GD 2026/0020

Isle of Man Government

Reiltys Ellan Vannin

Council of Ministers' Response

Economic Policy Review Committee;

First Report for the Session 2026-26;

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

February 2026

To the President of Tynwald, and the Hon Council and Keys in Tynwald assembled

The Council of Ministers welcomes the Economic Policy Review Committee's scrutiny of fiscal sustainability, the structural deficit, and the use of reserves. The long-term resilience of the Island's public finances matters to residents, employers, and future administrations alike.

Council notes that the Committee's Report extends beyond technical considerations of budgeting and the use of reserves to address wider issues relating to the size and scope of Government, workforce levels, and the policy role of the Treasury. These are important and legitimate areas for discussion. Council considers, however, that some of the headline observations would benefit from further supporting evidence and a fuller reflection of operational realities—particularly where causal links are suggested (for example, in relation to public sector scale and private sector employment) without fully taking account of other relevant factors such as skills availability, demographic trends, service demands, or statutory obligations.

I am grateful to the Committee for their careful consideration of the complex and interlinked issues in their report.

Hon A L Cannan MHK
Chief Minister

Response by Recommendation

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.**
Commentary	Council of Ministers agrees that the public service workforce should be planned in a way that supports and aligns with the Island's economy and labour market. The Recruitment Control Framework (RCF) introduced January 2025 and the Quarterly Report on the Public Service Workforce are steps in that direction and have increased transparency around headcount. The RCF has now been in operation for one year and is entering its first review. Turning to the report's assertions about the public sector "crowding out" private employers, it is important to note that these are not supported by evidence. The Report cites vacancies, unemployment, headcount and pay differentials, but does not isolate causation or consider alternative drivers. Current public sector recruitment challenges in specialist areas, such as audit and tax, indicate that the private sector may in fact benefit from mobility out of Government, rather than being constrained by it. Furthermore, the Committee does not account for the financial or social consequences of reductions in public-sector employment, including the likelihood that Government would need to fund increased unemployment benefits.
Response	**Amend to:** The size of the public sector should not threaten or be competition to the private sector, and the recruitment control framework should reflect this, with regular formal reviews to ensure the effectiveness of what it aims to achieve in line with wider Government objectives.

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.**
Commentary	The Medium Term Financial Plan published in the 2026 Pink Book aims to increase the operational surplus over the 5 year period to support the financing of capital and the use of internal funds. To

	achieve the plan, it is imperative that departments, and Manx Care, spend within the financial envelope allocated to them as part of the annual budget process.
Response	**Accept**

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.**
Commentary	It is suggested that this recommendation should be amended to align with recommendation 6.
Response	**Amend to:** At the start of each administration, the Treasury Minister should set out the policies of the Treasury on the control of public expenditure and, together with the Council of Ministers collectively, 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.**
Commentary	Treasury is currently reviewing how Priority Based Budgeting can be developed and introduced for the 2027/28 budget. This process will focus on statutory and discretionary responsibilities for functions across Government to create a methodology to the allocation of budgets as part of the overall financial envelope.
Response	**Accept**

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.**
Commentary	The Financial Regulations are an established measure used by Treasury in their statutory function to supervise and control all matters that relate to the financial affairs of the Government. Treasury, using the budgetary frameworks, have contained costs within what is affordable within the overall financial envelope and will continue with measures, such as scrutiny committees, that

	support financial discipline in departments and encourage value for money.
Response	**Amend to:** Treasury oversight of Departments and their financial responsibilities are maintained through the use of established Financial Regulations and scrutiny committees. Financial Regulations are subject to periodic review and revision when required. Treasury continues to drive down cost to Government and ensures that Departments continue to demonstrate 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.**
Commentary	It is the duty of the Treasury under the Treasury Act 1985 to consider all matters of financial and economic policy affecting the present and future prosperity of the Island. Whilst noting the statutory functions of the Treasury above, this would never be done in isolation; it would always be taken to Council of Ministers for consideration in view of Council's role in determining the overall strategic direction for Government, as detailed in the Government Code.
Response	**Amend to:** Tax policy should not be set by the Treasury in isolation but should instead be developed with the Council of Ministers collectively, 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 also play a technical advisory and costing role in relation to taxation matters.

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.**
Commentary	In the 2026 Budget the personal allowance was significantly increased.
Response	**Amend to:**

	Treasury together with the Council of Ministers collectively should take into consideration inflation and the economic conditions when setting tax policies.

Recommendation 8	**Treasury should establish a consultative or advisory committee to provide expert, independent advice on tax policy.**
Commentary	Technical consultative committees or groups are regularly established to consider specific tax policy matters and Treasury is grateful to the local advisers and experts who volunteer and provide their time for free.
Response	**Amend to:** Treasury should consider establishing 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.**
Commentary	The report is silent on which work that was done previously by Cabinet Office on alternative Government structure is meant. We believe the Committee may mean the series of reports on the topic of a 'single legal entity', including most recently the report by Sir John Elvidge in 2014 and the work that followed into 2017. As part of the usual preparations for a new administration, the Cabinet Office will be coordinating the production of briefings for incoming Ministers. These typically take the form of options papers, in recognition that a new Council of Ministers may wish to take different policy decisions to the previous Council. An options paper for the next administration on key potential changes to the structure of Government could be prepared, drawing on work progressed around a single legal entity, as well as more recent work such as the ongoing review of the governance of health and social care. The paper will include options to improve the efficacy of key areas of government policy and service delivery, as well as cost-efficiency and accountability.
Response	**Amend to:** The Cabinet Office should commence work on options for alternative and more cost-effective Government structures that maintains robust lines of accountability, for consideration by the new Council of Ministers 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.**
Commentary	This broad recommendation, along with potential constitutional implications, should be considered by the incoming administration. Research on this option can be included in the paper under Recommendation 9.
Response	**Amend** That Council of Ministers should consider whether to establish Isle of Man Government in law as part of its consideration of the structure of Government following the House of Keys election in September 2026.

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.**
Commentary	All of the 15 Requirements set out in the Public Service Commission Report (GD 2024/0144) were considered by the Commission at its meeting in February 2026. The Commission will communicate its decisions to the Chief Executive Officer as a revised list of requirements, and any other relevant stakeholders for implementation as appropriate.
Response	**Accept**