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*Reiltys Ellan Vannin*



# The 2012-13 Budget Presentation to ICOSA By Carl Hawker, Assistant Financial Controller, Treasury

Date 22<sup>nd</sup> February 2012

# Introduction

- ❑ Current State of Local Economy
- ❑ Update on Public Finances
- ❑ Explain new four year rebalancing plan
- ❑ Tax and National Insurance Changes



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# Local Economy

- ❑ Latest Growth 2% in real terms.
- ❑ Unemployment relatively low 2.5%.
- ❑ Inflation falling. (RPI) 4%.
- ❑ Slight fall in level of Banking Deposits (down 6% in year to Dec 2011).
- ❑ Low Interest rates leading to lower investment income and corporate profits (and lower income tax receipts).



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# Medium Term Strategy

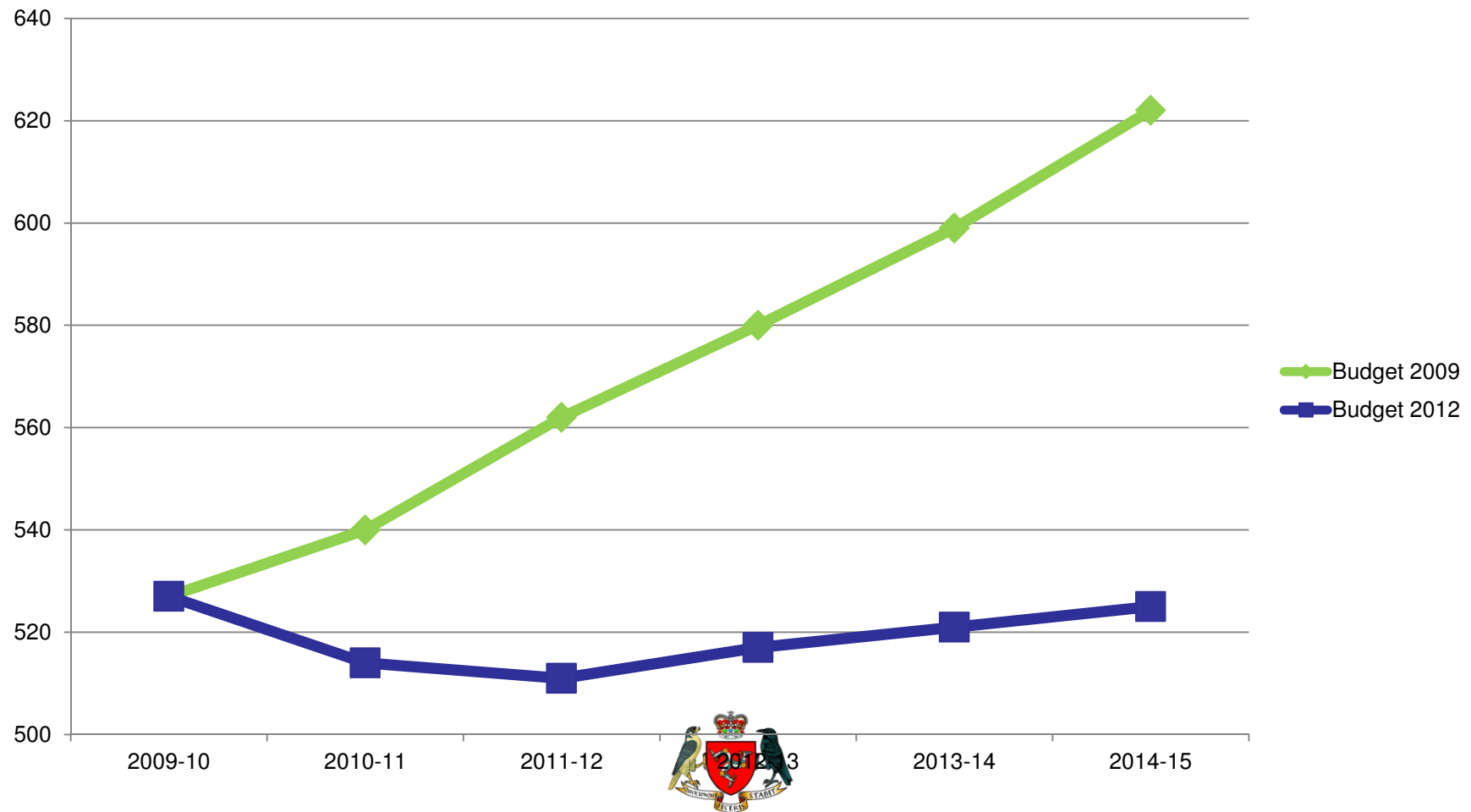
The second VAT renegotiation has created a new shortfall of £75 million. In response we will

- ❑ Rebalance budgets by 2015-16. (within 4 years)
- ❑ Use £92 million of Reserves, with a
- ❑ £55m deficit in 2012-13.
- ❑ Government spending has risen by just 1%.
- ❑ Staffing costs have reduced, and 170 posts lost in last year. 266 staff lost since April 2010.
- ❑ Have had to make a number of difficult decisions.



# Much has already been achieved...

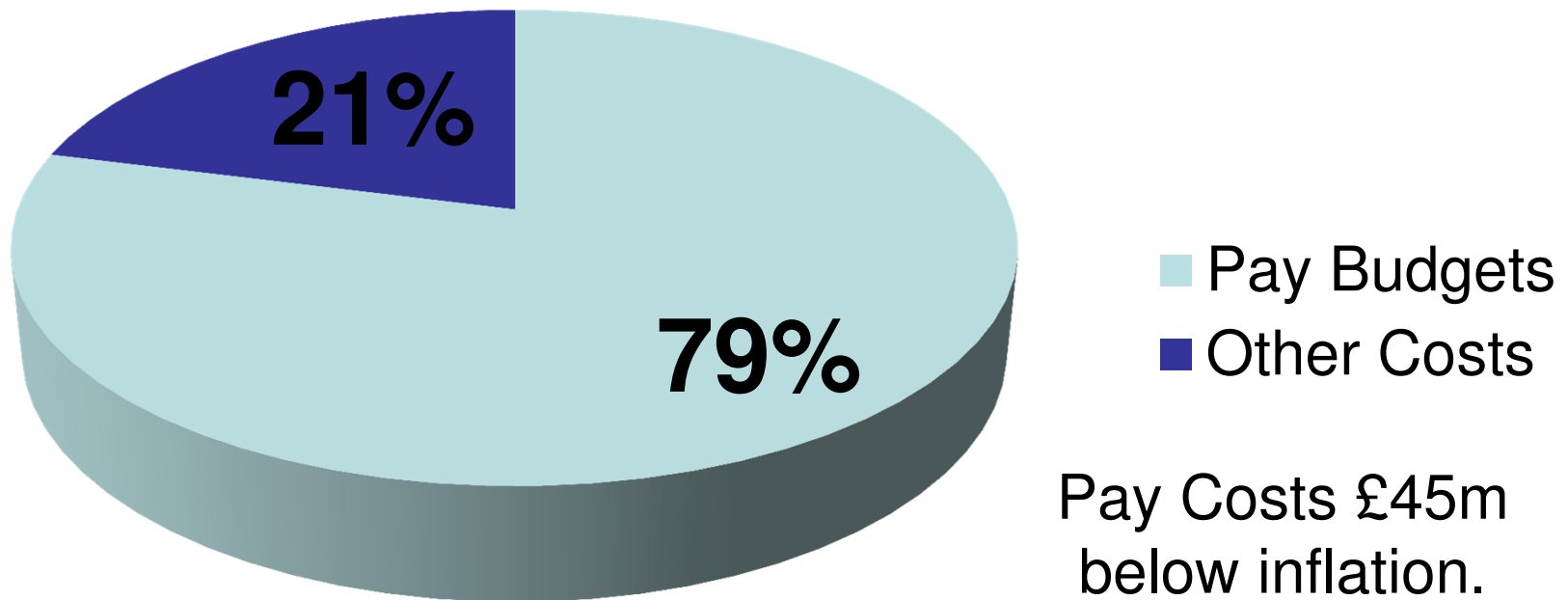
## Net Spending Budget 2009 and Budget 2012, excluding Loan Charges



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# Controlling Staff Costs is delivering

## Cost Savings in Real terms (ie after inflation) 2009-2012



■ Pay Budgets  
■ Other Costs

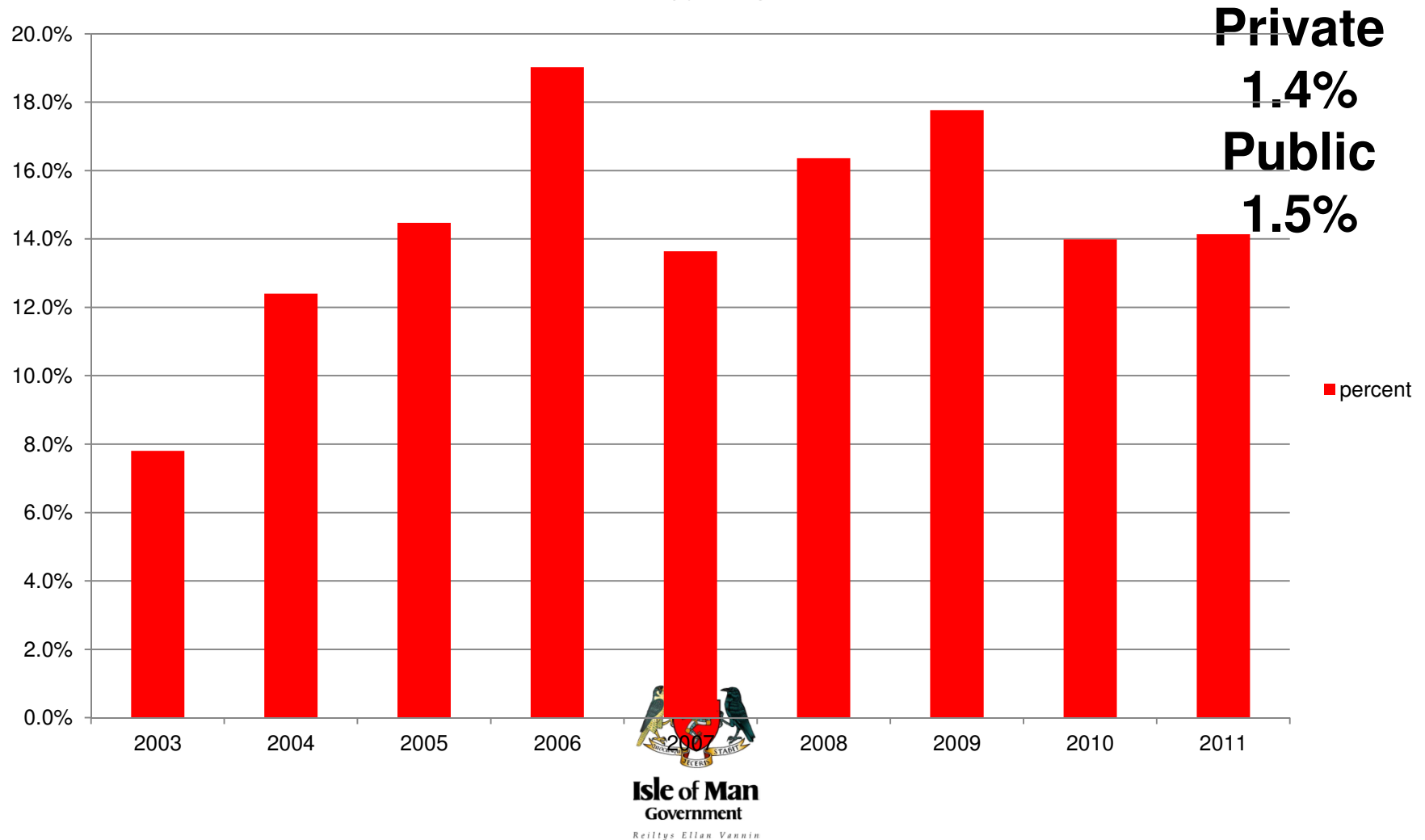
Pay Costs £45m  
below inflation.  
Other Costs £12m  
below inflation.



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# Public sector pay has been constrained

public sector pay, premium over private sector in percentage terms



# Revised Medium Term Plan

## Medium Term Rebalancing Changes against 2009-10 budget

£ million	2012-13	2013-14	2014-15	2015-16
Capital transfers	51	70	85	85
Spending reductions	63	78	97	103
Taxation/charges	26	26	26	26
<b>Reserves/surplus</b>	<b>55</b>	<b>31</b>	<b>6</b>	<b>0</b>
<b>Total</b>	<b>195</b>	<b>205</b>	<b>214</b>	<b>214</b>



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# Current Year Forecasts

**2011/12**

£m	Budget	Forecast	Variance
Income	535	550	+15
Expenditure	533	534	-1
Transfer from Reserves	0	0	-0
Surplus	2	16	+14



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# Future Year Forecasts

£m	Budget 2012-13	Budget 2013-14	Budget 2014-15
Income	484	513	542
Expenditure	539	544	548
From Reserves	55	31	6
Surplus	0	0	0



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# Departmental Estimates (£m)

Department	Budget 11/12	Adjusted Budget 12/13	Increase/ Decrease	%
DCCL	17.4	16.9	(0.5)	(2.9)
DED	15.0	14.2	(0.8)	(5.6)
DEC	95.7	95.9	0.2	0.2
DEFA	15.3	15.0	(0.3)	(1.9)
DOH	121.4	125.0	3.6	3.0
DHA	31.6	30.9	(0.7)	(2.2)
DOI	34.7	33.0	(1.7)	(4.9)
DSC	136.2	143.0	6.7	4.9
Treasury	19.0	18.2	(0.8)	(4.0)
Other	42.0	42.4	0.4	1.0
Exp Legislature	4.9	5.0	0.1	2.3
<b>Total</b>	<b>533.2</b>	<b>539.5</b>	<b>6.3</b>	<b>1.2</b>



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# Benefit Changes

- ❑ £12m budgeted increase on benefits
- ❑ Retirement Pension 5.2%.
- ❑ Income Support, Employed Persons Allowance and Job Seekers allowance 2.5%
- ❑ Child benefit reduced to UK levels for second and subsequent children (approx £7 per week per child), with offsets for low income families.
- ❑ Nursing Care contribution increased by £40 per week to £100.



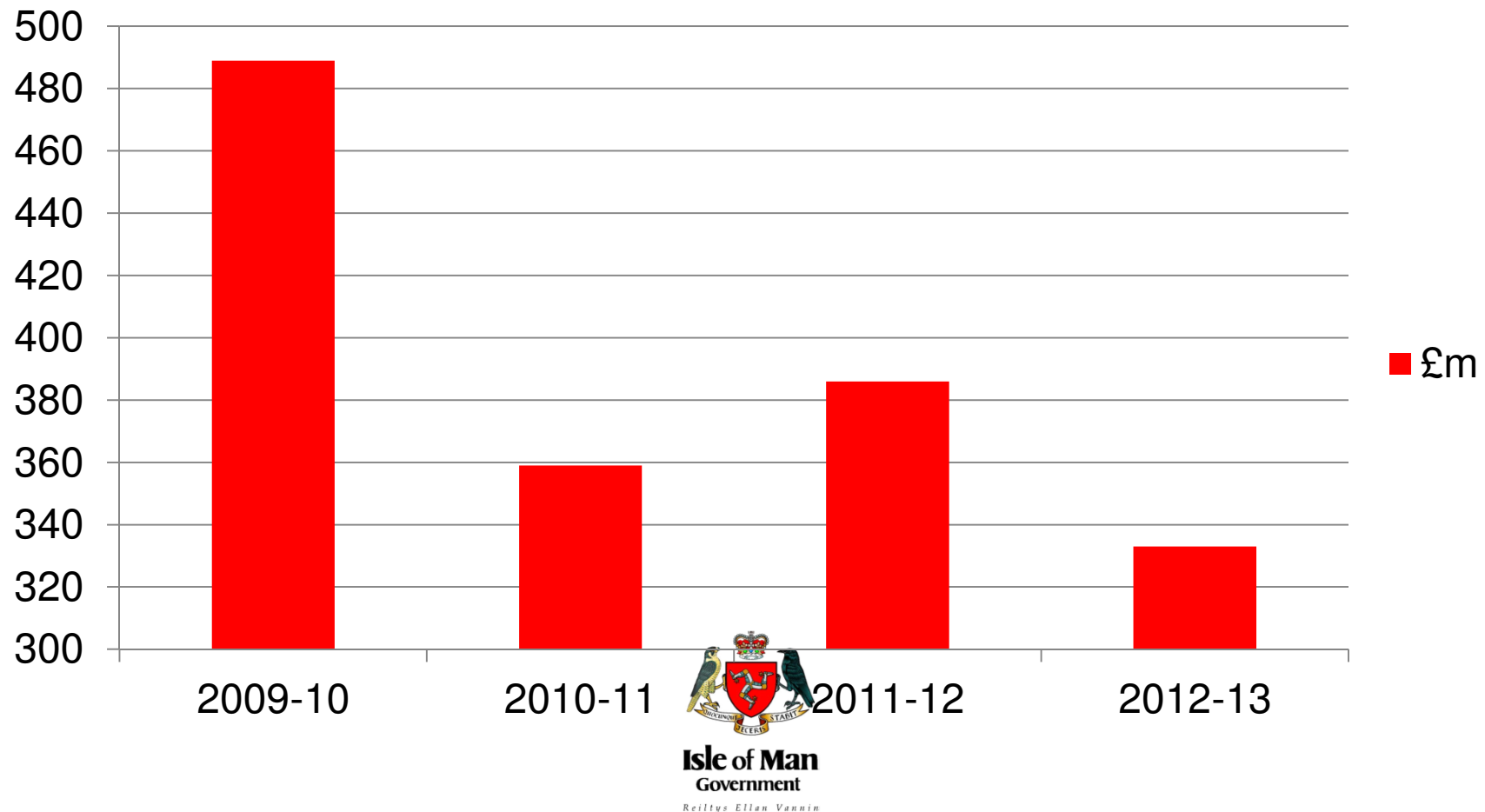
# Capital Expenditure

- ❑ 75% delivery in current year (£77m).
- ❑ £83m programme next year.
- ❑ £4m to complete St Ninians Lower school, £4m to complete Natural Gas conversion. £7m for IRIS Regional strategy.
- ❑ £55m of construction, including £18m on Housing including continued financing of Local Authority Programme.



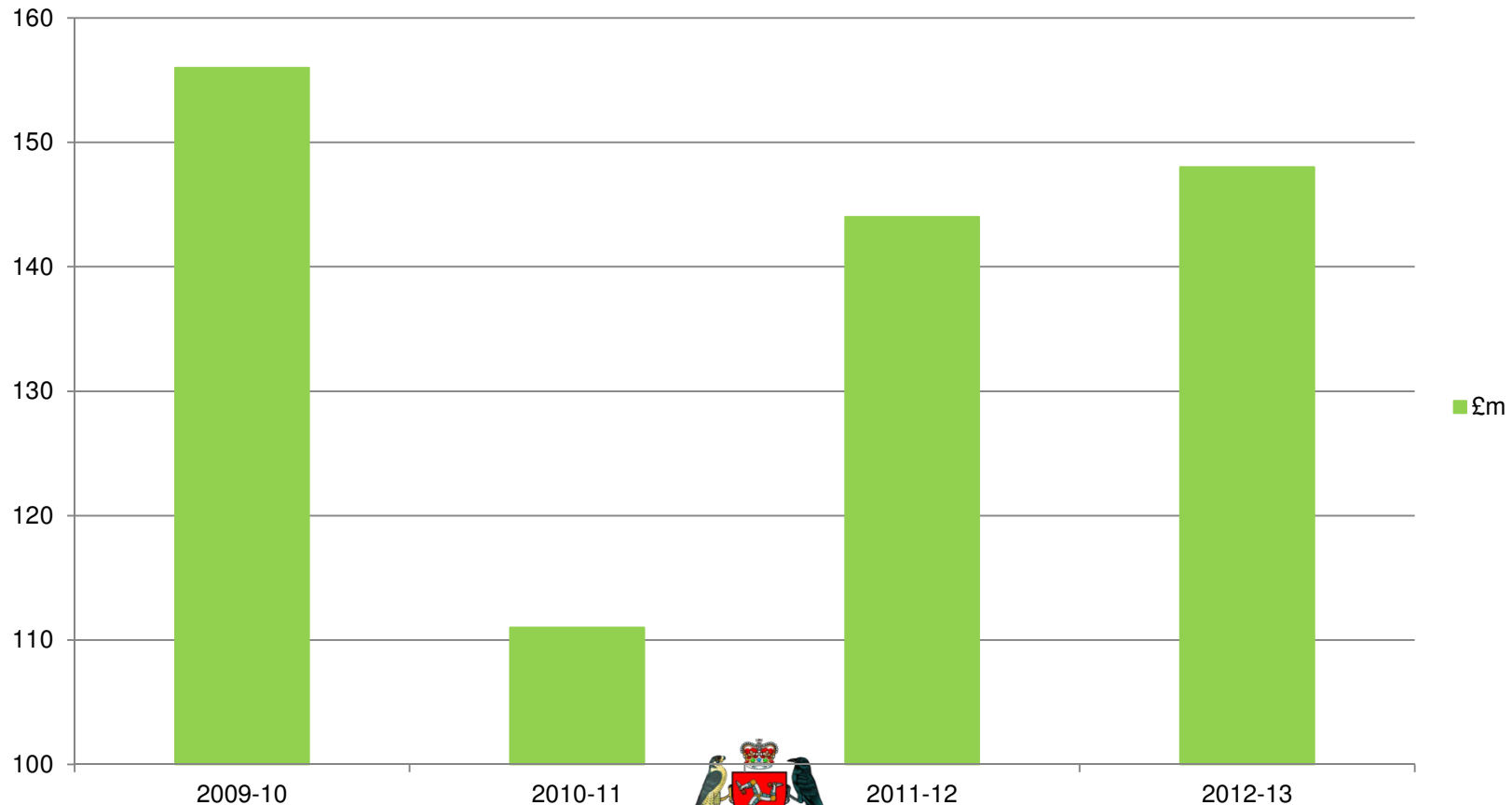
# Capital Spending budgets falling

## Cumulative five year provision for Capital Spending 2009 to 2012



# But not in next two years

**Capital Spending in 2012/13 and 2013/14 projected in Budgets of 2009 through 2012**

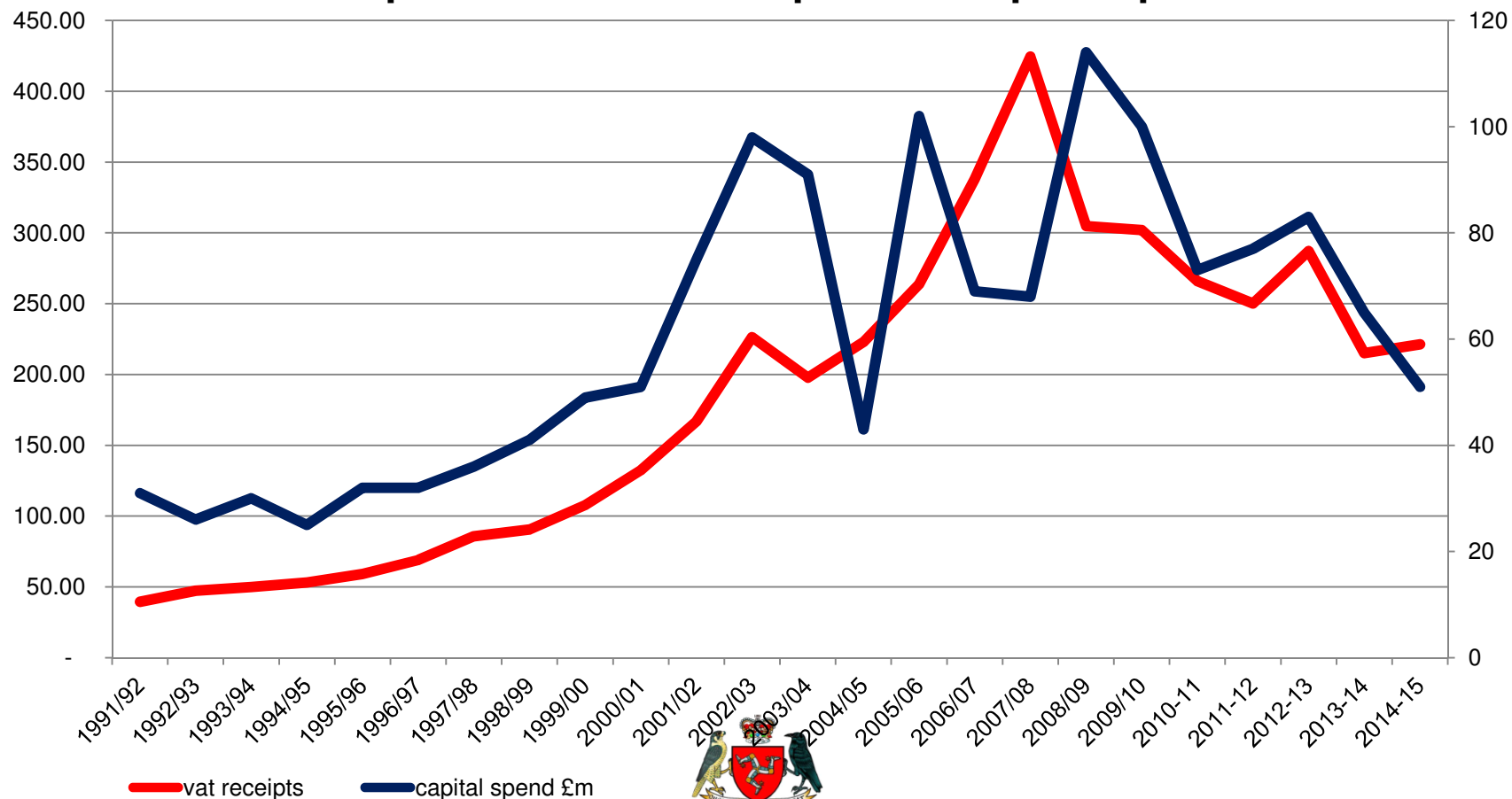


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# VAT was spent on Infrastructure

## Comparison of VAT receipts and Capital Spend



vat receipts

capital spend £m



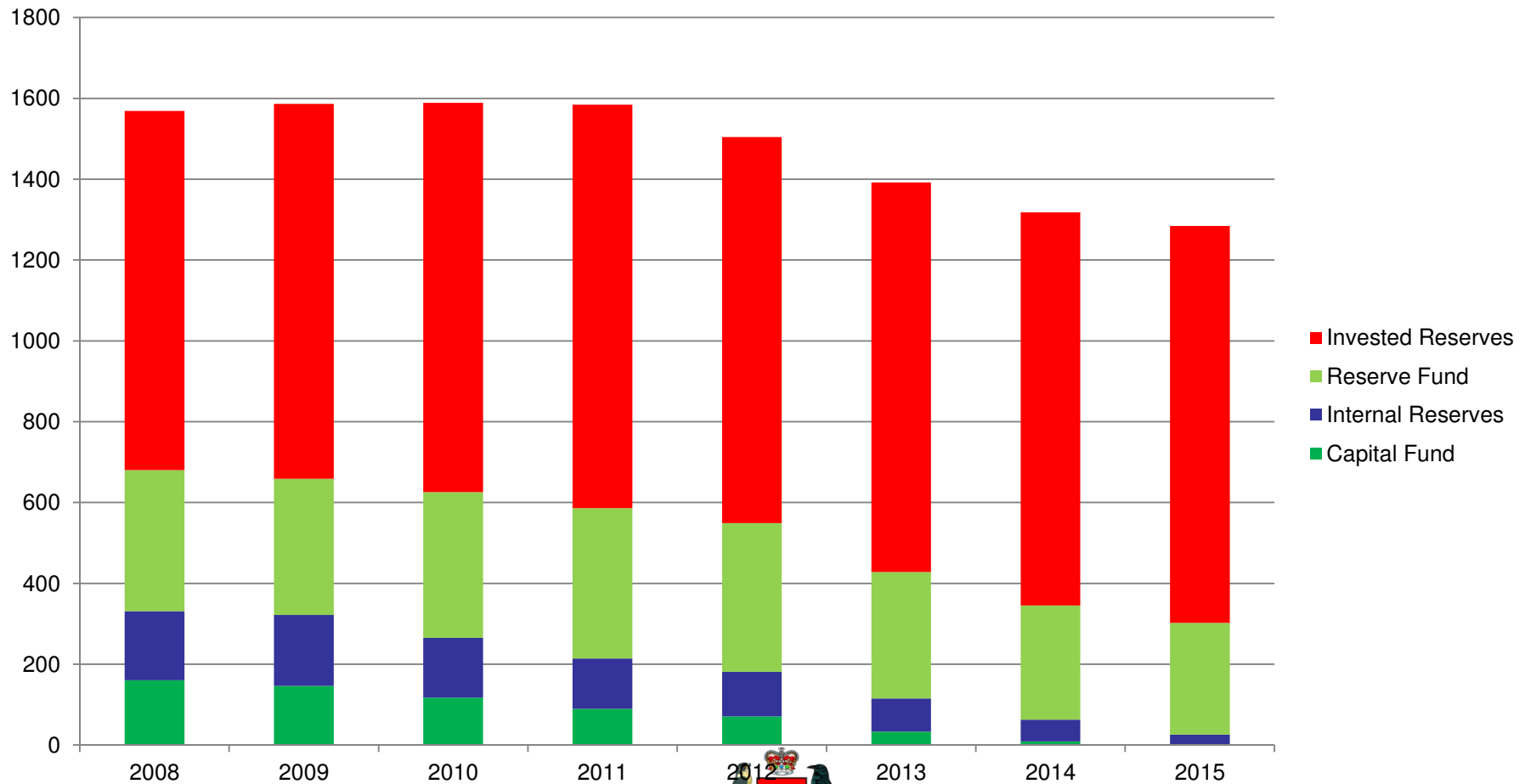
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# Reserves Fall

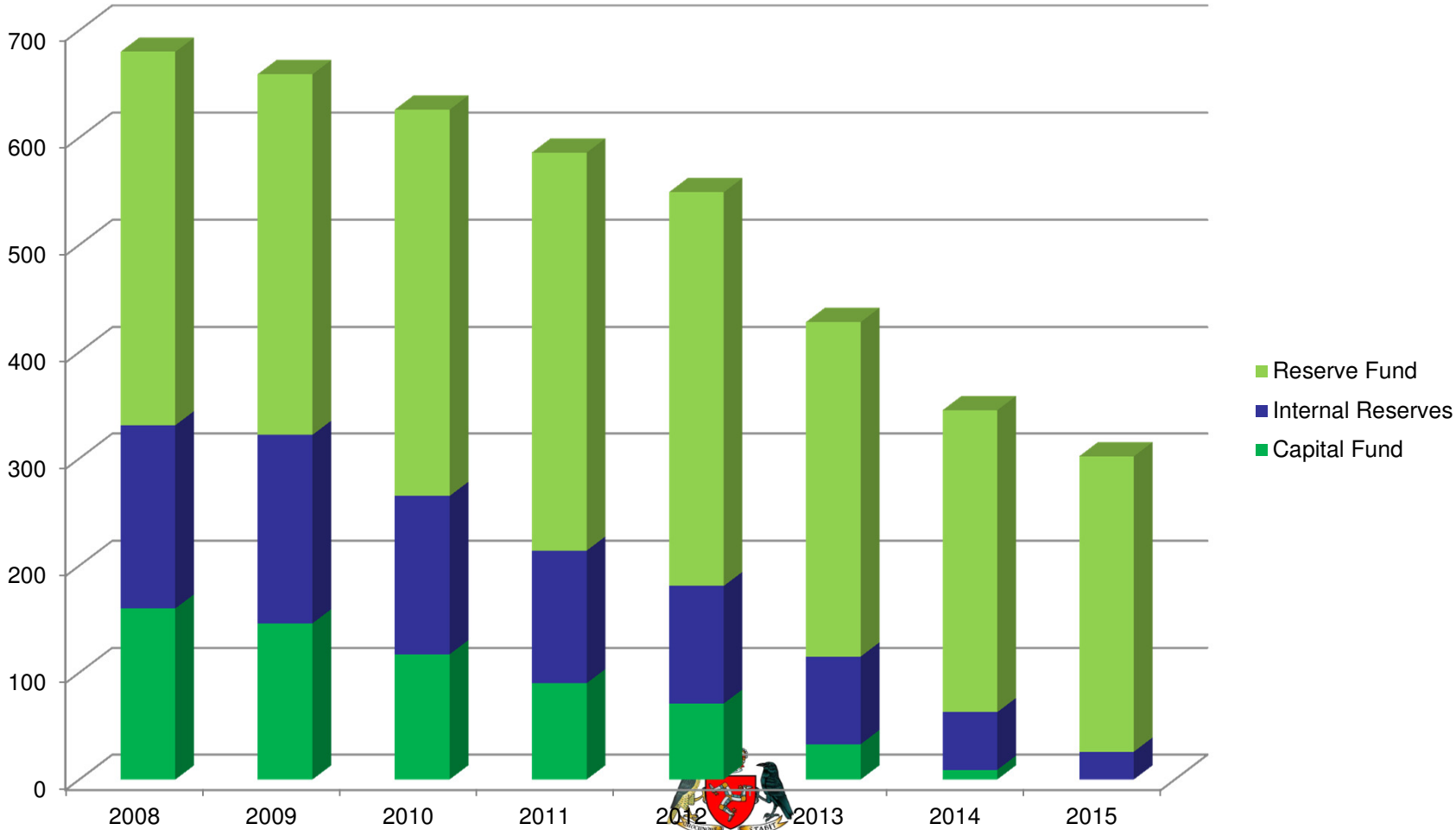
## Total Reserves 2008-2015



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# Reserve Fund, Capital Fund and Internal Reserves



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# Existing Reserves

Reserve	March Book Bal c/f	12/13 move	Dec-11 Mar Val
NI Fund	£623m	£11m	£619m
Reserve Fund	£368m	(£55m)	£401m
Public Sector Pensions	£220m	(£1m)	£235m
Notes Fund	£31m	-	£33m
Capital Fund	£71m	(£38m)	
Housing Reserve	£ 5m	(£2m)	
HEDF	£ 44m	(£1m)	£48m
Economic Development	£16m	(£2m)	
Other Funds	£125m	(£20m)	
Total	£1,359m	(£108m)	



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# Taxation and Charges

- ❑ 10% and 20% rates unchanged.
- ❑ Personal Allowances unchanged.
- ❑ Allowances and reliefs capped at 10% rate.  
Alimony relief withdrawn.
- ❑ Personal Allowance Credit reduced to £500 per person, from £700 due to potential disincentive.
- ❑ Rise in Tax cap to £120,000 per person.
- ❑ New NI Rebate Scheme for additional employees.



# Summary

- ❑ Large deficit but plan to remove it.
- ❑ Have held spending down.
- ❑ Need to tackle big issues Benefits, Housing.
- ❑ Have protected spending in Health services, Social Security and Capital Programme.
- ❑ Have avoided further tax rate rises.
- ❑ Will be planning in detail for rest of this administration.



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# Budget 2012-13

Questions please ?



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