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By email

29th October 2024

Dear Chair,

Proposed Budget 2025-2028 Review

Thank you for your letter of 21st October, in which you ask for information regarding the proposed support package accompanying the implementation of the Living Wage. I have set out answers to each of your questions below in turn:

1. *How has the fiscal soundness of using £20 million (10m in 2025 and 10m in 2026) from a proposed reduction in the States Grant been assessed and please can you provide to the Panel any expert advice received in this respect?*

Whilst this question should be addressed to the Minister for Social Security or Treasury, I am informed that the Social Security fund and Social Security reserve fund hold assets well in excess of £2 billion and a temporary reduction in income of £10 million a year for two years will have limited impact on the overall health of the funds. The budget report (page 85) shows a continuing increase in the overall balances within the funds between 2025 and 2028. These figures do not take account of the anticipated differential increase in contribution income due to a higher minimum wage. As the budget report explains, the increase in contribution income for lower earners is likely to lead in turn to a reduction in the amount of States Grant required to be paid into the Fund in future years. The Funds are subject to regular independent actuarial reviews. The next review is due in respect of the funds held as at 31 December 2025. This review will take account of the short term reduction in income for 2025 and 2026.

2. *What assessment has been carried out of the long-term impact on the Social Security Fund from a temporary reduction in the States Grant? How might this impact the sustainability of the Fund in the future?*

Please see answer to question 1.

3. *What impact assessment of the proposal has been carried out to determine the likelihood of any unintended economic consequences from reducing the States Grant to the Social Security Fund in 2025 and 2026?*

The impact of reducing the States Grant is limited to the impact on the Social Security Fund itself. There is no impact on the Consolidated Fund as the reduction in the States Grant is balanced by the allocation of temporary funding to the living wage support packages. As set out above, there is considered to be no significant impact on the Social Security funds.

The economic consequences of allocating temporary funding to the living wage support packages is to provide investment into local employers to improve productivity and skills within the workforce in light of the forthcoming increases to the minimum wage.

4. *What additional governance measures will be in place to ensure that the £20 million temporary allocation does not affect the longer-term investment objectives and capital requirements of the Social Security Fund?*

The longer term investment objectives and governance of the Social Security Fund are not changed by the £10 million a year reduction in income.

5. *How does the reallocation of funds for business support and Living Wage implementation align with Jersey's broader fiscal policies, particularly regarding responsible public spending and maintaining economic resilience?*

The proposed £20m for Living Wage Support will be used to encourage businesses to invest in their businesses and their staff which in turn will help businesses be more productive and grow. Jersey has lower levels of business investment than the UK (which has the lowest investment levels in the G7 group of countries), and this low level of investment explains in part why productivity has been falling, and why economic growth outside of financial services has been weak. Improved productivity and faster economic growth will improve economic resilience and Jersey's fiscal position. The FPP commented that the funding of Living Wage support from SSF meant that the increase in government expenditure was under-stated, implying that further pressures to the government expenditure would not be welcomed.

6. *How will the use of funds to improve productivity and competitiveness through a Living Wage generate significant economic growth in the medium to long term?*

Answered above.

7. *How will the proposed allocation of up to £10 million in 2025 and further £10 million in 2026 to support businesses and charities effectively drive productivity improvements and maintain competitiveness?*

The monies will be paid to businesses and charities that invest in their businesses and/or their staff. In turn this investment should enable businesses and charities to generate more value with the same or fewer staff. This will drive productivity improvements. Grants to agriculture, which is a heavy exporter will also ensure that prices can remain low and maintain competitiveness.

8. *How is it envisaged that this intervention will affect Jersey's overall economic competitiveness?*

A more productive economy is an economy that can produce more value per full-time equivalent, or put another way more output can be produced at the same or at lower cost and competitiveness is improved. The competitiveness agenda is more aligned with exports and the intervention has been tailored around the impacted sectors. Where those sectors are heavy exporters, such as tourism and agriculture the intervention is designed to relieve some of these pressures.

9. *How have you assessed the risks of focusing on business support schemes during this transition, particularly in terms of ensuring that funds lead to measurable productivity gains and competitiveness?*

These risks have been assessed and are being managed through the design of the grant application and approvals processes. Where possible, existing schemes have been utilised to ensure efficient delivery and evaluation metrics are being built into the delivery processes to help monitor effectiveness of the packages. The grant packages are designed to stimulate medium-term productivity gains. An evaluation process will also be built into the programme to assess delivery and impact (although impact will need to be assessed over the medium term and not within the timeframe of the programme itself).

10. To what extent is it envisaged that the proposed measures will alleviate labour shortages, particularly in critical sectors like retail, hospitality, and agriculture?

Analysis of the evidence suggests that part of the labour shortage is actually a skills shortage - Jersey's economy now requires over 1.5 workers to produce the output previously provided by 1 worker because of a mismatch in skills needed by employers and the skills of workers. The proposed measures will encourage businesses and charities to invest in both their businesses and in their staff. At the level of the economy this investment should mean that the skills mismatch is reduced and that over time less labour is needed, thus alleviating labour shortages. The switch away from labour intensive businesses to investment in capital, is specifically designed to ensure labour can be utilised more effectively in Jersey.

11. What assessment has been carried out, if any, of the potential positive and negative impacts on labour supply and wage pressures?

The Living Wage policy (including the Living Wage Transition Support package) has been fully informed by analysis and evidence that includes the impact on labour supply and wage pressures. This along with detail of the above will be presented to Assembly members on the 11th November.

12. What other cost-effective mechanisms have been explored which could support businesses during the transition to a Living Wage?

Other packages and mechanisms of support were considered early on in the scheme development. This preferred option was agreed as a balance between recognising the impact of raising the minimum wage on employers, sector specific impacts and efficiency of delivery. It was agreed that the focus of these schemes should be improvements in productivity and protecting competitiveness.

13. What specific governance and monitoring mechanisms will be in place to ensure that the distributed funds to businesses are used effectively and efficiently, without creating undue bureaucracy?

Relevant delivery partners and existing support mechanisms have been utilised where possible to ensure efficient delivery. The application process and governance for the packages are also being developed with the principle of efficiency in mind, balanced against the requirements of the Public Finances Manual. Further details on the packages will be published shortly.

14. How do you propose to balance the need for short-term support with longer-term structural adjustments that improve productivity without fostering dependency on Government aid?

Improving productivity is a long-term goal for the Government and part of the Future Economy Programme's ambition for sustainable economic growth. Whilst aligned to the 2-year transition period to a Living Wage, the investments supported by these packages should embed productivity improvements which will continue after the scheme has ended. However, the government has been clear that this support will not completely mitigate all impacts of the Living Wage to businesses.

15. How will you measure the outcomes from the implementation of this business support scheme to ensure that the intended outcomes are being achieved and how will you report back to the States Assembly on this?

Proposed monitoring and evaluation will take place internally as described above across all packages but especially the open grants schemes (e.g. productivity and skills). Timeframes for reporting are still to be agreed but a review of the first full scheme year will take place to make any improvements for 2026

and a summary will be made public. It should be noted that measuring the outputs in the short term, will be achievable, measuring the outcomes will have to be done over a medium term frame.

16. How will you measure the intended productivity improvements to gauge whether this will more than compensate for the amount of money that has not been put into the Social Security Fund through the grant?

Answered above.

I hope the above information provides clarity to the areas you have raised.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'K. Morel', with a stylized flourish at the end.

Deputy Kirsten Morel
Minister for Sustainable Economic Development