



**STANDING COMMITTEE
OF
TYNWALD COURT
OFFICIAL REPORT**

**RECORTYS OIKOIL
BING VEAYN TINVAAL**

**PROCEEDINGS
DAALTYN**

**ECONOMIC
POLICY REVIEW COMMITTEE**

Treasury

HANSARD

Douglas, Friday, 18th May 2018

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Members Present:

Chairman: Mr C R Robertshaw MHK
Mr T S Baker MHK
Mr J R Moorhouse MHK

Clerk:

Mr R I S Phillips

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Standing Committee of Tynwald on Economic Policy Review

Treasury

*The Committee sat in public at 2.30 p.m.
in the Legislative Council Chamber,
Legislative Buildings, Douglas*

[MR ROBERTSHAW *in the Chair*]

Procedural

The Chairman (Mr Robertshaw): Good afternoon everyone.

Welcome to this public meeting of the Economic Policy Review Committee, a Standing Committee of Tynwald. I am Chris Robertshaw MHK. I chair the Committee. With me are Mr Tim Baker MHK and Mr Jason Moorhouse MHK.

5 Please ensure your mobile phones are off or on silent so we do not have any interruptions. I had better check myself. Yes. For the purposes of *Hansard* I will be ensuring that no two people speak at the same time.

The Economic Policy Review Committee is one of four Standing Committees of Tynwald Court which scrutinise different areas of Government. We have three Departments to cover: Cabinet Office, Treasury and the Department for Enterprise. We are also required to scrutinise the work of the Isle of Man Financial Services Authority and the Gambling Supervision Commission. As part of our general scrutiny role we invite the Ministers of our three Departments to meet us from time to time with their Chief Executives and give oral evidence in public.

10 Today we welcome the Treasury.

15 It is our intention to conduct, if required, a meeting of one and a half hours and no longer. We will finish at one and a half hours, unless we finish before that.

EVIDENCE OF

**Hon. A Cannan, Treasury Minister
and Mrs S Lowe, Chief Financial Officer**

Q1. The Chairman: Treasury Minister, could you just introduce yourself and who is with you.

20 **The Minister for the Treasury:** Treasury Minister, Alfred Cannan.

Mrs Lowe: Sheila Lowe, Chief Financial Officer.

Q2. The Chairman: Thank you very much indeed.

25 After the week you have had I am not sure you have had time to put an opening statement together. We would understand if there was not one. Do you want an opening statement or do you just want to go straight –?

The Minister: I have not, Chairman. I thought we would just go straight into it.

30 **Q3. The Chairman:** Straight into it. Yes, fine. That is great.

Actually I have got one or two little points I would like to make as Chair of the Committee. As you know historically – and this is for the record and for public consumption as well – Policy Review Committees have, quite rightly, looked at historical policy situations, and often critical ones, but the methodology of the Policy Review Committees is beginning to change; those roles will continue but we are moving progressively towards interpreting current policy and rather than be necessarily critical, trying to contribute to the debate of policy development.

35 So on occasion we might find ourselves looking at something and saying, ‘We agree with what you are doing there and we think that is brilliant but we would suggest such and such a thing.’ So it is a form of trying to broaden and enrich the policy debate as they develop and that is effectively the remit that this Committee has now adopted.

40 In particular, we will be focusing over the next couple of years on how the whole panoply of Government services work for SMEs and new businesses and projects higher up the scale, and hope that our contribution to that development is a sound one.

A bit unusual for a Chairman to make such a statement, but I thought I would start at that stage. Thank you.

45 So we have got a whole range of subjects. I thought a conversation today would be the right way forward and let's see where it takes us. We would like to begin, if we may, Minister, with a few comments from you about where we are on the SAVE campaign and perhaps I will go to Jason on that one.

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Q4. Mr Moorhouse: Just in terms of the general background, the amount of savings and the timetable both being changed, the savings have gone from £25 million to, I think it is, £15 million and the total years have gone from 21 to 22 – a year further out. How firm are the plans now?

55 *The Minister:* I will be bringing a report to Tynwald in June, so Tynwald will get a much clearer overview of where we are.

I think SAVE, as a project, in terms of its initial engagement has been an unqualified success and I think it is probably safe to say it was one of the biggest outreach programmes that we have run, in terms of Government has run, in terms of going out there and actively engaging with people on the Island and businesses on the Island, and cumulated in 1,300-plus ideas.

60 So a lot of those ideas you can see on the website and they have gone filtered out to Departments. It is the core ones now that we are really into and we have probably got about 15 or so ideas from the whole programme that we have both looked at, assessed, sought to check that there is actual value in these ideas. You will see the reports on a lot of those coming through in June.

65 So we have got about 15 or so big projects that are going to deliver, we hope, the savings, but it is hard work. But even so, at this stage we are probably, when we get to June to debate this ... I am trying not to jump ahead too much, Mr Chairman, obviously; I do not particularly want to pre-empt Tynwald, but we have got a good £5 million or £6 million of savings, I think, banked if we support the projects that are ongoing. But it is getting harder and harder, and even a target such as £15 million – and it has come down and I will explain the reason for that in a minute – is proving difficult because you are going into areas – and, Mr Chairman, you will know this – that politically get very sensitive and operational areas that get very sensitive, and I think that it will be interesting to see how we go in June.

75 But to my view we have to push ahead with this project. I think that we are going to run into a situation where we may end up with an element of complacency because we are doing quite well on our income targets – in fact significantly well; I think I said in the Budget we would have £13 million, I think actually it is now looking like it is going to be £20 million, more Income Tax receipt than what we assessed or budgeted for.

80 There we will potentially run the risk that that leads to a complacent view in terms of
Government services and I think it is critical that we do not get complacent, that we now grasp
the opportunity to really look at how we can push reforms through; and we have had lots of
discussion in the last week about arm's-length services and things running at arm's length. Is
their opportunity for reform now that will come out of this programme that we should and must
85 grasp?

I hope that Tynwald will see opportunity within that and it will be interesting to see what
Tynwald have to say. Forgive me for speaking slightly in riddles but because I do not want to pre-
empt Tynwald, those projects will not come to the ... you will not get visibility on those for
another couple of weeks until that Order Paper is revealed.

90 So SAVE is well under way. I mean it has been quite costly. We probably spent about
£300,000 on this so far in terms of scoping out the ideas and making sure there is validity and
making sure there is quantity behind the savings and there is an opportunity for real success in
terms of delivering them.

95 So we will have that on the table and there is still more to go because there are still projects
in the background that are still being scoped out. It is taking time, taking longer than I wanted to
get them onto the floor.

Of course what we also have to remember is that it probably takes up to three years to
actually start delivering on some of these projects because by the time it has been accepted and
approved by either Government or by Tynwald, depending on where that requirement lies, you
100 have still got to do a lot of work to get the operational plans in place for the alternative delivery
models, if that is what you are looking at.

Q5. The Chairman: From what you said there, and you pointed at the political sensitivities,
quite rightly, as one drives further into the ever-increasing difficulty of making savings, are you
105 comfortable about bringing so many projects to our attention all at the same time or does
that –?

The Minister: I think there is a risk, Mr Chairman, but I mean I think the reason why we
wanted to do this this way – or I wanted to get it done this way – was because learning the
110 lessons from the previous five years where we brought forward project after project after
project and there was no ... perhaps you fail to see the overall picture. I think at least you will get
a vision on the overall picture. I think half a dozen other projects are fairly tick-in-the-box and I
think Tynwald will probably look at them and say, 'Well, actually isn't that a bit sort of stating
the obvious or that is fairly sensible, routine, if you like? Although there is quite a lot of money
115 involved, that looks as if that is going to be a sensible outcome.'

But you are going to get to the hot potatoes when we start talking about real operations,
frontline operations, day-to-day operations, perhaps more commercially focused operations
that have a commercial element to them; and there would be question marks about whether we
should retain those in-house, if you want, and continue to run them as Government bodies or
120 whether they could be better run and improved in a different format, in some sort of arm's-
length format.

SAVE has been looking at that and is going to bring that to the fore, and we are going to, I
guess, run into what the political mood is when we start bringing this information out. I
appreciate that there is this risk that you are going to deliver this big report and Tynwald is going
125 to say 'Wow', because there is a lot of information that is about to come out. But I am not sure
there was another way to really do this other than ...

I think the other point of it is that, again, with these types of projects there is a lot of
sensitivity around this, because people are in jobs, they have got families, you do not want to set
hares running before you have actually scoped out a project and said it has actually got
130 deliverables attached to it. Then you need to think about how that would then work if it was to
be delivered as a concept.

135 So there is a lot of work attached to it. I think the key point I want to say is that on the one hand we are still pushing for this because we have to deliver this £15 million, and on the other hand I have got a balance sheet at the moment which is saying actually the economy drivers are doing incredibly well from Treasury's take but we should not just sit still and guarantee that. So there is quite a lot to come out of this that, I might add, will be very interesting to see how Tynwald react overall to the picture.

Q6. The Chairman: Thank you.

140 I was going to pursue it later on but it follows on well from what you have just said there, in the sense that you, quite rightly, said, 'Actually we are doing a little bit better, or perhaps a little bit more than a little bit better, than we expected and that might inculcate a sense of complacency and a desire to shy away from difficult issues.' It brings me to something pretty close to my heart and that is the forecasting nature of the five-year plan and how it is constructed.

145 I just sometimes wonder whether Treasury has put itself in a difficult position by not doing a forecast for each Department over the whole five years, because in a sense your five-year forecast is an imperative that you have set yourselves, but behind that there has to be a degree of quite broad assumptions made within Departments and so if a Department is not able to deliver – and perhaps we know what we are talking about here – then is it where the onus falls on Treasury rather than necessarily the Department?

150 Can I put this to you that if you had a five-year forecast which exposed the degree of stress that might be occurring in one or two Departments it would help reassure Members that there really are significant challenges down the road and therefore it is important to initiate the SAVE campaign now?

155 I mean, if I can be straight with you, I am troubled in the five-year forecast as to how cost escalators in the health sector can deliver those sort of results that you have got in the five-year forecast. Have I made enough sense there?

160 **The Minister:** I understand what you are driving at, but I think first and foremost we can only really work off a realistic set of information and that information tends to be what we can immediately see in front of us and it is difficult to predict. We know the factors that are going to influence the Budget in five years' time in terms of our cash forecasts. We can see that and clearly obviously we talked at length for many years now about the public sector pension, so we know that that is the absolute driver for most of the majority of what is happening now.

165 I understand. I hear what you are saying: is there an alternative stress-tested Budget; what is the worst case scenario; what is that going to look like? But I think that is a question about being realistic without being too negative. I do not know how incumbent it is on Treasury to say, 'Well, this is the worst-case scenario and we should all panic,' because I think we do need to be confident about our budgetary forecasts and give people confidence that we can deliver on those.

170 How we address the point you are talking about, in other words get up to Tynwald and say, 'Look, this is not the time to relax. In fact, quite the opposite. This is now the time to look perhaps to invest to save or to modernise areas of Government that we have shied away from in the past because my view is this is not politicians and politics necessarily for tomorrow – although we are obviously interested in tomorrow, but the week after, the month after and the year after. We have to prepare – I see no question about it – this Government and the finances to cope with what we have set out, by the very nature of how we are planning to do this, the ending of that reserve, the fall of the £45 million to £50 million into revenue, we have got to make that a smooth transition.

180 That is the primary target and beyond that there are going to be further challenges, but we as Tynwald will need to determine what the further outcomes are going to be when we talk about the broader challenges and the longer-term challenges on the public sector pensions.

The Chairman: Thank you.

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Q7. Mr Baker: You mentioned, Minister, that we are looking as though we are performing a bit more favourably than we had predicted. Can you just unpack that a little bit more for us?

190

The Minister: Sure. I think that is absolutely to do with the success we are enjoying at the moment, the economic success in terms of jobs, growth and restoration in some areas within our financial services industry – I point specifically to the life industry. Certainly, if there was a dip in the last couple of years in the e-gaming industry that seems to be back on track, and building again – there are new companies coming to the Island hiring new staff.

195

We know the broader pressure is on employment. We have, I believe, confirmed 500 or 600 or so new people registered for taxation – 515, I am actually told, during the 2017-18, the Assessor saw an overall increase in the number of resident taxpayers – and that really essentially has driven the return, the Income Tax return; and that has obviously impacted also on our National Insurance receipts which are higher than forecast.

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Of course unemployment now has dropped. It rose again I think in February and March, it has dipped back down again. We are talking a few 30 or 40 in terms of recovery. So it is below 400 again now. That is a significant saving from where we were even a year and a half ago. I think when we came in it was about 800 or 900. A year before that I think we were up at 1,600 or 1,500 unemployed.

205

So we have seen a very significant swing in terms of jobs available and I would suggest although there is some negativity I think quite a lot of it is unfounded. I think what there is risk at the moment, risk in a huge number of areas, but I think we can demonstrate that actually we have got quite strong evidence of success at the moment, but we have got to harness that. So that is where it has been delivered from.

210

Q8. Mr Baker: It is a balance with a very positive message about the here and now, but with some structural challenges in terms of the things that you have touched on, Minister, a few moments ago that need to be addressed and cannot –

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The Minister: My view is that Government cannot stand still. We should not stand still and we should not take the risk of standing still now. I think that if we have got this extra balance then what we should be doing now is looking to make it count by getting reform, not for reform's sake but finding areas now within Government's delivery to make it more effective and efficient, because we still have this money to find and we have either got to find it within Government or we are going to have to find it from outside Government.

220

I think that when you look at some of the areas in Government – I do not want to pick on things but – we are running £6 million subvention on buses, we are running millions of pounds' subvention on heritage railways, we are running millions of pounds in other areas as well; and nothing really has fundamentally changed in some of those areas. There have been improvements and arguably it is delivering a good service but is that enough just to stand still at the moment or should we be challenging ourselves to say, 'Can we do this better,' because finding better value in those areas should lead to better outcomes as well for the Island? Of course it is a better outcome for the taxpayers if somehow we can get these areas performing better.

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Yes, of course, similarly, within our overall targets it will help us, I think, in the future because as we get to 2022 I am pretty confident, even on the current track, we will probably just about scrape it, but we need to go a lot further and I think we have got an opportunity to do that now.

Q9. Mr Moorhouse: That is interesting.

235 Two things I want to really link back to. The first one is the subvention in terms of the school buses. If we are going to remove that subvention then potentially the costs of getting a child to school is going to be £4.50; at the moment it is 50 pence.

The Minister: I did not say I was going to –

240 **Q10. Mr Moorhouse:** No, just in terms of removing the subvention it is not an easy hit, it is going to be challenging and a lot of things have to be looked at. So I just wanted to pick up on that.

245 The other one is, going back to the £300,000 cost saving, we have got this issue: is that where you expect us to be at this moment in time? Are we overspending or are we underspending in terms of the targeted areas?

250 Also you are going to have 15 reports ready for us to see in June; how many of the reports that you have done are not suitable for us to see, because there must presumably be quite a lot of things that were considered that you produced the report on and then they were abandoned? What sort of ratio are we looking at there?

255 **The Minister:** We will give you pretty much the full overview. I think we will probably have about nine areas of current activity that we will want you to see and you will see the majority of the areas that we have scoped out – the major areas. Obviously the Departments report on a web ... we have got a full programme of minor works that have been going on in departmental day-to-day stuff, but you will see probably about nine of those and we are giving you the scoping reports that have accompanied those and what the targets are.

260 **Q11. Mr Moorhouse:** So in terms of the 15, they are the detailed ones you have looked at and –?

The Minister: There are some that we are not ready to come forward with because they are still, for various reasons, just waiting for some further information.

265 **Mr Moorhouse:** Yes, from the figure of 15, it is 15 items you have looked at in detail –

The Minister: We are looking at and we will have about nine ready to go before Tynwald.

270 Can I just pick up on a point? Perhaps this was a mistake of mine, just to pick on one particular area, because I never said anything about removing subvention for anything. I am just highlighting one – just an easy mechanism, I suppose.

275 So can I just make it absolutely clear nobody is talking about removing anything, simply talking about finding (**Mr Moorhouse:** Of course.) whether in challenging Government to keep working to find better ways to deliver. I mean this is always the issue, isn't it, that possibly always, for every move forward, there may well have to be some sacrifices? You cannot always accept that everything will not be without a penalty. That is unless you just want to keep things as they absolutely are.

I think the bigger point is that we should keep striving and I hope that when we deliver this report to the extent that it is ready now we will have the opportunity to draw out some further input into the way forward from Tynwald. I think that will be important.

280 Sorry, Mr Moorhouse, I missed your question about £300,000 cost savings.

Q12. Mr Moorhouse: Yes, it was just in terms of your projected plans at the start, is that level of spending in line with what you expected it to be? Just in terms of before we hit Tynwald with the possibilities, were you expecting to spend that level in the initial research?

285 **The Minister:** Oh, sorry, the £300,000 behind it?

It is a bit like invest to save. As I said, I think we will have about £5 million or £6 million worth of savings on the table and programmed work, but to deliver that you have got to put some effort into scoping, I cannot just bring it forward. There have been various areas that have been looked at. Again that will all become clear, Mr Chairman. I feel I am talking slightly in riddles here, but it will become clear once we have delivered that report. I think that is a justifiable cost to when we are talking about £6 million worth of year-on-year saving.

Q13. The Chairman: Okay, thank you. Let's move on to another themed area. It is one actually that I touched on in my Budget speech. Effectively, it is about a society which has always been unified and together, and that modern circumstances are pushing us towards a position right across Western Europe where the low paid are under significant pressure with things like zero hours contracts and the like.

One of the comments I made in the Budget speech was where are we on the – and you and I have discussed this – trip point for National Insurance employee contributions? Do we really need to have them there? I had spoken to a couple of your senior officers about this and they quite rightly said moving that is a real problem because it exposes Treasury to significant expenditure.

But I thought about those sensible criticisms subsequently and I wondered whether you are willing to explore the idea and it sort of happened in the UK and then died, and that is the idea of interpreting National Insurance employee contributions closer to the concept of tax. In that respect, what I am saying is that if you kept the thresholds where they were because you had to, why not then say, okay, let's treat it like tax; and Treasury then sits and says, 'Okay, well that proportion of our society is entitled to a rebate at the end of the year for the National Insurance because their income was so low. So you could contain and control that refund – it is almost like a tax rebate, because that is what we do with tax – and then pay for that by ticking up the figure at which we stop paying National Insurance.

You could make it a neutral adjustment but delivered to the low paid and expect those of us on slightly higher incomes to pay a little bit more. So you would be following the process that you have been trying to follow successfully with tax allowances.

I just wonder whether you want to explore that a little bit.

The Minister: I can give you some good news in that we are actually at the moment just starting to explore that. In fact, the Director of National Insurance was literally in Treasury last Wednesday to discuss what sort of preparations he wanted us to make in terms of potentially looking at what sort of scope and mechanisms we might employ.

So all I can tell you is that I think we listened to what was said in the Budget on this issue, sense there is some credibility to what is being said and we are going to look at that.

Q14. The Chairman: Enough said. (**The Minister:** Yes.) Okay.

How do you feel about the way – I have got concerns about this – zero-hour contracts are rolling out and the idea that somebody is on four different contracts and they are staying below the National Insurance threshold and therefore it is quite a sort of a turbulent life for that individual, but the returns to Treasury are quite low because if you have four jobs and they are all separate contracts with different employers and you do not hit those National Insurance or tax thresholds it is a hard life for the individual and not comfortable for Treasury?

Do you have any discomfort at all about the way zero-hour contracts are coming more into play?

The Minister: To be honest with you, Mr Chairman, I do not have enough evidence to really speak to you with any sort of authority about the level of zero-hour contracts in the workplace.

I certainly am aware they exist. I think, absolutely, I am a little bit uncomfortable with multiple zero-hour contracts but by the same token I realise that some people absolutely want

that sort of flexibility and for students, for example, or others in that situation, that type of contract works.

340 I just do not have enough evidence to be able to say what sort of impact it is or is not having on our receipts at the moment. The only thing I would say is that we do need to be careful and be clear about zero-hour contracts versus where we are pushing living wages up to. I just think we need to be aware that we want to be careful that we do not take steps to create that sort of zero-hour market any more than it needs to be.

345 So I have not got enough evidence to sit here in front of you and tell you that I have got a big concern about zero-hour contracts, because my own sense is that it is not such a big problem on the Island that we need to be clamping down on it, but by the same token, rather than just express a point blank, 'I am against zero-hour contracts,' I understand that for some people they actually provide the flexibility they need and vis-à-vis for some employers it provides the flexibility.

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Q15. Mr Baker: Isn't it part of a broader picture, Minister, where it is about the whole package for people on lower incomes and making sure that they do have an acceptable level of income and that they can have a reasonable lifestyle? So the zero-hours are a particular symptom which has some strengths and weaknesses and, as you say, suit some employees and suit some employers? But it is about making sure that those people have a good package which makes it a good place on the Island for them to live and work?

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The Minister: We have been very conscious of that. I think we have demonstrated our concern as a Treasury, our recognition that we needed to make adjustments to the employment benefits, particularly the low, even up to the middle, income strata and we, as you mentioned Chairman, have made some inroads into that by doing the simple stuff like raising tax allowances, but also by looking at Employed Person's Allowance, the threshold where that applies, giving more benefits around those on lower income, so more childcare, for example, by increasing the hours and the money available to them to get childcare.

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Absolutely, it is vital and perhaps maybe the drop in unemployment figures may be a testament to some of the work that Government has been doing in this area to not only encourage people back into work but make it work for them so that those gaps between benefit and helping to support them are widened – sorry, being unemployed and being in work, and giving them more money.

370

It works better for us if we are assisting them through those early stages at low wages and encouraging them. It is not just a case of sitting there and giving people money in these situations. We are trying to work to help and encourage them to move off EPA and to effectively improve their careers as well.

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Q16. Mr Baker: There is lots of focus on unemployment numbers and also the need to increase the working population, which is interpreted as bringing more people to the Island, but what work is being done to look at how we can actually facilitate some of those on the fringes of the workplace, such as more elderly members of society who may still wish to work and also those who have (**The Chairman:** Like me!) (*Laughter*) perhaps fallen out of the workplace on long-term sick issues or incapacity-type issues, to bring them back into the workplace because they are on our doorstep?

380

The Minister: Yes, sure. I mean I think we have been through quite a difficult process in some of those areas. We are still transitioning some of the incapacity, return-from-sickness work and I think we laid that Lancaster Report a couple of months ago before Tynwald two or three months ago and talked about the transition work that we are doing with the NHS to help those in those types of scenarios.

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390 But I think more broadly there is probably more work that we need to do around the grey-
haired market, if you like. There are still lots of people out there who want to work and of
course now the removal of formal retirement age will be, I guess, a step forward or a
contributory factor. I think it is actually also about working with employers as well and educating
them that they can get a lot of benefit from more elderly employees. Naturally, obviously it does
395 fall into the whole demographic issue that we are facing as well and it does offer the Island
partly a solution to some of the problems that we are facing in filling the sheer volume of
vacancies that we have at the moment. I guess, again, that will need to be something that we
are looking at as a Treasury when we start shaping the Budget for next year and tackling some of
these challenges.

400 **Q17. Mr Baker:** In that context actually it can be argued that the flexibility of things like zero-
hours contracts actually help people at that stage of their lives to perhaps engage with the
workplace on a basis that suits them, so it is a double-edged sword in my view, the whole
flexible working.

405 **Mrs Lowe:** Could I just make a point?

I think one of the things to show as well the population is the number of taxpayers increased
by the 515 the Minister referred to, the number of people in employment went up by 727, so
perhaps some of those unemployed, those other people, are working on longer and staying on.

410 **Q18. The Chairman:** Yes, I suppose the fear for me to some extent is the loss of employment
rights like sick pay and holiday entitlements and the like. I suppose a background fear as well is
that in the process of Government working to get its cost down we do not find ourselves
inadvertently and innocently an unintended consequence of some of those contracts becoming
successful because behind that are people on zero-hours contracts.

415 You see where I am going? You quite rightly, Minister, say there is not enough evidence there
and maybe there is a piece of work for us all to do, both from the executive side and from the
review side, to try to understand what is actually going on here and whether, as Tim says, there
are the pros and the cons we have got to understand better. I do not feel well enough informed
and I am grateful to you for suggesting that you think there is a deal of work to do there as well.

420 But what I would also be concerned about is this progression towards having to get
workplace pensions and having space within that value of income to encourage people
successfully to go into workplace pensions as the single tier pension comes in. I do not know
whether you want to offer any comments on that one, Minister?

425 **The Minister:** We signalled our intention to work towards it. We have not as yet sat down to
scope out the plan that we need to undertake or the work that we need to undertake to start
getting this into play. That is a conversation that needs to happen. I have committed to
delivering something before the end of the year in terms of our initial conversations and initial
engagement. I have spoken to some employers when I have had the opportunity to meet them
430 about this.

Clearly, in some respects our population is quite well served, particularly in financial services,
there are quite a lot of people out there with pension options already in play with their
employers, but clearly the big issue is going to be for the smaller businesses, for those with high
turnovers, low margins and those that probably are in some of the industries that we all
435 recognise are quite challenging – retail, hospitality, construction, but it will be a case of getting it
right. Again, phasing it in the right way, giving people the opportunity to adjust. I certainly see
it being a phased-in process, maybe a requirement to increase contributions year on year to
whatever maximum we decide they should be at.

Of course it is one of those things once it starts to evolve and people get used to it and then it
440 gains credibility and traction. I think speaking to parliamentary Members in Westminster, they

certainly regard it as being a very big success in the UK and it is having the desired effect. So I do not see any reason why it should not be rolled out successfully over here, but we do need to deliver a better ... or certainly get out and deliver the plans. I hope that I will be able to make a statement on that before the end of the year.

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The Chairman: Thanks.

Q19. Mr Baker: Presumably that would involve working with local product providers in order to provide a potential solution for local employers?

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The Minister: However, we would have to work it out, Mr Baker, in terms of how that is actually going to work. Ideally, if we could find a solution where it was not run centrally by Government then it would be great, but I think it is just too early for me to even start indicating which way that should run, whether we just leave it up to the businesses and then audit check them that they are running the scheme, or whether we have some form of central mechanism for delivery on that.

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Q20. The Chairman: You quite rightly said that you were not too concerned about some of the big employers enjoying higher salaries, but quite rightly pointed towards smaller businesses, of which there are many and obviously they contribute significantly to the economy. That is one of the reasons why we have chosen to start looking at SMEs more closely and the potential impact as changes occur on their businesses, and hopefully we can feed our findings into your thinking and help guide you as best we can.

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Are you happy to move on to another thing?

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I had Budget down as a theme until I got your note last night, and for my penance I read the PAC's interrogation of your good self for I do not know how many hours it was and I apologise because only becoming a Chairman of the Committee now, I had not previously been on PAC. So I am doing everything I can to up my game a little bit in that regard. So you will be delighted that there is no interrogation today on the Budget. I think it is not helpful; it is just repetition.

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Can we move on to procurement? How is procurement working; is the procurement team coping; are you pushing too much into it; is it becoming too process driven? Your thoughts would be welcome. Either yourself or Sheila.

Mrs Lowe: The procurement team is now in the Attorney General's Chambers. It is not part of Treasury. We moved it two years ago as it was a legal process.

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Q21. Mr Baker: But the design of the process, is that not influenced by the Treasury?

Mrs Lowe: The Treasury Financial Regulations? Yes, I think it is. You know we have changed some of the limits within the Financial Regulations –

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The Clerk: I don't think so.

Mrs Lowe: Sorry, are you okay?

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The Chairman: Private conversation.

The Clerk: Sorry, we were talking in the back of the class. I do apologise. *(Laughter)*

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Mrs Lowe: Sorry.

The Chairman: Sheila, please go ahead.

Mrs Lowe: – and we are in the process of revising the Financial Regulations at the moment.

495 **The Chairman:** Tim, do you want to?

Q22. Mr Baker: Yes. I mean just a couple of observations.

500 Procurement is a short word but it covers a vast range of different activity, from literally ordering paperclips and pencils through to procuring a major capital project. Have we looked at whether we are trying to make all that breadth of requirement fit into the same process or whether we are sufficiently nuanced in terms of process to cope with that range of requirements?

505 **The Minister:** I think you quite rightly identify two distinct requirements. We did raise the procurement level to £100,000 from £50,000, so that £100,000 then represented the point at which the formal process had to be adopted. I think that we have a new set of financial regulations coming through which are currently just being written – some, they have been actually sent out for comment. I do not know whether you all individually received a copy, but I think certainly the Public Accounts Committee should have received a copy for comment, and we will be delivering that.

510 So that will play part of a role in ensuring we are getting the right financial controls within the Department for under £100,000. Then over £100,000 we have obviously written in and emphasised the requirement to look at local economic value, and we have brought more emphasis into play in terms of weighting given to local economic value. I think there is more work to be done around the procurement process. It is by no means perfect in some areas, but by the same token it can be quite difficult to always get it absolutely right.

515 So, for example, where we do see overspends can be in GTS. Digital projects are not always that ... you can scope them out but they can often get bogged down in heavy-going different coding systems. Perhaps transitioning one system to another is not always easy and we have got a big digital programme going on now. Similarly there can be issues in getting and determining the best value from big major construction projects and ensuring that people are bidding at the right price. That is the critical thing because it is easy just to accept the lowest price, but if the lowest price is going to turn around halfway through the project and ask for another half a million or a million pounds because they cannot deliver then something is not going right.

525 But I have to say, on the whole, procurement seems to be working reasonably well with the new changes that we have made, but again like everything else it is something you have to stay on top of.

The Chairman: Jason.

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Q23. Mr Moorhouse: With procurement the key advantage is economies of scale. We have got a key disadvantage in terms of we are the Government, 'so let's charge them a bit more.' Has any work been done in that area just in terms of making sure that the two or three bids you are looking at are actually the cheapest bids?

535 To give an example, if it were something like ... to the Hospital, if you have two contracts in front of you would you just take those or would you do some sideways research in terms of the options?

540 **Mrs Lowe:** We would not see the tenders from the Hospital. (**Mr Moorhouse:** Right.) We only see things if they come to us for an FD8. That would be up to the Department that had undertaken the tender to do that.

Q24. Mr Moorhouse: Sorry, I went perhaps too strong with the example. But just in terms of the tenders you would get, do you just focus on what you have got in front of you?

545 **Mrs Lowe:** If it was something that was a particular service you would look at the tenders you had. It is very difficult to go out and say for that service, 'It is this,' because you would not know that the specification was the same. If you went out to buy a Fiesta I could probably look up online and think, 'Golly, they have quoted me £15,000 and it is only £12,000'.

550 **Mr Moorhouse:** It was just in terms of additional checks rather than looking at what was presented to you.

The Minister: Obviously the process is normally carried out by the Departments with Procurement's oversight. We will get presented a report on the process, a report on who has bid, what the prices were and why the contract is being awarded, for Treasury questioning and approval. So that actual activity is taking place within the Departments and with Procurement so we do not really engage to that sort of granular detail that you are discussing.

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560 For us generally the question is: is this business going locally; if it is going off Island why is it going off Island? These are when it comes through to Treasury, so if it is going off Island why is it going off Island? What was wrong with the other bids? Why didn't they stack up? Particularly if there are big disparities between the bids, why was the cheapest bid so much different from the highest bid?

565 So we will tend to try and question and make sure that we are checking that a proper process has taken place, but in terms of really getting down to the granular detail clearly the experts in the Departments and in Procurement are the ones who are driving that type of discussion.

Q25. Mr Baker: So would it be fair to say that really Treasury's role is limited to setting the financial framework and that the Attorney General's office provides the sort of process management of the procurement exercise, but really it is down to the Departments to actually set the parameters within the overall limits and then to actually make sure that they are comfortable with the outcomes from it all and that it all makes sense from a departmental point of view?

575 **Mrs Lowe:** It is a good summary.

Mr Baker: Yes. Thank you.

Q26. The Chairman: So it is fair to say then that there might be different interpretations in different Departments as to how the process goes and do we feel that the understandable determination to see Procurement exercise itself is not causing undue delays? Would you know that, if the delays were coming in?

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585 I am asking these questions because I am getting something of a feel of a feed saying, 'Oh, this is taking too long,' or 'We weren't treated fairly,' or whatever. If your role is the one that it is, which I do not doubt, and it goes with the AG's for the overview have we got a capacity to get a feel of this if it is skidding off the road slightly or failing in certain areas? Where would we look to know that, for example?

The Minister: I guess we would be evaluating against the agreed capital programme. Most of these projects are scoped out well in advance and I guess if there was any huge disparities in costs pre-programmed in into the capital programme versus the actual delivery costs when they come through then that would certainly being an indicator. But to a large extent obviously you are looking at the AG's office, making sure that the procurement exercise is being done fairly in accordance with the Financial Regulations, in accordance with the procurement rules and that the relevant expertise is there when the bids are being assessed.

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Q27. The Chairman: As a Committee can we call the AG in on this one? Can we? Okay. Thank you. We will move on then. Thank you. Any other points on procurement? No.

We would like to look at means-testing and where it is and is it becoming ever more complicated and are we sort of getting ourselves lost in the woodwork here or is it moving forward? Your opening remarks will be welcome.

The Minister: First of all, it is, as you know, a fairly divisive subject. What I would say is that we are certainly not opposed to means-testing and we have seen a paper obviously with recommendations in it, but that document was explicit in saying that ... there was not a one-size-fits-all answer to this.

Of course means-testing does effectively happen in Government. It happens certainly in Treasury in terms of the benefits system, the determinations of who should receive benefit, when they should receive it, what the thresholds are for receiving benefits. I think we do continue to look at the data around this and determine whether or not there needs to be a shift in terms of the benefits, and that is really the Treasury aspect. More broadly across Government, I do not think there has been any further progress on this matter to date, at least not that I am substantially aware of or involved with. It is a subject matter or discussion that we have regularly, but I guess we apply it more to benefits and when and how they should be delivered, as opposed to any other areas across Government.

Q28. The Chairman: Yes, I mean my own personal view on this one is that when one talks about means-testing there is always an instinctive desire to want to go forth like they used to in the 1990s with big data systems and produce an all-singing, all-dancing, wonderful thing that delivers everything we want, whereas I always personally saw means-testing as an opportunity to look at matters item by item and say, 'Look, there is an opportunity here'.

I always felt, and still feel, there is an opportunity in a very simplistic way of addressing the matter of social housing rents; that we have a system that is in place that sort of works, but right at the bottom end there is an opportunity to allow people to apply for a discount because their circumstances are particularly difficult; and at the other end balance it off with extending neo-market rents to a limited number at the top, and the two would effectively arrive at a neutral solution for Treasury but would actually deliver another step towards Government recognising that we are trying to protect our poorest citizens and also dealing with those who perhaps should not be in social rents. That step is one step in one area and it does not require this big panoply of thinking going on.

Would you want to comment on that?

The Minister: It is slightly outside ... Obviously we are not specifically tasked with the social housing element as a Department. I think in terms of our application –

The Chairman: Make it generic then.

The Minister: Generic, I mean I just do not think there is, as you say, a one-size-fits-all solution to this. You apply it where it makes sense and where public money is being used, clearly to certain groups or certain groups of individuals as opposed to more broadly across the community, and you determine whether or not it is being used for the benefit of the community.

I think if I go back to applying this to readjusting the economic position we have increasingly found ourselves in and the growing disparity between the well-off and the less well-off and the need to do something about it, then means-testing works in terms of making sure that the benefits are getting to those who are most needed, and in a way that is benefiting more broadly society.

For example, I go back to EPA because I think it is a hugely good and very beneficial benefit for society, in that it is helping people into work, it is keeping them in work, it is giving them a platform and an opportunity to progress and lift their lifestyles, and we can look at the levels
650 around that and what else we could do to make sure that it is appropriate and it is achieving its task.

Similarly, with social housing it gets a bit more complicated, but at least there has been a step forward with the five-year contract and you are getting at least some sort of means-testing in there every five years. But I do think you can get so bogged down in it and you are trying to
655 change the world when actually there are other things that you could be doing that might be more beneficial rather than just going to such a focused, granular detail trying to pick out one or two people, when I guess more broadly in that kind of low wage environment there are other things that we could be doing which are going to help more people than necessarily maybe the one or two people who are particularly affected.

660 It is not something that, certainly, we are focused on at the moment except to apply it to the benefits system to make sure we are getting the best outcomes from that.

Q29. The Chairman: You have no points on that one? No, okay, fine. We will move on. Thank you.

665 We would like to talk about the Enterprise Development Fund. We all passionately believed it was the right thing to do. Do you think it is delivering?

The Minister: Is this the EDF, the Economic Fund? **(The Chairman:** Sorry, yes.)

670 Yes. Clearly that was a determination that took place before I came into my position and one that was set out to deliver certain benefits and to help grow the economy. I think it was only right that I did not come in and take that away, given that it had only really effectively just come into play.

675 There are clear indications, I think, coming out now from that that it is not as effective as it could be. I have spoken with the Minister for the Department for ... **(The Chairman:** Enterprise.) Enterprise, as they are now. Thank you very much. *(Laughter)*

The Chairman: It has been a long week! *(Laughter)*

The Minister: – and I think we have agreed that it needs to be looked at.

680 I think from our perspective, we want to keep supporting the economy and clearly we want to get value from the support that we are delivering, and there are questions as to whether this fund in its current form is going to deliver.

685 In general terms, I think we do need to be cognisant of the fact that we have some real challenges to get the staffing, particularly, in that we need at the moment. That is actually the biggest challenge and of course we do want to carry on attracting diverse businesses.

But I think my view at the moment is that it is not as easy as it sounds, first and foremost. Businesses coming here have to come here with the right motivations more broadly in terms of this has to be the right environment for them, rather than the fact they are just going to get a Government cheque for establishment, because if we have not done our homework and made
690 sure that they are the right environment and that we have got a good chance of success then even giving them that Government cheque you would soon find if they are particularly ... whatever they are doing if it is not going to work from taxation position for the environment that they are trading in, or for the fact that we do not have the kind of specialist workers that they need on the Island and it is very difficult to recruit them.

695 So I think we need to give a bit more thought about how best this money can be used. I certainly would not necessarily want to state today that we should take it away. I definitely think there is a serious case now to knuckle down and get some resolution on this because we all obviously want to make sure that we are getting value for our investments. I have to say we

700 have been supportive of DfE in terms of their programmes but they have got other programmes running which are actually proving to be producing better outcomes.

For example, the Locate initiative. We have just given the Minister another £2 million to support his Locate initiative and to keep running that, so therefore at the end of the one-year period, if they brought people abroad, staff from the UK, had to relocate them over here then we will pay them back £10,000 to cover the cost and the investment that they have made. I think there are some 200 employees already who have had the benefit of that. It was only started last year but they are coming through, they have committed effectively £2 million already and we have given them another £2 million to keep going with it. So that is clearly working. We can see the revenue benefits from that in the longer term. It is resolving the issues.

710 On the other side, the £10 million that has been given to actually bring a whole company and the set-up costs, I think we have got a lot of work to do to understand how we could do that better.

Q30. Mr Baker: So just for clarity, Minister, the Enterprise Development Scheme was intended to be £50 million –

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The Minister: £10 million a year.

Mr Baker: £10 million a year for five years. How much has actually gone into it so far?

720 **The Minister:** I topped it up this year. Sheila, what was the figure? I am just going to clarify the figures on this.

Mrs Lowe: Transferred. We have put some extra money into it but I do not think they have drawn anything down like they were expecting to. I think it is a few million they have drawn down. That is all. I do not have the exact figure.

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The Minister: We can provide you clarity on that.

Mrs Lowe: I can ask DED to provide that.

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Mr Baker: Yes, thank you.

The Minister: But we did not top it up, we had not given them the full £20 million by a long shot.

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Mr Baker: Because they have not –

The Minister: I think they are down much lower than that.

740 **Q31. Mr Baker:** Yes, I think because there was quite a bit in the press about this following a recent, I think, Manx Radio discussion at which the Department was represented, and I think the figure that was quoted was that they invested £3 million. (**The Minister:** Yes.)

So presumably Treasury has flexibility to decide whether to continue to fund in agreement with the Department or whether to put the funds into more effective uses?

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The Minister: Essentially. I mean this scheme came effectively – I am not trying to make excuses for not (**Mr Baker:** No.) having a full handle on this, but it came in before we came into office and it seemed ridiculous to basically pull it out before it had effectively had a chance to get going. I have to say occasionally we do have to take ... if you are going to get anywhere with this type of challenges or the type of challenges we are facing, then clearly we are going to have

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to spend some money. But if it is not performing, if it is clearly not performing – and I say there is growing evidence that this is the case – then we will have to refocus.

755 It is important that that conversation does take place between the Department for Enterprise and Treasury because I think, if I am going to be perfectly honest, we have been quite removed in terms of oversight on this. We have never been particularly close to the administration of it from DfE's perspective. And as this goes on and the more publicity starts to emerge and more facts start to emerge then the more concern, I guess, is starting to develop in Treasury and a need for us to get closer to it.

760 **Q32. The Chairman:** It sort of – Jason, did you want to comment? (**Mr Moorhouse:** No, that is fine.) – brings us on to the next point we have. We are actually following the list, which is unusual, I suppose.

765 The question put down before us that we contrived before we spoke to you ... You are alluding to something that is interesting there. The question we posed for you was: which Department is driving the economic policy, the Treasury or the Department for Enterprise? I suppose that what comes out of that question, if I can re-interpret it, is you said you were quite removed from it.

770 I am looking back now over the last number of months, particularly where you have been really tied up with some very big things. I mean the amount of officer time and political time for, for example, the Steam Packet issue must have been very considerable and you have got all sorts of other initiatives going on. Do you feel that somewhere in all of this, between Treasury and Cabinet Office and the Department for Enterprise, we have got something missing maybe that we could have? I mean we have got an Economic Adviser and that economic advice tends generally to report on what is and what has been, but perhaps lacks economic strategists feeding into the system in the centre, or are you content with where we are at the moment? Do you think there are grounds for us to think about how we make our economic strategy work?

775 We put the £50 million into a scheme and then very quickly after it emerged and started to develop we were told by, is it SPARK, yes, 'Do you know how competitive this is?' and they pointed to the northwest of England and said they have got one scheme for £400 million and whatever.

780 So we went into it with the best of intentions, but do we not ourselves need to become more sophisticated in all of this, how we put our economic strategy together? Do you think there is an opportunity for us to think about that?

785 **The Minister:** I cannot speak for what happened in that decision process which led to that (**The Chairman:** It is fine.) decision because I had not trawled back over the records to see how they arrived at that particular decision.

790 All I can speak for now is that in Treasury I guess we support economic growth on this Island, we look to support economic growth on this Island alongside our other requirements to deliver public services. Clearly, it is imperative there is economic growth for us because if there is not economic growth then the tax receipts do not grow accordingly vis-à-vis, as costs and inflation impact then we are not going to be successful in terms of my ultimate responsibilities to make sure that the Island has stable and responsible financial control and management.

795 I think that from our perspective we are looking to challenge Departments on their delivery commitments. So when we talk about economic growth we are asking for, at the moment, evidence that the investments that we are making and supporting are making a clear return and the best measure for that is that we can try and assess where we are being asked when we are giving money that we can try and assess the numbers of jobs that is going to create vis-à-vis what that is going to then mean in terms of income back to Treasury, so we have some related measure of performance in that.

800 More broadly, obviously there is an awareness and we have got an awareness, we have got a Programme for Government that needs to be supported. But I guess we are aware of the

805 challenges that are facing economic development in delivering growth at the moment and we are aware that we need to do the very best we can to ensure that we have got money available for them where they can see those opportunities. But more importantly actually that we have got money available for businesses, because there is quite a lot of money – £4 million or £5 million or so – given out directly each year to businesses to help them grow and develop.

810 Clearly when we see those business cases come in we are looking at the numbers of jobs they are going to create, what sort of capital investment they may be bringing to the Island; and that obviously determines whether or not we feel it appropriate to give them the cheque and the size of the cheque that should be given, depending obviously on the scope and size of business, scope and size of numbers of employees etc.

815 So we do have a long line of communication but I think it is true to say that the Department of Economic Development, or the Department for Enterprise as they are now, really are the ones who have to lead and determine what and where the key areas are that need to be driven and what the solutions are to help solve some of the key challenges and issues that are being tabled and we will have an input into that.

820 **Q33. Mr Baker:** So really in terms of the question that the Chairman asked around strategy, Treasury's role is inherently to both support and to challenge, but the Department for Enterprise they are really responsible for formulating that strategy to deliver the growth?

The Minister: I would say that they have the key role in that.

825 **Q34. The Chairman:** I think, from what you have said, it does leave the Committee with a bit of a challenge to establish whether we think the degree of sophistication the Isle of Man is achieving in terms of analysing markets is sufficient, I suppose. I recognise what you are saying Treasury are doing and I appreciate that you, quite rightly, look to the Departments to deliver, but in many respects most offices in most Departments are operationally competent people who have a day-to-day duty to deliver x, y and z service or provision. But I suppose I am biased because having seen so much of what Singapore does, the degree of intelligent economic analysis that goes on there is just breath-taking and the delivery that they achieve is remarkable and I just wonder whether sometimes we are asking too much of our operational officers to aspire to that level of competence?

835 *The Minister:* I do not know but perhaps I should just give a slight sort of balance to that in saying that I guess when we are talking about the economy and economic development we are talking really directly of the business-to-business, the growth in jobs and the growth in opportunities. Clearly we do contribute to that by making the budgetary decisions that we decide to make. So I guess our contribution to the Isle of Man situation ... because bearing in mind of course we have a slightly different mechanism. If you want to compare us to Westminster – and I have always said this – bear in mind we do not set monetary policy, we only deliver a fiscal policy. All the mechanisms that the Chancellor will be in discussion with the Governor of the Bank of England about are outside our control, so we are reactionary to a large degree as a Treasury.

840 I obviously have my own political views and we obviously recognise that we need to contribute to delivering better economic outcomes by ensuring that we have the right taxation framework in place and that our taxation framework is doing what, I guess it will be what the Treasury Minister and his team determines, is right for the best social outcomes and I guess that depends then on which side of the fence you lie.

850 But we have clearly recognised it would be in the interests of society to get more money into the pockets. We have already talked about how with low and middle income earners we definitely needed to assist; we have made that decision. I believe that will have contributed to some positive economic growth because you tend to work on the basis that once you start

855 getting money into people's pockets confidence tends to pick up and they will tend to spend
anyway back into the economy, and *vis-à-vis* rather than seeing a shortfall last year of ...
Although we predicted roughly, I think it was only budgeting for a £1 million or £2 million
increase in tax because of that increase in personal allowances, in fact what we have actually got
is a £20 million increase. So it does show that that type of activity does have a positive overall,
860 overarching effect.

So clearly we do have a responsibility for delivering economic ... or putting platforms in place,
but in terms of the front-facing bit, getting out there and delivering and delivering solutions to
overcome these commercial problems, creating more jobs, getting more companies over here,
then we are putting in place the funding depending on the objectives and ideas that are given to
865 us from the Department.

Q35. The Chairman: Thank you very much. Can I move on?

I would like to conflate two areas really: a quick discussion on VAT and also combine that
with, from my perspective anyway, quite serious concerns about the medium- to long-term
870 future of the Post Office.

I have to express certain alarm about the presentations made to Members in the Barrool
Suite and a sense that I was not sure that the Post Office quite knew where it was going and yet
is still required to contribute to Treasury. I suppose from a business perspective the fear I was
left with was that unless very significant strategic decisions are made now about what the future
875 vision for the Post Office is and what we want it to do, it might run out of money before it has
made those decisions.

I just wonder whether you feel that there should be a greater degree of urgency about saying
that is what we want our Post Office to deliver in the future, that is what its cost is going to be.
In any significant change in any business there is always a capital cost, an investment cost to get
880 from A to B.

The feeling I have got, fairly or unfairly, Minister, is that there is a requirement for them to fill
a contribution to the Treasury and they seem to be living hand-to-mouth trying to make do and
mend and cut their costs, but you feel it could quite easily end up in nowhere land at the end of
it all.

885 Would you like to comment on that sort of barrage of commentary?

The Minister: I think we have reviewed our requirement from the Post Office and if I can
remember correctly – I am sorry I am slightly unprepared for that question – we did reduce
slightly the amount we were asking from them. (**The Chairman:** You did, yes.) We did. But I think
890 more broadly the Post Office faces a number of challenges. I think that has been clearly outlined.
To some degree that is why they have a board of directors in the Post Office to try and resolve
that. It is a commercial business. Effectively, it runs to a degree at arm's length from
Government, although it has a political Chair and Vice-Chair. They have their own pension
scheme. They can determine prices; they do not have to come to Tynwald to determine the
895 price of a stamp.

So it has got a lot of flexibility but as an organisation, like everybody else, it is facing a
number of challenges. What I have not seen from the Post Office yet is a clear plan, vision for
the future about how this is going to work and that, I think, is much needed and I think Tynwald
needs to support the vision that comes out from the directors. They highlighted a number of
900 financial challenges. They accept they have got challenges.

Treasury obviously need to be mindful of that situation, but I know the Chairman, the Vice-
Chair, the board, have got to determine, because we certainly do not want to get in a position
where somehow there is a demand to subvert the Post Office. That really would not be
acceptable and the Post Office has got to adapt.

905 We all recognise the value of the Post Office but there have been solutions that I have seen
put in place in rural areas where they have integrated with local shops and are still going, are

910 still providing a service, it has been a benefit to the retailer as well because they are getting, effectively, the trade. It is difficult – it is *really* difficult – for the Post Office to sustain, I think, the range of outlets that it does. They become increasingly under a lot of pressure from a financial perspective and it is a case of modernisation and determining a way forward.

The Chairman: Thank you. Tim, did you want to –?

915 **Q36. Mr Baker:** Yes, I was going to add to that. Do you think that there is a widespread understanding of what the Post Office actually brings? I do not mean the obvious in terms of physical post office buildings but to me they have got a unique capability, they have got 300 or so staff, they have got physical coverage, physical reach across the whole Island, they have got a logistics capability that touches the whole Island and they have got a very trusted brand that actually has value and that with the right business plan can deliver real economic and social
920 values to the Island.

I appreciate that Treasury is not the sponsoring Department, it is actually –

The Chairman: This is a conversation.

925 **Mr Baker:** But maybe it is something that is worthy of further thought perhaps at CoMin level or even with DfE?

The Minister: Are you trying to line me up as Chairman of the Post Office? (*Laughter*) Is there a vacancy that I do not know about? (*Laughter*)

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The Chairman: You have caught us out there, Minister.

For an organisation that we all care so much about and the circumstances it seems to be slowly slipping into, if you look at it from a business perspective it is a real, real worry that you want to see a strategy, however difficult that strategy might be to reach out and achieve, rather
935 than – as you quite rightly said, Minister – it would ultimately drift into a situation where subvention was part of it; and it seems to me that if we arrived in that situation we have missed the opportunity to invest in what it is that we really want it to be as early as possible before that situation occurs. That was a commentary from me.

940 **Q37. Mr Baker:** I just want to link in the whole conversation we have had over the past hour and a half together, whether the Post Office has the capability of delivering frontline services on behalf of Government and whether there is actually a link to the SAVE programme and whether that had been looked at and, if not, whether it could be.

945 **The Minister:** If you want to square the circle ultimately it does come back to Government being brave enough to challenge itself and to find the mechanisms, because I think there has been a recognition for a long time that Government might be possibly too big. We have got a lot of frontline services that we are delivering. They are all, realistically, under a lot of pressure. There is a lot of financial pressure around. Post offices are one example, but of course we are
950 delivering all the other services in many other areas. The biggest area under pressure of course is the Health Service, but I think we should park the Health Service for a moment because they are already under a lot of public scrutiny and of course we have got this review going on and we will see what Sir Jonathan Michael actually comes up with at the end of his tenure in six or seven months' time.

955 But the SAVE programme, whilst I can tell you now, has not included the Post Office but there should not be any reason why at some point that kind of discussion should not take place, and we do need innovation and we do need ideas; and I do think it is going to be for the politicians to really grip and want to come up and identify some of these solutions and really get behind

960 them, because what invariably happens is that whilst we normally get to good concept stage they then become bogged down in political wrangling and arguments and actually never get any further because there is always a reason why we cannot do something and we never seem to get to the stage where we can do something or we should do something.

965 I hope that in June when we have this discussion we can possibly put both some concepts and ideas on the floor, because as far as SAVE goes and Treasury goes and our determination to help Government get across the line in what is now only three and a half or four years away, we are on for it, we are up for it. We will use the money that is needed to get these projects drawn up and ensuring that they are valid and they have got value and there are proper outcomes to it, because again whilst in the short term these things can be painful, in the medium to longer term we can do a lot more and there are really good reasons why we should do it now.

970 The jobs market is really healthy. There is money in the bank to put into projects to get returns from it. We are not squeezed to that extent where we cannot afford to say, 'Have you got a good idea? Yes, you have. Does this lead to better value for the taxpayer and better outcomes in terms of service delivery and will it help take the Government forward to a position where it is going to need to be in five or six years' time? Then we are up for it. We are up to get behind it.' But to do that we need the political will and support as well.

980 **The Chairman:** I think you very successfully finished where we started in a way and I thank you very much for that. So, unless there are any final remarks from my colleagues or anything from yourself can I, on behalf of the Committee, thank you very much indeed for this afternoon's engagement and I wish you a very good weekend.

The Minister: Thank you very much.

The Committee sat in private at 3.57 p.m.