

Mr President

It is a privilege to give my first Budget speech to this Honourable Court.

Economic conditions during the last year have been dominated by regional and global factors, most notably the recovery from the COVID pandemic and the renewed Russian military aggression in the Ukraine. These factors have combined to create an inflationary situation unprecedented in recent years, driven by sharp increases in prices for energy, food, and key commodities. The impact of these increases on the most vulnerable in society, along with the dampening effect they are having on economic confidence more widely, has led this administration to implement a range of support measures.

There has been a coordinated effort across Government to provide targeted financial support to those on low incomes and supply energy efficiency measures to allow our community to adapt and adjust to higher electricity, gas and oil prices.

But at the same time we have seized this opportunity to bring forward the essential changes and investment necessary to meet the environmental challenges and the ambitious targets we have set out in our Climate Change Action Plan.

During our response to the rising costs of living, we have invested tens of millions of pounds through initiatives which sought to cushion some of the effects for residents and businesses. This has included £17.8 Million in emergency support payments to those most vulnerable in our community. Capping electricity costs has meant that over the last six months we have had some of the lowest prices in Europe, and we have followed this up by capping bus fares, created a £100,000 Community Warm Spaces fund and an £8 Million Energy Efficiency Scheme.

But Mr President, I think it is important to highlight that in the face of these challenges, we shouldn't forget that our nation has still seen further economic growth over the past year.

We've trained 163 entrepreneurs through the Micro Business Grant Scheme and provided over £380,000 towards helping these businesses set up in the Isle of Man, and have committed a further £690,000 towards business expansion projects through the Financial Assistance Scheme.

Employment Incentives offered through the Department for Enterprise have supported a further 115 jobs.

Through the Digital Executive Agency, we've seen 268 new roles created across their sectors last year. We have seen consistent growth in eGaming licences, with 75 now being supervised at one time - the highest ever and a 15% increase on the previous year.

Moreover, 2022 saw an increase in tax registrations compared to the previous year, with 57% of these being people aged under 40, an important statistic to track as we

look to rebalance the population and reduce the dependency ratio through a range of policies outlined in our Economic Strategy.

Thanks to our economy's resilience, we saw the creation of around 1,200 new jobs across the private sector last year.

We've also 1,700 new work permits and 2,400 new visas issued, demonstrating inward migration. In addition to this, we see continued interest in moving to the Isle of Man through the Locate team, with an average of 300 enquiries each quarter.

But we know from all business sectors that workforce shortages and inflation and the key challenges to their future growth.

We have to keep working to make the Isle of Man a magnet for good quality, well paid jobs and new sectors which will be vital to fund improvements to our key public services.

Mr President, you will be aware that this year we have made a number of radical changes within the budget process itself. These changes have been designed to increase engagement and create a more collaborative way to set Departmental budgets.

Instead of endless discussions over extra revenue bids we have provided Departments with the autonomy and responsibility to prioritise their total budget allocation against the key services and spending priorities in line with their Department Plan whilst providing guidance on the assumptions made in the overall Medium Term Financial Plan.

We have worked with Honourable members to provide the opportunity to gain views on the Department Financial Plans and their priorities against the overall financial envelope available. This has informed Treasury in the distribution of budgets.

The Budget in front of you today shows we are investing heavily in our healthcare and education service. The Department of Health and Social Care will receive an extra £21 Million for 2023/24 and the Department of Education, Sport and Culture will get an increase to their budget of just under £12 Million.

DEFA will benefit from an extra £2 Million to enable them to support the agricultural sector and meet the challenges of ash dieback. DOI will get an extra £4.6 Million to concentrate of an ambitious infrastructure maintenance programme.

Public safety is perhaps something we take for granted, but it is vital that this key essence of island life is protected. The Department of Home Affairs will be given an extra £2.1 Million.

We recognise that with every new approach there are always improvements that can be made. We will shortly be reviewing these changes ensuring that feedback from

Honourable Members and Departments is considered which will help improve the process for the next year.

Mr President, we feel that it is also essential to make some changes to the budgetary process for capital expenditure. Over previous years we have consistently achieve project delivery rates of only 50% compared to the overall capital budget allocated in the plan. We believe this under achievement is a result of schemes being financially provided for without the detailed business cases and costings to support them. This has led to an overburdened programme and an over commitment of our financial resources.

We have focussed on the creation of a realistic and deliverable capital programme which will be fully funded from revenue in the medium term. Only active schemes have been included in the main programme and those that require further feasibility studies and design have been redirected to the Project Development Fund. The fund has been provided with an additional £8 Million pounds to support this change.

This will enable Departments to carefully scope and develop schemes which can be fully designed and costed before they come before Tynwald giving additional information and confidence to Members when they come to vote on proposals. One of the first major schemes to go through this new process will be the replacement for Castle Rushen High School.

We recognise that schemes will be developed throughout the year and are therefore proposing a fundamental change to the way that capital schemes are approved. Rather than having only one opportunity to seek approval for funding at the time of the Budget, we propose that there are a total of four opportunities in the year – February, June, September and November. We believe that this will improve our financial planning process and ensure that only fully developed schemes are presented to Tynwald for approval and implementation.

Mr President, the projected outturn for the 2022/23 financial year is a surplus in general revenue of £10.9 Million against a budgeted surplus of just under £0.5 Million. The projected surplus however includes just under £40 Million of contingency support to Departments against pay awards of 6% and the increased service and energy costs. The overall surplus is the net result of achieving better than anticipated income tax receipts.

The financial challenge seen by Departments this year will likely continue into next year but at what level remains to be seen. The budget presented before this Honourable Court today includes a 5% increase to income targets, a 6% increase to pay costs, and a 5% increase to non-pay costs.

However each Department has been provided with a cost saving target of 1.5% on non-pay costs to align with cost improvement plans and to drive towards efficient

service provision. Support is being provided to enable these cost efficiencies through a repurposed "Transformation Fund".

Overall Treasury income has been increased to include a dividend of £1 Million from the Isle of Man Steam Packet and a further £500,000 from the Isle of Man Post Office. Both government owned companies have seen a positive recovery since the pandemic and we feel it is appropriate to ensure a contribution to general revenue is achieved to represent the previous investments made.

The revised Five Year Financial plan is a foundation on which to build and grow a more sustainable economy. The economic strategy has ambitions to further develop the infrastructure and services of our community to provide for an estimated population of 100,000 by 2037 and to generate over £200 Million of additional annual income to reinvest in services and our quality of life by 2032.

In order to do this we must ensure our finances are strong and are able to support the strategy to invest in our people, our businesses and our island's future. In this budget we have created the £100 Million Economic Strategy Fund to drive these ambitions and help leverage private investment.

But to fully fund this investment in our island and our people we will, once again, need to draw down heavily on reserves to bridge the gap between income and expenditure. The Budget before you shows an initial annual structural deficit of £152 Million which will gradually reduce over the following four years. Our significant reserves have been established by previous generations and the work and effort that went into building this should never be underestimated. It is essential that we develop our economy and increase Government revenue so that we can start to replenish these reserves for the benefit of the generations to come.

Mr President turning now to National Insurance; receipts up to the end of January show that we are on course to exceed the budget forecast for 2022/23. While this is positive news there are many headwinds facing the National Insurance scheme and these have been highlighted in the latest report produced by the UK Government Actuary's Department. This report which is to be laid before the April sitting of Tynwald predicts that if nothing is done the fund will be exhausted by 2047-48, five years sooner than previously forecast.

The report highlights the pressures the scheme will face in future years such as a reduction in the working population and increases in expenditure due to the triple lock uprating policy. Treasury are already looking at what needs to be done to ensure that the National Insurance scheme remains sustainable and not only supports the payment of benefits and pensions but also supports the wider Island economy.

It is essential that we look again at how we uprate pensions to ensure the fund can continue to support those who have already retired. But we also must re-establish

the social contract that exists between the young and the older members of our community to confront the challenges of delivering inter-generational fairness.

As a start to modernising the current scheme, last year the Treasury went out to consultation on the issue of fairness in relation to National Insurance. Over 300 responses were received and I would like to thank everybody who took part.

Treasury have published their response on the consultation hub and I would like to highlight the actions to be taken in the short-term. Turning firstly to the self-employed, there was significant support for merging the payment of the Class 2 monthly contribution with the payment of Class 4 and I intend to bring forward legislation in the coming tax year to enable this to happen. Providing Tynwald approve the proposed arrangements the 23/24 tax year will be the last year that the majority of those who are self-employed will pay their Class 2 contribution on a monthly basis.

The consultation also revealed significant support for ensuring that all individuals who are employed should pay NI regardless of how they structure their affairs. This is particularly relevant to Owner Managed Businesses. Individuals who work through these structures can arrange their income in such a way as to not pay any NI but still build up entitlement to the State Pension and other benefits. Treasury believes that reviewing this situation is fundamental to ensure our scheme is fair and that all those who benefit from it contribute to it, however I recognise that there are many issues that need to be discussed further and therefore Treasury will engage with relevant stakeholders before drafting legislation during the 2024/25 tax year.

Turning now to National Insurance rates and thresholds for the coming tax year. There will be no rise in the rates of NI for employees and employers and the Class 4 rates paid by the self-employed will remain unchanged.

The 2017 report on the Manx NI Fund assumed that thresholds and limits for Class 1 and Class 4 would need to increase each year and I can confirm that I will be bringing orders to this Court later to increase these amounts by 5%. The only limit that will not change is the Lower Earnings Limit.

The weekly rates of Class 2 for both the self-employed and share-fisherman will increase along with the Class 3 voluntary contribution that individuals pay to build up their state pension rights.

The National Insurance Holiday Scheme was introduced from April 2019 and I can confirm that it will continue for the next tax year. Since the scheme was introduced salaries have increased and therefore I intend to raise the qualifying salary for new residents to £23,000 and the maximum amount of the refund that can be claimed to £4,400.

Finally I would like to turn to the contribution the National Insurance scheme makes to the NHS in the Island. Last year the Treasury Minister announced that additional monies were to be taken from the NI Fund to cover the DHSC funding gap. It was

envisaged that this would be a one off withdrawal and that Treasury and the Department would bring forward plans as to how the projected funding gap, which is forecast to grow by around £8 Million each year, could be addressed. These plans have yet to be developed and while we have been able to find half of next years' money from general revenue a further £8.5 Million will need to be drawn from the NI fund for the 23/24 financial year. The order I will present later once again limits this withdrawal for one year only.

Our nation's total reserves are currently around £1.7 Billion and the NI fund makes up £974 Million of this. This withdrawal is equivalent to about half of the interest the fund earned last year. This year Tynwald will need to take some difficult but decisive decisions regarding our health and social care system to ensure we can increase the income and skills of key workers and meet the needs of all those who rely on our essential services.

Mr President, I will now turn my attention to taxation.

So far this year our income tax receipts have been strong and are currently forecast to be around £272 Million, demonstrating the robustness of our economy. That having been said, the increase in inflation and the cost of living gives rise to economic uncertainty for the Island, leaving me little choice but to keep taxation stable.

There will therefore be no changes to the rates of taxation and the personal allowance will remain at £14,500 for an individual and £29,000 for a jointly assessed couple.

However, there will be a change for those people with a total income in excess of £100,000.

From 6 April 2023, these higher earners will have their personal allowance reduced by £1 for every £2 of total income over £100,000. In essence this means that a person with a total income of £129,000 or over, or £258,000 or over in the case of a jointly assessed couple, will have their personal allowance reduced to zero. This progressive measure means that those who have more, pay more.

Over previous months, you will recall me stating in this court, that employers wishing to support staff with the rising cost of living may consider offering vouchers that can be redeemed for goods. The limit is £600 and incorporates all benefits provided by an employer in any one tax year. At present, if more than £600 of general benefits in kind is provided by an employer to an employee then the whole amount is taxable. Today I am pleased to announce the removal of this cliff edge. From 6 April 2023, the first £600 of general benefits in kind will not be liable to income tax, meaning only the amount over £600 will be subject to taxation. This is a positive step in ensuring that employees benefit by receiving more of what is offered.

Mr President, as set out in the Island Plan and also recommended in the Economic Strategy, Treasury is working on a new tax strategy. The strategy will be built on an evaluation of our tax system and will look to establish the main themes that will guide tax policy formation in the Isle of Man for the remainder of this administration. It will also provide a high-level work plan for the key tax policy initiatives in relation to each of the policy themes.

To date the work on the tax strategy has been carried out "in-house" by Treasury officers but the next step is to seek local expert input. The Island Plan refers to the tax strategy being finalised before the end of 2023 but I am keen for Treasury to conclude this work as soon as possible so that attention can be focused on delivering items in the work plan.

Mr President, it will be no surprise that one of the key policy themes of the strategy will be a re-statement of the Isle of Man's longstanding commitment to international tax standards and that international matters will feature in this work plan.

The area of international taxation continues to evolve, develop and change. I can however again confirm that the Isle of Man continues to meet an ever increasing number of international standards.

The Assessor has been and continues to closely monitor the ongoing work of the OECD and the EU, particularly in respect of what is commonly referred to as the pillars. The pillars are the agreement reached by many countries around the world to reform the international tax rules to address the tax challenges arising from globalisation and digitalisation. Progress continues worldwide towards the implementation of this two-pillar solution. Pillar 1 involves new rules, which will determine taxing rights between jurisdictions for the very largest multinational businesses. Pillar 2 introduces the concept of a global minimum effective tax rate of 15% for very large groups of companies.

The OECD and EU have published complex model rules for these pillars and the Assessor already has work underway, considering the effect of the pillars on the Isle of Man, engaging with the relatively small number of companies on the Island that are likely to be most affected by the changes and liaising with counterparts in the Channel Islands.

Mr President I must highlight again that these new rules will only apply to large multinational businesses with group turnover of more than 750 Million Euro.

Significant decisions on the way forward for this island in respect of pillars are still to be taken. I expect to bring more detail in this regard before this honourable court prior to summer recess.

Over the last year or so Social Security has been at the forefront of providing additional financial assistance with the increased cost of living to those who need it most. This has taken the form of additional winter bonus payments, 3 rounds of

energy support payments and family support payments and 2 rounds of long-term benefits support payments. This has been a massive undertaking for the officers at the Social Security Division and I am enormously grateful for the substantial amount of work they have had to undertake to deliver this, in addition to business as usual and on the back of administering all the various previous COVID support measures.

Changes to the income support rules for lone parents whose youngest child is aged 6 or over came into effect last April. I'm pleased to report that this change had a very positive impact on those concerned, with half of them either moving into work with financial support being delivered through employed person's allowance or signing on for jobseeker's allowance and engaging with the Employment Services Team on a pathway to work. The majority of the remainder moved on to other benefits more appropriate to their circumstances, such as carer's allowance or incapacity benefit.

Changes to the minimum work requirements for employed person's allowance for certain families were approved by this Honourable Court in July last year and came into effect from 18 October. I'm pleased to report that those families who have been required to work additional hours have been able to do so and continue to get EPA support.

I'm aware that in the UK entitlement to the Bereavement Support Payment is to be extended to surviving partners of a cohabiting couple with dependent children. It is Treasury's intention to adopt the same position in the Isle of Man from the same date as the reform is introduced in the UK.

As Hon. Members are most likely aware, registered unemployment is currently at a 20-year low. The unemployment rate in the Island has been between 0.6% and 0.7% for the last 15 months. I'm delighted to report that the proportion who are long-term unemployed – that is, those who have been registered as unemployed for over 12 months – has fallen steadily from a quarter a year ago to less than one tenth today.

In each month of 2022 the number of vacancies registered with the Job Centre was over 900. There are a wide range of schemes in place to address this including the engagement of individuals on Work Placement Schemes arranged by social security officers.

Treasury have previously committed to apply the triple lock to the uprating of state pensions for this year.

As UK CPI at September 2022 was significantly greater than the increase in average earnings, the rates of the Manx state pension - including protected payments - and the rates of state retirement pension - including additional pensions and graduated retirement benefit - will all increase by 10.1% from the week commencing 10 April 2023. This results in the full amount of the Manx state pension increasing from £202.23 to £222.67 per week and the rate of a full basic state retirement pension increasing by £14.35 to £156.20 a week.



Rates of the "Pension Top-up" will also increase by 10.1%.

Overall, the cost of these increases is estimated to be £15.76 Million per annum, which will be paid for out of the Manx National Insurance Fund.

As previously agreed by this Honourable Court, the value of the Manx Pension Supplement for new pensioners will continue to diminish over the next 16 years.

As has happened in previous years, the Pension Supplement Scheme has been amended in order to avoid what would otherwise be automatic increases in the amounts payable with basic state retirement pension and legacy bereavement benefits.

Recognising the valuable role that carers play in our community, and to provide additional support to those who may have given up or refrained from work in order to look after another person, I have decided to increase the rate of carer's allowance by a further £15 a week. This builds on the 15 per cent increase provided last year. This will result in additional spend on this benefit of just under half a million pounds a year, assisting almost 600 carers.

Mr President, I am also increasing the maximum amount that a person can earn in any week and still retain entitlement to carer's allowance – from £152.00 to £180.00.

The same increase in the weekly earnings limit is also to apply to the permitted work higher earnings limit for incapacity benefit.

The weekly rate of the bereavement support payment is to increase by 10.1% and the lump-sum payment is to increase from £3,000 to £3,500, notwithstanding that neither the weekly allowance nor the lump-sum is being increased in the UK from April.

As regards maternity allowance I am acutely aware that the maximum amount payable to employed earners has not increased since 2011. So, I am today announcing a 16.8% increase from April, which will result in the maximum amount payable to employed earners increasing from £179.85 a week to £210.00 a week. The same increase is to apply to adoption allowance and paternity allowance. These entitlements will be further reviewed as part of a wider review of parental leave rights, as well as the ongoing review of the Isle of Man national insurance scheme and the childcare strategy. I am also increasing the amount of the lump-sum Maternity Payment - which is payable to certain people who get low income benefits - from £600 to £700.

Hon. Members may recall that in November last year it was agreed to reform the way in which Funeral Payments are calculated, by removing the specified amounts for a minister's fee, an organist's fee and the cost of placing an obituary in the newspaper or on the radio and increasing the maximum amount allowable for other funeral expenses from £1,400 to £1,700 to compensate. I am pleased to announce

that the maximum allowance for other funeral expenses is to be further increased to £2,000 from April.

As regards those benefits which are funded out of general revenue, these are usually increased relative to the rate of domestic inflation at the customary reference point. As regards this year's review, that reference point is September 2022 when the IoM Consumer Prices Index stood at 9.8%.

The rates of child benefit, attendance allowance, disability living allowance, Income Support, Employed Person's Allowance and Jobseekers allowance will all be increased by 9.8 per cent from April.

The rates of the carer premium for income support and income-based jobseeker's allowance are to be increased by just over 17%, in order that recipients of those benefits are able to fully benefit from the £15 a week increase in the rate of carer's allowance.

The higher rate of the Disability Living Allowance mobility component is being increased by 10.1%, in order that it continues to be aligned with the equivalent UK rate - which is of particular importance to *Motability* customers.

In addition the maximum allowable towards housing costs for income-related benefits are being increased by 5.0 per cent, rounded to the nearest 50p; and the maximum allowable towards child care costs for the income-related benefits are being increased by 6.7%, rounded to the nearest whole pound.

Furthermore, as regards the income support property tariff I have decided to further increase the 10% threshold by £15,000, to reflect the rise in average house prices in the Island over the 12 months to September 2022. As a result, people living in care homes who receive income support and who continue to own the property they used to occupy as their home may receive up to £750 a year extra income support.

Mr President, the statutory documents giving effect to the measures I have just described are listed on the No. 2 Order Paper. The explanatory memoranda which have been circulated in relation to those documents provide further information, including a schedule of the current rates of state pensions and social security allowances and the rates to be introduced from the week commencing 10 April 2023.

As you can see, the measures within this budget to support the community and our front line services are significant and come with an increased burden to government revenue and reserves. This cannot be achieved without funding in place to support them. But it is also vital that we have a medium term financial plan contained within this year's budget to address the structural deficit.

I believe this budget is a financially responsibly way to ensure we maintain the continuity in delivering our key services whilst ensuring that we continue to invest in and protect our economy to enable future growth.

The title of this year's budget is "Investing in our Island plan". This is not some glib slogan. It is essential that Treasury works with all other areas of Government to make sure we support the equitable growth in our economy to be in the position to raise sufficient revenue to build a secure, vibrant and sustainable future for our island.

Thank you, Mr President.