

Chief Minister
Tynwald Statement – 20th October 2009
Revenue Sharing Arrangement changes and International developments

Mr President

The Revenue Sharing Arrangement within the Customs and Excise Agreement with the United Kingdom was last amended 2 years ago.

On the 17th September 2009 the Isle of Man Government was informed that the United Kingdom Government wished for the Revenue Sharing Arrangement to be further amended.

At this point I wish to make it clear that this change does not impact on the wider Customs and Excise Agreement.

Over the last month there have been intensive and extensive discussions with United Kingdom officers and politicians.

Mr President, I can confirm that the changes required by the UK Government to the Revenue Sharing Arrangement by the 15th of October have, after intensive negotiation, now been agreed and formally signed. I have to advise that the changes agreed will result in a loss of income to the Island estimated to be at least **£50million** for the year from April 2010, and a further £50million per year from April 2011.

This is in addition to the already projected loss of income, due to the performance of the UK economy and the decision made by the UK Government last year to lower the rate of VAT to 15%, both of which will result in lower receipts to the Island.

As a consequence of these factors we anticipate that under the agreement we will receive some £30million to £40million less than previously estimated.

Consequently, for the financial year 2010-2011 the Island faces a total reduction of some **£90million** in relation to our revenue income from the Revenue Sharing Arrangement, from that previously estimated, with that figure increasing to **£140million** in subsequent years.

I would remind Hon Members that the Island's present total revenue expenditure Budget for 2009/2010, which funds our public services, public sector salaries, and all other public revenue expenditure undertaken by Government is estimated at **£572.1million.**

Therefore, as can be identified from the figures I have set out, the immediate loss of around £90million of income from our 2010/2011 budget will have serious implications for the Island.

This situation is clearly extremely serious for the Island and unprecedented in our recent history. However, I am confident that we will come through this present situation, albeit that at times it will be extremely difficult for us all; some very difficult decisions will have to be made, especially over the coming months and for some time into the future.

I can confirm that the Government intends to continue to do as much as we can with the financial resources available to protect the less well off in our society, and to ensure we can continue to provide the health and social care that our people need, and we will continue as best we can to provide good public services.

However, there has to be a realisation within Tynwald and within the whole community that the substantial reduction in our income which I have outlined, **will** affect our ability – certainly in the short to medium term – to sustain and develop public services; in fact it is very likely that some public services will have to be reduced to enable us to ensure we can continue to fund the most important areas.

Government's ability to sustain and/or increase support to many organisations, many who are voluntary is also likely to be affected and the best we can hope for is that we can, as a minimum, freeze the funding support given for a period of years. However, I must advise that it is possible that some may have to have their funding reduced, and certainly it is unlikely that for sometime we will be able to provide any additional financial support.

I can confirm that we will give careful consideration as to how we may be able to prioritise our expenditure in an endeavour to continue to support such organisations.

It is also clear that many policies, schemes and projects that Government has been developing in recent years, in line with our Strategic Plan, with a view to making progress over the next few years will now have to be put on hold; this will apply to both Capital and Revenue proposals.

We will all have to work to overcome these present difficulties, and as a community we will have to be tolerant and understanding whilst Government regains the ground lost.

Over the next few months, Government will now examine in greater depth all Departments', Statutory Boards' and Authorities' budgets to ensure that we contain Governments expenditure within our total income.

In addition all financial support and services that are presently provided by Government to Local Authorities will also be carefully examined and the outcome may well result in increased costs being borne by the relevant Local Authorities.

Mr President, it has to be acknowledged that due to the changing situation, driven by global economic and financial pressures, in order to enable Government to secure the most important public services it provides, changes may well have to be made to how, or even if, we are able to continue to afford some of the less critical public

services, or associated services. We will therefore examine how we deliver such non-essential services.

This may result in changes that previously we would not have wished to make, and as a consequence, and whilst it is too early to be specific, such changes may result in redundancies within the public sector.

In all honesty, because of the serious situation we now find ourselves in, nothing can be excluded from our considerations; we will also have to examine how we can raise additional revenue, reduce expenditure, and prudently use some of our Reserves in the short term to replace the substantial shortfall in our income, to give us time to ascertain if we are going to be able to continue to fund our present extensive level of public services and, if not, how we will re-adjust our budgets and public services.

As I have indicated Government's priority will be to secure the most important services we provide to our community and to safeguard our future, and at the same time determine how we can secure the finances required to enable us to promote investment and to secure employment. This will require prudent planning and management of our financial resources.

We will continue to build on developing the diversity of our economy and to grow our economy to generate the income we need, only now that will have a greater urgency than may be we have previously given to our economy.

We are determined to do as much as we can to safeguard employment and importantly the quality of life that our community presently enjoys; it has taken many years of hard work to get to where we are today.

This will not be an easy task in these times of global downturn however, I am confident in our collective ability as a nation, to rise to the challenges that are ahead.

There will without doubt need to be a change of mindset both politically and within Government's workforce as we go forward, we will need a determination to succeed so that we can overcome the present situation, and thereby ensure that we continue to develop a successful and diversified economic base, and importantly generating additional income for our Island to safeguard its future.

Mr President, I wish to confirm that the Isle of Man Government will retain the Customs and Excise Agreement with the United Kingdom Government and confirm that the agreement is **not** in any jeopardy, and that I am confident, as is the Council of Ministers that it does, and will continue to serve the Island well.

Our manufacturing and agricultural sectors benefit considerably from the lack of customs barriers between the Island, the United Kingdom, and Europe and this is a key element in their success. The lack of a Customs and Excise Agreement would be detrimental to those sectors and to our economy generally, and thus to us all.

Government is confident that the present re-adjustments within the Sharing Arrangement, whilst causing serious initial budgetary and public service pressures, especially due to the short notice of the changes, will be managed in an orderly fashion and that it will ultimately leave us stronger and fitter for the future.....

Mr President, I now turn to another important matter; I can advise Honourable Members that the United Kingdom Government has also been briefing us on their reading of the developing international tax environment, including the European Union Code of Conduct Group.

We have also been watching the way international sentiments and standards have been moving in response to the global economic crisis, and especially the speed with which such matters have been changing and the potential effect they may have on our economy.

The U.K.'s views on this area have been helpful to us in confirming our own understanding of the situation. This will allow us to develop and position the Island and its future tax regime, so the Island can continue to remain competitive and at the same time be accepted by the international community as responsible and co-operative.

We are not, and we recognise we cannot be immune from the major changes developing out of the international community's responses to the economic crisis and their own financial challenges. We need to consider the future in this context, and may possibly need to do so in conjunction with other jurisdictions, including Jersey and Guernsey, to ensure we can maintain our competitiveness and international acceptance in a new economic world.

The Government will of course at all times, first and foremost, endeavour to secure the Island's future in this swiftly changing and very competitive world, responding pragmatically and effectively as necessary.

Again any changes in this area are likely to initially impact on our income, and our economy. We have a long, and I believe successful track record, of working in partnership with the business community, and we will continue to do so.

I can confirm that Government will be initiating early discussions with relevant businesses and representative bodies, and other parties, to assess the potential impact of any changes that the international community may be promoting, or may make that could affect the Island.

Government will also be actively looking to identify what new opportunities can be taken to secure further business within the Island with a view to continuing to diversify our economy and increasing our income.

Mr President, it is key for our future success that we continue to provide confidence to our community; that we maintain stability, continue to be positive, and invest in

our future; the Island continues to be a good place to do business from, and it will continue to have many benefits, not least a first-rate workforce along with a good modern infrastructure from where business can successfully operate to anywhere in the world.

Government will take whatever actions we can that are necessary to safeguard the future of our Island and its community, and especially in relation to safeguarding the quality of life of all our people.

Mr President, the whole community can play a part in safeguarding the Island's future by investing in our Island, and very importantly by supporting local businesses where possible – '**buy local**' has never been more important to our economy and the Island's future than it is today; every penny spent on the Island is now even more important than ever; how we spend our money can directly benefit our community and our exchequer thus safeguarding the Islands future.

Finally Mr President, the next few years will, without doubt, be more challenging for the whole community than it has been for many decades. However, we still have much to be thankful for and if we all – that is Government, business and the community - work together, understanding the challenges we all face, then we will overcome these present difficulties and we will then be able to continue to build on our success of the last two decades, and to prosper – our future prosperity is in our own hands; we **will** I am confident overcome the immediate financial difficulties facing our Island and move on to better times.

[END]