STATES OF JERSEY

DRAFT ANNUAL BUSINESS PLAN 2011 (P.99/2010): FOURTH AMENDMENT

Lodged au Greffe on 12th August 2010
by Deputy G.P. Southern of St. Helier

STATES GREFFE

1 PAGE 2, PARAGRAPH (a) –

After the words “withdrawn from the consolidated fund in 2011” insert the words –

“except that the net revenue expenditure of the Economic Development Department shall be increased by –

(a) £138,000 in order to maintain the level of support for tourism events and not proceed with the Comprehensive Spending Review proposal on page 62 of the Plan ED-S6 “Reduction in grants to events” and;

(b) £36,000 in order to maintain service levels in Jersey Tourism Visitor Services and not proceed with the Comprehensive Spending Review proposal on page 62 of the Plan ED-S7 “Reduced opening hours in Jersey Tourism Visitor Services reception”,

and the net revenue expenditure of the Treasury and Resources Department shall be decreased by the same amount by reducing the allocation for Restructuring Costs.”

2 PAGE 2, PARAGRAPH (a) –

After the words “withdrawn from the consolidated fund in 2011” insert the words –

“except that the net revenue expenditure of the Economic Development Department shall be decreased by £400,000 in order to reduce the level of support for Jersey Finance Limited and not proceed with the Comprehensive Spending Review proposal on page 62 of the Plan ED-S8 “Additional support for JFL”

3 PAGE 2, PARAGRAPH (a) –

After the words “withdrawn from the consolidated fund in 2011” insert the words –

“except that the net revenue expenditure of the Economic Development Department shall be increased by £183,000 in order to maintain support for the provision of school milk and not proceed with the Comprehensive Spending Review proposal on page 62 of the Plan EDS-13 “Cease funding to subsidise the provision of school milk” and the net revenue expenditure of the Treasury and Resources Department shall be decreased by the same amount by reducing the allocation for Restructuring Costs.”

4 PAGE 2, PARAGRAPH (e) –

After the words “within these amounts” insert the words –

> “except that for the 2012 Expenditure Allocation, for the figure “£708,000,000” substitute the figure “£708,122,000”, and for the 2013 Expenditure Allocation, for the figure “£712,000,000” substitute the figure “£712,061,000” to provide for a phased withdrawal of the current £183,000 allocation to the Economic Development Department for school milk during the period 2012 to 2014 by reducing that amount by one third in each of those 3 years”

DEPUTY G.P. SOUTHERN OF ST. HELIER

REPORT

<u>Amendment 1 – Tourism events and Jersey Tourism Visitor Services</u>

(a) Reduction in Grants to Events

The Minister for Economic Development proposes to cut £138,000 from the budget for grants to events. Both he and his predecessor have in the past pledged to support event-led tourism, and both are committed to increasing diversity in the economy.

This commitment is reflected in the Strategic Plan 2009 – 2014 as follows –

Priority 2 – Maintain a strong, sustainable and diverse economy

This is further defined in the actions that appear in the "What we will do" section, where the Economic Development Department will take the lead to –

- **Continue work to diversify the economy, support new and existing businesses, attract low footprint, high value business from elsewhere and foster innovation (ED)**
- **Recognise the contribution made by the Tourism and Agriculture industries to a diverse society (ED).**

If we are serious about our commitment to a diverse economy then surely in these recessionary and difficult times, we must maintain our support for tourism, which despite its reduced size, is still an important element in the Island's economy. Appropriate support for events is an essential part of that commitment. Now is not the time to be withdrawing this support. It is simply not good enough to say to the industry, and to event organizers in particular, as the Minister has, that it must become more commercially aware, at a time when profits in the finance sector have been halved. Now is not the time to be seeking additional sponsorship. This is exactly the time to maintain ED support.

We have then to examine whether a cut of £138,000 is proportionate in the context of 2% savings. The 2008 EDD Business Plan contained 6 elements under a total of £769,735 allocated to events. Three FTE departmental staff are involved.

These key objectives (32–37) ranged from "Developing activities such as active, walking and cycling" to other events organized directly by the Department "to attract new business, by creating reasons to visit and encourage spend", e.g. Liberation, Fête de Noué, Out of the Blue, Fête de la Mer". In addition, there was funding for events organized by external organisations – The Battle of Flowers, and the Air Display amongst them.

The targets for success ranged from the statement "Events take place" to "Lively animated and well attended events which are on brand and which animate the holiday experience". Key performance indicators were "Customer satisfaction analysis. Visitor value during periods of key events. Measurement of advertising value."

Under key risks, unsurprisingly, we find "Extreme weather conditions" but also in the section on developing walking and cycling events there appears "Lack of States support" as the key risk.

In 2009, the EDD Business Plan allocated £455,400 directly to events, or £512,400 including overheads. Taking the larger figure, this was a cut of one third in funding on the previous year. In terms of the direct support to events this was a 40% cut. Now we are told that we can cut the budget further by £138,000, or another 30%. Cuts of this size, in a recession when private sponsorship is hard to find, it is likely that many events will be put at risk. It is essential that EDD support is maintained. It will not be long otherwise before some of these events, which form an essential element in attracting visitors, will cease.

(b) Reduced opening hours

In contrast to ED-S6 the reduction in service level in ED-S7 appears on the surface to be a relatively minor one. However, it does involve a redundancy which is to be avoided at this stage in the economic cycle, since it is likely to merely add to the numbers of unemployed, and I believe it represents the thin end of the wedge. Are we a proper holiday destination or not, is the question we need to ask. Of course, if we are not; if we do not really want to attract and cater for visitors, then this cut is not a problem. If we no longer have events (above) with tourists seeking tickets, or directions to the event, there is no problem. We could be similar to any small town in France, with its little "Centre d'Informations" nestled on the square and full of posters advertising all sorts of "fetes" and "animations." The majority of members will have been there. The problem is that the centre is usually closed. Is that what we want for Jersey? This reduction represents a step on that path.

Financial and manpower implications

The amendment is cost-neutral as the increase in expenditure for Economic Development would be funded by a reduction in the £6,000,000 provision for Restructuring Costs in the Treasury and Resources Department. The cancellation of ED-S7 would avoid one redundancy.

Amendment 2 – Jersey Finance Ltd.

The Minister's proposal for an increase in funding to JFL in these austere days must be viewed in the light of his proposed reductions in funding for tourism and agriculture. Whilst everyone else is required to suffer cuts in support, the finance sector, which despite the recession is still making large profits, appears to be exempt. Of the £750,000 allocated to JFL and JFSC, £437,000 is 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 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 business 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	2000-2001	2002	2003	2004	2005	2006	2007	2011
States grant	£650k	250k	400k	600k	586k	750k	1m	2.2m
Subscriptions	£344k	345k	379k	376k	409k	409k	430k	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.

The Scrutiny Report of 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.

What we have here in the above passage is a clear statement of principle that organizations in receipt of grants fro ED will have these grants reduced to make them seek private funding. JFL however seems to be the exception to this rule. Not only has it managed to increase the proportion of States funding over the years, but this year despite the cuts, it has reduced the proportion of private funding from 43% in 2007 to 30% for 2011.

One has to question how this has arrived. The answer 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 ABP almost as a *"fait accompli"* and creating a large exception to the treatment of other grant recipients.

This proposition will require the Minister for Economic Development to re-negotiate the funding of the new Middle Eastern office with Jersey Finance Limited and its finance sector stakeholders. A rebalancing of the funding for this initiative 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"***.

Financial and manpower implications

The financial implications are self-explanatory – this amendment will lead to a £400,000 reduction in overall States expenditure in 2011. There are no manpower implications.

Amendments 3 and 4 – School milk

I shall not take the States through the long history of the political football that is school milk, except to say that the case for school milk is one which contains elements of health and diet, educational and economic issues. As a result no Minister wants to take responsibility for its funding; at present it sits precariously in the brief of the Minister for Economic Development, who is attempting once again to lose it. This is the fourth, and hopefully the last time, I will have brought a proposition to maintain the funding of free school milk. Members will recall the standalone proposition (P.66) I brought in 2008 –

> **THE STATES are asked to decide whether they are of opinion −**
>
> to express their support for the continued funding of school milk, and to request the Chief Minister, after consultation with the Minister for Economic Development, to bring forward for approval by the States provision for this funding to be inscribed in the budget of the Economic Development Department in the Annual Business Plan 2009 and ring fenced for this purpose until such time as the new dairy and appropriate financial structures for the dairy industry are in place.

Currently, support for school milk comes from the Dairy, which charges a price for school milk which is significantly lower than wholesale price to the retail market and, following the cessation of home deliveries, it pays for the schools delivery, and from the Economic Development grant. There are those who will insist that following the sale of the old JMMB site and the consequent move to Trinity, this is the time to remove government support. This report seeks to show that any such conclusion is premature.

The White Paper on the Rural Strategy has the following to say on the Dairy sector –

Key sector analysis

Dairy

For hundreds of years, the Jersey cow and associated dairy sector have been inextricably linked to the Island. The dairy food chain is still an important element of overall economic activity in Jersey today and also the presence of the dairy industry shapes the views and landscape of Jersey as we know it – being part of the 'DNA' of the Island.

In recent times, the dairy industry's profitability has been at an historic low, resulting in a low level of on-farm investment. In 2002, the dairy received £0.8m to restructure following the collapse of the mini pot market, resulting in massive over production. The restructuring involved the removal of 4.5 million litres of milk production and 1,071 cows from the Island herd. Despite this drop in numbers, the Island-wide subsidy for cattle farmers was maintained. This meant an increase in support levels per cow, however, the industry has continued to generate an historically low level of profitability.

The 2003 McQueen Report was commissioned by the States to undertake a strategic review of the industry and was instrumental to the development, by the industry, of the Dairy Industry Recovery Plan entitled the "Road Map to Recovery" which identified key work streams whereby both the Jersey Milk Marketing Board and the Royal Jersey Agricultural and Horticultural Society took the lead in delivering particular objectives, e.g. dairy relocation and importation of genetics. Also adopted in that plan was the concept of an economically sustainable industry being one that achieved an average farm EBITDA (Earnings before Interest, Tax, Depreciation & Amortisation) of 20% of turnover, which at that time became the benchmark target accepted by industry and government.

In 2007, a further reduction of 500 cows (2 million litres) was undertaken by the industry to bring production in line with market demand. The current viability of the industry still relies on a high level of Government direct aid payments**, the Jersey consumer paying a high price compared to the UK** and maintenance of a law licensing the importation of liquid milk. Despite low returns, the adoption of the "Road Map to Recovery" has given a degree of optimism for the future, with solid plans in place for restructuring the industry into an efficient and profitable concern, which will benefit producers and consumers alike.

The relocation of the new, more efficient dairy operation to Howard Davis Farm**, the ability to actively seek value added export markets** for a range of premium Jersey products and efficiency improvements from imported genetics, **brings the possibility of delivering greater returns to farms from the market for milk and milk products.**

However, it is accepted that building sustainable economic growth takes time and the efficiency improvements from imported genetics will not be fully recognized until 2018.

The Jersey Dairy 5 Year Business Plan indicates that **by 2011/12 EBITDA could reach 17%** (assuming no changes to the current level of government support during this period). This support includes the Single Area Payment (SAP), Quality Milk Payment (QMP) and dairy services support.

The emphasis I have added highlights the tentative nature of the report. The ability to seek "value added export markets" is being exploited with contracts with Marks & Spencer for their own-brand butter. Further negotiations with Tesco are underway. It has to be said though that the "greater returns" are only just beginning. This is shown by the EBITDA percentages attained, not the targets –

Year	2004/5	2005/6	2006/7	2007/8	2008/9	2009/10
EBITDA %	9.6	8.6	7.9	4.1	6.2	5.9

As members will see, these figures are a long way from 20% or even the 17% targeted for 2011/12.

The Economic Development Department accepts in the White Paper that the benefits arising from the importation of semen will not be fully realized until 2018.

Elsewhere, the facts behind the "high price" comparison with the UK are that over the past 5 years, the Dairy is rightly proud it has only raised the wholesale price once and that currently when compared to the average price in the UK (not the loss-leading Asda price) the differential is down to 25% from 50% some years ago.

Rural Economy Strategy 2011-2015 Indicative Budget Forecast

The effect of this strategy on the overall budget for the rural economy is shown in the following chart:

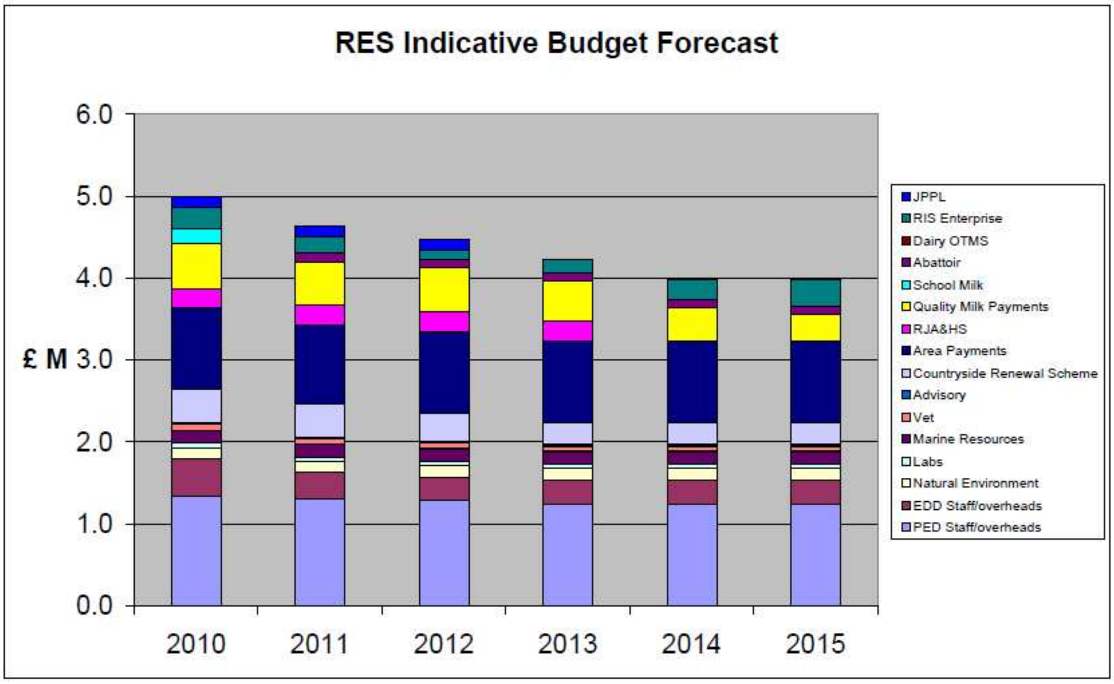

Figure 10 Rural Economy Strategy (indicative) Budget Forecast 2011-2015.

The indicative budget as represented in Figure 10 above, shows an approximate reduction from £5 million to £4 million over a 5 year period (actually £1.36 million) to reflect the changes outlined in this strategy.

The key movements are:

Royal Jersey Agricultural & Horticultural Society Service Level Agreement will not be renewed from 2014 – reduction of £230,000

School milk will be discontinued from 2011 – reduction of £180,000

Jersey Product Promotion Limited will be discontinued from 2013 – reduction of £140,000

Countryside Renewal Scheme – reduction of £140,000

Legal fees – reduction of £109,000

Staff costs – reduction of £150,000

Quality Milk Payment – reduction of £240,000

Rural Initiative Scheme – increase of £70,000

Funding for the Abattoir in 2011 – increase of £100,000

Of these cuts it is striking that almost 50% have a direct impact on the Dairy industry. The White Paper has the following justification –

> **Policy PR 7**
>
> **Dairy services**
>
> States of Jersey to discontinue public support for artificial insemination, bull proving and milk recording services beyond 2013.
>
> **Dairy Services**
>
> **1.21** In 2010, the Economic Development Department (EDD) agreed a Service Level Agreement (SLA) with the Royal Jersey Agricultural and Horticultural Society (RJA&HS) for the provision of an artificial insemination, bull proving and milk recording service to the dairy industry. This contract runs for four years with an annual budget of £233,000 in 2010 rising to approximately £250,000 in 2013.
>
> **1.22** The SLA recognises that the above services are a vital part of a modern dairy industry and that dairy farmers' current profitability would be compromised by full cost recovery. In addition, to operate the service, the RJA&HS have been obliged to employ staff on fixed term contracts in order to attract people with appropriate skills.
>
> **1.23** In future, demand for these services is set to diminish as businesses acquire the skills to undertake their own breeding and recording needs. It is clear that there will come a time when demand for a central dairy services provision will reduce to a level where the cost of maintaining it will not be justified.

I am informed that this rationale is pure wishful thinking. The insemination programme and monthly milk recording service is an essential element in promoting the quality and traceability of our dairy products. The availability of these services is a vital part in negotiations to obtain export contracts for high value-added products. To cut this service would seriously damage efforts to raise export targets. The statement made about the diminishing need for such a service is misleading.

Policy PR 6

Quality Milk Payment

The following Quality Milk Payment support levels are proposed for the Rural Economy Strategy 2011 to 2015:

- Maintenance of the current Quality Milk Payment support level (£180 per cow per annum) for a two year period 2011 to 2012
- A reduction in Quality Milk Payment support level by 10% in 2013 (representing a roll-up of the 2, 3 and 5% Comprehensive Spending Review reductions for 2011, 2012 and 2013)
- A further reduction in Quality Milk Payment of 15% per annum from 2014 to 2018, with the complete removal of Quality Milk Payment by 2019, this date being 10 years after the importation of international bull semen, when its full effects should have been realized
- Total Quality Milk Payment annual support 2011 to 2018 to be calculated on the number of cows held in each herd in 2008 (approximately 3,075 cows). This base year will exclude any increased cow numbers that may be required to provide the growth in milk supply for the dairy product export market
- Reductions in Quality Milk Payment, will be re-directed into rural development activity (e.g. Rural Initiative Scheme)
- To safeguard the Jersey cow in her Island home the receipt of Quality Milk Payment to be limited to those herds which register their milking cows in the pedigree Jersey herd book administered by the Royal Jersey Agricultural and Horticultural Society
- Quality Milk Payment conditionality to be based on dairy hygiene inspections, animal welfare requirements, efficient use of animal manures and the production of an Environment Plan
- Dairy industry will be required to provide independent evidence of appropriate cost control.

The overall reduction in support to the dairy industry, “part of the DNA of the island,” amounts to at least £650,000 over the coming years. This, at a time when competition in the Early potato market is pushing up agricultural land prices (from £70 to around £200 per vergée) and associated rental values, putting pressure on dairy farmers’ costs. Costs have been further raised by this prolonged dry summer, when the cows should be grazing the grass and not already starting on winter feed. The last thing the dairy industry needs is for the Minister for Economic Development to cut support for school milk.

This amendment points the way forward. The Dairy management has already suggested to the Economic Development Department that a phasing of the withdrawal of funding would give them time to find another sponsor to support the school milk budget. The Minister has ignored this option. I believe that members of the Assembly should ensure that the Minister accepts phasing-out rather than immediate withdrawal of this element of support.

Financial and manpower implications

The amendment is cost-neutral for 2011 as the increase in expenditure for Economic Development would be funded by a reduction in the £6,000,000 provision for Restructuring Costs in the Treasury and Resources Department. There are no manpower implications.