Ms De-Yoxall: Sorry, could you repeat that?

The Chair: Yes. In terms of as recently as 2024-25, the Pink Book, the structural deficit planned for this year was £24 million lower than the figure now budgeted in the 2025-26 Pink Book.

Ms De-Yoxall: So that is because the plan in the 2025-26 Pink Book had to be readjusted to reflect experience and what was happening the previous year.

So there is an element of projection in terms of where we think we will be, but as I mentioned before, when the plan has not actually been realised, it pushes that position out a further year. So that is what you are seeing across the years. That is why it looks as though it is £24 million higher, but as we do the budget planning for this year, that figure will change, because five years is a long time to project out for and things happen in the year which were not realised. As I mentioned, the 2024-25 Budget will reflect a certain planned FERSA position, and as we know, that position was only finalised this year. So that will affect the plan moving forward as well.

Q12. The Chair: So we are almost six months through this financial year. In terms of where we are, are we at the place you expect us to be?

The Minister: Actually, in many ways, we are in a better position than we expected to be. We should be issuing the first quarter management accounts of this financial year this week, which show income coming in on target, and certainly above target in certain areas, but also expenditure being controlled in a wide range of Departments, although there are some significant risks in terms of particular Departments, such as Health and Social Care related to the Mandate to Manx Care.

Again, when we are looking at some of the projections, I think we need to also be aware that it is not until we get the full audited Government accounts that we can actually rationalise the exact amount we have needed to draw down from reserves, which is I think what the listeners are really concerned with in terms of some of the accounting procedures with Treasury.

That is what we want to know: how much we are having to draw down on reserves and what the total reserve value is. And as I have said, the total reserve value has increased and the amount we are drawing down on reserves in real terms has been getting under control and has been reducing.

Q13. The Chair: And given the financial pressures from the pay in terms of Health and other areas, you still feel confident we are heading in the right direction?

The Minister: Absolutely.

Q14. Ms Lord-Brennan: So even though there is a pattern of the projections actually not being accurate, if someone was to put it to you that it is always a case of jam tomorrow, it is always going to get better in the future, you would reject that?

The Minister: So in terms of the medium-term financial plan, looking at the structural deficit, that has been relatively accurate up until around about 2020. What we have seen is significant instability really since 2019 going forward, which has affected our ability to accurately forecast. I do not think that is an issue necessarily with the validation of the forecast. It is just the reality of the volatility and uncertainty in some of those long-term projections, such as interest rates, such as inflation rates, such as other costs, which are very difficult, both for Treasury, and most economists around the world, to accurately forecast, particularly when you are going past six months.

Ms Lord-Brennan: Okay. Happy for me to move on?

The Chair: Yes, please. Thank you.

Q15. Ms Lord-Brennan: Okay.

So the next set of questions will be around the use of reserves. We have heard a lot already about external pressures and about the need to try and plan for the unknown. You have mentioned that the use of reserves ought really to be a cushion against the unexpected. There has though been a longstanding reliance, over a long period of time in Government, on using reserves, really for business as usual – so to basically fund the normal operations of Government Departments. This is acknowledged throughout the Budget, but what are the plans to reduce this reliance on reserves in terms of being used just as a matter of course for ordinary business?

The Minister: Yes, I think you are very right. From a Treasury perspective, reserves, if they are to be used, should be used for investment, particularly in infrastructure, that can then give a return. We have, on the Isle of Man, been in the fortunate position of having significant reserves for a long period of time, but those have had to be drawn down on over the last couple of years, particularly in terms of some of the economic pressures that were faced with us. And we have not got back to the situation, necessarily, of being able to put money back into those reserves.

There are a couple of ways of doing that. One obviously is by generating interest on the reserves and then reinvesting that. The other is actually exceeding income over expenditure and being able to pay money back in. What we have seen recently, by looking at the investment profile, is we have managed to grow the reserves. The question is, in real terms, whether we can get back to the way reserves were before in 2018-19, and that is certainly our intention.

It is important we have reserves. It is also really important, though, that we manage to finance Government expenditure not at the expense of the local economy. So it is trying to get that balance right. But I am fairly confident that with the plans we have got, we can stabilise reserves, which we have done, and then start building those up again in the near-to-medium term.

Ms De-Yoxall: Also what we have is a position where we have ringfenced. So we ringfenced £90 million in the Economic Strategy Fund, we have got ringfenced funding in the Climate Change Fund, and draw down from those specific funds to help support the activities that they were designed to generate will also look like we are taking more from our internal funds, but they are one-off activities over the period of this administration to help support the initiatives of the Economic Strategy and the Island Plan, and the Climate Change Act.

So all of these drawdowns and activities that are being incurred in those areas will show as a drawdown from our internal funds. So it is expected that our internal fund drawdown will be at a certain level, because we are spending from those funds that were designed for investment in those areas.

What we did see over COVID and the cost of living was an increase in the drawdown from our more generic internal funds, which was contingency. And in the plan, we brought that estimate down quite substantially, by about 50%, and it has remained at that across every year since the cost-of-living pressures eased slightly. So that contingency funding has come down quite significantly, but some of the other funds have gone up a bit, such as the Economic Strategy Fund and the Climate Change Fund.

Q16. Ms Lord-Brennan: Okay. Because a lot of the pressure will also just come from the ordinary cost of Government, and whilst many people would think, absolutely, the reserves are there for those exceptional times, they are there for a rainy day, where do serious efforts to reduce the cost of Government come from, from a Treasury perspective? And how is that set out to Departments?

The Minister: In terms of at the macro level, what we set out quite blatantly in this year's budget was a 2% provision for pay, any pay increases, and a 1% increase for any non-pay increases. When we have got inflation hovering between 2% and 3%, that means that all Departments will need to look at the services and supplies that they issue and buy, to drive efficiencies to stay within budget. Similarly, as we have previously outlined in terms of pay costs, if those are in excess of the 2%, they would expect to maintain that from their budget.

So what we do right at the start of the year is look at the overall envelope for individual Departments, work with them to make it quite clear that they need to prioritise their spend to stick within that budget, and then review that on a regular basis as we go through the financial year to make sure that they are adhering to that and they have the right support and advice to be able to do so.

So by doing that, what I am hoping we can do and what we have been trying to do over the last couple of years, since I have been in Treasury, is drive those efficiencies and reduce, at a time of what was quite high inflation, the overall net real costs for providing those services to our community.

Q17. Ms Lord-Brennan: And how do you see the situation between that delicate balance which exists, with the Island needing to live within its means, but also maintain a competitive tax environment? In addition, we have got a Government that in terms of the basic operations seems to be costing more and not less. How do you square all of that off? The continued use of reserves, even though it is always hoped that they will be reduced, it is acknowledged that they are being used to fund ordinary Government activity. How do you bring those things together to make sure that the Island is going to be in a position of stability and strength, and still have those reserves for a rainy day?

The Minister: When you look at the overall budget for this year in terms of incomings, which were predominantly VAT, resident Income Tax, National Insurance, but also company tax, the income is £1.38 billion. The outgoings were £1.38 billion. So in terms of day-to-day spend, we are living within our means. What that does not account for is some of the infrastructure investment, it does not account for some of the contingency funding that we have to provide to actually drive forward public services, but overall, we are managing a managed budget, albeit having to draw on reserves from time to time to meet some of the shortfalls.

In terms of your comment about a competitive environment, I think you are absolutely right. The Isle of Man has always tried to maintain competition in terms of being a relatively low-tax jurisdiction, but also the ability to provide high-quality public services to the people who live here. That is always going to be a pressure point, particularly when you have got increased demands for things like education, healthcare, but also increased costs for those established services that people demand and expect.

That is why we have been trying to look at a more progressive taxation system, brought in some changes both to the rates of tax, but also tax thresholds. We have looked at the tapering of the tax threshold for those people earning over £100,000. We have also been bringing in changes to Corporation Tax as well, to make sure that we are not just taxing the workers and people working on the Isle of Man; we are also trying to share some of the considerable wealth and the growth in GDP that we have seen across the board. But we are living in a very competitive environment.

We are dealing with some issues in terms of recruitment and retention across the private and public sector, and it is absolutely right that we try to create that entire package to make the Isle of Man an attractive place to remain, but also to move to, if we are going to fill some of the skills gaps that we have and drive the economic growth that we need to succeed.

Q18. Ms Lord-Brennan: What do you mean by progressive?

The Minister: By progressive taxation system, what I mean is that those people earning more pay more into the tax system, and we have achieved that already in terms of some of the issues we have brought in over the last two budgets.

In terms of a longer-term taxation policy, again, the Tax Strategy that was received by Tynwald is just up until 2026. What we need to do from next year onwards is look at some of the international changes to taxation that we have seen, particularly in terms of Pillar Two, but also some of the Organisation for Economic Co-operation and Development (OECD) changes in terms of personal taxation and make sure that we remain competitive compared with other jurisdictions, particularly the United Kingdom, where we tend to attract most people from and where most of our residents, if they are going to leave the Island, end up.

Q19. Ms Lord-Brennan: Do you not think things need to be more controlled and that rather than go for a higher-tax, bigger Government, that actually it needs to be quite the opposite?

The Minister: I am not saying we should drive taxes higher, and I am certainly not saying we should have a bigger Government. I think what we have seen in terms of this administration is a real concentration on the size and scope of Government, trying to make absolutely certain that we have the right data and that we know where that spend is going.

As I have said, what has been evidenced is that some of the increase, particularly in terms of people and the costs of those people, has been in frontline services, particularly Education and Health. So I am certainly not saying we should have a bigger Government, I am certainly not saying we should have more expensive Government. We need far more productive and efficient Government and we need a taxation system that rewards people for their endeavours on the Isle of Man and does not unnecessarily take income away from them.

Q20. The Chair: How is this increasing tax take being assessed? In terms of the individuals you are looking at, they will receive the best financial advice and they are the most mobile in terms of looking at other locations. So how are we actually doing it in a way that will not actually kill the golden goose?

The Minister: I think there you are talking about perhaps high-net-worth individuals, if you are talking about that. When you look at the breakdown of people who earn on the Isle of Man, it is predominantly people of median income, is predominantly of people on relatively modest incomes on the Isle of Man, and because of our National Insurance and taxation system, they probably bear a disproportionate burden in terms of paying for the essential public services that they use. What we have seen, though, is by changing some of the parameters in terms of Corporation Tax and also tax for people who are earning over £100,000, we have had a more progressive system.

When you look at the overall burden on people living on the Isle of Man though, actually, tax and National Insurance is only one part of it. One of the increasing issues that the Treasury are aware of, and I think most people are aware of, are other costs for living on the Island, particularly housing costs. That is why we need to look significantly at how we can provide adequate and affordable housing for people on the Isle of Man who are already here, because particularly on people on median incomes, that is a predominant part of their expenditure now.

Q21. The Chair: And as our previous report did suggest, it is those people with the medium incomes who are actually not having the advantages of living here that they have traditionally had, and that concern, is it something that is being factored into your assessments going forward?

The Minister: Indeed it is, because what we have seen is, particularly when we are comparing the Isle of Man with the adjacent isle, they have had some quite significant changes to their National Insurance rates under the last administration, which put us out of kilter with those. Similarly, whilst our taxation rates have remained relatively low, some of the changes in terms of allowances and other advantages for living in the United Kingdom need constant tracking. It would be very interesting to see how their Chancellor responds to some of the significant financial pressures they are under when she gives her budget in November.

Q22. The Chair: Just reflecting back on the actual spend and the income of the Government that was referred to as being £1.38 billion. It was a reassuring answer in terms of things being in balance, and not huge amounts of reserves being used at that moment, but the problem is with the use of reserves, if you actually look at it as a cumulative figure, over the past five years, we have actually taken out over £600 million from reserves. That is a significant sum. In terms of what we have asked previously, in terms of the figure still being over £90 million a year, do you have concerns about that?

The Minister: In terms of the drawdown on reserves? (**The Chair:** Yes.) Yes, absolutely, and that is why we have a medium-term financial plan, which reduces that drawdown on reserves by controlling the structural deficit.

When you talk about drawdown on reserves, though, you also need to look at the overall level of reserves because that drawdown does not necessarily count for the interest that is created on those reserves, which can be compounded. So the latest figures we have is that in real terms, our reserves are worth £1.96 billion at the moment. That has increased since the COVID times. However, I agree with you that we need to constantly make sure that we are not drawing down on reserves, and we are actually reinvesting some of that investment income for the benefit not only of the current population, but also future populations.

Q23. Ms Lord-Brennan: Do you know how many millions have been taken from the pension reserve in the past eight years? And if not, can you provide that to the Committee?

Ms De-Yoxall: Are you talking about the Public Sector Employee Pension Reserve?

Ms Lord-Brennan: No, thinking more about the resilience of the funds available for future generations to support their state pensions.

The Minister: Is this the National Insurance Fund?

Ms Lord-Brennan: Wherever that funding would come from.

The Minister: There are two things that often get conflated as the public service pensions. There is no fund. (**Ms Lord-Brennan:** Yes.) There was a deliberate policy from the last administration not to have a fund, so that is taken out of general revenue. And then you have got the National Insurance Fund itself, which is provided to fund obviously Social Security benefits, some of those; predominantly also in terms of state pensions. But also there is an NHS allocation from it as well, which goes to pay for the Health Service.

So in terms of the overall amount of money taken out of the National Insurance Fund, as opposed to what is coming into the National Insurance Fund, both in terms of personal contributions, but also the correction from the United Kingdom for those people who may have previously paid National Insurance there, there are various charts in the budget which look at the amount coming in and out of the NI Fund overall. The NI Fund has been growing overall and is now over £1.1 billion.

Q24. Ms Lord-Brennan: But that NHS allocation is basically used to fill a gap in a shortfall from overall Government activity. And if you look at the figures, it balances out, not just in respect of the NHS element.

The Minister: Since the creation of the welfare state and the National Insurance system, there has always been an allocation for the National Health Service coming out of that fund. So I would disagree with you that it is there to somehow plug a shortfall. It has always been there to contribute towards the National Health Service expenditure.

What we have seen, though, is obviously that the growth in National Insurance has not kept up with the growth in expenditure on the NHS, which is exceeded both, in some ways, inflation at times, but also economic growth of the Isle of Man. So it is looking at the overall balance of the amount of money we are spending on healthcare, which as I have said is now on one of the most dominant expenditures of Government. The contribution from the National Insurance Fund is relatively modest, when you look at the overall expenditure on health, and certainly is not there to plug any gaps, but is there as an inherent part of the funding system.

Q25. Ms Lord-Brennan: Okay, thank you.

The next section is going to concentrate on a few questions to do with Treasury's role in trying to control Government spending overall. The Budget this year states that enhanced financial monitoring has been introduced. Can you tell us what exactly is that enhanced financial monitoring and how do you expect it to result in reductions in spending? We would particularly like to know what are you asking from Departments. Are you requiring them to report in on wastage or how their funds are being used, and whether they are actually being used for public service benefit as opposed to just resourcing what might be considered bureaucratic activity?

The Minister: One of the first things we have done is actually publish quarterly management accounts, so that they are available both to the Public Accounts Committee, but also to the general public, to show where we are in real terms during the year, in terms of individual departmental spending, and also looking at the pressures they may have in terms of the various costs we have talked about.

There is obviously also the Operational Performance and Change Board looking at driving efficiencies at a more Council of Ministers and Government level. But in terms of Treasury, what we have been doing is having regular scrutiny panels interviewing individual Departments on a regular basis, looking at their financial management, their financial accounts. I will probably pass over to Ms De-Yoxall, who operates these.

Ms De-Yoxall: What we do is look at the management accounts that are produced. So we have, as part of the scrutiny panel process, improved the timeliness of the generation of the management accounts. That is one thing that has been beneficial. We get all of the management accounts now on working day 13 and then those are reviewed by the scrutiny panel in advance of the monitoring sessions.

Those monitoring sessions will look at some of the pressures or their overall position and what is driving their overall position, some of the risks that the Departments are finding and what mitigations they have in place to address them, when the trigger point is for addressing those problems as well, and looking at the forecast. What we will do as part of that process is we will rate those Departments in terms of red, amber and green, depending on their risk of not achieving budget, their risk of not implementing mitigations, and we will then look at providing support if that is the case.

Support can come from additional assistance and help with looking at their mitigation plans and their financial position. It can also come in the form of looking at what the next steps are for the Department. So helping to soundboard as well with the Department in terms of what they should look at next and increasing that business partner support if required.

So that is what is happening with the scrutiny panels at the moment. It proved very beneficial last year. The Departments all came in on budget, apart from one, which was a much better position than we have seen previously, and the Departments have said that they appreciate the scrutiny panels and the opportunity to support them through this process as well. Because it is challenging; they are getting lower budget uplifts than their experience in inflation and increase to costs.

So having the opportunity to speak with the panel and to go through those, provide measures and helping them to support with measures has proved to be quite beneficial. They are continuing every month. We report through to Treasury and the Council of Ministers on the overall position every quarter.

The Minister: And I think it is quite right that you are looking at expenditure and income as well, (**Ms De-Yoxall:** Yes.) because sometimes people forget about the departmental Income and updating that in terms of the overall cost of providing those services and making sure that is balanced.

Q26. Ms Lord-Brennan: It used to be the case a few years ago that Departments would have to come to Treasury and explain why they wanted funding for particular capital expenditure or revenue projects and essentially make that case, make that pitch. And you would be aware that actually you would be under scrutiny for individual projects in Departments. More recently, there has been a change to basically say, 'Look, Departments, it is up to you how you spend your money.' Do you think that is working out correctly for public benefit and, indeed, control?

The Minister: I think what happened previously was that Departments would come in with a whole range of revenue bids, or capital bids, which were above and beyond their usual expenditure, but often were not time limited; were just adding on extras all the time. I think given the times that we have been through, it is absolutely right to say, 'Look, we can afford a certain amount for your departmental spend. It is up to you, if you want to do extra things, that you therefore cut back on other aspects of your overall expenditure to afford those.'

This was the start of far more priority-based budgeting with Departments. Rather than them just adding on extra services and extra costs, it was actually rationalising what their operation should be providing and doing it in the right manner within the budget that they were given. This was very much a response to some of the inflationary pressures we saw in 2022-23. We will constantly review that and we have asked Departments this year to come forward with any particular things that they want to fund in an extra way which can meet the aspirations of the

Island Plan and align with that. But it is also really important that rather than just add on cost year on year, we actually rationalise what Departments are doing day to day.

Q27. Ms Lord-Brennan: Okay. And in the scrutiny panels, what does accountability look like for Departments if they do not generate savings or they cannot explain properly where their funds are going for impact?

Ms De-Yoxall: So a report is done to Treasury and to Council to inform them of the opinion and observations of the panel as part of their management accounts and the scrutiny panel process. So any concerns around the lack of mitigations to address risk, the lack of savings to help bring them back on budget, all of those things are included as part of the scrutiny panel report, which is then fed through, as I mentioned, to Treasury and to Council.

The Minister: And then we have an honest discussion about the state of Government finances, about the state of sometimes one or two particular Departments and the pressures they are under and will then make a collective decision in terms of how to necessarily deal with that, whilst still keeping on track in terms of overall Government policy.

Q28. Ms Lord-Brennan: Is there anything that you see that is a frustration for you, as Treasury Minister, that you think, actually, you really wish things could be brought under control in a greater way, or are you comfortable that the spending and the decisions are going in the right direction?

The reason I ask is because it feels like Treasury is there as a helpful friend, it is there as an enabler, and I think that given that Treasury is the only thing that can protect what is public money, we do not often hear of any serious measures coming out to bring those things under control. So what is your view?

The Minister: So I take the role of Treasury being, without being clichéd, the custodian of the public purse extremely seriously. The way we have tried to adopt the relationship with Departments is very much working alongside them and trying to help and assist them in constructive ways. However, we have also said no on numerous occasions and come down on Departments who are either unrealistic in their spending programmes, unrealistic in terms of what they want to spend money on, or are not performing and not raising enough revenue to meet their existing budgetary requirements.

We have been trying to do that in a constructive way, rather than a draconian way, but there is that responsibility on Treasury, as you have said, to make sure that all Government Departments are aligning to the budget that has been set by Tynwald, at the end of the day.

In terms of directly stepping into Departments and ordering them to instigate particular mitigations, I think the use of the scrutiny panels and doing that month on month during the financial year has been successful in terms of getting the some of the Departments that were forecasting overspends back to balance. But it is common knowledge that we are having significant issues with particularly Manx Care and their spend at the moment and are meeting quite regularly with the Department and Manx Care to see what mitigations might be necessary to adjust their spending, but still provide the services that people need. It is difficult, it keeps me awake at night, it is not easy.

Q29. Ms Lord-Brennan: What do you think priority-based budgeting could look like in practice? And do you think it is possible within the current structure of Government?

The Minister: Yes, thank you for the question.

Actually I answered a Keys Question to David Ashford back in November 2023 about the budget process and priority-based budgeting, and very much painted the picture as you have, that what we have been trying to do is setting the overall financial envelope available for Departments and then given them the flexibility to allocate their budgets against their priorities in line with the departmental plan and Island Plan.

Further to that, though, what I said at the time was that we were looking at further work in terms of overall priority-based budgeting across Government. In July, we went out for expressions of interest to get independent financial advice to come in to do that piece of work. We have started that now.

That is a large bit of work. It is going into granular detail to every single Department, looking at their expenditure lines, looking at what are statutory services, what are other services that they provide, trying to allocate exactly what budget is to each one and then, when we get the wider picture, talk both in terms of departmental, but also across Government, what we can provide given the budget available and what we should be increasing, but also what we should be decreasing. And some of that may be looking at the statutory services that are currently provided.

So the idea about priority-based budgeting, rather than just increase a Department's budget year on year is to actually go back really to basics in terms of their granular spend and look at the services they are providing, interrogate that, make sure that we have got some consistency across all Departments, but also look at where we can manage savings, so that we can improve those services that really are important to people on the Island.

Q30. The Chair: Just in terms of priority-based budgeting, was it not tried during the previous administration with Education? Was that something that was ...?

The Minister: I think various Departments have looked at trying to prioritise various parts of their spend. We have had an independent review in terms of the funding of Education, the Premier Advisory Group (PAG) review, but that was far more at a macro level, looking at overall secondary schools and overall primary schools.

What priority-based budgeting has the ability to do is interrogate that far more down to a much lower level and look at why spends in one Department might be above another Department, trying to get some standardisation there, but also try to make sure that those officers and politicians who are involved in the Departments actually understand where their budget is being spent, and understand also the control that they may have over that.

I think it is all too easy, unfortunately, for individual Departments to say, 'Oh, we have had to spend more money on this, because it has just happened, it is out of our control.' I think there is always an element of control. Sometimes it is politically difficult. We quite constantly talk about making difficult decisions. They are there, but they can be made. As Ms Lord-Brennan has already been talking about in terms of controlling pay, you can do things. You can deal with vacancies, you can not fill posts, but that sometimes has a knock-on effect in terms of service provision. But you were more au fait with priority-based budgeting than I am.

Ms De-Yoxall: Yes. I am not aware of any attempt at priority-based budgeting in the previous administration, but I think there was a desire to do something in that space a while ago, a few years ago, and unfortunately events unfolded. I think that was over the COVID period (**The Minister:** Yes.) and that prevented the work being done on it. But that work, as the Minister has said, has commenced and we expect to see the initial findings of that in a couple of months' time.

The Minister: And again, sometimes people talk about zero-based budgeting, priority-based budgeting, to me they are similar, apart from, in terms of public services, there are some mandated statutory obligations. So going back to zero is difficult, unless you change the legislation that the various Departments are working under.

Q31. Ms Lord-Brennan: I appreciate there is a lot that goes into managing, or even understanding, all the financial aspects of Government at an official level. From your perspective, is something like zero-based budgeting, if we absolutely needed to and we said, look, we really need to bring things into order now for the sake of future generations and for the protection of reserves, do you think setting in place zero-based budgeting or priority-based budgeting is achievable within the current system of eight Departments?

Ms De-Yoxall: I think it is a challenge, but the first step is to really understand how much our services cost the public sector. So that is the piece of work that is being done at the moment, is to really understand what services we are delivering, at what standard they are being delivered at and at what cost they are being delivered at. Once we have that as a starting position, then I think we can then look at how that interacts with the budget-setting process.

But the data is the challenge, and that is the piece of work that is going on at the moment, is to really get into the nuts and bolts of the data, to actually really get an understanding of the costs of the services that we are delivering. I think, once that is done, then looking at what Departments have the ability to potentially alter is the next step – so what can you do within the existing service provision to look at altering the cost of those services and what impact does that have on the provision.

The Minister: Some of that data already exists, but it does not exist right across Government –

Ms Lord-Brennan: I was going to say. Is it hard to get a global view, that if you needed (**The Minister:** Yes.) to, you could say, right, that allocation would be simpler if there was a global view (**The Minister:** Yes.) and a clearer point of reference, rather than points of reference.

The Minister: Just having to go to each Department and not being able to contrast and (**Ms Lord-Brennan:** Yes.) compare in the same way. And that is why, to have a consistent way of priority-based budgeting, allocation and evaluation right across all Departments, whether that be in Infrastructure or Health, and being able to see how people manage their budgets and how people manage their spending on the same basis is really important. Otherwise, I would agree with you, that it is quite sometimes convenient for an individual Department to say, 'Oh, we are different, we are not the same as another Department, we cannot do that.'

In essence, what we are talking about is spending taxpayers' money. I think there has to be a consistency right across the field of all Departments on that, and hopefully priority-based budgeting will give that overall view, so that we can perhaps identify those areas where, actually, it should be the same, but it just is not, for whatever reason.

The Chair: Thank you, Mr Wannenburgh.

Q32. Mr Wannenburgh: Thank you.

I am a Member of a Department and I know how tough it has been for my Department with regard to pay, in what you describe as a volatile economic climate. So why would you think 2% is appropriate or adequate, particularly for a Department that I am in, where a significant amount of that spend gets put onto pay; and inflation, we know what it has been like. So why do you think 2% is the number?

The Minister: In terms of the Department of Home Affairs, I think close to, or just over, 90% of their overall expenditure is on people, because you provide frontline services. When we set out with this Budget, one of the key issues was what the country could afford. Again, as we have said, there are always Departments who have statutory responsibilities, who have a larger proportion of staffing costs; and some of those staff are key trained professionals, often who are linked with various pay bodies on the adjacent isle. And so our ability to control that pay sometimes, at the same time as attracting and retaining those staff, is a struggle.

However, by having an overall policy of 2% for pay, 1% for non-pay, what we have tried to do is really work with Departments to see where their cost pressures are. That sometimes means that vacancies will not be filled, that sometimes means that people will not be replaced when they retire, if those wage bills exceed that 2%.

I think that is sensible, that is rational to bring that through. But what we have been doing with the scrutiny panels is where there are exceptional circumstances, for instance, where one Department needs extra revenue contingency or needs the consideration of these pressures, that is built in at a very early stage in terms of the financial year, so we can forecast where those pressures might end up at the end of the financial year in terms of extra revenue expenditure. And then see how that can be offset by things like income generation or savings and efficiencies in other areas that perhaps do not directly affect the delivery of frontline services.

Mr Wannenburgh: Okay. With respect, I do not believe you have answered my question.

The Minister: Your initial question was is it sensible. (**Mr Wannenburgh:** Appropriate.) Is it appropriate. I think it is. You have got to start somewhere. You have got to have a common policy right across Government in terms of what Treasury expects from 1st April, various Departments, what their budget should be, in terms of dealing with some of these increases. In terms of the 2% for pay, 1% for non-pay, that is less than inflation – 1% is less than inflation – so we are looking at individual Departments to make efficiencies, to make productivity savings, absolutely.

Q33. Mr Wannenburgh: And the time will come where those savings will involve closures of fire stations, for example.

The Minister: Not necessarily. Again, that comes down to the priority-based budgeting. So if fire stations are seen as very important for the provision of services and perhaps amalgamation of fire stations will not produce that same service level, looking at other ways of meeting those savings. Otherwise, we are just increasing Government expenditure year on year with no decent evaluation of the services we are providing, whether they need to be provided in that way, whether they can be provided in other ways, whether they can be provided by other people.

Obviously Fire and Rescue is a very professional service, but looking at some of the fire stations around the Island, we need to look at the geographical spread, we need to look at response times, we need to look at the best way of achieving the KPIs that are set out by the DHA of doing that. So analysing that, working with the professions involved, is absolutely the right thing to do, rather than just cutting back on services when actually we can produce a more efficient service.

Q34. Mr Wannenburgh: Okay. Thank you.

Just before I start my section, when you appeared before this Committee some time ago, I specifically asked you are you capable of making hard decisions. You recall that?

The Minister: Unfortunately, I do not. (**Mr Wannenburgh:** Okay.) I do apologise.

Mr Wannenburgh: You said you absolutely could make the hard decisions. So I ask you now, what hard decisions have you made and what benefits have they brought?

The Minister: In terms of the hard decisions, again, I am a Minister, but I am also part of the Treasury board. I have other political Members there and work with officers in Treasury and with the Council of Ministers. Some of the changes that I have wanted brought through were not supported by the Treasury board, by the Council of Ministers.

So I do not want to put over the impression that I alone can radically change things in terms of the Isle of Man Government. But what we have been trying to do, and what I have been trying to do right the way through my tenure in Treasury, is to work with all Government Departments to drive those efficiencies, productivity, to understand what the cost pressures are, and actually make sure that we can start bringing individual Departments back into budget, at a time when two years ago we had four going for supplementary votes. I think what we have done, by being prudent, but also by being relatively hard with those Departments, is at the end of the last financial year, we only had one Department that was over budget, which was Department of Health and Social Care because of Manx Care.

So we have been working with various Departments to make some difficult decisions. We have also been looking at the overall taxation regime on the Isle of Man, trying to make sure that we remain competitive. But that has led to some increases in costs for people on the Island in terms of charges, but also in terms of taxation. But what I am keen on doing is when I leave my role in terms of Treasury next year, leave the Isle of Man economy and the Isle of Man finances in a much better state, but not at the expense of public services.

Q35. Mr Wannenburgh: Okay. Thank you.

You just touched on Health spend there. This next section is exactly on that. So looking now at the charts on the NHS allocation from page 15 of our paper onwards, we know that the budgeted NHS allocation for 2025-26 has increased significantly. On page 8 of the 2025-26 Pink Book, it is stated that £6.3 million of this increase was due to a statistical revision, and the remaining £10 million is due to a policy change, raising the allocation from 19.3% to 24.8%. Could you explain this policy change?

The Minister: There are two things there. As you said, it is detailed on page 8, and I did also detail it in my Budget speech this year. When we were looking at the overall NHS allocation from National Insurance payments, and what we were trying to do is make it far more accurate. In the past, the forecasts have not been … the accuracy has sometimes been questionable and what we have then had to do is after that financial year try to reallocate that. We have tried to bring in far more timely and better data, so that we can get the allocation right.

We have also looked at the last Budget about reducing the upper rate of Income Tax from 22% to 21%, and so looked at the shortfall in terms of revenue going into the National Health Service through that, and so increased, as you said, the NHS allocation from National Insurance payments that year from 19.3%, which it had been for some time, up to 24.8% for a set period of time. That was a way of bridging that funding gap as we looked at overall healthcare spending and bringing it back into a far more balanced profile.

Q36. Mr Wannenburgh: Do you think you have done that?

The Minister: We have made the changes in the Budget. We have allocated historically large amounts of money to healthcare spending. The work we are doing with the Department and with Manx Care is ongoing. I think they have been quite vocal in terms of their forecast overspend after the first quarter of the year. We are working with them closely to try to bring that into a manageable situation and understand some of the cost pressures that are facing healthcare. As I said, I do not want to concentrate on Manx Care, but when you look at the overall Government expenditure, it is now the dominant aspect of expenditure.

It is also very important for people on the Isle of Man, not only that they see where the money is going, but they actually see the benefit of that extra revenue that has been provided by Government. And they see that in terms of whether it is waiting lists or GP appointments or dental appointments. Which is why we have been working very closely with the Department and

Minister Christian to try to make sure that she gets the right support she needs to drive the efficiencies and drive the increased provision of healthcare on the Island, given the budget that has been allocated to her Department.

Q37. Mr Wannenburgh: Okay. Thank you.

It is important that you just mentioned that the public should see those efficiencies. Do you think they are?

The Minister: I think there has been far more information being published now, vocalised, than possibly ever before, in terms of the reports that are being produced, the briefings that are being given to the public in terms of expenditure; also in terms of the KPIs that are linked to various departmental plans and the Island Plan. And also the Overview of the Public Service Workforce and the quarterly reports on that, so that people can actually understand, in a way that probably they have never done before in real time, what this Government is providing, how it is providing it, who it is providing it with and how much it is costing.

Q38. Mr Wannenburgh: Okay. Thank you.

What I can say as a constituency MHK, and I am sure you can say it as well, public briefings are one thing, waiting lists are an entirely different thing; and dental waiting lists in particular. So I am not sure that it is working.

The Minister: I would agree with you. I think there is a big difference between perception and personal experience. And again, as a constituency MHK, I am often struck by stories of people who have been in severe pain, in severe medical problems, have had a heart attack, have had a stroke, have experienced Manx Care and the services of our healthcare providers and have had absolutely brilliant service; have been treated very quickly, have been flown off the Island, have had first-class care and are very grateful for that. But that can be contrasted with some people, perhaps with chronic conditions, who are on long waiting lists, people who are unable to access simple things such as an NHS dentist or get a GP appointment when they need one.

That is why, in this year's Mandate to Manx Care, the Health Minister made a significant push in terms of increased provision of community services, of the setting up of wellness hubs, of bringing care closer to people. And that is why there has been extra funding through the healthcare transformation for things like primary care at scale, to try to drive that provision of service, so people can see the difference and see the benefit.

But I would accept that sometimes the overall public perception is negative when it comes to healthcare. People do expect better and they should do. I think it is a constant challenge to meet that expectation, but do that in an affordable way in terms of the overall Government finances.

Q39. Mr Wannenburgh: Thank you.

Looking at page 30 of the 2025-26 Pink Book, we can see that in large part due to the increase of the NHS allocation, the deficit in our NI operating account is budgeted to increase from £7 million in 2024-25 to £23.8 million in 2025-26. Is this a concern for the Treasury, especially in light of the 2023 report by the UK Government Actuary, which said that our NI Fund is set to be exhausted by 2048?

The Minister: In terms of the overall pressures on the National Insurance Fund, those are very much dominated by pension payments and the current issues in terms of uprating, obviously Tynwald have had several discussions about that.

In terms of the rise in the NHS allocation, we have had similar work done to see if that would in any way destabilise the National Insurance Fund and the answer is in the short term it will not. In terms of the overall drawdown from National Insurance, what I can say is that the Q1 results that we have show a higher than expected contribution for National Insurance, so some of that drawdown that we imagined is actually less than originally forecast.

Again, often, as we have already said, when you are looking at forecasts, they are to do with that balance between income and expenditure. Because we have seen a rise in Income Tax receipts and a rise in National Insurance receipts, that has overcome some of the increased expenditure that we have planned for this. But we are monitoring this very closely and certainly looking at the long-term effects of any relatively short-term financial policies.

Mr Wannenburgh: Anything to add?

Ms De-Yoxall: No, the Minister described it. We have had the advice on it and we have been advised that the impact is very small, and it is the longer-term uprating that is the concern for the long term in the National Insurance Fund.

Q40. Mr Wannenburgh: If the NI operating account continues to run deficits, even while the overall fund in value grows, is this sustainable or is it effectively shifting healthcare funding pressures off the Government's books and onto the NI Fund?

The Minister: The NI Fund is part of the Government's books. So although it is ringfenced for specific funding, particularly in terms of benefits and the NHS allocation, it is not part of the overall general reserves, which are there for things like revenue contingency and capital contingency.

In terms of the drawdown and the deficit of the NI Fund, perhaps you would like to comment on that? What we have been trying to do is balance that. Again, part of that is some of the demographic shifts. We are also trying to balance the Economic Strategy in terms of increasing the number of active working population that we have who directly contribute to the National Insurance Fund, but also looking at other National Insurance reforms that may increase the funds going in as well.

Mr Wannenburgh: Okay.
Chair.

The Chair: Thank you.
Do you have any additional questions?

Q41. Ms Lord-Brennan: Just one final question from me, and actually it was something that a constituent asked of me on Saturday morning, so I am going to put it to you, and they said: how are we going to go forwards; how can we afford to carry on without major changes?

The Minister: From my point of view, I get approached by some people saying 'We're bankrupt, aren't we?' The answer is no – and again, we talked about positivity – we have a resilient economy, we have a lot of fantastic attributes here, we have reserves, but we are subject to very similar pressures to lots of different economies all round the world. And the added demographic pressures that have been identified by the Tynwald Committee as well. So it is trying to balance those.

Also, we have to be cognisant of the fact that people on the Isle of Man have become used to and expect a relatively high level of public services, which spans a whole range of issues that would not be available on the adjacent isle. I do not disagree with that, but I think we need to be honest with people in terms of what we can afford, and we do need to make some changes as we go forward in terms of the size, the scope, of Government, the expense of Government and how much Government intrudes on other people's lives.

One of the questions you asked me was about taxation policy. When we did the Tax Strategy, I was quite clear that I did not want to introduce wealth taxes such as Inheritance Tax, Capital Gains Tax; I did not want to tax more and more aspects of people's lives. I wanted to make sure that they paid a fair amount for the services that were being provided for them. I think that is what we have desperately tried to do during this administration, despite all the challenges that have beset us.

In terms of your constituent, what I would say is that I think now, for the first time in many years, we have got the chance, through things like priority-based budgeting, by better data reporting, more transparency and openness and reporting to the public, to actually explain some of the changes we need to make, explain why we need to do them and the benefits of doing them, and the issues of not making change. It is going to be difficult, but what I think we need to do is take the Isle of Man public along with us, rather than what we have seen in the past, which have been quite draconian cuts in services and then trying to pick up the pieces years later, when we have seen damage that they have inflicted.

Ms Lord-Brennan: Okay. Thank you.

Q42. Mr Wannenburgh: Thank you.

Just picking up on one thing you said there, that we provide certain things that across do not. Such as?

The Minister: When you look at some of the statutory services that we have, whether they be from your own Department in terms of fire prevention services, looking at fire control, looking at the link between Building Control and the Fire and Rescue Service examining buildings in multiple occupancy, there is a whole range of things that we do which are different. There are a range of different amounts of scrutiny that we instil through our public services and a whole range of other services that we provide, which on the adjacent isle may have been taken into the private sector for instance, but we provide them through the public sector, sometimes at a cost.

I think part of the issue with priority-based budgeting is to look at that, to actually see what the cost of services are, whether that is a fair cost, whether there should be a charge for some of those services, if that is relevant, but also what is the best way of providing those. And sometimes that is not Government, that is the private sector. That is why that involvement with the private sector and that analysis of what we do, where we are treading on the toes of the private sector and stopping them growing, is really important for the evaluation of the role of Government.

Q43. Mr Wannenburgh: Could you give me any examples of that in the Health Service or not?

The Minister: In terms of the Health Service, that is far more complicated, because what we have not done is some of the reforms that were done in the United Kingdom, which then ended up actually creating more cost. For instance, with the public-finance initiative in the United Kingdom. The idea of GP fundholding in the United Kingdom actually at the time was seen as advantageous in terms of budgetary control, in the long term added on extra costs and caused extra complexity. I think there is the necessity to have a degree of simplicity.

I know that the Operational Performance and Change Board are looking at the various layers of bureaucracy we have, whether that is in the Health Service, or whether that is in other Government Departments, to try to reduce that and have simple lines of communication and simple lines of responsibility, to make sure that the amount given to Departments actually goes far more into the delivery of frontline services.

Mr Wannenburgh: Thank you.

The Chair: Are you happy?

Mr Wannenburgh: I'm satisfied.

The Chair: Mr King, have you any questions?

The Clerk: No, thank you, Chairman.

The Chair: Brilliant. Thank you very much. We have reached the end, and that was very valuable.
Thank you.

The Committee sat in private.

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