

STATES OF JERSEY



PROPOSED GOVERNMENT PLAN 2023- 2026 (P.97/2022): TWELFTH AMENDMENT

JERSEY BUSINESS

Lodged au Greffe on 25th November 2022
by Deputy M.R. Scott of St Brelade
Earliest date for debate: 12th December 2022

STATES GREFFE

PROPOSED GOVERNMENT PLAN 2023-2026 (P.97/2022): TWELFTH
AMENDMENT

1 PAGE 2, PARAGRAPH (e) –

After the words “Summary Tables 5(i) and (ii) of the Report” insert the words –
“, except that in Summary Table 5(i) the Heads of Expenditure for the Department for the Economy shall be reduced by £700,000 on the basis that New Revenue Expenditure Growth will not be allocated to Jersey Business in 2023”.

DEPUTY M.R. SCOTT OF ST BRELADE

Note: After this amendment, the proposition would read as follows –

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

to receive the Government Plan 2023–2026 specified in Article 9(1) of the Public Finances (Jersey) Law 2019 (“the Law”) and specifically –

- (a) to approve the estimate of total States income to be paid into the Consolidated Fund in 2023 as set out in Appendix 2 – Summary Table 1 to the Report, which is inclusive of the proposed taxation and impôts duties changes outlined in the Government Plan, in line with Article 9(2)(a) of the Law;
- (b) to approve the proposed Changes to Approval for financing/borrowing for 2023, as shown in Appendix 2 – Summary Table 2 to the Report, which may be obtained by the Minister for Treasury and Resources, as and when required, in line with Article 9 (2)(c) of the Law, of up to those revised approvals;
- (c) to approve the transfers from one States fund to another for 2023 of up to and including the amounts set in Appendix 2 – Summary Table 3 in line with Article 9(2)(b) of the Law;
- (d) to approve each major project that is to be started or continued in 2023 and the total cost of each such project and any amendments to the proposed total cost of a major project under a previously approved Government Plan, in line with Article 9(2)(d), (e) and (f) of the Law and as set out in Appendix 2 - Summary Table 4 to the Report;
- (e) to approve the proposed amount to be appropriated from the Consolidated Fund for 2023, for each Head of Expenditure, being gross expenditure less estimated income (if any), in line with Articles 9(2)(g), 10(1) and 10(2) of the Law, and set out

in Appendix 2 – Summary Tables 5(i) and (ii) of the Report, except that in Summary Table 5(i) the 2023 Revenue Heads of Expenditure for the Department for the Economy shall be reduced by £700,000 on the basis that New Revenue Expenditure Growth will not be allocated to Jersey Business in 2023;

- (f) to approve the estimated income, being estimated gross income less expenditure, that each States trading operation will pay into its trading fund in 2023 in line with Article 9(2)(h) of the Law and set out in Appendix 2 – Summary Table 6 to the Report;
- (g) to approve the proposed amount to be appropriated from each States trading operation's trading fund for 2023 for each head of expenditure in line with Article 9(2)(i) of the Law and set out in Appendix 2 – Summary Table 7 to the Report;
- (h) to approve the estimated income and expenditure proposals for the Climate Emergency Fund for 2023 as set out in Appendix 2 – Summary Table 8 to the Report; and
- (i) to approve, in accordance with Article 9(1) of the Law, the Government Plan 2023-2026, as set out at Appendix 3 to the Report.

REPORT

The Government Plan 2023-2026 proposes an increase to the base grant of Jersey Business. Its Annex claims that this would secure ‘sufficient funding for the organisation to meet the Government’s economic objectives to support businesses in becoming more productive and resilient.’

The current base grant of Jersey Business is £860k and the Government Plan proposes to increase this figure by an additional £700k for the years 2023 – 2026. If approved, this amendment will halt the increase in funding to Jersey Business for 2023.

Jersey Business

Jersey Business is an “arms’ length organisation” that is funded to perform its activities through government grants without being part of government’s organisation. Being fully funded in this way, the extent of its activities depends on the extent of its involvement in delivering government policy.

Its core function has been to offer advice, to those who seek it, on setting up and running a business in Jersey, including through its website at www.jerseybusiness.je. This advice extends to informing aspiring and established business operators of the legal and regulatory framework in Jersey within which local businesses must operate. Jersey Business is not the sole provider of business advice in Jersey. Being funded by the taxpayer, it is not required to charge for its services.

From the beginning of 2021 (during which Jersey’s businesses suffered a lockdown, operating restrictions and a reduction in visitors owing to both local and international restrictions and reduced travel links) Jersey Business was involved by government in shaping and advising on five Covid-19 pandemic support schemes including helping businesses apply for funding from, a ‘Productivity Support Scheme’ launched by the Department for Economic Development last year and support for eligible Co-Funded Payroll Scheme claimants.

The average number of employees in Jersey Business in 2021 was 13 full-time and 2 part-time. Twenty years ago its core service was provided by a single person. Although the two trends could be unrelated, Jersey’s economy has maintained a state of stagnation and reduction in real terms over the last twenty years.

Rationale for budget increase

Part of the suggested rationale for increasing the base grant to Jersey Business is to enable the organisation to carry on delivering the levels of services it has provided during the pandemic. For these, Jersey Business received an additional grant from the covid recovery fund (£1,060,000) in 2022 on top of its £860,000 base grant to cover fixed costs and client facing support.

The [Annex to the Government Plan](#) states:

“With the economic impact of the pandemic still being realised and a continuing difficult economic environment, there is ongoing and sustained demand pressure for resources at Jersey Business Limited to tackle the legacy economic issues, such as low productivity, workplace skills and financial

resilience, which will be essential to drive the Island's economic growth potential.

As the arms-length organisation responsible for providing direct support to Jersey companies, Jersey Business Limited continues to play a vital role in helping the Jersey economy to recover whilst ensuring a resilient and futureproof business community. This investment is to increase the base grant to Jersey Business Limited and secure sufficient funding for the organisation to meet the Government of Jersey's economic objectives to support businesses becoming more productive and resilient."

Jersey Business has submitted to the Economics and International Affairs Panel (EIAP) that its proposed funding in the Government Plan is a 19% decrease for the organisation in comparison to the funding it received in 2022 because the additional £700K is less than the additional grant it received from the covid recovery fund (£1,060,000).

The Director for Economy informed the EIAP in a hearing on Friday 4th November held as part of its Government Plan Review:

"So instead of saying we are going to remove the COVID funding and you reduce your headcount accordingly and then effectively in my view become less able to support the economy post-COVID we are saying that was a good idea and does not appear to be controversial to make sure that we are building on that and making the temporary permanent on the basis that Jersey Business do give a broad range of advice to any business that wants to see it, not just in terms of growth, but it also does filter those companies that they think have the greatest overall chance of becoming successful."

When asked why Jersey Business's support services need to be expanded from those available before 2020 and what evidence is there of increased demand, the Minister for Economic Development Tourism Sport and Culture informed the EIAP:

"Jersey Business have shown us that there is constant demand for their services, and it has only increased. Because we do not run Jersey Business, we provide the funding for them, we rely on their figures, and they are showing us increasing demand for their services."

Rationale for amendment

It is important that the proposed increased funding for Jersey Business set out in the Government Plan can be justified as being in the public interest and adequate to serve the Common Strategic Policy. Following an examination of the figures provided by Jersey Business, this Report submits that government should have made more enquiry into them. It sets out the case for withholding such funding on two possible grounds:

1. Lack of value for money
2. A lack of evidence to support the choice of Jersey Business as a vehicle for delivery of the economic and skills policy set out in the Common Strategic Policy on the basis of available information and in the context of Jersey's current business and economic environment.

The EIAP's Comments on the Common Strategic Policy ([P.98/2022 \(Com\)](#)) has summarised challenges in delivering policies relating to Economy and Skills. These include –

- identifying skills gaps; and
- delivering policies aimed at increasing Jersey's economic productivity.

These challenges are in the context of unprecedented labour shortages and recruitment difficulties across all employment sectors.

High-level policy decisions are needed to:

- resolve tensions between businesses and different business sectors in recruiting local staff of seeking locals to be reskilled; and
- inform the Common Population Policy that the Chief Minister's Ministerial Plan indicates will be delivered no earlier than the end of June 2023, which can offer an alternative source of staffing including staff with needed skills.

On a broader level, in addition to acknowledging the current staffing shortages the [Annual Report -November 2022 of Jersey's Fiscal Policy Panel](#) (the 'FPP Report'):

- indicates that, across the board, additional spending and tax cuts pose a risk to the future sustainability of Government; and
- recommends (in Recommendation 2) that it would be prudent to reduce "growth" expenditure in the early years of the Government Plan to strengthen reserves which may be required in future years.

Value for money considerations

The Jersey Business advice centre has been acknowledged to be valuable by three members of the public [in the recent review of the Government Plan 2023-206 by the EIAP](#). Others have questioned what real impact Jersey Business has on small businesses currently in existence to succeed.

This Report does not question that most of those who have used the services of Jersey Business have found those services useful in some way. However, positive feedback from those who have received free services from Jersey Business (that other businesses in the private sector pay for), is not of itself evidence of value for money for taxpayers.

One difficulty in assessing value of money for taxpayers is a lack of performance measures relating to return on investment of taxpayers' money.

Jersey's Comptroller & Auditor General has not criticised Jersey Business as an organisation, which has been responsive to her advice on presentation of content such matters as the [content of Annual Reports](#). However, in a [Report dated 29 June 2017](#), Jersey' Comptroller & Auditor General highlighted the need for government to improve oversight and accountability of arms' length organisations (ALOs) including for

government to set out clear expectations for ALOs, translate those expectations into measurable activities, outputs and outcomes; and monitor performance in delivering activities, outputs and outcomes.

In addition, she mentioned a flawed mechanism in holding ALOs to account, stating for instance ‘in Economic Development, Tourism, Sport and Culture, there is no clear distinction between meetings related to monitoring performance and those related to the development of policy.’ Earlier this year, [Government’s tracker of the Comptroller & Auditor General’s recommendations](#) showed the Economic Development, Tourism, Sport and Culture Department had yet to implement recommendations assigned to it in the tracker. Responsibility for collecting information about the cost of, oversight of ALOs and use to inform decision-making had been assigned to the central policy department.

While Jersey Business seeks the capability to offer extended services, consideration needs to be given to the extent to which, beyond its core activities, Jersey Business is offering services already offered by local companies who pay tax on their profits. Unlike Jersey Business, most of are regulated and/or have to adhere to the principles of any professional body, with a requirement to carry some form of professional indemnity insurance. Not having professional indemnity insurance could be expected to limit Jersey Business’s activities.

Being “not for profit”, there is no requirement for Jersey Business to make money, work efficiently or commercially and the organisation pays no tax. As such, it can be regarded as a cost centre funded by government.

There appear to be no Key Performance Indicators set for Jersey Business by government that require Jersey Business to demonstrate increased tax revenue from its activities or increased Gross Value Added (GVA) (a measure of economic productivity that could lead to increased tax revenues). This is despite increased GVA being a stated performance measure for ‘Economy and Skills’ in the Council of Ministers’ Common Strategic Plan.

To date, Jersey Business has not demonstrated increased tax revenue from its past activities or, short of its role of administering emergency government support funding to businesses during lockdown, any direct contribution to the bounce back of the economy after the ending of lockdown. Overall, the economy maintains stagnation and reduction in real terms.

As pointed out in one submission to the EIAP, if Jersey Business could demonstrate that, with the additional funding, its activities would generate additional taxable business profits of £3.5m (taxable at 20%), it could show that the additional funding of £700,000 would not be an additional cost to the taxpayer (including taxpaying businesses). To justify its total funding in terms of return on investment, new business activity generated by Jersey Business would need to run at c£10m per annum.

With Jersey having virtually full employment achieving this goal appears unachievable so that the funding would appear likely to have a negative effect on overall island productivity.

The additional funding also is being sought before the outcome of a review under the Value for Money Programme mentioned in the Government Plan, to assess value for money of ALO's, is known, let alone details of that review. The Minister said in the EIAP hearing:

The Minister for Economic Development, Tourism, Sport and Culture:

“Yes, so the value for money programme is about reviewing to make sure that we are operating as productively as possible, both within the department but also within the grant-funded A.L.O.s (arm’s length organisations). We will be reviewing over the course of the year to ensure that we are getting value for money.”

It appears prudent for government and in the general public interest for this review to be concluded with respect to Jersey Business before additional funding to Jersey Business out of taxpayer funds is granted.

Delivery of policy considerations

Amongst its objectives around ‘Economy and Skills’, the Common Strategic Policy:

- 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;
- proposes an Enterprise Strategy ‘to support Jersey’s existing businesses and harness our Island’s entrepreneurial spirit’; and
- suggests 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’

Any intention for Jersey Business to grow its client base needs to be considered in terms of sustainability and productivity.

The recent findings of the Jersey Labour Market report show there to be 8,190 active private-sector undertakings in the Island and, of these, 56% (4,586) are single person businesses, a proportion that has risen steadily since 1999. The unprecedented labour shortages and recruitment difficulties across all employment sectors creates tensions as the support of less successful businesses and the staffing of cost centres could be restricting the growth of successful businesses seeking to grow their workforce.

Justification for increased funding of Jersey Business has revolved around a stated concern that, without it, Jersey Business will not be able to retain people employed during the COVID-crisis or continue to provide specialist programmes of support directed at continued recovery, productivity and leadership development.

However, during its Government Plan review, the EIAP was not provided with any data suggesting an increased demand in Jersey Business’s services of a scale that merits nearly doubling its funding now that the restrictions imposed on businesses in connection with the pandemic are over.

Of the 8,190 active private-sector undertakings in the Island, it is unclear how many of these Jersey Business expects to support in some way and by what criteria does it *‘filter those companies that they think have the greatest overall chance of becoming successful?’*

Page 15 of the Government Plan under the section “Jersey’s Economic Outlook’ refers to the [Business Tendency Survey \(June 2022\)](#), stating it provides ‘strong evidence for economic recovery post-pandemic with the proportion of businesses reporting an increase in activity being 20 percentage points higher than those reporting a decrease.

There is a lack of available data to support suggested success for Jersey Business in ‘Driving productivity improvement across key sectors as the economy started to recover’ (according to its [2021 Annual Review](#) one of its stated aims of its 2021 Strategic Plan), particularly as the productivity of most businesses would have been expected to improve after the ending of lockdowns and improvement of travel links.

More immediately, in seeking resourcing to assist economic growth it is important that government focusses on the general barriers to Jersey businesses trading more profitably that government itself can change. This includes red tape, population policy, borrowing costs and the lack of affordable housing and housing/rental costs. In the current economic environment, where so many successful businesses are having to manage costs while maintaining productivity, there needs to be a realignment of cost between the private and public sector.

Conclusion

If approved unamended, this amendment would halt the £700k extra funding identified for Jersey Business for 2023. Although the £700k is a 19% decrease from the funding allocated to the organisation as part of the Covid-19 Recovery package, it would serve economic prudence and public interest better for Government to await the outcome of the value for money review of ALO’s before any additional allocation is awarded year on year until 2026, particularly in light of the findings made by the FPP.

Financial and manpower implications

In terms of financial implications, Jersey Business would not receive any additional funding on top of its base grant to build on the service it currently offers. The £700k would be removed from the Heads of Expenditure for the Department for the Economy and would remain in the Consolidated Fund to be added to reserves as a surplus or available for other types of government spending.

In terms of manpower implications, as with other organisations, the composition of Jersey Business may be affected by staff choosing to retire or move to other organisations. Depending on Jersey Business management decisions, including on succession planning, additional staff recruited by Jersey Business during the pandemic may not become a permanent headcount of the organisation unless other efficiencies are achieved. Jersey Business advises businesses in the Island on such matters and recently has invested in a Team Resilience programme that has given staff the tools to be more resilient. The private sector is keen to recruit talent with the current labour shortage presenting opportunities for staff in all organisations within the public, private and not-for-profit sector.