



**STANDING COMMITTEE  
OF  
TYNWALD COURT  
OFFICIAL REPORT**

**RECORTYS OIKOIL  
BING VEAYN TINVAAL**

**PROCEEDINGS  
DAALTYN**

**ECONOMIC  
POLICY REVIEW COMMITTEE**

**Treasury**

**HANSARD**

**Douglas, Friday, 25th March 2022**

**PP2022/0050**

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**Members Present:**

*Chair:* Mrs C S B Christian MHK  
Mr J R Moorhouse MHK  
Mr J C Wannenburgh MHK

*Clerk:*

Mr J D C King

*Assistant Clerk:*

Mr C E Phillips

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# Standing Committee of Tynwald on Economic Policy Review

## TREASURY

*The Committee sat in public at 1 p.m.  
in the Legislative Council Chamber,  
Legislative Buildings, Douglas*

[MRS CHRISTIAN *in the Chair*]

### Procedural

**The Chair (Mrs Christian):** Good afternoon and welcome to this public meeting of the Economic Policy Review Committee. I am Claire Christian MHK, Member for Douglas South, and I chair the Committee. With me are Mr John Wannenburg MHK and Mr Jason Moorhouse MHK.

5 Could we please ensure that all mobile phones are turned off, or on silent, so we do not have any interruptions; and for the purposes of *Hansard* I will be ensuring that we do not have two people speaking at once.

### EVIDENCE OF

**Hon. David Ashford, MBE MHK, Minister,  
Mr Caldric Randall, Chief Financial Officer, and  
Ms Audrey Christian, Deputy Assessor of Income Tax, Treasury; and  
Mrs Vicki McLauchlan, Director, Social Security.**

**Q1. The Chair:** Thank you for coming to the Committee today. Please could you introduce yourselves, your position and how long you have each held the role? Thank you.

10 **The Minister for the Treasury (Mr Ashford):** David Ashford, Minister for the Treasury, and I have held the position since, if I remember rightly, the end of October last year.

**Mr Randall:** Caldric Randall, Chief Financial Officer, three years.

15 **Mrs McLauchlan:** Vicki McLauchlan, Director of Social Security since January 2020.

**Ms Christian:** Audrey Christian, Deputy Assessor of Income Tax, seven years.

20 **Q2. The Chair:** Thank you. We are going to move straight to something that is obviously in the public eye at the moment, on the UK Chancellor's Spring Statement.

The UK Chancellor Rishi Sunak announced in the Spring Statement on Wednesday that there would be a 5p per litre reduction in fuel duty which would impact revenue – circa £30 million in total per year in fuel duty – and a rise in National Insurance thresholds to help with the cost of living. What is the estimated cost to the Isle of Man of the duty change? And are further NI changes  
25 imminent here?

**The Minister:** In terms of the duty, first of all, the estimate we have at the moment is around about £2.5 million, which is the net cost to the change. In terms of NI changes, there is an NI review being undertaken at the moment and anything that we are planning to do would come forward as part of that review. There are no imminent changes being proposed.

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**Q3. The Chair:** Thank you. A snap poll of 1,025 people mentioned on *Sky News* said that 65% of people felt the UK government should be doing more, while 22% said they thought the government were doing all they reasonably could. Are we doing all we reasonably can to ease the rising costs of living?

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**The Minister:** As you will know, Madam Chairman, I am coming forward with a Statement to Tynwald in April. There are various different mechanisms that we are looking at. We have already done the Winter Fuel Bonus, which has helped approximately 3,000 people; now, with the inflationary pressures building, we recognise that we do need to try and assist households, particularly those on low incomes who cannot absorb anywhere close to the inflationary pressure that is being seen.

40

I am not going to obviously divulge what is potentially coming forward in April, but what I would say is here on the Isle of Man, because we have got a smaller population and we know our population a lot better, we can do much more targeted support; and whereas the UK has stuck to high-level tax measures in order to try and mitigate some of the inflationary measures, we have the ability to be able to do that much more targeted and much more nuanced.

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So any support we would be looking at would be looking at particular types of income and household groups.

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**Q4. The Chair:** It is interesting you mentioned targeted support because also the Chancellor announced an increase in the Employment Allowance from £4,000 to £5,000, which specifically targets small businesses to help reduce their National Insurance contributions. Has Treasury ever looked at doing something similar here on the Isle of Man to give small businesses a boost?

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**The Minister:** In terms of small businesses – and I will bring the officers in in a minute, if they want to have any comment on that – we have always felt, again, that it is targeted support.

One of the things that we have across our small business sector is – as you will be very much aware yourself, Madam Chairman – it is very diverse, and what we classify as small businesses here in the Island is very different to what the UK classifies as small businesses. So what we have tried to do when we tried to support small businesses, is to have a much more targeted approach, looking at what the issues and problems are directly of that business and trying to address those issues, rather than just going down the route of financial support.

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But I will bring the Chief Financial Officer in if there is anything he wishes to add?

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**Mr Randall:** I do not think so ... in terms of providing National Insurance holidays, obviously as part of the initial response to COVID. But I do not think I have anything to add other than what the Minister said. It is about targeting support where it is best received, I think.

**The Chair:** Thank you. Mr Moorhouse, what were your questions?

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**Q5. Mr Moorhouse:** Thank you. Moving on in terms of the National Insurance area, a review by PwC of the National Insurance scheme was debated in June 2021 and Members were assured that proposals would be forthcoming to the current administration. It is viewed by many that we need something more fair in the form of a National Insurance system. For example, self-employed persons have limited benefits. Also some company directors pay no National Insurance, yet gain a full qualifying year, as they pay their profits as dividends not subject to National Insurance.

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What is the Department doing to make this fairer?

**The Minister:** There is the National Insurance review under way at the moment, Madam Chairman, and the important thing is that we let that review complete; because one of the things we also have to look at from a National Insurance point of view is not just the fairness in the system, but the sustainability of the system as well.

We in the Island are very lucky in the fact that we do have the National Insurance Fund, which is valued at the moment at roughly around just under £1 billion, to be able to help support our National Insurance system. But what we have to do is make sure that that is sustainable in the long term. That includes looking at thresholds, how much is paid in, *how* it is paid in and also the benefits that come out of the other end of that fund, and ensure that we then look at how that impacts on society as a whole. So that is all featuring in part of the National Insurance review that is currently under way.

There was the report obviously that went to Tynwald last year – and I lose track of time now, but I think it was last year – that actually laid out the foundations for what is coming forward in the review. But the important thing is, as I say, that has got to be an all-encompassing review; and we do need to ensure that the National Insurance system is fair, so that people are paying appropriately what they should be paying.

I am not saying we will always close every single loophole because, as we know with any tax system and any form of system that you look at around the world, as soon as you close one you potentially create others. What we have to do is ensure that people are paying the appropriate amounts and that any benefits that they are either receiving or entitled to receive, off the back of that, match up appropriately and fairly.

**Q6. Mr Moorhouse:** In terms of appropriate amounts, the Chancellor of the UK has made big changes to the lower end. Is that something you envisage doing?

**The Minister:** Again, I am not going to pre-empt the National Insurance review, but one of the things I would say about the Chancellor's announcement, of course, is if you actually look at the figures, one of the things that it is tied in with is the fact that the UK Chancellor has announced a four-year freeze on the personal allowance. So the personal allowance – and we have quite a bit higher personal allowance, one-and-a-bit thousand pounds higher than the UK. What the Chancellor has done is he has frozen the personal allowance, so actually some of that change in National Insurance inflates out. So if you go to the Office for Budget Responsibility figures and you actually look at the impact that the change to National Insurance actually has, while it is initially a £6.2 billion cost to the Chancellor in the 2022-23 years, as you go down to 2026-27 it actually goes down to £4.4 billion cost. Then with the personal allowance of course being frozen as well, he has got additional potential tax-take coming in depending upon which way wage inflation goes.

So while it helps on the National Insurance side, there are other measures within the economy taking place that will recoup some of that cost.

**Q7. Mr Moorhouse:** You mentioned the timeline being in the public domain already: in terms of the end date, is that expected to be in place before the next Budget will allow you to make changes then, or is it further out?

**The Minister:** The aim of the National Insurance review is to have it in time for the next Budget. One thing we are not short of in Treasury at the moment is reviews! I think the word 'review' was probably the most-used bingo word in my entire Budget speech. The plan is to have most of those reviews where we possibly can in time for the Budget, and the National Insurance review would play a major part in that.

**Q8. Mr Moorhouse:** Will that involve a public consultation, because a lot of people want to raise their issues there –?

130 **The Minister:** Obviously, if there are going to be any fundamental changes, then we will need to go out and we will need to consult with the public on those changes before they can come forward.

The National Insurance system, from my personal point of view, is the people's insurance system and it is important that we involve people out there to understand what any changes might look like.

135 **Q9. Mr Moorhouse:** Also, in terms of flexibility, the existing system is incredibly structured and as we have been through COVID, as the energy bills have gone up, there is a lot more need to respond to those changes. Is that something that could be incorporated in the system going forward, or is it still going to be rigid structures?

140 **The Minister:** I think, Madam Chairman, that is referring to what I term the 'thou shalt' or 'thou shalt not' system around NI where it is very structured around what the NI Fund can actually be spent upon. I must say I would be personally a bit uncomfortable about changing that too much.

I do agree with Mr Moorhouse, maybe at the moment it is a bit *too* rigid, particularly around health and social care. We have got lots of debates coming up in the next five years, one of those is how we fund social care, what kind of model we want to have – something I have lived with for the past four years. There is a cost that comes with that and we have to look at where that potentially is funded from, but I think it is important the National Insurance Fund actually has rules around it, so it cannot just be used for Government to dip in and out of, depending on what is actually happening day to day. It is a fund there for a very rigid purpose and, as I have said earlier in this hearing, personally, I see it as a great thing that the Island actually has the National Insurance Fund. It is there to actually insulate and make sure that we are not subject to general revenue change where we would have to be funding benefits from general revenue otherwise, and it is important that we look at the long-term sustainability.

155 If you start messing around too much with the structures of what can and cannot come out of the National Insurance Fund, you have got to remember that actually could potentially increase the volatility of the Fund as well, and the actuarial assumptions as to how long the Fund would last.

160 **Q10. Mr Moorhouse:** In terms of the changes, they could potentially be quite radical, but given that assumption are you working along the lines that there should be a zero-cost change in terms of the money you are receiving; and letting go from the system should remain quite constant? Or is that irrelevant at this moment in time?

165 **The Minister:** Yes, the review is looking at the whole principle behind the NI Fund, how it is funded and how we make it long-term sustainable. So again, I am not going to pre-empt what is in the review, because I do not know myself, because it has not been completed yet, but we do need to look, as I say, at the big challenges that are coming forward over the next four to five years – social care being one of many. We need to have very honest and very strong political debates around how that is funded. NI may play a part in that, how we fund the Health Service as well, because Health already receives an allocation from the NI Fund each year. But the question is: should that relationship change and, if so, how? Those are all big questions and that needs to feed into next year's budgetary process via the NI review.

175 **Q11. Mr Moorhouse:** It is a massive piece of work, and you appeal to it as a basic foundation of next year's Budget. Given the amount of work and the rate at which time passes, and given on Wednesday it was six months into the current administration, is it realistic to have this change in place and applicable by next February?

180 **The Minister:** As I say, depending on what comes out of the review there may need to be things that would be staged, and particularly if we need to go out and consult the public. But you mention about foundations: with the number of different foundations that are coming in I have probably got enough to build a tower block soon, with all the things that are lining up. What we have got to do is make sure that what we do is sensible, that we have time to consider it, and that it is not rushed.

185 I am very keen that we do not make policy on the hoof and we do not rush things, particularly when you are dealing with something like the NI Fund, but at the moment the timescales are to be able to have that review and be able, at the *very* least, to indicate the direction of travel in the next Budget, if not be bringing forward the physical policies for approval.

190 **Q12. Mr Moorhouse:** Is this an area that you have strong thoughts on, and you have made clear previously –?

**The Minister:** I have strong thoughts pretty much on everything! I think if people go back and look at my election manifestos, they can see I cover quite a wide range of topics.

195 The NI Fund, from my personal point of view – and I must say this is me speaking personally now – is that I think it is important that it *is* a long-term, sustainable fund, because I think it does give that protection there that we actually have that fund there, and we are not just each year trying to generate and pay for things out of general revenue. I think it is right that there are rules around that fund and what it can be used for, so it is not just at the behest of the Government of  
200 the day to decide that actually they have got a pet project over there – and that the NI Fund is this nice just-under-a-billion-pound amount that we can dip into and we will worry about it later.

Many people will remember from about 20 years ago with the Hospital, where the money was taken out and it was said there were plans for it to go back in, and it never went back in, and all the upset that caused at the time. So I think it is quite right that it is a structured fund, that it  
205 meets the liabilities and that we ensure it is sustainable in the long term; and it is not just a fund that we run down.

**Q13. Mr Moorhouse:** Is that £44 million that was taken out still on the table?

210 **The Minister:** I think we are probably about 10 Health Ministers on from there since then! Obviously, the amounts within the NI Fund have grown exponentially. In fact one of the key things, particularly with the Health funding this year, because we have taken money from the NI Fund to cover part of Health – was that it was off the interest of the Fund; and that was one of the things that I was very keen on to make sure that it was off the *interest*, it was not actually  
215 impacting on the physical base value of the Fund.

But I do not know if the Chief Financial Officer –

**Q14. The Chair:** Could you confirm who is doing the review?

220 **Mr Randall:** It is being done internally.

**The Minister:** Yes, it is being done internally.

**Mr Randall:** We have got the PwC report that has given us a base. There is quite a lot of good  
225 information in there, but we will take it forward internally.

**Q15. The Chair:** Do you know how much the review is costing internally?

**Mr Randall:** We have not costed it. It will be when we are in incremental cost we might need  
230 some assistance, but we have not costed it at this time.

**Q16. The Chair:** Moving on now just to the Budget process and changes, Treasury Minister, the Budget process has remained largely unchanged for many years. In your recent Budget speech you mentioned: 'Now is the time to review the process.' Could you expand on what that might look like?

235

**The Minister:** Yes, very happy to do so. Of course, these are my views and again there have got to be wider conversations, including not just with my ministerial colleagues but also with everyone who is a Tynwald Member as well. One of the things I have felt about the Budget process is that, from my point of view, both outside the Court and then when I was a backbencher, it is a bit shrouded in mystery. The Treasury Minister gives it to Members normally about two weeks before with a nice, shiny presentation and then stands up on the day in Tynwald and suddenly, surprise, there it is; and take it or leave it.

240

One of the things I feel is that although Tynwald Members are engaged if they are a Member of a Department, I changed this process slightly this year. I always felt previously it was very much from my point of view set up like an adversarial process, where the Department comes in, justifies themselves to Treasury and then out they go. This year we made it a bit more of a sleek process where it was more focused on what the Departments were asking for, how it fed into the Island Plan and also the direction of travel of the Government over the next five years.

245

What I want to do is widen that out and I want to involve all Tynwald Members at an earlier stage to allow them to have sight of the bigger picture. I also want to look at what we can do around modification of the process because at the moment, if a Member objects to one thing in the Budget, their only avenue if they are that passionate about it is to vote against the *entire* Budget. I want to look at that process as well and see what we can do within there that would actually allow more leeway to Members to be able to, should we say, show dissatisfaction or potentially change or alter something should they be genuinely unhappy with something.

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**Q17. The Chair:** You mentioned, obviously, you have said the words, almost taken out of my mouth, in the sense of 'smoke and mirrors' – it is a mystery; and you are also talking about engagement with other MHKs. Will this extend wider perhaps even to other accountants, the Tax Liaison Committee or the Chamber of Commerce being involved?

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**The Minister:** That is something we would have to look at.

Obviously there are some things in the Budget, such as if there were any tax changes and so on, that are very sensitive information, and there is a very good reason that they are actually announced on the day. For instance, if you look at Westminster and the system they have there, even the Cabinet tends to only learn of the Budget when the Chancellor is about to bring it forward when they have the Cabinet meeting; and in fact if you are a backbench MP you do not get the detail until, it used to be, the Chancellor was standing up. I believe they have changed it back now to be when the Chancellor sits down, that the documentation is starting to be circulated –

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**Q18. The Chair:** I am sorry, Minister, what I am actually talking about is getting input back about the budgetary process, about changing that. Are you going to seek –?

**The Minister:** Oh, sorry, there is consultation on the –

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**Q19. The Chair:** So, not just the MHKs. Are you going to go out to accountants and other areas? Can you name any?

**The Minister:** I think it is important we engage with the whole community around the Budget process. I think everyone has got valid input in terms of the Budget process and how they believe it can be changed.

280

I have already had conversations with several business people out there, people I know personally as well. Someone who I was talking to the other weekend, actually wrote a paper a few years ago around the Budget process, and how they felt it could be improved and changed. So those conversations certainly from my level, at a political level, are already ongoing. I think, at the end of the day, the Budget is something that affects all of us and it is important that we have got engagement with the public of what they want to see out of the process too.

**Q20. The Chair:** I think it is really refreshing to hear your opinions on this and how you are going to engage with others.

But really, Caldric, how much is that going to be difficult for you in terms of an organisational level, if changes like this come into place?

**Mr Randall:** I think the first thing I would like to say is that assumption that the Budget is impenetrable when there is not sufficient information in there ... We have made significant efforts over the last good number of years to take the Pink Book and give greater transparency in what is in there. We have taken a lot of steps forward, I think, certainly in terms of providing a longer-term forecast, providing more information around structural deficits etc. and things that were not there in the past.

Each of the Departments has its own page in the Pink Book, where they are aware that is the Department's page and they are able to put in there whatever they like. That is their opportunity to explain to Members and to the public what is in there. So there is an awful lot of information in there.

I think, when you look at the Isle of Man Government Budget, individual parts of it ... There is nothing complex about the individual parts, but when you put them all together it is very broad and it takes a long time to bring it back together. I think, to manage people's expectations, it is always going to be a complex document because of what it is trying to convey and the process behind it, and the number of steps that are within there.

Those fundamental steps that the Minister is talking about, that need to take place with greater engagement and an opportunity to influence them, we will work to do that, but it is still a mammoth task. The task starts back in July and really kicks in in earnest in September time. So we will produce a Budget, and the most important thing is that we produce a Budget every year, which we do, which is understandable to Members.

The other things that the Minister is talking about may not all happen in the first year, or whatever, but there is certainly an opportunity for greater engagement and I think it is something that the officers would welcome as well. Sometimes things probably seem straightforward and obvious to us, but maybe they do not to people who are not quite so close to the process. So we will deliver.

**The Minister:** If I can just add, it is an evolutionary process and it is one that should always be ongoing. Across Government, we should always be looking at what we are doing and how we can improve things and how we can do them better.

I concur with what the Chief Financial Officer has said around what is in the Pink Book. If you go back 10-15 years and look at the Pink Books from there, and what might be classed as an impenetrable document now was certainly impenetrable back there, and did not necessarily hold all the information that you needed in order to be able to draw out the conclusions of what the actual overall financial position was, particularly around structural deficits and so on.

I think there have been leaps and bounds in terms of the Budget document itself over the years and now I think what we need to focus on is the process itself.

**Mr Randall:** I think if I may add, as well, we have made all the changes around the financing for capital and the way that had been presented. We are in a transitional year and this year is quite complicated, I admit it is, because we are moving from one way of presenting and approving,

335 to another way next year. So again, these things are in train and that should allow Members much  
more visibility over the capital projects and what they are actually voting for – whereas things  
were done incrementally in the past.

340 So there are a number of things coming through but you will always have a lot of information.  
It is very difficult, it is individual choice as well, I suppose. Some people want lots and lots of  
information and feel that is the right way to convey things. Some people do not want so much. It  
is finding a balance between them. But, certainly from a Member's point of view, the team are  
always open to discuss any ideas that Members have, or to take them through any elements of it  
if they feel they might want some further explanation.

345 **Q21. The Chair:** Do you have an idea right now of what the scope of the review will be?

**The Minister:** The scope of the review is in relation to the process –

**Q22. The Chair:** Just the process?

350 **The Minister:** At the moment it is the process.

**Q23. The Chair:** Thank you. It is interesting because we have a Commonwealth Parliamentary  
Association conference here this week and one of the CPA Benchmarks for Democratic  
Legislatures is that: 'The Legislature shall have a reasonable period of time in which to adequately  
355 scrutinise and debate the proposed national budget.' Do you think our process meets this  
standard, currently?

**The Minister:** I do believe that there is adequate time for people to consider it, because it is  
presented to Members beforehand. Different legislatures do it in different ways. So, for instance,  
360 if you look at the UK again as an example, it comes via the Finance Bill, which comes after the  
Chancellor's speech. People do not get the documents until the Chancellor, in most cases, sits  
down. So basically they do the *after* scrutiny. There is also the way of releasing the Budget  
beforehand to demo it to Members so that they can actually have time to go through it prior to  
the debate, which is the approach that we take.

365 But I want to look as well at the process from a point of view, as I have already said – at the  
moment there is no amendment possible to the Budget in any way shape or form, and so if a  
Member disagrees with one particular element and they feel it is a strong thing, they have to vote  
against the entire document. I think part of the process review is looking around that as well.

370 **Q24. The Chair:** Thank you. What is the Treasury's policy for agreeing the overall high-level  
Budget figures per Department? Does the Minister feel that Treasury should be leaving  
Departments to decide how they are going to spend their budget?

375 **The Minister:** This ties in with priority-based budgeting which is one of the key principles that  
Treasury is already looking at and it is something that I am very keen on. I am actually very keen  
on the idea of Departments having a financial envelope, and then within that financial envelope  
the Departments allocating accordingly.

380 At the moment, I think – again, it can be a perception sometimes – there is this feeling that  
Treasury dictates the process. I can say from having now been in Treasury that is not the case, we  
try and work with Departments to facilitate it. But I think we need to change the system so  
Treasury is even more of a facilitator.

385 Treasury obviously holds ultimate accountability for ensuring that the taxpayers' money is  
spent appropriately, but what we need to do is actually devolve down to the Departments  
deciding what *they* believe is appropriate within their budgets. What I want to see is more of a  
priority-based Budget situation and where there is a financial envelope for Departments, and

within that financial envelope the Departments can operate accordingly for the services that they provide.

390 **Q25. The Chair:** Thank you. It is not just important to show that we have made change, we need to show that we have been effective. So change needs to be in place by Budget 2023 to monitor the effectiveness of change. Do you think this will be the case?

395 **The Minister:** I would certainly hope it will be the case. Obviously, we are only just coming into the new financial year, so in terms of timescales I am not going to commit to anything. But I think so, I think we will.

One of the other things I would say is that, in terms of delivery of services on the ground, Departments are best placed to decide what is actually needed within their areas, and I think we do need more leeway in that regard.

400 **Q26. The Chair:** Will the scope of your review extend to the annual accounts, i.e. the Light and Dark Blue Books?

405 **The Minister:** I am not sure in terms of what you mean by 'review' because we are reviewing the process. So, in terms of the Dark Blue Book, that is very much a factual document in terms of the Government accounts, and I think there are also standards that apply to it as well, which we *have* to comply with. So I think our scope in how we present the Dark Blue Book is a lot more limited. But I will bring the CFO in.

410 **Mr Randall:** Yes, as you will be aware, we publish two financial statements. One is the Light Blue Book that comes out fairly quickly after the year end, which is management accounts, based on a near cash basis. Then there is the Dark Blue Book which is the statutory accounts which is done in accordance with accounting standards, and that is the one that is subject to audit. We have been saying for quite a while that it might be nice to bring those together into an annual report, so that is something we are looking at at the moment, to try to bring it through.

415 So, yes, we are looking at if we can improve the information there. Financial statements, I think, are not just a problem for governments but a problem for all organisations that produce them, but not many people read them and so we will make as many efforts as we can to make them as open as they can be.

420 **Q27. The Chair:** Do you feel the commitments made in the Island Plan are sufficiently tied into the Budget? Will there be a link in the Department plans, in the future, to the Budget?

425 **The Minister:** Very much so. One of the issues with the first year of any administration, I have stated this quite publicly, is that the timings are all out. So the Budget process, as the CFO has already mentioned, starts in the July. We do not get the new House of Keys until the end of September, you do not get the new administration until the end of October or start of November, by which point the Budget is well under way. If you actually look at the Budget statement – and I very clearly laid out how it fitted in with the Island Plan that had come forward, so there were changes made. But going forward, the Budget should be there to complement the Island Plan, to help to facilitate the delivery of that; and although there are numerous references in this year's Budget, it was a Budget that was halfway through by the time the Island Plan and this administration even came into existence.

430 But going forward there will be very much linkage back between what is in the Budget and how it will facilitate the delivery of the goals in the Island Plan.

435 **Q28. The Chair:** Do you think the Budget should come out before the Island Plan?

440 **The Minister:** Well, no. I think actually you needed the Island Plan first, because you needed to know, and have agreed by Tynwald, what those principles are. In the Island Plan, there was nothing to say it may not have been amended in Tynwald, and that Members may have said 'Actually, we do not particularly like that direction of travel; we want something different.' If you have got a Budget that has come out first and is actually set, that is not facilitating – the Budget is then leading, from my point of view.

445 So I think, even although the timings were very tight, it was important to have the approval of that Island Plan first, because that gives the high-level direction of travel, which then the Budget is trying to facilitate. Otherwise, you end up in a perverse situation which has happened in previous administrations, where the Budget is driving the direction of Government, rather than the direction of Government driving the Budget.

450 **Q29. The Chair:** What happens when the Budget cannot facilitate the Island Plan?

455 **The Minister:** Decisions have to be made, and it is as simple as that. One of the things the Chief Minister has said throughout is the Island Plan is a living document. Any Government plan should always be a living document. If you get to the end of a five-year term and the document is exactly the same word for word as it was when you started, then you have clearly not adapted, you have clearly not changed the circumstances. There may well be things, as the five years rumble on, where we actually decide things drop down the priority list. So something that seems important right here and now, at the start of 2022, might not be as important in 2023 or 2024, there may be other things that leapfrog it. It is important that the Island Plan is adaptable.

460 There may also be things that when they are costed up – and we have got various reviews going on around housing, which are going to be absolutely critical to an awful lot of delivery around the Island Plan, that may come up with things that actually are cost prohibitive. Then we need to have those political debates around what are the priorities and what can be delivered.

465 I do not think there is ever a government in the world that has delivered 100% of its vision statement. I have certainly never been able to find one anyway, and I think it does come down to prioritisation and we have to recognise there is a finite amount of money in order to do that.

That is why the Island Plan and the annual debate on the Island Plan should not generate political debate with all Members of Tynwald and the wider Island, around what are the priorities – and how do we make the funding that we do have available, have the greatest impact?

470 **Q30. The Chair:** Do you think that the Island Plan, or *an* Island Plan, or any Island Plan will be forever unachievable if it is not costed?

475 **The Minister:** Well, no, I think the point of the Island Plan is that the Island Plan sets the high-level metrics now. I know my private-sector background is project management and this sort of remit is very similar to what I would have seen in the private sector where you actually have a high-level plan that sets out the goals that you want to achieve, and from that then flows the more high-level metrics, or KPIs that actually set out the individual targets; and then you have the low-level metrics which feed down into the departments as to how they deliver against those high-level metrics. That is what the Island Plan is: the Island Plan is setting the *goals* and from that you then develop the Budget, accordingly.

480 **Q31. The Chair:** Do you appreciate, though, the public unrest in that because they forever see these dreams and they do not get fulfilled? Do you see how that is constantly letting them down?

485 **The Minister:** Well, I think, actually this time round ... They always say there are two ways things can go wrong with an Island Plan; they always say hindsight is a wonderful thing and that it makes a lot of people look highly intelligent after the fact. But if you look back at the last administration – the Programme for Government – personally, I think one of the problems with

490 the Programme for Government was it went into too-minute detail and it actually had in it things that the Department should have been doing day to day.

So, for instance, my role in the previous administration was Health Minister and one of the targets that was in for Health was around A&E waiting times and waiting lists. That is something that the Department should be looking at day to day anyway, rather than actually being a driver in the Island Plan, and it became so bogged down with – I think it was about 184 measures in the end, that ... Let's be honest: was anyone really reading it out there by the end and really following it?

500 What the Island Plan needs to do is set the goals and then the metrics flow to say, 'How do you deliver that goal?' That is where I think we have got it right, because the other risk as well – and I saw this when I first went into the Department of Health and Social Care, there were plans, there was a shedload of plans, I had a cupboard full of plans when I asked for them, all the plans were under way but – and Mr Moorhouse will remember this – behind the plans there was nothing to say how they would be delivered. And that is the important thing: you have got to have both elements.

505 That is why the Island Plan itself sets the goals but then the Department plans which will come forward to Tynwald are crucial, because they are showing how the Departments are going to deliver on those goals.

**Q32. The Chair:** Thank you. Could you expand on Treasury's role in commissioning KPMG to help produce a five-to-10-year economic strategy and how will the end product be used?

510 **The Minister:** Caldric, do you want to take that?

515 **Mr Randall:** Yes, part of the Economic Recovery Group which was formed after COVID, was looking at a number of things. It was looking at supporting the Island's economy during the pandemic, but it was also very clear that we needed to look at the recovery phase from that. I think that something identified pre-COVID as well is that we are reliant on a buoyant economy here in the Island, and it was time to review. So there was a full procurement process that was put in place to identify a partner to help us develop our economic strategy. We hope to bring the first draft of that to Tynwald in July. It was an open procurement process.

520 **Q33. The Chair:** Have you got any indication of what initial responses you are getting back from the business surveys?

525 **Mr Randall:** Not that I can bring back to you now, no.

**Q34. The Chair:** Just from the name of the report it gives a business bias. Would you not agree that to have businesses and jobs here you need to make it an attractive place to live, with supporting infrastructure as well? How is this going to be addressed?

530 **The Minister:** Yes, you most definitely do, and that is why I just made the comment before about housing being absolutely essential, and the work that is going on in terms of the Housing Board chaired by Chris Thomas. I majored on this during the election campaign, because it has been a bugbear of mine for quite a long time that not everything is necessarily joined up all the time and it needs to be; because if you do not get the housing piece right and people cannot get affordable homes, or they cannot access the type of homes that they want, then they are not going to stay and live and work on the Island. You will lose the young people and the economically active people that you already have and you will not encourage people back either; or new workers in. It is across the board.

540 So one of the key things – and again it goes back to the Island Plan – is about joining all that up so that ... Obviously an economic strategy has to focus quite a bit on business and the economy

545 itself, but the wider strategies of Government that play into that have to also ensure that you have got the social aspect right, so that you have got appropriate wage levels; that you have got housing availability for people at different levels throughout society; and also it then feeds into things like the night-time economy, because people are not going to come and work on an island if there is nothing for them to do. The whole cultural piece ties in with it as well, and that is why it all needs to be joined up across the board and why I keep saying that housing is key, and also the way that we actually look at lifestyle on the Island.

550 **Mr Randall:** I think there is a commitment to that acknowledgement that there will be a requirement in investment, and you can see it in the Budget where the Economic Recovery Fund has changed to Economic Fund and has £80 million ready to ... Whether that will be enough in the future we will have to wait and see, but there is an acknowledgement in investment, and that will be a key part of it, and I am sure that will come through in the strategy when it is presented.

555 **Q35. The Chair:** Thank you. Is Treasury, as a Department, leading 'from the front' in terms of looking to make efficiency savings internally and being as streamlined as possible?

560 **The Minister:** The first thing I would say is at the moment we have got a recruitment freeze across Treasury. In terms of Treasury's operations, Treasury *has* to be an efficient organisation or it just does not work. I know Treasury has been looking for several years – long before I was Minister – at the way Treasury delivers services. I know, certainly in terms of one of the things they are doing within the Social Security area is how they engage with customers and making more front-end provision. But yes, Treasury has been doing quite a bit of work.

565 Caldric, have you ...?

**Mr Randall:** I will ask Vicki just to give you a quick overview of the transformation programme that is taking place within Social Security. We would have been further forward with that, but we got distracted by COVID, as you can imagine.

570 A lot of the Treasury's operational functions are IT dependent and so a lot of our efficiency gains can be brought through there. We have got a huge programme that we have got running in the Treasury, where we are looking at the Income Tax system, which is quite old and needs refinement; the National Insurance system; and below that the Social Security system. We are looking at replacing the accounting system, which is coming to the end of its life, really; and again looking at not just replacing like with like but looking at what kinds of technological advancements we can make – reducing the level of paper and that kind of thing. So it is very much a focus of what we are doing.

575 I think I will get Vicki to expand the transformation.

580 **Q36. The Chair:** Actually, we are going to come a little bit more to that later on, if you do not mind, Mrs McLauchlan –

**Mr Randall:** No, I was just going to say the focus you will see of that is about making an improvement, not just in the internal efficiency for Treasury but also about the interaction with the customers.

585 **Q37. The Chair:** Yes. How many years down the line are we from having those online facilities or the technology that you are talking about? All the changes?

590 **Mr Randall:** The programme will probably be five years, I would have thought, but there are lots of different steps along the way. So there is a replacement of the Customs and Excise system, as well. But there are already opportunities to interact online.

**Q38. The Chair:** Are you able to provide us with those steps? Are you able to provide us with that timeline outside of here, please?

595 **Mr Randall:** We can go away and see what we can do, yes.

**Q39. The Chair:** You mentioned before, Minister, regarding how you have felt since you – I cannot quite quote you, sorry, but since you have been there, it is not quite like what you thought it was in Treasury, perhaps playing God. That is your feeling, obviously.

600 On that subject, with having Treasury concurrence, do you feel that sometimes worthwhile projects may never actually make it to the Council of Ministers, and who may collectively have a different view on perhaps prioritisation; or even other Members of the House of Keys might have a different point of view? Do you think the new budgetary process will allow for more transparency on what comes to Treasury?

605 **The Minister:** Treasury concurrence is very important because Treasury ultimately is the protector of the public purse, and we have to ensure that there are things that are value for money and not everything can be afforded. To say that blocks something going to Council of Ministers, though, is not correct. If a Minister felt very strongly about it, he could still get it on to the Council of Ministers' agenda and actually get Council of Ministers to direct Treasury.

610 That is possible to happen and it has happened in the past.

**Q40. The Chair:** Thank you. Does the Treasury board, in these situations of determining projects, have the appropriate knowledge to make the right decision? If they do not, how do you overcome that hurdle?

620 **The Minister:** Yes, I think that we do have the appropriate knowledge in most cases; we can bring external expertise in if there is something that is really technical. Members of the Treasury board, exactly the same as Members of Tynwald when you get your Tynwald papers, have the ability to go off and question. If Treasury does not feel comfortable with something, then they will not make a decision until they do feel comfortable with it.

625 Certainly the way I act as a Minister is if the board does not feel comfortable with something, they will not be forced to make a decision there and then. If they feel there needs to be more analysis or they need some independent advice, then we will go away and we will get that. It is not a case of it has come to this meeting so it must be approved at this meeting or declined. We have already, with several things since I have been Minister, gone back to the relevant Department if a Department is coming forward with something and said, 'Actually, it is not a no, but it is not a yes, either. We would like more information.'

630 **Q41. The Chair:** How much do you spend on independent advice per year?

**The Minister:** I would not have thought it is a set figure. I think it would depend on what you actually go out for, and it would depend upon what you were looking to do.

635 **Q42. The Chair:** Do you have that information for the last five years, what you would have spent on ...?

**Mr Randall:** I do not think we do, no.

640 **Q43. The Chair:** You do not have that information?

**Mr Randall:** I think we would have difficulty in terms of identifying what independent advice was. So would you include the review that was done on National Insurance by PwC as independent

645 advice? I presume you would. There are all sorts of different examples of where that comes in, so  
I do not know, I think it would be very difficult to collate that and know where those individual ...  
and report back.

**Q44. The Chair:** A forward-looking five-year fiscal plan and the structural deficit calculation  
were cited in the Budget as 'relatively new' additions. Could you expand on how these tools assist  
650 both Members and the public in understanding the pressures on the Island's finances?

**The Minister:** Yes. In terms of the structural deficit, obviously, it gives public sight to the deficit  
across Government and the scale of the challenge. We do need to get back into being in fiscal  
balance at the end of this five years. That is absolutely crucial. There was a plan in the last  
655 administration and it obviously got knocked by the worldwide pandemic that hit, where our  
response had to change, but we have to be living within our means. I said that when I was a  
backbencher, I said it when I was Minister elsewhere and I am saying it now, as Minister for the  
Treasury, that what we do to actually do that, needs to be open to public debate. But we do at  
the end of the five years have to plan.

660 One of the things the COVID pandemic has shown us is that reserves can be very important;  
and whereas a lot of nations in the world have had to go out and expose themselves to quite a bit  
of external debt in order to see their economies through, we have been able to utilise general  
reserves to be able to help see us through. You have got to be adding to the reserves in the good  
times to plan for the bad times. If the pandemic shows us one thing, it is that when the bad times  
665 hit they can hit quite substantially. We need to have the ability, when that happens, to be able to  
help support our people and our economy.

**The Chair:** Thank you, Minister.

670 **Q45. Mr Moorhouse:** Those reserves look good and the Budget I feel is good in terms of the  
£219,000 surplus. But the problem was, we were taking £84 million out of reserves.

Are you suggesting that over the next four Budgets that is going to be repeated to a certain  
degree? Is there a limit on what will be coming from the reserves? You spoke there about trying  
to be as prudent possible but at the same time also saying we will be doing this. Potentially, it  
675 could be huge.

**The Minister:** There are figures laid out within the Pink Book that actually show the forward  
projections in relation to drawdowns. One of the things that we have got to do, is we have got to  
do it over a number of years. You could not just do it in one year, it would mean turning things  
680 off. The important thing is to have that plan to be able to do it while maintaining public services  
that we all rely on, such as health, education, transport. So that is what the plan is actually doing  
over that period, it is limiting out the drawdown.

Like I say, one of the things with the Pink Book now is it is very clear for anyone looking at it to  
be able to see what the deficit actually is, and the fact that we do have a structural deficit. As I say,  
685 if you go back 10-15 years and look at some of the old Pink Books, I am not sure that was always  
clear when there were issues ...

**Q46. Mr Moorhouse:** That data does provide some useful starting-off points, but when you  
look back at the figures you were using to create the Budget, where you were looking at inflation  
690 being around 2% in terms of the wage increases, and 1% for non-pay items, for some it is a  
completely different environment, and it is not much longer than a month ago.

**The Minister:** I remember there was an old political phrase, and I cannot remember which  
Chancellor of the Exchequer used it, but one of the Chancellors once said: 'A Budget is only as  
695 good as the day it is presented on.' Things constantly change and obviously the big thing at the

moment is the higher inflation that we are seeing, a peak of inflation coming out of the pandemic, and with all the situations around the world. The Budget next year will have to take that into account.

700 One of the things I was quite clear on in my Budget speech – and I have stated publicly since – is if the inflation assumptions are out, particularly around healthcare spending, then we can be looking at quite large sums. But we still have to plan and we still have to work at getting to a balanced Budget at the end of the five years. We need to ensure that we are there because if we are not then we are still taking from reserves, which is not a good place to be in.

705 **Mr Moorhouse:** Thank you.

**Q47. The Chair:** Thank you. We will now move on to Social Security transformation plans and this might be a time for you, Mrs McLauchlan, to speak.

710 Treasury Minister, in your Budget remarks, you thanked your Department Member, Mrs Sarah Maltby MHK for her hard work in the Social Security Division and hinted at the first steps of reform in Social Security. You also said from the work you had seen it was ‘going to be absolutely transformational’. That is quite a statement.

Would you care to elaborate why it would be so?

715 **The Minister:** Yes. Before I bring Vicki in ...

The reason is that the way we interact with people in Social Security – and I think the Social Security team themselves have been frustrated with this for a number of years – is a very old-fashioned way of doing things, very paper-based, very manual processes as well in some cases. What we are trying to do is make it easier for people to interact in what generally is an experience people do not want to be having in the first place. People do not particularly want to be on benefits, they do not want to be having to claim from the system and sometimes the process can be overwhelming for people. I am sure the Members here, like me, have probably seen the Disability Living Allowance applications, for instance, that people have to fill in, where you are talking 32 to 37 pages of information that sometimes, even for someone who knows the application form, can be quite difficult to do.

720 So what we are looking at much more is people being able to interact online and I have seen some of the proposals around that. Also, one of the things that has not been easy because of the processes, is ensuring that people apply once – so you can apply once and be assessed across the piece for benefits. What has tended to happen in the past is people have applied for something, then they may have been rejected because they do not qualify for that. But then they have not maybe been aware that they are entitled to something else. So it is about getting a more joined-up system, so people can be assessed, and they say, ‘Well, actually, you have applied for this, you do not qualify for this but you may actually qualify for *this*, so we will assess you against that’ – and make it a much more streamlined process.

735 Mrs Maltby, who is the Member with delegated authority for Social Security in Treasury, is a very enthusiastic member of the Treasury board, it is an area she has a passion for, and I know she has been engaging with the team and is really enthused to try and move things forward.

With that, I will bring Vicki in.

740 **Q48. The Chair:** Thank you. Mrs McLauchlan.

745 **Mrs McLauchlan:** The Social Security transformation programme is a big piece of work that we are really keen to progress with, and we have unfortunately been redirected to deal with COVID, but it is something that we have been working on for some time and we have had as a vision for some time.

As Members, you will have complaints from constituents on a regular basis, I think, about the way that they have to interact with Social Security. So this piece of work really separates out the

750 delivery of services and looks at how we can deliver services better for the individual. It comes with principles of 'Tell us once.' So every time someone fills in an application form for benefit, they are telling us their name, their address, their date of birth, their National Insurance number – all this information we already know. This online system would actually provide an individual with a customer record, and they may only have to tell us those things once and then tell us as things change.

755 Similarly, we receive application forms from people and they have not ticked or completed certain boxes so the whole application form goes back. This system will not allow them to do that, they will not be able to submit it unless they have completed all the relevant sections and they will be prompted to do that; or they will be able to access support in a more dynamic way, whether that be via call-centre support, or we might have officers go to particularly vulnerable customers and sit with them and support them through the process of an electronic application form; or things like an online chat, so people can actually get support at the time that they want it rather than 9 a.m. to 1 p.m., when they can come to the counter.

760 We have called it the Social Security transformation, and I think it is quite transformational in the way that services will be delivered. But the focus is really about making sure that things are streamlined, they are value-adding and we are not wasting time dealing with paper-based admin processes. We are delivering real value to people. It is not a cost-cutting exercise, but there will be cost savings, it will be about re-diverting support to help people with the outcome which, for most people who access our services is the fast and efficient payment of a benefit which they are entitled to; or a return to work; or support with accessing better or more work.

765 We want to make sure that the system provides them with both the financial support but also the employment-related support that they may need. So rather than them having to *know* about all the different services we might provide, they will tell us about their circumstances and we will then tell them what they may be able to access. We will proactively engage with them in a way that might be best for them.

770 That is the vision!

775 **Q49. The Chair:** Wow! That is the vision. A lot of that is absolutely hugely welcoming, and it is interesting you say that you have been working on this for years, but obviously it has been delayed because of COVID. With that in mind, then, do you have any agreed milestones or key performance indicators? Any idea on that right now?

780 **Mrs McLauchlan:** Yes, we are working on a more detailed project plan at the moment, but I think the launch of that customer portal is going to be the first stage, where particularly the public are actually going to see a change in the way that they access our services. We do not have a date in mind for that at the moment, we are still a bit restricted in terms of resources, both ourselves and business change, with other priorities around the cost of living and the Ukraine etc. Not just us, but other parts of Government are still being pulled into other areas, but that project is still alive. We have a project manager and we are working on a project plan, and we do plan to deliver some form of update or presentation to Members a little bit further down the line to outline the vision and give more information on when they can expect certain deliverables.

790 **Q50. The Chair:** Thank you.

You mentioned estimated cost savings. Do you have an idea what that will be per year?

795 **Mrs McLauchlan:** I have. We have got both. In the business case when we first scoped this out, we looked at cashable savings of around about £900,000, and non-cashable of around £3.6 million.

**Mr Randall:** Some of the derivation behind that is because you are able to interact with people much more quickly and prevent them going into benefits, and put them into work.

800 As I say, it is not all just about internal administrative efficiency. (*Mrs McLauchlan*: No.) It is about delivering a more effective service, so that is where some of those come from.

**Q51. The Chair:** It sounds like there is a heart coming from the benefits team, and that is what you want to project. I think that is really encouraging to remove the paper and the onerous paper filling-in and form filling-in. It is such a shame because you hear all of this and yet there are some things that are coming out even now, when you look at the Winter Bonus – and we were only discussing that the other day – that the form that has to be filled out to apply for that is an onerous form.

810 Is there no way, as new forms or new things that come out can go straight on to this system?

*Mrs McLauchlan:* Yes, we are already at the very early stages in the process, we are reviewing each benefit and the processes behind that, and it might be that we simplify some of the forms before we get to a customer portal, so we can start to get some of those benefits there straightaway.

815 In terms of the Winter Bonus, because we are linking entitlement to a similar assessment as for income-related benefits, it is a complex assessment. We always talk about the tension between trying to make things simple – the principle of simplicity – and then also trying to make it equitable – and equity. There is a real tension there that if we want it to be simple, it is not always equitable; and to be able to make something equitable it is often quite complex. So we do recognise that, yes, the Winter Bonus was of relatively low monetary value, but there was quite a long form for them to complete, because lots of things are taken into account for income-related benefits, and we wanted to use that same means test rather than coming up with something new, which again adds further complexity. But ideally some of that information might have been already collected in a previous claim. So if somebody has gone off benefit, for example, but may need to claim something again, they will only need to tell us about the things that have changed and they will just tick, ‘Yes, that is still the same.’ Rather than having to tell us all over again, ‘This is what I earn. This is my capital. This is the property I own’ – or have owned.

825 So, yes, it is often difficult to simplify when you are trying to make something fair and equitable, but it is definitely the principle of what we are trying to do.

830 *Mr Randall:* If I may, I think this is a good time to recognise the work that the Social Security team have done, particularly over COVID. All people see is a form going in and money coming out the other side. There is a huge amount of work behind that, the team have gone over and beyond expectations to turn things around, particularly in difficult times over the winter when we have been short of staff as well for various reasons.

835 It is a phenomenal task. These things are not automated, the changes we will make will help that. At the moment a lot of that is manual and people are working *really* hard to provide customer services. I think generally people get frustrated sometimes, over time, but they do get their payments out and they have been made, so that is a tribute to the work of the staff.

840 **Q52. The Chair:** I would be very interested to see the timeline that you are looking at for the different stages. Is that available to send to the Committee or would you prefer to wait until this is presented to the Members? I am happy in terms of whichever ...

845 *The Minister:* I think we would wait for the presentation. I think it is better to have everything joined up so that people can see it more holistically, rather than dividing things off.

**Q53. The Chair:** When do you anticipate this Members’ presentation, then?

850 *Mrs McLauchlan:* It really depends on how this progresses and what resources have to be redirected to any of the responses to the rising cost of living and the April financial statement, and

what comes from that, really. We had hoped to deliver some sort of presentation to Members, probably in early May. I do not know whether that is achievable yet, but we can certainly keep the Committee updated as that changes.

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**Q54. The Chair:** If you could let us know, that would be great.

It obviously seems like there is a lot of consultation that has already happened. Could you explain to me what has happened in terms of consultation already?

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**Mrs McLauchlan:** The Social Security Division went through a process of reviewing what we delivered and what our valuable delivery was, what some of the waste was etc. and what should change moving forward. I think around about 60% of Social Security staff were involved in that, and that was in late 2019, that is when we first started to plan for the transformation and came up with the idea and vision for it. So a really large proportion of staff were involved with that.

865

In terms of public consultation, there has not been any public consultation yet, but we do plan to have user groups as part of the process moving forward, as we start to develop the systems. We plan to involve the public in that so that we can make sure they are involved and can give feedback as we progress.

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**Q55. The Chair:** Thank you. Is there anything else that you wish to add, Mrs McLauchlan, before we move on to the other subject?

**Mrs McLauchlan:** No, I do not think so.

875

**Q56. The Chair:** Thank you. We will now move on to part five, which is the Steam Packet, and the economic value of the shareholding. Treasury is the shareholder of the Isle of Man Steam Packet Company, which operates at arm's length. Nevertheless, on fares, is it the aim of profitability alone or is there potential to maximise wider economic value for the Island?

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**The Minister:** One of the reasons for taking on the Steam Packet Company was to secure the Island's lifeline. It is a very important asset to the Island and I think if we saw what was happening with it over previous decades or so there was quite a bit of concern around the potential direction of travel ... Now we have secured that asset.

885

It is important, though, we must remember it has to operate as a business and it is arm's length from Government. There are various things we can probably work with the company in relation to. There is a lot that obviously has been hit by COVID as well. Over the two-year period there was a lot of disruption and I think the fact that we had the asset, over the COVID period, in public ownership actually helped in terms of ensuring that our freight continued to flow and also that we had that ability for people, where they needed to, to travel.

890

My personal view is that if it had not been in public ownership I do not think we would have ended up keeping the timetable that we actually had; or, in fact, the taxpayer probably would have had to pay a very big subvention to a private company in order to keep that timetable going. So I think actually over the COVID period it has turned out that the decision to bring it into the ownership of the people of the Isle of Man was the right one to take.

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**Q57. The Chair:** I am just going to give you an example: if a new investing business was to relocate to the Island, but the cost of transporting equipment was too high, perhaps a discretionary discount could be applied, based on wider economic value. Would you say that you have a view on that? Or do you completely stay out of those decisions, as the Treasury Department?

900

**The Minister:** Well obviously it would involve DfE as well in discussions around the economy. I think Treasury would work with Government as a whole, but that is a decision I think

905 Government needs to make across the board, looking at the whole economic picture. I do not think it is just a decision for Treasury to be making, as the shareholder.

As I said, it is an arm's-length company. It does need to operate as a private company, and if there is to be any form of subvention for anything, we would have to very much ensure that it actually achieved its objectives. I know, for instance, one of the things that comes up time and time again is about maybe subsidising freight, but you do not necessarily see any freight savings passed on to the consumer. It could well be absorbed within the business that is actually shipping the freight and that does not necessarily have the impact that you want. So anything that we did or looked at would have to be very much targeted.

915 We are coming out of the period of the pandemic now and I think it is important that we let things as far as possible settle, and then that would be part of the wider economic discussions across Government.

**Q58. The Chair:** Could you confirm what budget was agreed for the *Manxman*?

920 **The Minister:** I do not have that to hand ... Do you have that to hand, Caldric? (**The Chair:** Approximately.)

**Mr Randall:** From memory it is £85 million. Does that sound right?

925 **The Minister:** It sounds about in the ball park.

**Mr Randall:** I can supply the information to the Committee, that is just my ...

930 **Q59. The Chair:** It was stated in the Isle of Man Government Audited Accounts, year-end 31st March 2020, section 7.27 Post Balance Sheet Events, that on 18th March 2021 the Treasury agreed to guarantee the amount of lending obtained by the Isle of Man Steam Packet Company for the acquisition of its new vessel, *Manxman*. It was stipulated that the amount of the guarantee would not exceed £160 million. This is obviously very different from the £85 million in terms of the budget. Why is there such a huge contingency?

935 **Mr Randall:** Sorry, which Dark Blue book was that? Was it 2021?

**Q60. The Chair:** It is in the Isle of Man Government Audited Accounts year-end 31st March 2020, section 7.27. If you do not have the answer today, maybe you can supply that to us? Our question really is: why was there such a huge contingency of £160 million?

940 **Mr Randall:** Post Balance Sheet Events?

**The Chair:** Yes, Post Balance Sheet Events.

945 **Mr Randall:** Tynwald approval was granted to Treasury to borrow up to £400 million. I cannot see anything ...

**The Minister:** That is in relation to the sustainability – (*Interjections*)

950 **Mr Randall:** It is 2020? Not 2021?

**The Chair:** It is 2020.

955 **Mr Randall:** I will provide the Committee with a little bit more detail, but I think at that time there was discussion about whether or not the Steam Packet would raise finance itself or whether

or not it would be raised through Government. Clearly, the decision to go out for a bond at that point had not been made, so I suspect that is what it related to and actually, as it turned out, we issued a sustainable bond and the financing was provided for there.

960 But in addition to the £85 million for the *Manxman*, there was also a loan outstanding. Part of the consideration was £80 million as well.

965 **The Minister:** I would also suspect that something played a part with steel prices because there was actually fluctuation in the worldwide steel market as well. I would have thought that would have played a part but I will get a firm answer for you for that.

**The Chair:** Thank you. Mr Wannenburgh, would you like to move on to part six? (*Interjection*) Sorry, Mr Wannenburgh.

970 **Q61. Mr Moorhouse:** Can I just ask a quick question? In terms of the MUA, their policy has gone from being purely profit motivated to having a social policy and it has been done on the nod of CoMin, from the outside perspective. Could the same happen in terms of the Steam Packet's role and could CoMin open up the possibility that prices could be adjusted, for the benefit of ...?

975 **The Minister:** It is a very good question from Mr Moorhouse and the first thing I need to do is point out the difference between the two. The MUA is a Statutory Board, under the Statutory Boards Act, and the Steam Packet Company is still a company, with the shareholder being Treasury, effectively. So those are two very different set ups.

980 But also just to say on the MUA: the MUA price rise is what the board believes is needed to sustain the business, which is the 30%. So although it is being staged, in terms of 15% and then 15%, which has been agreed in conjunction with Council of Ministers, the overall rise is what the MUA needs to sustain the business. So it is not a case that the MUA has said, 'We will increase electricity by 8%' – and then take a huge loss, and come and find other ways to factor it. They are getting the 30% which is what they require to sustain them. The only thing is, working with us they have been able to stage that rise.

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**Q62. Mr Moorhouse:** With regard to the terms of the sustainable bond, that appeared to come through in the summer in terms of the potential greening of the bond. Was there a reason for the terms of the sustainable bond coming through, or was that always used?

990 **The Minister:** As far as I am aware, that was always used in relation to the type of bond that we were going out for. The bond that we have, of course, is being used for very specific purposes in terms of helping to refinance debt, which is at a much lower rate.

But I will bring the CFO in.

995 **Mr Randall:** The policy regarding the expenditure for the bond is in the Sustainable Financing Framework which you can find on the website.

**Q63. Mr Moorhouse:** Just in terms of the greening of the bond, it seemed to become very green towards September time, when –

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**Mr Randall:** It is not a green bond, it is a sustainable bond. If you look at the Sustainable Financing Framework you can see the different definitions of the types of bonds within there.

1005 **Q64. Mr Moorhouse:** Yes, but returning to look at the infrastructure of £50 million, has that changed or is it still as it was?

**The Minister:** The make-up of what the bond will be used for is the same. There is of course additional funding as well that needs to be worked out where that will be utilised, but the principles are around the sustainability framework, which makes it the sustainable bond.

1010 **Mr Randall:** And you will see, looking in the framework, it is an allocation; the funds are allocated, they can go backwards as well as forwards.

**The Chair:** Thank you; and thank you, Mr Moorhouse. Mr Wannenburg.

1015 **Q65. Mr Wannenburg:** Could I ask a question? Minister, you mentioned about the Steam Packet and the Government acquired it to guarantee the safeguarding. Why would we not use the same rationale to acquire Manx Gas?

1020 **The Minister:** In terms of Manx Gas, I think the issue there comes ... I have got to speak personally here, so I need to make clear these are my personal comments, and I know there are differing views out there. My personal view is, in terms of utility gas supply that is right to be in the private sector. I think what you would do then is create a situation where Government was running *all* of the utilities. I am not sure it is necessarily a good thing that Government has exposed them to the worldwide cost of gas. We already have some of that exposure via the MUA with the gas turbines and longer term we are going to have to reduce the resilience of that. Also, going in to buy a gas company at the moment, to be perfectly frank, when the whole agenda is around green and renewable and bringing *down* people's reliance on gas, I think longer term perhaps potentially would not be an investment that you would necessarily want to do unless you *had* to.

1030 **Q66. Mr Wannenburg:** I accept that the current conditions are as you describe, but maybe five years ago they were not like that?

1035 **The Minister:** Well, five to 10 years ago, as I said it goes back to that saying about hindsight and a chance to look extremely intelligent after the fact. Maybe 10 or 15 years ago it probably would have been more of an attractive offer; there were opportunities with the Steam Packet 10 or 15 years ago that were never taken up at the time.

I cannot obviously answer what happened at that point, but what I would say now is in the current market I think that it is better where possible to have the gas company as a private entity, rather than it potentially being a burden on the taxpayer. Obviously if something happened to that company we have to secure supply in some other way or form, but I do not think we should just be stepping in and trying to take on what is right in the private sector.

**Q67. Mr Wannenburg:** Thank you for your opinion on that.

1045 Moving forward to global taxation and international co-operation, following proposals by the OECD to introduce a global minimum rate of 15% for large multinationals, how prepared are we, on the Island, for what might come next?

1050 **The Minister:** There has been an awful lot of work going on in this area – and I will bring Audrey in for anything she might wish to say in relation to this, in a moment – particularly around the Pillar One and Pillar Two which we have been working with. Obviously Pillar One focuses on the really significant multinational companies, so the effect on the Island is actually quite minimal because you are talking about the Amazons and those style of companies.

1055 In terms of Pillar Two, which brings with it obviously the 15% minimum rate in terms of Base Erosion Profit Shifting (BEPS,) again we do not think a wide number of companies will be affected on Island. There may be one or two, but we have been working with companies to try and ascertain what effect, if any, there will be.

Audrey?

1060 **Ms Christian:** Yes, I can only agree with that. At present, the work is focused very much on raising awareness locally, and we are working with the DfE Agencies to try and identify any potential impact. But it is very early stages.

**The Chair:** Thank you.

1065 **Q68. Mr Wannenburgh:** The Island Plan commits to ‘ensuring the Isle of Man continues to meet international standards while supporting economic growth.’ Can we do both?

**The Minister:** I think we can. The wonderful thing about international standards is they are just that: international. So we are not necessarily sailing out alone. Other countries, if they do not wish to be blacklisted by certain organisations, also have to comply, so we are moving in step.

1070 One of the things I think that is quite interesting – and I made this comment publicly a few months ago – is that there has been a seismic shift particularly in terms of big international organisations as well, whereas if you went back to the 1990s, it was looking around tax matters where they would, should we say, decide to relocate. Then in the early 2000s, it was around what sort of infrastructure countries had to offer them. I think now very important at the forefront of a lot of businesses’ minds is actually: ‘Am I in a jurisdiction that is internationally compliant, that actually complies with regulations?’ Because if you set up shop in a jurisdiction and they are not internationally compliant and then they get blacklisted by some of these organisations, that has an effect on that business’s ability to operate.

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1080 So I think actually being internationally compliant is a selling point now – the selling point that maybe it was not 20 years ago. But I think now that businesses, particularly at the international level, very much look for that.

I do not know if you wanted to add anything, at all, Audrey?

1085 **Ms Christian:** Yes, I would agree. The Isle of Man meets all the international tax standards and we have got this long-standing track record of active co-operation with all the international standard-setting bodies and the EU. And I agree, I think that is what businesses are looking for when they are considering where they will locate.

1090 **Q69. Mr Wannenburgh:** As well as a critical gas infrastructure, I would imagine.

**Ms Christian:** Absolutely! But a compliant jurisdiction, I think, is important.

**Q70. Mr Wannenburgh:** Indeed, thank you.

1095 The OECD/G20 Framework on Base Erosion and Profit Shifting has given more detail on proposals to reform international tax rules with a two-pillar model – and you have referred to that already. What work is ongoing to make sure we take business *with* us and that we create or maintain a competitive edge?

1100 **The Minister:** There is work going on to identify any businesses that may be affected by the Pillar One and Pillar Two issues. We have got to remember, of course, that the numbers will be quite low because even in relation to Pillar Two, its total consolidated group revenue is €750 million or above in the immediately preceding fiscal year, so that does reduce it down quite a lot, even for the big businesses that we have here on Island.

1105 One of the things about competitive edge is not always about tax. As I said, what I think businesses are looking for these days is accessibility and the overall environment of the place that they are operating out of. I think the bigger challenge we have for businesses of all sizes is actually workforce and ensuring that we have the skills on Island for them to be able to obtain staffing. I think that is now a much bigger challenge than anything in terms of the tax system.

**Mr Wannenburg:** I would agree with you there, yes.

1110 Mrs Christian, would you like to continue?

**Q71. The Chair:** Thank you. As the strain increases on the revenues of the main global economies – rising living costs, increased defence spending, supporting refugee programmes and the eventual rebuilding of Ukraine – the pressure will intensify for new, tighter initiatives to increase their revenue, which could have an adverse impact. The OECD and the EU could look to tighten the noose on what they perceive to be tax evasion or avoidance. Do we have alternative plans in the event of this? Or, have any alternative plans been worked up?

**The Minister:** Trying to predict which way standards will go in advance is, personally, I would say, a bit like trying to pick your lottery numbers. You can go off in one direction only to find that the international arena goes off in another.

I think what has been interesting is actually if you look at the international negotiations around what we have now, the Pillar One and Pillar Two, that has not been an easy thing on an international level to agree, because what you have – even amongst large countries – is countries with different types of economy and different types of economic strategy that are coming together to try and agree these rules. So, without naming names, there are some things within Pillar One and Pillar Two that, if you look through it, you can see which countries have prevented certain things going forward and which countries have pushed for other things to go forward. What we do is, as soon as we know an international standard is coming up, we will assess what the impact is on the Island and then we will look to see what we can do. Obviously we look to comply with the standard, but also work with the businesses that will be affected to actually see what we can do to help mitigate some of that impact.

But what I would say is trying to set out a blueprint or something to try and work out where the standards will go – as I said, I would take my chances with the National Lottery on that one ... What we do know is that there is going to be more and more of this. Let's be frank: it is only going to go one way on the international standard. But, like I say, the one good thing about international standards is that they are international and it means that other jurisdictions need to move as well; and if they do not, they suffer the consequences.

**Q72. The Chair:** But that does not affect all jurisdictions; for example, Malta is one that it does not necessarily affect ... Or do you know differently?

**The Minister:** As far as I am aware I think Malta is blacklisted – (*Interjections*) I think there has been a blacklisting of Malta, certainly from one organisation, I do not know if it is the OECD or the EU, but there was certainly a blacklisting in place for Malta which I know has affected some of the businesses out there.

**Q73. The Chair:** Okay, if you could clarify that?

1150 The Isle of Man Government have been early adopters in terms of signing up to the Automatic Exchange of Information (AEOI), Common Reporting Standard (CRS) and BEPS. How is that going?

**The Minister:** As far as I am aware, it is going well and everything is on track.

**Ms Christian:** I guess what I would like to add really is that the Isle of Man has been involved in the development of International Tax Standards since 1999, which is quite a long time. All of those standards have evolved and we have a track record of implementing the standards and achieving compliance with all of them. It is very difficult to pre-empt what is going to happen, but with the CRS, yes, we are fully implemented with the CRS and it is going very well.

1160 **Q74. The Chair:** And you do not have any resource issues with –?

**Ms Christian:** We have had lots of resource issues over the years, but we have had additional resources allocated. We have a very small international team who work very hard to ensure that we are always, when reviewed, compliant.

1165 **Q75. The Chair:** And obviously with a freeze on taking extra people now, is that limiting you if the workload gets more?

**Ms Christian:** If and when the workload increases, that is something that we would have to put a business case in to say, yes –

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**Mr Randall:** I just wanted to qualify the recruitment freeze. We are in uncertain times, we need to know where we are going, so we have got a temporary hold and we are not going to divert resources away from the essential activities.

1175 **Q76. The Chair:** Thank you. How long do you see that temporary freeze lasting?

**Mr Randall:** I do not know. It depends what happens with inflation and budgetary pressures.

1180 **The Minister:** Madam Chair, before we move on, just to say that in relation to Malta, it is the grey list of the Financial Action Task Force – Malta has been placed on their grey list of untrustworthy jurisdictions, and that was back in June 2021.

1185 **Q77. The Chair:** Thank you. Moving now on to Audit Advisory. Treasury's Audit Advisory Division performs appraisal of Government Departments by examining internal controls and governance. How do you ensure they are sufficiently independent?

1190 **Mr Randall:** They have terms of reference that provide them with their independence. That is the way it is ensured. They are operationally independent and they can be requested to undertake different tasks by the Treasury, or officers, or Members of Tynwald, but they do not have to do it. That is why they are independent.

1195 **Q78. The Chair:** Okay. How does the Treasury Department ensure the Internal Audit Advisory Division is competitive and provides a rigorous, helpful audit as opposed to perhaps an external one would do?

1200 **Mr Randall:** One of the things we have is an external peer-review system. That is planned and ready for May, and we have some reviewers coming over. There are two people, one is Head of Internal Audit for the House of Lords and one is the Head of Audit for Ordnance Survey. That is on the back of some reciprocal sharing of reviews that we have done in the past. So there is a peer review that will come in and look at those.

In addition, there are also the public sector internal audit standards of which the Isle of Man Government has its own, and we will review against that periodically – as well as our own internal performance activities as you would expect.

1205 **Q79. The Chair:** Treasury's Financial Advisory Service was launched in April 2020 as a central service for Departments. It brought together finance staff who were previously employed by the Departments. How has this worked and what are the benefits?

1210 **Mr Randall:** It is going very well. Clearly, like lots of other things in Government, the pandemic has got in the way of things and slowed them down. But the rationale behind it was that you had lots of individual finance directors doing different things to the best of their abilities, and in different Departments we had a lot of key-person risk. There were different processes in place as

well, so if you needed to put a lot of resource in to help out a particular Department or needed some financial advice, it was very difficult. That was part of the idea of that.

1215 It was also to bring everyone together to give some economies of scale, but also to give people some career opportunities. So, in the future – and Paula Primrose is the Director for this area – we will look at giving people ‘tours of duties’ in different Departments, that will give us greater understanding and also give us a better standard of financial advice. There is a business partnering agreement in place, satisfaction surveys have been run by Paula, and they have come back encouragingly.

1220 Are we all the way there? No, we are not at all, there are lots of ways we can still improve further the work that has been done around the financial system that will allow us to interact, and in the future will help us to improve as well. But no, it is very encouraging early days and I think the staff are seeing the benefits there as well.

1225 **The Minister:** If I can come in from a political point of view because I experienced, as a Minister, both sides. When I went into my former role in Health, it was the old situation of a finance director, and then the model changed. I have to say my experience heading up a Department politically was that the new system works much better. There is much more support within the system, and the finance sections of the Departments do not feel as isolated. I certainly, as a politician, got much more of a feeling there was more support there, particularly being a big-spending Department. Finances and health are something we constantly come back to talking about and there seemed to be a lot more ability to turn things round and be able to get the help and support where necessary. The old system, as Caldric has already touched on, was very much sometimes single-person dependent and if something happened to that person you had a problem, and it was not necessarily easy to get the support in to help.

1230 I have found the new service *very* much to be of benefit to the Departments, and certainly the feedback I have had in relation to it is that the Departments themselves feel much more engaged.

1240 **Mr Randall:** And it is with internal divisions as well. They are not part of the budgetary team, they are operating and providing almost unfettered financial advice into the Departments. I think there was a bit of a fear that it was a bunch of Treasury spies who were going to go and sit in the Departments and keep an eye on everything that is happening. But that was not what was designed, it was simply to improve the service that was already there.

1245 **Q80. The Chair:** Thank you.

What kind of policy advice is provided by the Financial Governance Division? Does the provision of policy advice sit comfortably alongside governance responsibilities?

1250 **Mr Randall:** The policy advice is provided by the Treasury, not just the Financial Governance Division. It is the same as it would be by any civil servant across Government. We are there to provide advice to the Minister, and then the Minister acts on that policy advice. Does it sit within that Division? It is something that I am actively considering, whether our policy resources are in the right place or whether or not they can be improved. I am looking at that and some things in there. Do I have any significant concerns about it? No, I do not. But can it be improved? Yes, I guess so.

1260 **Q81. The Chair:** Thank you. We just move on a little bit to efficiencies, and the SAVE Programme specifically. The Securing Added Value and Efficiencies – as I said, the SAVE Programme – was launched in the previous administration with the aim of helping achieve a balanced Budget. Could you confirm if this has concluded, or are some aspects of the work still going on?

1265 **The Minister:** The SAVE Programme basically got put on hold in certain respects. I was actually a member of the SAVE board, so I have first-hand experience of this. There were certain elements of SAVE that were done within the Departments themselves, but there were some big pieces of work that are currently on hold, that this administration will have to decide whether they wish to pick up and move forward with.

1270 **Q82. The Chair:** Thank you. Just basically, in summing up, I have asked all my questions ... You obviously, as a Department, have the transformation in Social Security and the Budget process review and the National Insurance review. Are there any other areas that you are reviewing that you would like to talk to the Committee about?

1275 **The Minister:** Obviously there is the Economic Strategy Review that we have got going on as well. There is the review around Health and Social Care funding which is going to be absolutely critical because, as we identified in the Budget ... and again that was new for the Pink Book this year, where we actually forward-projected and showed where we believe the Health and Social Care funding gap will go over the next five years. There is the ongoing transformation, as you say, in Social Security, the Budget process review and also the reserve policy review as well. As I said at the start if you wanted a bingo word from my Budget speech, the word 'review' was a very good one to have, because we are not short of reviews in Treasury.

**Q83. The Chair:** It is a lot to accomplish in the foreseeable future –

1285 **The Minister:** It is an awful lot to accomplish, and I would like to put on record my thanks to all the officers across Treasury. They did a phenomenal amount of work behind the scenes during the COVID pandemic to ensure that money got where it needed to be, to help try and support people. They ended up doing tasks that they were not used to doing day to day and were moved on to other duties. I think they performed, under great strain, all of that work admirably.

1290 There are lots of challenges coming up in the next five years, and just listing the reviews there says that, but it is work that needs to be undertaken. If we are to get to where we want to be in five years' time, then many of these reviews are going to be fundamental to that. Everyone from the politicians right down to the officers on the ground, to the people outside of this room out in the Island, all have a part to play in that.

1295 **Q84. The Chair:** I will ask you one final question, and I would like you to think carefully about your answer: what risks do you think might stop you from achieving what you want to achieve in all of these by the end of the five-year administration? What are the real risks that would stop you? Obviously, you might say another pandemic ... but, something like that. What would prevent you from doing that?

1305 **The Minister:** I will try and avoid the old trotted-out phrase of a COVID-25 or a COVID-24. (**The Chair:** Exactly!) But actually I think one of the big risks, certainly from the point of view as Treasury Minister, is of course inflation. Inflation, I have described publicly as the wrecker of all things, and it is. We already know we have got inflationary pressures in the Health Service and we know that Health Service inflation does not move like ordinary inflation. It is always on a different route, a higher route. There is potential for wage inflation as a result of inflation coming in as well. So if I had to name one big challenge, it is inflation. It is not just around *me* achieving my goals, that is a risk to the whole of Government achieving its goals and the wider Island as well. So it is something we have to take a serious look at.

1310 **The Chair:** Thank you, Minister and thank you to Caldric, Mrs McLauchlan and Ms Christian. Thank you very much for coming today.

*The Committee sat in private at 2.31 p.m.*