



**TYNWALD COURT  
OFFICIAL REPORT**

**RECORTYS OIKOIL  
QUAIYL TINVAAL**

**PROCEEDINGS**

**DAALTYN**

**(HANSARD)**

**STANDING COMMITTEE OF TYNWALD  
ON ECONOMIC INITIATIVES**

**BING VEAYN TINVAAL MYCHIONE  
KEIMYN DY CHUR Y FARRYSTHIE  
ER-Y-HOSHIAGHT**

**Douglas, Wednesday, 3rd March 2010**

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**Members Present:**

Chairman: The Speaker of the House of Keys (Hon. S C Rodan)  
Mr G D Cregeen, MHK  
Mr T M Crookall, MHK  
Mr J P Watterson, MHK

*Apologies:*

Mr C G Corkish, MHK

*Clerk:*

Mr R I S Phillips, Clerk of Tynwald

**BUSINESS TRANSACTED**

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*The Committee adjourned at 11.50 a.m. and resumed its sitting at 11.54 a.m.*

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*The Committee sat in private at 12.41 p.m.*

## Standing Committee of Tynwald on Economic Initiatives

*The Committee sat in public at 11.04 a.m.  
in the Millennium Room,  
Legislative Buildings, Douglas*

[MR SPEAKER *in the Chair*]

### Procedural

**The Chairman (The Speaker of the House of Keys, the Hon. S C Rodan):** Good morning, everyone and welcome to the public session of the Standing Committee on Economic Initiatives.

If I could begin by saying the Standing Committee is taking evidence today, in public, on the matter of a deep water berth for cruise ships, which is a current area of investigation by the Standing Committee. We are here to take evidence from Mr Martyn Quayle, Minister for Tourism and Leisure; along with Mr Jon Callister, Acting Chief Executive of the Department of Tourism and Leisure; Mr Rod Nipper, Director of Tourism and Mr Steve Dawson from the Department.

At 11.45 a.m. we are taking evidence from Mr Steve Carse, Economic Adviser in the Treasury.

The members of the Committee: I am Steve Rodan, the Chairman of the Committee; on my right, Mr Juan Watterson, MHK; Mr Graham Cregeen, MHK; Mr Tim Crookall, MHK. The Clerk of the Committee is Mr Roger Phillips. The fifth member of our Committee, Mr Geoff Corkish, would normally participate in the work of this Standing Committee. Given the nature of the evidence we are taking this morning and Mr Corkish's membership of the Department of Tourism and Leisure, for this particular investigation, he is not taking the evidence from the Department this morning. Just to make that absolutely clear: it is very important that we keep a separation with regard to Mr Corkish, so there is no conflict of interest.

Mr Clive Alford is the *Hansard* editor. If, at this point, I could ask all members of the public, all individuals, to please ensure mobile phones are turned off, so it does not interfere with the equipment.

Now, just as a matter of practical housekeeping, we have one microphone set up in front of you, Minister. If you are, during the evidence, going to bring in other members of the panel, we may need to make arrangements for Mr Dawson, who is sat at the end, so that he is picked up. Would you advise us, Clive, if...? That is fine. Thank you very much indeed.

### EVIDENCE OF HON. G M QUAYLE, MHK, MR J CALLISTER, MR R NIPPER AND MR S DAWSON

**Q70. The Chairman:** Can I begin, Minister, by thanking you very much for coming with your Department colleagues and invite you, if I may, if you wish to make an opening statement on the matter of a deep water berth for visiting cruise ships, please do so, following which I will open some questions.

**Mr Quayle:** Well, thank you very much, Mr Speaker, Mr Chairman, and your colleagues, for inviting myself and my departmental officers to come along here this morning.

I think it is helpful to have not just the Acting Chief Executive, but the newly appointed Director of Tourism from 8th February. Mr Dawson, of course, has been with the Department for some years, so he is the link, giving a lot of continuity to the Department's consideration of different matters over the years.

40 In relation to the aspirations for a deep water berth and evaluating any potential for one, then, of course, discussions have taken place in the past with the Department of Transport. As we know, the Isle of Man has no natural deep water berths, unlike other locations around the British Isles, particularly in Scotland, where they have such a facility occurring naturally, which, obviously, is very beneficial to them, without the cost involved of having to create one. So, therefore, any local facility would need to be constructed and would have the maintenance to be taken into account.

45 There are no locations on the Isle of Man that are particularly protected from the weather, so the use of such a berth, if it was created, would be weather dependent. Douglas, on the outside of the Victoria Pier is considered as the best practical location. Ramsey Pier, which is very topical at the moment, for example, is too shallow and too far from the shore and would require, as we know, a complete refurbishment.

50 Any such Douglas development would require a piled construction adjacent to the current facilities and involve regular dredging. It would also have to cope with a significant tidal range and a wide range of weather conditions as we see from time to time in Douglas. Due to the weather, any such facility would only be suitable for occasional berthing of cruise passenger ships and the construction and location would not be suitable for ferries or cargo, I understand. It would not cope with the largest cruise ships, if these were hoped to be accommodated to visit the Isle of Man.

55 The current work in Port St Mary indicates costs in the region of £250,000 for a feasibility study to investigate the further practicalities of what is envisaged there and it is difficult to quantify the estimated cost at the moment without having had a feasibility study, but costs, I think, provided by the Department of Transport have put a facility in the region of some tens of millions of pounds. Of course, without having had a feasibility study or a particular overall cost in mind, then it is difficult to predict the annual maintenance that would be required: the dredging and so on, but that could be estimated at the very least, potentially in the region of £150,000, I am advised.

60 I think in looking at provision of a deep water berth, one would have to take into account the revenue, the direct income that would be arising to the Manx Government before it was able to consider if such a facility was worthwhile, albeit desirable, and our understanding is that the direct income at the moment is several thousands pounds and as can be seen, if a deep water berth is going to cost in the tens of millions of pounds, then without a significant increase in passengers, the pay back time would be very lengthy indeed to justify the investment, even if funds would be readily available.

65 I can, obviously, give further information relating to the existing cruise ship market and those visiting the Isle of Man, because we do think there is potential to increase yet further the visits of cruise ships that happily have been increasing since we have engaged a cruise consultant.

70 **Q71. The Chairman:** Right, thank you very much, Minister.

75 Following on, if I could begin by asking, would it be correct to say that the Department of Tourism and Leisure has completed its review of its policy in promoting a deep water berth for cruise ships or is this still under discussion? We are aware that the Tourism Strategy for 2004-08 recognised, and I just quote from it,

80 'There has been an explosion of activity in relation to the growth of cruise tourism in recent years and the Island is well positioned to benefit from its growth.'

85 In August 2006, your Department reviewed the cruise ship data and identified that cruise passengers represented a good opportunity to increase visitor numbers, given the lack of any need for bed spaces for such visitors and what was presumed to be generally high spending levels per head. Does that remain the thinking of the Department in terms of developing a policy for cruise ships, and basically asking about the review that the Department has been undertaking, has that reached a conclusion?

90 **Mr Quayle:** I think, realistically, Mr Chairman, there is not a prospect of having a deep water berth, in my opinion, because of the cost involved and the limited amount of revenue that would be gained from such a facility, but to answer the question, it is unfinished business, I suppose, because there are discussions ongoing with the Department of Transport.

95 To answer the other point about the existing cruise ship market that can be accommodated, then in 2006, for example, we had seven cruise ships visiting the Isle of Man and the amount there: 1,006 crew and 1,619 passengers and if we come forward now to 2010, we are estimating 3,104 crew and 6,210 passengers and a total of 12 ships, so our strategy of working towards

attracting more cruise ships to visit the Isle of Man with the existing facilities is obviously working.

100 **Q72. The Chairman:** And the existing facilities obviously include the pontoon with the capacity for two tenders at a time. Are you saying that the large pontoon in Douglas Harbour is expected to meet the demand by cruise ships or to expand that particular market? Is that the only way, short of a deep water berth, that you see this being possible?

105 **Mr Quayle:** Well, certainly, that pontoon has been very beneficial and I am very grateful to the Department of Transport which works with the Department of Tourism and Leisure to provide that. That certainly has made the accommodation of the cruise ship visits a lot more pleasurable for the visiting passengers and easier to access the Island.

110 I think, really, what we are working towards, with our strategy, is yet more cruise ships to come along to visit, but to extract more money, if we can, out of both the passengers and crew. There are some very imaginative ideas that are being progressed by our Public Transport Division, for example, where the Director there has been very successful so far, I think, in pitching for business whereby he can attract the cruise ship passengers and some of the crew to be transported from the arrival of the cruise ship to the electric railway, for example, at Laxey and to go up to  
115 Snaefell. That is one of the Island's premier attractions, from Laxey to Snaefell, and that has been marked up in some of the surveys.

So, he has already been successful in deriving a lot more revenue this year, since his arrival, by more realistically pitching the price of the transport, really, from the buses collecting the passengers and crew, taking them to the Manx Electric Railway and providing a half a day visit for them.  
120

**Q73. The Chairman:** Yes. We are certainly quite interested in, perhaps, coming on later to hearing about the co-ordination of the strategy of what you do with cruise ship passengers when they get here and new proposals for this year, we have been made aware of and we would certainly  
125 be interested in hearing a bit more about that, but just coming back for a moment to the question of the overall strategy. The pontoon facility, while welcome, of course, has limitations, does it not, in bad weather? Would it be fair to ask that it is all very well to attract passengers, cruise ships, to the Isle of Man and have worthwhile things for them to do when they get here, but if we cannot actually land them, there is a lot of uncertainty and that really restricts the potential market  
130 considerably, does it not?

**Mr Quayle:** You are quite right. In fact, there have been one or two ships in the last year, I think, that were not able, for one reason or another, to be accommodated, because of weather, and so the visit actually was abandoned. That can happen, obviously, because of the weather; we are  
135 reliant on that. The other point to bear in mind, though, is not just the capacity or the facilities of the pontoon; it is the fact that there is a window of opportunity for the cruise ships visiting the Isle of Man, the majority of them are in the coastal waters of the British Isles in a 12-week period, I think. Would that be right? Yes, a 12-week period during the summer. So, we would have to be realistic and realise there is a limited market, I think, of the cruise ships visiting the Isle of Man,  
140 acknowledging that there is a limitation on the pontoon.

**Q74. The Chairman:** Whereas a permanent deep water berth would give certainty and enable a fuller programme of visiting cruise ships to be developed?

145 **Mr Quayle:** The Director might like to –

**The Chairman:** Indeed. Mr Nipper.

**Mr Nipper:** Obviously, part of the reason for saying that we would have to look at our  
150 feasibility study would be to look at things like that. The discussions that we have had with the Department of Transport to date, as the Minister started out by saying in his initial statement, are that the geographical location and the orientation of the Island are such that, even if we constructed a deep water berth, the weather would still be a major factor, as you have indicated, Chairman. There would still be occasions when ships would be reluctant to come alongside that,  
155 for obvious reasons, and obviously, as the Minister said, there is a maintenance implication as well.

We have had past examples where equipment has been subject to the weather in the harbour. This would obviously be on the outside of the pier and even more so. So, there are issues that would require some engineering consideration, which is what we have been advised.

160 **Q75. The Chairman:** Would that be true of all cold water destinations in the British Isles?

*Mr Nipper:* Other than those that, as the Minister referred to earlier, are natural deep water and protected harbours. If you look at some of the sites that the Royal Navy uses, for instance, or has done in the past, the reason they were there was because it was deep water, it was sheltered. Once you got through the headlands or whatever, you were safe. Regrettably, we have not been blessed with that facility.

**The Chairman:** Okay. Mr Crookall.

170 **Q76. Mr Crookall:** Thank you, Mr Chairman.

If I may, can I just pick up on, if a deep water berth is not a viable option then, certainly, in the foreseeable future, would you be better off having the likes of the pontoon we have got down here, one in Ramsey, one in Peel – they are reasonable costs – and one down south? Therefore, if you have got rough area here – we all know it can be rough on either side of the Island – and safe on the other side, you could use the likes of Ramsey Bay or Peel or down south.

*Mr Quayle:* I think my own view would be, it would obviously need looking at, potentially, but the cost of the pontoon in Douglas, I think, was in the region £500,000. I stand to be corrected there, but I think it was in the region of £500,000. So, one would have to, again, look at the feasibility of investing that type of money for the limited amount of market that we could, potentially, attract and the odd occasions that Douglas would not be able to be used.

**The Chairman:** Mr Cregeen.

185 **Q77. Mr Cregeen:** Would you not agree that it is not just cold water, as in the Caribbean there is many a cruise ship that actually is turned away because of bad weather there as well? So, it is the nature of the beast itself, that ports can be affected by the weather.

But, when you go through the economies of the visitor spend, I know at the moment, some of the Caribbean resorts, because of the fall down in their tourism market, because of the dollar, that some of the Caribbean islands are suffering because the cruise ships have not got the passengers going in there. So, are you quite positive about the return to the Isle of Man Government of this £5 spend? Anybody who has been on a cruise will know that the chances are you are going to be spending a considerable amount of money, not just –

195 *Mr Quayle:* Well, our latest understanding, through the Chair, is that the spend from each passenger coming ashore would be in the region of £70 and a crew member actually, it is anticipated, spends about £40. We understand there is a... Our latest figures in recent times, indicate from Treasury that they calculate between £5 and £6 or thereabouts for the benefit in terms of tax take for each passenger. So, I think that would give the clarity on the overall benefit to the Manx Government in that respect.

However, the benefits of the bars, cafés, shops, restaurants, the providers of the facilities, tourist attractions, then obviously they have the benefit of becoming or deriving the benefit of that spend with them and to help their business either being retained or become profitable.

205 **Q78. The Chairman:** Would you say, then, that the Treasury's calculation of £5 per head contribution to Treasury revenue from every cruise ship visitor does not give a complete picture of the likely benefit, then, to the Island, from cruise ships, if we simply go by that economic factor?

*Mr Quayle:* Well, thank you, Mr Chairman.

210 The Treasury have confirmed, actually, that it is between £5 and £6. They are not fixing it at £5 at the moment, so although it is not a massive increase, the fact that they are suggesting it could be in the region of £6 now is helpful. But, yes, I entirely agree, the fact that the passengers and crew from the cruise ships coming to the Isle of Man are visiting the attractions, they are going to the bars, cafés, shops, restaurants, the money that is circulating within the Isle of Man is very beneficial to the businesses.

Really, Treasury are looking at it from their tax take and the income generated for the Isle of Man Government. Of course, I am sure they appreciate the benefits of the businesses that have the benefit of people spending money in their facilities.

220 **Q79. The Chairman:** To your knowledge, then, as part of the business case being worked up jointly between yourselves and the Department of Transport, or at least by the Department of Transport in the first instance, did this business case for a deep water berth, when assessing the value to the economy of cruise ship visitors, look at this bigger picture that you are describing and the flow of income into the general economy of the Island and not simply the tax take of £5 or £6  
225 per head?

*Mr Quayle:* Well, Jon might be able to help me on this, but I do understand that there has not been a final case put to Treasury to go for a feasibility study, knowing full well that there is more work to be done and the fact that a business case at this time or an application for the feasibility study would be unlikely to be successful, bearing in mind the tens of millions of pounds that such a deep water facility would cost, but Jon –  
230

**The Chairman:** Mr Callister.

235 *Mr Callister:* You have taken the words right out of my mouth, Minister. Thank you, Chairman. The proposal for a deep water berth was perhaps much more attractive two or three years ago under the old revenue sharing arrangement, whereby there was direct exchequer benefit of £50 per passenger arriving.

240 Now, that has changed and notwithstanding the fact that there might be a £70 spend per individual, you would need a massive increase in visitor numbers that could, perhaps, not be achieved in that 12-week period to actually justify expenditure of, potentially, £10 million, £20 million on the deep water berth, particularly, in the changed financial circumstances we are now in where capital spending has to be prioritised to things that will provide that benefit.

245 In terms of direct exchequer benefit of £5 per person, per visit, you would need to increase the visitor numbers from our estimated 6,000, which is a significant increase on previous years, to about 30,000 just to get the sufficient exchequer income to pay the annual maintenance cost on the berth. So, the economics do not stack up.

250 **Q80. The Chairman:** So, just to be clear about this, are you saying that because of the change in the calculations of the sharing arrangements with the Customs and Excise Agreement – I do not mean the change in calculation that resulted in the impact on VAT – but the recasting of the agreement back in 2007, I think it was, where we lost the £50 per head from every visitor arrival direct at Treasury, that that completely altered the calculations and the business case for cruise ship visitors?  
255

*Mr Quayle:* Yes. We are faced with the latest facts and accordingly it makes it an aspiration to have a deep water berth, but not a realistic one at this stage because of the financial constraints and the limited amount of money that could be obtained. However, things may change in the future, so I think we are keeping an open mind.  
260

**Q81. The Chairman:** So, that was a direct consequence of the change in the Customs and Excise arrangements?

265 *Mr Quayle:* Yes, but not the latest one.

**The Chairman:** Not the latest one, but, yes.

*Mr Quayle:* This is going back two or three years.

270 **The Chairman:** When the formula was adjusted. That is very interesting. Mr Watterson.

**Q82. Mr Watterson:** Thank you. During your research on this, how many ships, cruise ships and cruise passengers, did you discover were using the Irish Sea in a year's season?

275 *Mr Quayle:* I am not sure we have that information.

*Mr Dawson:* I have not got that information. At the present moment, I think we were looking at about 20 or 30 going round next year, which I am aware of, which are doing the UK tour from England going right the way round.

280 **The Chairman:** Mr Dawson, could you go nearer to the microphone, please.

*Mr Dawson:* I am aware at the present moment, from the UK tours going round, there are about 20 to 25 going round at the moment, but I am not aware of the number of the foreign vessels coming in.

285

**Q83. Mr Watterson:** Okay. So, presuming – and I am really just guessing, I do not know the market – another, say, 10 foreign vessels using it, you are talking about a total of, say, 30 to 35 vessels using the Irish Sea during the peak season, of which we are getting 10 now.

290 *Mr Quayle:* Twelve are expected.

**Q84. Mr Watterson:** Twelve, okay. So, you are getting about a third of them now. So, to what extent is the deep water berth a critical factor in developing that market?

295 *Mr Quayle:* Well, it was felt that if – this obviously pre-dates my arrival at the Department – but, I think it was felt that a deep water berth would be beneficial with the financial calculations that were then available, because bigger cruise ships would be able to come to the Isle of Man, attracted to the Isle of Man, which currently would not be interested in coming to the Island.

300 **Q85. Mr Watterson:** So, in terms of the passenger numbers that you are currently getting, it is less than a third of the passenger numbers but about a third of the number of ships because the larger ships are not coming in, but still, at the top end of your estimates for likely attractions, it is not going to come anywhere near the figure that Mr Callister indicated was going to be essential just to cover the maintenance cost.

305

*Mr Quayle:* That is right. Well, that is why I said at the outset, I think, that realistically, a deep water berth is a bit of a non-starter, with the latest financial calculations that we have.

310 **Q86. Mr Watterson:** So why then is your Department spending so much time on the issue, still looking at various different options, if the figures blatantly do not add up?

*Mr Quayle:* With respect, it is not spending too much time on the issue, because we have had so many other pressing matters to deal with in making the Department of Tourism and Leisure fit for purpose, because of the many challenges it has faced in recent times. The fact of the cruise ships attracting as many as we can to the Isle of Man has been an aspiration for us to get more passengers to the Isle of Man, but realising that a deep water berth is unrealistic to aspire to for all the reasons we have mentioned.

315

320 **Mr Watterson:** Thank you, Mr Chairman.

**Q87. The Chairman:** Thank you very much.

Just a follow-up to that, if it is, I think your word was an ‘unrealistic’ aspiration, the Department of Transport certainly had made provision in the capital programme last year for the development of a cruise-liner berth. This was in the estimates for 2008-09. It was still showing in the capital programme. Are you aware whether it still features at all in the capital programme, or has it been dropped entirely?

325

*Mr Callister:* It is not on page whatever-it-is in the book this year, Chairman. I think it has been removed from this year’s capital programme.

330

**The Chairman:** I am sorry, I could not catch –

*Mr Callister:* Sorry. It has been removed from this year’s capital programme.

335 **Q88. The Chairman:** It has been removed?

*Mr Callister:* Yes.

340 **Q89. The Chairman:** Has it been removed as a consequence of the financial position of  
Government and the radical review of capital programmes, or has it been reviewed because of the  
lack of feasibility that you referred to a moment ago, in terms of the economics of the project  
compared with when it was conceived just a few short years ago?

345 *Mr Quayle:* I suspect that the Department of Transport, in assessing its priorities, had to make  
some difficult decisions, and it would, I believe, have very quickly realised that the deep water  
initiative would be one that could be dropped from the capital programme and work could still be  
ongoing to determine whether or not it was ever going to be a feasible proposition.

350 **Q90. The Chairman:** With the project having been dropped then, what discussion took place  
between your Department and the Department of Transport and Treasury on the dropping of this  
scheme in terms of the potential you have advised us still exists for the value of cruise ships to the  
Island?

355 *Mr Callister:* Thank you, Chairman.

The Department is still committed to increasing, where it can, the visiting numbers, the  
passenger numbers, the number of ships, and as mentioned earlier, generating income throughout  
the Island by providing opportunities for those passengers once they arrive on the Island. In terms  
of the deep water berth proposal, I discussed that with the Chief Executive of the Department of  
Transport around the autumn time, when the discussions were taking place over the changed  
360 financial circumstances, and we agreed that it was not something that we would put in the budget  
for. The Department of Transport would not have it in the budget for next year. Because of the  
restrictions on the capital programme for next year, this was clearly not the priority.

365 **Q91. The Chairman:** Thank you. Could I ask, with the restructuring of Government that has  
been agreed, and particularly the Department of Economic Development that has been proposed,  
would you see this particular scheme being revisited by that Department in terms of its economic  
potential and the business case being looked at afresh? Whereas it did not stand up as a  
Department of Transport scheme in their programme, there might be an economic case for  
revisiting in terms of an Economic Development scheme.

370

*Mr Quayle:* Thank you, Mr Chairman.

I would suspect that the Minister for Economic Development would need to appraise himself  
of all the information, and if the financial circumstances changed such that we had an increased  
tax take, then that would have a significant bearing on his consideration of the matter, but as things  
375 stand at the moment, I do not think any Minister in any Department would think that this would  
stack up.

**Q92. The Chairman:** So really we are saying it is a bit of a dead duck, the whole idea, is it, of  
a deep water berth?

380

*Mr Quayle:* It is, for the reasons mentioned, particularly in the limited amount of tax take we  
now have for the passengers, but I do not want to underestimate the fact that we still believe it is  
very beneficial to attract as many cruise ships as we can with the existing facilities. That is so  
important. We have had something like 61,000 passengers since 1992 arriving to the Island, so the  
385 benefit of getting the passengers and the crew on Island and having their spend, every bit will help  
the business of the Island.

**The Chairman:** Thank you very much.  
Mr Cregeen.

390

**Q93. Mr Cregeen:** You say that you have a cruise consultant. Can you tell us how much your  
cruise consultant is paid?

395 *Mr Quayle:* I do not know if you have the figure there, Jon?

*Mr Callister:* I do.

**The Chairman:** Mr Callister.

400 **Mr Callister:** The cruise consultant was appointed in January 2009 on a contract that runs until 31st January 2012 at a value of £12,000 per annum.

**The Chairman:** Thank you.  
Mr Crookall, any questions?

405

**Q94. Mr Crookall:** Yes, just one, Mr Speaker. With regard to the deep water berth, it is obviously a dead duck with regard to cruise liners and passengers coming in, but if it were to double up and be used for freight as well, or even the protection of a natural harbour – as an example, I would use Peel, or somewhere like that – would you then seek from the Department of Economic Development, the new Department, whether that would help the case maybe for yourselves?

410

**Mr Quayle:** In the limited time between now and 1st April, I do not envisage the current Department spending any more time on looking at this deep water berth issue.

415

**Q95. Mr Crookall:** No, to the future though?

**Mr Quayle:** I think that will be a matter for the Minister for Economic Development. No doubt he will review all the information and make a judgement as to whether or not it is worth pursuing in any respect.

420

**Mr Watterson:** He or she.

**Mr Quayle:** Well, yes.

425

**Q96. The Chairman:** Thank you. Just coming back, Minister, you alluded to the programme for this year and the proposals that you are working up as a Department to give cruise ship passengers worthwhile things to do when they come to the Island. Would you take the opportunity to say a bit more about the numbers of cruise ships you anticipate this year, when you think they will be arriving, how it compares with previous years, and the proposals that the Department has to stimulate the market with the pontoon facility that we do have?

430

**Mr Quayle:** For 2010 we are expecting, as I think I mentioned before, in the region of 10,000 combined crew and passengers, and that is a significant increase from 2006, which was a combined total of 2,600 with seven ships arriving. This year, we are expecting 12.

435

We anticipate a continuation of the joined-up approach that we are working with Manx National Heritage and Heritage Railways from the Department of Tourism and Leisure. We are creating purpose-built tours which include trams, trains, buses, and to the Manx National Heritage sites in the south of the Island and Laxey. These obviously coincide with the Department of Tourism and Leisure's Heritage Railways. We envisage full-day trips being catered for, as well as half days. It has been identified though that a large number of visitors do like to take up a half-day option and I think the Director of Public Transport, as I mentioned before, has substantially increased the income from the provision of a half-day facility that he is providing in terms of the electric railway visits. I think they were pitched too low in the past and he has been able to assess the market and the quality of what we offer in order to actually extract more income out of the crew and passengers visiting the Island.

440

445

**Q97. The Chairman:** There is a huge cruise-ship building programme going on worldwide. It is, I think, the fastest growing sector in tourism, and a lot of companies will be looking for new and different destinations, including the British Isles. What can you tell us about the monetary benefits that you are aware have accrued to other ports in the British Isles in terms of passenger visits?

450

**Mr Quayle:** Jon might like to come in on that. If I may though, I would just mention that there will be opportunities not just for the private sector in maximising the spend of the visitors to their businesses, but also there is an opportunity for other Government Departments to become involved, such as the Post Office and Treasury, on the coins and so on, and there will be an

455

enhanced facility provided at Douglas harbour to be more attractive to our visitors as they arrive so that we can hope to get more money spent on the Island.

460 Jon, do you have any information on that?

*Mr Callister:* I am afraid I do not have any figures in relation to particular parts of the British Isles.

465 **Q98. The Chairman:** It is just that other ports have put a good deal of investment into passenger arrival facilities, given the explosive growth in the cruise-ship market, and I am just wondering, whilst it is to be applauded that you have a co-ordinated strategy to welcome cruise-ship visitors, the potential is huge, is it not?

470 *Mr Quayle:* I think we already covered the point earlier on that. There are a limited amount of cruise ships in the British Isles during the summer period. One thing though which is very reassuring is that – and it goes for any tourist visiting the Isle of Man – there is undoubtedly a great attraction that the Isle of Man presents to the visitors, and they like to come back again. I have no doubt that people coming here, visiting on the cruise ships, will be getting a flavour of the Island and will want to come back again. I think the word will spread and the increasing success that we have had with cruise ships... We will hope that, as indeed is the case already... some of the cruise ships are coming back and making repeat visits, so I think we can see a build up of business there.

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480 The Director might wish to add something to that.

*Mr Nipper:* Mr Chairman, you mentioned a large building programme for cruise ships. From the restricted amount of technical investigation that we have done with our colleagues in the Department of Transport to date, I am led to believe that there are actually significant differences in the way you construct these ships for the particular markets that you intend to put them into. Certainly our understanding at the moment is that a lot of this work is aimed at the Caribbean market that the Committee has already referred to. We are told that you cannot, apparently, use the same sort of ship that is built for those sort of waters around the British Isles and across the Atlantic. I am not a technical expert, so I have taken advice on that. So although there is a lot of building, our understanding is that it is not aimed at the sort of market that would include the Isle of Man. We have already mentioned about the different states of the tide and the weather conditions here, so again, if you have got some of these particularly large ships, they would of necessity have to take into account the sea state and the weather and whether they would actually get close enough to the Island, even if we had a deep water berth.

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495 So our strategy at the moment is to spend in the most effective and efficient way that we can. If we can get more people to disembark from the existing ships that are already prepared to call here and have got it into their calendars, and we can then take more money off those people who disembark, we see that as being an efficient way of working. There may be additional ships, but at the moment it does not appear to be the case on the horizon.

500 **Q99. The Chairman:** Yes, and in terms of marketing then, what are you doing to market the Isle of Man as a destination? I see, for example, the Department has recently brought out a Cruise Isle of Man Newsletter. Presumably this is going to cruise-ship companies all over Europe, all over the world?

505 *Mr Dawson:* Mr Chairman, that goes to approximately 140 to 150 what we call ‘bookers’ in the cruise business. There is a major convention in Miami this year in March which all the bookers attend, and we will have a presence there. That goes out. We have had a very favourable reply so far from that newsletter, saying how impressed they are, and hopefully we will get more contacts from that again this year.

510 **The Chairman:** Thank you very much.  
Mr Cregeen.

515 **Q100. Mr Cregeen:** You were saying about the different types of ship. Are you aware that Royal Caribbean, as a company, actually does Mediterranean one part of the season – and I think recently one of their ships has done the Irish Sea – and then it goes off to the Caribbean for the other part? They actually do the Mediterranean and the Caribbean, so the ships are compatible with doing... It is possibly the larger 120,000-tonne vessels that you may be thinking of, but the

520 smaller vessels actually do, because Royal Caribbean's *Independence of the Seas* was doing Gibraltar last season and the year before, so it is capable of coming round the Irish Sea area.

Also, which companies have you approached? Have you approached all the companies? Can you tell us who is due to come this year?

525 **Mr Dawson:** I have not got the list of vessels. I can forward that to you, Mr Cregeen, about the vessels which are appearing this year. We have been in talks with P&O, Olsen, all the major companies throughout, and that will be ongoing to attract the vessels to the port.

530 **The Chairman:** Thank you.  
Mr Crookall.

**Q101. Mr Crookall:** Thank you, Mr Chairman.

535 Something I picked up on just now: I think it was the Director who said, or maybe the Minister, about the percentage of passengers who actually get off the boat. If, for instance, there are 2,000 people on the vessel when it visits, have you any idea how many of those... What is the normal percentage who actually get off? Also, when that ship visits, do we count that as 2,000 visitors, or is it just the people who actually get off the boat and come on land?

540 **Mr Dawson:** The visits are normally pre-booked before the ship arrives so we know the number of coaches to actually arrange. It depends on the vessel. I would hazard a guess at about 50%. Some people just do not get off the vessel, so they will just stay there. There is an advantage if a ship comes up alongside, which I think three or four did last year. Quite a few of those will get off. If you have got a tender from the bay, some of them will not get off.

545 **Q102. Mr Crookall:** Sorry, was that 15% or 50%?

**Mr Dawson:** About 50%.

**Mr Crookall:** Fifty per cent?

550 **Mr Dawson:** Yes.

**Mr Crookall:** Thank you.

555 **Q103. The Chairman:** Thank you very much. That brings us to the end of the session. Would you like, Minister, a final word to the Committee?

**Mr Quayle:** Thank you, Mr Chairman.

560 I would just like to thank the Committee for the opportunity to come along and provide the information regarding the update on the deep water berth. It has been an opportunity to share with you, members of the public and the media the good work that is ongoing in still attracting as many visitors to the Island as we can, notwithstanding the fact that we do not think at the moment that a deep water berth is a realistic proposition.

565 **The Chairman:** Can I thank you very much, on behalf of the Committee, Minister, and your colleagues from the Department, for giving your evidence this morning. We will consider it now, and in the event that there are any follow-up issues, we will write to you. Thank you very much for your attendance.

We will just have a two-minute comfort break.

*The Committee adjourned at 11.50 a.m.  
and resumed its sitting at 11.54 a.m.*

EVIDENCE OF MR S CARSE

**Q104. The Chairman:** Come in, Mr Crookall.

570 Can I thank you very much, Mr Carse, for coming to meet with the Committee this morning.  
You are Economic Adviser to the Treasury.

The subject of our investigation, as you are aware, is the potential to the Island of the cruise ship business, and we have been looking at the importance or not of having a deep water berth to facilitate cruise ships.

575 I think what we are particularly interested in hearing from yourself relates to how the economic benefits to the Island from cruise ships have been assessed, how they are currently assessed, and really that leads to a general question about how specific projects are assessed in terms of bringing benefit to the Island, but particularly I think we are interested in the value of passenger arrivals and what they contribute to the economy, particularly cruise ship passengers but it really applies to all visitor arrivals, how the economic benefit to the economy is calculated.

580 Do you wish, Mr Carse, to make an opening statement, or shall we go straight on to the questions?

585 **Mr Carse:** No, perhaps if I spend a minute or two describing what we do as the Economic Affairs Division. We can get involved at various stages in a process of assessment. Sometimes we will be in with the Department right at the outset as we look at the case and build up an assessment of the costs against the benefits, or we might be brought in at a later stage to second guess, to look objectively at what the Department is coming out with in its own assessments.

590 We have a number of economists who are employed on these things on a regular basis. There are two ways in which we undertake such appraisals. One is to look at the whole project and the benefits it might bring to the Isle of Man economy per se, or we might just be concerned with looking at the payback to Government if there is an amount of Government investment involved, in which case we are looking at what is typically called the exchequer benefits, the feedback to Government through income tax receipts, Customs receipts and ad hoc things like landing charges, or whatever. So there are two different levels of assessment work: it is either the whole economy, or it is purely from the Government's perspective, not that the two are totally divorced, of course. So that is what we do.

600 In the case of the cruise ships, communications between us and DTL have been on an officer-to-officer level rather than sit down and do a full assessment of the issue, and as you will probably be aware, the case for or against an investment in cruise ships, and indeed in anything to do with tourism, has been affected quite substantially by the change in the Customs sharing arrangements.

**Q105. The Chairman:** Thank you very much.

605 You describe two benefits to the economy – the whole economy and the exchequer benefits. The figure that the Committee was given in terms of economic benefit to the Island from cruise ship passengers was that of £5 or maybe £6 per head. Can you just tell us how that figure was arrived at?

610 **Mr Carse:** Yes, we would start off from our best estimate as to how much such visitors are likely to spend, and in this instance we would have used the last figure from the last available passenger survey report, which is a document that we produce within the Economic Affairs Division. Within that document we do not just gauge numbers of visitors; we estimate also, on the basis of what they are telling us, how much they are spending. In this instance, we would have taken the figure for the typical spend of a day visitor arriving by boat and the last figure to hand for 2008 puts that at £69. I think when the £5 was originally estimated, that would have been based on the 2007 average spending level of a day visitor, which was a bit lower. Then, from that, we just seek to translate that into the exchequer benefit. In making that assessment, we look at things like how much profit is likely to be generated by the spending in different sectors of the economy, how much in salaries might be generated, how much Government revenue might be generated, and they are essentially the three things that we attempt to estimate. Like all these things, there is an element of broad brush about it. There has to be, unless you have very detailed information, like exactly what people are spending their money on, and you are never going to obtain that information without questioning everyone, which is just impractical. So what we attempt to do is to assess where that money is likely to have been spent and how much that spending would generate in terms of the three things I have just mentioned – salaries, profits and Government revenues.

**Q106. The Chairman:** Thank you.

So from a daily spend, on average, by a visitor of £69 –

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*Mr Carse:* Day visitors. People who are just coming for the day and going back by boat, who have arrived by boat.

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**The Chairman:** Yes, day visitors. I appreciate that is not overnight accommodation, so that is what they spend on average during the course of the day, having arrived in the Island, at restaurants, entrance fees to attractions and so on. Are you saying only about £5 or £6 of that is a direct return to the exchequer?

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*Mr Carse:* Yes. It might be best if I... Again, we need to make assumptions here, but let us take that £69 figure and try and work it through. Let us imagine that £20 of that is spent on materials which are not supplied from on the Island, because a key thing here is how much of the spending is of direct benefit to the Isle of Man. So let us make an allowance out of the £69... Let us call it £70 to start off with. Let us say £20 is on expenditure on materials which have been bought off Island, so we are already down to a direct impact of only £50. Let us imagine that £20 of that is margin; in other words, it is direct profit to the suppliers of the various services which the visitors spend their money on, be it hospitality, be it retail, goods or whatever. Now, of that £20 profit, we do not tax these industries anyway. We only tax banking, so there is no return on the profit tax side, the company tax side. Let us imagine then that the remaining £30 is a labour cost, it is used to support the wage bill. Of that £30, if we look at the ITIP returns from those areas of the economy which are most directly affected by visitor spending, we find that the effective ITIP rate is something like 5%. In other words, when we look at the salaries generated in these sectors against the ITIP collected from them, that ratio is only 5%. So out of the £30 generated as labour costs –

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**Q107. The Chairman:** ITIP being Income Tax.

*Mr Carse:* Yes. If we take that 5% of the £30 which helps to sustain labour costs, then we are talking about £1.50 that would be generated as ITIP. So of the £70 spent, we have £1.50 generated through ITIP and we have nothing through company tax.

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So that leaves us then with the indirect tax benefits. In the past, under the system of Customs sharing that we had until 2007, that particular sharing arrangement meant that everyone who set foot in the Isle of Man actually generated about £50-worth of extra Customs share.

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**Q108. The Chairman:** Under the terms of the agreement?

*Mr Carse:* Under the terms of the agreement, whereby we translated a visitor into an equivalent resident, and therefore how much expenditure they are likely to make. So that was a very beneficial arrangement from tourism's point of view in particular, because tourism generates visitors by definition, therefore we would get a handsome sum from the Customs arrangement because of that attraction, because of the attraction of individuals.

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Under the new arrangement, that does not exist. The new arrangement relates to this thing called Gross National Income. Gross National Income quite simply is the profits generated by an activity plus the salaries generated by that activity, to the extent that those moneys stay on the Island. So if the profits are being earned by a company whose beneficiaries are non-resident on the Island, then we would not include those profits.

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**Q109. Mr Watterson:** So if people have spent their £69 in Tesco there is no benefit at all, other than the ITIP, the £1.50, as an example.

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*Mr Carse:* The profits are... If they are a resident company over here from a trading perspective, not from the beneficial point of view, so the profits are included in national income, but yes they are, because those profits do not stay here. They are not included in the GNI figure.

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**Q110. The Chairman:** Just to be clear about this, if we had say 20,000 cruise ship visitors, previously under the Customs and Excise arrangements, that would have generated £1 million directly to the exchequer.

*Mr Carse:* Through the Customs agreement.

690 **Q111. The Chairman:** Fifty pounds per head.

*Mr Carse:* Roughly, yes.

**Q112. The Chairman:** Today, it is a tenth of that. You are saying approximately £5 per head, so that would be £100,000.

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*Mr Carse:* That is the figure we previously supplied. Yes.

**Q113. The Chairman:** So every 20,000 visitors previously there was a £1 million return to the exchequer.

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*Mr Carse:* Purely through the indirect tax side, yes.

**Q114. The Chairman:** Through the indirect tax side. That has gone and 20,000 today equates to a return to the exchequer through direct and indirect tax –

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*Mr Carse:* No, just the direct tax. Sorry, I was about to come on to the indirect tax side. The direct tax side you might very crudely say amounts to only £1.50. The indirect tax side, which is why I introduced this concept of GNI into the discussion, is essentially the summation of profits plus salaries.

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Let us assume, for these purposes, just by way of illustration, that all the profit stays on Island. In the example which I am giving, I think those two sum to £50 – £30 plus £20 – that would be directly included in GNI. Very roughly, the new formula means that we can divide that GNI by 14 and that would give us the Customs share subsequently generated. So we take the £50, divide it by 14, equals just over £3. So we would have the £1.50 in ITIP and just over £3 through the Customs sharing side, and together that is roughly £5.

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**Q115. The Chairman:** So the £50 direct return –

*Mr Carse:* Would give £5 in total, direct and indirect.

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**Q116. The Chairman:** I am a little confused. The 20,000 visitors would not have previously generated £1 million for the exchequer.

*Mr Carse:* It would be more than that. That would just be the indirect tax –

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**Q117. The Chairman:** Yes, so we can say previously 20,000 visitors would have generated £1 million plus to the exchequer. Today, from direct and indirect, 20,000 visitors in total would only produce £100,000 direct to the exchequer. So that fundamentally changed the business case of a deep water berth.

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*Mr Carse:* Very much so.

**The Chairman:** That is fine.  
Mr Cregeen.

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**Q118. Mr Cregeen:** When you say a day visitor, are you talking as a cruise day visitor or a Steam Packet or airline day visitor, because the spend will be different between a cruise visitor and a visitor who has come over for a day trip? As the Minister was saying earlier on, what they are doing now is they will have a tour on the bus, they will go on the steam railway or they will go on the MER, they will go up to the top of Snaefell, which is all Government owned. Would that spend be more than your £5 because it is directly coming into the Government exchequer, rather than to the private?

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*Mr Carse:* I think, yes, that is a very valid point. We can only go on the information that we have to hand and the only figure that we have and with which we can start to illustrate the case was the one which I plucked from the 2008 passenger survey. But yes, when you are looking at Government revenues, to ascertain the full implications of visitor spending from cruise ships you would need to look at exactly how they are spending their money, and maybe then we may well arrive at a figure higher than £69 and we may well find that their individual expenditures have a

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750 lot to do with generating revenue for Government outside of the ITIP issue and the Customs share  
issue.

**Q119. Mr Cregeen:** So say, for instance, they tour on the bus, on the tram to the top of  
755 Snaefell, off to the Wildlife Park, all Government, that tour costs £50, would that be a more  
substantial generator to the Isle of Man income than your £5?

**Mr Carse:** Yes. You would take that in as pound-for-pound whatever they were spending.

**Q120. Mr Cregeen:** So that would be a £50 benefit to the Isle of Man, rather than –  
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**Mr Carse:** If that was the case, yes.

**Q121. Mr Cregeen:** So what you really need to do in the future is to find out how many of  
765 these tours that the Department of Culture and Leisure, or whatever it is going to be, has for these  
cruise visitors and then that would actually alter the rationale behind a cruise berth.

**Mr Carse:** Yes. You would need to look at the prospect of them spending money, both in total  
and in terms of what they spend it on, and it may well be that, purely from Government's  
770 perspective, there is more that we would add into the exchequer benefit side because they are  
using the railways and so on, but note, if that is at the expense of cutting out other ways of  
spending money on private enterprise concerns, then one balances off the other when you are  
looking at the wider economic case.

**Mr Cregeen:** Whether it be restaurants or whatever, it will kick into that, which is the private  
775 side. So you would get both, really, because you would be getting the tour and then you would get  
the restaurant.

**Q122. The Chairman:** So what you are saying, Mr Carse, is that really no work has been  
780 specifically done on the value to the economy of cruise ship visitors. The figures that you have  
supplied relate to day passenger arrivals. Following Mr Cregeen's point, cruise ship visitors may  
in reality have a far higher direct spend directly with the exchequer – entrance fees to Laxey  
Wheel, the Wildlife Park. To get into the Laxey Wheel is £3 or £4 per head. That goes straight into  
the exchequer. So no work has been done on cruise ships?

**Mr Carse:** In order to get to that there would need to be a piece of work commissioned  
785 specifically to ask cruise visitors, when they have come back and they are about to board the boat,  
I would guess, as to how much they have spent and what they have spent it on. But no, there has  
been nothing of that sort commissioned.

**Q123. The Chairman:** So the economic case for dropping the deep water berth business case  
790 – it never advanced even as far as a business case. The case though was predicated on the return of  
about £5 or £6 per passenger economic benefit that might in reality have been much higher. So  
that was a pretty broad-brush crude figure that was used, wasn't it?

**Mr Carse:** Yes, because, as I say, there are three sources of Government benefit: the direct tax  
795 side, the Customs sharing side and then there are the charges side which is what has been alluded  
to here. Now, without any evidence... We can use the evidence we have to derive the first two  
elements. The third one is something that you cannot possibly have a stab at without knowing the  
spending profiles of the –  
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**Q124. The Chairman:** You see, we have heard from the Department of Tourism that the deep  
805 water berth in effect became a dead duck after the change in the Customs and Excise Agreement  
with the loss of the £50, but that is not necessarily so, given that we really have not assessed the  
value of cruise ship visitors as opposed to ordinary day visitors.

**Mr Carse:** Yes, but note that in looking at the net benefit to Government in this third category,  
which relates to the provision of Government services, there is also a cost for supplying those  
services. So technically speaking you would need to net out the spending by the visitors against  
805 the cost of Government supplying that service. So it would not just be a case of saying they spent

810 £50 on the trams, or whatever, if per head of use of the trams has cost Government £49, you would  
only use that £1 figure to assess the net economic benefit.

**Q125. Mr Cregeen:** On the MER or whatever, that is running already, so there is no actual  
loss there because –

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**Mr Carse:** Incremental costs might be quite small, you mean?

**Mr Cregeen:** Yes, so you have not got any additional cost if it is already a service there.  
Surely, say for this year coming, as the new Director of Transport at Tourism has alluded to was  
820 that he has put this whole service on and it is quite easy to work out what their costs are going to  
be for a trip on the bus, the tram up Snaefell, whatever. That will be the easiest way for you to  
gather the numbers for this year of how many headcount they have had directly. So  
commissioning a big piece of work is quite simple there. If they reckon they are going to have  
825 10,000 visitors coming over here and the Department of Tourism and Leisure say, ‘Well, we have  
had 6,000 people who take the bus and the train,’ you can equate that spend because they will  
know how much they are getting, and I think the usual thing for a half day for one of these cruise  
ships is anywhere in the region of £30 for a trip, so you have got a substantial increase on your £5  
straight away.

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**Mr Carse:** Here we are getting into the issues of how one distributes the total cost of supplying  
a service between... It is easy to say the incremental costs of absorbing another 1,000 visitors,  
from wherever, is nil, but at what point do you say we have to attribute some sort of cost to those  
extra 1,000, even if it is only to spread the overheads. It is the difference between short-term and  
835 medium- and long-term estimation of the cost of supplying a service.

**Q126. The Chairman:** Has any work been done on the profitability of cruise ship visits in  
other jurisdictions, other ports of the British Isles?

**Mr Carse:** I am sure that has been done. Liverpool has invested quite heavily, as you are  
840 aware, in terms of their facilities, and are attracting more and more ships in. Liverpool would just  
be concerned, I guess, with how much spend is generated for the local economy. They do not have  
any such concerns in terms of what Customs share they are going to get from it, so their sort of  
assessment would be very different from ours, but I am sure it would have been done by them.

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**Q127. The Chairman:** Have we assessed the work that has gone on elsewhere?

**Mr Carse:** We have not personally.

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**Q128. The Chairman:** Do you think we should?

**Mr Carse:** I think if a full assessment was required, then yes, we would need to. We would  
need to look at their results in terms of projected spend by visitors, how that translates into jobs. I  
think we ought to be clear on all this, though, that it is not a pure science. Any economic appraisal  
of this sort is laden with assumptions. Yes, one uses the best data available, but all the time you  
855 are having to make certain assumptions about how that translates into benefits for the local  
economy.

**The Chairman:** Thank you.  
Mr Watterson.

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**Q129. Mr Watterson:** Can you just put these figures into context for us? We are talking about  
a day visitor generating roughly £5 or £6 worth of economic benefit to the economy.

**Mr Carse:** Exchequer benefits through taxation.

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**Q130. Mr Watterson:** Can you compare that to say leisure or business travellers who are here  
with accommodation on a daily basis? Give us that sort of comparison, just to set it into context in  
terms of investment and return. Well, I am not saying you have to.

870 **Mr Carse:** I might have a figure here for business visitors. It might take me a while to dig it  
out though. Clearly, with a business visitor who is here for a day, if you want to use that example,  
they are already generating money for Isle of Man plc through the air transport costs or the sea  
875 cost, which does not come into this particular assessment because these people are already here. It  
is not generating money for the Steam Packet Company or any of our carriers. So straight away we  
are into a bigger level of spend by the business visitor. What, in an assessment of this sort, we  
would then need to carry out... in other words, to provide the like-by-like comparison to your  
question is we would need to assess again how that translates into direct benefits for Government  
or other stakeholders in the economy.

880 **Q131. Mr Watterson:** But from a marginal benefit point of view, this is pretty near the bottom  
of the tree in terms of people coming to the Island and adding in to providing exchequer benefit to  
Government.

885 **Mr Carse:** Interesting question. I do not think I have ever thought of it in terms of ranking like  
that. Certainly the figures spent by business visitors is going to be higher because they have the  
on-off transport cost element. The issue is how much are they spending locally, and that might not  
be a great deal.

890 **Q132. Mr Watterson:** I was looking at it more from the fact that if you were going to put an  
investment into attracting certain groups to the Isle of Man, you would obviously put it into those  
that are going to have the potentially Government spend to higher marginal return and we are  
saying, probably from a marginal return point of view, this is near the bottom compared to others  
where you would want to invest to bring them in.

895 **Mr Carse:** Certainly... Yes, in respect of the direct flows to Treasury it would be near the  
bottom. The issue which has been raised is of course the third element of Government revenues  
has nothing to do with the tax system; it is charges for services provided. But again, to that, there  
is the issue of what is the cost of providing those services. It would not just be a case of taking the  
900 expenditure by these visitors, whether they are business or whatever; we would need to counter  
that with an element of cost.

**Mr Watterson:** Actual and hidden costs as well, of course, because, for example, a £1 service  
might actually cost £1.10 to provide if you actually did absorption costing of everything from  
905 pensions through to –

*[Electronic interference in audio recording]*

**The Chairman:** Can you make sure mobile phones are turned off, please. Sorry for the  
910 interruption.

**Q133. Mr Cregeen:** Likewise, if you took the visitor spend out of these facilities, then surely  
your deficit could be bigger so it is a balancing act on it.

915 **Mr Carse:** Sure, yes.

**Q134. Mr Cregeen:** The buses would be more expensive to run if you took the visitors out of  
it.

920 **Mr Carse:** Yes, all these things. That is why, as I say, these things are never a pure science.  
There are so many things you are taking into account.

Let me throw in another one. Maybe with cruise line visitors there is an unquantifiable benefit  
in terms of they get to know the Isle of Man. With these high-net-worth individuals, is there a  
payback. Not the focus. Not one of the reasons for attracting these people here in the first place,  
but is there this sort of spin-off benefit – PR, marketing and so on. It is impossible though to  
925 actually place a value on those. You can just note them as potential –

**Mr Cregeen:** And return visitors as well, because if you like it on a day trip you might come  
back for a longer time, so you have got...

930 **The Chairman:** Mr Crookall.

**Q135. Mr Crookall:** Thank you, Mr Chairman.

The Minister before mentioned about the tens of millions of pounds that it would cost to create the deep water berth. Has Treasury ever done a costing on that do you know, even if it was a provisional one, and what the return would need to be to justify that, even if it was not at a profit?

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**Mr Carse:** I cannot answer that, unfortunately. We only tend to be involved in the benefit side of it. The costings and so on tend to... Within Treasury, the way these things work would be that someone else within Treasury – normally in the finance section – would look at the costings.

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**Q136. Mr Crookall:** You are not aware of whether that was ever done or not?

**Mr Carse:** I know a cost figure was bandied about, but unfortunately I would not know whether that was a back of an envelope thing or whether it was fully costed.

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**Q137. The Chairman:** Just coming back to the issue of trying to differentiate the value to the economy of different sorts of visitors that Mr Watterson raised, you have informed us that a day visitor average spend is £69 and £5 of that is direct benefit to the exchequer. How does that compare with other visitors in paid accommodation or other visitors visiting relatives in non-paid accommodation?

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**Mr Carse:** All this detail is in the annual survey that we do. It might take me a while to actually dig the figure out, unfortunately, Chairman. Let me just see if I can pick it out. Here we are. If we exclude the travel... No. Let me say that if we take PVPAs who are here for, on average, about –

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**Q138. The Chairman:** That is some paying –

**Mr Carse:** Sorry, paying visitors staying in paid accommodation. Again, let's just use the sea comparison. I quoted before the figure of £69 as the amount that the day visitors spend on the Island. For PVPAs who have arrived by sea who are staying for, on average, I think the figure is about six days, they are spending £174 outside of accommodation and travel.

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**Q139. The Chairman:** A day?

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**Mr Carse:** No, that is in total. So that would be £30 a day, compared to the £69 a day for the day visitor.

**Q140. The Chairman:** So, other than the paid accommodation, they are spending less.

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**Mr Carse:** Paid accommodation and travel. They spend less per day.

**Q141. The Chairman:** Because they are not cramming as much into the day, is that it?

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**Mr Carse:** I think so, yes. They cannot afford to spend £70 per day per person.

**Q142. The Chairman:** But on average, the return to the exchequer of a visitor to the Isle of Man, all categories, what benefit to the exchequer does that bring?

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**Mr Carse:** Let's take the total, so we take all visitors together, whether they are travelling by air or sea, whether they are here for a day, whether they are visiting friends or relatives, staying in paid accommodation or whatever. The 2008 figure suggested that they spend on average £328. That includes the air travel element and everything else, whereas the comparable figure – with a question mark next to the 'comparable' perhaps – is the £69 which I quoted before, so it is £328 against £69.

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**Q143. The Chairman:** And do you know what the return to the exchequer is?

**Mr Carse:** Again, if you use the same sort of logic, we would probably be talking about... ITIP return would again be quite low. The company tax return would be low, because the carriers are not taxed on their profits, and so on and so forth.

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**Q144. Mr Watterson:** We have got air passenger duty though, so there are a lot of complicating factors in there.

995 **Mr Carse:** The air passenger duty is something that we would add into that comparison as well, and a whole host of other things. You need to map out exactly what things you need to assess.

1000 **Q145. The Chairman:** Do we have a sufficiently precise methodology, would you say, in assessing the value of particular categories of visitors to the Isle of Man, an especially important question when we are considering the development of facilities because the business case – in this instance, deep water berths – was predicated on, if I may say so, what appears to be a stab-in-the-dark figure of £5? I accept that you have described how scientifically that was arrived at, but beyond that figure there does not seem to be any account taken of value to the economy of a cruise ship passenger when we were talking about developing expensive facilities like landing berths for cruise ship visitors.

1010 **Mr Carse:** As I said before, if a detailed study is required or my section is commissioned to do it, we would go into exactly these issues that have been raised. As well as the obvious flows of money to the Treasury through the income tax and Customs sharing arrangement, there will always be these other elements that need to be taken into account. So, for instance, we have done studies in the past on the cost benefit of marina developments, for instance. We are about to do one on the TT per se. What we will be doing is collecting as much evidence as possible from visitors as to how they spend their money.

1015 **Q146. The Chairman:** Have you done, at any time, a cost benefit study at the request of the Department of Tourism for cruise ship passengers?

1020 **Mr Carse:** No. That £5 will just have been through the normal channels of return to Treasury through the direct and the indirect tax systems. It would not relate to the net incomes, if I keep on saying that, after you have allowed for some cost of provision of service, it would not have allowed for the net income generated for Government through use of Government facilities.

1025 **Q147. The Chairman:** So when the Department tells us that they have dropped the project on the grounds that the £50 per head to the exchequer changed the economics... The dropping of the £50 per head in 2007 changed the financial case and the economics for the project, that decision was based on incomplete financial information as to the value of such passengers to the Island.

1030 **Mr Carse:** I guess their response was presumably that the loss on the indirect tax side of £50 nearly was substantial enough to tip any case, without going into any further resourcing of an attempt to look at all the other benefits. I guess what they were saying was that in terms of benefit, the loss of the £50 is so substantial that it must override any other direct benefits to Government through charges.

1035 **Q148. The Chairman:** But the fact remains they had not asked you to do a specific cost benefit study as part of the –

**Mr Carse:** No.

1040 **The Chairman:** No. Thank you very much.  
Any other questions? Mr Phillips.

1045 **Q149. The Clerk:** I would just like to know... not wishing that we should make this too aggressive-sounding, but what you gave was a back-of-the-envelope, fairly instant response as a guess –  
*[Electronic interference in audio recording]*

1050 **The Chairman:** Sorry, Mr Carse, because we interrupted your flow of thought there.  
Mr Phillips.

**Q150. The Clerk:** How much work did the Treasury do on getting this figure of £5 or £6?

1055 *Mr Carse:* It did not really take that much work, in fact, but behind it we already had the figures that we needed. If we did not have the figures, then there would have been a certain amount of extra work required. But if we look at, for instance, the figure that we would have used to assess the ITIP paid against earnings in the affected sectors, that data would have come from income tax and we would have looked at the total income declared in each sector against the ITIP paid in each.

1060 So for instance, if I can just quote an example, in the tourism accommodation sector, the ratio of income tax paid to earnings declared is only 5% because many people there will be in part-time jobs and they will not be paying tax at all. Others will be below the what is now £9,300 personal tax allowance. If we compare that with the ICT sector, that ratio is 10%, with gaming it is 16%.

1065 **Q151. The Clerk:** Although you have got quite a lot of data there, what you have got is collected from the most convenient source. For example, not cruise ship visitors, but ordinary day visitors, to pick one example that has been explored.

*Mr Carse:* As a starting point, yes.

1070 **Q152. The Clerk:** But there was no research done about Isle of Man businesses that might have been connected with providing services to the cruise ships, like people working in the port or anything like that. Was that factored into the – ?

1075 *Mr Carse:* No, not directly, but what you do in an assessment of this sort is to work out... I think what you are referring to there is the multiplied effects, what are the benefits to the linked industries here. (**The Clerk:** Yes. Did that...?) No, not at this stage; in a fully fledged study. But the multiplier values for the Isle of Man tend to be quite small. Speaking generally they tend to be quite small because we import very large proportions of our materials, and so on and so forth.

1080 **Q153. The Clerk:** What about services provided by private...

*Mr Carse:* Services provided are supplied locally, of course, yes.

1085 **Q154. The Clerk:** That could be quite substantial, couldn't it?

*Mr Carse:* Could be, yes. Whether substantial enough to outweigh the costs of the provision of the facility is a different matter, I guess, but yes, we are not ignorant of these things. When we come to do a fully fledged assessment, they are exactly the sort of related linked services that we try and assess the benefits for.

1090 **Q155. The Clerk:** When you look at the economic benefits of Government investment, do you copy the practice in other jurisdictions at all?

1095 *Mr Carse:* Yes. We are familiar with the template used by HM Treasury.

**Q156. The Clerk:** Do you use that?

1100 *Mr Carse:* To a large extent, yes, particularly when, if we are doing an investment appraisal, it is not just a question of coming to a conclusion that there is a net benefit. It is a question of how big is that benefit, what discount rate are you going to use in order to assess whether it is a decent return or not. So we use, for instance, UK discount values if the benefits are streamed forward to bring those streams of benefits back to a current day level. So yes, we use all the methodologies which are applied elsewhere.

1105 **Q157. The Clerk:** Have I got it right that if one draws the assumption that you have got a methodology there and you have got data there, but you have not done any particular research relating to this particular proposal, so you are using the next best thing, even if it is not necessarily correct, as it were?

1110 *Mr Carse:* We have only produced this figure at the very start of any more thorough investigation, if that was ever required. That has never been requested of us in the same way, for instance, that we have taken up the TT issue. So it is, yes. I think we are probably underestimating the accuracy in a broad sense, because it is based on available data through income tax and

1115 everywhere else, and if you are applying multipliers, the figures, it is a big jump to make, to have  
to go from only a £5 benefit to a £50-plus benefit, and without knowing exactly the decision-  
making process within the DTL at the time, I would guess the respective size of those two figures  
made them call a halt to any further investigation.

I speak in ignorance there, I have to say, because for one I do not know what the total cost  
figure was for this project. It may be that –  
1120

**Q158. The Chairman:** So it never got to that stage?

*Mr Carse:* It never got to the stage where we were asked to do a fully fledged assessment.

1125 **Q159. The Clerk:** I was just going to ask a general question which may not be for Mr Carse,  
but that is about whether the change in the Government structure might affect the way in which  
this work is carried out.

*Mr Carse:* I have a personal view that there is perhaps more expertise needed within  
1130 Departments so that they can do the work themselves without it falling on our Division. Perhaps  
our Division should just be doing the final evaluation to assess very objectively whether it has  
been done correctly and whether we think anything has been missed out or whatever, and perhaps  
there would be a case for saying within the new Department that is being created, Economic  
Development, there would be a need for more in-house expertise to assess these type of issues  
1135 before they come to us.

**Q160. The Chairman:** Just on that point, the in-house expertise that currently exists in the  
Department of Tourism is such that, to your knowledge, they do not do independent economic  
evaluations or cost benefit studies without reference to yourself, would that be true?  
1140

*Mr Carse:* Yes.

**Q161. The Chairman:** So, other than the TT cost-benefit analysis, what other studies have  
you conducted for the Department of Tourism in the last five years, let's say.  
1145

*Mr Carse:* The work we do on the passenger survey is essentially used by the Department of  
Tourism, so that is an ongoing thing, every day of the year, virtually.

**Q162. The Chairman:** Which survey?  
1150

*Mr Carse:* The passenger survey. That is an ongoing relationship we have with them. In terms  
of individual studies, I would need to go back and check our files. I think I mentioned before the  
various marina studies we have had an input in. Whether they were commissioned by the DTL or  
the DoT, I cannot remember now.  
1155

**Q163. The Chairman:** Marinas and the TT.

*Mr Carse:* I cannot think what else now, specifically. We do have a good relationship with  
them, in the sense that if an issue comes up they will call on us at the first stage, which I think is...  
1160 Obviously the first stage so far here has been the last stage in producing that £5 or£6 figure. But  
yes, we do have a very close relationship with them, and indeed we do adjust the passenger survey  
questions from time to time if they have a particular issue which has become current which they  
want more information on. We will integrate a series of questions into the normal passenger  
survey in order to elicit the responses and the data which they can subsequently use in their policy  
1165 making.

**Q164. The Chairman:** With the Department of Economic Development, in which the Tourism  
Division will now sit, would that new structure, do you think, enable better economic assessment  
of tourism-related projects to take place?  
1170

*Mr Carse:* I do not think it is the structure that is important so much as the expertise which  
resides within the Department.

1175 **Q165. The Chairman:** So whether or not there was an economic adviser in the Department of  
Tourism, if the work is not done, no matter who does it, on the benefit of our cruise ship terminal,  
in terms of what is the return going to be from these additional cruise ship passengers to justify the  
expense... Unless that work is commissioned, it is not really a question of the structure and just to  
repeat, the fact is you were never asked, you were never commissioned to undertake such a study.

1180 **Mr Carse:** It is not an ongoing discourse in this respect. Unfortunately, the senior officer who  
was directly involved with the Department on this particular matter has been off ill for a couple of  
weeks and I was going to perhaps bring him along today and I was expecting him to be back this  
week, but he is not. He has been in discourse with the Department, particularly Mr Smallwood, I  
think, but there has been nothing more substantial in terms of a full economic appraisal since the  
1185 early days of the inquiry.

**The Chairman:** Thank you very much indeed.  
Any further questions? Mr Watterson.

1190 **Q166. Mr Watterson:** If we can look at this from a slightly different perspective, from a  
macro rather than a micro perspective, tourism's contribution towards GDP is what, in terms of...?

**Mr Carse:** Five per cent.

1195 **Q167. Mr Watterson:** So it is in the region of £100 million.

**Mr Carse:** Yes.

1200 **Q168. Mr Watterson:** Do you know what of that is domestically generated and what of that is  
externally generated? In other words, what is being generated by the visitors to the Island and what  
is actually locals going off down a hotel or whatever?

1205 **Mr Carse:** No. I know that only 1% of that 5% is actually accounted for by the hotel sector, the  
accommodation sector, but there again, some of those so classified will be deriving income from  
the local population, of which the Casino complex is just one example, of course. But no, we do  
not have any more detail, just aggregated figures as to how much so-called tourism income is  
actually from residents.

1210 **Mr Watterson:** Thank you very much.

**The Chairman:** Thank you very much.  
If there are no other questions, I would like to thank you very much, Mr Carse –

1215 **Mr Carse:** Thank you for the invitation.

**The Chairman:** – for your very valuable advice to the Committee, and we will consider what  
you have had to tell us and we will follow up in writing, if we may. So thank you very much for  
coming this morning. Thank you.

1220 Gentlemen, thank you very much to members of the public for their attendance and to the  
press. That brings to an end the public session of this Committee for this morning. Thank you very  
much.

*The Committee sat in private at 12.41 p.m.*