



**STANDING COMMITTEE
OF
TYNWALD COURT
OFFICIAL REPORT**

**RECORTYS OIKOIL
BING VEAYN TINVAAL**

**PROCEEDINGS
DAALTYN**

**ECONOMIC
POLICY REVIEW COMMITTEE**

Treasury

HANSARD

Douglas, Thursday, 9th May 2019

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Members Present:

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

Clerk:

Mr J D C King

Assistant Clerk:

Miss E Gaines

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Standing Committee of Tynwald on Economic Policy Review

Treasury

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

[Mr ROBERTSHAW *in the Chair*]

Procedural

The Chairman (Mr Robertshaw): Good afternoon. Welcome to this public meeting of the Economic Policy Review Committee, a Standing Committee of Tynwald. I am Chris Robertshaw MHK and I chair this Committee. With me are Mr Tim Baker MHK and Mr Jason Moorhouse MHK. Please ensure your mobile phone is off or on silent so that we do not have any interruptions. For the purpose of *Hansard* I will be ensuring we do not have two people speaking at once.

The Economic Policy Review Committee is one of four Standing Committees of Tynwald Court which scrutinise different areas of Government. We have three Departments to cover, Cabinet Office, Treasury and the Department for Enterprise. We are also required to scrutinise the work of the Isle of Man Financial Services Authority and the Gambling Supervision Commission.

As part of our general scrutiny role, we invite the Ministers of our three Departments to come in once a year with their Chief Executives and give oral evidence in public. Today we welcome the Treasury Minister and the Chief Financial Officer.

Good afternoon, gentlemen.

The Minister and Mr Randall: Good afternoon.

The Chairman: Thank you for your attendance.

EVIDENCE OF Hon. Alfred Cannan MHK, Minister, and Mr Caldric Randall, Chief Financial Officer, Treasury

Q1. The Chairman: I think if I can kick off with a rather pertinent point, and that is that as the issue of Sir Jonathan Michael's Health Review is very much in focus at the moment, I think it is appropriate for us to say that that is not going to be the centre of our interest this afternoon, because I think having had the presentation the next step has got to be for that report to go to Tynwald and for Tynwald to have its say before it is looked at in other arenas. However, some of the points we have got this afternoon, as it were, reach over and relate to it in a general sense rather than a specific sense.

So, we have got a number of subjects before us and we look forward to engaging with you on them. But the first point we want to raise is that there has been a judicial review on the UK public sector pension arrangements and how any potential impact there ... which looks, if it works out in a particular way, could cost around about £4 billion.

30 I do not know whether you are familiar with it at all, but what has happened is that when the UK got to the point that they started looking at it judges' pensions – put it that way – there ended up being a judicial review of the fairness of the changes that were taking place, the result being that the judicial review is saying, actually, are the new arrangements for the new starters etc. fair in terms of protecting the existing Government staff, and if it works out in the wrong way it could impact massively.

35 So my question is – and I do not necessarily want an answer this afternoon, but if you would like to write to us afterwards with your thoughts on the subject – could it reach us and could it impact upon the arrangements that we have thus far developed?

40 **The Minister for the Treasury (Mr Cannan):** Well, what I would say, Mr Chairman, is that I am aware of that naturally, as probably most, or at least the majority of politicians probably are, in terms of their study basis for public sector pensions and the future planning. It is really a matter, with the greatest respect, that the Cabinet Office and the Minister for Policy and Reform should be addressing.

45 I have actually spoken to him specifically about that, and in fact I did think he made a comment at the last pension debate in Tynwald about this matter, because it was raised – if memory serves me correctly – by Mr Shimmins during the debate and the Minister's response was that they had looked at that issue and were confident that the basis for that case did not exist on the Island. But in terms of the detail behind that statement, I would have to refer that to the Minister for Policy and Reform, who is clearly the Vice-Chairman of the Public Sector Pensions Authority.

Q2. The Chairman: Thank you very much. We will move on then.

55 What we would like to discuss with you is your view, the Treasury's view, on the long-term impact of our single-tier pension proposals, with particular reference to the fact that as yet we have not established a separate workplace private pension, if you like, to run concurrent with it and how it is thought that that might impact ultimately on the matter of zero hours contracts and gig economy.

60 I suppose I raise that now because this administration, the last one and the next one obviously are having to come to terms with actions not taken historically, decades ago, over public sector pensions. I am sure you would agree that it is our duty and responsibility to make sure that we do not pass down to future administrations a problem related to people arriving at their retirement point and finding that the pension availability is inadequate for a reasonable or fair or rational or affordable lifestyle.

65 **The Minister:** I think we have discussed this matter before a couple of times, Mr Chairman. The Treasury and I have made that commitment now to carry out a consultation on workplace pensions. That consultation is imminent, literally a matter of a few weeks away. In putting together that consultation there have been discussions with various bodies including private industry around what a workplace pension might look like. So there will be a consultation.

70 The consultation process will be divided into two. The first part will be to seek to measure if there is a basic public demand for the workplace pensions on the Island; and then a second consultative element will consider issues relating to how it would then specifically work. So really we want to address the idea of the basic demand.

75 There are a number of factors associated with that pension. How much, for example, an individual might save over a lifetime. That is certainly ... particularly for low to middle income earners, potentially the sums that we are talking about does not actually mean that they can

actually get that much into a pot. Clearly there are implications for business. If you are asked to move up towards, let us say, a 5% contribution – and I merely take that based on the UK's
80 current projections – then there will be cost impacts across the economy, so we need to work that out. Also, there will be some impact possibly on the general economy if people are finding that they too have an increased level of pension contribution.

So it is not necessarily as simple as it may seem, and one also has to then gauge that alongside how this is going to work in practice. In the UK this is centralised through the NEST
85 scheme. On the Island we are – and I do not want to pre-empt the consultation – probably too small to manage efficiently that kind of scheme. So therefore it probably goes out to the private sector. Who and how do we effectively implement that? Do we create a straightforward model that the businesses have to implement or do they come to us with their pension schemes and have them signed off? There is quite a lot to take in. I think once we have done this consultation
90 we will be in a better position to respond to the basic demand levels, and then we have to move into the technical aspects around that.

So there is quite a lot of work to be done. I think we all want and aspire to now recognise that we need to help and encourage a level of saving – or an increased level of saving – across the community, but there are matters that need very serious consideration in undertaking that.
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The Chairman: I think we raise it because we recognise, as you say, it is a complex issue, not a simple one. But it not one, despite that, that we need to shy away from. We have got to struggle our way through it, I suppose is a fair way of putting it.

The Minister: I think there are lessons to be learned as well from other jurisdictions. We can clearly see and assess what is happening in the UK, we can look at what is happening in Jersey and Guernsey and perhaps in other jurisdictions if and where they may be running similar types of schemes. One also has to say it may not have to be a pension *per se*, it could just be a savings scheme of some description. There might be a simpler solution to this than the more difficult
100 challenge of rolling out a pension scheme *per se*.
105

But as I said, that consultation is imminent now and on the back of that we will be able to report on demand, report on views generally about the principle and then we would have to knuckle down to investigating the technicalities – if there was the acceptance that we needed to do this and were clear on the implications of doing it, as to what the technicalities would be
110 regarding that, and of course how one would enforce that as well.

Q3. The Chairman: I am quite interested in your comment that there might be some sort of saving scheme as another alternative. That would be an interesting option to study, wouldn't it?

The Minister: I think so. Again, I do not want to get too far ahead, but one might consider how some form of ISA-based product or ISA-similar (**The Chairman:** Yes, yes.) product might work more generally. In the past I think there are reasons why it has not been incorporated over here are around the cost of doing so and getting the private sector engaged properly –
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Q4. The Chairman: We could do it if we wanted to though, couldn't we? There are no legalities or restrictions in that regard?
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The Minister: I do not see that it is necessarily an issue. But again, we need to be careful that we have properly considered it in context and make sure that it is actually setting out to achieve what we want to achieve. Bear in mind, often these schemes then get utilised mostly by those
125 who can afford to utilise them and perhaps they are the ones that we are less concerned about generally and that it is actually middle to lower incomes where you really want to ensure that there is some sort of gauge or at least some sort of track as to whether they have got

130 appropriate measures in place to support them, or the incentives anyway, to support them in later life.

Q5. Mr Baker: So the impression I am getting, Minister, is that it is focused on the outcome of trying to ensure that people have adequate financial resources in place for the later stages of their lives, rather than the precise vehicle to deliver it, and pensions could be one of those, savings changes could be one of those, and there could be other things that –

The Minister: Well I think the focus absolutely is on pensions because that is the traditional model that people would use. Everyone understands, or a lot of people understand, what a pension actually is in terms of a financial product, if you like, that is aimed to support you in your retirement. But yes, I think the analysis that we need to take place is one, on the demand, understand the impacts and then also assess what is actually feasible on the Island and *vis-à-vis* therefore, are there perhaps other ways that people could achieve a similar outcome rather than necessarily have to go into a specific pension product?

Q6. Mr Moorhouse: Do you expect that by the end of the next parliament all workers on the Isle of Man will have some form of long-term saving plan or a pension plan? Is that doable?

The Minister: I would like to think that we have put in place the framework for that to be achievable. I am a bit cautious, because yes, in a standard working environment, nine-to-five, I think this is an easy one, a quick win, but there are a lot of people out there who do not do nine-to-five jobs, who work in industries on a seasonal basis, come and go perhaps and will also find – I talked about the cost – if you are on the on the minimum wage or living on the living wage, finding that extra money to actually deliver on these sorts of schemes is also an assessment we need to make.

155 So we actually have to be realistic about it and one might also ask then if you are not actually going to achieve very much in terms of savings, if it is literally £1,000, £10,000 or £15,000 or so in a lifetime, then might you be better, perhaps, paying a higher rate of National Insurance for example and getting a better state pension. I think there are a number of questions that you could reasonably ask, but I think it is important that we do the basic consultation. As I have said that is imminent and perhaps we will then be in a better position to assess demand levels and what is appropriate in terms of going forward at the next stage.

Q7. The Chairman: So what comes out next, is it that review? How does that coincide with the work that is going on with the Zero Hours Contract Review? In my recollection of exchanges that we have had with various Ministers – was it Mr Ashford? I cannot remember – where he was saying that the Zero Hours Contract Review is separate to consideration of the gig economy.

170 So what I am trying to say here is that once wants the Zero Hours Contract report comes in, that will come into the frame that is currently looking at the pension side, and then after that we will have to look at what options if any exist with regard to trying to find long-term savings schemes or pension formation for people who work long-term in gig economy arrangements. It sort of follows on from your point about seasonality and people coming in and out of employment.

The Minister: I accept there is certainly some relationship there, Chairman, but as it stands at the moment there is no direct correlation between our work planning on pensions, to correlate that to Zero Hours. My initial reaction is, well, if there is a correlation then we would probably pick that up as part of the consultation process and we will draw that out. I think it is an issue, certainly, when you talk about this type of scheme and bringing forward workplace pensions. But I think if we try to bring that all together into one we are probably going to bog ourselves down in a lot of detail that may mean that we do not get progress on one or the other.

Q8. The Chairman: I think the fear from this side is undoubtedly not ending up in years to come, it might be 20 or 30 years down the road, where a significant proportion of the population are well-served with their pension arrangements, but those groups that were sitting in these seasonal, zero hours, gig economy areas ended up falling back on the benefits system which then becomes a direct cost to future administrations in terms of annual revenue costs. 185 Will we be criticised in 25 years' time, 'Well, if they had only done so and so then, we would not be in this situation'?

In other words, the corollary between that and the position we are in now with regard to public sector pensions. If only somebody had done something about it 30 years ago, we would 190 be better off than we are now.

The Minister: It is a challenge. I think we need to put a few things into perspective as well. Certainly if you look at a lot of retirees and the 50 pluses, quite a significant percentage of those people – and I did not really have a huge amount of data in front of me about pensions today – 195 but quite a bit of that data indicates that a lot of people are benefiting from defined benefit schemes and that is becoming less and less prevalent as you go through the age groups. So there is less of the 40 to 50s having DBs, and less of the 30 to 40s, and almost none of the 20 to 30s. They are being phased out and they have been replaced by defined contribution schemes. So there is a change, a shift, anyway in terms of how people are retiring and a lot of the under 50s 200 do not have access to DB schemes proportionately to the number of people probably in retirement today who may be benefiting from defined benefit schemes, so I think it is shifting in any case.

The other issue that I think has driven a lot of this, and you will obviously recognise this from your time dealing with social policy, is the fact that there are changing demographics and changing levels of expectation. I think one of the comforting factors is that the National Insurance scheme, the move to the single-tier pension will improve that position in terms of the funding. We are still waiting for the latest figures from the Government actuaries. But as you know, we have gone out of a negative position in terms of the National Insurance Fund, to a positive position, a surplus position. The projections are that now is going to continue to build 205 and we have obviously got the impact of the change – the single-tier pension – that has been particularly felt by public sector workers who have effectively moved on to the new single-tier scheme. We are all – across the Island – now contributing on an equal basis, having simplified the pension arrangements.

There is a lot to consider within this, and I think it is absolutely vital that whatever we end up with, we keep focusing and have a priority of retaining that safety net pension, the basic state pension, and making sure that we are on top of that. Arguably, there may be a case to say that actually the better thing to do is simply to increase contributions to that to make it even more secure towards the end of someone's working life. 215

Q9. Mr Moorhouse: At the moment the 15 year gilt yield is useful to work out the pension for Government workers, and that has quite an impact in terms of the lump-sum payment. Has any research been done to look at alternatives that could be used in forming the calculation? 220

The Minister: I am not in a position ... I would have to get that information for you from the Public Sector Pensions Authority. 225

Mr Moorhouse: That is fine.

The Chairman: Right, thank you. Can we move on ...? 230

Mr Randall: I am not aware of any, no.

Q10. The Chairman: Okay. So if we move on, after the huge success of the purchase of the Steam Packet, the matter was then placed into the hands of the Department for Infrastructure with regard to the Sea Service Agreement. Has the Treasury got a view on the fact that the Department for Enterprise failed to produce an economic impact study before we got to the point that we signed the Sea Service Agreement?

I will be blunt, I am sore about this because I cannot understand how it is possible that such an important agreement stretching over a 25-year period was allowed to be, as it were, delivered without a thoroughgoing economic impact study by the Department for Enterprise, particularly in tourism areas. Are you disappointed that they did not achieve that?

The Minister: I do not necessarily want to comment on what the thinking was in the Department at the time. But certainly, from my perspective, I did think it was important that we got on to produce certainty around what the Steam Packet was being tasked to do. I think Chairman, for me, I did not necessarily expect everything to be absolutely perfect at the first attempt. That is why I was very supportive and pleased to see that by mutual agreement this document, this agreement, can be reformed and refined. I think what we will find in time is that there will probably be a need to do so as we move forward with this project.

The next stage for Treasury will be to bring forward the financing proposals and to try and find agreement and the best way forward for the Steam Packet and the shareholder and the Island in terms of those proposals. We are on track to do that.

So I hear what you are saying. Clearly people have lots of different views, but I do think that it is important to provide certainty and guidance to the directors so that they are absolutely clear about what they have got to achieve in terms of their business planning and that economically we will be able, if there is a call and there is the evidence, to shape or reshape that agreement I would hope between both parties, if there is a need to do so.

Q11. The Chairman: Do you know why there was such a reluctance on the part of the Council of Ministers to have the full Sea Service Agreement signed off by Tynwald? What was that reluctance about?

The Minister: Again, I do not want to necessarily, or cannot comment on what the overall thinking was from the Departments in terms of their consideration, though the view that Tynwald was going to engage in a clause-by-clause analysis of a lengthy legal agreement was probably not necessarily the view that one would take of the political oversight perspective. I genuinely do think that if we cannot trust Chief Executives and Departments to get on and deliver the wishes of Tynwald based on a heads of terms, effectively – which is really what we saw – then I think we have got an issue.

We have either got an issue with the credibility of the individuals involved who are doing that or perhaps we have got an issue around what Tynwald is there for – what the politicians and the politics is. In any case I think were there to be significant differences between what the politicians were signing up to from the heads of terms versus the technical agreement and those differences were to clearly diverge, then people will have to be held accountable, Chairman. Because that would not be acceptable.

The Chairman: See I think we are furiously agreeing here, over the importance of politicians not interfering on a month-to-month, year-to-year basis on operational issues regarding the Steam Packet. Although we passionately share the importance that we do not, it seems to me at least that there has been an opportunity missed. To get Tynwald to sign up to a detailed agreement at this stage would effectively then close the door; whereas if you have a Sea Service heads of agreement which does not comply in detail with the final, full agreement, then you are opening the door back to political interference which neither of us want.

285 We sort of both arrived at the same belief that there should not be a day-to-day, month-to-month politically interference, but yet, we have arrived at different solutions and I think only time is going to ... I hope you are right, put it that way.

Tim, do you want to come in here? From another perspective?

290 **Q12. Mr Baker:** From a Treasury, as the shareholder, perspective of the Steam Packet, it is obviously a very interesting arm's length model. It has been in place for a number of months now. What are the early indications from that relationship being established, and is there anything you can share with us about your thoughts at this stage?

295 **The Minister:** We continue to monitor quite closely the situation. I have personally now met the new directors. I have been to one directors' meeting, attending as an introductory basis, saying hello, and just discussing the settling-in period. We have worked closely to make sure the directors are given a proper induction period in terms of their knowledge base about both what has happened in the run-up to the Steam Packet and ensuring that they have been engaged properly as part of the process of understanding what the mechanics of the operation of the Steam Packet. Recently I just completed a series of individual meetings with the two newly
300 appointed directors. We continue to engage closely.

The critical element for us is really now about how they engage in terms of developing their business plan going forward, and they need time to be able to adjust to that. Clearly they have effectively gone into a situation where there is a business plan in operation. So really it is the
305 next year's business plan that we are interested in, and the years after that. Clearly they are engaging at the moment in terms of outline about the new ships, the new infrastructure that is needed.

So we are not interfering, we are standing well back. Their decisions are directors' decisions, as Tynwald has instructed. But clearly, for us the shareholder, at a very early stage, one would
310 not expect us to not necessarily want to know what direction the directors were going, and at least ensure that they were properly engaged and in the position that they were properly fulfilling their roles. But it is very early days for me to give significant feedback to you on any specifics at this stage.

315 **Q13. Mr Moorhouse:** Linking back to that key point about us being the key shareholder, when do you expect there to be an update on what the position will be going forward, in terms of ownership?

320 **The Minister:** In terms of?

Mr Moorhouse: The ownership of the Steam Packet.

325 **The Minister:** The ownership? (**Mr Moorhouse:** Yes.) Well, we are bringing forward finance proposals at the moment, and we have promised that we would try and incorporate a range of options within that. There are no plans to alter the ownership at the present time unless Tynwald decides to adopt a different view about that makeup. I do not want to pre-empt what Tynwald would or would not say in any debate, but at the moment I am waiting for the full paper of options from the Steam Packet directors, from the Steam Packet, who are putting together those options and then we will consider that and bring it forward to Tynwald as
330 appropriate.

Q14. Mr Moorhouse: So it will probably be in the next calendar year, rather than this year?

335 **The Minister:** No, no, I have said we are going to have that in July. Tynwald will debate the finance options, but I think I just need to quell immediately – there are no plans at this stage to change the ownership structure and I have been absolutely crystal clear about that.

Q15. Mr Baker: So the finance is around the debt structure then? And –

340 **The Minister:** Well, I think we said that we would explore that, and also I think there has been an indication that we wanted to explore what other options might be available in terms of how the Steam Packet might operate. So yes, we will be looking to try and bring a broad range of options through to Tynwald, and we will bring our recommendations accordingly. It is quite difficult for me to comment because I have not seen that paper at the moment. I am unable to
345 give you a clearer insight and to be honest, debating that before Tynwald have actually brought it forward and before we have had a chance to consider my comments properly is quite difficult.

Q16. The Chairman: Caldric, is this the first or second time that you have attended this particular session?
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Mr Randall: I think it is the first time.

The Chairman: Well, can I just say welcome, which I should have said a long time ago.

355 **Mr Randall:** Thank you very much! *(Laughter)*

The Chairman: Can we move on?

Q17. The Clerk: Could we ask Mr Randall to give us the date when he became Chief Financial Officer?
360

Mr Randall: 1st February.

The Clerk: Thank you very much.
365

Q18. The Chairman: How is it going?

Mr Randall: Early days but, very well, thank you... *(Laughter)*

370 **Q19. The Chairman:** Well, let us talk about something that is probably very much in the centre of your thinking, and that is the challenges you have laid down to the rest of Government to make additional savings, the ... whatever that number is. A difficult task, the SAVE campaign. Can we talk about where you are up to, how things are going and perhaps a frank assessment of some of the difficulties you must be having in trying to see into departmental cost structures and where they are applying their expenditure and how it might be saved or otherwise? How is
375 it going?

The Minister: Well, I think made actually absolutely clear, and I was absolutely clear and transparent in the Budget that we still had a £15 million figure unaccounted for in terms of a need to find savings by the end of this administration. I also made a fairly frank admission that we are going to have to look very closely at that this summer and make a full assessment of what we need to do now to properly incorporate that into our budgetary process.
380

If I can just talk just slightly broadly in terms of context, there are a number of factors and risks in terms of the overall Budget that we have already made fairly public: the general
385 economic global economics but more importantly, closer to home, and we are looking at the

FERSA review, the review of our VAT, and the cost pressures that might come forward as a result of the Jonathan Michael Review. That is just one; and perhaps in addition it would be silly of me not to now mention that we are looking very carefully about our environmental commitments and that is going to come and emerge throughout this year.

390 But to put that into context, we have also had a very, very strong economic performance, which to some degree has perhaps relieved some of that pressure that we had initially believed to be there when we put together our five-year plan.

Nevertheless, SAVE has not been a wholesale success. There are probably three key projects on-stream with clear savings attached to them. There is the Legal Aid Review that the Attorney
395 General is conducting – and there was a £1 million figure attached to that. It remains to be seen, actually in the end, whether we are going to achieve that. That is underway.

Higher education: it was agreed that there was consolidation that could be taken and improvements made to higher education delivery. That project is underway. A number of issues and potential opportunities with that, and clearly the one that we have put into actual practice
400 was the Bus and Rail Strategy, which delivered £1 million worth of savings.

There are two or three projects which are still in assessment stage, Chairman. Depending on some of the reports that we get through, we will need to consider how realistic they are to bring forward to public attention. So, is it realistic to say that we are in a best-case scenario at the moment? Probably £5 million to £6 million that we might achieve from that scheme, but that is
405 significantly less than where we first started.

It has been worthwhile though. It is still a worthwhile project. There will be some significant benefits from that in terms of financial returns, but also – and we will see where we go with higher education and with the legal review – we could end up with much better service provision and service delivery than we were when we started.

410 **Q20. The Chairman:** Those areas, effectively, that you have identified ... and I thank you for your frankness over the likelihood of trying to achieve those all through savings and perhaps recognise that, all being well, it will come to some degree through increased revenues, and let us hope that that is right. But is it unfair of me to say that perhaps there is a sense out there that
415 Government just keeps growing?

I suppose if I want to compare the mind-set between the last administration and this one, is the last one was very much up against it in a very visceral sense. There was at that time in the Departments a recognition, 'Oh goodness me, we are going to have to save money!' Personally I am beginning to feel that there is a sense of relaxation starting to occur, that, 'Oh, the worst is
420 over', and I get the impression that in numbers terms Governments growing again. I worry about that.

What are the numbers in terms of whole-time equivalent employees in Government now compared to say two years ago?

425 **Mr Randall:** I do not have that detail.

Q21. The Chairman: Is it possible for you to get that figure?

430 **Mr Randall:** Yes, okay.

The Chairman: Could you send it to –

Mr Randall: Treasury does not hold it, but I can get it.

435 **The Minister:** I think that in terms of the exact number ... We recognise the point that you are making and I think the figures will reflect that point.

440 The issue though, Chairman, is that this is a difficult battle, in terms of numbers of people
being employed by the public sector. We have a very ambitious Programme for Government,
there is significant demand on service delivery in a number of areas, particularly in frontline
services. The Police are growing in numbers again, for example. There is pressure in the Health
Department and they are employing quite a number of interim or temporary employees both to
cover full-time roles and to cover where there are areas of shortfalls in perhaps clinical delivery,
and of course we have, not only Brexit which has helped grow the numbers, although people
445 have been brought into Government on one- or two-year terms. That is certainly example where
numbers have grown. And when you look at our international commitments, the demands that
are made on us by our commitments to MONEYVAL, EU blacklisting, and the recommendations
that we are effectively signing up to, then you will see increases of numbers there.

450 There has been the strengthening of our financial intelligence and crime capability as a result
of MONEYVAL. In terms of Customs and Excise, Brexit has put significant pressure down there,
and also if you look at the pressure, for example, of dealing with the aircraft VAT issue, we had
to bring in extra resource there in terms of our commitments then to report back to the UK in
terms of what we had been doing.

455 So I absolutely hear what you say. One senses that we have to adopt a much clearer strategy
if we are going to control our personnel numbers *per se*.

460 **Q22. The Chairman:** I agree, but I do not see that clear strategy at the moment. It seems to
me that where success has been achieved it is because technology has been applied successfully
to disintermediate – in other words, to remove layers of administration and management levels
which in historical bureaucratic systems are inevitable, but in a modern technological age are
not necessary.

465 Without wanting to reach into the whole matter of the Health Review – because I have
promised I will not – there are self-evident successful examples in other jurisdictions where
technology successfully applied has massively reduce bureaucracy and administration costs,
and – taking your point up – has pushed available funds into frontline services which are
inevitably going to grow.

470 I do not hear that, I do not feel it, I do not recognise that the concept of disintermediation –
in other words, smaller government – has been adopted as a principle. In fact it is almost as if,
since this administration started, the words ‘smaller government’ have become a bit of a swear
word. Smaller government was always disintermediation: that is what it was intended to
achieve. It has disappeared. Does that not worry you?

475 **The Minister:** Well, I think from a Treasury perspective, clearly there are ... as a politician you
have concerns about the size of the Government that you have, and it does present a risk when
you look at the numbers being employed in the public sector versus the numbers that are
employed in the private sector, and the balance *vis-à-vis* that if there was a downturn in the
economy particularly.

480 But we have committed, and still are committing, millions of pounds to technology in order
to implement improvements and efficiencies across the board to give our people on this Island
quicker and cleaner access to their own financial affairs, both from an online services ... We are
working, GTS I know are working hard with Department of Health, which is one of the critical
areas, and I know in fact across the Departments that there are projects underway.

485 So we are committing to those projects, investing millions of pounds, and of course, with
these projects when they come to us, there is more often than not an attached saving
(**The Chairman:** Yes, over time.) which we look to build into the accounting projections and we
look to bank where we can.

Do you want to come in on that, Caldric, at all, terms of projects, GTS projects and the
savings?

490 **Mr Randall:** The Digital Strategy – and obviously you will be aware that there is a Digital Strategy – there are significant savings that have come through there. My experience is that there have been improvements through technological projects etc., but it is the volume of work – so rather than securing it immediately into saving, it is allowing resources to go into delivering other tasks. So I do think there is a lot of work going on with digitalisation.

495 **Q23. The Chairman:** But if that was actually happening, Caldric, then you would see, shall we say, an increase in frontline costs and a reduction in administration costs. Are you aware that that is happening? I cannot see it; maybe I am missing something.

500 **Mr Randall:** When the business cases of funding through Digital Strategy come through, the terms of reference for the funder in the Pink Book will be locked into savings. So they are there to make the funder self-funding. So there are savings that that are tied into each of the business cases (**The Chairman:** Okay.) and we are securing them.

505 But I think what you are seeing is that the volume of work pressure, and the Minister mentioned quite a lot of them, has also additional expectations for any new legislation, GDPR, Equality Act. That is what is happening to them. So you are seeing really a kind of suppression of where you would be.

510 **The Minister:** If I can just come in there, I think that is fair point. Every time a piece of significant legislation like the Equality Act goes through Tynwald, then you will find an impact in Government somewhere because within Departments somebody probably has to take on the role as the Equality Champion to make sure that Departments are delivering that equality, there is obviously legislation that needs to be abided by, there may be physical alterations to buildings that need to be taking place.

515 So there is often a huge span of work that goes with ... this is not just a case of lip service to legislation. We are often creating work for ourselves, for Government. But in doing so, of course, we are hopefully delivering better outcomes for society, and I think we should balance the negativity with the fact that I think there has been significant progress in a number of areas.

520 Bear in mind, for us we have had to tackle considerable challenges, particularly in terms of the cost of living, demographics and population drift. To turn that around we have not only invest and take significant and serious actions with things like personal allowances, which have led to us receiving less money, or potentially receiving less money, but also invest money into enterprise schemes, give Departments a strong sensible capital programme delivery, make sure that that funding is available.

525 All this type of action has helped boost the economy. But with every action there is an equal and opposite reaction and it is about getting the balance right. So at the moment, we are in a strong economic position, I am confident in terms of our receipts. We have exceeded our receipts. The forecast is within our expectation level, we are focused on delivering that smooth outcome. But on the negative side, there are issues, there are still problems – and I think that is what you are probably driving at – in terms of, is Government delivering as efficiently as it can in terms of its public expenditure? One has to say that there is still room for significant improvement.

530 That is the challenge for Government, not just in Health, but in other areas as well. I think if you are going to reduce Government expenditure, if you are going to reduce personnel, you have to look at different ways of how they were delivered. That of course goes back to the SAVE programme and have we maximised our potential there? Well, I think we will have to wait and see for the end of this administration to see that.

The Chairman: Tim?

540 **Q24. Mr Baker:** Yes, just an observation. Presumably, in the short-term, quite a lot of the benefits from things that you just talked about, Minister, will effectively be masked by the huge amount of work has had to go on right across Government linked to Brexit, which is not necessarily particularly visible to the outside world. But it has been a huge consumer of resources.

545 My question was, you touched on the positivity around revenues and you touched earlier about the VAT, FERSA update. When will we have visibility about the outcome from that process? It is clearly a very material piece of the public finances going forward, isn't it?

The Minister: Yes, so the surveys are well underway for that. In terms of when we will actually recognise and finalise and agree the results, there is an expectation that we will have that before the next Budget – so before February. Exactly when still remains up in the air. I would be disappointed if it came after February.

I think one has to recognise there are risks at the moment in terms of our future forecasting. What we have done is as much as we can to try and negate that risk by budgeting for a lower amount than what we are entitled to collect at present, so that if the calculation comes out lower than where we currently are we will have built in a safety net. If it is lower than that, lower than our 3% growth forecast, then we will have to make some adjustments. So we are preparing as much as possible. We recognise the risk, there is a bit of uncertainty at the moment.

560 What I can say is that it is pretty much on schedule. The information is being collated, it will be analysed, that negotiation will take place and we will come out, as I said, with that end result, hopefully before the next Budget.

The Chairman: Jason?

565 **Q25. Mr Moorhouse:** Just returning to SAVE, a strong, fair and independent legal system is important, especially if you look at the poorest in society. Now we are looking at having such fundamental change that the Defender Unit could bring in, is it appropriate that work, that analysis, is done on Island by the Attorney General's Chambers, when potentially an independent off-Island agency expert could come up with a more balanced view?

The Minister: I think an independent expert may not necessarily be completely *au fait* with the vagaries of Manx law for example. The Attorney General is very much at the heart of that, I think they have good relationships with the Law Society, he is well-placed to understand exactly how the system is currently working and to listen to where that can be improved. So no, I do not agree with you, I think the Attorney General's office is a good place for this to happen.

575 As I said, I would not listen too much to a lot of the noise. What started off as a look specifically at the Public Defender Unit has now merged into a much broader project around access to justice and it is a great opportunity to look at that, because hopefully we will end up with more transparency around it and better access to justice for people, *vis-à-vis* better value for money for the taxpayer as well.

Q26. Mr Moorhouse: At the moment there are 30 advocates on the legal aid list. With the Defender Unit – if it goes ahead in its current form – there is going to be a much smaller pool to use. Now from a smaller pool, you have got very key issues like, have you got five years' experience you require to do a murder trial or rape trial? And such key issues could potentially have a big impact in the future. It is important for justice in the long term, and not just saving a million pounds in the short term, that people feel safe. We actually need to make sure that that full overview takes place. Can we have that reassurance that it will?

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595 **The Minister:** There is a full overview. As I said, what started off as a single item has really merged into much bigger, broader project now. If, when, what, where, if at all, any sort of Public Defender Unit comes forward, it remains to be seen. I am not going to sit here and try and pre-empt the work of the Attorney General, because I think looking at it, we called it an access to justice. It is right that we looked at criminal and civil legal aid and looked at the role that people were playing within that.

600 So, I am confident that the Attorney General's office are well placed to liaise with all the relevant parties and deliver a set of recommendations that are appropriate and clearly Tynwald will be the first recipient of that review.

Q27. Mr Moorhouse: When will that update take place?

605 **The Minister:** From memory, I think that was scheduled to happen within a year or so. I think that is probably next year, before we will see the final conclusions from that.

610 **The Chairman:** And you would also accept and recognise I am sure, Minister, that the Constitution, Legal and Justice Committee are doing a lot of parallel work, which is contributing to this, as you rightly say, a very big and important debate. There is a lot of work going on there. Tim?

615 **Q28. Mr Baker:** Minister, do you share my slight sense of disappointment that the remit of the SAVE Committee, which was about securing added value and efficiency, has been quite crudely reduced to simply being about financially saving money, which obviously does result from – or can result from – the changes that it brings? But actually, it is to oversimplify it, just to judge the success of SAVE within that narrow parameter of how much you save.

You touched there about the improvements, for example, to access to justice which may arise from that exercise, which clearly are beneficial even if they do not have a direct financial payback in the sense that it was perhaps being talked about.

620 **Mr Randall:** It has been a healthy process. Remember, when it went out for consultation, or asked the public for ideas, there were hundreds of suggestions that came from the website, each one of those was reviewed, and it is healthy, isn't it, for organisations to keep looking at themselves? I think the reality is that there are a lot of views that you can go in and chop money out of Government, that it is easy to do it – it is not. It is difficult, and I think the journey that we have been through so far with that has proved it.

625 It has not stopped looking, it is still doing things, but it has to ... You came up list of things to look at, when you delve into the detail it is much more complex. Government has been through quite a long time now where it has not had any significant increases in its budget. It had to cut back. There were things that were done a few years ago, what you might call a low-hanging fruit or whatever; they are pretty much gone. So it is more difficult to extract those things.

630 Whether, as you say, the use of technology into the future, transforming what we are doing, or maybe looking at the way the Government is structured might be the way forward. But I think it has been a positive thing and there are certainly some service improvements that have come out. As I said, every one of those public suggestions was reviewed by the Departments and a response placed on the website. So you can see what action has taken place.

640 **Q29. The Chairman:** I suppose I share that element of disappointment with Mr Baker in the sense that the identification of savings from the departmental perspective seems to be, here is something that we might be able to cut or reduce. You very rarely hear the Departments say, actually we can do this an awful lot more efficiently if we approach it from the perspective of disintermediation and the application of technology. In other words I cannot see or hear or

recognise any understanding within the Departments themselves that they have to essentially become significantly more efficient.

645 I recognise all those areas where you are saying there are additional costs at the moment, Brexit and so on and so forth. But there is no strategic determination to say we are going to become a slimmer, leaner organisation. At the moment you are just being apologists for expansion, and that does not – from my perspective – resonate well. If disintermediation is a core principle, then it should be able to express itself in a strategic set of priorities that sit in GTS, which then say, ‘Right, we are working with this Department on that proposal and that will
650 deliver higher efficiency and better service with fewer people to x extent.’

Does GTS have a clear picture of its priorities presented to it by the Council of Ministers as a whole, based on the principle that we are trying to achieve disintermediation?

The Minister: Probably the answer to your question is not necessarily, because GTS would be
655 finding their projects from within the Programme for Government. The SAVE campaign was about – just to take it back to SAVE – that was securing added value and efficiencies. It was not really about cuts. We did not want to bring about cuts. We wanted to, as you have just indicated, find added value and efficiencies. But clearly you have got to attach a figure to that, otherwise it is a pointless exercise – for Treasury anyway – because we are not fulfilling our
660 obligations to properly manage and get value for money.

I think we go back to the issue that has really gripped Government for a while in terms of its structure, and discussions about single legal entities and how people are operating, and whether we could get better results from changing the way that we are effectively doing business with Departments. The answer to that is I think there is evidence now. Again, I appreciate that we do
665 not want to talk about the report that we have just had too much, but the idea of having policy in the centre is attractive and in terms of delivery purposes, I see significant advantages to that kind of centralisation.

When you talk, for example, about capital programmes and the need – at the moment the Departments are very much in charge of designing and delivering their capital programmes –
670 that having a cross-departmental team in the centre, of skilled project managers, engineers, the people you need to deliver these, and harnessing those skills and therefore bringing consistency across Government in terms of the approach, project managing, the skills and also the accountability as well would benefit us, and let the Departments then get on and do the delivery, and I think we really need to start focusing more on how we can improve ourselves.

675 You would not necessarily need a single legal entity *per se* to do that. You could just have the commitment to get on and do it. That would, I think, start to move towards the more cohesive policy that you are talking about, Chairman, in terms of the accountability attached to it.

Q30. The Chairman: Well, that is music to my ears, Minister, I have to say – a delightful
680 comment.

But would you agree that were that to happen, then it would allow the CEOs of Departments, who are trying to be all things to all people in many respects, to have the opportunity to become more like COOs, and then be more able to focus on the actual delivery of services and analyse ways of delivering that more efficiently, which would then in turn come back as an additional
685 increased efficiency in the centre?

Right now, you have got quite complex Departments trying to do all sorts of things and the consequence of that is the higher staffing levels. If you simplify Government along the way you have said, then an opportunity appears for technology to address those operational areas and become as efficient as possible. I am encouraged by that comment, Minister, thank you very
690 much. Shall we move on? Yes? Okay. Oh, and ultimately that would from, GTS’s perspective, they would be given a clear series of priorities rather than, as it were, facing a barrage of Departments all trying to seek services from that Department. Caldric?

Mr Randall: I do not think I have anything to say.

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Q31. The Chairman: Yes, okay. Where does the Government stand on means-testing?

The Minister: We do have means-testing. This is primarily a project that is associated with the Cabinet Office. I think that the commentary that we have previously given still applies. There have been no developments specifically from other Departments as to new charges for services which would require means-testing. I think it is a bit of a misnomer not to think that means-testing does not already apply, because we do apply it and a number of areas.

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We means-test our benefits, for example, we means-test our housing, we means-test for maintenance grants for university education. So at the moment we are not opposed to means-testing but there has not been any further progress, as far as I am aware, in terms of definitive application or extending the application of means-testing other than where it is. As you know, it is incredibly difficult, but I think it is fair to say that it is, perhaps, a naturally evolving process, rather than one that is being forced. It is slowly taking much more effect on public housing as people are coming to the end of their five-year tenancies. That continues to increase as more people are applied and sign up to that type of contract.

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Q32. The Chairman: I suppose my frustration over the reluctance – I think that is a fair use of words there – to examine further opportunities in means-testing, is that it is seen to be unnecessarily complicated, and yet when Child Benefit means-testing was introduced that was not complicated, and it was accepted fairly universally quite quickly. That was on very simple criteria.

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Do you not think that there are areas in, for example, prescription charges etc., where a very, very simple means-testing system could be introduced? I suppose the question is, do you think that means-testing could be introduced simply or do you see it as a complex process?

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The Minister: I do not think it is a simple process. I think that, as I said, for example prescriptions, I would argue that they are means-tested. You get a passported benefit for free prescriptions as part of your benefit allowance, for example.

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The Chairman: Well, I am an old codger, right? I earn a significant amount and I would get free prescriptions. I am not means-tested, and I would be typical of a lot of people who get things unnecessarily allocated because of some crude application elsewhere.

The Minister: I think the broader point though, Chairman, is, to pick up on your point, as to whether this is something that you can have a more concise application for, and as I said I really do think that we have some high-level principles behind means-testing. As we evolve our policies, we will naturally find, where applicable, that means-testing will apply, and I think it is important that we continue to review it. For example, maintenance grants for university, which are clearly means-tested, we are about to hear what improvements are going to be made. We gave an additional £1.5 million to that.

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The benefits that we are means-testing have all been increased, effectively. We had to address a number of issues because they spent a long time effectively being frozen in a number of areas. We have had to put in significant increases and there is pressure on us to make sure, for example in those areas, that the benefit is being properly applied, perhaps to a wider base, making sure that we are in tune with people's earnings levels, for example.

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So I do not think it is a straightforward, black-and-white issue that you can ... If somebody wants to come forward and say a service should be means-tested, then clearly we would look at that. The Department concerned would look at that and come forward with a recommendation.

But means-testing can also be divisive, and people have a reasonable right, I would say, to expect that they are being treated equally in terms of everybody's proportionally paying their

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taxes. Therefore for a lot of services, for example, one can expect a fair application of that service without necessarily means-testing.

750 But look – we have challenges ahead of us, Chairman. The Health challenge, for example, has got transformation or transitional funding set aside for that, but we have clearly got recognition that we may need funding in the future. There is going to be a bigger question about how and where you find that money from, for example. And then one looks at, say, the environmental challenge. At the moment DEFA are engaging in a consultation process, we are waiting for that consultation. But if we accept that we have a climate crisis, then we also, by that, are going to accept that we are going to need to make and fund various changes and look at how we change
755 as a society. Invariably, there is often significant cost attached to that. Do you then apply, or bring in charges? Where do you apply those charges and how do you apply those charges if you are going to change habits? And also, maybe, look at how you might help those who are less able to afford changing to whatever mechanism or building or whatever it is that is being brought forward as a prerequisite by a Government who is presumably setting a clear or clearer
760 policy around the need to effect an environmental change. So –

Q33. The Chairman: I will keep lobbying away on this one. I will batter away until one day there is an acceptance that means-testing can be found to be a simple process and a fair one. But I do not want to labour the point too much this afternoon. You have been very kind on that
765 subject in articulating your view, if we could move on.

And again, I do not want to dwell on this one because you will accuse me quite rightly of labouring this too – as I keep bringing it up – but why are our NI thresholds lower both at the introductory level and the top level? Why do we insist that they stay where they are – well, you are adjusting them a little bit – but the consequences of where we are now is that higher paid
770 people stop paying NI earlier than the UK equivalent, and lower paid people are still by a significant margin paying higher NI at an earlier point in their income receipts. I just wonder, why we will not move on.

I keep challenging your officers on this one and there seems to be, frankly, reluctance to accept the fact that there are ways through this. I have been told there is not, that effectively, if
775 you move it up everybody gets treated the same and the threshold goes up and a significant number of millions of pounds are lost. I went away with that concern and thought well, what does one do? Because the argument was that increasing that the top threshold does not compensate for the increase in the bottom threshold. Given that I absolutely accept that point, I then went back to your officers and said, ‘Well look, keep the threshold where it is, but then
780 treat NI very much like you treat tax and have a rebate for those lowest paid people at the end of the year.’ I cannot see why that would not then work.

So only the very lowest paid who were in the same early threshold position as the higher paid people got recompense for that position and ended up with a bonus at Christmas. That could
785 actually end up – by moving both thresholds that way – in an exchequer position, in a better position than you are now. Why will your officers not address this?

The Minister: I think we have taken steps to address it, because we have listened to you and others and we have taken steps in this last Budget to increase the lower earnings limit. So we have moved forward.

790 I think one has to put into context the fact that on the whole we have a pretty good benefits system, that people generally have access to a broad range of benefits. On the whole they probably offer a better sense of security than they do in the United Kingdom.

Also, I think they on the other flip side of the coin, we have got, and we are moving to – thanks to the previous Government’s difficult decisions and the decisions that we are making
795 now – a greater sense of stability in our National Insurance in terms of the stability of the state pension or the extension, if you like, in years of that state pension fund, and I think that is absolutely incredibly important.

Of course we are now onto the single-tier state pension. People are going to get a good healthy state pension return. That is what we want to get for everybody in the end and it goes back to what we were talking about at the beginning of this conversation, about the need to have that irrespective of what happens with private pensions. So these things require a great deal of thought and bear in mind of course, it is all very well, Chairman, to talk about the UK, but bear in mind also, they do not have the National Insurance Fund that we do. They have not retained the jewel in the crown, they have not protected their access to the state pension in the way that we have.

I think the issue that we have been looking at tackling and addressing has been not resolved but addressed by the other actions that we have been taken in terms of raising, for example, the personal allowances, trying to get more money into people's pockets, increasing the minimum wage, discussions around the living wage, obviously that is still to be resolved, giving people more money for being in work in terms of EPA support, looking at childcare arrangements funding for young children. So actually the broad range of support that we have put around helping the low paid, I think justifies our continued position on the LEL.

If you raise LEL – as you know, it is a triangle – then you have got to *significantly* raise the Higher Earnings Limit in order to compensate for the losses that you are going to get. I think there is more that we can do – and we will look at the LEL again this year – but there are more effective mechanisms in play that will help people. Rather than just ... it is another mechanism to put more money back into it people's pockets.

Q34. The Chairman: But the point I am trying to make – and I do consider it important because we are now talking about the lowest paid people here and I listened very carefully to what your officers had said about the lower earnings limit and raising it causing a significant impact across the board – I came back with a set of responsive ideas, which kept the LEL where it is, but then introduced a rebate scheme for the very lowest paid in the same way as we have tax rebates. I cannot understand how an opportunity to enhance the position of our lowest paid citizens, when combined with the fact that there is no impact at all on the exchequer if you do it, why you will not consider it? I have not had an answer back other than 'we do not really want to do it', and I find that unacceptable.

I am not suggesting that we impact or damage our NI Fund in any shape or form. I absolutely agree with you. We should protect it. But I think we should be more imaginative in terms of protecting the lowest paid people, and if we can do rebates on tax, then we can do rebates on NI if we want to and protect the very lowest paid.

Thank you for saying you would look at it again. It is not about raising everything. It is about identifying the lowest paid employees. I just get the feeling that your officers want to remain constrained by the comfortable parameters within which they sit and I am trying to make the situation a little bit uncomfortable so that they will honestly look at it.

The Minister: Okay. We will look at it – (**The Chairman:** Thank you.) but the issues are, I mean think in their defence, what the officers are doing is trying to protect the National Insurance Fund. Once you start rebates and everything else that may be attached to that, you are going to position yourself to start increasing the level of rebates, because the first year you will do it at x thousand pounds and then the next year you will be forced to raise that again and we will be on an ever-decreasing circle.

I am only just highlighting a risk, Chairman, that is all, of what the implications of that type of measure are.

What I will commit to you is I will consider what you are saying this afternoon (**The Chairman:** Please.) and look to consider the justifications and why and what else in the context of doing that, because we are all committed and have committed and I think there is absolutely clear evidence we have committed, to helping those who we three years ago recognised were in trouble.

850 I absolutely do not sit here on my laurels, from a Treasury's perspective, saying that job is
anywhere near over. We just also have to be considerate of the greater risks of the action, and
one always has to consider the longer term impact of taking that sort of measure, which sounds
in principle positive, but one would presumably build some sort of inflationary pressures then on
to that rebate scheme, because there is just no question that the demand for that to be
855 inflationary proofed would be –

Q35. The Chairman: Okay, well I cannot do anything other than thank you for being willing to
look at it. So perhaps, on that, we had better move on it.

I know we have promised not to – I keep getting tempted to! – (*Laughter*) we have promised
860 not to look at this incredibly important Health Review which you commissioned. But there is one
point which reaches over and touches this issue about budgetary forecasting and that is Sir
Jonathan's sensible comment that really, when you are trying to structure the cost forecast, you
work on a, I think he said, four-to-five-year cycle, disconnected, as it were, to the administrative
election process, so that there was a certainty going forward. It was really going back to the last
865 administration that got the then Treasury Minister to – for this reason, and for the reason of the
introduction of the public sector pension costs as the reserve dried up – that had me believe
that we needed to have significant five-year forecasts as to where we were going.

I suppose the disappointment for me is that in terms of these five-year forecasts, it has never
really materialised in a true expression of the actual cost of Health. What we have had is each
870 year a forecast and then retrospectively we have had to adjust by £11 million, £9 million –
whatever it is – on the Health side.

Can you give me some assurance that we will keep on with these five-year forecasts? The
number of years you forecast this time dropped: it was supposedly a five year forecast; it was
not. If you look at the Budget, the Pink Book, it dropped. I do not know why, but you lost a year
875 somewhere. I do not know whether you are trying to sort of progressively reduce the number of
years forecasted, but can you commit to staying with this five-year forecast in the Pink Book?
And that in future – there are two big total costs that you have, one is employee costs and the
other is the non-employee cost – can you assure me that the future five-year forecasts will
remain and that they will in future represent the true expected increased cost in Health?
880 Because then that gives a more accurate understanding that Tynwald Members have got to face
up to, and the degree of challenge that we have truly got.

The Minister: I will hand over to the Chief Financial Officer because he is likely to be in post
longer than I am but – (*Laughter*) certainly from our tenure, this is an absolute crux of what we
885 are trying to achieve, because we have got an absolute clear recognition of a problem that is
coming down the road in terms of the public sector pensions. So the necessity to have a five-
year forecast is vital and also brings with it certain benefits such as the one you have just talked
about, about potential recognition (**The Chairman:** Focusing minds.) of problems in front of us.

If I can just touch on the Health one, yes, we will need to consider how Health is planned into
890 the Budget. Whether or not we absolutely understand how we are going to find that money, in
terms of where we are going to get it from, but we do need to get it into the Budget so that
people recognise the challenges that are coming down the road from us.

Obviously, in the context that we are talking about now, we have committed to funding that
transition already and once we get some clarity, there is a lot to be sorted – and again, I do not
895 want pre-empt the debate, but as you know there are a lot of other issues to resolve before we
get real transparency and clarity around that issue.

Caldric, do you want to – ?

Mr Randall: So it is produced out of five years at the beginning of this parliamentary term
900 because it covered the five years for this administration. What we planned to do was to drop it

back by a year. So we would have been back to three by now to coincide with the end of the parliament.

But obviously because – if you cover up the last column – when the pension reserve is depleted, everything looks fine. So that it was rationale in there, to give us the view to go longer.

905 We do not want to hide anything, I think it would be down to the next Treasury Minister, whatever one next time around, but we are certainly forecasting out.

Q36. The Chairman: So what do you say then Caldric? Are you saying that as you get closer and closer to the next election the forecasting will be fewer and fewer years? Because that is not
910 how the last Treasury Minister worked. He left office with a five-year – (*Mr Randall:* Three years.) It was with five years –

Mr Randall: That was the first we brought it to five because it coincided with the end of the depletion of the pension reserve.

915 So what has happened here is because of the re-forecasting – because of the actuarial view – that actually this time, or the time before, the depletion of the pension reserves pushed out another year. So that is why it has gone back –

Q37. The Chairman: So what you are saying is that you are not going to adhere to the five-
920 year forecasting programme then? Because you should be forecasting into the next administration.

Mr Randall: So the other thing is – we have had this discussion before – it is not a forecast; it is a plan. So the Minister said that obviously there is some work to be done around Health forecasting etc. to see where we are realistic. It is a plan. There are a range of possibilities and factors you put around this that would give you a kind of funnel on this, wouldn't it? It is a plan to take us to a position where we can cope.

Q38. The Chairman: Well, the last Treasury Minister – sorry to talk over you, I apologise;
930 doing what I am asking everybody else not to do! – but this thing that it is a plan, when did this appear? Because it was always called a forecast –

Mr Randall: It has always been a plan, a five-year financial plan.

Q39. The Chairman: So are you going to plan, as you should do, beyond this administration?
935 Because the whole point – I know we have promised not to talk about Sir Jonathan Michael, but the very point he makes – is that you do not want what is happening to be nailed to a particular administration. It has to have a life 'longer than'. What you are saying is, 'No, we are not going to do that.'

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Mr Randall: We can give a prediction out, that is right. But as you know, a different Government might have a different view on priorities and their policies and then change them. There is no desire on our behalf not to provide any further information. So we will push that if we think it is useful.

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The Minister: But I think the point is – and we do need to be clear on this – there is a difference between them, because that would be a forecast rather than a plan. The plan was absolutely to address... we had to take measures – I think is this a critical point – the plan was, we have recognised from a Treasury perspective that I could not just walk away and leave the next administration with a massive hole in their bank account in terms of the public sector pension. We absolutely had to take steps.
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955 We had to plan, because that was the critical element of the deficit in terms of eating into the reserves as to what to do. And that is why we absolutely took a number of measures around this including capping the pension contribution rate at 15%, bringing forward the SAVE programme, building in the restraints that we have put into this Budget.

960 So what I think the Chief Financial Officer is saying – and I concur – is that actually, yes, we could build out now into the next administration – which we have to a degree because we put one year in already – (**The Chairman:** Yes, exactly.) we could put in years two and three, but one would take an inflation-based forecast that would then have to be open for the next Government to consider and adjust and change is as appropriate. That is effectively all that we are doing. We are not necessarily committing; we would simply be highlighting areas.

965 But there also is some difficulty, because if you build in Health for example, and let us say we make an assumption of millions of pounds' worth of extra spending, one might then be potentially just accepting that you are declaring a deficit in that year in 2024, and it would be up to the next administration to address it. So it is going to get a bit complex because it would not be for ...

970 I have set out our financial plan to address our deficit and I hope provide the absolute platform for the next administration, whoever comes next, and in whatever capacity to build on that and deliver success. But it is quite hard to recognise three or four years in advance how the next Treasury Minister or the next group of politicians, whoever they may be, will decide to set about designing public finances to achieve everything. So it is just a basic forecast because I do not think you can necessarily countenance five or six years into another administration when you are going to have a series of manifestos and different policy commitments coming through from a –

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Q40. The Chairman: Yes, but are those manifestos in future – and I will not be there because I retire at the end of this House – those manifestos, which they then walk into the House with once elected, are they going to be ignorant of the degree of challenge that exists?

980 I accept the point that forecasting beyond this House and this administration is indicative, but it would be an honest indication, because – back to the Health Review – Sir Jonathan Michael says that you need to have more of a forecasting system. Perhaps I am being a little bit –

985 **Mr Randall:** I think he was talking – I am sorry to interrupt you – about a financial settlement, wasn't he? And looking at the way that we give, because obviously we provide some indicative ... a plan, if you like, for four to five years, but Tynwald only approves the Budget annually. So it is an annual approval.

990 What I think he is trying to say is you should have a longer-term view ... But you know as well as I do that things change. You need to maintain that flexibility within it. So that is something that we will look at.

995 **Q41. The Chairman:** Yes, but you see, what I am saying is, if you adopt Sir Jonathan Michael's thinking about trying to understand the degree of challenge – and he has described that, and I am sure you sign up to it – which is that there is an inflation level and there is a cost escalation level, if you do nothing he said, 'This is what your cost is going to be.' You should not just present that to the current Members but you should throw the challenge out to the guys to the left and right of me who will be standing for election next time. They should know what they are going to be up against if they do not do anything.

1000 So the question is, what is it that they want to do and what is it that they are going to tell the public they want to do to meet those challenges? It does not just stop at the end of the House; it is only the next stage on, and there surely has to be a clear understanding of the degree of challenge that exists beyond this administration? It might be you that is the next Treasury Minister, for example.

The Minister: Well, it may well be, but who is to judge?

1005 I think there is no reason why we cannot build in that additional year-or-so's forecast as we progress forward, but then we move from the plan to the forecast and we may well have to start differentiating (**The Chairman:** Fine.) because I want to be absolutely clear on what our commitments are to this Tynwald, versus what the forecast is then showing. But –

1010 **Q42. The Chairman:** I accept there should be caveats attached to it, but the degree of challenge that the Members face should be understood by them. Otherwise there might be an unwillingness to address some of these challenges because they do not understand how serious they are. That is my point really, but thank you for taking that on board. I am clearly being asked to move on here.

1015 The last point before we close, unless there is any other ... ? No, that is not for this one.

What is the Treasury's position on reviewing nursery care provision? We set the threshold some time back now, didn't we? Below a certain figure you got everything, above a certain figure you got nothing, in terms of revenue, and then there were a couple of steps in between, as I recall. I cannot remember. I set it up, but I set it up at a particular level and as inflation bites in, the non-arrival of Child Benefit in a family is beginning to eat into their income. Are you thinking that you want to look at that again in the future, or would you consider looking at it?

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The Minister: In terms of nursery care provision, I think we did make commitments in the last Budget ... or the Budget prior to that, in terms of increasing the credits that were available (**The Chairman:** Yes.) for pre-school, effectively, to enhance their ability to go to nursery supervision. Clearly there are childcare allowances that are in play, if you are claiming Employed Person's Allowance for example, and I think that it is a matter really that both DESC and DfE are looking at in terms of their planning in the future.

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But we are happy to go back and back review that, yes –

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Q43. The Chairman: We need to look at that again, just review it, because as inflation continues, if we kept the thresholds the same – and I fully accept the fact that you took significant action not this time but the time before – but constantly inflation will eat into those thresholds. In a sense you always recognise this in tax allowances. You have been fulsome there in adjusting tax allowances. I just think that from time to time you need to review the thresholds for Child Benefit, so that it does not just get stuck, and more and more people get sort of sucked into –

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The Minister: Yes I think we have recognised (**The Chairman:** Okay.) the Child Benefit aspect and we will be having a look at that is part of the Budget planning process for next year.

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The Chairman: Right, it is now five past four. Gentlemen, anything else?

Q44. Mr Moorhouse: Can I just ask a quick one? Is there any date where we will have an update on VAT arrangements?

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The Chairman: You have done that.

The Minister: I did cover that. As I said there is no specific date unfortunately. I cannot give you an absolute final day. I think I am working on the basis that we are likely to hear it before the Budget next year. Sorry that there is no precise clarity, but that is just the way the negotiation process is taking place.

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Q45. The Chairman: What is it called? FERSA is it?

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The Minister: FERSA yes, Final Exchange Revenue Sharing –

Q46. The Chairman: Is it still a two year notice either way? Does that still apply?

1060 **Mr Randall:** I believe so.

The Minister: As far as I understand yes.

1065 **Q47. The Chairman:** Just one bears in mind the fact that if there is a profoundly significant change in the government in the UK, that is all.

I have enjoyed the exchange this afternoon. Are there any closing remarks that you have got before we should shut up shop?

1070 **The Minister:** No, Chairman, thank you very much for your time.

The Chairman: And thank you for all your time. Much appreciated.

That draws us to a conclusion and will now go into private session. Enjoy your evening. Thank you.

1075 **Mr Moorhouse:** Thank you.

The Minister: Thank you very much.

The Committee sat in private at 4.08 p.m.