STATES OF JERSEY

JERSEY FINANCE LTD.: MATCHED FUNDING

Lodged au Greffe on 24th September 2010
by Deputy G.P. Southern of St. Helier

STATES GREFFE

PROPOSITION

THE STATES are asked to decide whether they are of opinion −

(a) to express their support for the principle of matched funding for Jersey Finance Ltd. on a £ for £ basis, excluding any allowance for 'pro bono' work, between the States of Jersey and the private sector; and

(b) to request the Minister for Economic Development to apply that principle to the 2012 grant to the company.

DEPUTY G.P. SOUTHERN OF ST. HELIER

REPORT

The Minister's proposal for an increase in funding to Jersey Finance Ltd. (JFL) from £1.8 million in 2010 to £2.2 million in 2011, contained in the 2011 Annual Business Plan, met with some fierce opposition from many quarters of the Assembly in the September debate. The result was a very close vote which enabled the Council of Ministers to succeed by the slim margin of 25 to 22.

Many members pointed to the fact that in these austere days this increase in funding must be viewed in the light of the Minister for Economic Development's proposed reductions in funding for tourism and agriculture. Whilst everyone else was required to suffer cuts in support, the finance sector, which despite the recession was still making large profits, appeared to be exempt, and indeed was the exception to the general thrust of the Council of Ministers' policy of reducing subsidies to industry.

Of the £750,000 allocated to JFL and JFSC, £437,000 was described as "additional support for JFL and the costs of developing new legislation".

A further breakdown of the sums involved was provided at a public hearing of the Economic Affairs Scrutiny Panel, held on 12th July 2010, as follows –

> "**Chief Executive Officer for Economic Development:**
> *Shall I give you a breakdown? £400,000 of that £437,000 is the additional J.F.L. grant as the grant has gone from £1.8 million in this year to £2.2 million proposed next year; that is what the business plan submission is… that £37,000 is effectively a very small increase in the level of fees that we pay to outside individuals with particular expertise in certain types of legislation and that is ongoing at the moment. So that is, for want of a better word, a very expert consultancy fee."*.

This amendment does not include the £37,000 allocated for specialist consultancy.

In referring to the grants made by the Economic Development Department (EDD) in general, in the light of the reductions being made under the CSR, the Minister had the following to say –

> "**Minister for Economic Development:**
> *I think that really is a point that needs to be emphasised because in all respects what we are trying to do and what we are attempting to do as we go forward into years 2 and 3 is work more closely with organisations that receive grants to ensure that there is a better return on the investment we use and* ***allow the individual organisations to be more effective both in raising private sector-sourced funding themselves*** *and being more effective in what they spend and getting a better return."*.

The following exchange then took place –

> "**The Deputy of Grouville:**
> *Can I ask about the contribution of the finance industry to Jersey Finance Limited in view of what you have just said about encouraging the private sector to invest?*

Chief Executive Officer for Economic Development:
Well the funding for Jersey Finance, as you know, about an extra £2.2 million will come from Economic Development and I think it is about £650,000 will come from subscriptions.

The Deputy of Grouville:
But the original agreement with Jersey Finance Limited requires a bigger investment from the finance industry percentage-wise.

Chief Executive Officer for Economic Development:
I think it was initially set up some time before my time on the basis that there would be a given share…”.

This “given share” was referred to in S.R.6/2008 “The Role and Funding of Jersey Finance Limited: report of the Economic Affairs Scrutiny Panel” thus –

The Working Group, led by Senator Walker, set up in 2000 to create what was to become JFL, agreed that it should be jointly funded by the industry and the States. The group was of the opinion that it –

“***would only work effectively if the industry considered it to be its own creation and essentially accountable to it … if it were wholly funded by the States it would become yet another government body to be criticised from a safe distance.”***.

The group concluded that voluntary funding based on individual businesses would be optimal, with contribution levels set according to the number of employees of each business. It also stated that –

“***The States would be invited to make a commitment to match the industry funding pound for pound.***”.

The actual growth in the funding of JFL is summarized here –

Year	2000-1	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
States grant £	650k	250k	400k	600k	586k	750k	1m	1.4m	1.8m	1.8m	2.2m
Subscriptions £	344k	345k	379k	376k	409k	409k	430k	450k	480k	600k	650k

The States of Jersey, through the Finance and Economics Committee, provided JFL with its set-up funding of £150,000 in 2000 and £500,000 in 2001. One can see the lopsided growth of funding in the table above. Over this 9-year period, the industry contribution has grown by a factor of two, whereas the States contribution has increased nine-fold.

The Scrutiny report S.R.6/2008 contained the following recommendation –

"**Recommendation 7**

The Economic Development Minister should take steps to restore the principle of pound-for-pound matched funding for JFL."

The Report of the Comptroller and Auditor General – States' Spending Review: Emerging Issues (R.48/2008) – produced in May 2008 also suggested a reduction of £250,000 in States' funding for JFL as follows –

"*At present, Jersey Finance is financed partly by the States and partly by the financial services industry. This option for reducing spending would lead to a balancing of the direct and 'in kind' contributions made by these two parties so that the States and the industry make equivalent contributions.*".

In the Comments of the Minister for Economic Development on the Draft Annual Business Plan 2011 (P.99/2010): fourth amendment, the Department sought to suggest that the "pro bono" contribution from the industry amounted to around £2 million, thus bringing the overall contributions into balance. Apart from the fact that this would represent around £8,000 for each and every working day in the year – a ludicrous proposition, this argument was soundly and thoroughly exposed during the debate by the Deputy of St. Mary, who showed that the government's "pro bono" contribution amounted to something of the order of £11 million.

We have come a long way from matched funding over the years. One has to question how this imbalance in funding has arrived. Further exploration of the Economic Affairs Scrutiny investigation of the Economic Development business plan provides an interesting insight into how ministerial government works.

"**The Deputy of Grouville:**
Sticking with J.F.L. as we are on the subject, they are setting up an office in Dubai now, are they?

Chief Executive Officer for Economic Development:
There is funding for a third office. The exact location is yet to be absolutely finalised. I very much doubt it will be in Dubai. It is going to be in the Middle East,….

The Deputy of Grouville:
Those monies will come from where to set up that office?

Chief Executive Officer for Economic Development:
Well the initial funding to pump-prime that came from fiscal stimulus and within the successful fiscal stimulus bid E.D.D. committed to make the recurring element of that funding, that is from 2012 onwards, available from our budget. Because if you set up a third representative office the very worst thing you can do is set it up and then close it down 18 months later.".

So the Ministers for Treasury and Resources and Economic Development between them effectively agree an economic stimulus package that requires a commitment to continuing funding. This decision does not come before the States for agreement. This funding then appears in the Draft Annual Business Plan 2011 almost as a "*fait accompli*" and creating a large exception to the treatment of other all grant recipients.

This proposition will require the Minister for Economic Development to reduce funding to JFL and to rebalance his relationship with its finance sector stakeholders. This rebalancing of the funding for this promotional body would vastly increase the accountability required of this body as expressed at its inception in 2000 –

> "***(JFL) would only work effectively if the industry considered it to be its own creation and essentially accountable to it***".

As was pointed out in the Draft Annual Business Plan 2011 debate, with some 190 finance industry members, a reduction of funding on JFL level will have only a marginal impact. These finance companies would require an increase in subscriptions of £4,600 to make up the shortfall in government spend.

Financial and manpower implications

On the assumption that overall funding for JFL is maintained at the 2011 level of £2.85 million, this amendment will lead to a reduction in States expenditure in 2012 of £875,000. There are no manpower implications.