



Proposals to Accelerate Economic Growth

A Consultation Document

ISSUED BY THE DEPARTMENT OF ECONOMIC DEVELOPMENT

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Foreword

The Isle of Man has steered its way successfully through the economic difficulties that have affected the world economy since 2008 and that were beyond the Island's control. Our efforts to diversify and grow the economy have been successful, as shown by the growth in national income throughout this Administration and the growth in the Island's workforce over the last year. Indeed unemployment has halved from its peak two years ago while job vacancies have grown to levels not seen since the peak before the banking crisis. While we should recognise this success we must also acknowledge that, as a result, many sectors report that they are struggling to find the skilled workers that they need to grow their businesses. If businesses cannot secure the workers they require at a competitive cost then they will take those jobs elsewhere and the Island will lose the potential economic benefits and associated tax receipts that might have been gained.

It is also the case that the Isle of Man faces the challenge (as do most developed economies) of how to maintain government revenues with an ageing population.

This Government believes that the best way to raise additional tax receipts and aid local businesses is to grow our economy, generate new jobs and so increase our economically active population.

We must, however, consider carefully the right policies to support economic growth. The Department has been working with others to consider options to accelerate that growth. As a result, the Department is publishing this short consultation paper on a range of proposals that we consider will support growth. This should assist the new Administration to act quickly, should it wish to do so, after the election.

If you have any views on the proposals set out in this paper, or have any further suggestions as to measures that the Department could consider in order to accelerate economic growth in the Island, please send them to the Department.

Hon Laurence Skelly MHK
Minister for Economic Development

Introduction

For a number of years unemployment has been steadily falling and it is now at its lowest level since 2008. While this is good for the Isle of Man and for Isle of Man workers, the Department considers, for a number of reasons, that it is desirable to take some additional measures to increase the number of people working in the Island, either through increasing participation in the workforce by existing Manx residents, or by attracting new workers to the Island.

This paper sets out the reasons for increasing the working population as well as some proposals for measures which could be taken by the Department and asks for views on those proposals. Finally it asks for suggestions from the public as to any further proposals for increasing the economically active population.

The Consultation Process

Any comments or questions should be submitted in writing to:

Steven Tallach
Legislation Officer
Department of Economic Development
St George's Court
Upper Church Street
Douglas
IM1 1EX

Or by email to:

Steven.tallach@gov.im

If by reason of a disability you are unable to respond or get in touch in writing please telephone 685375.

The closing date for the receipt of comments is **30 September 2016**.

When submitting your views please indicate if you are responding on behalf of an organisation.

To ensure that the process is transparent and consistent with the Government's Code of Conduct on Consultation¹ responses can only be accepted if you provide your name with your response.

The purpose of consultation is not to be a referendum but an exercise to gather information, views and evidence as a result of which informed decisions may be taken. In any consultation exercise the responses received do not guarantee changes will be made to what has been proposed.

A summary of the responses will be published after the consultation has closed.

¹ see www.gov.im/consultations.gov

Unless specifically requested otherwise, any responses received may be published either in part or in their entirety along with the name of the person or body that has submitted the response. Please mark your response clearly if you wish your response and/or your name to be kept confidential. Confidential responses will be included in any statistical summary and numbers of comments received.

A list of bodies that this consultation has been sent to is available in the Annex to this document.

1. Background

The Isle of Man has enjoyed over 30 years of unbroken economic growth, averaging 6% annual growth in National Income in real terms over that period. However economic growth has been more challenging since 2009 due to two major changes:

- the global banking crisis affected virtually all developed economies including the Isle of Man, resulting in over 700 job losses in the banking sector locally; and
- the reduction of nearly 30% of the Government's income due to changes to the Customs and Excise Agreement with the UK has required major changes including a reduction of the public sector workforce by over 700.

Many of these individuals chose to leave the Island, impacting upon the local economy and resulting in further pressure on the domestic economy (including the retail and construction sectors). Average earnings also fell in real terms in the period 2011 to 2014. Taken together these changes detrimentally affected expected tax receipts.

Thankfully the Island's longstanding policy of economic diversification meant hundreds of new jobs were also being created throughout this period in a wide range of sectors that offset many of the job losses. As a result, the total fall in the working population from its peak in around 2010 was limited to around 800 as at the end of March 2015.

Since that time the economic position has improved significantly as the impact of the banking crisis has receded and many key sectors have grown:

- the working population grew by around 400 in the year to end of March 2016;
- average earnings grew in 2015;
- unemployment in the Isle of Man as at the end of June 2016 was 1.4%, its lowest level since 2008;
- the number of job vacancies reported in May and June was the highest since 2007; and
- many sectors are projecting further growth for the year ahead such that growth in National Income of between 4% to 5% is expected.

In short, the Island's economy is growing and positioned well for further growth, helping to raise Government income without raising tax rates, which in turn can ensure key public services can be funded appropriately.

The Department believes that growing the Island's economically active population is now vital if the economy is to continue to grow and public services are to be maintained.

The Department considers that growing the Island's workforce will also help us address another major challenge, namely maintaining a sustainable dependency ratio between those not in the workforce and those who are in it in the face of a rapidly ageing population.

Challenge 1: growing the economically active population

The greatest challenge to achieving our potential economic growth is securing the skilled workers that employers need. Many employers in a wide range of sectors are reporting that they cannot secure the skilled workers they require because:

- unemployment is now so low there is insufficient skilled labour available locally; and
- it is difficult to attract skilled workers from elsewhere, particularly the UK which is also enjoying high levels of employment.

Government income is principally generated from income taxes and consumption taxes (such as VAT) which means that if the economically active population does not grow then nor will Government income, impacting upon the Government's ability to fund public services.

If businesses can secure the skilled workers they require, then the economy will grow, creating further jobs and taxes. Conversely if businesses are unable to secure the skilled workers they require, then there is a significant risk they will move operations to other jurisdictions where they can find the labour they need, causing a loss of jobs and taxes here on the Island.

As a result, the Department believes growing the economically active population is both in our national interest and a key, urgent policy priority.

Challenge 2: maintaining a sustainable dependency ratio

In addition, as regards the longer term there have been concerns about the Isle of Man's ageing population. For example, in 2013 the Council of Ministers considered a report entitled "Research into the Threats and Opportunities of an Ageing Population in the Isle of Man"².

This research projected that the population of the Isle of Man will grow by approximately 16% overall by 2035. However it is projected that the number of older persons will increase by 75% while the number of working persons will increase by only 2% and the number of children by 7%.

This disparity means that if action is not taken now, in a number of years the working population of the Isle of Man will not be much larger than it is today, yet it will need to support a hugely increased population of older people.

² <https://www.gov.im/media/1347343/ageing-population-report.pdf>

Taking these considerations together, the Department believes that there is a need to look at measures to grow the workforce by around 500 people per year in order to improve the ratio of workers to dependants, stimulate growth in the economy and generate additional Government income. The Department has already put into operation new measures. For example, it has recently made available, under its existing vires for the Financial Assistance Scheme, a programme of financial support for eligible businesses which bring jobs and additional workers to the Island. However, it is considered that further steps are required. The following sections of this consultation document set out the Department's proposals.

2. Encouraging graduates and other skilled Isle of Man workers to return to the Island

Census data indicates that the great majority of students supported through the Isle of Man Government grant system do not return to the Island once they have graduated from university. This may be for a range of reasons (for example the students' wish to gain experience off-Island). Given that this group already have links with the Island, if graduates do return there may be a greater chance that they will remain on the Island.

Provision of incentives to graduates and other skilled Isle of Man workers

Provision of financial incentives to encourage graduates to return may help to fill vacancies. Many students are concerned about the debt burden they may have after graduation linked to tuition fees. The Department proposes that graduates be given a financial incentive such as student debt relief for each year they work and pay income taxes on the Island. Such an initiative could be extended to other returning Isle of Man workers who may be non-graduates but have acquired other valuable skills.

The Department seeks views on this proposal though it is aware that more work will be required to consider the options and costs as well as factors such as the following:

- many returning graduates will not have student debt so debt relief would not be relevant. Therefore other forms of incentive might need to be considered (for example cash for relocation or some sort of partial relief from National Insurance or Income Tax);
- there is a risk that Government could pay incentives to some Isle of Man workers who might have returned anyway; and
- depending upon the exact proposal, legislation may be required to put such an initiative into effect.

Q1: Do you have any comments on the proposal to encourage Manx graduates and other skilled Isle of Man workers to return to work in the Island?

Development of a graduate accelerator programme

At the same time, employers, perhaps with support from the Government, could make returning to the Island more attractive for local undergraduates. Some finance sector companies recruit recent graduates to train as, for example, accountants and use their UK recruitment scheme for this while, in addition, internships seem to be growing in popularity and some training courses are delivered. However, in general there is a lack of bespoke graduate training schemes in the Island.

A graduate accelerator programme could be introduced to which individual employers could send graduate recruits in order to obtain management training and generic cross sectoral skills.

Q2: Do you have any comments on the proposal to develop a graduate accelerator programme?

3. Ideas to attract companies and skilled workers

Employers in many countries offer incentives to staff who help to fill key vacancies while Ireland goes further and provides incentives to people who encourage foreign companies to establish companies in the country. In both cases people who assist in the growth of enterprises are rewarded.

Attracting businesses

The "Connect Ireland" initiative, which rewards individuals for encouraging foreign companies to set up in Ireland, is the idea of an Irish entrepreneur who administers the operation (with 30 staff). Connect Ireland works with the Industrial Development Agency (Ireland) and receives financial support from the Irish Government on a results basis.

The concept, in brief, involves any person registering on the Connect Ireland website as a 'Connector'; if the Connector then introduces a suitable foreign company which starts up an operation in Ireland which results in job creation, he or she is rewarded at the rate of €1,500 for each job, half of which is paid one year after the jobs have been created, and half of which is paid a year later. A minimum of 3 jobs must be created and a cap applies where more than 100 jobs are created in a business.

Since its launch in 2011 Connect Ireland has achieved the following:

- 74,819 registered connectors;
- 2,375 companies have been approved;
- 71 projects have been approved;
- 2,860 new jobs have been created or are in the pipeline.

This suggests a net effect of about 750 new jobs per year is being achieved so far.

In addition, the scheme has generated much positive publicity in both Ireland and beyond.

It is considered that a similar initiative might assist the Island, leading to possible additional growth of up to 100 jobs per year.

Q3: Do you have any comments on the above proposal?

Attracting skilled workers

Incentives could be given to local residents who help to attract skilled workers to fill job vacancies of a specified description. This could take the form of a Government payment of between £100 and £500 for a successful introduction of a new employee by an existing employee in a growing business (or even in another business) if it results in an instance of recruitment from off-Island.

This would of course need administrative checks and balances to prevent abuse (and it would not apply to anyone operating in a professional recruitment capacity, such as Human Resources staff, Directors or shareholders).

Such a scheme could be limited to specific job vacancies, e.g. in target sectors, above say £25,000 salary, and with a focus on skills shortage occupations, e.g. IT, professional and financial staff.

Given that the aim is to grow the economy, it is suggested that public sector employment be excluded from any scheme in addition to the other suggested exclusions.

Q4: Do you have any comments on the above proposal?

Possible new Scheme

A new Scheme which covers both of the above proposals could be created under the Financial Provisions and Currency Act 2011, subject to Treasury and Tynwald approval. In addition to the funding for the incentive payments some additional budget would also be required to develop a website and promote and administer the Scheme.

The above proposals to give local people a financial incentive to attract skilled workers and businesses to the Island could help to send out a clear message that the Island is 'open for business' and encourage all in the community to participate in achieving growth.

4. Removing barriers to employers bringing staff to the Island

While efforts have been made to simplify, automate and accelerate work permits as well as granting permits for up to 5 years, many employers continue to say that work permits are a deterrent to staff coming to the Island as they create uncertainty and delay for both employers and potential employees.

In recent years, with Tynwald's approval, the Department has exempted secondary school teachers, health and social care workers and e-Business and ICT workers. In

all cases employers have confirmed that this has helped them to attract the skilled workers they need.

Given that our labour market urgently requires additional workers and there is very little availability of labour locally, there is a case to consider further exemptions and other changes.

There are two specific changes that would greatly aid efforts to grow the workforce.

Exempt some Financial and Professional Services (FPS) jobs.

Earlier this year Tynwald approved exemptions for jobs in e-Business and ICT which were warmly welcomed by the private sector. Extending this approach to defined FPS jobs would be very popular with affected employers given the difficulties they are encountering in recruiting skilled workers.

Though the Isle of Man has in recent years made strenuous efforts to diversify the economy, FPS still makes a very significant contribution to the economy. For example there are about 12,000 FPS jobs in the Island as compared to 2,000 jobs in e-Business. As in the case of the existing exemptions for e-Business and ICT an exemption might remove one potential barrier to those sectors recruiting suitably skilled individuals.

Q5: Do you have any comments on a potential exemption of some financial and professional services jobs?

Treat cohabiting partners the same as spouses and civil partners

The Control of Employment Act 2014 provides that spouses or civil partners of Isle of Man workers are themselves Isle of Man workers. In addition the Act provides that spouses or civil partners of work permit holders or those in an exempted employment (other than temporary employment) can apply for a one year, renewable work permit. However, currently cohabiting partners do not have the same rights as spouses or civil partners in the work permit system.

The issue of extending rights to partners was raised by some respondents to the public consultation undertaken by the Department which preceded the new Act. A number of respondents felt that the fact that unmarried partners were not recognised by the legislation meant that it was out of touch with social trends and that recognition of such relationships could help attract and keep new staff. Though provision was made in the 2014 Act for the Department to make Regulations allowing cohabiting partners of work permit holders and those in exempted employment to be granted permits, no provision was made in respect of an extension of the rights of cohabiting partners of Isle of Man workers.

The Department could extend the right to a one year permit to cohabiting partners of work permit holders or those in an exempted employment by laying new Control of Employment Regulations before Tynwald. Any change to the status of cohabiting partners of Isle of Man workers, though, would require new primary legislation. However an amendment to the Control of Employment Act 2014 could be included in the Equality Bill, which is presently in the Legislative Branches.

Q6: Do you have any comments on the proposals to treat defined cohabiting partners in the same way as spouses or civil partners?

5. Boosting earnings, particularly for lower paid workers

Raising earnings is a good way to grow tax receipts. Increasing earnings for the highest paid workers raises additional income taxes due to our progressive tax system. However, raising earnings for lower paid workers (i.e. those at or below the median) can arguably have a greater effect on both the economy and tax receipts as such workers typically spend most of what they earn on the Island thereby maximising the associated economic and tax benefits. In addition, for those in receipt of Social Security benefits, such payments may fall as their incomes increase, therefore helping to reduce Government spending.

Some employers in low-paid sectors are concerned that increases in the minimum wage rates which are set by Regulations made under the Minimum Wage Act 2001 (MWA) would raise their costs and lead to significant job losses. However, experience in the UK and elsewhere to date show that, in general, such fears have been overstated.

The minimum wage in the Island was raised by 5.3% to £7.00 an hour for those aged 21 and over in January 2016. The UK introduced the new National Living Wage of £7.20 an hour for workers aged 25 and older in April 2016, raised from £6.70. The Isle of Man's rate has typically exceeded the UK rate, therefore the UK's action is likely to lead to pressure for the Island to match or exceed this level. At the same time, however, the Department must be careful not to place an undue burden on businesses, particularly in the retail, hospitality and care sectors, which might prevent them from operating competitively.

The Department proposes that the Minimum Wage Committee, established under the MWA, should be asked to consider the impact of the UK's National Living Wage and the merits of introducing similar reforms on the Island.

Q7: Do you have any comments on the proposals relating to boosting earnings?

6. Helping qualified workers back to work

Data from the 2011 census indicated that at that time there was a pool of underutilised talent in the Island. In particular around 365 people educated to degree level were not working due to looking after their home or family and that approximately 170 were unemployed.

While unemployment has declined sharply since 2011 the Department is supportive of initiatives which help qualified workers back to work and, in particular, considers that a midlife internship programme could be put in place to assist some older workers return to the labour market.

Midlife internships

Midlife internships (or “returnships”) may consist of a short term-consulting project with a business and are usually aimed at former professionals who may have been out of the workforce for a number of years, often to care for children.

These schemes have been promoted in the USA by companies such as Goldman Sachs and Morgan Stanley, and in the UK by organisations such as Women Returners.

They are typically aimed at helping highly qualified workers back to work. Such mature and experienced workers are seen as an important underutilised resource.

The Department could assist with such schemes by:

- promoting the concept among Isle of Man businesses;
- maintaining a list of businesses which would participate in such an initiative;
- maintaining a list of persons who would be interested in taking up internships; and
- co-ordinating requests for such internships.

Q8: Do you have any comments on the midlife internship proposal or suggestions for any complementary initiatives?

7. Other proposals

The Department is keen to hear from any members of the public, businesses or other stakeholders who may have ideas about any additional measures the Department might take in order to support the labour market by growing the economically active population of the Island.

Q9: Do you have any suggestions as to further measures that the Department could take to grow the working population of the Isle of Man?

Annex: List of bodies consulted

- Tynwald Members
- Attorney General
- Local Authorities
- Chief Officers
- Chamber of Commerce
- Law Society
- Trades Union Council



**This document can be
provided in large print on
request**

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