

STATES OF JERSEY



COMMON STRATEGIC POLICY (P.98/2022): COMMENTS

Presented to the States on 18th November 2022
by the Economic and International Affairs Scrutiny Panel

STATES GREFFE

COMMENTS

Background

This Comments paper sets out a number of points the Economic and International Affairs Scrutiny Panel (**'Panel'**) wishes to raise in order to inform the States Assembly's debate on the proposed Common Strategic Policy (**'CSP'**), lodged by the Council of Ministers on 4th October 2022.

As part of the Panel's review of the Government Plan, the Panel has considered the parts of the CSP that relate to 'Economy and Skills' which outline a number of aims on which the Government intends to focus over the next four years.

Economy and Skills Priority: Panel observations

Sustainable Economic Framework

Amongst its aims, the CSP seeks to develop a more sustainable and prosperous economy through the development of a sustainable economic framework within which the Government can create the right conditions to achieve Jersey's full economic potential in the face of various global challenges.

The Panel considers this aim to be laudable. Increased future Government funding is likely to be needed for a range of projects including the New Hospital and the support of climate change measures and an aging population. The Fiscal Policy Panel (**'FPP'**) has advised that Government surpluses primarily should be applied to increase depleted Government reserves and this is reflected in the Fiscal Framework to which the Government Plan refers.

The Panel believes that any tax increases need to be managed carefully as they can have a negative impact of depressing economic growth, e.g., through increasing costs to businesses and reducing consumer spending, which in turn may reduce taxable business profits. The Panel acknowledges that increased economic productivity can reduce the need to raise taxes while producing more revenue for Government. However, the challenges for the Council of Ministers are considerable, as explained in the [Annual Report -November 2022 of Jersey's Fiscal Policy Panel](#) (the **'FPP Report'**) the recommendations of which have been set out in the Appendix to this Comments paper.

The FPP Report has found unprecedented labour shortages and recruitment difficulties across all employment sectors, along with barriers to retaining local labour and attracting migrant labour (such as lack of affordable housing and housing costs), are constraining business growth. Increased borrowing costs (at least outside the financial services sector) caused by the recent rise in interest rates, and increased rental costs for businesses, impact on taxable profit and investment in businesses too. Labour shortage and high inflation has further led to wage inflation, as identified in the ['Index of Average Earnings'](#) June 2022, which has led to further costs for local businesses.

Conversely, there has been a decrease in employee remuneration in real terms, where inflation housing and living costs exceed wage increases, which also reduces consumer spending.

The FPP has reported that businesses in the financial sector are beginning to relocate some elements of their activities to the UK owing to competition for staff and the high cost of living in the Island making local recruitment more difficult.

Statistics Jersey ([‘Measuring Jersey’s Economy report’](#)) has reported that the Island’s productivity has declined by more than a fifth in real terms since between 2007 and 2021, driven by a decline in the productivity of the finance sector with increased levels of employment in lower productivity areas in recent years. A report by PwC ([‘Digitally upskilling the Channel Islands’](#)) has also identified that Jersey is at risk of automation between now and 2035 with 16,900 jobs expected to be impacted.

As reported by the FPP, business activity in the non-finance sector is currently strong but optimism has waned since June.

The CSP states that Jersey’s Economic Framework will provide ‘clear long-term direction’. Different business sectors and businesses are competing in the Island for limited human resources, limited affordable housing and limited commercial sites in the Island. The Panel believes it is important for clear and unified long-term direction to be given by the Council of Ministers that resolves competing interests and demands in the general interest of the public. The Outline Economic Strategy has yet to be scrutinised by the Panel and it is our intention to review it with the stated policy aim of ‘clear long-term direction’ in mind.

The Panel has not had the opportunity to explore the likely impact of the CSP proposals on housing and living costs and is inclined to look at these in more detail in the future.

Skills barometer

The CSP states that:

- Jersey’s Economic Framework will identify ‘the skills we need so that Islanders can contribute to the economy throughout their lives’; and
- a new skills barometer will be developed that will identify skills gaps.

In the immediate term, Government intends to work with employers and educators to find solutions to the skills and labour shortages following the Covid-19 pandemic and post Brexit economy.

The Panel accepts a need for increased investment in the upskilling and reskilling of Islanders to increase economic output and income across the economy. With respect to the Island’s current working population, the FPP Report suggests that, whilst there are acute pressures in some sectors, ‘a widespread mismatch of skills is not present’. In the immediate term, high level political decisions are needed in the context of current labour shortages to resolve competing demands for reskilled Islanders and inward migration between business sectors, between competing businesses within sectors, and between the private and public sector.

While an investigation of skills training currently provided by the private sector would inform the skills barometer, its development requires similarly clear political vision regarding the encouragement and prioritisation of growth areas in the future that would meet the objective of achieving Jersey’s full economic potential.

The [2021 Census](#) shows that the population has a significant percentage of [working people](#) in their mid-fifties. In addition, the recent findings of the [Jersey Labour Market report](#) show that 56% of 8,190 active private-sector undertakings are single person businesses which has risen on a steady scale since 1999.

The FPP has stated that one factor behind lower unemployment in most developed economies is falling labour market participation and it is unclear whether this applies in Jersey as participation rate data is lacking. The Panel believes that further enquiry needs to be made into the extent to which the individuals in single person businesses intend to continue working. The relationship between business size and productivity also needs to be better understood along with the extent to which having single person business operators as active participants in the labour market contributes to some firms relying on inward migration to generate additional output.

Although the CSP envisages Islanders contributing to the economy ‘throughout their lives’, one consideration in identifying skills gaps or addressing labour shortages generally is whether there is value in incentivising Islanders in their late fifties or more to continue with full or part-time work (other than out of economic necessity). This could help inform the Government in developing the Common Population Policy to which the [Ministerial Plans](#) refer. The Panel intends to keep abreast of the developments in these areas as part of its future work programme.

Enterprise Strategy

The CSP states that the Government intends to facilitate new opportunities for local businesses through ‘a renewed focus on productivity, technological transformation and growing exports and inward investment’. It proposes an Enterprise Strategy ‘to support Jersey’s existing businesses and harness our Island’s entrepreneurial spirit’. Either as part of this strategy or concurrently, the Government will ‘identify opportunities to cut red tape, incentivise start-ups, and help established businesses to grow and thrive’.

While the cutting of red tape is to be applauded, the way Government otherwise proposes to:

- incentivise start-ups
- help established businesses grow and thrive
- grow exports and inward investment

all require further consideration, taking into account the points made above including the under-supply of labour and recruitment difficulties (as well as competing demands for labour) and the age demographics of Jersey’s small business environment.

Investigation of this last area would also inform the Government of the appetite amongst established local businesses for investing in technological transformation. The Government could also consider the role and relative accountability of private providers of business advice and the desirability of business consolidation in some areas.

While recognising the value of innovation, the Panel considers it important that delivery of the CSP’s aims is carefully implemented in a way that will not exacerbate staff

shortages for businesses that generally are successful enough not to seek Government support.

Monitoring Impact

The CSP lists the following key performance indicators (KPIs) to monitor the impact of policies addressing the area of Economy and Skills:

- Increase total GVA per person
- Increase the number of Islanders with qualifications above Level 4
- Increase % of young islanders who see Jersey as the right place to build their careers and lives
- Increase productivity in real terms
- Reduce skills shortages in key sectors, through a skills barometer and training for islanders.

As part of its future work programme, the Panel intends to examine these aims in further detail, particularly the aim of increasing total GVA per person and how adequately this would serve as a measurement of the impact of Economy and Skills policies.

Conclusion

As the CSP is light on detail in a number of areas, the Panel hopes these comments provide Members with assurance that there are a number of matters which will be followed up as part of its work programme including measures of policy impact.

Appendix

Summary of recommendations of the Fiscal Policy Panel

1. **Fiscal Strategy.** The economy has grown strongly but global conditions are clearly worsening. The fiscal strategy needs to steer a careful course between avoiding a sharp downturn and not overheating the economy. Such a course is not easy to judge but the current strong fiscal position provides an opportunity for the Government to rebuild reserves and to provide targeted support for those most affected by the changing economic conditions. Capital projects should go ahead as planned. Government should ensure that other spend undergoes economic impact appraisal and that it is appropriately scheduled to minimise the risk of overheating the economy.
2. **Fiscal spending.** The economy remains strong with little spare capacity and unemployment at historically low levels. The Medium-Term Report argued that this was not the time for significant across the board additional spending or tax cuts. This remains the case. It would be prudent to reduce “growth” expenditure in the early years of the Plan to strengthen reserves which may be required in future years.
3. **Inflation.** Alongside the overall picture, some households will be more adversely affected from high and rising inflation and from rising interest rates. Government should prepare to react quickly again to provide additional targeted support should it be needed and to offset any short-term risk to consumption.
4. **Funds.** Looking further ahead, long-term risks remain and Government should increase the balances of both the Stabilisation Fund and the Strategic Reserve. The Panel re-iterates its recommendation from the summer: with the Covid debt being paid off this year, it would be prudent to allocate surpluses and receipts from Prior Year Basis liabilities to increase the Funds’ balances.
5. **Objectives of Funds.** The Government should ensure objectives for the Funds are clear and should adjust policies in line with objectives. This will be particularly relevant after the actuarial review of the Social Security Funds. 6. **Housing.** The cost of housing remains a risk to economic growth. This should be addressed as a priority and consistent with the Government’s strategic aims. Interventions which boost short-term housing demand and support prices artificially are not desirable.
6. **Capital programmes.** The Government Plan addresses the historic tendency to submit overly-ambitious timetables for capital projects. Care should be taken to ensure that major capital projects do not overlap, and consideration should be given to identifying smaller projects which could be paused or implemented quickly to support the economy.
7. **Value for Money.** The Government Plan includes Value for Money targets for 2023 and 2024 that look are realistic and achievable. However unspecified measures have been included for future years. Speculative measures should not be included in the Government Plan. They may lead to pressures in later years if they are subsequently not found.

8. **Net zero.** The Climate Emergency Fund will not be sufficient to finance the transition to net zero which will require the careful use of both taxes and expenditure to create the right economic incentives. The Government should consider the strategy for financing these challenges