



Fixed Costs Support Scheme – End of Scheme Review

1. Summary

1. 557 businesses were reached by the Fixed Costs Support Scheme.
2. This contributed £3.5 million to businesses in a period of depressed demand, helping to support the economy.
3. The Fixed Costs Support Scheme provided quick help supporting businesses which appears to have enabled a quick recovery, which may have otherwise not been possible.
4. It is difficult to assess the “counterfactual”, i.e. what would have happened to these businesses without the support from the Government, however, it is clear that businesses revenues were hit significantly due to depressed demand.

2. About the Scheme

The Fixed Costs Support Scheme (FCSS) provided financial support to businesses in sectors affected heavily by Covid-19 restrictions between January 2021 and March 2022. The amount that businesses could receive was determined by their rates and the amount of eligible fixed costs. This ranged from between £1,500 to £10,000 per month.

The businesses eligible in the last phase were in the below sectors:

- Licensed restaurants
- Pubs
- Cafes and places of refreshment
- Taxi drivers
- Food and/or beverage wholesalers
- Non-essential retail
- Beauty and health and wellbeing practitioners (with a reliance on close contact services)

The amounts they could receive in the last phase were:

Level	Eligibility criteria	Claimable -	Claimable -
		Business closed	Business open
1	Mobile businesses (reliant on events/close contact services/taxis/driving instructor)	£1,500	£1,500
2	Business that paid rates of up to £4,999 in 2020 (including any businesses that sub-let any premises)	£3,000	£1,500
3	Business that paid rates between £5,000 and £9,999 in 2020	£5,000	£2,500
4	Business that paid rates above £10,000 in 2020	£10,000	£5,000

3. Objectives of the Scheme

The objectives of the scheme were set out by the Minister for Economic Development, Tourism, Sport and Culture. These were:

1. To effectively secure Jersey's economic infrastructure.
2. To provide equitable support across sectors where trade has been and / or continues to be materially affected by prevailing public health measures.
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.
4. To secure employment of islanders in order to enhance economic recovery and aims to reduce the number of islanders Actively Seeking Work.
5. To avoid consequential business failures across other business sectors.

4. Economic Situation – Rationale for Intervention

The Covid-19 pandemic and mitigating actions by the government and individuals caused a significant economic downturn. In 2020, GVA fell by 8.7% which was the largest fall since comparable records began in Jersey. Likewise, the number of individuals who were actively seeking work grew to 2,300 in May 2020 and didn't fall back to 2019 levels until late 2021.

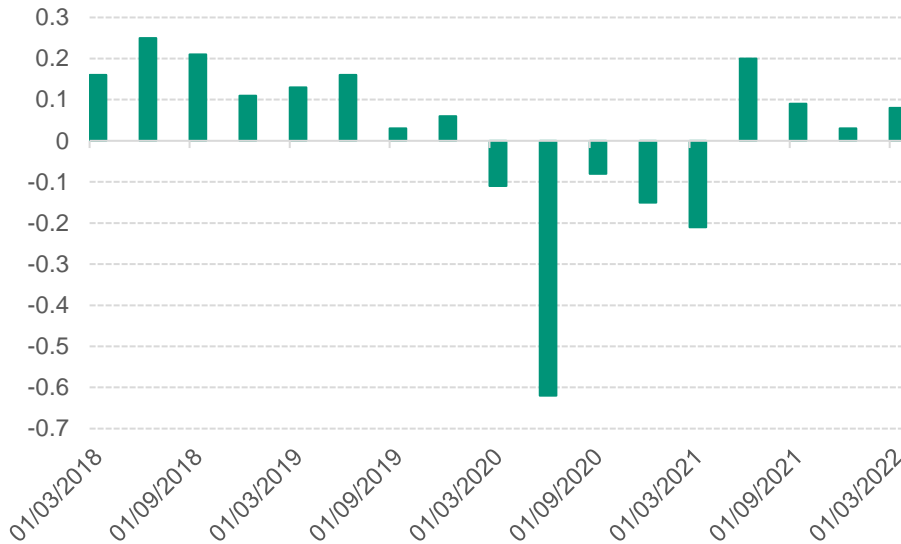
Many businesses on the Island were affected by the government restrictions. Travel restrictions and fear of travelling led to a large fall in tourism numbers in 2020 and 2021 with number of passenger arrivals falling dramatically from 1.2 million in 2019 to 250,000 in 2020. Whilst there was some recovery to 405,000 in 2021, this was still significantly lower than 2019.

This reduction in tourism and introduction of public health restrictions led to lower turnover for many businesses and for some of these, their fixed costs remained relatively constant. Many businesses have long-term commercial leases meaning that they were still obligated to pay rent whilst their turnover was depressed. Further, those businesses who chose to operate when it was legally possible had reduced demand whilst other costs remaining relatively fixed. For example, for some restaurants, electricity and heating costs were still necessary for their whole premises despite reduced demand due to various reasons out of their control such as spacing rules.

It is likely that this led to some businesses struggling financially and made it difficult for them to continue trading. Statistics from the Business Tendency Survey shows that businesses have given a negative score for profitability since 2020 suggesting a continual worsening of profitability over the period. In December 2021, only 12% of businesses surveyed said their profitability had improved over the past quarter compared to 39% who said their profitability had worsened. Likewise, more businesses reported a decrease in business activity compared to the previous quarter throughout 2020 and at the start of 2021. This started to change in mid-2021 with more businesses reporting an increase, however, this was predominately due to it being compared to the low previous quarter. This can be seen in Figure 1.

The scheme likely boosted confidence of businesses that they had certainty over the period. This may have influenced businesses to continue trading.

Figure 1 – Business Tendency Survey Scores for Business Activity Indicator, Comparing Current Situation to Three Months Previous

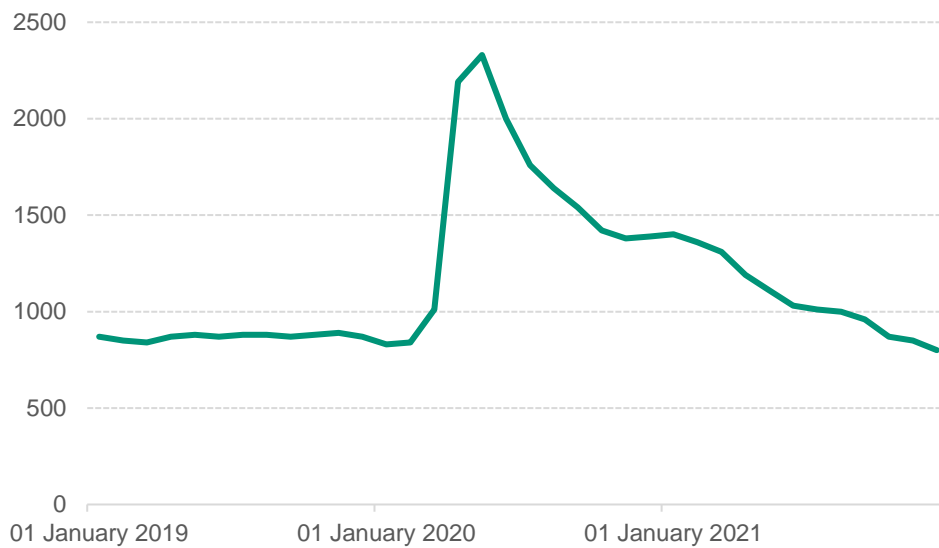


Source: Statistics Jersey

5. Economic Recovery – Bounce Back from the Pandemic

Despite the impacts still being felt particularly on profitability as reported by the Business Tendency Survey, there are signs that Jersey's economy appears to be recovering from the pandemic which was a key aim of the FCSS. The number of individuals who are Actively Seeking Work is at a record low since comparable figures began and much lower than at the height of the pandemic as can be seen in Figure 2. Recruitment can be a long process and the number of jobs in the labour market suggests that businesses have retained and been able to hire staff quickly. This may have been enabled by the scheme which allowed them to have enough reserves and cashflow to feel confident to hire.

Figure 2 – Total Registered as Actively Seeking Work (Seasonally Adjusted)



Source: Statistics Jersey

Likewise, other indicators seem generally positive such as the Business Tendency Survey future business indicator which showed in March 2022 that 25% of businesses reported an increase in business activity compared to the previous quarter. Whilst only 17% reported experiencing a decline. It's possible that, without the scheme, some businesses would have struggled to survive and had to reduce operations or been unable to bounce back as quickly. Finally, improving tourism numbers since 2020 should help to increase the turnover of businesses as hotels benefit from more overseas visitors.

6. Reviewing Success of Individual Objectives

Whilst economic recovery was the overarching objective, there were specific objectives for the FCSS:

To effectively secure Jersey's economic infrastructure

The economic recovery appears to be strong and in the November 2022 assessment and forecasts for the economy, the Fiscal Policy Panel has forecast economic growth to be 2.5% in 2022.

Anecdotal evidence suggests that there has not been a large number of business failures since the pandemic.

To provide equitable support across sectors where trade has been and / or continues to be materially affected by prevailing public health measures.

The scheme was aimed at those businesses that were affected by reduced trade. There was an expansion of the categories of businesses which were eligible for support in December 2021, which increased the equity of support across sectors.

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 scheme was eligible for all businesses regardless of the size and the take-up suggests small businesses did use the support available to them. Current data makes it difficult to determine the number of small business failures compared to a usual year, however, anecdotal evidence suggests that small and micro businesses in Jersey have not reduced in large numbers.

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

Number of unemployed was higher in Jersey in 2020 and since this has been gradually falling, which coincides with the scheme, as well as more general recovery from the economic downturn. The number of people who are Actively Seeking Work is now at a historical low since comparable figures started in 2008.

It is likely this is due to a combination of policies, not least the Co-Funded Payroll Scheme and removal of public health restrictions, however, the FCSS is likely to have been part of that support which made it easier for businesses to retain and quickly bring back or recruit staff.

To avoid consequential business failures across other business sectors

It is difficult to assess the number of business failures across other sectors, however, other sources suggest that there have been no subsequent failures in other sectors. For example, if there were business failures in other sectors, then it would be likely that there would be a fall in employment in these sectors which largely does not appear to have materialised. The number of jobs in the construction, public sector, education and agriculture sectors has grown since 2019. Whilst manufacturing and transport sectors have experienced falls in the numbers of jobs, natural variation between sectors is to be expected and the falls don't appear to be linked to targeted sectors.

7. Assessing the Counterfactual

It is difficult to assess how many of the businesses supported needed financial aid and what the optimal level would have been, due to lack of counterfactual i.e. what would have happened without the support. It is likely that there some of the funding provided by the scheme was directed towards businesses who already had strong financial resilience or would have survived without the economic support. For example, businesses with large amounts of cash reserves or less tourism focussed would have been better able to withstand the impacts from the public health restrictions.

The support also may have prevented some reduction in inefficiencies including businesses leaving the market. Economic downturns can improve productivity and efficiency as businesses have to cut costs to remain profitable and those who are not productive, can leave the market, which in turn frees up labour for other businesses. This is sometimes known as 'Schumpeterian Creative Destruction'. Some efficiency improvements may have been hampered by the payments, however, this effect is likely to be small as the FCSS only provided support for half of fixed costs for businesses continuing to operate and therefore there remained an incentive to reduce costs.

8. Targeting of the Scheme

Further, it may have been possible to improve the targeting of the support through greater interrogation of accounts or through different detriment tests, however, this would have had the trade-off of likely being slower, having larger administration costs and potentially being less efficient.

9. Audit of the Scheme

The Comptroller and Auditor General reviewed the robustness of the processes and control for the design and the implementation of FCSS as part of the overall report, 'Government support to businesses during the COVID-19 pandemic – other schemes'¹ in November 2021.

¹ Government support to businesses during the COVID-19 pandemic – other schemes' [Jersey Audit Office](#) November 2021

10. Conclusion

Overall, the available evidence suggests the objectives have been met, particularly securing economic infrastructure and employment. It is difficult to precisely assess the value for money of the scheme and whether a similar result could have been achieved with less financial support. Some of the objectives may have been achieved without the FCSS or the specific level of financial support, however, there would have been trade-offs and it's likely that the FCSS contributed to the achievement of its objectives.