Building the foundations for a sustainable future

Madam President

Since 2011 we have been working hard to reduce the impact on our Island from three major events.

First, the reduction in VAT to our revenues of £200m.

Second, the worst global banking crisis since the great depression.

And finally, a slowing down of our domestic economy as a result of the first two events.

And yet despite this we have completed phase one of our rebalancing strategy and have achieved a modest surplus on this year’s revenue budget.

We have also maintained growth – our GDP continues to grow at a rate that would make many other western economies envious.

Our current estimates tell us that we are looking at a growth rate of around 4%.

But we now need to move on.
So today, as part of our Agenda for Change, I am setting out a plan to actively encourage more inward investment, create jobs and grow our economy.

Madam President.

The document you have before you sets out the Council of Ministers’ priorities for the remainder of this parliament.

But it also looks beyond the short term.

It recognises that if we are to ensure a sustainable future for our Island, then we must further lay the foundations for fiscal stability and further economic growth.

I am confident that we will be able to make this change happen.

We have done it before and we can do it again.

But we must not underestimate the challenges that face us.

In the UK, proposals for further devolution of powers to Northern Ireland, Wales and Scotland, and the creation of a northern powerhouse all present us with increased competition.
In April, the UK’s rate of corporate tax was reduced to 20% and will fall to 18% by 2020.

To our west, Ireland has the fastest recovering economy in the Eurozone and a corporate tax rate of 12.5%.

For too long we have seen our traditional competitors as other crown dependencies and the overseas territories.

We are now competing on a global basis, where Ireland, Singapore, Hong Kong and the UK are looking for business in similar markets.

If we are to compete effectively, we must extend our horizons further than we have done before.

Honourable Members.

The uncertainty regarding the UK’s relationship with Europe is a continuing concern to Council.

Many of our businesses here depend on our trade links into Europe and we want to see that relationship retained.

We continue to be subject to further scrutiny and review.
Next year the Island will be subject to an assessment from MoneyVal.

This exercise will ensure we are meeting international standards on anti money laundering and combatting the financing on terrorism.

This will be a demanding process, looking not just at our policies and procedures but of the actions we are taking to make them real.

We have become internationally recognised for our drive towards transparency and our ability to meet global standards.

But we must not become complacent and will continue to defend our interests while ensuring we remain competitive and compliant.

We must now focus on the things which will help us to achieve our longer term goals:

To maintain economic growth, which creates jobs and brings investment to our Island.

To strive for sustainable public services and a reformed welfare system so that Government is living within its means;
And to continue with our commitment to protect the most vulnerable in our society.

**Priorities**

Therefore our priorities remain as they were at the start of this parliament:

Grow the Economy

Balance the Budget

Protect the Vulnerable

Honourable Members, economic growth must be the foundation of our future.

It is only in partnership with the private sector that we can make this happen.

It is no secret that businesses here value our political stability and our flexible approach to new enterprise.

Our competitive tax environment is also a key part of that offer.

The Council of Ministers is committed to retaining these features of the Isle of Man.
In particular, we have no plans to change the current zero-ten rate of corporate tax which has been central to our economic growth in recent years.

We now need to bring more jobs and investment to our Island. Meaningful jobs with good prospects for our school leavers and graduates. Jobs which attract people who want to come and work here and be part of our community. Jobs and investment generate taxes, which in turn help to support Government services.

This is why I am asking every part of Government to work together to support our plan for future growth. Last year we created 368 jobs. But we must do more. There are those who may ask why we need more jobs when unemployment is low at 1.7%.

Madam President
Over the past three years, the numbers of people in employment have steadily decreased.

Current figures show a drop of 775 people, or two percent of the working population.

This is why we must focus on job creation.

And we must be ambitious.

We must aim to increase our working population by 500 to 1,000 people each year.

It is vital that the economically active population continues to grow. In less than ten years’ time, over twenty percent of our population will be over 65.

In 1980, the average man spent five years in retirement and the average woman spent eighteen years in retirement.

In 2013, it was fourteen years for men and twenty years for women.
We are also facing increases in demand on our health and care services, which already account for a quarter of our budget at £250 million.

I will say again for clarity Honourable members.

We need to grow the economically active population to support these increasing costs.

It is important to say that, as I’m sure many honourable Members around me will agree, just because you have reached the state retirement age, it does not mean you no longer have a contribution to make to our economy.

As my colleague, the Minister for Policy and Reform has told us, the Council of Ministers has approved a new policy on active ageing.

This will support older people to keep working for as long as they want and are able to, making sure there are opportunities for all ages in our growing economy.

Madam President
We have had the foresight to invest in a robust infrastructure which can support growth.

We now need to put in place policies that create more jobs.

I have spoken many times about my desire to increase the level of investment into our Island.

Medium sized businesses of fewer than 100 employees account for 69% of our private sector workforce.

It is clear that entrepreneurs and businessmen and women are the engine room of our economy.

They generate economic value, create jobs and re-invest into the economy through innovation and hard work.

That is why our plan will create an environment that nurtures entrepreneurs and innovation, and targets investment that drives growth.

Last year Tynwald approved our Vision2020 strategy for economic growth. The Enterprise Isle plan is part of that strategy.

There are four pillars to our plan. They are:
- Creating the right environment for business to flourish
- Making Government more responsive to the needs of business
- Increasing tax Incentives for businesses to help them grow, AND
- Investing in our future

I talked before about our thirty one years of unbroken growth.

That growth was built around an economic framework that is strong, innovative and fit for purpose.

But today we must build on that success and drive forward further diversification and growth in our economy.

Diversification has been key to our success in the past and has helped us to avoid recession where others have not.

We need more new sectors to make the Island their home.

**Creating the right environment**

The first part of our plan for Enterprise Isle is to create an environment where business can flourish.
That means getting our regulation right and making Government more responsive to the needs of our partners in the business community.

It also means that our infrastructure is designed with business in mind.

Insurance is now the largest of all our sectors. We must ensure they remain competitive and compliant for the future.

The regulator has issued a consultation on how best to achieve this and is working closely with industry to get this critical balance right.

As we know, there are many pressures from around the world facing our banking sector.

The recent consultation on banking will help inform a new regime which aims to better support this vital part of our economy.

This will create a future banking infrastructure which meets our business needs now and in the future.

Our entrepreneurs have told us that they are also looking outside of banking to secure the funding they need to grow and evolve.
Therefore we will introduce new regulations to stimulate crowdfunding and set out a new regime for banking within the next twelve months.

We are also making sure that our existing framework is still fit for purpose.

One of the comments we get frequently is that the ‘know your customer’ governance is complex and time consuming.

The FSC have published new, and simplified guidance on KYC.

This will enable digital verification of identity for the first time.

This means that sign up times for new customers can be reduced from weeks to hours, giving our financial industry a clear edge against competitors in other markets.

This pioneering approach will better support the private sector when they are conducting business overseas, while maintaining our strong regulatory reputation.

Last year we committed to merging the Insurance and Pensions Authority and the Financial Supervision Commission.
The two bodies have served us well in the past, but we must continue to look to the future.

I believe the new merged body will continue to provide the robust regulatory regime for which we are known.

But it will also bring together the skills and experience from both the IPA and FSC to support further growth and innovation in our key industries.

We are well underway with this work and expect the new FSA to be in place by November this year.

Honourable Members

Our businesses need space to grow and expand.

If current rates of land take up are maintained, we will run out of development space for business, in the east of the Island, within the next three years.

We have already started to address this.
The Department of Infrastructure will very shortly be asking landowners to nominate sites which they think should be considered for employment development.

The Department will review the proposed sites and bring forward development orders to Tynwald so that they can be established quickly.

We also need to make sure our nation’s capital sets the right tone for economic development.

The Central Douglas Masterplan presents a vision for the town centre as a modern and dynamic place to live and work.

The first steps in making this vision a reality will be the development of the two strategic sites on Lord St and Parade Street.

We will appoint a preferred developer by October 2015.

Although development of the capital is important, we want to make sure that all parts of the Island play a part in our economic growth.
So the Department of Economic Development is also developing a master plan for the Ronaldsway Area.

This will bring together the economic opportunities for the area and allow the sites to be marketed more effectively.

In September next year, the regional sewerage treatment plant for the north will be online, which will unlock further capacity for development in the area.

In the West, our £3m investment in the food park in Peel is providing a genuine return, with up to two hundred people working there at the peak of the season.

The regions have an important part to play in making growth happen.

Last month I announced a pilot scheme to widen the remit of the six Local Regeneration Committees across the Island.

In future, I want them to take a greater role in improving their respective towns and villages.
They should be empowered to identify development sites, undertake marketing of the towns and encourage investment.

We have also invested £1m in a new state of the art engineering training facility, based on the needs of our industry here.

All twelve students on the current course have already received job offers and will take up their new posts by the end of this year.

Demand for the next course has already increased three fold to 36, and we expect a similar outcome for these students.

**Working with Government**

If we are creating new jobs, we also need to make sure the work permit system is fit for purpose.

Many people in business have told us that the current system is not working well.

The new Control of Employment Act, which comes into force in October, will address many of these concerns.

We have carefully balanced the interests of employers and Isle of Man workers with a system that will help drive economic growth.
We need to give a much greater degree of certainty to local employers and prospective skilled workers who want to move here to take up employment.

So, from October, Work Permits will now be valid for a period of five years, instead of requiring annual review as is now the case.

We also want to make it easier for the spouse or civil partners of permit holders, or those exempt from work permits to work here too.

If you legitimately come to work on the Island, then your spouse or civil partner should be able to work too.

The change will give more flexibility, and will help make the Island a more attractive place for employers and potential investors.

Reducing bureaucracy is just one part of our approach though.

A key part of driving improvements to Government will be the use of digital technology.

We need a step change in the pace at which we develop our online services.
As part of the digital strategy, we have prioritised the development of key online services for businesses, including work permits and companies registry.

By October we will have launched a modern companies registry platform. This will provide the foundation for making our companies registry more transparent and open.

It will also mean that within twelve months we will have the ability to incorporate a company online within fifteen minutes, either through our online services or directly from business to Government.

**Tax Incentives**

The next part of our plan for an Enterprise Isle is about tax.

Madam President, our taxation system must work to support growth.

I know that there have been questions and challenge from industry over the recent changes to land and property taxation.
I do not apologise for trying to ensure we maintain our income from this sector nor for making sure we keep revenues on Island from our overseas investors.

But I accept that we do also need to encourage new developments, as well as those that improve and enhance our existing commercial properties.

That is why Treasury will open the zero percent tax holiday to new commercial construction projects, land developments and property improvements.

This means those that would have paid tax at 20% on this type of development can now benefit from a 0% rate of tax for five years an even better position than before the Budget changes this year.

We want this scheme to create local jobs and so the holiday will apply to commercial developments including hotels, restaurants, office space and industrial facilities.

This is a double whammy - we will create more jobs in the construction of these units and more jobs again from the people who come to work in them.
But property is only one area for growth.

We must encourage investment in other businesses which create local jobs.

We are therefore committed to introducing new tax incentives for individuals who make debt or equity investments in those local businesses that can generate new employment opportunities.

Investing in business always carries risk so if you back a local business by lending it money, tax exemptions will be available in relation to the interest you earn.

Investing in shares can carry more risk so we will introduce generous tax incentives in this area too.

I will bring forward more information in October on both these schemes.

Experience tells us that there are those who would abuse the tax regime despite the low levels of tax we enjoy.

Therefore, officials will be working hard to ensure that the schemes achieve the intended results.
Over the coming months, the Treasury and Economic Development Ministers will work together, to bring forward further proposals which encourage investment and jobs growth.

These will be ready for next year’s budget.

We are also pressing ahead with our plans for further simplicity in our tax system, reducing red tape and bureaucracy.

The changes announced in this year’s budget by the Treasury Minister will mean that up to 20,000 people could soon no longer have to fill in a tax return.

This will increase efficiency in Government and free up time for people at home who will no longer have to fill in forms.

**Investing in our future**

Tax incentives are just one of the building blocks laying the foundations for our future financial security.

We also need to invest in the people that create jobs and wealth for the Island.
Since 2009, business lending in the Isle of Man has reduced by over half, to around five hundred million pounds.

Local resident bank deposits have fallen by £1 billion to £4.2 billion in under five years.

Madam President, each year Government invests around £5m in business to support economic growth.

This investment generates a further £10.5 million in private sector funding.

But we have to do more.

That is why, today, I am announcing that I intend to consult on the creation of a new Enterprise Development Fund.

Subject to the will of Tynwald, we will commit £50million over five years, in direct Government funding, plus a range of other measures, to this fund.

This fund and other measures will be designed to support businesses at all stages of their development.
It will help young businesses to get going, providing grant based support to our local start-ups and small businesses.

It will help those Isle of Man based companies who are entering the next phase of their growth by offering loan and equity support through an Accelerator scheme.

And it will help larger businesses wishing to relocate here, or to commercialise business ideas from here, through Government investment and partnership.

This Fund has two main objectives - to create jobs for our people and to generate a real return on our investment.

The real shift in emphasis, is that in some cases, rather than just offering loans, we will be taking a stake in the company, on commercial terms, of up to 25%, although the scheme will offer flexibility to respond to exceptional circumstances.

I anticipate that our investments will, in general, be less than £1m per company.

This means that both Government and the company will share a joint commitment to ensuring the success of the venture.
The fund will be managed by an experienced private sector firm and we are today inviting expressions of interest for that role.

At the same time, the Treasury and the Department of Economic Development will commence a Public Consultation to run through the summer.

We will launch the fund in the final quarter of this year, subject to Tynwald approval and feedback from the consultation.

This is a long overdue and necessary initiative to allow us to remain competitive.

I hope Members will support this groundbreaking initiative.

Council has also given the go-ahead to the Manx Utilities Authority to develop a business plan that will seek to further exploit the fibre optic cable and infrastructure which we own.

The project will add more capacity for internet communications on Island.
There will be an initial capital investment, but the initiative has the potential to act as a catalyst for further economic growth and provide a return to Government.

So to summarise our plan for growth:

We will create the right environment for business to flourish.

We will create new regimes for banking and insurance within the next twelve months which support further growth.

We will support innovative approaches to business financing like Crowdfunding.

We will launch a new, world leading, digital approach to Know Your Customer regulations.

We will make sure there is enough land for business to grow and thrive.

We will be more flexible in our approach to work permits.

We will prioritise the development of online services for business.
We will use our tax system to support growth, including a zero rate tax holiday for construction and tax relief for those investing in Manx businesses.

We will invest £50 million in supporting business to grow and create jobs through our Enterprise Development Fund.

This plan is designed to accelerate the work we are already doing.

It will provide a legacy for jobs creation and opportunity for all.

It will help secure the quality of life we treasure so highly and will ensure that the Isle of Man will live up to its credentials as a place ‘where you can.’

Madam President.

Economic growth will be our engine, but we remain focussed on protecting the vulnerable.

We have seen a continued fall in unemployment.

In the last 2 years Government has spent an additional £500,000 on helping people back into employment.
Over 200 people are now back in jobs, contributing to our economy, paying taxes and reducing the burden on our welfare state.

It is important that everyone is given a chance to contribute to our future prosperity.

We raised the Minimum Wage by 3.9% last October for those aged 21 and over.

And we are reforming the welfare system to make sure that work pays more than benefits.

There are still many in our society, though, who need our help and support to ensure they have the same opportunities as us.

In particular, we want to do more to support children and young people most at risk.

That is why we will create early intervention programmes, in partnership with the third sector, that target those most at risk of harm. This will be complete by September 2016.
In our criminal justice modernisation strategy, we committed to doing more to reduce reoffending and its impact on society.

We are commissioning a modern rehabilitation and resettlement centre which will be complete by September 2016.

This will reduce reoffending and also the number of people who are remanded in custody awaiting trial.

We are also making good progress towards the implementation of the Equality Bill, with the first reading in the branches by early 2016.

If we are to continue to deliver against our priorities to protect the vulnerable, we must ensure our finances are sustainable for the future.

We have completed the first phase of our rebalancing but our structural deficit stands at £75m.

We need to replenish reserves and to ensure our capital programme is well funded.
We have done much already to make Government more efficient, delivering savings in excess of £15m, with planned savings of a further £21m on track for 2017-18.

But efficiency savings alone are not enough.

In total, our expenditure this year for health, social care, benefits, state pensions and public sector pensions will total over £650 million.

And this figure continues to rise due to changes outside our control.

The age profile of our population, increasing public expectation and a growth in chronic conditions, are all challenges we must address.

This is why we are making difficult decisions now.

These are decisions which are not just for this generation, but for those who follow.

This is the purpose of the medium term financial strategy from my colleague the Treasury Minister, to give us clear financial parameters in which to operate.
Also on the order paper are proposals which set out a plan for modernisation of our social security system.

These reforms will be based on fairness and ensuring our resources are targeted to those who need it most.

We are also addressing the challenge of the public sector pension deficit.

The current cost to the public purse of £55m and growing yearly is not acceptable.

Council of Ministers has been clear that the scheme must be sustainable and affordable for the long term.

We have to reduce this burden to the state if we are to ensure long term financial stability.

So we will act on the recommendations of the working group on pensions when they report in April.

Turning now to the sustainability of our health and care services.

These services spend £247m each year and touch every single person on our Island.
That cost is rising and if we do not act now, they will be unaffordable within ten years.

My colleague the Minister for Health and Social Care will bring our strategy for transformation of these services to Tynwald by October of this year.

Honourable Members.

We must move away from short term political expediency if we are to succeed in meeting our challenges.

We must make the right decisions for the right reasons.

Reform is difficult and requires courage.

There is more change ahead though.

We must change the operating model for Government.

I believe the Single Legal Entity is an important part of making this happen.

It will give greater accountability for delivery and will break through the silos which time and again stop us from working together.
We cannot keep doing what we’ve always done before and expect different results.

I have asked the Minister for Policy and Reform to lead on this work.

In September this year we will create the new Public Services Commission.

This new body will simplify our existing employment structures.

It will enable us to harmonise terms and conditions, reduce bureaucracy, and streamline pay negotiations.

In the past four years we have reduced our staff numbers by almost 700.

More importantly, we have maintained our salary costs at £300m in real terms since 2011, through pay restraint and efficiency savings.

In future we will target Departments on their overall staff costs rather than numbers in employment.
This will give us a more accurate picture of what Government costs to run, while giving managers more flexibility in the way they employ staff.

Madam President,

The document before this court sets out our priorities for the remainder of this administration.

I have focussed today on our immediate priority which is to re-energise the economy.

The Enterprise Isle plan I have set out will do just that.

I have also talked about how we will reduce our structural deficit by focussing on our major areas of expenditure in health and social care, social security and benefits and public sector pensions.

The revised Agenda for Change which you have before you sets out more broadly our priorities and our plan for the future.

We remain committed to our three core aims - growing the economy, balancing the budget and protecting the vulnerable.
Our plan for growth provides a stable platform on which we can create further investment in our Island and jobs for our people.

It takes us towards long term financial security and sustainable public services.

It reaffirms our commitment to supporting the most vulnerable in our society.

And it clearly states that the Isle of Man is open for business.

Madam President I beg to move the motion standing in my name.