

A Review of the Scope of Government in the Isle of Man

**An Independent Report
to the Council of Ministers**

March 2012

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FOREWORD BY CHAIRMAN

Six years ago, we were given the rare privilege of reviewing the Scope and Structure of Government and recommending how it might be modified to serve the needs of the future. In our report, entitled 'A Review of the Scope and Structure of Government', I concluded my foreword with the words:

'So now it is up to Government – we will watch with interest how the template we have proposed, is applied. The greatest return of our investment of time, energy and ideas would be for the Isle of Man Government in five years time, to bear the imprint, in a recognisable way, of the changes we have recommended.'

In 2012, having been asked to revisit our original recommendations, we find that some things have changed but regrettably, not in the way we envisaged. There has been a restructuring exercise but without radical reduction in the level of Governmental activity we believed was a necessary prerequisite. But the most important difference is that the overall environment has changed – apart from external influences of a world financial downturn, the Island is having to cope with increased demand for services on the back of a substantial reduction in its revenue. Thus, the Island is forced to make changes which are undoubtedly necessary, from a 'burning platform'.

If the overall environment has changed, do our original recommendations hold good?

In the very brief time we have been given to consider that matter, we have concluded that, not only do our recommendations hold good, but they have become even more relevant and necessary. Government may not only have to be more radical in its approach – but also move more quickly to designated solutions, rather than adopting the phased approach we commended in 2006.

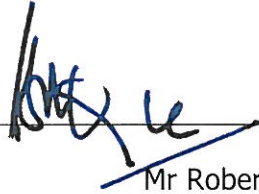
Again, as in 2006, we can only make suggestions – the ultimate decision is Government's. We are aware that there is a high level of expectation about our review but we cannot wave a magic wand and bring about change; that is Government's task, and it will undoubtedly involve some pain.


We do believe that the process can be assisted if two of our key recommendations are adopted. The first is that a structure tasked with driving change is established at an early stage. We have called it 'the Department of Corporate Development' but whatever it is called, its task is to overcome the inevitable resistance which could obstruct the change we believe is necessary. The second is the process of external benchmarking or peer reviews to ensure a rigorous approach and validated outcomes. This also recognises that our recommendations do not so much envisage specific outcomes but instigate a process which will involve constant review of what Government is providing and whether it is being provided in the most efficient and cost effective manner. As I said in 2006, 'the process of change itself will have to become part of the Government culture'.

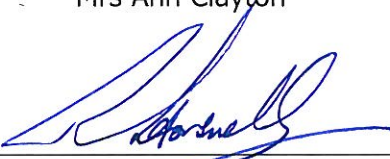
Again I pay tribute to my colleagues - exactly the same group has taken up the challenge as did in 2006. I believe we did so, not only because we enjoyed working together (and have done so again), but more importantly, we still wanted to make the Isle of Man a better place. We have greatly appreciated the support of some committed and able public servants.

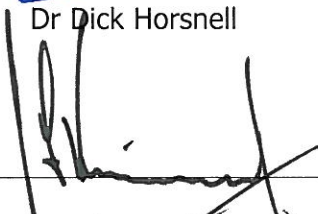
The challenge is greater than it was in 2006 but we are confident that the Isle of Man Government will rise to it. The price of failure to the Manx way of life is too high to contemplate and doing nothing is no longer an option.

We commend our conclusions to Government.

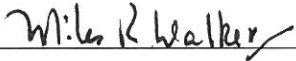
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SUMMARY OF RECOMMENDATIONS

Recommendation 1

As a general principle, there should be a presumption that, subject to certain exceptions, all those Government services which are now delivered in the traditional way should, in future, be delivered through one or other of the Alternative Means of Service Delivery that we have identified.

Recommendation 2

The principles for considering alternative means of service delivery involving outside agencies identified at paragraph 3.9 should be embodied into a statement of policy and principles issued by the Council of Ministers.

Recommendation 3

Government should:-

- Seek to reduce the proportion of public services which it provides through direct delivery by making greater use of alternative means of service delivery using outside agencies;**
- Conduct in-depth appraisals into the use of outside agencies for those services identified in paragraph 4.8 of this report commencing with the Airport, the Post Office, the Bus Service and Residential Care Services;**
- Take forward those cases where, after in-depth appraisal, alternative delivery by outside agency has been shown to be justified, as the beginning of a rolling programme of change across a wider range of services.**

Recommendation 4

We recommend that Government should:-

- Look seriously at the Executive Agency model developed in the United Kingdom and should be willing to adopt that model and establish Executive Agencies within Departments, where the service provided and the internal structure of the Department make it likely that it would produce a net benefit in terms of efficiency and effectiveness;**
- Commence this process by considering the Executive Agency Model for operation of the Prison and Social Security;**
- Be prepared to use the Executive Agency model to test the practicalities of removing from day to day Government control those services which are being considered for alternative means of service delivery by outside agencies, where there are cogent reservations about the best long term operating arrangement.**

Recommendation 5

- **Government should commit to a restructuring of local government such that, after restructuring, local authorities should be large enough and have the capability to deliver a wider range of public services, including services devolved from Government. Investigation and implementation of the restructure should be a three year programme.**
- **In the meantime, and pending local government reform, Government should establish, as an executive agency reporting to the Department of Infrastructure, a Local Government Transitional Agency, to which it should devolve those Government functions which it would propose, ultimately, to devolve to local government. Government should quickly identify those services currently delivered by Central Government which are of a local nature and would therefore be best delivered by local Government.**
- **We have suggested that these should include public housing, building regulations, first stage planning, certain environmental health functions, pest control, street cleaning, car parks and parking control, waste management and refuse disposal.**
- **The board of the transitional agency should comprise local authority representatives and should hold its meetings, so far as possible, in public.**

Recommendation 6

Government should examine the possibility of the costs of services of a local government nature provided by Government or by the proposed Local Government Transitional Agency being met from a form of local taxation.

Recommendation 7

Government should commit to programmes of regular and systematic external benchmarking and expert external reviews of service provision driven and coordinated centrally which over a period of time, would potentially cover all significant areas of Government service provision.

Recommendation 8

Government should not seek to introduce TUPE legislation on the Isle of Man, but instead seek to conclude commercial arrangements with future private or voluntary providers of public services, to provide for the transfer of its existing public sector staff and the protection, as far as possible, of existing terms and conditions of service.

Recommendation 9

Where the protection of existing terms and conditions is not possible, Government should, as a matter of high priority, seek to limit its exposure to high redundancy costs by reforming the current public sector schemes for compensation for loss of office.

Recommendation 10

Government should establish a Department of Corporate Development which would be responsible for:-

- **Driving a change agenda focussing on value for money which would include:**
 - a) **the consideration of alternative means of service delivery by outside agencies;**
 - b) **the consideration of alternative means of service delivery within the Government structure (executive agencies);**
 - c) **the consideration of alternative means of service delivery by transferring functions to local government (through a Local Government Transitional Authority);**
- **A centralised human resources function (the Office of Human Resources should become a part of the Department);**
- **A centralised IT function (the DED Information Systems Division should become a part of the Department);**
- **The Transforming Government Team should become part of the Department;**
- **The Procurement section of the Treasury should become part of the Department**

If that is unacceptable in the short-term, a new vehicle for change should be created which will promote the alternative means of service delivery agenda and which exhibits the following features:-

- **It should be headed by a politician of ministerial rank with a seat on the Council of Ministers for whom the change agenda should be the first priority;**
- **The political head of the vehicle for change should work directly to the Chief Minister;**
- **There should be a small dedicated team of officers appointed to the vehicle for change, headed by a person of chief officer rank who would have a seat on the Chief Officers Group;**
- **The vehicle for change should form part of the centre of Government.**

1 INTRODUCTION AND REMIT

1.1 In September 2005 we were invited by the then Chief Minister, Hon Donald Gelling MLC, to conduct a Review of the Scope and Structure of Government in the Isle of Man. We reported back in September 2006.

1.2 In November 2011 we received a second invitation which was to review our original report against the following remit:-

'to review and update the proposals made in 2006 regarding the various alternative means of service delivery, as a contributor to redefining the Scope of Government. The Review Team is to take into consideration progress or changes made to date, together with any new recommendations that may arise in the course of their review. The Review Team is not expected to recommend the precise future scope of Government, but instead it should examine the various alternative means of service delivery as a contributor to redefining the scope of Government.'

1.3 We clarified that our Committee's task would be to revisit our 2006 Report, not in relation to our recommendations about the Structure of Government, but confining our attention to the issue of Scope of Government. Specifically, we were being asked to look again at our thoughts on alternative means of service delivery, at whether our original recommendations remained valid and whether there were any other new recommendations that we might now wish to make.

1.4 The time available to us has been short and, inevitably, there is a provisional and incomplete feel to what we have been able to produce. But we hope that what we have concluded will be of some assistance to the Government and to Tynwald in setting a course to meet the considerable challenges of 2012 and beyond.

2 ANALYSIS OF CHANGES SINCE 2006

2.1 Introduction

2.1.1 Before revisiting the issue of alternative means of service delivery, it is worth reviewing briefly what has happened since we reported in 2006 to see how the landscape of Government has changed. We look first at Government's response to our 2006 Report, then at the effect of the changes in the Revenue Sharing Arrangement with the UK Government which has so dominated recent political discussion on the Island and finally at the changes to the Scope and Structure of Government that have been made since our earlier report.

2.2 Response to our 2006 Report

2.2.1 In our 2006 report we acknowledged the very significant and wide-ranging progress that the Island had made with and since the introduction of ministerial government in 1987, but argued against any feelings of self-satisfaction or complacency. The need for continuing the process of change was, to us, self-evident. Things should not stand still and we identified five problem areas which we felt justified change :-

- The Scope of Government - which was too large;
- Value for Money - on which there had been insufficient emphasis;
- Corporate Government - there was a necessity for greater working together across Government;
- Separating Policy from Operations - there was a great need to redefine and separate the roles of the politician and the manager;
- Transparency - more openness and more information on Government and on Government decision-making would improve public understanding and debate.

2.2.2 Whilst endorsing most of the basics of the Government's then existing structure, we were able to make 48 recommendations which sought to address the five problem areas and which represented a programme of reform aimed at making Government more efficient and more manageable.

2.2.3 Whatever enthusiasm the administration that appointed us in 2005 might have had for our proposed reforms, any such enthusiasm was not shared by the replacement administration which had the task of considering our report. Some four years after we reported, the Council of Ministers published a response and offered its own proposals for the reform of the structure of Government. But these proposals owed little to our recommendations for changing the structure of Government and owed still less to the thinking which underpinned our report.

2.2.4 As regards our recommendations which related to the Scope of Government, these were, in many cases, first misrepresented and then the recommendations, in their misrepresented form, were rejected almost completely. There was clearly no appetite to even look at the sort of reforms we had proposed. To be fair to Hon J A Brown MHK, the Chief Minister of the day, it was clear from his evidence to us in 2006 and from his platform at the time of his appointment to the position of Chief Minister, that he saw no need for significant change and was entirely comfortable

with the pattern of expanding Government and direct provision of services which had characterised the previous 25 years.

2.3 Changes to the Revenue Sharing Agreement

- 2.3.1 In 2006 we reported against a background of some financial stability and prosperity and the real issue was whether there was any genuine imperative to make changes. There was no 'burning platform' was the jargon of the day. But times have changed. The buoyancy of Government revenues, which had been taken for granted by all, has been adversely and seriously affected by changes made to the Revenue Sharing Arrangement with the UK Government and the Scope and Structure of Government requires reappraisal in the light of these changed circumstances. Returning to the jargon – the platform is now well alight.
- 2.3.2 Changes to the Revenue Sharing Arrangement will result in annual revenue losses which will build to £214M p.a. by 2015-16. Government's response has been to implement a rebalancing strategy which is a mix of reducing expenditure, increasing revenue and reducing reserves. It is Government's aim to ensure that income and expenditure are in balance by 2015-16. This involves reducing estimated annual expenditure by £103M p.a. by 2015-16 and by making a very significant reduction to reserves and balances.

2.4 Restructuring of Government

- 2.4.1 The 2010 Report of the Council of Ministers which responded to our 2006 Report recommended changes to the structure of Government through a reorganisation of Government Departments which, it was argued at the time would provide a departmental structure for the future which would be fit for purpose in the very competitive global environment of the day. The principal changes made were as follows:-
- Government functions were reorganised under nine Departments, six of which were entirely new;
 - At the centre of the plan was the creation of a new Department of Economic Development to co-ordinate the support and promotion of key sectors including financial services, manufacturing, tourism and e-business;
 - A new Department of Social Care was created and made responsible for a cohesive social policy embracing social services (including mental health), social security and social housing;
 - The other new Departments were Health; Community, Culture and Leisure; Environment, Food and Agriculture and Infrastructure;
 - Treasury saw responsibility for the promotion of financial services and the provision of Information Services transferred to Economic Development;
 - Home Affairs and Education remained intact, though the latter was renamed Education and Children;
 - The Departments of Tourism and Leisure; Agriculture, Fisheries and Forestry; Transport; Health and Social Security; Trade and Industry and Local Government and the Environment were abolished to make way for the new structure.

2.4.2 At the time of the restructuring the Chief Minister of the day Hon J A Brown MHK said:-

'The change to the structure will not affect the level of services provided to the public. What it will do is drive greater efficiencies within Government through a more coordinated and effective framework of Departments. Importantly, the new structure will focus on the need to secure further economic growth for the Island by creating an Economic Development Department, bringing together the economic strands of Government into and under the control of one Department. It will also focus on social care, the care of our community in line with Government's strategic policies.'

2.4.3 It was fundamental to our recommendations for changing the Structure of Government that there would be an engine for change, with political leadership, well positioned within the organisation, to drive the cultural change and efficiencies that we felt were necessary. Whatever may be the advantages and benefits of the changes made in 2010 (and these have yet to be shown) we would note that these changes do not include the provision of a mechanism equivalent to that which we proposed. That, in our view, is a lost opportunity and a weakness for the future.

2.4.4 Since 2006 there have been only a few changes to the scope of Government and the means of delivery of Government Services. As indicated in the 2010 Report, one of Government's two fish hatcheries has been contracted-out to a private company, and a decision has been made to cease Government operated farming at Knockaloe. Otherwise service provision is broadly the same as it was in 2006, although there have been changes to the organisation of service provision arising from the restructuring, the development of shared services and other transforming government initiatives (April 2011 onwards) and the financial rebalancing programme (October 2009 onwards).

2.5 Demographics

2.5.1 A further issue which we have become aware of since our report in 2006, and one which is not unique to the Isle of Man, is in relation to the financial and other challenges for Government associated with rapid demographic change.

2.5.2 Projections from the Economic Affairs Division of Treasury show that the number of older people within our community is rising rapidly. Current projections indicate that by 2026, (in comparison with 2006):-

- The population of the Isle of Man will grow by 14%;
- The number of people aged 65+ will grow much faster, by 59%;
- The number of people aged 75+ will grow even faster, by 63%.

2.5.3 This growth will translate into a substantial increase in the requirement for services and thus expenditure for both Department of Health (DH) and Department of Social Care (DSC) as over half of expenditure by both Departments is for services for older people.

2.6 Conclusions on Changes since 2006

2.6.1 It seems to us, notwithstanding the upheaval caused by the 2010 restructuring of Government that little has changed within the Scope of Government which has relevance to our remit and that we are generally looking at a Government structure

which, in its essentials, is little changed from 2006. The big difference, of course, is the impact of reduced income on Government as a consequence of the Changes to the Revenue Sharing Agreement. This is our 'burning platform'. This is 'the serious economic imperative or other stimulus' which we said in 2006 might be necessary to cause serious reform of Government.

- 2.6.2 In addition, the points referred to above under the heading demographics are a further cause for concern.
- 2.6.3 Government's response to this situation, until the budget is balanced, will, no doubt, include a number of elements:-
- Facilitating economic growth
 - Reducing expenditure
 - Increasing taxation
 - Increasing income from fees and charges
 - Depletion of reserves
- 2.6.4 Responding to the challenge of a reduced income and striking a balance between the various elements which go to make up Government's response to this challenge will be the paramount task of the Government over the next several years.
- 2.6.5 But where does our Review Team fit into this, if at all? If we have a relevance to this paramount task it is in relation to reducing expenditure. But, our work in 2005-06 was not aimed at reducing expenditure per se. Rather, it was concerned with achieving efficiency and manageability and putting in place a structure that was geared to the need to pursue efficiency and manageability into the future. There is a cost-saving dimension to what we recommended but it is fairly modest in the scheme of things and we would not seek to argue that our recommendations would have spared the Government and the Island the consequence of the rebalancing strategy that the Government is now required to pursue. What we would argue, however, is that if our recommendations had been implemented five years ago, Government would have been better structured to rise to the challenge it now faces.
- 2.6.6 So we have been asked to look again at our recommendations in relation to alternative means of service delivery, to consider if they are still valid and whether there are any other new recommendations about alternative means of service delivery that we might now wish to make.
- 2.6.7 This is something of a re-run of part of what we did before, but, set against the new backdrop of a significantly reduced Government income. We feel, as a consequence of the changed circumstances, that it is incumbent on us to put a particular emphasis on those options which may have the potential to contribute to the Government's need to reduce its expenditure and the rest of our report is drafted accordingly. Another consequence of Government's changed financial circumstances may be a greater willingness by Government, this time around, to give serious consideration to ideas which in the comfort of 2006 looked just too difficult.

3 KEY PRINCIPLES

3.1 Introduction

- 3.1.1 In our 2006 report we identified the five general themes outlined below, as broad areas of concern or difficulty where improvements ought to be made. Whilst only the first of those themes - reducing the scope of government, is the primary concern of our task this time, we believe it is important to revisit those themes in the context of today to determine their continued validity.
- 3.1.2 Following this, we have summarised the high level findings of our limited consultation this time around and reviewed and updated the key principles upon which Government should base its decisions for reducing the scope of Government and considering alternative means of service delivery.

3.2 Reducing the Scope of Government

- 3.2.1 The Government is a substantial undertaking, whether that is measured in terms of income, expenditure or employees. Its size is not remarkable in any absolute sense, as there are a great many much larger organisations elsewhere in the world. What is remarkable is its size relative to the community it serves and, more particularly, its diversity. It provides services which, elsewhere, are normally provided by local government, nationalised industries, the private sector and the voluntary sector as well as those which are conventionally national government services. Moreover, it almost always provides those services through its own directly-employed staff.
- 3.2.2 We observed in 2006 that of all the democratic governments we looked at or came across in the course of our review, the IOM Government was uniquely interventionist. Little has changed. As indicated in 2006, the Isle of Man Government employs more people and spends more money per head of population than most similar jurisdictions.
- 3.2.3 We remain of the view that it would be beneficial to Government if it could reduce the breadth of its activities and concentrate its political and managerial resources on a narrower field of operations. While there may have been legitimate needs at the time of assuming increased responsibilities the current scope of Government is not sustainable, or desirable. We believe there is a need to reconsider what activities may be better provided by means other than by central Government, or stopped completely.
- 3.2.4 Having said that, this does not mean we advocate the immediate corporatisation, contracting-out or privatisation of vast swathes of public services. Our thinking in 2006 recognised the requirement for continued direct provision of services, even for services which in other jurisdictions are routinely provided outside of Government. But, if that is the case, these services must be delivered in a way that represents value for money, and that was one of our key themes in 2006.

3.3 Value for Money

- 3.3.1 Value for money (vfm) was at the core of our original report and underscored all that we proposed. We said that vfm savings were not likely to be achieved unless they were pursued with the sort of political and organisational interest and determination that had, in previous years, been directed at service expansion and improvement. We expect that in delivering the budgetary savings identified in Chapter 2 above, as

part of the Budget Rebalancing Programme, attention has been given to vfm issues. Otherwise it is difficult to see how the budgetary reductions could have been accommodated without widespread reductions in services.

- 3.3.2 We note, for example, that since April 2009, the number of budgeted Government posts¹ has been reduced by 284.4 fte (4%). More importantly, the budgetary expenditure for salaries and wages has been reduced by 2.2% since 2009, with a further 3.5% reduction expected in 2012-13, making a total reduction of 5.7% when compared to the 2009-10 budgetary figures. Presumably this has been achieved by the more effective deployment of staff that remain and that is a good thing.
- 3.3.3 What is evident however is that there seems to have been only limited progress in addressing inefficient and costly terms and conditions of service applying to many workers within the public sector.
- 3.3.4 In 2006 we recommended that Government should conduct a root and branch review of its Human Resources arrangements in order to provide gains in efficiency and value for money. Whilst we note there has been some progress, we believe that much further work is necessary.

3.4 Improving Corporate Government

- 3.4.1 In 2006 we recognised that Government had devoted much effort to developing a corporate approach and improving inter-departmental cooperation, but there was still room for improvement in areas such as:-
- Central strategic long term planning;
 - Central control and direction of the work of Government;
 - Inter-Departmental policy development and service delivery;
 - Coordination of Departmental work programmes.
- 3.4.2 In our consultation this time around we have detected a stronger commitment towards inter-departmental co-operation and this is evident through work being developed on social policy, criminal justice and shared services, for example. We hope that this joined up approach is continued and extended.

3.5 Separating Policy from Operations

- 3.5.1 In 2006 we concluded that if political resources can be redirected and focussed on the bigger issues of policy and strategy and away from matters of detail, the quality of Government will be improved. We went on to recommend the consideration of government structures which would encourage the separation of policy from operations.
- 3.5.2 It is acknowledged that in the intervening years no progress was made in this respect and the concepts we identified (e.g. corporatisation, commercialisation etc)

¹ This refers to the number of posts (not people in posts) in FTE terms within the Personnel Control Mechanism (including vacancies at the time) as detailed in the Pink Book 2012 (Summary Of Budgetary Provision For Personnel Employed By Government)

and the structures we proposed (Executive Agencies, Service Contracts) were rejected in the 2010 Report.

- 3.5.3 However, we remain of the view that the political culture of Government must change, and are pleased that the new Chief Minister, Hon Allan Bell, MHK shares that view. In Tynwald in January 2012, he said:-

'Most importantly, I also want to see recognition that the culture in our public services is directly affected by the behaviour of those in this Hon Chamber and the behaviours of the wider community. We must work together to deal with the position we find ourselves in and the challenges we have to face, leading and supporting our public servants. So, when I talk of culture change in Government, I am recommending that we all work together better to stop the representation of self interest. This includes empowering staff to make changes without interference and to change the culture in Government so that innovation and challenging the norm are encouraged, not smothered. Without this fundamental change to culture, we will be unable to tackle the challenges of the public sector reform, which is badly needed.'

- 3.5.4 We commend the Chief Minister for this statement and sincerely hope that his colleagues will provide the support and unity he seeks.

3.6 Transparency

- 3.6.1 In 2006, we identified that for some people who take an active interest in Government business, lack of transparency was a continuous impediment to their legitimate curiosity. In addition, lack of transparency allowed suspicions, justified or unjustified, to be voiced and fester and allowed those of ill-intent and the conspiracy theorists to fabricate.

- 3.6.2 Consequently, we recommended that the scrutiny and transparency of Government could be improved with the establishment of Departmental Audit Committees and the introduction of legislation to give force to the Code of Practice on Access to Government Information. The Audit Committee proposal was rejected with no reasons given in the 2010 Report, which we regret. The Access to Information recommendation has been consistently supported, but has still not happened. We are advised that this is now being pursued by the new administration.

3.7 Consultation

- 3.7.1 As a result of our consultations in 2005-06 we made the following observations about alternative means of service delivery, which are worth repeating:

'No one had a completely closed mind on this. Everyone was prepared to contemplate the possibility of some element of Government services being delivered in a different way. For a few, it was a given that private sector operation would automatically be better (cheaper and more efficient) than public sector operation; for another few, at the other end of the spectrum, public ownership and operation was always to be preferred. But for most people the question of whether a service should be considered for some form of private sector or commercial involvement was not a doctrinaire matter. It was a practical issue to be resolved on the basis of what was the most efficient and cost effective option for that particular service.'

Other points made which commanded a degree of common support were –

- A service cannot be privatised in the absence of effective competition, unless it is properly regulated;*
- Regulation is not a soft option and it requires a different skill set from direct delivery of a service;*
- The direct employment of the staff providing a service can reduce risks and the possibility of disputes;*
- There is experience of regulation of private sector provision of public services e.g. shipping services, telecommunications;*
- The Manx Electricity Authority experience will make political acceptance of privatisation more difficult.*

Some with experience of working within the Statutory Board framework, argued that reconstituting the utilities (electricity, water and post) as Government-owned companies would be an improvement. It was suggested that this would give the right commercial focus, particularly in a competitive environment, would assist Board members by helping them understand their role and would assist those dealing with the utilities to understand the nature of the organisations.

The possibility of devolving Government functions to an effective system of local government is another alternative that we were keen to explore. With few dissenters, this was generally welcomed, in principle, as an option for the delivery of local services. But everyone recognised that such a move was predicated on a reform of local government sufficient to create a system that would be genuinely effective and there was little optimism that that would be achieved in the near future.'

3.7.2 Time constraints for our work in 2012 have meant we were unable to repeat the extent of consultation achieved previously. However following our limited consultation exercise we have identified the following:-

- External observers continue to maintain, as they did in 2005-06, that Government is too large and inefficient;
- Government has acquired additional services which the public not only expect to be provided, but also expect to be provided either free or at a heavily subsidised cost at point of delivery. There is little sense that public expectation has changed despite the Government's budgetary difficulties;
- The principal driver regarding the provision of Government services tends to be delivery of service irrespective of cost (although cost efficiency appears to have become a higher priority in some Departments);
- The principal impediment to a more cost efficient service provision is the terms and conditions of service of public sector employees. Over the years, public sector employment costs have escalated and an entrenched sense of entitlement to terms and conditions is affecting the financial viability of certain operations;
- Government divesting itself of certain functions in the way originally proposed by the Committee does not necessarily mean that the cost to the user will be less – it may mean that the cost increases, as the service will

have to be funded either by direct charging, or alternative revenue raising (local rates), and may not be balanced by a reduction in taxes paid to central Government;

- Private sector management of public sector or essential services has not always been successful in the Isle of Man. However, incompetence in the past, whether relating to the adoption of the wrong formula or neglect, is no reason not to consider further privatisation;
- Some Government entities can be hampered from operating commercially due to central constraints and political intervention which limits their ability to do so;
- There is no guarantee that diverting a service to an alternative provider will automatically result in greater efficiency/cost effectiveness. Nor is there any guarantee that the cost to central Government will reduce substantially – regulation of any devolved service (which may be necessary, and will undoubtedly be demanded as a guarantee of continued provision) will require resources to be maintained within central Government;
- The political process must share some responsibility – political decision makers are too close to individual problems and prone to special pleading from constituents, even on the most trivial issues;
- There is a clear desire from officers to be guided by a clear set of priorities and principles provided by the Council of Ministers;
- Core services are almost impossible to define – what is ‘core’ is subjective, depending on political priorities.

3.8 A General Approach to Alternative Means of Service Delivery

3.8.1 The traditional way that the Isle of Man Government delivers its services is through Departments and Statutory Boards which use directly employed staff with the Minister and Members or the Board being involved in the day to day executive decision-making. As we will show later in our report, there are some exceptions to this model, but this remains the norm. It was our belief in 2006 that that needed to change and in 2012 we are even more convinced of that need and of the need to make greater use of alternative means of service delivery.

3.8.2 For the purposes of this report, we are using a wide definition of ‘Alternative Means of Service Delivery’(AMSD), which includes three distinct types of organisational structure, all of which are distinct from the traditional norm described above:-

- Services delivered involving Outside Agencies;
- Services delivered within the Government Structure (using Executive Agencies);
- Services delivered through the Local Government Structure.

3.8.3 We will look at these three alternatives in more detail in the next three chapters.

3.8.4 What we recommend, as a general principle, is that there should be a presumption that, subject to certain exceptions, all those Government services which are now

delivered in the traditional way should, in future, be delivered through one or other of the AMSD that we have identified. The exceptions that we envisage are services:-

- In support of a Minister or the Council of Ministers in relation to the formulation of policy and strategy, the setting of standards and the monitoring of performance, budgetary control and enactment of legislation;
- Where it can be demonstrated an issue of over-riding national interest could be prejudiced e.g. defence, security of supply, major economic or fiscal policy;
- In support of the Government to which a high degree of confidentiality is attached e.g. Crown and External Relations, Legal Advice to Government Officers of a sensitive nature;
- Where, on examination, it is demonstrated that the introduction of AMSD would result in poorer value or some other over-riding disadvantage.

3.8.5 We would also confirm that there are some services which for reasons of probity or public interest will need to continue to be staffed by public employees. These would not be suitable candidates for being delivered by the first of our AMSD (involving Outside Agencies). Examples of such services would be central elements of policing and judicial services and certain regulatory functions. They could, however, be candidates for one of the other options of AMSD.

3.8.6 These exceptions apply to only a relatively small part of the present Government service and the scope for using AMSD is wide. In examining traditional Government services for candidates for AMSD, attention should focus initially on those services which:-

- Are relatively distinct within the Government structure e.g. an existing separate Department, Division or Office;
- Are relatively large in staff and/or monetary terms;
- Have a limited day to day political involvement.

3.8.7 Where such a candidate is providing a service direct to the public for which a charge is or could be made then it should be considered as a possibility for Service Delivery by Outside Agencies.

3.9 Principles for considering Alternative Means of Service Delivery by Outside Agencies

3.9.1 In 2006 we identified a number of principles which we thought needed to be applied in any initial approach to the issue of alternative service delivery on the Isle of Man. We have reviewed and updated those principles as follows:-

- The more commercial a service the more suitable for alternative delivery it is likely to be;
- The package of services being considered for alternative delivery needs to be clearly identified and defined, as it may not be appropriate for all aspects of the operation within its current organisational structure to be delivered by alternative means;

- There should be a presumption that no Government body should enter a market or continue to provide services that are already properly served by the private sector;
- Where any new service or service expansion is in contemplation, the presumption should be that the preferred provision will be through the use of an alternative method of service delivery;
- Competition in the market should be encouraged wherever possible. Where Government is currently in direct competition with the private sector for the provision of services, alternative methods of service delivery should be considered;
- If public services are to compete with the private sector, competition must be fair, with especial care being taken to avoid cross-subsidisation of commercial operations from revenue funded budgets;
- Where an alternative method of service provision does not have competition in the market, there should be competition for the market (i.e. competition to acquire the right to provide the service) and appropriate regulation may be required;
- Before embarking on alternative means of service delivery a business case should be produced which demonstrates the likely achievement of a net benefit. In particular, the cost to the public (including pension liabilities and other hidden costs) together with the cost of regulation and/or commissioning should be less than the direct delivery cost;
- Where privatisation of an existing monopoly service is proposed, Government should retain control of the capital assets involved;
- There must be adequate safeguards of the quality and value for money of those services provided through alternative delivery mechanisms. Government will need to develop key functions in commissioning, monitoring, audit and regulation to ensure qualitative and quantitative targets are met.

3.10 Recommendation 1

As a general principle, there should be a presumption that, subject to certain exceptions, all those Government services which are now delivered in the traditional way should, in future, be delivered through one or other of the Alternative Means of Service Delivery that we have identified.

3.11 Recommendation 2

The principles for considering alternative means of service delivery involving outside agencies identified at paragraph 3.9 should be embodied into a statement of policy and principles issued by the Council of Ministers.

4 ALTERNATIVE MEANS OF SERVICE DELIVERY – INVOLVING OUTSIDE AGENCIES

We have identified a number of models for alternative service delivery involving outside agencies as follows:-

4.1 Privatisation

- 4.1.1 Where Government transfers to private ownership, by sale or otherwise, the right and/or the assets used to provide a service, normally with an understanding or an agreement that the new owners will continue to provide the service under contract to, or on terms directly controlled by, and regulated by Government.
- 4.1.2 Protection of the public interest can be achieved through ownership of a 'golden share'. This is where Government seeks to privatise the organisation and protects public interests by retaining an element of control of its assets by holding a 'golden share'. The golden share, which usually has a nominal value, enables Government to outvote all other shares in certain specified circumstances and is implemented through the Articles of Association.

4.2 Corporatisation

- 4.2.1 Where the organisation is beneficially owned by Government, but is incorporated under and is subject to the Companies Acts. The undertaking is expected to operate commercially, although some Government subvention to support non-viable activities may be involved and there may be particular restrictions placed upon the company by Government. The assets of the undertaking are transferred into the ownership of the wholly owned company.

4.3 Contracting out

- 4.3.1 Where a service or part of a service which is provided by Government is delivered under contract by a third party. This can be achieved in a number of ways, including:-
- Private sector (for profit) contractor (including outsourcing);
 - Voluntary, charitable or third sector (not for profit) contractor;
 - Public Service Mutual Organisations.
- 4.3.2 Public Service Mutuals can be created where a group of employees 'spin out' from government to form an organisation to deliver services themselves based on their identification of public service need.
- 4.3.3 Having given consideration to the concept of Public Service Mutual in the form it is being developed in the UK, where employees appear to remain on the same terms and conditions and pension schemes as when employed within Government, we have concluded that this may have limited application in the Isle of Man.
- 4.3.4 We have also looked at the following two options for developing partnership approaches to service delivery. These may have the potential to play a role in the future but we are not aware of any local experience of either in any significant way.

4.4 Public Private Partnerships (PPP)

- 4.4.1 Where arrangements are typified by joint working between the public and private sector. In the broadest sense, PPPs can cover all types of collaboration across the interface between the public and private sectors to deliver policies, services and infrastructure.
- 4.4.2 It is also possible to use private sector finance and management expertise to provide services and related assets which would traditionally have been financed and operated by the public sector. The basic concept is straightforward: instead of constructing a road, building or other asset and then operating it itself, the public sector enters into a long-term contract with the private sector to do so. A unitary payment is made for the services and assets provided on a regular basis over the life of the contract. Appropriate risks are transferred to the private sector where it can manage them best. This reduces public sector exposure, for example to cost overruns, provides certainty over future costs and rewards operators who manage services well. Ownership of the assets may revert back to or be bought by the public sector at the end of the contract.

4.5 Public Social Partnerships (PSP)

- 4.5.1 A strategic partnering arrangement which involves the third sector in the design and commissioning of public services.
- 4.5.2 This is based on the thinking that the third sector is often best placed to interact closely with communities and its involvement can mean that people have more choice and control over what services are delivered locally. A PSP differs from other commissioning approaches in that it starts with the need to be addressed, not the services available, which can often be the driver for other partnerships. It may also involve a grant provided to the user of the organisation.
- 4.5.3 A PSP typically comprises three stages:-
- Third Sector organisations work with public sector purchasers to design a service;
 - A consortium of public sector and third sector organisations may conduct a short-term pilot, helping to refine service delivery parameters;
 - The service is further developed to maximise community benefit before being competitively tendered.

4.6 Candidates for Change

4.6.1 In 2006, we considered areas of Government activity on the Isle of Man which appeared to present a prima facie case for alternative service delivery and summarised our preliminary assessments which were as follows:-

Activity	Preferred Option
Bus Service	Corporatise/Privatise
NSC	Contract out
Tourism Events	Contract out
Villa Marina/Gaiety Theatre	Contract out
Airport	Corporatise
Harbours	Corporatise
Works Division	Contract Out
Quarries	Contract Out
Knockaloe Experimental Farm	Contract out
Commercial Forestry	Contract out
Fish Hatcheries	Contract out
Water Authority	Corporatise
MEA	Corporatise/Privatise
Post Office	Corporatise/Privatise

4.6.2 In doing so, we emphasised two important points:-

- This list was not definitive or indeed anything more than a snapshot of some of the more obvious candidates that could be considered for alternative supply;
- With the time and resources available to us, it did not prove possible to undertake sufficient in depth analysis of each of these areas of activity in order to obtain irrefutable evidence one way or the other about the extent to which these areas would be suitable for delivery by one of the alternative means identified above.

4.6.3 We also highlighted that decisions of this nature often come down to issues of politics and culture irrespective of how compelling the logical argument.

4.6.4 Since our 2006 report, whilst some Departments have endeavoured to become more efficient, so far as we are aware no exercise has been done to evaluate properly any of the alternative organisational models proposed. In that regard we would draw Government's attention to pages 71 and 72 of our 2006 report, identifying the pros and cons of those models. In addition, we would advocate the following points:-

- Competition can be a spur to achievement and provides value for money to customers;
- Company law is the result of much national and international experience and is generally effective in regulating the behaviour of commercial enterprises;
- Company direction and management require a different skill set to the direction and management of public sector enterprises.

4.6.5 The timescale for our review in 2012 has been considerably shorter and we have certainly not had the time to commission or undertake a detailed analysis of the pros

and cons of alternative service delivery for each of these areas. Nor should we. Ultimately, it is a matter for the relevant Ministers and the Council of Ministers to reach conclusions on how best to deliver public services in order to achieve efficiency and value for money.

- 4.6.6 However, we have been asked to review and update the proposals made in 2006. We have therefore reviewed our candidates for change from 2006 and considered additional areas of Government activity where we consider there is a case for alternative means of service delivery to be explored further. Having regard to the principles outlined at paragraph 3.9 and the information we have been able to elicit from Government itself, as to its current view on these activities, we set out below our updated proposals on the candidates for change.

DEPARTMENT OF COMMUNITY, CULTURE AND LEISURE

- 4.6.7 The evidence received from the Department of Community, Culture and Leisure (DCCL), suggests that the Department has, in recent years, made some progress in seeking to commercialise its trading activities, which has been driven, we feel, primarily by the need to respond to budgetary constraints. We acknowledge that the primary difficulty facing the Department is the workforce issue which we refer to throughout this report. Whilst we accept that modernisation of terms and conditions will help towards improving the commercial position, there is a strong case for these functions to be moved out of Government much faster.

Bus Service

- 4.6.8 The DCCL currently operates, maintains and promotes the Island's bus services. Its remit is to provide accessible bus transport for all groups which meets the work and social needs of the population, including continuation of free travel for senior citizens and state school children. In our 2006 Report, we recommended that the possible corporatisation (or privatisation with a government subsidy) of the Island's bus service is something which should be considered.
- 4.6.9 Significant changes have been made since our 2006 report, particularly in respect of increasing income and the number of passengers. Improvements have been made to fleet availability, vehicle utilisation, fuel efficiency, the actual driving time of drivers as a percentage of paid time, the number of passengers, the level of income, the amount of private hire work and the reduction of driver and bus numbers. However, we have been advised that between 55% and 60% of all passenger journeys are made free of charge and that the service continues to cost approximately £6.5M a year net.
- 4.6.10 **Conclusion:** In principle, privatisation would appear to be the most appropriate model for the Island's bus services, but the obligations imposed on Isle of Man Transport by earlier political decisions would make such a major change at this time very difficult.
- 4.6.11 Corporatisation could be an appropriate model as it recognises the commercial nature of bus travel and allows for the continuation of existing obligations and concessions. The corporate body could, and should, also have the freedom to make decisions regarding terms and conditions and fares.
- 4.6.12 A more direct infusion of commercial ethos into the bus service, through Corporatisation, could engender operational economies and facilitate more effective

and flexible personnel management. Ultimate control of public transport would remain with the Government through corporate mechanisms and procedures. However, we remain of the view that privatisation should be the ultimate goal for the future of bus services in the Isle of Man.

- 4.6.13 We have noted that the recent restructuring of public transport has involved the full integration of engineering and management services for heritage railways with the bus service. We do not envisage heritage railways being part of the same corporatised entity as the bus service, and have further considered heritage railways in the section regarding proposed new candidates for change at paragraph 4.7. It would, of course, be possible for heritage railways to contract those services currently shared with the bus service from the corporatised entity.

National Sports Centre

- 4.6.14 In 2006, we were of the view that there is scope for greater cost efficiency if elements of the NSC were subject to contracting out arrangements whilst ensuring control of service provision by sound contract management. We reported therefore that consideration should be given to the possible contracting-out of the National Sports Centre.
- 4.6.15 The 2012-13 budget estimates net expenditure for Sport and Recreation as £2.6M.
- 4.6.16 Since our 2006 report an independent review of staffing numbers at the NSC has concluded that operational staff cannot be reduced, on the basis that specified legal minimal numbers are required to operate a swimming pool and the outdoor staff have recently taken on responsibility for the Bowl, without additional recruitment. The majority of staff are subject to the personnel control mechanism and are paid on Whitley Council Leisure rates on the basis of five out of seven working and shift disturbance allowance. These premia combine to give an uplift of 25%, and staffing costs represent the most significant cost in the operation of the facility.
- 4.6.17 **Conclusion:** We believe that the management of sports facilities on the Isle of Man should not be the responsibility of central government, and therefore remain of the view that an alternative means of service delivery would be appropriate for the NSC.
- 4.6.18 This could involve contracting-out the operations in part or in total to a private sector provider but could also, for example, involve corporatisation, through the establishment of Isle of Man Sport as a separate trading company.

Villa Marina/Gaiety Theatre

- 4.6.19 In 2006, we were of the view that the Villa Marina and Gaiety Theatre complex may not be reaching its full potential either in terms of entertainment or conference facilities. As a trading entity, we were of the opinion that the complex could be operated more effectively by private contractors.
- 4.6.20 Since 2006, DCCL has reduced the cost of the Villa Marina and Gaiety Theatre to approximately £1.3M per annum net. DCCL has advised that it estimates the building operating costs for the complex to be in the region of £1 million per year, of which over half is spent on property maintenance. It also estimates that approximately £300,000 per year is given away as discounts to Manx charities, other Government Departments and similar bodies. DCCL therefore suggest that the subsidy of £1.3M excluding loan charges is being used to support the Villa Marina

and Gaiety Theatre's role as the 'village hall of the Isle of Man' and that the commercial operation of the facility is undertaken at no net budget cost.

- 4.6.21 In respect particularly of the Gaiety Theatre, in the UK many such theatres are operated as trusts that receive grant funding. The success of these operations is based on the tax efficiency of the trust structure, which would not provide a net benefit to Government in the Isle of Man. It is also the case that UK theatres can seek funding from a range of bodies including the local authorities, the public lottery, UK Arts Council, etc.
- 4.6.22 **Conclusion:** We remain of the view that the Villa Marina and the Gaiety Theatre would be operated more effectively by contracting them out. However, as the complex is a capital asset which requires extensive ongoing maintenance, any contract for its operation would need to ensure that the condition of the capital asset was maintained and that there was no opportunity for any form of asset stripping to be undertaken.
- 4.6.23 A governance model similar to that proposed for the NSC, corporatisation with the establishment of a Villa Marina/Gaiety Theatre trading organisation, or a version of public private partnership, may also be appropriate for further investigation.

DEPARTMENT OF ECONOMIC DEVELOPMENT

Tourism Events

- 4.6.24 In 2006, we noted that the DTL organises, co-ordinates, provides support and promotion for sporting and cultural events held on the Isle of Man. The biggest event run on the Isle of Man is the TT races, which has its own brand and which also promotes the Isle of Man abroad. We suggested that the brand should be maintained by Isle of Man Government but the scheduling and organisation of events could be carried out by private operators under contracting out arrangements. We also suggested that this could apply to other tourism events currently managed by the DTL.
- 4.6.25 These suggestions were made with the view that such an approach could bring greater professionalism to events organisation and result in some savings to Government.
- 4.6.26 Since 2006, the Department of Tourism and Leisure has been abolished, and its responsibilities divided between the DCCL and the Department of Economic Development (DED). The Tourism Division has been incorporated within DED and provides funding of selected events; works with the industry to identify and support new products; maintains a quality standard for the accommodation sector and seeks to promote specific events and the Isle of Man in general as a visitor destination.
- 4.6.27 The recent Visitor Economy Strategy reflects the broad objectives of the 2006 Review by accepting the need to work with the private sector to promote and support the visitor economy. The Tourism Division does not seek to have direct involvement in the organisation of tourism events or to act as a provider of tourist facilities. Although not yet complete, the policy is to outsource administrative and logistical requirements to the private sector. All new events are managed in this manner, with existing events being persuaded to adopt this procedure. The Visitor Economy Strategy commits the Department to a collaborative approach with the private sector and a close working relationship with the Chamber of Commerce.

- 4.6.28 A similar approach of collaborative working with the private and voluntary sectors is adopted by the Department's Motorsport Team. The Team continues to oversee the events for which the Department is the promoter, i.e. the TT and MGP. However, it is annually increasing the contracting out of services and focuses its resources on the management, with advice from contractors, of the TT brand; sets commercial targets for the TT and other events; reviews and manages the funding of motorsport events and works with sports governing bodies and other Departments to protect the Government from the reputational risks associated with the sport.
- 4.6.29 The Department continues to explore further opportunities for the contracting out of tourism functions, where it is possible to demonstrate that this would offer better value for money whilst retaining commercial rights and revenue streams and protecting the reputation of the Island. The budget estimates net expenditure for Tourism (including Motorsports), as £5.6M in 2012.
- 4.6.30 **Conclusion:** We are encouraged by the Department's collaborative approach, and support its efforts to continue to explore opportunities to contract out wherever possible.

DEPARTMENT OF INFRASTRUCTURE

Airport

- 4.6.31 Within aviation, including the UK, some airports are operated by concession, whereby the Government transfers the operating right to the private sector. The concession structure provides a framework for the Government to retain ownership of airport land and responsibility for licensing the operator; however, the Government remains the landlord.
- 4.6.32 The Department of Infrastructure has responsibility for Ronaldsway Airport, which the 2006 report suggested could be considered a candidate for corporatisation. At present, the Department directly operates most activities, with only security and catering being contracted out.
- 4.6.33 The Department's view is that whilst corporatisation could reduce some of the operating costs and therefore the revenue dependency on the Government, the conventional model for airport funding, which relies significantly on income from retail activities and parking income, may not readily lend itself to the airport on the Isle of Man. However, the Department has advised that it is actively considering its options for the future of the airport with a view to making it self-funding.
- 4.6.34 The budget estimates net expenditure for the Airport, less loan charges, as £3.9M for 2012-13.
- 4.6.35 We continue to believe there is a case to be made for the airport to be run on a commercial basis and this is the norm throughout Europe. We recognise the need to maintain airport infrastructure and accept that this could not be fully funded by a private sector company. We also recognise Government's role in providing encouragement for route development and promoting/supporting key routes.
- 4.6.36 **Conclusion:** Retention of the Airport within Government ownership is essential, given its strategic importance. However, we still believe there is a prima facie case for considering corporatisation, combined with the further contracting out of certain functions in relation to baggage handling, cleaning, parking and dedicated policing.

These changes could bring benefits to Government through encouraging a more commercial approach; reducing dependency on government revenue funding and enabling a more competitive approach in respect of staff terms and conditions of service. What is of prime importance however is that the charges levied by the airport on airport users are comparable to those levied by other airports and that the airport is self-funding using those charges.

Ports and Harbours

4.6.37 In 2006, we suggested that, as with the airport, there was merit in considering the possible corporatisation of Ports and Harbours. The current position is that the Department of Infrastructure has advised that it continues to consider the possibilities for some form of outsourcing of the Island's ports. The Department is also considering the amalgamation of the Airport and Harbours Divisions to see if any synergies could be realised. Should this amalgamation take place, it would have an impact on any future decision to commercialise or corporatise.

4.6.38 **Conclusion:** As with the airport, we continue to believe there is merit in considering the possible corporatisation of Ports and Harbours. This could provide greater flexibility to react to user requirements and develop sites on a commercial basis. It could also provide greater freedom to contract out services if required and charge commercial rates to all users, subject to any constraints imposed by Government regulation. In looking at corporatisation there are two options: one is to look at Douglas harbour in isolation; the other is to look at all the harbours together. Generally, we would favour the former and we would look to Douglas Harbour being self-financing and levying charges similar to those of comparable harbours.

Works Division (now known as Operations Division)

4.6.39 In 2006, we recommended that consideration should be given to extending the contracting-out arrangements of the Works Division, whereby it utilised the private sector for delivering certain services.

4.6.40 In 2009 the Works Division was renamed the Operations Division reflecting its changing nature as a technical skills service provider to Government as a whole. The Division is now largely made up of six business areas:-

- Technical Services
- Civil Engineering
- Quarries
- Waste management
- Property Maintenance and
- Fleet Management

4.6.41 Quarries are dealt with at paragraph 4.6.45.

4.6.42 The Department of Infrastructure does not see a case for material change. It maintains the technical and engineering skills it has developed are in short supply on the Island and demand is insufficient to support a competitive market. It points to

some of these skills and disciplines being an integral part of Government's emergency capability.

- 4.6.43 **Conclusion:** We can but reiterate the recommendation which we made in 2006 that the Department consider extending the Operations Division's contracting-out arrangements. The Department's defence of the current position may have some substance but given the Division's expenditure and establishment a further critical look at the arrangements is required.

Quarries

- 4.6.44 In 2006, we reported that we do not believe it should be a core function of Government to operate a quarry. The Department of Infrastructure is of the view that its participation in this market is a restraint on private sector price excess, and without it the long term protection of a limited natural resource (the mineral gabbro), would be jeopardised. Furthermore, the Department's management of explosives is the Island's benchmark for safety and operational practice and the Department's quarries historically produce stone at much lower cost than the private sector. The Department believes that for these reasons the Department's quarries should remain in Government ownership and operation.
- 4.6.45 We note that regulation of mineral extraction is the responsibility of the Department of Economic Development, which has ownership of all minerals in the Isle of Man.
- 4.6.46 **Conclusion:** The Department should contract out the quarries, and that regulation of activity and protection of the mineral asset be made through the Department of Economic Development. The regulation of explosives should be the responsibility of the appropriate Department.

DEPARTMENT OF ENVIRONMENT, FOOD AND AGRICULTURE

Knockaloe Experimental Farm

- 4.6.47 In 2006, we supported the work being conducted by DAFF to cease government operated farming at Knockaloe and are pleased to note this happened in November 2010.

Commercial Forestry

- 4.6.48 The commercial forestry operation budgeted for an annual deficiency of approximately £320,000 in 2006, although with additional (hidden) costs the true deficit was estimated as being more in the region of £0.5m per annum. We therefore supported the implementation of the recommendations of an external review which could potentially turn the sawmill operation into a break-even/cost neutral operation, making it more attractive in commercial terms for contracting out.
- 4.6.49 As a result of management changes and new investment it is anticipated by DEFA that the Sawmill will reach a break-even position in the next few years. However, DEFA argues that the Sawmill is a key part of the Department, of strategic importance, and a key part of its leisure management role. It therefore has no plans at present to pursue options for contracting out.
- 4.6.50 **Conclusion:** It appears to be an over-statement to claim that the Sawmill is a key part of the Department and of strategic importance. Neither do we see any

compelling reason for Forestry Management to remain an integral Government function. Corporatisation and/or Contracting-Out of Forestry Management and the Sawmill as separate operations should be actively pursued.

Fish Hatcheries

- 4.6.51 The Freshwater Fisheries are located on two sites, Cornaa and Laxey Glen.
- 4.6.52 In 2010 the Department signed a lease with a private company for the site at Cornaa. The company pays 'rent' to the Department by stocking the reservoirs in accordance with a programme agreed by the Department.
- 4.6.53 This arrangement has resulted in manpower and cost savings, and a recent exercise has suggested that the Department has moved from a position in 2007 where each trout caught by anglers was subsidised by over £2, to a position where reservoir trout angling is now paid for entirely through licence sales.
- 4.6.54 **Conclusion:** Consideration should be given to developing similar arrangements for the site at Laxey Glen.

Water Authority (now known as Water and Sewerage Authority)

- 4.6.55 In 2006, we recommended Corporatisation as an option which should be considered. It would provide a degree of separation from the political environment, enable the authority to operate on a more commercial basis, and ensure it was freed from the customary constraints of Government intervention such as personnel control. We also recommended investigation of the possibility of transferring to the Water Authority the sewerage functions vested in the Department of Transport.
- 4.6.56 As part of the Government Restructure of 2010, the drainage division of the Department of Transport was merged with the Isle of Man Water Authority to form the Isle of Man Water and Sewerage Authority (WASA). In addition, the Authority has given notice to its Sewerage Agents (Douglas Corporation, Ramsey Commissioners, Peel Commissioners, Port Erin Commissioners and Port St Mary Commissioners) that their agreements will terminate on 1 April 2013 and that the work will then be undertaken by WASA. Efficiency savings will be realised as a result of this initiative.
- 4.6.57 **Conclusion:** We remain of the view that corporatisation should be considered, followed in due course by privatisation. A 'light touch' regulatory framework could be developed with the Department of Infrastructure, covering areas of price control and service delivery.

MEA

- 4.6.58 In 2006 we stated that given the financial state of the Manx Electricity Authority there was likely to be little enthusiasm to make significant change. However, we suggested that corporatisation should take place now and the current Board stay in office as Directors of a wholly owned Government company. We argued that whilst a move to a corporate structure may be viewed with scepticism by some who might see this as a means of removing accountability, the controls imposed by the Companies Acts would require greater levels of corporate governance and personal liability for directors than currently exists with the Statutory Board status.

- 4.6.59 **Conclusion:** We remain of that view that the Corporatisation route should be pursued, and acknowledge that the MEA's debt position precludes its early privatisation, unless Government was in a position to write off the debt.
- 4.6.60 We remain of the view that, in line with our stated principle at Chapter 3 above (no Government body should enter a market or continue to provide services that are already properly served by the private sector), that the MEA should close its heavy loss making retail outlets.
- 4.6.61 Whilst recognising that ownership of the asset may need to remain with the MEA, Government may also wish to consider whether the fibre optic capacity should be considered for sale or transfer to alternative organisations.

Post Office

4.6.62 In January 2006 Tynwald accepted the report 'Strategic Direction of the Isle of Man Post Office' which recommended that the Post Office should remain as a Statutory Board albeit that it should be allowed to diversify subject to the authority of the DTI under Section 4(g) of the Post Office Act 1993.

4.6.63 In 2006 we reported that:-

'if the Post Office is to survive in an increasingly global and competitive market place its adoption of a stronger commercial approach is clearly necessary. Not only must the organisation be able to react to changing market conditions but it must also contemplate collaborative business arrangements with private sector companies. It is difficult to see how the arrangement recently approved by Tynwald could satisfy this trading need. Further, it is questionable whether the proposed arrangement could afford government control comparable to company law. We therefore believe that the proposed corporatisation of the Post Office should be reconsidered, with a view to it being privatised in the longer term.'

- 4.6.64 This assessment is as valid of the situation today, as when drafted; only the commercial imperatives to diversify have increased significantly. Whilst the Post Office continues to remain profitable, approximately 50% of those profits are generated as a result of its commercial activities and, therefore, it is essential the Post Office is allowed the freedom to grow and further develop these activities at a time when the global postal industry is changing at a significant pace.
- 4.6.65 As a Statutory Board, the Post Office is in the worst of all worlds; it is not part of mainstream Government, has no representation at key decision, influencing or policy making forums (Council of Ministers, Chief Officer Group etc), but is subject to the obligations of policies cascading out from the centre and much of the other bureaucracy of a central administration.
- 4.6.66 **Conclusion:** If the profitability of the Post Office is to be maintained, the pace of diversification must increase. The corporatisation model offers the best solution for sustained commercial success in an international market place, and should be progressed with due speed. A 'light touch' regulatory framework could be developed with the Department of Economic Development covering areas of price control and service delivery.

4.6.67 It is recognised the manner in which the Post Office would operate if our recommendation is pursued would result in a Government entity operating in conflict with a principle we have advocated. We would simply point out that the Post Office currently operates in competition with the private sector, and the only satisfactory remedy is to progress from Corporatisation to Privatisation.

4.7 Proposed New Candidates for Change

DEPARTMENT OF SOCIAL CARE

Residential and Day Care Services

- 4.7.1 These facilities are currently competing with the private and third sectors, and therefore do not comply with our principles for service delivery as identified at paragraph 3.9. Furthermore, as the Department of Social Care's services are subsidised by the taxpayer, it is not a 'level playing field'. Indeed, DSC has advised that while three new residential homes for older people have opened in the last two years, three others have closed citing Government unfair competition. By transferring such public facilities to the third and/or private sectors, the Department of Social Care estimates annual significant savings are achievable. In addition, significant one-off income could be achieved if the facilities are sold.
- 4.7.2 **Conclusion:** It is counterproductive for the Government to own and operate these facilities in competition with the private and third sectors. For the Government to persist in doing so will undermine the private sector operators. Government's involvement should not extend beyond the establishment of policy, regulation of quality and cost, and financial support to residents where it is needed.
- 4.7.3 The immediate need is to contract out those residential homes and day care services presently owned and operated by the Government. It should then be for consideration on a case by case basis as to whether Government should divest itself of ownership.

Home Care Services

- 4.7.4 The Department of Social Care provides a range of home care services in direct competition with the private and third sectors. Again, the provision of these services does not comply with our principles as identified at paragraph 3.9. By transferring such public services to the third and/or private sectors, again we estimate that savings are achievable.
- 4.7.5 **Conclusion:** Again, it is counterproductive for Government to provide these services in competition with private and third sectors. Government should confine involvement to the establishment of policy, regulation of quality and cost and financial support to clients where it is needed. The early Contracting Out of these services wherever possible is called for.

Prison

- 4.7.6 We did not consider the Isle of Man Prison Service for Alternative Means of Service Delivery in 2006 and we have not had the opportunity to do so in any depth on this occasion. It warrants detailed examination if only by reason of its cost to the taxpayer – in the order of £7.5m annually.

- 4.7.7 The position in the United Kingdom is that the Prison Service in England and Wales is part of the National Offender Management Service, the other principal component being the National Probation Service. As of 2009 there were 131 prisons, of which nine were privately owned and managed and two Government owned and privately operated. As of September 2010 the England and Wales prisons population was 84,955 and the total staff complement in the order of 44,000.
- 4.7.8 The Scottish Prison Service and the Northern Ireland Prison Service are Executive Agencies answering to their respective Governments. By implication the prisons in Scotland and Northern Ireland are Government owned.
- 4.7.9 Prison Escort and Court Custody Services throughout the United Kingdom are very largely carried out by the private sector.
- 4.7.10 **Conclusion:** Having regard to the position in the United Kingdom and elsewhere early consideration should be given to establishing the Isle of Man Prison Service as an Executive Agency (see Chapter 5). Further consideration can be given at a later time to Contracting Out for the management of the prison.

Heritage Railways

- 4.7.11 Our proposals regarding the future of the bus service, isolates the Heritage Railways. This is an area which we did not consider in any depth in 2006 and one which we have also been unable to consider in any depth on this occasion.
- 4.7.12 We have however been advised by the Department of Community Culture and Leisure, that whilst operational efficiency and income generation have both made significant improvements over the last two years, there will continue to be a requirement for high capital investment essential for continuation of the service.
- 4.7.13 **Conclusion:** We suggest that, as is the case with other heritage railways in the UK, consideration be given as to how heritage railways could work with the voluntary railway enthusiast sector, possibly via a form of partnership, to deliver services in future.

Safeguarding Children

- 4.7.14 In Chapter 4 we identify three new possible options for AMSD, namely Public Private Partnerships (PPP), Public Social Partnerships (PSP) and Public Sector Mutuals.
- 4.7.15 A PSP may be a suitable solution to bring together services which currently exist across a number of Departments for the safeguarding of children, as relationships between Government and the charities working in this area already exist.

Employment and Training, Post Full-Time Education

- 4.7.16 Currently there are a number of services, spread across Departments, providing employment and training support for individuals about to leave or having left full time education. These include the International Business School, the College, Government Training Services, Apprenticeship schemes, Careers Advisory services, and the support of NEETs. Bringing all of these together into one body could create a more structured path for individuals to achieve their potential. Although in Chapter 4 we indicated that Mutuals may have limited application in the Isle of Man, they

should not be ruled out without some consideration and this may be an example of one that might be a viable opportunity.

4.8 Overall Conclusions

4.8.1 The following table summarises our updated preliminary assessments, together with some new suggested candidates for change:-

Activity	Preferred Option
Bus Service	Corporatise/Privatise
NSC	Contract out/Corporatise
Tourism Events	Contract out
Villa Marina/Gaiety Theatre	Contract out/Corporatise/PPP
Airport	Corporatise/Contract Out
Harbours	Corporatise
Works Division	Contract Out
Quarries	Contract Out
Commercial Forestry	Corporatise/Contract out
Fish Hatcheries	Contract out
Water Authority	Corporatise/Privatise/Contract Out
MEA	Corporatise
Post Office	Corporatise
Residential and Day Care Services	Contract Out/Privatise
Home Care Services	Contract Out
The Prison	Executive Agency
Heritage Railways	Develop PSP
Safeguarding Children	PSP
Employment/Training Support/Post-Full Time Education	Corporatise/Privatise/Contract Out/Mutual

- 4.8.2 Across Government there are a huge range of services some of which, in other places, are delivered by outside agencies. There is no necessity to provide a comprehensive list at this stage. What is necessary is for Government to look at our short-listed candidates and if the use of outside agencies proves to be a valuable option then a further list of possible candidates can be compiled.
- 4.8.3 Having reviewed our original proposed candidates for change and considered progress and changes to date, we maintain, for the most part, the same views as those expressed in 2006, albeit with the addition of some further options for service delivery for consideration.
- 4.8.4 Having suggested that Government should consider providing some of its services through alternative delivery mechanisms, the purpose of our updated preliminary assessment exercise has been to re-open the debate on the sorts of services which might be considered for alternative delivery and on the alternative delivery options that might be appropriate in each instance. In no case have we been able to go into sufficient depth to reach firm conclusions, but, in each case where we recommend alternative service delivery, there is, in our view, a sufficient prima facie case for change to warrant a further and in-depth examination.
- 4.8.5 Whilst we are convinced that there are benefits to be gained from an initiative aimed at increasing the scope of delivering public services by alternative means and that those benefits should be realised as soon as practicable, we do recognise that the

approach to this initiative needs to be carefully planned. It would not be sensible to rush into alternative delivery mechanisms wholesale and across a broad front, or without detailed advance study and planning.

- 4.8.6 And, it is important to re-emphasise that this is not a doctrinaire matter. It is a practical issue to be resolved on the basis of what is the most efficient and cost effective option for each particular service.
- 4.8.7 Ideally, Government should select a small number of prime candidates (sensibly from the options which we have identified) and having verified the justification for the alternative service delivery in each case should promote them as prototypes for change. It is our view that the three, most obvious early candidates for early change are the Airport, Public Transport and the Post Office. In addition, particularly significant savings for the taxpayer are likely to be generated by the contracting out of various social care services.
- 4.8.8 We would expect that the learning process, experience and track record of making those changes in a few prototypes would then assist and justify further change enabling a rolling programme of wider change to be developed.
- 4.8.9 We would see a programme such as this:-
- Reducing the scope of Government by pushing services out to alternative providers;
 - Improving value for money as it has done elsewhere by allowing Government's limited political and administrative resources to be concentrated on fewer activities;
 - Helping with the programme of separating policy-making and service-delivery;
 - Aiding transparency by requiring the service level agreement for each service to be explicit and in the public domain.

4.9 Recommendation 3

Government should:-

- **Seek to reduce the proportion of public services which it provides through direct delivery by making greater use of alternative means of service delivery using outside agencies;**
- **Conduct in-depth appraisals into the use of outside agencies for those services identified in paragraph 4.8 of this report commencing with the Airport, the Post Office, the Bus Service and Residential Care Services;**
- **Take forward those cases where, after in-depth appraisal, alternative delivery by outside agency has been shown to be justified, as the beginning of a rolling programme of change across a wider range of services.**

5 ALTERNATIVE MEANS OF SERVICE DELIVERY – WITHIN THE GOVERNMENT STRUCTURE

5.1.1 In our 2006 report (Chapter 9 – Improving Service Delivery) we devoted part of the Chapter to Executive Agencies which is an alternative means of service delivery, but one which operates within the Government structure. In introducing the chapter we acknowledged that the alternatives of Privatisation, Corporatisation and Contracting-out were not realistic options for the delivery of all of what Government does, but we saw Executive Agencies as providing some separation between strategic direction and day to day management and thus offering some of the benefits of the more radical options.

5.1.2 What we said in 2006 was:-

Executive Agencies

'In describing international developments in chapter 6 we made a brief reference to the establishment of Next Steps Agencies in the United Kingdom. The rationale behind the establishment of those bodies (now more usually called Executive Agencies) was the wish to tackle a number of key weaknesses identified in the delivery of public services by central government in the UK, namely:-

- *Ministers were overloaded and top management was dominated by its policy role;*
- *insufficient attention was given to the management and the delivery of outputs;*
- *there was a shortage of management skills and experience in the Civil Service;*
- *the Civil Service was too big and too diverse to manage as a single organisation.*

There is a clear resonance between these weaknesses and what we have found in our current review of the Isle of Man Government. We have, therefore, looked carefully at the UK Executive Agency model to see if it brought improvements in the UK and if, as a model, it is transferable to the Isle of Man.

Executive Agencies began to be created in 1988 and, as at June 2006, there were 84 agencies of Whitehall departments, plus four other organisations which work on Next Steps lines. They employ over 70% of the UK Civil Service. They are the vehicle through which most central government services to the public are provided. They perform a wide variety of functions and there is no consistency of size – they vary in staff numbers from a low of 50 to a high of 90,000. However, there is a clear consensus that they have been a success and, even where there have been spectacular difficulties, for example in the Child Support Agency, the problems are not regarded as being a consequence of the body's agency status.

Many of the Executive Agencies are, from a layman's perspective, fairly obscure, but some are reasonably well known – Central Office of Information, Central Science Laboratory, Companies House, Compensation Agency, Criminal Records Bureau, Disability and Carers Service, Driver and Vehicle

Licensing Agency, Forensic Science Service, Highways Agency, HM Courts Service, HM Land Registry, HM Prison Service, Identity and Passport Service, Jobcentre Plus, Maritime Fisheries Agency Maritime and Coastguard Agency, Met Office, National Savings and Investments, Office for National Statistics, Ordnance Survey, Patent Office, The Pension Service, Planning Inspectorate, Royal Mint, The Royal Parks, UK Hydrographic Office, Veterans Agency, Youth Justice Agency.

The key to Executive Agency working, as recommended at the outset was that –

'To the greatest extent practicable the executive functions of government, as distinct from policy advice, should be carried out by units clearly designated within Departments, referred to as 'Agencies'.

It was further proposed that –

'The main strategic control must lie with the Minister and Permanent Secretary. But once the policy objectives and budgets are set, the management of the agency should have as much independence as possible in deciding how these objectives are met... the presumption must be that, provided management is operating within the strategic direction set by ministers, it must be left as free as possible to manage within that framework'

For each Executive Agency there is a framework document (a contract between the Minister and the Agency which includes whatever delegation of Ministerial powers that is necessary). The framework document has a three year life and there are annual corporate plans which further define what the Minister expects the Agency to deliver and the Agency makes an annual report which is laid before parliament. The Minister remains responsible for the Agency and politically answerable for it.

Agencies are headed by a Chief Executive. They do not have governing boards, but many Agencies (like UK Government Departments) have a management board made up of senior staff and a number of external (often independent) members. A number of sub-committees may report to the management board (including an audit committee in line with Government accounting rules).

The Executive Agency arrangement is flexible. The Agency is an administrative creation, not a statutory one, so a Department can create or modify an Agency without the necessity of new legislation. Executive Agencies are part of the Crown. They do not usually have their own legal identity, but instead operate under powers that are delegated from Ministers and Departments. If it is necessary for an Executive Agency to have a legal identity - for instance for control of assets or liability purposes - legislation may be required, or an alternative legal personality chosen.

There is no doubt that the Executive Agency concept has worked well in the United Kingdom. The question is whether it would be as successful in the Island and, in our view, there is no single answer to that question. It is a 'big

government' solution, which is more difficult to achieve in a small jurisdiction with small resources and small teams of staff. There needs to be not only a discrete area of defined and self-contained work on which the Agency can focus, but there needs to be sufficient expertise and experience of that work in both the Agency and in the Minister's Office within the Department to ensure a sensible dialogue between the two in agreeing the framework document and the annual plans. We can well see that there will be areas of work within Government where the Executive Agency model would be appropriate and would work well, but it is not a universal panacea. It is not likely that all Departments will be able to separate simply into a head office advising the Minister and a number of Executive Agencies each delivering a part of the Department's service to the public, although that is a model which we find attractive.

What we conclude on Executive Agencies is that it is an attractive concept and Central Government and Departments should give it the most serious consideration and be willing to adopt it as a Departmental structural principle wherever it is likely to produce a net benefit. Possible areas within the Isle of Man Government where the Agency approach might be considered in the first instance include Social Security, Income Tax Division and Customs and Excise Division.'

5.1.3 It seems to us that the case for Executive Agencies is even stronger now than in 2006. At a time of overall Government retrenchment the great need is for politicians to manage the public debate and to concentrate on strategic and big picture issues and to avoid micromanaging the cost-cutting that is necessary. Managers, on the other hand, given greater managerial freedom, have the scope within politically-determined parameters to be more imaginative and effective in delivering slimmed-down but effective services.

5.1.4 Our relevant recommendation in 2006 was:-

'Government should look seriously at the Executive Agency model developed in the United Kingdom and should be willing to adopt that model and establish Executive Agencies within Departments, where the service provided and the internal structure of the Department make it likely that the model would produce a net benefit in terms of efficiency and effectiveness.'

5.1.5 We repeat and re-emphasise that recommendation and add a further one, in the light of events since our earlier report.

5.1.6 It is clear from the response to our 2006 Report and from our discussions with politicians and officers this time around that there is nervousness about the possible candidates we have identified for the various alternative means of service delivery involving outside agencies. A number of ostensibly plausible reservations have been put to us. To what extent those reservations are well-founded and to what extent they owe more to inertia, self-interest and fear of the unknown is difficult to know. But, as a compromise or as a stepping-stone to something more radical, we would offer the Executive Agency as a low risk alternative, where the practicalities of separating services out from day to day Government control could be tested with a view either to them remaining as Executive Agencies for the long term or being moved on to some more radical solution when sufficient experience and confidence within the Executive Agency model has been gained.

5.2 Commercialisation

- 5.2.1 In 2006, we identified a further mechanism for alternative service delivery within the Government structure, namely commercialisation. In this model, a Government entity other than a company, sells goods or services to the public at a price which wholly or largely covers the costs of providing that service. Current examples of this method of service delivery include the Statutory Boards of the MEA, WASA and the Post Office.
- 5.2.2 In principal, we would favour the services being corporatised, contracted out or privatised. Looking elsewhere, we have found no obvious alternative candidates for commercialisation and have therefore not pursued this option as part of this report.

5.3 Recommendation 4

We recommend that Government should:-

- **Look seriously at the Executive Agency model developed in the United Kingdom and should be willing to adopt that model and establish Executive Agencies within Departments, where the service provided and the internal structure of the Department make it likely that it would produce a net benefit in terms of efficiency and effectiveness;**
- **Commence this process by considering the Executive Agency Model for operation of the Prison and Social Security;**
- **Be prepared to use the Executive Agency model to test the practicalities of removing from day to day Government control those services which are being considered for alternative means of service delivery by outside agencies, where there are cogent reservations about the best long term operating arrangement.**

6 ALTERNATIVE MEANS OF SERVICE DELIVERY – LOCAL GOVERNMENT

6.1.1 In 2006 we devoted a chapter of our report (Chapter 10) to Local Government, which, if it were significantly reformed, we saw as having the potential for providing a wider range of public services and thus reducing the scope of Central Government. What we said was:-

'We have referred earlier to the desirability of reducing the diversity and complexity of Government as an aid to increasing Government's focus on its key responsibilities and thus improving its efficiency. One option which might be pursued in furtherance of this aim would be to devolve some of Government's functions to an effective system of local government. There are a number of services which might be considered for transfer because, although they are currently provided by Government, they are local government in nature, i.e. they are provided by local authorities in other jurisdictions.

Apart from the gains to be derived from uncoupling Government and Tynwald from the detail of the provision of local services, there are some additional benefits which would arise from transferring some of Government's functions to local authorities:-

- *Decisions in relation to the transferred functions would be taken nearer to those affected by the decisions;*
- *There would be greater transparency in the operation of those functions, which derives from the more public decision-making processes of local government;*
- *The greater responsibilities of local government should serve to attract greater interest in local politics and, hopefully, more candidates for local elections;*
- *It should encourage Members of Tynwald to focus more on national issues.*

*We found, in our discussions with others, considerable support for the principle of local authorities existing alongside Government and no enthusiasm for sweeping them away and having all services provided centrally through Government. No one suggested that functions could be devolved whilst the existing local government structure remained in place, but the concept of Government transferring some of its functions to an **effective system** of reformed local government was one which commended itself widely to those with whom we spoke.*

The Existing Structure

The existing local government structure is both old and complex. The statutes establishing the Island's local authorities were passed in the late nineteenth century, concluding in 1894. There were at that date 26 local authorities:-

4 towns: Douglas, Castletown, Peel and Ramsey;
5 villages: Laxey, Michael, Onchan, Port Erin and Port St Mary; and
17 parishes: Andreas, Arbory, Ballaugh, Braddan, Bride, German, Jurby, Lezayre, Lonan, Malew, Marown, Maughold, Michael, Onchan, Patrick, Rushen and Santon.

Little has changed in the subsequent 112 years. Various boundary extensions reflecting the growth of the urban settlements have extended the various towns and villages at the expense of the adjacent parishes and in recent times Onchan Village and Onchan Parish and Michael Village and Michael Parish have been merged reducing the total number of local authorities to 24.

There have been a number attempts over the years to achieve radical reform of local government, but none has secured political approval for any one reform package and, ultimately, all have failed. One consequence of this failure is that new functions and services which might have been given to the local authorities had they been larger and better resourced have been assumed by central government or have been given instead to combination authorities (new authorities created for a specific purpose and made up of representatives of a number of local authorities). There are currently 14 combination authorities (or joint boards) responsible for administering elderly persons sheltered housing complexes (7), local swimming pools (3), civic amenity sites (3) and refuse collection (1). These 14 need to be added to the 24 local authorities to complete the picture.

Few of those with whom we spoke had any confidence that the political establishment would be able to deliver significant reform of local government in the foreseeable future. But as there appears to be the potential for significant gains and there is a lot of support for the principle of devolving some Government services to a reformed and effective system of local government, we feel that a determined new attempt ought to be made.

Local Government Services

Leaving to one side the combination authorities, the 24 local authorities presently provide a limited and varied schedule of services. Generally, the larger the authority the more services it provides.

All authorities consider Town and Country Planning issues affecting their district, are responsible for refuse collection (in some cases through a joint board), have powers to provide street lighting and responsibility for certain legislation relating to environmental health (although the professional staff to advise on environmental health matters are provided by the Department of Local Government and the Environment). Some provide public sector housing, public conveniences, parks, playgrounds and other leisure facilities, car parking, libraries and control of dogs. Building control is provided by the local authorities in Douglas, Peel and Onchan and the Department of Transport's responsibilities for sewerage, sewage disposal and street cleaning are, in a few cases, undertaken on an agency basis by the larger local authorities.

This limited and inconsistent schedule of services could be augmented by transferring some functions presently undertaken by Government. Generally, the larger the local authority, the greater its capability, thus, the more radical the reform of local government in terms of reducing the number of local authorities and increasing their size, the greater the scope for transferring Government functions. It is not a part of our task to make specific proposals

regarding the structure of local government. Such proposals are outside our remit and must come from others. But we can offer suggestions for a list of additional functions, presently undertaken by Government, which could be transferred to local authorities if local government reform was sufficiently radical. These functions could include:–

- *Administration of the public sector housing owned presently by DLGE;*
- *Building Regulations;*
- *Town and Country Planning (perhaps limited to first stage);*
- *Environmental health matters (other than in respect of the local authorities own activities, where a regulation should remain with central Government);*
- *Pest Control;*
- *Street cleaning;*
- *Car parks and parking control;*
- *Waste management and refuse disposal.*

Such transfers might, perhaps, be perceived as fragmenting the provision of certain services, with the possibility of greater costs, but this need not be the case. The contracting of one local authority by another to provide a service would not be precluded, nor would authorities co-operating in arrangements such as the present combination authorities.

The list above is not necessarily exhaustive. If local government were reformed, we would encourage the identification of other services which might be transferable from central Government.

A Transitional Arrangement

The above list of services (or any alternative list which might be determined) could not be transferred to the current local government structure as it stands. What we would propose, therefore, as a transitional arrangement, is that the Government services which are identified as transferable to local government be brought together under the control of a single body, within Government and responsible to Government, pending local government structural change. The services could complete their transfer to local government following local government reform. Where one or more of existing local authorities currently fulfil one or more of the above list of functions, we would envisage that during the transitional period they continue their functions.

We reported in chapter 9 on the subject of executive agencies and have commended the creation of agencies as a means of delivering certain of Government's operational services. We would see the transitional body which we are proposing as being such an agency, responsible to the Department of Local Government and Consumer Protection. It would have the freedom to manage the services entrusted to it within a policy framework laid down by the Department.

We would also see it as being reasonable to appoint a number of local authority representatives to a Board to oversee the new agency in order to give a local authority input and to give some members of local authorities

some experience of the services involved. We would also see it as being desirable, in the interests of transparency and accountability, for this Board to meet in public to transact as much of its business as possible.

The Department of Local Government and Consumer Protection would have as part of its remit the responsibility for bringing forward proposals for local government reform which would include the transfer of the services being undertaken by the transitional agency. This should happen within a reasonable and defined timescale. We would suggest that the aim should be to complete the reform and the transfer within three years.

We have included waste management and refuse disposal within the suggested remit for the local government transitional agency. Because of the chosen technologies, this is not a service which could ultimately be wholly sub-divided between a number of local authorities. The energy from waste plant and the animal waste processing plant will require a single controlling body and we would see this as, perhaps, being a new combination authority made up of representatives of the new and rationalised local authorities.

In the meantime the creation of the transitional agency with services identified for transfer would provide some reassurance to local authorities that reform would be accompanied by some real extension of local authority powers.

Local Government Finance

We make no assumptions and make no proposals regarding the funding of the additional services that might be transferred to local authorities. Whether they would be financed by local taxation or wholly or partly from central revenues is an important issue which would need to be determined as part of the reform and transfer agenda. Securing a satisfactory balance in restructuring and refinancing local government will be essential if successful reform is to be secured.

Summary

We would see what we propose for local government:

- *As reducing the scope and complexity of Government by transferring functions to local authority management;*
- *As leading to an improvement in value for money, by removing functions from Government and allowing Government to concentrate its political and managerial resources on an alternative and narrower range of responsibilities;*
- *As helping to separate policy from management. The high level policy in a number of areas e.g. housing and waste management will remain with central Government, whilst operational management will be devolved;*
- *As improving transparency and accountability in those areas transferred to local government, because of the more public nature of the transaction of local authority business.'*

6.1.2 Our relevant recommendations in 2006 were:-

- *'Government should commit to a restructuring of local government such that, after restructuring, local authorities should be large enough and have the capability to deliver a wider range of public services, including services devolved from Government.*
- *In the meantime, and pending local government reform, Government should establish, as an executive agency reporting to the proposed Department of Local Government and Consumer Protection, a Local Government Transitional Agency, to which it should devolve those Government functions which it would propose, ultimately, to devolve to local government. We have suggested that these should include DLGE public housing, sports facility management, building regulations, first stage planning, certain environmental health functions, pest control, street cleaning, car parks and parking control, and waste management and refuse disposal.*
- *The board of the transitional agency should comprise local authority representatives and should hold its meetings, so far as possible, in public.'*

6.1.3 The Department of Local Government and Consumer Protection which we proposed in 2006 was not created so, if we must accept the structure as it is, we need to substitute the Department of Infrastructure in the recommendation above. But subject to that amendment we reaffirm our 2006 recommendations.

6.1.4 We felt that our thoughts and recommendations under the heading of Local Government could make a contribution to combating four of the five problem areas which we had identified - the need to reduce the scope of Government, the pursuit of value for money, the separation of policy and operations and increased transparency. But developments since 2006 have added a new dimension: an urgent need to reduce Government's tax-funded expenditure. Developing local government or, more accurately, local government taxation offers an opportunity to make a contribution to meeting this new need.

6.1.5 In 2006, we were neutral on the question of how the cost of local government services ought to be apportioned between local and central government and silent on the options for local government fund-raising e.g. rates, council tax, local income tax etc.

6.1.6 We have neither the remit nor the time to venture into these areas in detail this time around, but we do note the obvious option of some portion of Government's expenditure, currently borne by central taxation, being met by a local charge, levied either by local authorities or, perhaps, by our proposed Local Government Transitional Agency. Clearly, this would not be an economy measure and it would provide no relief to Island residents who would have to shoulder the burden of the increased local taxation. But it would provide Government with an additional avenue of financial respite in difficult times and, in due course, there would be the option of moving the burden back again to central taxation if and when financial circumstances improve. Currently local taxation (i.e. rates) is generally lower than in the United Kingdom, so this is an area worth exploring. We believe that every effort should be made to make these changes during the current House of Keys.

6.1.7 We have used the expression 'local taxation' in this discussion. At present this taxation is by means of rates. If it becomes the case that an increase in local taxation is part of Government's future plans, it may be desirable to look at alternatives and, if rates remain the preferred system it will, no doubt, be necessary to look at the question of some form of rate rebate for those on limited incomes. Otherwise an increase in rates might be unacceptably regressive. It will also provide an opportunity to reconsider a possible rate revaluation exercise.

6.2 Recommendation 5

- **Government should commit to a restructuring of local government such that, after restructuring, local authorities should be large enough and have the capability to deliver a wider range of public services, including services devolved from Government. Investigation and implementation of the restructure should be a three year programme.**
- **In the meantime, and pending local government reform, Government should establish, as an executive agency reporting to the Department of Infrastructure, a Local Government Transitional Agency, to which it should devolve those Government functions which it would propose, ultimately, to devolve to local government. Government should quickly identify those services currently delivered by Central Government which are of a local nature and would therefore be best delivered by local Government.**
- **We have suggested that these should include public housing, building regulations, first stage planning, certain environmental health functions, pest control, street cleaning, car parks and parking control, waste management and refuse disposal.**
- **The board of the transitional agency should comprise local authority representatives and should hold its meetings, so far as possible, in public.**

6.3 Recommendation 6

Government should examine the possibility of the costs of services of a local government nature provided by Government or by the proposed Local Government Transitional Agency being met from a form of local taxation.

7 BENCHMARKING AND EXTERNAL REVIEWS

- 7.1.1 In chapters 3 to 6 we have revisited the topic of Alternative Means of Service Delivery, as required by our remit. We remain of the view that Government could be made more efficient and manageable if the issues that we have identified in those chapters are pursued. There would also be potentially significant cost savings.
- 7.1.2 In the current climate, cost savings are a particular priority and it therefore seems right, before we conclude this report, that we revert to what we said in 2006 and draw attention to the recommendation that we made at that time which we felt, and still feel, has the greatest potential to deliver efficiency savings – Recommendation 5.
- 7.1.3 Recommendation 5 states:-
- 'Government should commit to programmes of regular and systematic external benchmarking and expert external reviews of service provision driven and coordinated centrally which over a period of time, would potentially cover all significant areas of Government service provision.'*
- 7.1.4 The underlying thought behind this recommendation was (and is) that Government has over many years been so focussed on introducing and improving public services that it has not given sufficient priority to value for money and that there is now little assurance that its services are delivered in the most efficient ways possible. It is in the interests of taxpayers, Members of Tynwald and those working for Government that value for money is demonstrable and we would like to see a strong and continuous focus on this issue. If all public services could be delivered in a manner to match best practice elsewhere we would see a potential for very significant savings.
- 7.1.5 We see benchmarking and external review as being the best means of pursuing this agenda. In 2006 we discussed benchmarking and external review in the following terms:-

'Benchmarking

We have touched on the issue of benchmarking earlier in the report, but it is an important component in our thinking about the future and requires some further explanation.

In practice, benchmarking usually encompasses:-

- *Regularly comparing aspects of performance with best practitioners;*
- *Identifying gaps in performance;*
- *Seeking improvements to raise standards.*

It is possible to do a certain amount of internal benchmarking where there are common aspects of services across Departments. It is also possible (and frequently done) to benchmark with the past using current and historic data for the same service. But, for the purposes of this Review we are concerned with external benchmarking.

External benchmarking involves seeking outside organisations that are truly comparable and, ideally, the best in class or are at least thought to be good performers. Comparisons then give indications of the quality and value for money of the compared services and provide pointers to what might be done to raise performance. In chapter 6 we drew on data from a KPMG survey which was, in essence, an exercise in external benchmarking undertaken by the States of Jersey.

It is not always easy to find good comparators and, in practice, benchmarking is only likely to be valid and valuable if focussed on comparators that are similar to the Island and on a very specific service or services:-

- *If ostensibly comparable data is used from a jurisdiction that is markedly different from the Island in terms of size, geographical location, economic development, cultural environment, etc. then those factors, apart from any difference in the quality of the service that there might be, are likely to render the comparison questionable;*
- *Equally, a comparison even with a similar jurisdiction, if the subject of comparison is too wide and ignores differences between what is done in the two jurisdictions will be of limited value.*

But when benchmarking takes place comparing like services and like jurisdictions it is a potent indicator of how well or otherwise the Government is performing. Such benchmarking can use financial or any other relevant data and we would be very keen to see Government do more of it and do it on a continuous basis so that Government's performance and progress can be clearly demonstrated. Benchmarking with the past, showing progress against historic measures is to be welcomed, but this does leave open the question of absolute performance compared to others. Regular and systematic external benchmarking needs to be a feature of Government's on-going self-review and, in our opinion, it needs to be driven and coordinated centrally.

External Review

Somewhat related to the subject of benchmarking is expert external review of insular services. There is a long history of HMI inspections of the Island's constabulary and of inspections of schools (and the Department of Education itself), in recent times by OFSTED. Other services have also been subjected to external review including the Department of Home Affairs (probation service and the prison), and the DHSS (Noble's Hospital). The principle behind external review is a sound one. An external review of an Island service by inspectors expert in the service concerned gives an authoritative assessment of the Island service and provides, where necessary, pointers or suggestions for improvements. Such reviews can be invaluable to the service concerned, to Government, to Tynwald and to the public and, provided they are approached constructively and without ill-will by all parties, they need not be traumatic or divisive.

As with benchmarking, we see scope for greater and more systematic use of external review in verifying the quality of local services and as a means of encouraging value for money and best practice. There is, we believe, considerable scope for drawing on professional expertise mainly, but not exclusively, from the UK – from central government, local government, the health service, academia, public service industries, the private sector, etc, and we would recommend the establishment of a rolling programme of external reviews coordinated at the centre of Government which, over a period of time might cover all the significant areas of Government service provision.'

It is perfectly possible that an external review into a particular service might identify an alternative means of service delivery as being the best way of delivering that service. So, whilst revisiting recommendation 5 takes us a little outside our formal remit, it deals with a subject which has a relationship with Alternative Means of Service Delivery. Moreover, current circumstances cry out for value for money and efficiency and we, therefore, feel justified in recommending again:–

7.2 Recommendation 7

Government should commit to programmes of regular and systematic external benchmarking and expert external reviews of service provision driven and coordinated centrally which over a period of time, would potentially cover all significant areas of Government service provision.

8 BARRIERS TO CHANGE

CULTURAL ISSUES

8.1 Political Issues

8.1.1 As we stated in Chapter 3, we support the Chief Minister's intention to progress culture change within Government and his wish that all Members of Tynwald should work together to achieve this by leading and supporting our public servants in delivering the change without interference.

8.1.2 We devoted a whole chapter to this issue in 2006 and described various elements of the then culture of Government under such headings as 'blame and avoidance', 'the constituency imperative', 'the politician as manager' and 'silo mentality'.

8.1.3 In respect of blame and avoidance, we said:-

'The Manx political/government scene is often said to be dominated by a blame culture which, as described by one of our contributors 'starts at the very top, every Tuesday morning' – a reference to question time in Tynwald and its Branches. Question time is characterised by pursuit; pursuit of things which may have gone wrong or might have been done better and pursuit of those responsible. The atmosphere is divisively challenging and critical and this feeds down through the government organisation.'

8.1.4 There is a risk that too much energy will be focused by Members of Tynwald on fighting individual battles when decisions are made about changing the means of service delivery in particular service areas, particularly when this affects the workforce or the level of service delivery to the public. The changes currently being proposed to nursery provision and care homes are illustrative of the difficulties.

8.1.5 In respect of the constituency imperative, we said:-

'The effect of Government being heavily involved in the provision of local government type services, the absence of party politics and the paramount influence of the constituency results in much Tynwald/Government time and energy being taken up with local government and constituency matters.'

8.1.6 It is likely that this characteristic of politics on the Island will continue to be an impediment to change but our proposals for local government are, in part, an attempt to address this problem.

8.1.7 In respect of the politician as manager, we said:-

'It was suggested to us by a number of contributors that Ministers often involve themselves excessively, within their Departments, in issues of management at the expense of concentrating on issues of policy..... the Minister and his political colleagues should concentrate on the bigger, more strategic issues and delegate the lesser matters. And, more particularly, leave detailed management issues to be dealt with by staff.'

8.1.8 It is central to our proposals that the distinction between political direction and management should be more clearly defined and that Members should be freed up to deal with policy and strategic questions.

8.1.9 In respect of silo mentality, we said:-

'It was put to us many times that each Government body (and, sometimes, each division of each body) tends to exist in isolation from the rest of Government, communicating with the rest of Government with insufficient frequency and inadequately. A number of specific instances of failures of communication were cited in evidence. This problem was sometimes otherwise addressed as 'a lack of joined-up Government.'

8.1.10 As stated in Chapter 2, we have detected a stronger commitment towards inter-departmental co-operation than was apparent in 2006. However, it remains the case that the structure of Government (e.g. nine legally independent Ministries) enables a silo mentality to survive. We would urge Government to continue to find ways of ensuring a more corporate approach is adopted in future, particularly as some of the bigger savings could be achieved across the interface of two or more departments.

8.2 Public engagement

8.2.1 The reduction in revenue as a result of changes to the Revenue Sharing Arrangement is of a major proportion. The adjustments made since 2009 are modest and there have been no significant reductions in services to date. To meet the reductions in budgets Departments have largely relied on efficiencies and some adjustment in fees and charges. Over the next four years and beyond much more radical and financially painful measures are inevitable.

8.2.2 Managing public expectations effectively will be key to successfully delivering changes to service delivery through alternative means. In principle, the public should not be particularly interested in a change in service delivery so long as the service remains broadly the same. In practice however, people have got used to things being done in a certain way and may fear change and be unwilling to trust Government reassurance about service levels, quality and cost.

8.2.3 Public acceptance of the 'belt tightening' measures that lie ahead may be too much to expect but if the inevitability and merit of the steps necessary to rebalance the budget can be effectively communicated it should be possible to gain their understanding, if not earn their enthusiasm. This calls for a structured and sustained programme to disseminate the relevant information, which while led by the Council of Ministers should be supported by all Members of Tynwald. Organisations representing commerce, trade, professions and unions should be persuaded to play a part.

8.2.4 The Chief Minister's New Year Statement set the scene admirably, and several other contributions have been helpful, but alone they will not be sufficient.

HUMAN RESOURCE ISSUES

8.3 Employment Structures

8.3.1 The most significant impact of moving to alternative means of service delivery will be on the workforce currently delivering services. That workforce is represented by numerous trades unions and staff associations and benefits from protections of employment law and employment structures established over many years. Whilst not deriding those rights, it is fair to say that the byzantine structures in place are a significant barrier to change and do not encourage a particularly responsive

approach. In most cases the constitutional arrangements for negotiating terms and conditions of service are cumbersome and require lengthy and complex processes of discussion to make even the most simple of changes.

- 8.3.2 In July 2010 a Working Group chaired by Hon PA Gawne MHK reported on HR Management Functions within Government concluded that:-

'Staff are confused by the current system, unions are frustrated by it, managers are discouraged by it, Department's feel thwarted by it and the various bodies responsible for delivering HR services struggle under the overly elaborate structure which history has imposed on them.'

- 8.3.3 The Working Group recommended that a more simple and relevant system should be established which, over time, would see a move towards the centralisation of negotiating bodies and the harmonisation of terms and conditions of service.
- 8.3.4 In relation to our proposals for Executive Agencies we have noted that in the United Kingdom, Agencies have the right to pay, grade, promote and manage agency staff and vary terms and conditions to respond to local employment conditions. Whilst this may not be seen as appropriate in the Isle of Man context, we believe that some flexibility and authority over these matters will be important if Executive Agencies are to successfully operate within the Isle of Man. The development of new, more responsive and flexible employment structures would be helpful in that process.

8.4 Staff Engagement

- 8.4.1 There is a need for Government to engage with its workforce and to do so effectively with the recognised Trades Unions and Staff Associations. We understand that Government is committed to doing so and has established various mechanisms to achieve this and ensure that there is regular and adequate dialogue. What we ask is that employee representatives come to the table willing to embrace change, recognise the scale of the challenge facing the Island and be willing to accept that what was affordable in the past is not affordable now.
- 8.4.2 In particular, if our proposals for alternative means of service delivery are progressed by Government, it would be preferable that staff representatives were willing to work with Government on the changes. Such an approach is more likely to address the concerns of their Members than a position of obstruction and opposition.
- 8.4.3 Furthermore staff must be involved more actively in the process of making change and encouraged to feel part of the process leading to change, to contribute ideas and to be valued for the work they do. At present there is a sense that it is being done to them and not with them.

8.5 Costs of Redundancy

- 8.5.1 We are aware that in respect of most employment groups within the public service current schemes for the compensation for loss of office are relatively expensive to administer, and provide for compensation benefits far in excess of the legal minimum of one weeks pay for each year of employment.
- 8.5.2 This has significant financial implications for the costs of potential restructuring initiatives to reduce the size of the Public Service. These schemes are based on UK provisions which have been replaced.

8.5.3 We are aware that there are plans to reform the current compensation schemes and we believe that the current financial situation affecting Government warrants radical action in this regard. Failure to do so may seriously impact government's ability to meet its targets for reducing staffing costs by reducing staff numbers.

8.6 Employment Law Consequences

8.6.1 We are acutely aware that employment law is a complex and continuously developing area but understand that changing the provision of services away from direct public service delivery to an alternative means of service delivery involving outside agencies will present numerous challenges. Essentially, the terms and conditions offered by a new employer would have to be substantially the same as those offered by the Government employer if Government is to avoid exposure to redundancy payments. Clearly, with terms and conditions in many cases being a significant contributor to the perceived inefficiency of public sector provision requirement for a new private-sector employer to retain the same terms and conditions for the transferred workforce could significantly compromise the achievement of efficiencies or, indeed, the attractiveness of the transfer from the perspective of the proposed new private sector operator.

8.6.2 In the United Kingdom, such transfers are governed by the Transfer of Undertakings (Protection of Employment) Regulations (commonly known as TUPE) which protect employees' terms and conditions of employment when a business is transferred from one entity to another. TUPE regulations do not apply on the Isle of Man, although there is some protection for Manx workers provided by the Employment Act 2006 and Redundancy Payments Act 1990 (as amended), in respect, for example, of continuity of service, the right to a trial period on transfer and importantly, that if staff do transfer a new employer cannot simply dispense with the services of existing staff. The employer who dismisses must have a fair reason for a dismissal. Of course, for the transferring employer that reason will usually be on the grounds of redundancy, exposing the former employer to the requirement to meet the cost of enhanced and statutory redundancy payments, which as noted above is currently a costly endeavour. But if an employee unreasonably refuses a suitable alternative position with the new employer, this can disentitle that employee to his/her statutory redundancy pay.

8.6.3 This problem is different in the United Kingdom because of TUPE which by a deemed automatic transfer of employment obliges new employers to protect the terms and conditions of the transferred employees and provides that any dismissal related to a transfer is automatically unfair unless there is an economic, technological or organisational reason justifying dismissal. Unfortunately, TUPE is a piece of legislation which has spawned a whole industry of lawyers and experts engaged to penetrate its mysteries and complexities which sometimes benefit neither the employer nor employee. The law on TUPE is still developing and is shaped by European Union Directives.

8.6.4 In practice, it is still possible to develop transfer arrangements that can protect the terms and conditions of the transferred employees, without applying TUPE legislation and this has occurred on numerous occasions within the private sector on the Island. Similar commercial arrangements could be introduced in respect of transfers out of public sector ownership. This would, however, be more easily achieved if the terms and conditions of service of the public sector were made more attractive to prospective new owners. We believe that this can be achieved with reform of

employment structures, as suggested above, coupled with the use of the Corporatisation and Executive Agency models advocated elsewhere in this report, which could act as stepping stones towards eventual private ownership (either fully privatised or contracted out). Therefore we see no immediate need, as a consequence of our proposals to reduce the scope of Government, to introduce TUPE on the Isle of Man.

8.7 Recommendation 8

Government should not seek to introduce TUPE legislation on the Isle of Man, but instead seek to conclude commercial arrangements with future private or voluntary providers of public services, to provide for the transfer of its existing public sector staff and the protection, as far as possible, of existing terms and conditions of service.

8.8 Recommendation 9

Where the protection of existing terms and conditions is not possible, Government should, as a matter of high priority, seek to limit its exposure to high redundancy costs by reforming the current public sector schemes for compensation for loss of office.

9 IMPLEMENTATION

9.1.1 When we reported in 2006, the theme of alternative means of service delivery was just a part of our response to what we perceived to be the aspects of Government that were in need of improvement and it was just a part of our vision for redefining the scope and structure of Government. In this report it is our main focus. We have speculated that the political climate may be more receptive to ideas about alternative means of service delivery than it was in 2006. The changed financial situation of the Government must surely mean a greater willingness to contemplate change if only in pursuit of a rebalancing of the books and we have found, in our discussions with politicians and officers, a more positive approach to the need for change than in 2006 and, indeed, some real warmth for our original report. This is encouraging. But alternative means of service delivery is not a panacea for the Island's ills and cannot, on its own, solve the problem of the loss of revenue that is Government's paramount issue. It may help as one component of a wider strategy, but it is medium to long term and it will not enable Government to avoid taking unwelcome decisions about spending in the shorter term.

9.1.2 In returning to the theme we have considered the subject under three headings:-

- Alternative means of service delivery – involving outside agencies
- Alternative means of service delivery – within the government structure
- Alternative means of service delivery – local government

9.2 Alternative means of service delivery – involving outside agencies

9.2.1 Under this heading we have considered privatisation, corporatisation, contracting-out, PPPs, PSPs and Mutuals. The specific candidates for this form of alternative service delivery which we identified in 2006 were those which came most readily to our minds and were thus the most obvious. There seemed to be little point in looking beyond them for further candidates if the whole principle was to be unacceptable. But we have been invited to look again and, in truth, the field of candidates can be drawn very much more widely and in Chapter 4 as well as revisiting our initial shortlist we have opened the debate on some of these further candidates and we have tried to set down some principles that might be used to select and prioritise candidates and some safeguards that should be put in place in cases where alternative means of service delivery are pursued.

9.3 Alternative means of service delivery – within the existing structure

9.3.1 In Chapter 5 we have returned to our proposal for Executive Agencies. This proposal is less radical than the options looked at in Chapter 4 and may be used as something of a half-way house for services being considered for the more radical options, where working on a stand-alone basis at a distance from day to day political direction could be trialled. But, more widely, it offers a model for the delivery of many Government services, for which there are no plans for more radical change. We believe that there are benefits to be gained in relation to value for money, separating policy from operations and transparency from pursuing this model and it seems to us this is the area of alternative service delivery which is likely to be most valuable and most acceptable, particularly in the short term.

9.4 Alternative means of service delivery – local government

9.4.1 In Chapter 6 we have returned to the issue of local government and, by implication, to the fraught issue of local government reform. We have found the situation essentially unchanged from 2006 and have accordingly reiterated our 2006 recommendations. But we have, in addition drawn attention to the possibility, no doubt hugely unpopular, of using local taxation as an avenue for funding some of Government's local government-type services.

9.5 Benchmarking and External Reviews

9.5.1 We have added in a revisit to our 2006 Recommendation 5. This is not strictly within our current remit, but the need for reducing costs is paramount and this report does give us the opportunity to press our belief that a centrally driven programme of benchmarking and external review would deliver value for money and significant savings.

9.6 Delivery

9.6.1 We should not finish our report without saying something about delivery. As well as identifying the field of candidates for change, it is important that we say something about how an agenda for alternative means of service delivery might be driven forward.

9.6.2 There is currently much talk within Government about the need for 'Culture Change' within the political and official establishment. Hopefully, this is a recognition that the whole Government and Parliamentary machine needs to re-assess its approach to the role of the State in the Island and re-model what Government does so as to embrace a less interventionist agenda and to re-match Government's activities with the resources available to it. In our 2006 report we did not use the expression 'Culture Change'. We talked about a 'Change Agenda' but the message was the same. We argued for a re-examination of priorities, smaller Government and a restructuring aimed at delivering a more efficient, more manageable Government; all themes with a greater resonance to-day.

9.6.3 Our recommendations in 2006 included proposals which were necessary for the delivery of what was then being urged. We cannot stress too strongly that a 'Change Agenda' or 'Culture Change' can never be delivered by exhortation alone and it cannot be left simply to the Departments and other bodies who currently provide the services – there are too many vested interests, other priorities and the pressures of the day job. There needs to be a vibrant and effective mechanism which allows alternative means of service delivery to be examined, in consultation with existing providers and which then drives forward those changes that are judged to be worthwhile.

9.6.4 In 2006 our preferred vehicle for change was a Department of Corporate Development. Having reviewed the broad range of changes that we recommended, the relevant part of our report said:–

'In recommending this package, which constitutes a substantial change agenda, we recognise that it impacts on all Departments, it represents a considerable workload and that it is an ongoing responsibility. It would be unrealistic to expect this change agenda to be delivered by the Chief Minister, who has too many other calls on his time, or by the Council of Ministers, each

of whom has a full-time job and, arguably, some vested interest in part of the status quo, or by an officer who, whatever his mandate, would not have sufficient status and authority.

In our view, the change agenda needs:–

- *An explicit commitment to the principles from the Chief Minister and the Council of Ministers;*
- *A new Department of Government which we propose should be called the **Department of Corporate Development** which would have, as its principal responsibility, the implementation of the change agenda;*
- *A Minister of the new Department, working directly to the Chief Minister, charged with the task of delivering the reforms, assisted by a small staff headed by an officer of chief officer rank who we suggest should carry the title of Chief Operating Officer;*
- *The new Minister would have a seat in the Council of Ministers and the Chief Operating Officer would have a seat in the Chief Officers Group to give their work drive and profile. The Chief Minister and the Chief Secretary would be in a position to arbitrate between the Department of Corporate Development and the other Departments in respect of the implementation of the change agenda should that become necessary.*

Although a Department in its own right, the Department of Corporate Development would, in effect, be an addition to the centre of Government and would be a substantial new resource.'

9.6.5 Although our range of recommendations is narrower than in 2006, because our remit is narrower, such a Department remains our preferred vehicle for change. It is the best long term option and should, in our view, remain as Government's objective. It might, in fact, be deliverable if there is sufficient outsourcing of services so that the residual services can be contained within eight Departments leaving one Department free. But we must acknowledge current practicalities. There is an understandable reluctance to countenance a further wholesale reform of the departmental structure so soon after the changes in 2010 and it would be difficult to graft a new Department of Corporate Development onto the existing departmental structure. So an alternative vehicle for change may be felt to be necessary in the short term. If so, then we would urge that the following principles should be applied in selecting that alternative vehicle:–

- It should be headed by a politician of ministerial rank who should attend the Council of Ministers for whom the change agenda should be the first priority;
- The political head of the vehicle for change should work directly to the Chief Minister;
- There should be a small dedicated team of officers appointed to the vehicle for change, headed by a person of chief officer rank who would have a seat on the Chief Officers Group;

- The vehicle for change should form part of the centre of Government.
- 9.6.6 The skills required to procure services and ensure that they are consistently delivered at an agreed standard and cost, differ from those for managing the delivery of a service by a directly employed workforce. Therefore it is crucial that there is sufficient up-skilling in the relevant areas to ensure successful commissioning and ongoing maintenance of AMSDs.
- 9.6.7 Alternative means of service delivery, coupled with benchmarking and external review on their own, will not rebalance Government's finances in the wake of the changes made to the revenue sharing arrangements, particularly in the short term. They do, however, have the potential, in the longer term, to make an important contribution to the rebalancing exercise and to lead to real efficiencies and economies and to the 'Culture Change' which is now recognised as being necessary. The main part of the financial rebalancing exercise that is necessary is being led by the Council of Ministers and particularly by the Chief Minister and the Treasury Minister. We would envisage that alternative means of service delivery would become an integral part of the overall strategy and that the Chief Minister, the Treasury Minister and the new Minister which we have proposed would form a triumvirate at the heart of Government committed to reform and restructuring.

9.7 Recommendation 10

Government should establish a Department of Corporate Development which would be responsible for:-

- **Driving a change agenda focussing on value for money which would include:**
 - d) the consideration of alternative means of service delivery by outside agencies;**
 - e) the consideration of alternative means of service delivery within the Government structure (executive agencies);**
 - f) the consideration of alternative means of service delivery by transferring functions to local government (through a Local Government Transitional Authority);**
- **A centralised human resources function (the Office of Human Resources should become a part of the Department);**
- **A centralised IT function (the DED Information Systems Division should become a part of the Department);**
- **The Transforming Government Team should become part of the Department;**
- **The Procurement section of the Treasury should become part of the Department.**

If that is unacceptable in the short-term, a new vehicle for change should be created which will promote the alternative means of service delivery agenda and which exhibits the following features:-

- **It should be headed by a politician of ministerial rank with a seat on the Council of Ministers for whom the change agenda should be the first priority;**
- **The political head of the vehicle for change should work directly to the Chief Minister;**
- **There should be a small dedicated team of officers appointed to the vehicle for change, headed by a person of chief officer rank who would have a seat on the Chief Officers Group;**
- **The vehicle for change should form part of the centre of Government.**