

STANDING COMMITTEE PROCEEDINGS

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MORNING SESSION: 10.00 a.m. – 11.10 a.m.

Douglas, Friday, 15th October 2010

Standing Committee of Tynwald
on Economic Initiatives

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*The Committee sat in public at 10.00 a.m.
in the Millennium Room,
Legislative Buildings, Douglas*

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[MR SPEAKER *in the Chair*]

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Procedural

The Chairman (The Speaker of the House of Keys, the Hon. S C Rodan): Good morning, and can I thank you very much and welcome everyone to this meeting of the Standing Committee of Tynwald on Economic Initiatives.

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The Standing Committee is meeting this morning to take evidence from the Minister for Economic Development with his officers on the current economic position and the Isle of Man's economy, so that we may have the opportunity of having a comprehensive picture of the general economic background. It is intended to make this exercise an annual event.

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This morning we welcome Mr Allan Bell, Minister for the Department of Economic Development, Mr Mark Kelly, Deputy Chief Executive of that Department, and Stephen Carse, Economic Adviser in Treasury. Just for the record, the Committee this morning is myself and my colleagues Mr Crookall and Mr Cregeen. Mr Corkish and Mr Watterson are members of this particular Tynwald Committee also, but in view of their membership of the Department of Economic Development, they have excused themselves from today's meeting.

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At this point, I would just ask if mobile phones could kindly be switched off to prevent interference with the recording.

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The Committee has agreed to focus on several main areas in respect of the economy: first of all, the Island's general economic position; the question of NEETs – people not in education, employment or training; the question of strategic thinking for investment in the Island; and lastly, the development of the Island's profile in London, Brussels and elsewhere. We would like to cover those four main areas.

EVIDENCE OF MR A BELL, MR M KELLY AND MR S CARSE

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Q1. The Chairman: So gentlemen, I would like to thank you very much for coming in this morning to assist the Committee and invite you perhaps, Minister, to indicate in respect of the Island's general economic position, perhaps the question of employment, employment being a key indicator of the state of

45 the economy. Could you kindly give us a general overview of the current state of employment in the economy?

Mr Bell: I can do, but I would like to start by saying how disappointed I am that we have been invited to this meeting this morning without any written agenda, any formal agenda for us to work towards. We have some informal notes which might have helped us, but had we had a formal list of the agenda, we could perhaps be a bit more detailed in the response we give you. So I think that is a very unusual event to be invited to a meeting with no agenda.

Q2. The Chairman: If I could just, Minister... If that is the case, I apologise for that. I understood that we had outlined to you the general areas that we would be looking at.

Mr Bell: But there was no formal paper sent to us. All we got was an unofficial side comment about what might be discussed and it just seems... Bearing in mind the breadth and scope of what you are asking, we could have had a more detailed response prepared for you if we had had previous notice of what the questions were going to be.

60 Nevertheless, we can try and find some answers for you as we go along. Steve has been dealing more with the unemployment figures and perhaps can give you a better idea of what the current unemployment situation is.

Mr Carse: Yes, it has proved in the past that the condition of the labour market, perhaps not unexpectedly, is a key prime indicator of how the economy is doing generally. Indeed, it is the signs from the labour market that support the generally held beliefs, certainly in Treasury and Economic Development, that the economy is still performing very well, somewhat better than we might have reasonably expected a year or, certainly, two years ago.

70 The raw data itself shows unemployment is still in decline. I think it declined in seven of the eight months so far in 2010. Indeed, the end of August figure showed the biggest drop over any 12-month period for something like 12 years. That is looking at August 2009 compared to August 2010. Vacancies are running at something like 10% higher than this time last year and we still have hundreds left unfilled at the end of each month, and those vacancies are still across the board, skilled and unskilled. So the labour market data is still very positive. Unemployment currently stands at round about the 700-750 mark, which is 1.8% of the economically active population.

75 I think when the financial crisis hit the global markets two years ago now, plus, and our unemployment figure started to rise, it did go up a lot at the start of 2008-09, certainly 2009. I think we had misgivings, or certain concerns, over how far the unemployment level could go. Going on past experience of the last recession in the early 1990s, which compared with this one had not been particularly severe in terms of global conditions, we could reasonably have expected unemployment now to be standing about the 1,500 mark, so the fact that it has kept most of the time below 800 is, I think a credit to all the operators out there who keep this economy going.

80 So I think if we start from the premise that the labour market data is the most indicative of how the economy is performing, then it looks sound. The next few months, and certainly going into the winter months, will be a further test of the fundamental strength of the economy.

Q3. The Chairman: Is there any evidence of hidden unemployment in respect of workforce leaving the Island to find work elsewhere and perhaps not signing on as unemployed? Would you know about that?

Mr Carse: I think those elements are always there. If you take the former, I think there is a case to be stated that one of the reasons why the unemployment figures are down is because there is a certain percentage of the transient population who would have gone to look at other labour markets, possibly their domestic labour market, and go back to work there.

95 We cannot really log that because there is no obligation for anyone to advise us that they have left the Isle of Man, so the rational thought process would suggest that that would be happening, linked with, of course, and it is the way the Work Permit system should operate, to the extent that many of the transient workforce would be seeking renewed Work Permits, then in the current climate it is exactly how the system should work, in that these unskilled workers... There is a case for those permits not being renewed and the unemployed domestic workforce being employed instead.

100 So it all hangs together that perhaps there has been a factor in the falling unemployment total, which the unemployment figure itself has come down a couple of hundred in the last six or seven months.

Q4. The Chairman: So would you say then that what we are facing, really, is a traditional situation of a hard core of unemployable people or long-term unemployed?

110 *Mr Carse:* The long-term unemployment figure I think was stated to me recently as actually coming
down. It has been round about the 110-130 mark for a number of years. It was starting to go up again, but
I think the work of the two Departments involved – the Department of Economic Development and the
DCS – has been quite successful in keeping certainly a lid on those figures and actually cutting the
figures, as I understand. So I do not think there is so much a core of unemployment as registered in the
official unemployment figures. Maybe there are issues outside of that and I think NEETs is on the agenda
where there are things out there, there are circumstances out there which are not reflected in the official
unemployment claimant count.

115 **Q5. The Chairman:** As far as Work Permits are concerned, would you say that the Work Permit
regime is working successfully to ensure that Manx workers are able to find work?

120 *Mr Carse:* Maybe the Minister or my colleague to the left... but there are still enough vacancies out
there for people on the Isle of Man, of course. It is not as if the vacancy levels are shrinking and it is
difficult for anyone to obtain employment.

125 *Mr Bell:* The evidence that we have at the moment is that the Work Permit system is working fine.
We have had to tweak it, obviously, over the last year or two, as you well know, with changes in Tynwald
which have made the Work Permit system more responsive to what the local economy needs.

130 There are still, as Mr Carse says, a large number of vacancies out there which one would hope local
people would be able to take, but there are some circumstances where it would appear locals do not want
the jobs and therefore it is important that the Work Permit is flexible enough to allow the employers to
get the workers they need to keep their business going. But we believe in the main at the moment the
work that is done – and there will be further refinement of the Work Permit system in the time ahead –
serves the purpose it was set up for.

135 *Mr Kelly:* If I may, Minister, one of the things that we have tried to do in recent years is engage
employers in the Work Permit system. It will never be entirely popular with employers because they see
it as a restriction on their choice, but what we have tried to do is engage with them, as I say.

140 When we developed a new database in the DTI days, about two years ago, we brought the employers'
representatives in to see what would assist them in terms of improving the application process. We have
worked quite hard with the Committee to try and smooth processing times and increase them. So although
employers, as I say, will never be entirely happy with it, they can see that we are trying to work with
them and the system in coping with the system.

The Chairman: Thank you.
Mr Cregeen.

145 **Q6. Mr Cregeen:** The long-term unemployed: do you consider and have you heard from any
employers that they think with the benefit regime, you can get more on benefit than on the unskilled jobs
and that is why you have got that persistent level of long-term unemployed?

150 *Mr Bell:* There may be an element of that, but it is not something that has been raised with us. The
area that needs investigation, I think, and which is what the UK is looking at, which might throw up a
different set of figures altogether, is what is hidden away in the Incapacity Benefit section, where it would
appear that people who are being signed off for incapacity for one thing are deemed to be incapacitated
for all other areas, so there may be areas in there that will throw up further evidence of long-term
unemployed in due course, but we will see how that goes.

155 *Mr Carse:* Can I just say I do not think we have the same type of tax and welfare system which
disincentivises people from taking jobs at the lower income end. We have low tax rates, large individual
allowances, so I do not think we get that sort of poverty trap effect which occurs very regularly in the
UK, and of course we have the minimum wage which is higher than the UK as well. So all those factors
put together should mean there should be less of a tendency for people here to say, 'Well, I'm obtaining
£x from state benefit, why take up a job on offer?'

160 **Q7. Mr Crookall:** Can I ask the Minister then, Minister, would you agree that the figures that have
been said so far basically are a very good news story?

165 *Mr Bell:* Yes, very much so. I think we hear a great deal of negativity about the Isle of Man and
within the Isle of Man, but I think what we need to do is reflect on first of all the situation the Isle of Man
was in in 1991-92 when the last recession hit, where I think unemployment went up to about 1,900 or
very close to that at its peak. We have peaked at just about 1,000 and it is dropping, and 1.8% is, in

170 comparison to over 10% in Ireland, seven-point-something per cent in the United Kingdom. Looking at our neighbours and looking at the performance of the Manx economy, I think we can be quietly proud of what we have achieved.

175 **Q8. The Chairman:** Thank you very much. If we perhaps move on to a topical area of development, the UK Chancellor on 20th October is about to set out spending plans to severely limit public expenditure in the United Kingdom. Can I just ask what sort of impact do you think that will have on the economy of the Isle of Man?

180 **Mr Bell:** We have no idea what the cuts are going to be any more than anyone else at the moment, so we will have to wait and see – I think it is 20th October – what the Chancellor brings at that point, and then we will have some idea perhaps of whether it will impact on the Isle of Man or not.

185 **Mr Carse:** One benefit of the level of their cuts, looking at them very broadly, is it will help to keep monetary policy in the UK relatively loose, so we can expect interest rates to stay at 0.5% perhaps for the next 12 months or so, which will be of direct benefit to the Isle of Man, certainly for small businesses and it might even help to sustain consumer spending here.

190 **Q9. The Chairman:** Would you see any opportunities for the Isle of Man? Have you identified any scenarios where the Isle of Man might well be able to capitalise on changes in the UK in terms of differences in tax structure or otherwise?

195 **Mr Bell:** Again, we do not know what the changes are likely to be at this stage, so until we know what the report is going to say, it is difficult to make any judgement but we will always be looking for opportunities for the Isle of Man, of course.

The Chairman: Mr Crookall.

200 **Q10. Mr Crookall:** Yes, can I ask, with regard to the Zero-10, what progress has been made in respect of negotiations on the Zero-10 corporation tax and how important is that policy for the future economy of the Island?

205 **Mr Bell:** I think Members have been well informed about what the current situation is. The Code of Conduct Group met in September. Treasury had two officers at the Code of Conduct Group to present the Isle of Man's position to explain both the Zero-10 concept and the distribution regime that goes around it. They were courteously received and listened to. No decision was made at that point.

210 I understand that there is likely to be another meeting of the Code in November where the issue will be discussed further. Both those meetings are meetings of a technical nature – it is not with politicians – and if a recommendation is made it will go to the ECOFIN meeting in December, which is 15th December, I think, for a final political sign-up, but there is no guarantee that those dates will be met. I think there may be other issues behind the scenes which need discussing within the Code of Conduct before any decision is made, but my Department is not involved in it, so you need to ask Treasury what the latest situation is.

215 **The Chairman:** Mr Cregeen.

Q11. Mr Cregeen: What effects has the rebalancing of the Isle of Man's budget had on the economy and have you identified how it has affected economic development?

220 **Mr Bell:** I do not think it has had any real impact on the economy yet. The rebalancing has only just started. If there is any impact, it will be further down the road. The important thing within the rebalancing is to make sure that the capital programme is still strong to enable the construction industry to retain as much as possible its employment numbers. The industry, at its peak, employed somewhere around about 3,000 people, so it is an important part of the economy, so we have to ensure there is enough bricks-and-mortar development still supported within the Budget to ensure a buoyant construction industry, but as you know, the nature of any efficiencies will not be known until the Budget next year and we will have a better idea then.

230 **Mr Carse:** If I could just add one other statement there. The key drivers to the Isle of Man economy, the wealth generators, are the export-earning sectors, and they will hardly be affected anyway by Government spending cuts. Their concern is with tax rates, their competitiveness in the international market place. The businesses most likely to be affected are the local businesses, maybe the suppliers of items to Government, as well as the suppliers of capital services, of course, but Treasury's aim in that

respect has been to look very closely at contracts in its capital programme which, if cut, would fall mainly on UK suppliers and contractors, so that the pain is shared between the Isle of Man and the UK.

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Q12. The Chairman: Thank you very much.

As far as the financial services sector is concerned, we hear a lot about regulation of the banking sector within the UK and the issues surrounding that and the failures, alleged failures, in regulation and of course, as we all accept, the Isle of Man economy, the strategy has been to establish us as a well regulated, low-tax jurisdiction, an attractive place to do business, and the whole thinking of your Department, of course, is rightly towards that aim.

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Just really inviting a comment on the difficult balance that has to be struck between over-regulation and deterring legitimate business and anything that might hamper the work of professionals trying to develop new areas of business. It has often in the past been said that the Isle of Man must tread a careful line between over-regulating, not being so far ahead of the field that people are incentivised to go to other jurisdictions.

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In this new climate of concern about regulation, just really to ask for your comments on the question of whether the Island could be going too far in imposing regulation on the financial services sector in order to demonstrate that we are a respectable financial centre, which of course, that aim is very much to the forefront. It is a question of how we achieve that balance, and is there anything that needs to change in this new way that regulation is viewed internationally?

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Mr Bell: I think we are moving into a very interesting period, as far as regulation is concerned. There is a danger, I think, internationally, not necessarily on the Isle of Man, that the fierce reaction to the behaviour of the banks is going to at least initiate debate about a much tougher regulatory regime which, in effect, could kill off some elements of business if it goes too far.

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There is, though, a difference between political rhetoric and the reality on the ground once regulation starts to be firmed up. The Isle of Man has a responsibility and has given a very public commitment to the IMF, to the European Union and of course to the UK that we intend to follow international norms. It is not the Isle of Man's intention, unless Treasury think otherwise, to go beyond international standards.

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I think the standard of regulation of the Isle of Man holds up well against our competitors, but clearly over-regulation is potentially a very damaging, or potentially could have a damaging impact on the growth of financial services too, so we have to continue to try and strike a balance between maintaining international standards and maintaining a viable industry at the same time.

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Q13. The Chairman: Would you say that those international standards which we have been anxious to adhere to... Do you think it is now time for the focus to turn on other jurisdictions, larger jurisdictions whose standards have been found wanting?

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Mr Bell: I certainly would suggest that there has been a two-tier standard approach to regulation. The demand of the larger OECD countries has been, and the explanation has been from them that small jurisdictions, the offshore jurisdictions such as the Isle of Man and many other small financial centres needs to be higher and more transparent than the larger countries. I would disagree with that. I think we have to have a level playing field. That is what the Isle of Man has striven for for the last 10 years or more. If our standards have to be a certain level, it is hypocritical for other large countries that we trade with to actually have lower standards than we have, so I think there is some work to be done on that.

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Q14. The Chairman: Would you say there is any evidence that the Isle of Man has been losing business to other centres such as Gibraltar or some of the smaller international centres?

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Mr Bell: Business is a fluid enterprise. It moves frequently between jurisdictions. I do not think it is possible to say that we have lost a large batch of business, but there will be times when circumstances in other jurisdictions are more favourable than the Isle of Man and that business will move there. Equally, there will be times when the Isle of Man situation is more favourable and business comes here, but there is no evidence, I do not think, of wholesale movement to other jurisdictions on regulatory arbitrage.

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Q15. The Chairman: Thank you. Any more questions on this topic?

Mr Crookall: Can I just say, so although we should all be working to the same level playing field within the EU region, is it fair to say that the Isle of Man, certainly one or two that I have spoken to, seem to feel as though we are being hard done by in some respects as far as regulation is concerned?

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Mr Bell: I do not know whether we are being hard done by, but clearly we have been in the spotlight more than others and we have to reassure, whether we like it or not, the larger jurisdictions that the Isle of Man meets international standards, which we do and which was confirmed by the IMF, so on that front

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we are doing quite well.

300 **Mr Crookall:** Through you, Chairman, would you say that the FSC here is doing its job properly here on the Island?

Mr Bell: I have no reason to think otherwise at the moment.

Q16. The Chairman: Mr Cregeen.

305 **Mr Cregeen:** Do you think we are being as positive as we can be regarding the good news of the Isle of Man and we are pushing this out to everybody, because we are all very much aware that the larger countries are trying to get the business themselves because their economies are in trouble. Do you think we could do more to put our point over to them?

310 **Mr Bell:** We do our best in every forum that we are involved in to spread the factual situation of the Isle of Man. The one thing we cannot do is go shouting from the rooftops of how wonderful the Isle of Man is at a time when other jurisdictions are in recession and seeing, on occasions, some of their business perhaps move to the Isle of Man. So I think there is a balance to be struck there.

315 **Q17. The Chairman:** Thank you. We will just move back to an area we did touch on earlier, and that is the question of the long-term unemployed and the action that we need to take to deal with NEETs, people not in education, employment or training. We wrote to you, Minister, earlier in the year on this subject and you kindly gave us a detailed response on 16th June to our questions on what is being done by Government in respect of such people not in education, employment or training.

320 Could I just perhaps ask you to give us an update? I will just refer you to the letter that you sent us where you said that the benefits system acts as a disincentive for the unemployed or NEETs to take up work experience, employment or training and you were asking officers to consider what can be done with regard to that. Really tied in with that, in terms of careers education, you indicated that your officers were developing a strategy for NEETs over the summer to ensure that those people were identified and supported. So it would be helpful, perhaps, just to have an indication of where the Department is up to in this area.

325 **Mr Bell:** I will be making a statement to Tynwald next week on progress on that and there has been a working group in place all summer. We are hoping to report back to Tynwald probably by November with the recommendations of the joint working party which straddles three Departments, I think.

Mr Kelly: Four, actually.

335 **Mr Bell:** Four Departments, to bring all those threads together.

Mr Kelly: Would you like me to add, Minister? Yes.

340 As the Minister says, the strategy now is prepared and what we are looking at is how it can be funded in these difficult times. The Minister will be making a statement on that. What I would say, on NEETS, it is a complex issue. Indeed, the term itself may be deemed pejorative to some extent. We do not want to give people a complex about how they are regarded. The NEETS cohort, generally, is around about 500 young people, but in that 500 you have got a very wide scope from the hard core of unemployed, who are not interested in working, to a floating group of well-qualified young people who are just between jobs and trying to decide what to do with their career, perhaps to travel or take up voluntary work, that type of thing. So, it is a very wide spectrum. So, each of those individuals will require a different service from Government. What we are trying to do is link up the work that has already been done by Government Departments to achieve more from it.

345 If I can give you an example of what has been done for NEETS. In our Department, DED, formerly DTI, took forward an initiative of a Prepare for Work programme. We have, in the last 18 months, put over 100 young people through that and 65% of those young people have either gone on to employment or to further training. So, the important point there is they are now socially engaged again. They are not excluded, which is the big issue with NEETS.

350 We are hoping to do more and if I can give you one further example – I do not want to delay this morning – we are hoping to second a careers adviser from the Careers Service, which is now with Economic Development, into the schools, to look at developing early intervention programmes for NEETS, because the key thing with NEETS is to get them early. It is not to deal as a remedy for the problem; it is to prevent the problem in the first place. So, we have got enough intelligence to identify, quite early on, which young people might fall into that category and if we can get services to them at an early stage, it can prevent the problem arising.

360 **Q18. The Chairman:** Just following up... Thank you very much, Mr Kelly. That is helpful. You mentioned a figure of 500 and you explained that that covers a spectrum. Just to be clear, are you including in the 500 those who are in, for example, gap years, who are not, obviously, employed or they have finished their education and not in employment? So, are they counted as NEETS?

365 **Mr Kelly:** It is a maximum figure given to us from the Careers Service as to absolutely all the young persons who are not in employment, education or training. Some, by choice, are in that situation. Of that figure, around about 300 would be benefit claimants. If we are looking at the narrow distinction of what is a burden on the state, if you want to look at it like that, that would be a figure of nearer 300. But, as I say, it is a complex programme and when you see the proposals we will put forward, you will see that they cover a range of interventions.

370 You did mention, by the way, Chairman, about possible benefit restructuring to address this. That is actively being pursued by the Department of Social Care and that will figure in our papers that come forward.

375 **Q19. The Chairman:** And those papers that are coming forward, your statement to Tynwald next week is advance notice to Tynwald about the strategy?

Mr Kelly: Yes. Detailed proposals will come forward to Tynwald in November.

380 **Q20. The Chairman:** For Tynwald approval?

Mr Kelly: Well, to Council and then to Tynwald.

385 **Q21. The Chairman:** Okay. Thank you very much. So, just to be clear that the range, the people we are interested in, are the long term, those young people not in employment on a long-term basis. It is not those who are temporarily taking gap years. So that hard core you referred to is very much smaller and it is them that the strategy will be focusing on.

390 **Mr Kelly:** Yes. The weight of interventions will be in that area, because that is the hardest area to crack. Many of the well-qualified young people, as I say, are in that situation by choice in some cases and will find employment without too much assistance from Government.

395 **Q22. The Chairman:** Okay, and part of that – it will involve the benefit system and the incentives and disincentives of being in receipt of benefits – is getting people into employment and training –

Mr Kelly: It is being directly addressed in the papers, yes.

400 **Q23. The Chairman:** Okay, and is this exercise... are similar discussions and exercises going on across? Presumably, this is taking place independently of any changes to the benefit system in the UK?

405 **Mr Kelly:** Yes. We are taking, but we have our own distinctive issues in the Isle of Man. We have looked at best practice in the UK, but many of the interventions in UK have been extremely expensive, such as giving young people an individual mentor. That is something we have looked at here, but that is an expensive option.

Q24. The Chairman: We expect, in respect of benefits that are reciprocal, an impact on the Isle of Man from changes in the UK in respect of dealing with this problem. Obviously, there is a reciprocal element. Are they being taken on board as part of this strategy?

410 **Mr Kelly:** Yes. They have been taken into account. It is not an easy subject to talk through, because it is quite detailed and structured, but it will be put in front of Tynwald Members in November.

The Chairman: Well, I am sure these proposals will be of interest to the Committee and the ongoing work of this particular Tynwald Committee.

415 Mr Cregeen.

Q25. Mr Cregeen: Yes. You mentioned the Careers Service. What dialogue are you having with the Department of Education and Children? They are careers advisers as well, because it has been brought to my attention that some students have had careers advice after they have chosen their GCSEs, then to find out that, for their future job that they are looking to, they have taken the wrong qualifications.

420 Are you trying to get that advice to them earlier, before that GCSE selection; and once the children

have taken their GCSEs and possibly just failed to get them, are you giving any assistance on the retakes? I understand that some are having to go to evening classes at the College. Do you assist with their training to retake the GCSEs?

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Mr Kelly: The purpose of this secondment, I mentioned earlier, is to improve relations between the Careers Service and what is happening in the schools. In the past, there have been difficulties, there is no doubt about that, and now we have the Careers Service in Economic Development, we are very much focused on vocational aspects and informing children pre-emptively of what they can do. So, we will be working very closely with the headmasters and the schools and with the Department for Education and Children to take forward a common agenda in that area and make sure that they get the interventions when they need them.

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In terms of individual training applications, I can perhaps discuss that with you, Mr Cregeen, outside the meeting?

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Q26. Mr Cregeen: I think you just said the secondment to the Department for Education and Children. Is that not a bit strange since the Careers Service was in the Department of Education and now there is a –

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Mr Kelly: What we want is a link, clearly. There is no point in ring fencing the service and taking it from one Department and putting it in another. We need to have that dialogue and interaction, so they understand what we are trying to do and we have a common agenda. So, that is what we are hoping to promote, yes.

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The Chairman: Mr Crookall.

Q27. Mr Crookall: Yes, Mr Cregeen covered most areas there, but what I picked up from your careers adviser who is going in to help now, are they going to be focusing in on the people that we think are going to be the long-term, unemployment people; the ones that do not want to get into the system and work?

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Mr Kelly: Absolutely. I mean, without wishing to extend this debate, there are often personal issues for the children in question. They might come from difficult economic circumstances in their households, that sort of thing. They will be picked up, from other intelligence sources, as to whether they have an issue or a problem at school. So, clearly, they are at risk to some extent of developing into NEETS later in life.

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In my previous Department, in DTI, we dealt with the problem. We have provided a remedy to try and re-engage these people and get them back into society, essentially. That is not really an enlightened way of doing it. What we need to do is prevent the problem in the first place. So, early engagement is what is going to be the thrust of the strategy.

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Mr Crookall: Okay.

Q28. The Chairman: In terms of Manx graduates – and this was referred to in your letter, Minister: ‘Communication: facilitating better communication between Manx graduates and employers on the Island to ensure that those who are financed in their higher education off-Island have best opportunity to return to the Island.’ What work is currently underway in that area?

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Mr Kelly: Would you like me to address that Minister? Well, the Manx Graduates website has been running now for about 18 months. We have had a steady increase in the number of young people using it – and employers. It seems to have been successful... It is difficult to monitor, but it seems to have been successful in terms of introducing young people to opportunities on the Island with the ultimate aim of keeping our graduates on the Island, contributing to the economy. We are actually engaged in a review at the moment of the performance of it, with the private operator, and we are thinking of, given that there has been some success in that area, we would like to, maybe, develop it towards a NEETS approach.

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Now, a lot of... some NEETS, are socially excluded to some extent that they do not have access to this type of medium, but then again, we have been advised by young people that they would like to have contact through things like Facebook, Twitter and other social media. So, the important thing to communicate our message and engage with them, we need to explore all options. So we are thinking about a possible extension – and it will be in the papers that we are putting forward – of the Manx graduate database to a NEETS approach.

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Q29. The Chairman: I see. Has any work been done in tracking, over a period of years, the number of Isle of Man students who eventually return to the Island and bring back to the Island the benefits of the

485 education that is provided for them?

Mr Kelly: I had a discussion on that very point this week. I found it impossible to find any hard evidence of that. There is anecdotal evidence and various figures have been mentioned, but I am not aware, unless, Steve is aware of any?

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Mr Carse: No. Again, it is one of these things that there is no obligation on any student to be reporting back on a regular basis as to what they are doing. It is easier for the UK, of course, because of their loan system, they track every student in order to get their money back from them. They use National Insurance numbers to track them as well, but we have no such facility here.

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Q30. The Chairman: Yes. That it is interesting, because it is often said that a lot of the political will, historically, for the Isle of Man to support students into higher education is not only for their benefit, but ultimately the Island will benefit and the Island does, if not from them, at least from other graduates who bring their skills, educated elsewhere, and paid for by someone else, that we benefit from. It just occurs to the Committee, the extent to which we can carry on affording the generous support for students, if there is no hard data as to the economic return that that brings to the Island.

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Mr Kelly: I suppose in terms of setting the scene for an attractive jurisdiction for young people to come to, whether it is our graduates returning or new young people joining the Island, it is incumbent on our Department to offer high value employment; high spec employment. It could be in the aerospace sector; it could be in the space sector. These are the type of things that we are pursuing. If we can create those opportunities, we would assume that they will be attractive, they will be filled by returning graduates.

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

Q31. Mr Cregeen: Returning graduates: have you had any data of numbers who return unable to get jobs? I have had parents contact me saying, 'Well, you have invested so much money in our children's education and part of the difficulty getting a job is the first job. "Where is your experience?"' Do you think there is any mileage in Departments accepting some of these people on temporary, short-term, work experience, so that we get some benefit from their education and also, it helps them go into future employment?

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Mr Carse: I suppose, playing devil's advocate to that particular question, it is why? We have already helped these people by giving them money and paying for their fees and so on, to make them more marketable, more productive in the workplace. Why focus on them to move in and help Government in certain roles, rather than the general population. It is as if you are giving largesse out twice: once in supporting them to be educated and then, when they cannot find a role in the private sector or whatever, the suggestion means that you give them roles within Government, presumably in preference to others who have never been to university.

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Q32. Mr Cregeen: As a short term, it could be two, three months. You just say, 'right, what benefit?'

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Mr Carse: Why not do that to the general public, anyway?

Q33. Mr Cregeen: Well, this could be an area –

Mr Bell: You could say the same with people on vocational training, apprenticeships or whatever. Why do we...? And what benefit would it be to anyone to have two months' work experience in Government, in something which has got nothing connected to what their career might be?

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Q34. Mr Cregeen: It would have to be connected, but as in some sort of work experience, because a lot of the difficulty is getting that initial step on a ladder that you have had some experience. It could be anywhere. It could be from people who go to the College and do a short training course, you are assisting them. It is only since you have put that investment into them.

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Mr Carse: Well, I think a number of countries, the UK included, Mark, they have introduced the scheme – well, the Labour Government certainly had, before they moved out of office – to ensure that everyone was given a role in the private sector somewhere. They got employers to sign up and then when that response was quite slow, they made it more or less an obligation.

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550 *Mr Kelly:* We do have something called the Step Scheme which is for undergraduates, normally during the summer period, where they will be given a specific project with a local company to give them a bit of a feel for the workplace and at the end of that their projects are evaluated and there is a prize given, that type of thing. That has worked very well over the years.

Q35. Mr Cregeen: And that applies to all the students when they –

555 *Mr Kelly:* It is very well subscribed as well.

Mr Bell: There is a lot of support from the private sector for placements for graduates, particularly during the summer, for the students coming back.

560 **Q36. The Chairman:** Thank you. Just going on, again, into another general area, the restructuring of Government; the creation of your own Department, the Department of Economic Development, has been quite a long-standing aspiration. It has now taken place. Can you give us any examples of how this particular structural change to Government Departments has helped create enhanced opportunities for economic development, perhaps? More specifically, in terms of the way Government attracts business and investment? How has the creation of your Department benefited that or it is too early to say?

570 *Mr Bell:* It is too early to say. We are still in a position of trying to bring all the different threads together. We will have a far better... We are hoping to relaunch the new Department early in the new year. By that time, we will have moved all the various elements into a single department and we then will be able to benefit from the synergies between the various Divisions which current still work very much on a silo basis.

575 The only real change, I think, that has taken place at the moment is the transfer of the employment-related sections into the Job Centre. That has already started to bring some benefits, where they are all under the one roof; they are talking to each other and it is providing a one-stop shop for people who want Government services. So, that is an indication, I think, of what will happen once the Department is up and running, but it is going to be early next year before we have got that all in place.

580 **Q37. The Chairman:** Given that Treasury, previously, much of the work was to do with attracting inward investment; getting the right fiscal structure; trade missions of one sort and another, that, now, is primarily the focus of your Department. To what extent do you work hand in glove with Treasury in working overseas to attract investment?

585 *Mr Bell:* It is still very early days yet. Treasury has a very different role, now, from what it had before. It certainly has responsibility for the taxation structure and indirect responsibility for regulation, but in terms of marketing and promotion, Treasury is not as directly involved as it was under the old structure, but as things develop, once we get our strategy in place, I am sure there will be a role for Treasury to work alongside us. There has to be.

590 **The Chairman:** Yes.
Mr Crookall.

595 **Q38. Mr Crookall:** Thank you, Chairman. As you said, it is early days still. Do you believe you have got everything within your Department now to do the job you need to do for the future? Or have you still got some bits missing from Treasury or have you got too much?

600 *Mr Bell:* No. Well, there is one area that we are looking at which might be transferred somewhere else, but in the main, we have got the main economic drivers for the economy under one roof. The next question will be whether we are adequately resourced, not just financially, but with the right personnel in the right places to make this work.

Already, we have made the announcement today, that we are closing the London office but setting up a new structure in London altogether with a permanent person employed by my Department to promote the Isle of Man in London and we will be looking for other opportunities alongside that, but again, this is an evolving situation.

605 You are asking these questions far too early in the state of things. It will be early next year before we are in a position to have a final shape on where we think we need to improve; where there will be streamlining and to ensure we get the best synergies out of the new Divisions which now will be working under one roof.

610 **Q39. Mr Crookall:** Can I ask, then, the new office in London: (a) when that is likely to open; and (b) the person that you have employed down there. Is that somebody that is here at the moment and is going

down there or...?

Mr Bell: No. This will be someone who is currently based in London and is very well connected and we will still have an office in London, but it will be a different nature to what it is now.

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Q40. Mr Crookall: That will be opening, when?

Mr Bell: It depends on how negotiations go.

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The Chairman: Mr Cregeen.

Q41. Mr Cregeen: As a Minister of the new Department as such, are you happy with the way that you feel that businesses can approach your Department with possible new ventures and ideas, like the One Stop Shop agreement? Do you think you have actually changed from the old DTI and made some benefits that way?

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Mr Bell: I do not what the old DTI system was, but certainly, the structure that Government has always endorsed and I believe is absolutely fundamental to the development of the Manx economy, is a close working relationship between Government and the private sector. In Treasury, the finance sector always had immediate access to me or my officers whenever appropriate. In the new Department that is already applying right across the Department and politically, if they need any access to me or the senior officers, it is readily available and has to be.

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Q42. The Chairman: Thank you. Just turning to the enhanced London presence and we have got the news release you issued yesterday. It is intended to close No. 1 Cornhill, which has been an office for meetings since January 2006. As a venue, was that a successful idea?

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Mr Bell: Very successful. It was very extensively used, particularly by the small- to medium-sized businesses on the Island. The larger ones, not so much, because most of those already have presences in London anyway, so they have their own head offices to work out of. But certainly, for the small businessman who is trying to break into the business in the City, I think it has been invaluable in many cases and a great deal of business being transacted through the office, but we need to move on now and take it on to a different level. The problem, in a way, in the past, was that it was simply a serviced office for people to use, it was not a permanent presence of the Isle of Man in London. We are now looking for a permanent presence for the Isle of Man.

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Q43. The Chairman: And that was an unmanned office, was it not?

Mr Bell: It was a fully serviced office, yes.

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Q44. The Chairman: And, despite its closeness to the Bank of England – it is a very prominent position – it was rather an anonymous office, was it not, on the second floor?

Mr Bell: Well, it is an office. It was a... Yes. But, we will still have an office in London, but it will be of a different form.

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Q45. The Chairman: So, you are intending to have... The press release talks about a network of new offices. Are you intending a single, central office or is it, indeed, a network? If I want to go to the Isle of Man London office, would it be a specific address?

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Mr Bell: It will be a specific address, yes. But there will be a network link to it.

Q46. The Chairman: And you did not consider carrying on the lease at 1 Cornhill for that purpose?

Mr Bell: No. I think the new proposal we will have, once it is up and running will help to provide a first-class service to the Island at an affordable level. These things do not come cheap and to have them manned as well as paying for the general overheads of the office would limit our ability to sell the Island into the City. The new structure we are putting into place, if it all comes off, will be affordable, but will be a much higher profile than we have got at the moment.

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Q47. The Chairman: When you say, 'higher profile', do you mean – ?

Mr Bell: Someone permanently based there.

675 **Q48. The Chairman:** I am thinking about physical profile. Will it be an identifiable Isle of Man office, physically? Will there be a sign outside?

Mr Bell: We are still negotiating.

680 **Q49. The Chairman:** Okay. Presumably, the focus of this is an economic focus rather than a political focus, given the importance of developing sound international relations, especially in London and having a presence in London. Was thought given to having this facility as well as a venue for business discussions, a venue for political focus?

685 *Mr Bell:* Not particularly. We are focused on economic development. That is our role. Part of that and particularly if the individual we are negotiating with at the moment accepts the proposal, will be very well connected, politically as well as within the business community. So, we will get a facility there which will help us to promote the Isle of Man at that level.

690 **Q50. The Chairman:** Are you aware of the offices that other jurisdictions have in London, such as Gibraltar or the Falkland Islands?

Mr Bell: Yes.

695 **Q51. The Chairman:** And what is your impression of the Gibraltar office?

Mr Bell: Gibraltar is a different set-up altogether to what the Isle of Man needs. Gibraltar has had a long-standing presence in London. I think, in fact, they own their property in London and have done for many, many years and obviously, with the somewhat fraught political relationship Gibraltar has with its neighbours from time to time, I think they have always needed a higher profile and they spent heavily.

700 The Isle of Man could have exactly the same, but you have got to be prepared to pay money and in the present climate you have got to ask whether that is good value. The Isle of Man used to have, I think back in the 1960s, an office in London, but that was purely a tourist office in those days, when we had a much larger tourist industry.

705 **Q52. The Chairman:** Gibraltar's office is now in the Strand and it has got a high profile street presence and it serves as a trade office, tourist office and their representative there does a lot of political work as well as facilitating economic discussion and business meetings and so on. Would you, given the high profile of that and the very visible presence Gibraltar has, as well as the Falkland Islands that, other things being equal in terms of cost, is this something the Isle of Man should aspire to?

715 *Mr Bell:* It would certainly be beneficial if the Isle of Man had a higher profile in London. Like it or not, London is the source of a large proportion of the Isle of Man's business flow. Obviously, constitutionally, our first link is with Westminster. Having a more regular presence on the political scene in London would be helpful, but we have to cut our cloth.

720 Gibraltar has a specific reason to maintain a high profile in London and that has largely been survival as much as anything else. The Falklands are a fairly recent addition, but they have their own reason for doing what they have. But, we have got to, in the present climate, with the financial restraints that we have, we have to try and get the best possible value that we can out of our investment and we believe, at the moment, the proposal we are putting forward is the best in the present financial climate, which will give us access to all elements that we are talking about, whether it is business connections, political connections or embassy connections as well, because we also need to work internationally through the economic divisions of many of the embassies in London.

725 **Q53. The Chairman:** Gibraltar, for example, is on the diplomatic circuit and their representative in London does get invited to diplomatic functions, despite the status – not the High Commissioner status, but obviously, as an overseas dependency, it is a level below that, but they have been very successful in enhancing their political presence in London and I just wonder whether we should not be doing more of the same?

730 *Mr Bell:* If the Isle of Man had the funding to do it, then obviously, that would be something to consider.

735 **Q54. The Chairman:** Can we afford not to do it though?

Mr Bell: We have to do this in the most cost-effective way.

740 **Q55. The Chairman:** When do you think there would be any announcement by your Department with further detail about the offices in London?

Mr Bell: As soon as negotiations are finished, which I hope we will be ready to move forward quickly early in the new year.

745 **Q56. The Chairman:** In the new year? (*Mr Bell:* Yes.) So, before the new year, there would be some further news on the offices.

750 *Mr Bell:* I would hope so, yes. We want it finalised to give everyone clarity of what we are doing and certainly what is going to be there as soon as possible. We do not want there to be a hiatus between the closing of the existing office and the opening of the new one.

Q57. The Chairman: And would this be the sort of office that would focus as a showcase for the Isle of Man? (*Mr Bell:* No.) Purely a –

755 *Mr Bell:* It is going to be a working office. It is not going to be full of retail elements or anything like that. It is going to be a business office which will promote the Isle of Man, as I say, for business, for political purposes.

760 **Q58. The Chairman:** So, it is not the sort of office that the Tourism Division of your Department would be involved in.

Mr Bell: It could be used by Tourism to promote the Isle of Man into London, but it will not be a fully-fledged tourist office in the way that some other –

765 **Q59. The Chairman:** It is not a retail office in that sense.

Mr Bell: Not at the moment anyway.

Q60. The Chairman: Not at the moment.

770 *Mr Bell:* But, if this is successful and funding is available, it could evolve into other things to follow.

The Chairman: Mr Cregeen.

775 **Q61. Mr Cregeen:** When your Department goes out looking for business, does it specifically go with a single-minded approach of a certain area, or do you have everything else there, just in case you meet a connection that might be beneficial outside that single point, as in finance or industrial. So, if somebody went to talk to one of your representatives, can they direct them to the right body straightaway?

780 *Mr Bell:* Of course.

Q62. Mr Crookall: You obviously have been working hard, the Department has obviously been working hard on your new premises and you have been very cagey, if I can put it that way. You, obviously, cannot give away too much at the moment, but any idea when you are going to be able to tell us a bit more about it?

785 *Mr Bell:* About the London premises? (**Mr Crookall:** Yes.) I think I have answered that question.

The Chairman: We have had the answer: by the new year.

790 **Mr Crookall:** Okay.

Mr Bell: It is progressing well at the moment, but it would be premature to make any announcements at this stage until we know for sure it is all buttoned down.

795 **Q63. The Chairman:** It is likely to be a more visible... We take, entirely, your point about the nature of these offices. Is it likely, though, to –?

Mr Bell: It is not going to be on a high street with ‘Isle of Man’ emblazoned outside. It will be a working business office which will have an Isle of Man presence. There will be a permanent person

800 staffed in it and there may be other people there as well. There is no point in pushing me on this at the moment, because we are still developing this theme. It is not complete and until the negotiations are complete, I cannot make any other announcement on it.

805 **Q64. The Chairman:** The Gibraltar office, for example, has a big Gibraltar flag outside and everyone knows that Gibraltar is well and truly having a presence in London.

Mr Bell: Maybe we will put the Manx flag outside too.

810 *Mr Carse:* I think that was precluded in a case of 1 Cornhill, was it not?

Mr Bell: Yes. We could not. That could not be done.

Q65. The Chairman: Precluded in the case of – ?

815 *Mr Carse:* In the case of 1 Cornhill premises.

Q66. The Chairman: 1 Cornhill. In terms of the lease? Conditions of the lease?

820 *Mr Bell:* Any tenant was not permitted to put a name plate outside the office or flags or anything like that. It was a very well regimented regime. A very nice office, but not one you could publicise. This may well be different, but we will have to see.

825 **Q67. The Chairman:** Certainly, Gibraltar had to fight for their flag. There were local byelaws that initially were going to prevent it, but there was a strong political campaign, I believe.

In terms of Brussels representation, I appreciate it is the Chief Secretary and Chief Minister's department. That, perhaps, is more of a political focus and advance warning to the Isle of Man of economic developments, but do you see an enhanced role for your Department, should that office come into being?

830 *Mr Bell:* Well, it is still very early days, yet. If that office comes into being, we will have to see what the size and scale of it is; how it is staffed. If there are economic opportunities, then we will be utilising the office for those ends, but at this stage, again, it is too early to say.

835 **The Chairman:** Thank you.
Mr Cregeen.

Q68. Mr Cregeen: Are you happy with the way the Department is moving and are you feeling confident for the economy of the Isle of Man? The way you are going?

840 *Mr Bell:* Well, I am very confident as to the way the Isle of Man economy has developed over the last few years. I think we can be very proud of the achievements we have made. We have, still, a very robust economy, but the next few years are going to be very challenging. There is no doubt at all about that.

845 With the world economy... With the way the UK economy is going to develop with, perhaps, even affected by what is happened in Ireland, we have Zero-10 to bottom out. There are a number of questions, clearly, that hang in the air at the moment, but overall, I think we have got a soundly based economy. It is diverse; it is certainly a lot more diverse than many of our competitors. That gives us an added strength, I think.

850 The indications I have had so far from the business contacts I have had since the new Department has been set up is that there is still a good level of business interest, either local expansion or new people coming into the Island and once the new Department is finally in place and properly structured, I think the newest strategy which will evolve from that will help to keep the economy growing. We have had 26 years of unbroken growth now and it is certainly not under my watch, my intention, to see that drop back.

855 **Q69. Mr Crookall:** Good. That is very commendable. Can I just ask, Chairman, with regard to the new change across the UK Government and again, it is early days there, but we have heard of Ministers going to the party conferences... Are you seeing any changes in there in the way we are viewed and how they feel about us?

860 *Mr Bell:* Again, it is far too early. They have their own problems to deal with at the moment. I think the Isle of Man does not register with most political parties. I have only met the – of late anyway – the Liberal Democrats and Labour. I think the awareness of the Isle of Man in both those parties is stronger than it has ever been and it is most important that we keep those political contacts going.

865 I do not think there is a specific threat on the scale that we have had in some quarters in the past, but I think there still are major problems that we have to be aware of which could impact on the Isle of Man in the future and whilst I am saying things are, the relationship is, perhaps, a bit calmer now than it has been in the past, that is not to say that we should be complacent. We have to be very, very alert to whatever changes might take place, but at the moment, the UK, particularly the coalition, are focused very much on their own immediate problems, but that is not to say we are completely off the radar yet.

870 **Mr Crookall:** Thank you.

875 **The Chairman:** Well, thank you very much indeed, Minister and colleagues, for coming in this morning. I hope you felt it has been a useful opportunity for you to, in this particular public platform, deliver your message as an Economic Development Department. We certainly have welcomed the opportunity to discuss, in this particular parliamentary setting, some of the issues that are ongoing and we look forward to meeting with you on another occasion.

Thank you very much for coming in.

The Committee adjourned at 11.10 a.m.