

Positive Action Group

SCOPE OF GOVERNMENT – LIVING WITHIN OUR MEANS

Talk by Edgar Quine to Positive Action Group on 24th September, 2012

In 2005 the then Chief Minister set up a committee with a membership from outside of Government to look at the Scope and Structure of the Isle of Man Government. The committee reported back in the summer 2006 having concluded that -

Government was too large,

there was too little emphasis on Value for Money,

the component parts of Government lacked cohesion,

the roles of policy formulation and operations needed greater separation,
and

more open government was required.

The committee made 48 recommendations to address these (and other) problems, the primary objective being to make Government more manageable, efficient and cost effective.

You will recollect that the study was commissioned less than a year before the approaching General Election, and although the Committee's report was submitted before the General Election, it could not be dealt with by the outgoing Administration.

The incoming Administration of 2006 saw no need for significant change; it was some four years later (a year before the next General Election) when they belatedly put in place a new Department structure. These changes had little bearing on the Committee's recommendations and still less to the thinking which underpinned them. The new Administration apparently was satisfied with the pattern of the previous 25 years of expanding services - met almost exclusively from within Government.

It has been said that in 2006 there was no 'burning platform' to cause the Government of the Day to consider radical change to the scope and structure of Government. Be that as it may, the Renegotiation of the Revenue Sharing Agreement with the UK in 2010 most certainly provided that 'burning platform'.

As for Government's response, it is their objective to bring income and expenditure into balance by 2015-16, which involves reducing expenditure/increasing revenue to

make good a short fall of some £100M by that date. It is my view, and that of my committee colleagues, that even if Government manage to achieve a rebalancing of the books by 2015/16 a shortfall will remain.

There will remain a need to reinstate the Capital Account balance, which in the absence of a fresh in-flow of funds has been seriously depleted. The reduction in the Reserve Fund will not have been made good. Additionally, at some point the debt carried by the MEA will have to be addressed. In total we are talking of something in excess of £500M. I mention this simply to reinforce the case for reducing the scope – and cost – of Government.

At the end of 2011 the Chief Minister re-establish the Committee on the Scope and Structure of Government, their remit being to review the 2006 proposals and confirm or reject them. The time allowed for the exercise was three months. Unlike the 2006 exercise, the structure of Government was excluded.

It may appear to you somewhat illogical to consider the ‘scope’ and not the ‘structure’ of Government, as changes to structure could beneficially impact on the scope of Government. The present Chief Minister recognized this but felt as structural changes had been made a year or so earlier by the previous Government it was too early to effect further changes to Departments.

A starting point for the Committee has been to identify material changes which have taken place during the intervening five/six years. First there was the Renegotiation of the Revenue Sharing Agreement to which I have already referred. The second change was the Restructuring of the Departments of Government implemented by the previous Administration. Thirdly, the projected changes to the Island’s demographics, in particular the projected growth in population of 14% by 2026, and the anticipated doubling of the number of people in the population aged 65+ and 75+.

The committee revisited the key principles formulated in their earlier study and concluded that they remained valid. These principles embrace the desirability of -

- reducing the size of Government;
- achieving better value for money;
- improving Corporate Government;
- achieving greater separation of policy from operations;
- increasing transparency in the functioning of Government.

Time precludes me from expanding on these principles but I trust they are self-evident.

The Committee’s search for Alternative Means of Service Delivery (AMSD), which offered the prospect of enhanced cost effectiveness, delivered up three broad categories of alternative structure which are distinct from the norm here on the Island.

DELIVERY OF SERVICES FROM OUTSIDE OF GOVERNMENT.

This category embraces privatisation, corporatisation, contracting out, public private partnerships and public social partnerships. The Committee concluded there was little scope at this time for the beneficial employment of the latter two. We did find scope for the beneficial employment of Privatisation, Corporatisation and Contracting Out.

Under this heading in the Report the committee made three recommendations:

(1) 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 Privatisation, Corporatisation or Contracting Out.

The exceptions are most important and are dealt with in some depth in the Report : I will simply offer four illustrations of these exceptions:

Services in support of the Chief Minister and Council of Ministers in relation to the formulation of policy and strategy, the setting of standards, monitoring of performance, budgetary control and the enactment of legislation.

Services 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.

Services in support of 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.

Services where it can be clearly demonstrated that the introduction of Privatisation, Corporatisation or Contracting Out would result in poorer Value for money or other over-riding disadvantage.

The second recommendation qualifies the first and reads:

(2) The principles for considering AMSD involving outside agencies should be embodied in a Statement of Policy and Principles issued by the Council of Ministers.

This recommendation relates to 10 guiding principles (contained in paragraph 3.9.1. of the report) which make it clear that the committee are not advocating Privatisation, Corporatisation and Contracting Out other than in those cases where such a structure offers a clear advantage. They also address the need, where considered desirable, for Government to maintain control of strategic direction and capital assets.

The Report's third recommendation falling under the heading of Services Delivered through Outside Agencies reads:

(3) Government should:

+ Seek to reduce the proportion of public services which it provides through direct delivery by making use of Alternative Means of Service Delivery using outside Agencies;

+ Conduct in-depth appraisals into the use of outside agencies starting with the Airport, the Post Office, the Bus Service and Residential Care Services;

+Take forward those cases where, after in-depth appraisal, Alternative Means of Service Delivery by outside agencies has been shown to be justified, as the beginning of a rolling programme of change across a wide range of services.

The Committee see a programme involving privatisation, corporatisation and contracting out, bringing about:

- + a reduction in the size and cost of Government,
- + improving value for money,
- + providing greater separation between policy making and service delivery, and,
- + contributing to transparency through explicit service level agreements which would be available for public scrutiny.

I will now move on to the second broad category of Alternative Means of Service Delivery.

DELIVERY OF SERVICES FROM WITHIN GOVERNMENT BY MEANS OTHER THAN THOSE PRESENTLY EMPLOYED.

This embraces enhanced commercialisation in Statutory Boards (such as the MEA, WASA and the Post Office) and other Government entities, possibly en route to Corporatisation or Privatisation. It also includes Executive Agencies, to which I will confine my comments.

Executive Agencies were borne out of so-called Next Steps Agencies in the late 1980's. The principal rationale behind them was a wish to tackle a number of weaknesses in the delivery of public services by Central Government. There are now some 100 Executive Agencies throughout the UK, and others in jurisdictions elsewhere.

It is a matter of record that some Executive Agencies have been a failure. We could say the same about some directly controlled Government bodies – and private companies. However, experience shows that success or failure of Executive Agencies evolves on the selection of suitable entities in the first instance and the careful drawing up of the framework document. Where the concept is applied to the right candidates Executive Agencies can be of considerable value.

They do allow for greater flexibility being administrative and not statutory based, and for greater separation between the Political and the Executive. They allow for greater focus on the allocated functions. In human resource terms staff can be recruited

particular to the task. They facilitate better measurement of performance and accountability.

The Committee's recommendation in this instance is:

(4) That Government should look seriously at the Executive Agency model and establish Executive Agencies within Departments, where the service provided and internal structure of the Department make it likely that it would produce a net benefit in terms of efficiency and effectiveness;

That Government commences this process by considering the Executive Agency model for operation of the Prison Service and Social Security.

DELIVERY OF SERVICES THROUGH LOCAL GOVERNMENT.

This is the third Alternative Means of Service Delivery. The Committee suggest in their report that there is considerable potential to deliver a greater range of public services through Local Government. We also question whether the reform of Local Government need be a total barrier to the transfer of services to Local Government.

It is the Committee's view that services presently performed by Local Authorities (at least by some authorities), and services which should properly rest with Local Government, should be vested in restructured Authorities. By any objective measurement, delivery of services to some 80,000 people through 24 Local Authorities and 14 Combination Authorities cannot be the most cost effective arrangement.

Lack of progress in the re-organisation of Local Authorities has to a large extent created a barrier to the meaningful transfer of services to Local Authorities. While reorganisation is highly desirable, and the Committee advocate that Government renew their efforts to bring about a restructuring of Local Authorities, further progress could and should be made within the existing structure. By way of illustration, some Local Authorities, in particular the smaller ones, currently have contracts with other Authorities to provide services, other Local Authorities combine to provide a common service, securing benefit of scale.

An approach mooted by the Committee is the creation of a Local Government Transitional Agency, under which Government services which are identified as transferable to Local Government, be brought together under the control of a single body, pending local government structural change. The services could complete their transfer following reform of local government.

We would see such a Local Government Transitional Agency being something akin to an Executive Agency, a more expansive Combination Authority, with the freedom to manage the services entrusted to it within a policy framework. A Board with Local Authority representatives could oversee this agency in order to give Local Authorities input. It would accommodate a more finite organisation of Central Government, and a more meaningful (and one would hope cost efficient) structuring of Local Government, albeit not the final solution to the latter.

Whether reform evolves through the existing Local Authority framework, or through a Local Authority Transitional Agency, the issues of which services, and where the cost should be placed, has to be confronted. Ultimately the cost falls on the user, ratepayer or taxpayer. The reality is that only so much can fall on Central Government if the Island's economy is to remain competitive.

Therefore our recommendations in relation to Delivery of Services through Local Government are as follows:

(5) That Government should commit itself to a restructuring of Local Government, such that after restructuring, Local Authorities should be large enough and have the capability to deliver a wide range of services;

That progress should be made to this end by the early creation of a Local Government Transitional Agency, the Board of such agency to be made up of Local Authority representatives;

(6) Government should examine the possibility of the costs of services of a Local Government nature which are provided by Government, or by the proposed Local Government Agency, being met from a form of local taxation.

Let me conclude with a brief mention of four other matters dealt with in the Scope of Government Report of 2012 – which to some extent overlap into the Committee's complementary report titled The Government's Rebalancing Strategy. This latter report, while technically outside our remit, goes to the core of the issue of making good the shortfall in Government's finances.

Benchmarking.

How does Government enforce effectiveness and efficiency – we suggest that Benchmarking is a key element. Such benchmarking in the main should be external benchmarking. It would necessitate regular comparison of aspects of performance with best practice elsewhere. The process would identify gaps in performance, which if acted on would raise standards.

Hence the Committee's seventh recommendation:

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

Human Resources.

The impact of Human Resources on the effectiveness, efficiency and cost of Government cannot be overstated. Addressing these issues is key to moving to more cost effective Alternative Means of Service Delivery.

The committee is not alone in taking this view, in 2010 a Working Group chaired by the Hon P.A. Gawne, MHK concluded that –

“Staff is confused by the current system, unions are frustrated by it, managers are discouraged by it, Departments 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.”

In our 2006 Report we recommended that Government should urgently initiate a root and branch review into the future arrangements for developing and delivering Human Resources policies across the entire public sector, with a view to establishing a more effective, centralised and streamlined approach. The need for such an exercise remains.

However, in our recent report we made two recommendations in relation to Human Resources:

(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, so far as possible, of existing terms and conditions of service.

(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.

Implementation.

Both inside and outside of Government there is recognition of the need for ‘Culture Change’ within the political body and the establishment. We agree – but it will not be brought about simply by recognition of the need. Our Committee in its Report of 2006 argued for a re-examination of priorities, smaller Government and a restructuring aimed at delivering more efficient and manageable Government. We called it an Agenda for Change – essentially it is the same thing.

In 2006 we advocated that a Department of Corporate Development be tasked to deliver the needed reforms, the Minister of which would work directly to the Chief Minister. In our recent report we have suggested that such a Department expand its role to include an overview of Human Resources, Information Technology and the functions presently undertaken by the Procurement Section of the Treasury.

In view of the Chief Minister’s reluctance to embrace further restructuring the idea of a new of Department (not necessarily an additional Department) is probably a non-starter. As a compromise we have recommended:

(10) That a new vehicle for change should be created which will promote the Alternative Means of Service Delivery agenda which should:

+ Be headed by a politician of ministerial rank with a seat on the Council of Ministers for whom the change agenda should be his

first priority;

+ The political head of this vehicle for change should work directly to the Chief Minister;

+ There should be dedicated team of officers appointed to this vehicle for change headed by a person of Chief Officer rank who would have a seat on the Chief Officers Group.

Barriers to change.

We devoted a whole chapter to this in our Report of 2006. We pulled few punches in our treatment of ‘blame and avoidance’, ‘the constituency imperative’, ‘the silo mentality’ and ‘the politician and the manager’. We stretched a point in doing so for it could be argued these issues were not within our remit.

Suffice for me to say that unless dynamic political direction is forthcoming little will be achieved. The Chief Minister and Members of the Council of Ministers must be able to carry the majority of Members with them. It may be somewhat ironic, but it could be argued that it would be easier for the Government to do so under a Party Political System. This is not to cast aside scrutiny of the measures proposed by Government but to recognize that the issues are too important to be undermined by meaningless political bickering.

Effective communication is a key consideration, not just within the political and employee circles, but with the community at large. The recent Consultative Document will contribute to this process but I would have expected it to have included a Government view on the way forward. Simply to proceed in the direction of the broad consensus can lead to the lowest common denominator.

Given it is the public who will ultimately feel the pain it is too much to expect broad support, but if the situation is properly explained it should be possible to earn their understanding, if not their empathy.

Ladies and Gentlemen, Government is confronted with a serious financial situation. At this juncture it is academic whether or not it is one which Government could have anticipated earlier and confronted sooner. The committee of which I have been a member has suggested a way forward, while recognising the sensitivity of the political dimensions. There is an urgent need for action; it would be immoral to leave our debt to future generations to shoulder.