



**Isle of Man**  
Government

*Reiltys Ellan Vannin*

Welcome to the

# Isle of Man Government Conference

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➤ Building a better future together





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Up next

# Keynote: Jonathan Young Building Fiscal Resilience

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## Building Fiscal Resilience

CONFIDENTIAL

21 September 2023

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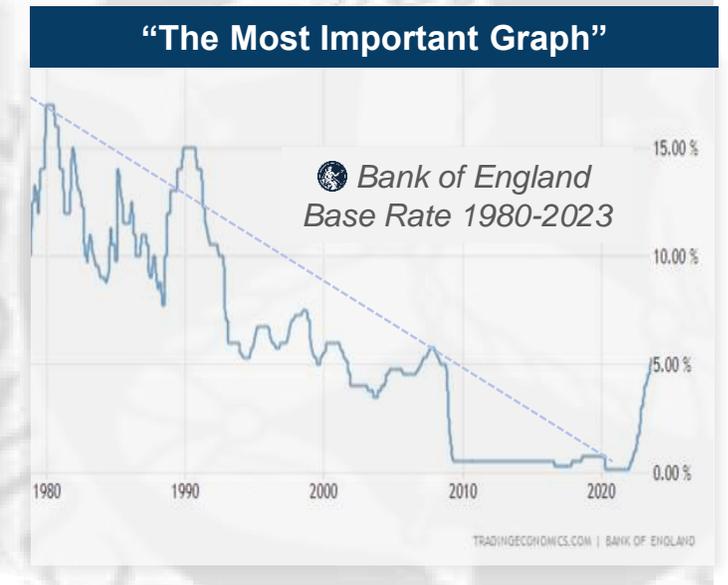
# A Manx Economic Journey

		2019 Population	2019 GDP (mn) <sup>1</sup>	GDP per Capita	Median Salary <sup>2</sup>	2022 External Debt (mn) <sup>3</sup>	2022 Debt/GDP '19
Isle of Man		84,000	£5,848	£69,619	£34,996	£700	12.0%
Switzerland		8,575,000	£576,800	£67,265	£50,000	£210,236	36.4%
London		9,400,000	£523,240	£55,664	£41,860	N/A	N/A
Jersey		107,800	£4,963	£46,040	£44,720	£879	17.7%
United Kingdom		66,840,000	£2,536,000	£37,941	£33,280	£2,516,000	99.2%



1. OECD 2019 GDP Constant 2015 US\$ rebased 2. Government sources 3. CEIC

- 1. In 1970 & 1980, the GDP/Capita of the Isle of Man was below the UK. In 1990, the GDP/Capita of the Isle of Man was still 12% below the UK.
- 2. By 2000, the GDP/Capita of the Isle of Man was 19% above the UK. In 2010, the GDP/Capita of the Isle of Man was 67% above the UK.
- 3. Today, the GDP/Capita of the Isle of Man is almost double the UK and is the 4<sup>th</sup> highest in Europe (after Monaco, Luxembourg and Ireland). It is similar to Switzerland.
- 4. The Manx people have accomplished this without debt: the Isle of Man has the lowest debt/GDP ratio of any European country yet has comparable public services and pension provision to the UK.
- 5. Achieved sailing into the wind: prudent savers and pension funds hit most by low interest rates.
- 6. UK is the comparable for and competitor to the Island Plan – but the challenge of turning high GDP/Capita into higher median income and value added is similar to Ireland.





# Island Balance Sheet

## Balance Sheet (2021/2)

Current Assets	£('000)	Current Liabilities	£('000)
ST Deposits	225,882	Creditors	168,111
Receivables	110,197	ST Debt	10,703
Other	95,283	Other	1,952
<b>SubTotal</b>	<b>431,362</b>	<b>SubTotal</b>	<b>180,766</b>

Long Term Assets		Long Term Liabilities	
Fixed Assets	2,763,346	Pension Scheme Liability	4,586,535
Long Term Investments	1,898,175	Loans & Finance Debt	657,403
Other	91,104	Other	46,700
<b>SubTotal</b>	<b>4,752,625</b>	<b>SubTotal</b>	<b>5,290,638</b>

<b>Total Assets</b>	<b>5,183,987</b>	<b>Total Liabilities</b>	<b>5,471,404</b>
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<b>Net Reserves</b>	<b>(287,417)</b>
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## Income Statement (2021/2)

Revenues (net)	£('000)
Customs & Excise	390,223
Income Tax	243,411
Social Security	265,225
Investment Income	79,190
Other	8,574
<b>Total Income</b>	<b>986,623</b>

### Big numbers less important:

- Overall trend in the liability is (probably) down
- Pension liability £4.5bn “in theory” but changes ▲ or ▼ due to interest rates and many other factors – liability reduced by >£400mn in one year (2022)

### Small numbers very important:

- On an investment portfolio of £2.1bn, the RoI was £79mn = 3.7%. The difference between 3.7% and the current gilt yield of 4.7% is £21mn p.a.
- Over ten years, a ▲1% difference (compounded) is £300mn. Over twenty years, it's nearly £1bn...and over thirty, £2bn
- Interest rates are ▲5% in the last 18 months, but...
- “Your project vs. their project”

### Overspending (“deficits”):

- Brown’s Golden Rule (to mollify markets): *over the economic cycle, the Government will borrow only to invest and not to fund current spending*
- Applicability to IoM:
  - National mission to meet 100,000pop / £10bn GDP = the cycle
  - What is investment vs spending?
  - What is “Island Plan” vs everything else?

# Budget & Deficit Spending



## 2023/4 Pink Book

Revenues:	£ 895mn
Cost budget:	£ 985mn <sup>1</sup>
Op Deficit:	£( 90)mn
CAPEX:	£( 63)mn
Structural Deficit:	£( 153)mn <sup>2</sup>

## 10-year Mission

Job creation:	5,000
Income:	+£200mn
Population:	100,000
GDP:	£10bn

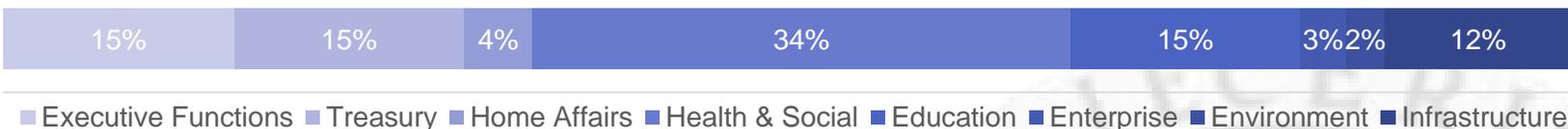
## By 2030, if the Island Plan is implemented, KPMG predict<sup>3</sup>

Additional NI:	£60.8mn
Additional Income Tax:	£92.9mn

- Of which £440mn = employees costs ex NI + £43mn = pension payments
- 2024/5 this reduces to £85mn which approximates to the CAPEX budget
- KPMG Phase 3 Report p25

## Short Term

## Long Term



■ Executive Functions ■ Treasury ■ Home Affairs ■ Health & Social ■ Education ■ Enterprise ■ Environment ■ Infrastructure

◀50% CAPEX: £60-£80mn 50%▶

## Not all deficits are created equal

- ⚠ Around 55% of the budget is people which may mean inflationary wage increases – the antidotes are improve quality of output (“efficiencies”) or higher taxation, but...
- ⚠ ...some or all of those people are contributing to the long-term goals in the Island Plan

## Deficit as a Business Proposition

	2023-4	2024-5	2025-6	2026-7	2027-8	2028-9	2029-30
Deficit	(152,870)	(84,894)	(51,816)	(31,065)	(3,366)	0	0
Additional Income							92,900
Multiple of Income							6.0x
Value of Investment							557,400
Rate of Return							11%



# Inward Investment



## Foreign Capital Providers

- “Everyone knows free markets are the answer.....” – ideology from the 1970s persists
- PE: objective is to “buy low, sell high” over 5 years, using debt and make a >20% annual return
- Infra funds: objective is to buy steady producing assets, using more debt and make a >12% return (eg IoMSPC, Manx Gas)
- Falling interest rates made this an easy bet but also brought you “Thames Water” and similar excesses - rising interest rates coming
- Corporate: variable RoI within their objectives – limited to a few business areas

## IoM Government

- KPMG areas of improvement – some have no private capital role
  - Aviation<sup>1</sup> & Hospitality Accommodation<sup>2</sup>
  - Can the returns be better than 3.75% (or whatever the current RoI benchmark)?
  - IoMG will need to be involved, but...
  - ...it also should want to spread the risk on projects with 3<sup>rd</sup> party capital on the line to create knowledge transfers
- “In workshops and interviews with stakeholders...there was no clear consensus on whether the pre-pandemic service was sufficient for business needs” – KPMG 4.3.1 p110
  - “limited choice of high quality venues” – KPMG 5.8 p208



## Within the Island Plan, private capital objectives aren't (necessarily) your objectives

- Impact on Island Plan and overall national mission which pay off over 10 years vs. short term financial metrics
- Foreign capital might be supplemented with local private capital (& vice versa)
- Limited to a few key areas – which can be impactful (but not decisive) for Island Plan where investment is widely spread



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