

Chief Minister's State of the Nation speech

Alliance of Isle of Man Compliance Professionals

Annual Conference

Friday 24 January, 8.50am

Ladies and Gentlemen,

I am delighted to be here this morning to share with you my view of the State of our Nation and the actions we must take to ensure its long-term future.

Whilst this conference has moved away from its weather-related themes of recent years, the Isle of Man has certainly experienced its share of environmental extremes over the past 12 months. We suffered our worst snow storms for 50 years in March last year and severe tidal flooding just three weeks ago.

Our resilience, resourcefulness and strength of community spirit has shone through during these challenging times and underlined once again how difficult situations can be overcome if we all pull together.

In a wider context, those qualities have helped the Isle of Man to successfully negotiate further turbulence in global markets – and a period of intense scrutiny of the Crown Dependencies

and Overseas Territories – to cement our position as a well-respected and responsible international business centre.

Indeed, since I last spoke to you, the climate has changed significantly in terms of how the Island is viewed.

It is only five years ago that the Government of the United Kingdom looked on us unfavourably.

However, recent developments have, I believe, strengthened our position as a cooperative and forward-thinking member of the global community.

Our firm leadership and positive engagement with international agendas and standards have earned recognition at the highest level and glowing endorsements from organisations such as the G8, OECD and IMF.

Prime Minister David Cameron said in Westminster that the Isle of Man had demonstrated a clear commitment to tax transparency and should not be described as a tax haven.

And Chancellor George Osborne welcomed the signing of a FATCA-style agreement between the UK and Isle of Man as a 'momentous step forward in tax transparency.'

This transformation of the Island's international reputation has not happened overnight.

We have been at the forefront of regulatory developments for more than a decade, thanks in no small measure to the hard work, cooperation and understanding of people in this audience here today.

I would like to take this opportunity to offer my personal gratitude for your support, as it plays such a crucial part in our continued progress and prosperity.

The bond between the public and private sectors is without doubt one of the Island's greatest strengths.

That partnership may have been tested by the pace of recent reforms, but my Ministerial colleagues and I value your outstanding contribution and hope we can count on your continued support in the years ahead.

Together as a nation, we have demonstrated our willingness to be part of the solution in terms of combating tax evasion and fraud.

We recognised at an early stage that the nature of tax co-operation was changing and that automatic exchange was becoming the global standard.

By showing international leadership and responding swiftly and positively to this evolving agenda, the Isle of Man has sought

to give the business community clarity and confidence about our direction of travel.

In October we became the first country, other than the United States, to sign a FATCA-style agreement with the UK. This built on my constructive meeting with David Cameron in June at a pre-G8 event on trade, tax and transparency.

The Isle of Man has also joined a G5 pilot project for future multilateral tax information exchange – and only last month I attended the US Embassy in London to sign an intergovernmental agreement with the United States to improve international tax compliance and to implement FATCA.

These are logical and carefully considered steps towards a single global standard, which will lead to greater tax transparency while minimising bureaucracy for business and government.

To attract new investment in an increasingly competitive international marketplace, it is vital that we continue to promote awareness of the Isle of Man as a well-regulated nation, with a high quality corporate offering.

That message has been reinforced by the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes, which has awarded the Island the top 'Compliant'

rating – making us one of only 18 reviewed countries across the world to achieve the top rating.

And our progress in further strengthening our anti-money laundering regime in line with international standards has received fresh recognition from the Council of Europe's 'MONEYVAL' watchdog.

A world-class regulatory environment is just one of the many factors that has helped to keep the Isle of Man economy in positive territory during a period when many other countries have been in recession.

In my autumn statement to Tynwald I placed growing the economy at the very heart of my vision for the Isle of Man.

It is essential in order to support our other national priorities of rebalancing public finances and protecting the vulnerable.

Economic growth will also underpin future job opportunities for our people, especially our young people, and help to maintain public services and overall living standards.

There will be some major challenges ahead, but we are building from a position of relative strength.

The National Income Accounts released by Treasury confirmed a 28th year of continuous growth for the Isle of Man.

The Island is now ranked in the top 10 by the World Bank out of 214 international economies in terms of Gross National Income per head of population.

And our Gross Domestic Product has increased by 7.9% in cash terms to become the largest of the Crown Dependencies for the first time.

We have a record number of people in employment and indications are that the Island's economy is currently growing at a rate of 3 to 4%.

However, against this backdrop of largely positive news, I must sound a note of caution.

We must also recognise that while many of our international-facing businesses are flourishing, other sectors are entering a period of restructuring. And the local economy – including the construction and retail industries – is continuing to struggle.

We have seen some banking and fiduciary businesses rationalising their operations in recent times, resulting in job losses in the Isle of Man. Further cuts are likely as the whole structure of offshore banking undergoes major reform.

The impact of the Vickers Report into banking will be hugely significant for the Island and we have been working with

business leaders, the UK Government and the other Crown Dependencies to achieve the best possible outcome.

We have also remained in contact with the UK Government over its consultation on beneficial ownership and the potential introduction of a public register in the UK.

We have reiterated the merits of the Isle of Man's regime, which has been in place for more than 10 years. We are ahead of most other countries in this respect and await the UK's recommendation with interest.

However, this is an issue the Isle of Man will not be taking a lead on. We need to see meaningful implementation across the G20 before we consider any changes.

As a Government we are committed to driving investment to the Island by providing an environment for businesses and entrepreneurs to flourish.

We are actively pursuing opportunities in many other countries and in March I will head a delegation visiting China to highlight the Island's diverse business offering.

We will also have strong representation at the International Festival for Business in Liverpool, which will take place over 61 days in June and July. The Isle of Man has taken a stand at the

event and will work in partnership with local businesses to showcase the very best of what the Island has to offer.

We are well aware that more and more countries, large and small, are chasing the same opportunities.

And while the Island's impressive performance over the past 30 years is grounds for confidence, it is no guarantee of future success.

We must refocus on what makes us stand out from the competition. To put it simply, we have to be the best to win the business.

To ensure we move forward with purpose, the Department of Economic Development has developed Vision 2020, with strong input from leading members of the business community.

This strategy will be officially launched on Monday.

It signposts the way forward for the Island's economy and recognises that we must remove unnecessary barriers to enterprise, innovation and growth. We must also prioritise resources to develop the skills the economy needs.

Encouraging progress has already been achieved, but more needs to be done.

I am conscious that we cannot rely on economic success alone to rebalance public finances.

The pressure on Government budgets is intense and our response must be bold and innovative.

I know the private sector has looked to Government to lead by example and accept some of the pain that has been felt elsewhere.

I can assure you that we have been working towards creating a leaner, more efficient and more customer-focused Government for some time.

Over the past five years, we have cut the number of public sector posts by more than 500. And we will continue to target further reductions of at least 100 per year.

We have also sought to reduce Government expenditure by containing our salary budget.

Our overall employee costs peaked at £316 million in 2010-11. This figure fell to £312 million in 2013-14, and it will be lower again in 2014-15.

Had salaries kept pace with inflation during this period we would now be looking at a bill of £361 million in 2013-14, or £371 million in 2014-15. That's a difference of £50 million in the current financial year, or at least £60 million by next year.

My proposals to modernise Government, which were unanimously approved by Tynwald Members on Tuesday, are another important step in the streamlining process.

This radical overhaul includes the creation of a new Cabinet Office and a new Minister for Policy and Reform. This will greatly strengthen our ability to drive forward the changes needed to safeguard the Island's future.

The central coordination of policies will help to remove any last traces of silo thinking in Government and achieve a more joined-up approach to the challenges facing the Island.

Similarly, the merger of the Manx Electricity Authority and Water and Sewerage Authority is aimed at securing the long-term sustainability of the Island's public utilities.

The two balance sheets will be brought together, with the intention that a single Manx Utilities Authority will trade at a surplus by the end of 2019-20. Its assets will exceed its liabilities a further 4 years after that.

This will provide a way of servicing and ultimately repaying the MEA's outstanding debts, without the need to write off Government loans, sell off parts of the business or impose significant tariff increases on our residential and business customers.

There is also the potential to make substantial operational savings by sharing accommodation, centralising a number of staff functions and streamlining in areas such as procurement, IT and fleet management.

Overall, the modernisation of Government will create further opportunities to cut bureaucracy, review management structures and roles, and to slim down our workforce.

I believe the new structure will provide a platform better suited to deliver the much-needed reforms identified via the Scope of Government Review, which has looked at more than 140 different services and functions.

I also want to use the information we have gathered to start a national debate about the provision of Government services – and I want you to have your say.

It is important to realise that two-thirds of our net expenditure is invested in health, social care and education.

Our aim is to make the funding of these services more sustainable in the longer term and this can only be achieved through fresh thinking and positive action.

Our society as a whole must work together to address a number of major challenges – not least the issues associated with an ageing population.

For example, it is estimated that health spending on the over-80s in the Isle of Man will more than double over the next 20 years. That's a rise from £25 million today to £52 million in 2035 – more than the entire annual budget for some Government Departments.

That is an indication of the scale of the issues facing the Island.

We must also be in a position to respond to any external threats, including the possible shift in dynamics within the United Kingdom and Europe.

The vote on Scottish independence takes place in September and the outcome will have implications for the Isle of Man – regardless of which way the result goes.

The UK's future relationship with Europe, and the possibility of an in/out referendum in 2017, may also have a significant impact on the Island. We rely on the UK to represent our interests in the EU and our senior officers will continue to closely monitor developments.

Locally, this year's Budget, to be announced by the Treasury Minister on 18 February, will confirm that Government is still on target to rebalance public finances by 2015-16.

This is being achieved through careful and increasingly collaborative management across the whole of Government.

But this is not the finishing line. In the medium term we must shift our focus to sustainability, as upward pressures on public expenditure will not go away.

Let me be clear. The current NHS model is unsustainable and unaffordable in the long term.

Similarly, the costs of social care and maintaining an acceptable level of state retirement pensions present us with huge challenges – over and above simply rebalancing our budget.

It's a time for tough decisions.

We will try to be as open and transparent as possible, so that people can understand the reasons behind Government's decision-making.

Progress will be achieved by working together and demonstrating the enterprise and innovation that have stood the Isle of Man in good stead for many years.

We must continue to be positive, celebrate success and invest in our future with confidence – something I am sure will be a focus of today's event.

I would like to thank you again for your contribution to the Island's economy and thank the organisers for their hard work in hosting this important conference.

I hope you all have a productive and rewarding day.

Thank you.