

# **Government support to businesses during the COVID-19 pandemic – Co-Funded Payroll Scheme**

24 November 2021

R.177/2021

# Contents

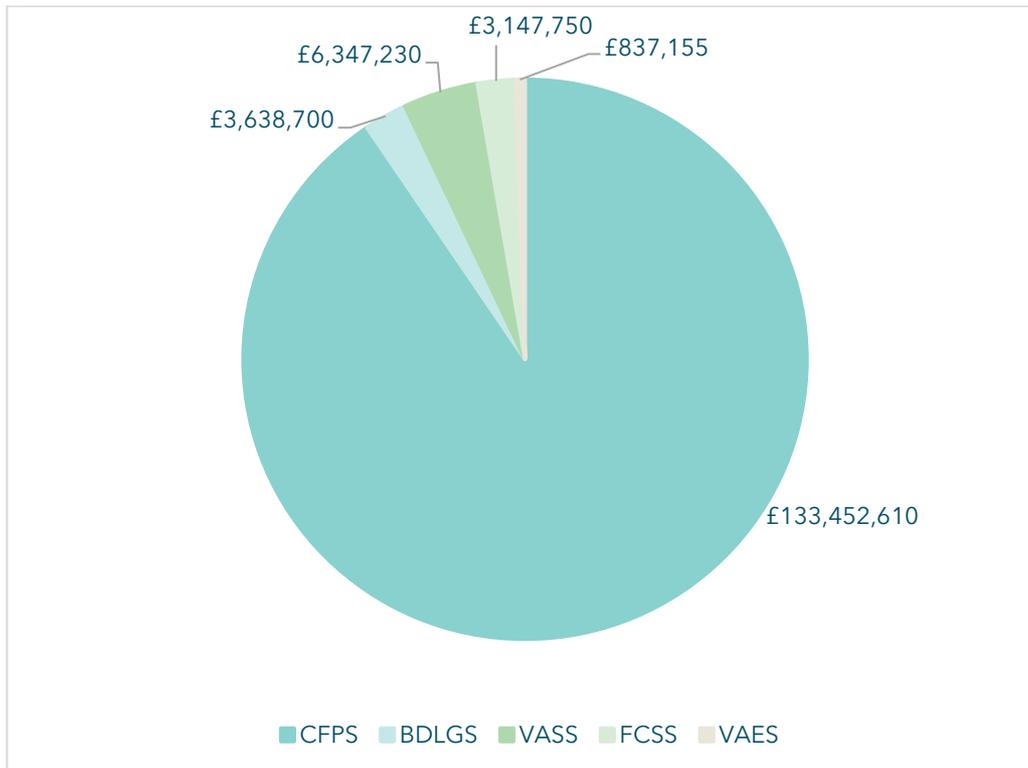
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# Summary

## Introduction

1. The rapidly evolving nature of the COVID-19 pandemic has called for an extraordinary response from Government as it has sought to save lives and protect health and livelihoods in Jersey. The principles of good governance, transparency, value for money, effective internal control and accountability for the use of public funds remain during a time of emergency. Whilst public financial management systems need to be responsive and flexible, it is essential that they continue to ensure value for money and minimise the risk of fraud and corruption.
2. An important part of the Government of Jersey's response to the COVID-19 pandemic was the introduction, at pace, of schemes to provide financial support to businesses and individuals on the Island. The Government's initial measures to assist local businesses and preserve Islanders' livelihoods, were announced within 24 hours of the categorisation of COVID-19 as a pandemic by the World Health Organisation. The schemes that were introduced in the initial stages of the COVID-19 pandemic included the Co-Funded Payroll Scheme (CFPS), the deferral of Goods and Services Tax (GST) and Social Security contributions and the Business Disruption Loan Guarantee Scheme (BDLGS).
3. As the COVID-19 pandemic continued during 2020, more schemes were introduced to provide direct support to businesses, including the Visitor Accommodation Support Scheme (VASS), the Fixed Costs Support Scheme (FCSS) and the Visitor Attractions and Events Scheme (VAES).
4. The introduction of these schemes to support businesses and individuals was undertaken at scale and pace, placing a significant burden on officer resources.
5. Of the schemes introduced to provide direct support to businesses, the CFPS has seen the greatest volume of claims. The value of support provided under the CFPS is far greater than all the other business support schemes combined. Exhibit 1 provides more details.

**Exhibit 1: Value of direct support provided to businesses during the COVID-19 pandemic from April 2020 to June 2021**



*Source: Jersey Audit Office analysis using Statistics Jersey data*

6. In a series of reviews, I am evaluating the Government’s response to the COVID-19 pandemic. This report evaluates the robustness of the processes and controls for the design and implementation of the CFPS from March 2020 to September 2021.
7. Phase One of the CFPS went live from 20 March 2020 with the aim of providing an initial 12 days (8 working days) of support to enable as many businesses as possible to survive the immediate crisis. Phase One has been followed by a further five phases providing support to businesses up to the end of September 2021. The qualifying conditions and level of subsidy available to businesses varied across the phases of the CFPS.
8. Phases Two to Six of the CFPS had the following consistent objectives:
  - ensure businesses can survive the crisis: enable as many businesses as possible to survive the immediate crisis so they are in a position to resume trading so supply capacity remains intact
  - maintain employment: ensure employment remains as close to pre-crisis levels as possible

- support Islanders' incomes: ensure workers continue to benefit from a reasonable level of income to avoid hardship during the crisis and preserve demand to support an economic recovery once social distancing and Stay at Home restrictions are lifted; and
  - support a robust economic recovery: enable nominal Gross Value Added (GVA) in each of Jersey's sectors to return to pre-crisis (2019) levels by 2022 at the latest.
9. My review focusses on the following aspects of CFPS:
- scheme objectives, business case and decision making
  - design and operation of the control framework; and
  - monitoring and reporting.
10. As noted above, the Government also introduced other schemes to support businesses and the COVID-19 Related Emergency Support Scheme (CRESS) to support individuals during the COVID-19 pandemic. I have undertaken specific reviews in respect of the CRESS and the other schemes to support businesses, the results from which are reported separately.

## Key findings

11. The key findings from my review are as follows:
- the CFPS was introduced at pace across several phases. The objectives of the CFPS have been clear and have been consistent across the phases. The evidence to date indicates that the CFPS is achieving its objectives
  - throughout the operation of the CFPS there have been instances where:
    - public announcements have been made in respect of a particular phase or extension to the CFPS before a supporting business case had been drawn up and a formal Ministerial Decision approved; and
    - the scheme phase approved by Ministerial Decision has differed from the scheme phase initially announced. There was however no formal, open and transparent mechanism for consultation with businesses on each scheme phase proposed prior to approval by Ministerial Decision
  - the Government acknowledged from the start of the CFPS that it was an inherently risky scheme. Internal Audit checked the design of the control

framework for the operation of the CFPS and provided reasonable assurance on the management of inherent risk. To date, the identified risks have generally been well managed although management of some of these risks remains dependent on post payment audit checks that are yet to be performed. The identified error rate for claims from March 2020 to August 2020 (representing 69% of the value of payments to 31 March 2021) is 6.6% by value

- post payment audit testing of claims has lagged behind payment dates. Testing of payments from 1 September 2020 is currently ongoing. Testing so far has focussed on checking the correct detriment (reduction in turnover) calculation. Arrangements for checking that organisations were paying their employees by undertaking a reconciliation of employee data on the CFPS system to Social Security contribution schedules have not yet been put in place and are planned for when the CFPS ceases. My analysis of some of the data indicates outliers in the number of employees claimed for, relative to turnover, for some businesses. In my view this risk of error and fraud would have been better managed by undertaking the appropriate reconciliations earlier and whilst the CFPS was ongoing; and
- publication of payments data on the Government website has lagged payment dates.

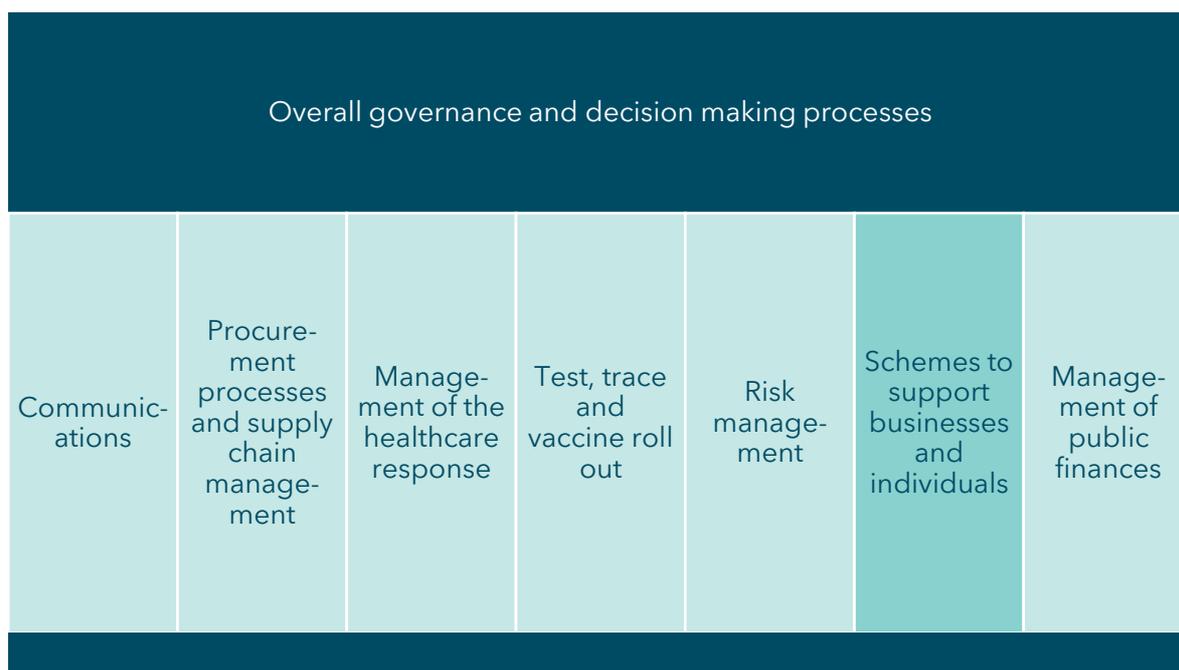
## Conclusions

12. The CFPS was introduced with some urgency in response to the COVID-19 pandemic and the need to try to protect, as far as possible, the Jersey economy, survival of the businesses within it and the income of Jersey citizens. The evidence to date indicates that the CFPS has been successful in meeting its stated objectives.
13. It is important however for Government to complete its planned post payment audit checks as soon as possible in order to recover any monies claimed fraudulently or in error. There remains a risk that errors and fraudulent payments are yet to be identified and that, if they are, it could be more difficult to recover monies due to the time lag since payment. It is also important for Government to undertake a formal evaluation as the CFPS ends to confirm its effectiveness in meeting planned objectives.

# Objectives and scope of the review

14. The review is part of a series of reviews I am undertaking looking at the Government's response to the COVID-19 pandemic as shown in Exhibit 2.

Exhibit 2: C&AG reviews of the Government response to the COVID-19 pandemic



15. As noted in the introduction, the Government of Jersey introduced a number of schemes to support businesses and individuals on the Island during the COVID-19 pandemic. The objectives of this review relate solely to the CFPS.
16. The review has evaluated the robustness of the processes for the design and implementation of internal controls in respect of the CFPS. It considers:
- scheme objectives, business case and decision making
  - design and operation of the control framework; and
  - monitoring and reporting.
17. The decision making aspect of the review was restricted to considering the specific Ministerial Decisions in respect of the CFPS. Other aspects of decision making including decision making structures and controls in respect of matters such as conflicts of interest will be considered in my separate review of overall governance and decision making.
18. The review approach is explained in detail in Appendix One.

# Detailed findings

## Scheme objectives, business case and decision making

### Scheme objectives

19. The CFPS has operated across six phases as shown in Exhibit 3.

#### Exhibit 3: Phases of the CFPS

Phase	Duration	Material detriment test	Final subsidy available
One	20 March - 31 March 2020	Drop in turnover of at least <b>50%</b>	<p>£200 per week per worker who has worked during the relevant qualifying period and has been paid either:</p> <ul style="list-style-type: none"> <li>○ at least £320 per week or</li> <li>○ at least £1,390 per calendar month</li> </ul> <p>For workers earning lower weekly or monthly amounts a payment of 60% of 39% of the usual monthly wage (around 23% or roughly one quarter) will be made.</p>
Two	1 April - 31 August 2020	Drop in turnover of at least <b>30%</b> in 2020 against the same period in 2019	<p>More sectors eligible and more self-employed businesses eligible.</p> <p>Subsidy of 80% of the lower of:</p> <ul style="list-style-type: none"> <li>• the worker's gross wage paid in the month or</li> <li>• £2,000 a month</li> </ul> <p>No subsidy where gross monthly income of a worker is more than £4,558.</p>
Three	1 September 2020 - 31 March 2021	Drop in turnover of at least <b>20%</b> in 2020 against the same period in 2019	<p>The percentage subsidy payable is calculated on the lower of:</p> <ul style="list-style-type: none"> <li>• the worker's gross wage paid in the month or</li> <li>• £2,000 a month</li> </ul> <p>September/October - 60% subsidy            November/December - 40% subsidy            January/February - 30% subsidy            March - 20% subsidy</p> <p>No subsidy where gross monthly income of a worker is more than £4,558.</p>

Phase	Duration	Material detriment test	Final subsidy available
Three+	1 November 2020 - 31 March 2021	Drop in turnover of at least <b>20%</b> in 2021 when compared to the same period in 2019	<p>The percentage subsidy payable is calculated by the level of detriment, in arrears, plus 10%. The subsidy payable is capped at 60%.</p> <p>Where an applicant fell between 20-30% detriment they would default back to the subsidy payable of 40% to ensure businesses are not any worse off under CFPS 3+ for the months of November and December.</p> <p>The maximum total subsidy payable to any business is limited to the absolute detriment (reduction in turnover) experienced in a relevant month.</p>
Four	1 March 2021 - 30 April 2021	Drop in turnover of at least <b>20%</b> in 2021 when compared to the same period in 2019	<p>Percentage subsidy calculated by the monthly level of detriment (reduction in turnover), in arrears, plus -</p> <ul style="list-style-type: none"> <li>• 30% for businesses required to close for part of a month as a result of the public health measures</li> <li>• 30% for a food and/or beverage wholesale business that can evidence that 75% or more of its revenue is derived from businesses that have been required to close for part of a month as a result of the public health measures</li> <li>• 30% for events-related businesses for claims made for March 2021 onwards</li> <li>• 20% for other businesses</li> </ul> <p>The maximum level of subsidy payable per worker is capped at 90% of wages up to £2,500 per month for businesses in the first three categories above and 80% of wages up to £2,000 per month for other businesses.</p>
Five	1 May 2021 - 30 June 2021	Drop in turnover of at least <b>20%</b> in 2021 when compared to the same period in 2019	<p>Percentage subsidy calculated by the monthly level of detriment (reduction in turnover), in arrears, plus -</p> <ul style="list-style-type: none"> <li>• 30% for businesses required to close for part of a month as a result of the public health measures</li> <li>• 30% for a food and/or beverage wholesale business that can evidence that 75% or more of its revenue is derived from businesses that have been required to close for part of a month as a result of the public health measures</li> <li>• 30% for events-related businesses for claims made for March 2021 onwards</li> <li>• 10% for other businesses</li> </ul> <p>The maximum total subsidy payable to any business will be limited to the absolute detriment experienced in a relevant month.</p> <p>The maximum level of subsidy payable per worker is capped at 90% of wages up to £2,500 per month for businesses in</p>

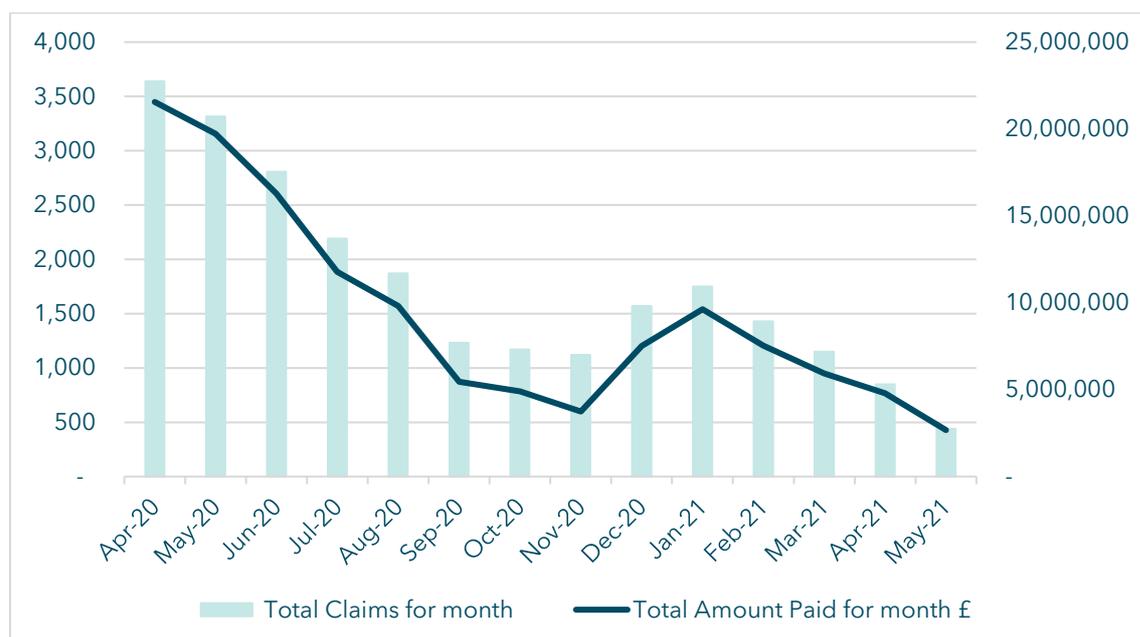
Phase	Duration	Material detriment test	Final subsidy available
			<p>the first three categories above and 80% of wages up to £2,000 per month for other businesses.</p> <p>A subsidy is not provided for a worker where the current gross income is more than £8,884 per month in the first three categories above and £4,610 per month for workers in other businesses.</p>
Six	1 July 2021 – 30 September 2021	Drop in turnover of at least <b>20%</b> in 2021 when compared to the same period in 2019	<p>Extension to the CFPS only for those business which were significantly affected by the Winter Strategy Circuit Breaker.</p> <p>The subsidy payable (%) is calculated by the monthly level of detriment, in arrears, plus 10%. The maximum total subsidy payable to any business is limited to the absolute detriment experienced in a relevant month.</p> <p>For businesses that qualify for elevated subsidy (same eligibility criteria as Phase Five), the maximum level payable per worker is capped at 90% of wages up to £2,500 per month. A subsidy is not provided for a worker where the current gross income is more than £8,884 per month.</p> <p>For other businesses directly linked to the travel sector, such as car hire businesses, taxis and inbound passenger services, the Phase Five scheme continued for June with support for July to September tapered. The maximum level of subsidy payable per worker is capped at 80% of wages up to £2,000. A subsidy is not provided in respect of a worker where the current gross monthly income for the relevant month is more than £4,610 per month.</p>

Source: Jersey Audit Office analysis

20. The objectives of Phase One of the CFPS were to:
- maintain employment in selected industries that are severely affected by the public health restrictions introduced in March to manage the outbreak of COVID-19
  - maintain, as far as possible, existing employment relationships so that businesses are able to retain trained staff; and
  - along with other economic support measures being taken by the Government, to allow the business or self-employed individual a greater chance to remain solvent during the COVID-19 pandemic.
21. Phase One was live from 20 March 2020 with the initial aim of providing 12 days (8 working days) of support to enable as many businesses as possible to survive the immediate crisis.

22. Subsequent phases of the CFPS had the following objectives (as set out in the relevant business cases for these phases):
- ensure businesses can survive the crisis: enable as many businesses as possible, so they are in a position to resume trading so supply capacity remains intact
  - maintain employment: ensure employment remains as close to pre-crisis levels as possible, through the anticipated crisis phase
  - support Islanders' incomes: ensure workers continue to benefit from a reasonable level of income to avoid hardship during the crisis and preserve demand to support an economic recovery once social distancing and Stay at Home restrictions are lifted; and
  - support a robust economic recovery: enable nominal GVA in each of Jersey's sectors to return to pre-crisis (2019) levels by 2022 at the latest.
23. The number and value of CFPS claims reduced over the first eight months of the operation of the CFPS. Claims and payments then increased during the operation of the Government's Winter Strategy and the introduction of Phase Three+ of the CFPS. Exhibit 4 provides more details.

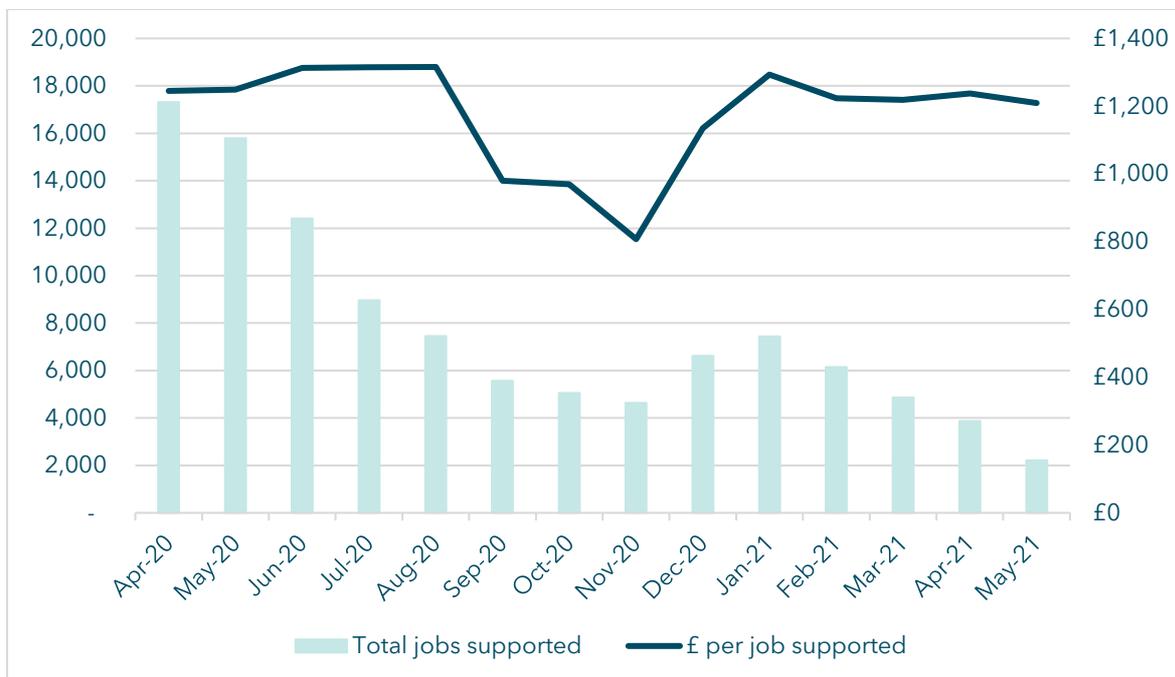
**Exhibit 4: Number and value of CFPS claims per month**



Source: Jersey Audit Office analysis of Statistics Jersey data

24. The number and amount of claims each month varied in accordance with the changes in rules for each phase. The rules were driven by the business case assessments of the impact of the exits from and reintroductions of lockdowns and connected to border travel restrictions. As restrictions eased the volume of claims and the number of jobs supported reduced.
25. The total number of jobs supported by the CFPS reflects the pattern of claims. The amount of subsidy provided per worker tapers downwards during the summer and autumn period and rose again during the second wave of restrictions in the winter of 2020/21. Exhibit 5 provides more details.

**Exhibit 5: Volume and cost of jobs supported by CFPS**



Source: Jersey Audit Office analysis of Statistics Jersey data

### The business cases and decision making

26. Government sought feedback from the local business community on the early impact of COVID-19. However, no minutes were kept of the meetings and forums held with the business community. The Economic Task Force (a member and officer group) met on 14-15 March 2020 to discuss the issues and risks that the COVID-19 pandemic presented to various business sectors.
27. Only the Government Plan or a Ministerial Decision could approve the commitment of the States to each phase of the CFPS. Throughout the operation of the CFPS however there have been some instances where public announcements have been made in respect of a particular phase or extension to the CFPS before a supporting business case had been finalised and a formal Ministerial Decision

approved. In addition, there have been some instances where the scheme phase approved by Ministerial Decision has differed from the scheme phase description as initially announced.

28. There was no formal, open and transparent mechanism for consultation with businesses on each scheme phase proposed (and in some cases announced) prior to approval by Ministerial Decision. In certain instances, changes were made to the phases announced as a result of successful lobbying by businesses and sectors.
29. Exhibit 6 summarises the key differences and timings of announcements and Ministerial Decisions.

#### Exhibit 6: Summary of differences between announcements and Ministerial Decisions

Phase	Date initially announced	Date of Ministerial Decision	Comments
One	20 March 2020	1 April 2020	<b>Announcement preceded Ministerial Decision.</b> The announcement indicated this phase would last for six weeks. The scheme approved by Ministerial Decision only applied for 12 days.
Two	26 March 2020 with revised scheme announced on 9 April 2020.  Extension announced on 2 June 2020	24 April 2020	<b>Announcement preceded Ministerial Decision.</b> The definition of material detriment in the Ministerial Decision was revised from a reduction of 50% of turnover announced to a reduction of 30% of turnover.  More sectors were included in the final scheme approved. The 20% employer contribution was changed in the scheme approved from 'mandatory' to 'expected'.  The changes between the announcement and the Ministerial Decision increased the total expected cost of the scheme by £37million for a three month period.
		1 June 2020	The 1 June 2020 Ministerial Decision extended the scheme to 31 August 2020.
		29 June 2020	The 29 June 2020 Ministerial Decision changed the calculation for material detriment.
		31 July 2020	The 31 July 2020 Ministerial Decision changed the rules of the scheme regarding replacement employees and added a principle to the scheme regarding not artificially restricting revenue generation.
Three	31 July 2020	31 July 2020	No differences.

Phase	Date initially announced	Date of Ministerial Decision	Comments
Three +	16 November 2020 and 1 December 2020	16 November 2020 and 30 November 2020	The Ministerial Decision on 16 November 2020 approved the funding allocation for Phase Three+. The 30 November 2020 Ministerial Decision approved the scheme guidelines for the scheme announced on 16 November 2020.
		4 December 2020	The Ministerial Decision on 4 December 2020 amended the scheme to change the level of subsidy provided, withdraw the requirement for the business to be open and trading and introduce a requirement to abide by public health restrictions.
	21 December 2020	22 December 2020	<b>Announcement preceded Ministerial Decision.</b> The Ministerial Decision made on 22 December 2020 enhanced the support provided to businesses most severely affected by the public health restrictions at that time. The measures were announced publicly a day before the Ministerial Decision was made.
Four	21 January 2021	29 January 2021	<b>Announcement preceded Ministerial Decision.</b>
	8 April 2021	1 April 2021	The scheme was subsequently amended in April 2021 to provide elevated support to events businesses.
Five	8 April 2021	1 April 2021	No differences.
	21 May 2021	28 May 2021	<b>Announcement preceded Ministerial Decision.</b> The 21 May 2021 announcement to include taxi firms was not approved by Ministerial Decision until 28 May 2021.
Six	4 August 2021	2 August 2021	No differences.

Source: Jersey Audit Office analysis

### Phase One

30. Phase One was announced to the public on 20 March 2020. The announcement followed a discussion at the meeting of the Competent Authorities Ministers that took place on 19 March 2020. The minutes of this meeting record the discussion and note that '*DCM [Deputy Chief Minister] agrees £200 p/w until end of April, then proper scheme then*'. It is clear from the minutes however that the CFPS was still in the process of being designed and that the final details of the scheme had not been agreed.

31. The business case was developed after the public announcement of the CFPS. The Ministerial Decision approving Phase One was not made until 1 April 2020, more than ten days after the first public announcement of the CFPS on 20 March 2020. The Ministerial Decision was signed by the Assistant Minister for Treasury and Resources. The early announcement may have raised expectations in relation to the amount and speed of payments before a business case was finalised and considered fully.
32. The announcement on 20 March 2020 indicated that the Government would provide a payment to employers of up to £200 per employee per week for six weeks. In the end however, the approved scheme only applied for 12 days.
33. The objectives of the CFPS set out in the Ministerial Decision are clearly defined and reflect the objectives set out in the business case. The report supporting the Ministerial Decision reflects the intended beneficiaries as set out in the business case.
34. The business case for the Phase One scheme:
  - contained an economic analysis and rationale for the CFPS
  - contained relevant and appropriate advice, intelligence and opinion
  - assessed alternative options effectively
  - considered how effective the CFPS would be in meeting identified target groups' needs
  - considered and articulated the financial and legal consequences of alternative options
  - assessed the risks associated with each option, in particular the potential costs of providing support to unviable businesses ('deadweight loss'); and
  - contained a detailed consideration of evidence and the net present value calculation for each of the options considered.

### *Phase Two*

35. A presentation to the Council of Ministers on 26 March 2020 indicated that the £200 per week per employee provided in Phase One would not achieve the policy aim. The minutes of the meeting record that *'The Council accordingly approved the payroll co-funding scheme.'* The CFPS however could only be approved by a Ministerial Decision and not by the Council of Ministers.

36. The Phase Two scheme was announced to the public on 26 March 2020:
- 'The new Government initiative will co-fund 80% of the wages of Jersey employees across a wide range of sectors, up to a maximum payment of £1,600 a month, under a revised Payroll Co-funding Scheme. The scheme is confirmed for April to June 2020. It will then be subject to review and can be continued if the situation persists.'*
37. The Phase Two scheme discussed at the Council of Ministers' meeting and announced on 26 March 2020 exempted certain sectors. The total cost of the Phase Two scheme at that time was expected to be £101 million over three months and £168 million over five months.
38. The Phase Two scheme was discussed further by the Council of Ministers at its meeting on 8 April 2020. The minutes of that meeting record approval of a revised Phase Two scheme. The revised Phase Two scheme was announced publicly on 9 April 2020. Key changes from the scheme announced on 26 March 2020 were:
- a revised definition of material detriment – the Council favoured a definition related to turnover and it was proposed that a loss of turnover of 30% in the relevant period would be sufficient to constitute a material detriment; and
  - the inclusion of visitor attractions and private schools in the scope of the scheme.
39. The addition of further sectors of the economy increased the forecast costs to approximately £46 million per month, £138 million for three months.
40. The Council of Ministers again discussed the Phase Two scheme at its meeting on 20 April 2020. The minutes record approval of further amendments to the Phase Two scheme. These amendments changed the 20% employer contribution from 'mandatory' to 'expected'. The Council also agreed that four private schools should not be permitted to access the Phase Two scheme.
41. The Ministerial Decision and associated business case and scheme guidelines supporting the final Phase Two scheme were not approved by the Minister for Treasury and Resources until 24 April 2020, some 25 days after the scheme was first announced publicly.
42. By the time the final Phase Two scheme was approved and implemented it had changed twice from the original scheme announced on 26 March 2020. The changes made resulted in over £35 million of additional forecast cost. The

increased forecast cost was largely driven by the move to a 30% detriment test and the inclusion of a wider range of sectors in the scheme.

43. Whilst there is evidence that the Government consulted with sector representative organisations on the Phase Two scheme, the input requested and received was not part of a formal, structured, open and transparent consultation exercise. The lack of a formal, structured, open and transparent consultation exercise risks enabling some industries to lobby harder than others for beneficial changes to a scheme.
44. The business cases for the Phase Two scheme:
  - contained an economic analysis and rationale for the scheme
  - contained relevant and appropriate advice, intelligence and opinion
  - assessed alternative options effectively
  - considered how effective the scheme would be in meeting identified target groups' needs
  - considered and articulated the financial and legal consequences of alternative options
  - assessed the risks associated with each option, in particular the potential 'deadweight loss'; and
  - contained a detailed consideration of evidence and the net present value of each of the options considered.
45. On 1 June 2020 a Ministerial Decision was made to extend the Phase Two scheme to 31 August 2020. This was accompanied by a supporting business case. Taking account of the take up of the scheme, there were no additional resource implications arising from this decision.
46. On 29 June 2020 a further Ministerial Decision was made to change the scheme guidance for Phase Two. This change saw an amendment to the calculation of material detriment to enable businesses to either use the qualifying month for the claim or a period ending with the qualifying month for the claim. Whilst this change would result in higher costs, the costs were expected to be met within the funding already allocated.

### *Phase Three*

47. On 31 July 2020 the Minister for Treasury and Resources approved an extension to the CFPS to establish the Phase Three scheme from 1 September

2020 until 31 December 2020. The Minister also approved changes to the guidance for the Phase Two scheme to take effect from 1 August 2020.

48. A business case was prepared for the Phase Three scheme that included the costs and assumptions that underpinned the scheme and alternative options considered. Relevant economic advice was sought and received on:
- the impact of extending the scheme
  - scheme sector restrictions, detriment, subsidy, employer contribution and furlough; and
  - the impact of lowering the detriment threshold on business survival and 'deadweight loss'.
49. The extension of the scheme was publicised on the same day as the approval of the Ministerial Decision. This was a day prior to the Phase Two scheme changes taking place on 1 August 2020 and a month prior to the implementation of the Phase Three scheme on 1 September 2020.
50. On 1 October 2020, the scheme guidance for Phase Three was approved by Ministerial Decision.

### *Phase Three+*

51. The Phase Three+ scheme was approved by the Minister for Treasury and Resources in a Ministerial Decision made on 11 November 2020 following a Council of Ministers discussion on the same day. A business case was prepared to support the decision. The guidance to support the Phase Three+ scheme was not approved by Ministerial Decision until 30 November 2020.
52. The Phase Three+ scheme was subsequently amended by a Ministerial Decision made on 4 December 2020 to enable additional support to be provided to businesses. A business case was prepared to support this decision. The Council of Ministers discussed this amendment on the same day.
53. A further amendment was made to the Phase Three+ scheme by Ministerial Decision on 22 December 2020. This amendment enhanced the scheme for sectors deemed as most severely affected by the COVID-19 pandemic. The amendment to the Phase Three+ scheme and revised guidance had been agreed by the Competent Authorities Ministers and the Ministers responsible for the CFPS on 16 December 2020. The amendment was announced publicly on 21 December 2020, a day before the Ministerial Decision was approved.

#### *Phase Four*

54. On 21 January 2021, the Minister for Economic Development announced that the Government would be updating the CFPS. The announcement stated that *'the scheme will continue for all eligible businesses until at least April of this year, with a review in March. For those businesses which have been forced to close because of our public health measures, we will increase the maximum monthly wage subsidy from 90% of £2,000 to 90% of £2,500. We will also be increasing the available subsidy for those businesses to detriment plus 30%.'*
55. The Ministerial Decision for Phase Four was not however made until 29 January 2021 by the Minister for Treasury and Resources. The Ministerial Decision notes that the adoption of Phase Four was *'agreed by the Competent Authorities Ministers and the Ministers Responsible for the CFPS on 20 January 2021'*.
56. On 1 April 2021, the Minister for Treasury and Resources approved changes to the guidance to take effect from 1 April 2021 and to apply to claims made in respect of March 2021 and future months. These changes:
  - provided access to elevated CFPS for events-related businesses; and
  - re-introduced the requirement for businesses to be open and trading.

#### *Phase Five*

57. On 1 April 2021, the Minister for Treasury and Resources approved the establishment of Phase Five of the CFPS from 1 May 2021 to 30 June 2021.
58. On 8 April 2021, the extension of the CFPS to Phase Five was announced publicly.
59. On 21 May 2021 the Minister for Treasury and Resources announced publicly that taxi firms were included in the Phase Five scheme. The Ministerial Decision to approve the guidelines for the Phase Five scheme was however only taken on 28 May 2021 and it was not until this decision was taken that taxi firms were confirmed as being able to continue to claim.

#### *Phase Six*

60. On 4 August 2021 it was announced that the CFPS would be extended until September 2021 for all sectors that already qualified as well as being available to wholesale/retail and health and wellbeing businesses.
61. The Ministerial Decision supporting this had been approved on 2 August 2021.

## Cost implications of decisions made

62. During the life of the CFPS there has been a number of Ministerial Decisions that have allocated funding to the CFPS in addition to funding allocated in the Government Plan 2021-2024. The cost implications of each Ministerial Decision relating to Phase Two of the scheme were not reported clearly for the variations made. Exhibit 7 contains more details.

### Exhibit 7: Cost implications of CFPS decisions

Date	Ministerial Decision	Cost implication	Overall funding allocated	Comments
Phase One				
1 April 2020	MD-TR-2020-032	£4m	£4m	
Phase Two				
24 April 2020	MD-TR-2020-049	£138m	£138m	
1 June 2020	MD-TR-2020-063	Increased cost not clear	£138m	Risk of increased costs not calculated. However, overall funding increase not required as scheme in practice had less funding need than originally anticipated
29 June 2020	MD-TR-2020-083	Increased cost not clear	£138m	Risk of increased costs not calculated. However, overall funding increase not required as scheme in practice had less funding need than originally anticipated
Phase Three and Phase Three+				
31 July 2020	MD-TR-2020-0100	£21-£38m	£125m	Despite the increased costs identified, the overall funding allocation was reduced as scheme was requiring less funding than anticipated
1 October 2020	MD-TR-2020-0129	£nil	£125m	No extra cost anticipated
16 November 2020	MD-TR-2020-0143	£7.7m	£125m	
30 November 2020	MD-TR-2020-0148	£nil	£125m	No extra cost anticipated

Date	Ministerial Decision	Cost implication	Overall funding allocated	Comments
4 December 2020	MD-TR-2020-0153	£4.1m for 2020 £4.1m for 2021	£125m for 2020	Costs for 2021 to be approved in Government Plan 2021-24
22 December 2020	MD-TR-2020-0168	£1m for 2020 £1m per month for 2021	£125m for 2020 £11.3m for 2021	
Phase Four				
29 January 2021	MD-TR-2021-0011	£11.7m	£38.9m for 2021	Total available funding of £11.3m in the Government Plan plus £27.6m from this decision.  The decision recognises that the cost of MD-TR-2020-0168 is now higher due to the decision to extend public health measures
Phase Five				
1 April 2021	MD-TR-2021-0037	£4.8m	£38.9m for 2021	
28 May 2021	MD-TR-2021-0069	£nil	£38.9m for 2021	
Phase Six				
2 August 2021	MD-TR-2021-0092	£10.2m	£38.9m for 2021	Overall funding increase not considered required at this point.

Source: Jersey Audit Office Analysis of Ministerial Decisions

63. The actual expenditure on the CFPS in 2020 was £97.9 million against the funding allocation of £125 million. The actual expenditure on the CFPS in the first six months of 2021 was £30.3 million against the total allocation for 2021 of £38.9m.

## Recommendations

- R1** Introduce enhanced controls to ensure that public announcements provide clarity as to the status of the announcement and related Ministerial Decisions.

- R2** Introduce a clear and transparent process to provide and consider feedback on scheme proposals that are announced in 'draft' in advance of final decisions being taken. Ensure that the announcement is clear in such instances that the scheme is 'draft' and is open for consultation comments.
- R3** Enhance the documentation supporting Ministerial Decisions to include clear forecasts of expenditure against previous funding allocations.

## Design and operation of the control framework

### Operational plan

64. The operational system for Phase One had to be established at speed. Every claim received was 'live checked'. This meant that applications were checked prior to payment approval with additional approvals in place for payments in excess of £10,000.
65. The key roles and accountabilities for the operation of the CFPS were set out in the business case. Adequate resources were provided to develop and administer the CFPS.
66. The system for Phase One was not automated. Internal Audit carried out an initial real-time review of Phase One, including testing a sample of applications for eligibility and a review of processes and controls. After Phase One, evidence was requested and reviewed for the top ten (by value) claims to ensure that the claims complied with the CFPS rules. No exceptions were noted from this review.
67. The system for successive phases of the CFPS was automated which significantly improved the arrangements for administering the CFPS and checking claims for eligibility. There was a 'test' system to check that changes for successive phases were correctly applied and a 'live' system for applicants.
68. Scheme guidance was published on the Government of Jersey website. Changes to scheme guidance were made in line with business cases. The processing system was amended to incorporate the changes.

### The control framework

69. While Phase One was in operation, arrangements were put in place for Phase Two of the scheme, with the Internal Audit Manager advising the Project Team in Customer and Local Services (CLS) on the design of controls for Phase Two. There was a proactive management response to the audit observations.

70. The key risks to implementation were set out in each phase business case. A detailed risk assessment covering fraud, process, resource, business need, technical, political and how the identified risks will be managed and monitored was set out in a risk register.
71. The CLS Project Team carried out additional work to check the eligibility of claims for Phase Two:
- retrospective requests were made for detriment calculations for 2,000 claims in Phase Two. As at 25 July 2021 CLS reported that £3.6 million of overclaims had been identified (4.5% of the sample by value); and
  - a 5% sample testing of claims was intended, to prove that staff received the salaries indicated in the calculations. A programme of calls to some 600 employees was carried out in May 2020 to check employment status and payment. No overclaims were identified. However, this sample testing was discontinued from mid-June 2020 because it was too labour intensive in relation to the resources available. Internal Audit subsequently reported on the results of this testing.
72. The Fraud and Enforcement Team is intending to look for incorrect or fraudulent claims by scrutinising and correlating documentation at the end of the CFPS. This work is yet to commence.

### Internal Audit

73. Internal Audit carried out work on Phases One and Two and concluded that *'reasonable reliance can be placed on the adequacy of the internal control environment to manage inherent risk'*. A general point was made by Internal Audit about the need for Ministers and officers to be aware of potential conflicts of interest, but no specific conflicts were identified.
74. Initial feedback to CLS on the outcome of the testing was provided in a series of memos which generally allowed for prompt and timely feedback as the CFPS was extended and renewed beyond June 2020.

### Post payment testing

75. In addition to work undertaken by Internal Audit, the Government commissioned an independent audit firm to undertake testing of claims. The results of testing of claims in April and May 2020 by the independent audit firm were reported in October 2020. The results of work on June 2020 payroll costs claimed by the end of July 2020 were reported in November 2020 with the final report issued in May 2021. The final report recommended that *'the reconciliation between the data in*

*the CFPS database and applicants' contribution schedules for the corresponding period to identify anomalies should be scheduled to take place as soon as practicable after the cessation of the scheme as a more timely review will reduce the risk of entities that may go into administration being able to repay some or all of the funds if they did receive them inappropriately or additional funds being provided in subsequent phases.'*

76. The results of claims tested by the independent audit firm in June to August 2020 were reported in June 2021. In total, 569 claims were audited representing 21.8% of the value of claims made. The sample of claims selected had been weighted towards the categories of claims and industries where there was a higher than average error rate identified from the previous audit work. The work undertaken focussed on checking the evidence supporting 'special exemption' claims and supporting the calculation of detriment.
77. In overall terms, there has been very little testing of claims to ensure that all the employees claimed for have been paid by the organisation making the claim. My analysis of some of the data underpinning the CFPS has identified outliers in the number of employees claimed for relative to the turnover of individual businesses. In my view this risk of error/fraud would have been better managed by undertaking the appropriate reconciliations earlier and whilst the relevant phase of the CFPS was ongoing.
78. Further work by the independent audit firm is scheduled to be carried out on the further phases of the CFPS beyond Phase Two. This work has been started but has not yet been completed or reported.

### **Overclaims identified**

79. The total of the overclaims identified by the CLS Project Team and the post payment testing carried out by the independent audit firm at 25 July 2021 was £5.32 million. This represents 6.6% of the payments made to 31 August 2020. These figures include overclaims from organisations that voluntarily requested to make a repayment when they were notified of an audit. Of the total overclaims identified, £3.74 million (70%) had been recovered at 25 July 2021. Some organisations are repaying by instalment.

### **Recommendations**

- R4** Prioritise the completion of the reconciliation of CFPS claims made to other records held in respect of the employers making the claims. These reconciliations should be carried out as soon as possible.

- R5 Prioritise the completion of post payment audit testing of claims and ensure that final audit reports are issued promptly relative to the month of the claims tested.

## Monitoring and reporting

80. Statistics Jersey has produced weekly data of payments made and jobs supported under the CFPS. These reports were used in decision making for successive phases of the CFPS. Whilst the Government has been transparent in publishing data in respect of payments made, there has been a time lag in publishing this data on the Government website:
- Phases One and Two payments (to 31 August 2020) were not published until 22 March 2021; and
  - Phase Three payments (to 31 December 2020) were not published until 23 June 2021.
81. Exhibit 3 above shows that an average of 9,661 jobs a month at a cost of nearly £1,250 per job have been supported by the CFPS. Reports have also recently been published on the achievement of the other economic objectives of the CFPS.
82. The December 2020 Labour Market Report published on 29 April 2021 showed that the number of private sector undertakings at December 2020 increased by 30 compared with December 2019, although this rate of increase was much lower than in previous years. The evidence to date indicates that businesses have been helped to survive the COVID-19 pandemic.
83. The June 2020 Labour Market Report showed that in June 2020 private sector jobs had decreased by 3,110 (5.7%), offset by an increase of 530 jobs in the public sector, compared with June 2019. The largest decrease was in the hospitality sector (25%).
84. By December 2020 private sector jobs had decreased by 1,790 (3.4%) compared with December 2019, a lower reduction than six months earlier. The Business Tendency Survey published for June 2021 showed the business activity indicator at +20% at 30 June 2021, and the outlook for future activity for the next quarter was +29%. The future employment outlook was strongly positive at 32%.
85. The June 2021 Registered Actively Seeking Work Report showed that the number of people seeking work was 950 (nearly 50%) lower than at June 2020.
86. The evidence to date therefore indicates that employment has been maintained close to pre-crisis levels.

87. At this stage, it is too early to report on whether nominal Gross Value Added in each of the sectors supported is likely to return to the pre-crisis (2019) levels by 2022 at the latest (which was a scheme objective).

### **Recommendation**

- R6** Reduce the time lag in publishing data on payments made and jobs supported under the CFPS.

## Appendix One

### Audit Approach

The review included the following key elements:

- review of relevant documentation provided by the Government of Jersey; and
- interviews with key officers within the Government of Jersey.

The documentation review included over 40 documents, including:

- Ministerial Decisions and supporting reports and business cases
- Press releases
- Ministerial meeting agenda and minutes
- Heads of Terms
- Contracts
- Financial models
- Operational documents
- Financial reports
- Internal Audit reports
- Post payment testing reports
- Statistics Jersey Reports

The following officers were interviewed remotely or provided written input:

- Head of Cost Benefit Analysis and Investment Appraisal, Treasury and Exchequer
- Head of Governance, Treasury and Exchequer
- Senior Manager, Pensions and Care, CLS
- Project Manager, Change and Projects Team, CLS
- Chief Internal Auditor

- Internal Audit Manager
- Internal Audit Contractor

I would like to thank all officers who have contributed to this report.

The fieldwork was carried out by an affiliate working for the Comptroller and Auditor General.

## Appendix Two

### Summary of Recommendations

- R1** Introduce enhanced controls to ensure that public announcements provide clarity as to the status of the announcement and related Ministerial Decisions.
- R2** Introduce a clear and transparent process to provide and consider feedback on scheme proposals that are announced in 'draft' in advance of final decisions being taken. Ensure that the announcement is clear in such instances that the scheme is 'draft' and is open for consultation comments.
- R3** Enhance the documentation supporting Ministerial Decisions to include clear forecasts of expenditure against previous funding allocations.
- R4** Prioritise the completion of the reconciliation of CFPS claims made to other records held in respect of the employers making the claims. These reconciliations should be carried out as soon as possible.
- R5** Prioritise the completion of post payment audit testing of claims and ensure that final audit reports are issued promptly relative to the month of the claims tested.
- R6** Reduce the time lag in publishing data on payments made and jobs supported under the CFPS.



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