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Senator L Farnham
Minister for Economic Development, Tourism, Sport & Culture
Government of Jersey
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By e-mail to: l.farnham@gov.je

8 February 2021

Dear Minister,

Fixed Costs Support Scheme

In recent weeks you – and fellow Ministers – received a number of representations from the business community for support with fixed costs whilst closed or restricted by public health measures. It is also recognised that some of these businesses fall outside the scope of other schemes and / or find those scheme requirements to be overly complex. You have therefore asked that officers develop a new basis of support hereafter titled the Fixed Costs Support Scheme (“FCSS” or “Scheme”).

In the first instance I would like to address the Ministerial objectives that you have for this Scheme and provide some commentary against each:

1. To effectively secure Jersey's economic infrastructure
The Scheme will undoubtedly support a range of businesses suffering current and cumulative financial hardship. It is debatable whether these could be considered in an infrastructure sense given their relative individual scale and whether they have sufficient momentum to see the island through a probable recessionary phase that follows on from the pandemic. During a recessionary period it is highly likely that discretionary consumer spending will reduce and an uncertain number of the businesses 'secured' through this funding will suffer insolvency at that point.
2. To provide equitable support across sectors where trade has been and / or continues to be materially affected by prevailing public health measures
The Scheme will provide support across business sectors affected by the public health

measures. The absence of any assessment of need provides equity in the Scheme however this contributes to concerns over the economy and effectiveness of the Scheme and the probable outcome that some funding will go to businesses without sufficient need or to businesses for whom the Scheme benefit does not change the outcome of near-term business failure.

3. To support the diversity of local businesses comprising our island economy recognising the significant prevalence of small business and, in particular, 'micro businesses' within our economic make-up

The island economy is dominated by small businesses and this is explained further in the business case document. Small businesses often suffer from weaker business and financial management as anecdotally evidenced in Government of Jersey experience in audit of other support schemes and in H.M Government (Department for Business, Innovation & Skills) report titled 'Small and Medium Sized Enterprise Journey Towards Raising External Finance'. This can make smaller businesses more prone to failure in periods of economic difficulty through limited forward planning, risk insurance, business continuity planning and financial resilience, including access to a broader range of new capital sources.

4. To secure employment of islanders in order to enhance the economic recovery and aims to reduce the numbers of islanders Actively Seeking Work

The Co-Funded Payroll Scheme is a primary means of supporting employment although this has required - and continues to require - a level of contribution from the employer. The cumulative effect of making this contribution during difficult trading periods has eroded financial resilience of businesses and created a cumulative pressure on business finances. This Scheme will provide a degree of additional support such that business survival is enhanced – rather than secured – and that should benefit the employment opportunity for islanders.

5. To avoid consequential business failures across other business sectors

In supporting a higher likelihood of business survival so the Scheme will help to limit consequential impact to customer and suppliers and reduce the probability of consequential failures. This is not, however, an estimable or measurable outcome.

My officers have worked extensively with colleagues to define a Scheme along these lines and have concluded the following key principles are necessary to achieve the best possible overall intervention:

- The Scheme should support specific business types which are not seeking support under the VAES or VASS schemes;
- Businesses seeking support under the Scheme should be required to declare that they derive more than 50% of their turnover from the disrupted sector and that they have suffered a

material detriment as a result of the public health measures in place, in line with the requirement under the Co-funded Payroll Scheme;

- The basis of support should be a tiered base payment capped by the relevant non-domestic rates paid by the businesses;
- The scheme operates for a limited period, with claims permitted for the period of 1 January 2021 to 30 April 2021, subject to review of public health measures;

The Government of Jersey has already provided a comprehensive suite of economic support measures in response to the challenges of this pandemic. In the Economic Indicators Reports published by Statistics Jersey on 11 November 2020 and 13th January 2021, existing economic support measures were valued at:

- Co-funded Payroll Scheme:
 - Phase 1 - £2m
 - Phase 2 - £78.6m for claims in April to August 2020 inclusive
 - Phase 3 - £13.8m for claims in September-November inclusive
- Business Disruption Loan Guarantee Scheme - £3.35m
- Visitor Accommodation Support Scheme - £616,260

The first disbursements are also being made under the Visitor Attraction and Events Scheme following a slow start and it is understood that some businesses are preparing applications for this scheme.

Feedback from the business community has positively highlighted the value of the Co-funded Payroll Scheme in preserving employment and supporting livelihoods during this difficult period. The Co-funded Payroll Scheme supports self-employed individuals, just as it supports those in employment, and it is important that we have equity in our economic support arrangements, for example, between an employed chef and a self-employed chef.

On 26 November 2020, Statistics Jersey published experimental statistics to estimate quarterly GVA in the non-financial sectors. This estimated a drop of 36% in GVA across all non-financial sectors against the same period in 2019 with the most significant impact being an 86% drop for the category of hotels, restaurants and bars. While hotels, as accommodation providers, will likely fall outside of this Scheme, restaurants and bars are likely to be eligible to claim.

Some businesses have struggled to cope with the burden of fixed costs essential to their survival and / or recovery whilst forcibly restricted in their normal trade. Businesses will typically economise on variable costs during periods of financial stress and look closely at their ability to generate cash through sale (and possible lease-back) of assets or to raise working capital against the asset base.

Nevertheless, the cost of financing and maintaining assets critical to the business - premises, plant, machinery, other equipment etc – together with associated costs critical to ongoing survival – utilities, insurance, statutory training etc – significantly pressures working capital in the absence of normal pattern of trade.

Maintaining economic infrastructure is key to ensuring the economic recovery. It is recognised that the scheme is likely to have a positive business impact that will ripple through the economy more broadly. This scheme builds on and complements the substantial package of support that government has already announced to support businesses and employees.

Together with fellow Ministers that comprise the Competent Authorities, you have considered and approved the business case relating to the Scheme. In earlier discussion with the Competent Authority Ministers officers presented a range of risks inherent within the Scheme and noted it was unlikely these could be fully mitigated. I have discussed the matter further with Treasury & Exchequer officers with particular emphasis on my responsibilities as an Accountable Officer.

As you know, it is my personal responsibility as Accountable Officer to ensure that the Department's use of resources is appropriate and is consistent with the requirements as set out in the Public Finances Manual. As with the Visitor Attraction and Events Scheme there are some uncertainties around the value for money of this latest Scheme and it is not possible to construct a business case to clearly demonstrate that this funding represents value for money to the standards expected by the Public Finances Manual, specifically that funds are used economically, efficiently and effectively. The continued uncertainty around the severity and duration of public health measures make it difficult to predict a duration for financial support and also by consequence, the financial cost to Government.

You will recall the responsibilities placed upon me through the Public Finances (Jersey) Law 2019 and the Public Finances Manual, primarily that I must give due regard to matters of:

1. Propriety;
2. Regularity;
3. Value for money; and
4. Feasibility.

The value for money consideration further breaks down into a consideration of economy, efficiency and effectiveness. In addition, I must be able to describe how the use of public funds assists in delivery of strategic outcomes and departmental objectives over time.

I share your view that businesses have suffered a significant loss of trade from forced closure and some will go on to suffer continued financial detriment through ongoing measures such as physical distancing and limits on gatherings. However, officer analysis suggests that somewhere in the region

of 2,000 businesses may fall into this category and it is not possible to undertake an assessment of need for each of these ahead of releasing public money. This compromises my ability as Accountable Officer to sufficiently assess value for money arising from this Scheme and therefore its effectiveness. This fundamentally impacts any objective assessment of the economy, efficiency and effectiveness of the Scheme.

There is a significant risk of public money being disbursed to businesses that may be able to call upon other means of support including, but not restricted to, bank lending and shareholder support. There is anecdotal evidence of some business owners seeking public money ahead of their own business and personal resources as evidenced in some of my conversations with local bankers who point to a very low level of 'early warning' credit indicators and local press coverage, notably a Jersey Evening Post article of 29th January 2021. The absence of a means-tested Scheme allows benefit to all who meet the broad criteria and may lead to some claim on public funds ahead of other forms of support.

The feasibility of the Scheme is also in question given that sums paid out may be insufficient to ensure survival of the beneficiary business and therefore not achieve a core Ministerial objective of preventing business failure. Sums paid out under the Scheme may be used to make payments to 3rd parties where Government has encouraged, but cannot enforce, other forbearance measures e.g. to commercial landlords that may have refused to re-negotiate lease terms during the pandemic period.

There are further value for money risks around the extent to which funding will go to some businesses who are otherwise able to adapt their business or where the business owner could seek employment. An example of this can be seen in the private catering businesses that have made representations for support at a time when it is also being represented that restaurants are seeking qualified chefs as they come close to a re-opening date.

Some of these efficacy risks are inherent in any economic policy intervention and are a characteristic of other measures taken by the Government as part of its economic response to Covid-19 such as the Co-Funded Payroll Scheme and the Visitor Accommodation Support Scheme. However, the economic case for those interventions was more robust. In the absence of business intelligence and assessment of need to design and access this Scheme, it is more difficult to establish the counterfactual scenario and demonstrate that value for money can be achieved. Given the urgency of the potential need, insufficient time is available to conduct further research that might allow for a more compelling case to be made.

There are also risks around the full feasibility of this scheme, given the operational difficulties in trying to administer efficiently and effectively a new scheme during a pandemic and at the pace which is needed to support businesses. The need for timely subsidy payments to a large and broad

number of businesses does not lend itself to the in-depth financial analysis of a business that would generally be associated with any investment on commercial terms, or for example a grant to an Arm's Length Body. Accordingly an automated approach to processing payments, as taken with the Co-Funded Payroll Scheme, policed by declarations, increases the risk of error and fraud.

The Principal Accountable Officer has also reviewed the Scheme and holds similar concerns to those I have already expressed, notably that:

- the time spent in trying to meet the challenging timetable you set out has meant that we as officials have not had enough time to properly test the feasibility of the Scheme.
- we have not really been able to make an objective assessment of the Scheme;
- he is unconvinced on the Value for Money of the proposal; and
- he cannot see how the effective oversight of the delivery of the Scheme and how it may impact on third parties gives the necessary assurance that the benefits are being achieved for those most in need of support rather than other parties – in particular landlords.

Therefore, because of the nature of these risks I, with concurrence of the Principal Accountable Officer, will require your written instruction in order to proceed. As I have set out, there are wider economic and social reasons that you are free to consider in making your assessment, which I am unable to do so in mine. I remind you that an instruction cannot be made that would cause the Head of Expenditure for which I am responsible to become overspent in contravention of Article 15(1) of the Public Finances (Jersey) Law 2019. Accordingly, given that I do not have sufficient budget available to implement the Scheme, any instruction you may choose will be drawn from the additional funding for Economic Recovery that was provided for in the 2021 Government Plan.

In line with the usual process for ministerial instruction, I am copying this letter to the Principal Accountable Officer and the Treasurer of The States. Should you decide to proceed, I anticipate our exchange of correspondence being shared with the Comptroller and Auditor General as early as practicable.

Yours sincerely,



Richard Corrigan

Acting Director-General, Economy

cc **Charlie Parker, Chief Executive Officer and Principal Accountable Officer**

Richard Bell, Treasurer of The States