

STATES OF JERSEY



RETAIL STRATEGY: IMPACT ASSESSMENT

Lodged au Greffe on 18th June 2007
by the Economic Affairs Scrutiny Panel

STATES GREFFE

PROPOSITION

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

to request the Minister for Economic Development to exercise his power under Article 6(4) of the Competition Regulatory Authority (Jersey) Law 2001 to request the Jersey Competition Regulatory Authority to carry out a full economic impact assessment on the addition of a third supermarket entrant on the retail sector, based upon the correct data now available on market size and household expenditure.

ECONOMIC AFFAIRS SCRUTINY PANEL

REPORT

The impact assessment should include, but not necessarily be limited to –

- (i) the impact of a third supermarket entrant on the viability of all retail operators, including both multiple and independent retailers;
- (ii) the effect of an additional 50,000 square feet of convenience retail space either as a single entity or added incrementally over a 5-year period;
- (iii) the likely outcomes if additional retail space/competition is added and it later emerges that there was no scope for such expansion;
- (iv) how the performance of the retail sector might be improved without adding additional retail capacity, and
- (v) the wider economic impact on jobs, infrastructure and traffic.

The full critique of the Economic Development Minister's Retail Framework document was published in the Economic Affairs Scrutiny Panel's Retail Strategy (Interim) Review S.R.9/2007 on 27th April 2007. It contained serious reservations concerning the Retail Framework, namely –

- The Experian report was so fundamentally flawed as to be “unfit for purpose”. The figure produced for ‘overtrading’ in Jersey’s convenience retail sector was 45% greater than is justified by the evidence.
- The assumption that the arrival of a U.K. or European multiple will produce an increase in competition and a decrease in food prices ignores many of the factors operating in the Jersey market, namely –
 - the structure of retail trade;
 - regional price variations;
 - increased labour costs;
 - comparison with the Isle of Man.
- Every pound spent at a locally-owned retailer is more beneficial to Jersey in economic terms than one spent at a U.K. multiple, in that –
 - locally-grown or supplied products are likely to be replaced by products from elsewhere;
 - centralisation of services will result in services being sourced nationally rather than locally.
- The Economic Development Department’s Retail Strategy remains over-reliant on the flawed data of the Experian report.
- The recommendations for retail growth contained in the Retail Strategy, despite being scaled down from those proposed by Experian, and supposedly incremental in nature, retain the potential to have a significant detrimental effect on the retail economy.

As a result, the scrutiny report had one major recommendation –

That, given the cumulative defects in the analysis that lead to the Retail Framework, the Minister for Economic Development should suspend any action based on the strategy until he has fully re-examined the guidelines in the light of accurate data and reported his findings to the States.

Flawed data

The Minister's retail policy is flawed for the following reasons –

- The [Economic Development](#) Department's Retail Framework clearly states the total convenience retail market in Jersey is £214 million (£203 million with £11 million tourist spend removed).
- The Household Expenditure Survey 2004 has established that this market is only 144 million, nearly £60 million less than the Department suggests.
- Experian underestimated the convenience retail space in Jersey, and this was corrected by Professor Sparks in his review, which was accepted in the Minister's Retail Framework.
- The conclusion reached by Experian that the convenience outlets were substantially over-trading is therefore incorrect. Nonetheless, the Retail Framework persists in promoting 50,000 square feet of additional space.
- Despite all the available contradictory evidence, the [Economic Development](#) Department maintains its belief that Jersey is in need of considerable additional retail space as shops are too busy, and the market size is larger than the available retail provision.
- The [Economic Development](#) Department estimates that the maximum sales that would be generated by a new 50,000 square feet supermarket would be £75 million a year. **This is currently more than half of the total convenience spend in Jersey.** [\[1\]](#)
- This major change to the retail environment could spell disaster for local independent retailers. It runs the risk of turning Jersey into another U.K. 'Clone Town', which have on average only 3.8% independent retailers, compared to the 18.4% independents in Jersey.

The need for a new assessment

In drawing up its project brief for an assessment of the retail sector in 2004, the Department accepted that there was a need to assess the impact of additional retail space on the Island as follows –

- “(a) *There would then need to be a risk analysis of the probability of substitution and displacement for a number of different levels of retail space addition within the relevant retail market segments. This would also be expected to cover as one of the scenarios an addition of a set amount of retail space, to be specified by the States and the likely substitution and displacement that could be expected. This section should consider wider planning considerations and include:*
- (i) *the effect of any additional retail space/suppliers on the core retail area of St. Helier and other locations, in particular, Red Houses, Quennevais and St. Peter. This would be expected to cover:*
 - (1) *hard measures of the effect on existing stock including the likelihood of vacant units and the impact on rents;*
 - (2) *and an assessment of the likely effect on the quality and diversity of retail provision and the use, character and vitality of the other locations and St. Helier in particular;*
 - (ii) *the effect on travel patterns and issues of access to goods and services relative to population centres. In addition, this section would be expected to provide information on the volume of traffic that could be expected from any addition of retail space, which could be fed into a separate transport infrastructure capacity assessment; and*

(iii) *the net effect on employment (and the nature of any changes in terms of the type of jobs – skilled versus low skilled) within the retail sector.*

(b) *Analysis is also required of the likely outcomes if there is not scope for additional competition/retail space yet extra retail space is added and how this might play out (relative to the status quo) in terms of substitution and displacement, prices, consumer choice, quality of service, number of retailers (i.e. monopoly threat) and economic growth. Consideration should also be given as to how it might be possible to improve the performance of the Jersey retail sector on these measures without adding additional retail capacity.”*

- To be fair, the Experian report did make some attempt to address some of these issues, albeit superficially, but significantly their analysis was always in terms of their original (totally incorrect) estimates of floor space and market size. **It therefore cannot be relied on whatsoever.**

For example, the Experian report states on page 75 –

“Key points that emerge from this exercise:

We believe that Jersey could easily absorb another 50,000 sq ft (net) of convenience floorspace, even with no market expansion. However, this level of new floorspace will only partially ease the current levels of overtrading.

A similar story emerges for 75,000 sq ft (net) of new floorspace.”

Further on, under “Modelling new floorspace scenarios” when debating the siting of a new supermarket, we find:

*“However, we would tentatively question the value of consolidating further retail spend in and around the capital and believe there may be more merit in redistributing it elsewhere in the Island. This opinion is based upon a simple fact: **our analysis has shown that Jersey as an island is under-shopped and in need of new retail floorspace.** On the other hand, our analysis of St. Helier itself has shown the capital to be a flourishing retail centre, which compares very favourably against its peer group centres. In short, therefore, we believe that the retail needs of the Island may exceed those of the capital.*

There is also the issue of infrastructure – as it stands, St. Helier’s roads and thoroughfares are noticeably struggling to withstand the heavy traffic that travels to the capital on a daily basis. Additional retail floorspace on the scale proposed could only exacerbate this problem.”

This incidentally appears to be the only discussion of increased traffic infrastructure demands in the report. Also missing is any in depth analysis of additional car parking associated with any new development in any location.

In the 5-page section on “Employment/ Economic Impact” the authors model scenarios of between zero and 75% displacement, and have this to say:

*“The concept of displacement recognises that there are certain instances where activity is displaced in the region by the intervention in question. The implications are usually most severe for those industries operating at or near demand capacity. As a general rule, the retail industry in the UK is usually operating at or near demand capacity. Ordinarily, if an out-of-town shopping complex were to be built in an area where consumers were already spending the maximum amount permitted by their budgets, the effect may be to spread that spending more thinly across the retail outlets in the area. **This could lead to closures of existing retail outlets.** Although a large enough centre may entice consumers from further afield, it is likely that existing retail areas would suffer.*

*However, in the case of Jersey, **our study has shown that the retail market is not operating at capacity and is currently suffering from under-supply.** By extension, any degree of displacement will be significantly lower than on the mainland.”*

As it has been established that the local retail market is operating at, or close to, capacity. If the Experian assessment were based on the corrected figures it would surely have concluded that some closures of existing retail outlets were inevitable.

Their conclusion at the end of this section states –

*“On this basis, we estimate that the floorspace scenario modelled would **create more than 1,300 new jobs** – this would equate to around 3% of the total Jersey workforce, as quantified in the 2001 Census. The majority of these (>80%) would, not surprisingly, be directly within the retail industry itself. However, other industries such as wholesaling, communications, hotels & catering and transport would also see some small uplifts in job creation.*

*Ordinarily, new retail floorspace on the scale we have recommended will not only alleviate current undersupply in the retail market, it will also be a contributor to wider economic growth through employment creation. However, given the unique nature of Jersey’s employment market and the fact that unemployment is very low, **creating this many new jobs may represent something of an issue, rather than a positive economic growth factor.**”*

The creation of this many new jobs “may represent something of an issue” has to be ranked as something of an understatement in the Jersey context. This will fuel population growth.

The 3 scenarios given in Table 48 ‘Employment creation by industry’ of the Experian report (attached as Appendix 1) are that –

- There is significant ‘displacement’ (jobs drawn from other businesses), 868 staff are pulled from existing retailers, and 509 new people are needed.
- There is some displacement, in which case local companies will lose 21 staff and the Island will need 1,356 new people to fill the jobs.
- There is no displacement, in which case there is no impact on any other business but the Island needs 1,695 new people.

The simple facts are that in addition to failing to assess the size of the retail sector accurately Experian has also failed to conduct a proper impact assessment or risk analysis of its recommendations for expansion in the retail sector either in terms of jobs or infrastructure such as transport, parking, etc.

Therefore a new assessment is essential.

Evidence from the JCRA

This uncertainty surrounding the economic impact of a new supermarket and need for a proper analysis is reflected in the evidence given to the Scrutiny Panel by the JCRA –

Deputy J.A. Martin:

My second question was basically, is it not your job at the JCRA, if retailers are saying they want more retail space or another operator, to look at the other effects it will have on local retailers already here?

Mr. B. Brown, Executive Director, JCRA:

*Yes, I was going to come to your second question which was, I think, the knock-on effects of perhaps a new supermarket coming in; what effect that would have on small businesses, small retailers. That raises a very interesting and, in some ways, complex issue of economic analysis which I think the UK Competition authorities have wrestled with in the past, which is **do supermarkets compete, and if so to what extent, with small food shops like the Spar and other small grocery shops? Are they serving 2 different markets, effectively, or is it one***

and the same market? *If it is one and the same market then, yes, the fact that big supermarkets are competing with small ones could have potentially an adverse effect on small retailers if they are unable to achieve the same efficiency. If, on the other hand, they are really serving 2 separate needs, the weekly convenience shop as opposed to the sort of one-off impulse purchases so that there are 2 separate markets, then the fact that you have got large supermarket chains competing with each other will not necessarily have an impact on the small business.*

That is not an area that we have had any reason yet to look at in Jersey.

It may have been something that we might have had to look at if we had had the jurisdiction to look at the C.I. Traders Safeway acquisition. I think the Competition Commission or the OFT (Office of Fair Trading) has done some analysis there and, I think, are finding in general that there are 2 separate markets. It becomes more complicated when you have the Tescos, and so on, opening up these small, what they call express stores, or words to that effect, that may have more of an impact.

(later)

Deputy J.A. Martin:

You use the words “economic analysis” of the whole area, the whole industryso would you advocate for this work to be carried out before we go and say we need 50,000 square feet?

Mr. B. Brown, Executive Director, JCRA:

*So, it is possible that this may be an area that **if the States or the Economic Development Minister thought this was an area that the JCRA could usefully do a study on** or that some other external consultant could do a study on, **then that would be a route that is open to him.***

(later still)

Mr. B. Brown, Executive Director, JCRA:

*Unless we are specifically asked to do that then we would not be doing it. No, that would not be our job. **Whether it is something that needs to be looked at is really a matter for the States.***

Conclusion

The Minister has made it absolutely clear in his Statement of 1st May 2007 that he has no intention of acceding to the Scrutiny Panel’s recommendation that he does not act on the basis of the Retail Strategy until he has thoroughly reviewed the basis for the framework and its potential impact.

It is clear that the Experian analysis is inaccurate and therefore the Retail Framework, developed from this data, and containing similar expansionist conclusions, cannot be relied on. No realistic assessment has been made of the potential impact of a new supermarket on the remaining retail market, on jobs, on traffic, on parking and above all on the centre St Helier. The flawed data from the Retail Framework have already appeared in the EDAW report on the future of the town. The Minister needs as a matter of some urgency to re-assess his framework.

In an earlier statement to the media, he stated –

“I agree the need to ensure Island businesses are not unfairly threatened and that any change must be managed with the utmost sensitivity, based on sound information.”

This proposition will allow him to do just that.

Financial and manpower implications

There will be a cost to this study, but it should not cost as much as the £62,500 expended on the discredited Experian report, given that proper data is now available. At this stage the Panel believes that a reasonable estimate

might be in the order of £20,000, to be found from departmental resources. Further information on costs is being sought from the ED department.

TABLE 48 – Employment creation by industry

	75% Displacement	20% Displacement	0% Displacement
Agriculture, Forestry & Fishing	0	1	1
Oil & Gas Extraction	0	0	0
Other Mining	0	0	0
Gas, Electricity & Water	5	14	18
Fuel Refining	0	0	0
Chemicals	0	0	0
Minerals	0	0	0
Metals	0	0	0
Machinery & Equipment	0	0	0
Electrical & Optical Equipment	0	0	0
Transport Equipment	0	0	0
Food, Drink & Tobacco	2	6	7
Textiles & Clothing	0	0	0
Wood & Wood Products	0	0	0
Paper, Printing & Publishing	0	0	1
Rubber & Plastics	0	0	0
Other Manufacturing	0	0	0
Construction	2	5	7
Retailing	425	1,132	1,415
Wholesaling	11	30	38
Hotels & Catering	11	29	36
Transport	7	18	22
Communications	4	10	13
Banking & Insurance	7	18	23
Business Services	2	5	7
Other F&Bs	17	46	58
Public Admin. & Defence	0	1	1
Education	2	6	8
Health	3	8	10
Other (mainly Public) Services	9	23	29
Total	509	1,356	1,695
Multiplier	0.37	0.98	1.23

[1] Economic Development Department, Retail Framework p.10.