

The Chief Pleas Government of Sark

The Colin Kniveton Papers
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Inaugural Economic Policy for Sark

A document for consideration, consultation,
discussion and comment

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INAUGURAL ECONOMIC POLICY

FOR

SARK

The Principles and Opportunities

Determining a

Future Economic Policy for Sark.

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INTRODUCTION

The Sark economy is a relatively small and fragile model that has witnessed significant upheavals during the past decade, a significant proportion of which is a result of the activities of a single organisation, Sark Estates Management. However, this company has not been the only source of influence, as the fluctuating fortunes of the visitor economy and an involvement by a minority of residents with the provision of certain corporate services have also swayed the fortunes of Sark and its community in recent times.

As this is an inaugural document for Sark, there are no meaningful statistics to utilise to guide levels of past performance, other than basic visitor numbers. Recent expansion (and contraction) of the economy has been primarily as a result of an ambitious and as yet unproven programme of high quality tourism accommodation and a similarly unproven foray into the development of vineyards.

Sark is a very open economy by which is meant it is an economy that imports much of its requirements to meet corporate and household demand and so needs to either export goods or services or generate economic activity through its visitor economy to pay its way and sustain growth and improved living standards. Its success therefore depends upon its ability to compete and sell goods and services off Island whilst using its limited resources, whether in public or private ownership, to produce most efficiently and effectively. These are the two key realities that drive the economic strategy.

In May 2012 the Government of Sark initiated its first attempt at reviewing the operation and structure of its Administration, by commissioning the Crowe Report. Later in 2012, the first outcome of that initiative was delivered, namely the appointment of a Temporary Chief Secretary, albeit on a short term basis. At the time of writing, no further consideration of the Crowe Report has been undertaken.

As such, there is currently no awareness in Sark of a Corporate Planning process which should be the prelude to assessing how economic progress may be attained in a manner consistent with an overarching Government Plan. Normally, the primary concern of an economic strategy is with the generation of growth and with Government's role in creating the environment conducive to commercial investment and success, rather than with the distribution of the resultant benefits.

An economic strategy embraces the principles, objectives and parameters within which economic policy and associated development will be pursued. Its main purpose is to provide the template by which individual economic policy decisions and prospective economic activity may be assessed to ensure consistency with centrally determined corporate objectives and preferred means of implementation.

An economic strategy both complements and expands upon a Government Plan. It is concerned to amplify the actions that will need to be taken to achieve stated objectives and does this by reiterating individual policies and initiatives already included in the Committee Plans that underpin the Government Plan and by adding others, with the lead Committee(s) assigned. The strategy is principally concerned with the overarching policy requirements. This is for two reasons:

- (i) the broad strategic issues are cross-sectoral in nature, even if implementation may require some specific actions affecting particular sectors; and
- (ii) no sector of an economy stands alone – rather sectors are linked in various ways, both directly and indirectly, and such interdependency means that successful action in one area can have benefits for others.

One feature of an economy's expansion, especially on a small island, is its dependence on imported labour, in ever increasing quantities as the pool of locally supplied labour becomes exhausted. This creates a variety of issues and must be considered in the light of the recent survey in which some 85% of responses wished to see a static population in Sark.

An increasing level of population provides economic benefit by creating conditions where the increased demand for goods and services improves the viability of suppliers and prospective suppliers, so raising provision, widening choice and helping to contain unit costs and prices. But an economic strategy recognises that expansion through an accumulation of labour also carries negatives into the development 'balance sheet', a consequence of increasing population levels and the resultant heightened pressures on public services, the physical infrastructure, land and housing. Therefore, an optimal economic strategy for Sark would be one that seeks to address positively the balance of benefits and costs of growth, via the better use of Sark's indigenous resources, particularly its human resource, and by seeking to attract and encourage less labour-intensive, more value-adding activity.

Any economic strategy requires confidence that the Sark Government is now sufficiently strong, robust and mature to allow for a different route for its development, a route that will involve greater selectivity regarding the nature and the quality of, and rewards from, the jobs created. This confidence is based on the resources Sark has at its disposal (i.e. its cash reserves) and a desire from Government and business to work in tandem to sustain economic success, within what is anticipated will be a set of positive medium and long-term global conditions.

Good strategies are those which are appropriate to current and anticipated future circumstances. They are not set in stone, inflexible in the face of change. But nor are they so malleable as to be lacking a firm indicator of the chosen development path. A strategy should provide a rigorous framework for future economic policymaking but simultaneously allows for a wide range of development initiatives.

Sark is currently exhibiting the classic characteristics of what is termed a *laissez-faire* economy, i.e. one in which the government plays a minimal role in influencing economic activity and allows the market to determine its own levels of activity. This is unusual for a small island economy as the diseconomies of scale and the difficulties relating to the creation of free market conditions often require the state to play a more fulsome role in encouraging economic activity. While such encouragement needs to be carefully assessed in order to ensure it is providing the best possible return, it should be borne in mind that such returns cannot always be calculated in financial terms, as the status of a viable economy can have significant social benefits, in terms of the well-being of the community.

PRINCIPLES AND PARAMETERS

An economic strategy is based on a number of underpinning beliefs or principles on the way forward and the reality of the present and future potential of Sark's economy. It has been requested because:

- Economic growth and development is both necessary and desirable in order to sustain and enhance the standard of living of all the resident population and achieve Chief Pleas' core purposes as stated in its central plan.
- Whilst fundamental market forces will invariably have significant influence in determining the success of the economy and how its resources are deployed, such forces cannot always be left unfettered. In particular, some form of intervention by Sark may be necessary where the small size of the economy and consumer demand works against the viable private supply of goods or services.
- Government's prime economic development function is to help provide a business environment that allows companies to grow and flourish and enhance their competitive positions.
- Low taxation, personal and company, is a prerequisite for future economic progress.
- Diversification of the economic base provides longer term economic benefit and security through growth of new sectors of activity and employment and the simultaneous spreading of risk.
- An absence of natural resources allied with geographical location predetermines that economic development will be predominantly in service, knowledge-based, activities.
- There are certain natural factors that will always serve to limit the development and composition of the Sark economy. These include:
 - an absence of natural resources (such that any economic strategy must focus on the most abundant resource, labour);
 - a limited supply of labour;
 - a general absence of economies of scale for suppliers of the domestic market place;
 - the logistical and cost impact of insularity, essentially the issues of access and transport.
- Sark is extremely restricted in its range of economic weapons and is similarly constrained in the scope of actions and policies it can adopt. In particular this strategy is framed on an ongoing acceptance of the policy action limitations deriving from:
 - the absence of a company registry and the reliance upon Guernsey Financial Services Commission;
 - Protocol No. 3, which serves to limit access by Crown Dependencies to EU markets;
 - the absence of Border Controls for Customs and Excise purposes, that obliges visitors and goods to arrive via Guernsey (with limited exceptions).

ECONOMIC BACKGROUND

Despite its increasingly diversified geographical customer base, it is the state of the UK and EU economies that most closely and directly impacts on the Channel Islands. But global trends and circumstances are still of overriding importance, impacting directly on the economies of the Channel Islands or indirectly through their effect on the UK or EU economies.

The global upturn at the early part of the century has recently been replaced with one of the longest and most widespread global economic recessions, which influenced all the key economies, including those of China and India. The longevity of any recovery in the UK, Europe or the USA is at present being called into question in the light of continued uncertainties with regard to such factors as the “fiscal cliff” in the USA and the debt issues influencing most European economies.

An economic strategy has to look beyond the immediate term and assess on the basis of fundamentals. Regrettably, many of the “off-shore” factors that have been central to the growth of the economies of the Channel Islands and other Crown Dependencies and Overseas Territories are currently under significant pressure. The “Jimmy Carr” examples of aggressive tax planning for wealthy individuals, the criticism of international corporations for sheltering profits and a general and growing public support for measures to combat tax avoidance schemes have had a significant impact upon the offshore finance centres. The consequences of the implementation of a UK equivalent to the US Foreign Account Tax Compliance Act (“FATCA”) which requires automatic exchange of information on assets held offshore are currently being contemplated. Consequently, small islands are seeking to diversify their economies in order to reduce their reliance upon financial services. Against such a background, there are some global factors that may enable growth to occur in the future. These factors may include:

- (i) growth in personal disposable incomes and wealth worldwide
- (ii) the emergence of new global markets (particularly Asia)
- (iii) the ongoing global move towards economic integration and the removal of capital and currency controls
- (iv) bilateral and multilateral agreements to reduce protectionist measures
- (v) the increasing cross-border movement of labour
- (vi) ongoing technological advances.

These factors may provide some basis for confidence in Sark’s future if they can be allied to the current strengths and attractions of the Island as a place for business:

- (i) absence of debt and strong public finances relative to size of population;
- (ii) space and potentially, encouragement for growth;
- (iii) high quality of life;
- (iv) situated in a time zone central for European, Far East and US markets;
- (v) strong trading and commercial links with the UK;
- (vi) competitive set-up and operating costs;
- (vii) available labour force;
- (viii) absence of exchange controls for trading entities;
- (ix) modern communications; and
- (x) low direct taxation and no wealth or inheritance taxes.

It is the challenge of the strategy to further develop the attractiveness of Sark in order to position itself to make the maximum of the opportunities that will be provided by the most advantageous of the trends identified, recognising that some are likely to have little impact.

The strategy recognises the limits to the potential provided by expanding markets. Arguably, top of these are the limitations on market access placed on companies located in Crown Dependencies. Of principal significance here is the exclusion from the European Union (EU) for Sark organisations arising from the restricted terms of access contained within the provisions of Protocol No. 3 to the UK's Act of Accession, which determines Sark's potential relations with the EU.

The strategy is concerned fundamentally with making the most of Sark's productive potential, by more efficient use of available resources, particularly labour, and by the attraction and development of more profitable economic activity. The central strategy objective can be succinctly stated as being:

"To maximise economic growth and prosperity whilst minimising the requirement for additional labour."

Importantly, this objective comes subject to the need:

- (a) to sustain a diversified economic base, within and between sectors, and
- (b) to maintain the quality of the living environment.

CORE STRATEGY

It is suggested that there the core strategy of maximising output while minimising inputs and new residents can be supported by five elements:

- (i) Improving market access;
- (ii) Hosting higher value added economic activity;
- (iii) Raising economic participation;
- (iv) Reallocation physical resource; and
- (v) Raising productivity at the workplace.

(i) Improving market access

In order that residents of Sark have their living standards raised, essentially through an ability to sell goods and services in UK and overseas markets, it is an absolute imperative for the attainment of future growth that access to every possible foreign market (including the Channel Islands and the UK) is increased. The visitor economy is no exception to this, requiring the removal of every potential barrier to accessing Sark in order that Sark can compete with other holiday destinations.

The issues of bars and obstacles to market access are therefore critical. For countries such as Sark, open and free international trade and unhindered cross-border capital movement offer the best conditions for economic development.

(ii) Hosting higher value added economic activity

Further developing existing, and attracting new, high value adding, non-labour intensive companies and activities will provide for a greater output per employee in the economy. To the extent that increased labour demands lead to increased off-Sark recruitment of employees and their dependants, then success in this area will reduce prospective pressures on the Sark's physical infrastructure, on public services, on land availability, and on the natural environment generally. Such pressures involve additional financial costs to residents in the form of the financing of greater Government spending and rising land and housing costs.

There is also the concern that labour intensive, back office functions are the most footloose of activities, particularly where there is a relatively low skill requirement and given advances in electronic communications, factors which make their location particularly sensitive to labour costs. The increased mobility of investment capital and greater ease of establishment cross-border further raises both the attractions and the vulnerability of such employment.

Market forces will naturally regulate the labour intensity of any work that may be undertaken in Sark. Labour demands create upward pressure on the cost of acquiring labour. Importing labour adds to pressures on the cost of residential accommodation. All these effects lead to rising operating costs and so reduce the attractiveness of Sark for labour intensive activity. However, the taxation strategy, with its virtual zero company tax on most trading entities, will further this tendency and encourage high profit margin activities to be performed in Sark. It is a challenge for Chief Pleas to ensure that in the effective absence of direct taxation, sufficient economic benefits are captured by Sark to offset the costs of economic development initiatives.

Whether to actively discourage relatively labour-intensive activity is always likely to be tainted by current and anticipated economic circumstances — opinion expressed at the peak of a business cycle might be radically altered in the face of climbing unemployment and economic slowdown. As well as considering the

encouragement of growth, Government should be just as concerned to shape the form that such growth takes. In so doing it should strive to achieve the overall objective of maximising output and minimising labour demands by strengthening the means through which higher profit, greater value added activity, functions and companies can be encouraged. Amongst other things, the quest for higher value added activity puts a clear focus on a requirement to expand, or at least commence, Chief Pleas' marketing efforts, through the appropriate Committee.

(iii) Raising Economic Participation

The aim here is to make the most of the indigenous economically active population, getting as many as possible into the workforce and so reducing the need for employers to draw in workers from off Sark.

Full employment brings increased all round affluence and higher living standards. For those already in employment, market forces serve to push up wages. But perhaps more importantly, the high level of demand for labour enables more people to find and retain employment, so reducing relative poverty. Typically, the poorest households are those in which there is no-one earning income from employment, unless the occupiers are retired or have significant investments, which can often be the case in Sark. Increasing incomes produces increased spending, which in turn helps sustain growth momentum.

Theoretically, Government revenues are also boosted. In the majority of global economies, there is inevitably a strong correlation between employment, earnings, and expenditure and all this in turn generates extra revenues to Government through income streams such as excise and VAT receipts and direct tax. Government also benefits from higher income from national insurance contributions and from reduced state benefit expenditures. While some of these attributes apply to Sark, the relative lack of Government income streams must be taken into account.

However, the employer's perspective can be quite different. A general shortage of labour and skills and consequent wage increases can affect competitiveness and constrain expansion. This may deter prospective employers from establishing a presence in Sark and heighten the risk of existing employers relocating elsewhere. Given the relative openness of the economy (absence of work permits, residents' permits, regulations etc.) and the need for Sark to compete with other jurisdictions, labour problems which give rise to increasing wage settlements are of concern to employers in the exporting or outsourcing sectors in particular.

Options for employers requiring labour include recruiting staff from off-Island, poaching from others, raising skill levels and capability of existing staff by investment in training, and the introduction of labour-saving equipment and technology. But raising economic participation, by which is meant encouraging and enabling more of the resident population to take up employment, not only serves to increase growth but also, by reducing the demand for off-Island labour, means reduced additional pressures on housing, public services and the infrastructure.

With a view to raising participation, the issues for policy to address are:

- To identify if there individuals to be encouraged or incentivised into the workforce?
- What obstacles are there to individuals entering or re-entering the labour market?
- How might any such obstacles be lowered or removed?

(iv) Reallocating Resources

The distribution of labour, the key resource in the economy is going to be dictated by the nature of opportunities and the skill and experience of the workforce. It is also determined by the levels of remuneration associated with different types of employment. The absence of taxation and factors such as the availability of suitable housing and absence of mortgages will be of relevance. The efficiency of the labour market in matching supply with demand will also be critical in putting resources into value-adding areas of the economy.

In free market economies, resources broadly move in a fashion that meets with market demands, so providing maximum benefits economy-wide. But in practice, markets and economies do not work smoothly and totally effectively. Wishing to improve the deployment of labour within the economy therefore essentially comes down to identifying and acting upon those features which provide obstacles to the workings of the market mechanism. Put simply, the objective is to get labour into those areas of the economy where demand and rewards (corporate and personal) are greatest and gross domestic product maximised. As a complementary consideration one would pay attention to the benefit of an activity or employment to Chief Pleas' revenue, (a particularly pertinent dimension in view of the absence of company taxation from the economy).

Impediments to reallocating labour can range from a deep-seated mismatching of available employee skills and employer demands, restrictive labour practices and employment legislation, conflicting political objectives, and a public sector insulated from market forces. The issues here are to do with how one can produce a mechanism through which labour is allocated to those areas of the economy subject to market forces, and directly influence the flow and take up of labour where such forces do not exist.

Allocating resources so as to maximise economic output but maintain a diversified economy, as required in the core strategy, are not necessarily opposing objectives. For one, diversification is not definable solely by reference to sectors but also to the range of activities, skills and customer sources within each sector. Furthermore, there is the matter of risk to take into account. In the same way that an investment portfolio might contain low risk/low return as well as high risk/high return assets, so it might be deemed a suitable economic strategy to develop relatively poor return but 'safe' economic sectors as well as potentially highly rewarding but less secure sectors.

(v) Raising Productivity at the Workplace

One could have improvements in market access, more profitable economic activity being attracted, greater labour participation and a better distribution of labour towards more productive employment but still not be making the most of the opportunity if employees are still not being productive at their place of work. The final challenge is in relation to performance, capability and effectiveness i.e. productive efficiency.

Any issue of economic policy and economic development can be assessed under this strategy framework. In its most rigid application, any issue would need to be evaluated positively in at least one of the five supporting objectives, and not negatively in any way. In practice, there will often be social and political perspectives and factors that will be brought into the decision-making process.

Therefore, it is possible to develop within subsequent sections of the economic strategy, each of the above five areas for policy action, in conjunction with the policies and projects that Committees identify as being consistent with the aims and objectives set out at high level within ***A Vision for Sark*** that support the overall economic policy statement, *"To maximise economic growth and prosperity whilst minimising the requirement for additional labour,"* and consequently devise and add further actions that will reinforce these policies.

IMPROVING MARKET ACCESS

Barriers to access exist in a number of forms – fiscal, regulatory and physical. They can be overt or opaque. Their removal or lowering can come about essentially only through political means, through bilateral or multilateral negotiation between governments or authorities.

The international dimension to this issue clearly brings the Bailiwick of Guernsey, UK Government, and Sark's working relationship with both immediately into the equation. To improve existing access to markets and to enhance access to Sark, the relevant committee of Chief Pleas will require at the very least a comprehensive and timely service from the UK Government, from its individual Departments and from the Ministry of Justice, on matters with the potential to impact on Sark. In the near future term it is imperative that Chief Pleas further develops its ability to:

- Modernise and improve the mechanisms by which Sark communicates with the Ministry of Justice;
- Monitor developments deriving from the various Crown Dependency conferences and workshops to ensure the Island's best interests are represented and defended.

There has to be a significant degree of realism about the extent of the influence that a Crown Dependency the size of Sark can have in international forums. However, the development of an increasing awareness of international issues, via The States of Guernsey's External Affairs Division and the MoJ is possible. This route has to be developed proactively and such relations nurtured as evidenced by recent involvement in workshops and updates provided on issues relating to the OECD. Other examples of activities pertinent to the development of economic policy might:

- Seek greater involvement in influencing the decision making process in relation to key international organisations in regard to issues such as taxation, the economy, regulation and perception.
- Seek to increase the number of occasions in which Sark might represent itself on appropriate international meetings, alongside Guernsey.

Dealing with issues of market access can be undertaken on a case-by-case basis. But the importance of the matter for future economic growth and the commonality of certain of the factors that come into play mean that a more comprehensive and structured approach is called for. To help direct and focus its efforts, Government could:

- Establish a Sark private-public economic working group to identify the forms and significance of all existing barriers to market access and to make recommendations for their removal or lowering, this group to be supplemented with external expert assistance. The local Chamber of Commerce could provide a base point for commencing such an initiative.

ATTRACTING AND DEVELOPING HIGH VALUE ADDED ACTIVITY

Added value is essentially the measure of pre-distributions profit plus salaries, and national income is the economy's aggregate of value added in each activity. One way economic growth can therefore be achieved is by raising value added. This can be derived from a more efficient deployment of resources (dealt with elsewhere) or from the development of existing and new high value activity.

Attracting new and encouraging further expansion of existing activity requires concerted action in respect of:

- (i) commercial initiatives;
- (ii) marketing;
- (iii) taxation;
- (iv) the business infrastructure;
- (v) the application of economic instruments.

(i) Commercial Initiatives

The principal role of government in assisting business is in the cultivation of a business environment that is conducive to ongoing development. But it can sometimes, aided by close involvement and consultation with private sector interests, proactively seek to initiate or stimulate specific areas of economic activity. New initiatives might include:

- Development of a strategy and associated initiatives aimed at stimulating further activity across all sectors of the economy, but principally the visitor economy.
- Review the option to enact new companies legislation.
- Encourage visits from quality film and media activity with reputable production partners. Discuss opportunities for digital film production activity to be undertaken in Sark.
- Further develop harbours and ports for marine leisure facilities. Obtain any relevant planning permissions for the construction of additional mooring facilities at Creux and Maseline harbours, Greve de la Ville and Havre Gosselin.
- Commission and complete a detailed feasibility study for web-based services including (but not restricted to) international domain names, ticketing systems and registers for intellectual property rights.
- Encourage the ability to outsource data processing activities to residents in Sark.
- Ensure control exists over fisheries in the territorial waters in order to consider ways of further expanding diving, fishing and marine tourism.
- Review current issues regarding the production of dairy products to assess what opportunities exist to retain and safeguard self-sufficiency in fresh milk and to manufacture other products such as Sark yoghurt, cream, ice-cream and mature cheese.

(ii) Marketing

Good and effective marketing is as critical to a government as it is to any commercial organisation. Moreover, as the marketplace changes, the marketing message, modes of delivery and the target audiences will require reassessment. This is of particular interest for economies that have an extensive reliance upon tourism, given the significant opportunities now afforded by digital marketing techniques.

Behind a good marketing programme there must be a comprehensive and sound system for the collection, interpretation and further analysis of market information in order to facilitate the assessment of market opportunity and potential. To improve this aspect of the marketing effort and so produce more targeted, more evidentially-substantiated programmes, the relevant Committees should be encouraged to:

- Develop marketing programmes aimed at targeting and attracting niche areas of new e-business activity to Sark.
- Redirect greater resources towards the gathering and assessment of market information.
- Raise general awareness of Sark and assist in the securing of new business by the appointment of a project team to lead a branding initiative as an integral element of a new economic strategy.

(iii) Taxation

Many of the offshore islands owe a great deal of their economic success to the actions of their governments over the last 40 years in pursuing low tax environments for individuals and companies. However, it cannot be said that Sark's current taxation strategies have led to benefits for the infrastructure or a great many of its residents. Rather, the benefits have been retained by a select number of individuals, some of whom have chosen to work in the best interests of the community while others have not.

Any tax strategy in Sark should, among its basic principles seek to address international issues, sharpen the competitive edge of local companies and support the drive for higher value adding activity. The strategy should maintain a regime that is simple to understand and provides incentives for individuals and corporate entities to reside in Sark. However, it should also ensure that an equitable proportion of the incomes or profits generated are made available to the State in order that public services can be safeguarded, standards of living enhanced for all and Chief Pleas recompensed, as far as is adjudged appropriate, for any expenditure related to the efforts made to develop the economy. In order to commence a process of review, steps should be taken to review the current arrangements in order to put forward recommendations that will:

- Define residency for both taxation and other legislative purposes;
- Devise a taxation strategy for individuals that caters for full-time and seasonal workers, retired individuals and residents or non-residents that is equitable;
- Review the manner in which corporate bodies contribute to the economy to ensure mutual benefits arise from being located in Sark.
- Liaise with Guernsey to ensure that any taxation regime is fully compliant with international obligations including the principles of the EU Savings Directive and the OECD.

The taxation strategy is not solely about direct tax. It is important that the taxation system is considered in the round. In respect of indirect taxation Sark could consider options for raising additional revenues through duties and other options including extended property based charges, as a basis for funding public services.

(iv) Commercial Infrastructure

For quality operations to locate and for existing companies to develop further requires an operating environment that assures quality and certainty in service provision, security, scope for expansion and upgrading in accommodation, and a quality working and living environment for staff. In terms of business service provision, Chief Pleas needs to ensure that provision of essential utility services including water, electricity and sewerage are cost effective and any changes capable of meeting prospective demand well into the future.

Private sector provision of modern office accommodation should keep abreast of demand. Modern business places a high reliance on computer technology and electronic communications. Businesses that meet the criteria for future economic development in Sark will almost certainly be high on information and communications technology as either a core ingredient in their business processes or as their core product. Sark must ensure its telecommunications infrastructure is secure, resilient and high-capacity. To accelerate access to the latest business facilities and communications technology Chief Pleas should ensure that it will:

- Work with appropriate IT services infrastructure organisations to focus on key standards and policies which offer a modern and robust service to business on or entering Sark.
- Complete its current view of Sark Electricity and ensure that tariffs are acceptable and investment sufficient to ensure the effective provision of power to meet future energy demands.
- Provide sewerage and waste management services that meet modern expectations.

Concerns have been expressed in some offshore jurisdictions over certain charges applied to users of the relevant electronic communications networks. It is imperative that Sark is not seen as a high cost location on such matters. Government should therefore:

- Undertake a review of charges to business users in all aspects of the electronic communications network, comparing Sark's position with that in Guernsey, the other Channel Islands, relevant Crown Dependencies and the UK.

On-off island transport is another integral part of any island's business infrastructure. Having an extensive air route network has played an important role in the economic success of many small islands. In Sark, the absence of air travel puts additional pressure on the ferry operator to offer the highest quality service possible. Having a reliable freight transport system is likewise of critical importance for exporters of manufactured and food products. Costs are an issue, but quality of service, certainty of timetables and stability of routes are key factors for business development. In this regard, policies should constantly be reviewed to:

- Investigate possible schemes to encourage the Sark Shipping Company to increase their level of passengers and freight.

Whatever actions might be considered and acknowledging the absence of air services, Government could:

- Look to develop on-off Island transport schedules which pay due regard to the potential business models of the various service providers.
- Look to develop on-off Island transport routes which are concerned primarily with encouraging or securing the additional use of transport services to visitors, business and freight customers at viable rates, rather than subsidising costs to users.

The commercial environment is critically affected by appropriateness of regulatory standards. In order to enhance and consolidate the reputation of Sark and so add to its commercial attractiveness systems should be established wherein accountability and transparency will be enhanced and the degree of independence of the regulators more clearly established. The provision of appropriate oversight could be considered in areas such as:

- Building and fire regulations;
- Health and safety standards in construction and other relevant sectors;
- An equitable and consistent planning policy.

The living and working experience is increasingly becoming a factor in company decisions regarding location and expansion. Whilst the way of life in Sark scores extremely highly in a recent survey, all its attractions may not always readily apparent to prospective residents. This can be a concern particularly for companies looking to establish or expand an operation in Sark, particularly if they will be looking to relocate key members of staff from off-Island. This factor may not be of great concern to the majority of local residents who wish to see the permanent population remain static, but if the development of a progressive economic policy is to be achieved, it should be borne in mind.

Clearly, there is the ongoing need to promote Sark's attractions to inward investors and prospective residents. Equally, there are areas where perceived shortcomings might be addressed as opposed to the traditional island response that "there is always a boat in the morning." These might include the ability to borrow to secure housing or commercial premises. Future actions to ensure progress in this area might include:

- Assess identified demand for housing and introduce plans to review the manner in which house owners can repair or improve their properties, thereby reducing the number of unfit dwellings as a proportion of the housing stock.
- Seeking to improve the availability of properties is a medium to long term goal. Success does not bring short term relief for those unable to get on the housing ladder. Accordingly, Chief Pleas could review opportunities to assist the less well-off local residents with the provision of suitable accommodation.

Alongside any issues relating to the cost and availability of housing there is a need to consider the availability of appropriate leisure, entertainment and social facilities, from retail outlets to restaurants and hotels. There has been a significant improvement in recent years but perhaps not always commensurate with the requirements of the visitor economy, which requires accommodation that is in keeping with the type of visitor most likely to want to holiday in Sark.

The provision of areas for housing, business units, office accommodation, infrastructural developments, environmental quality etc. – are accounted for in land planning. Such planning needs to be complementary to the economic strategy. It is therefore now timely for Chief Pleas to progress those schemes, identified in A Vision for Sark, that seek to provide:

- The introduction of a clearly defined land use strategic plan;
- A land planning system that is transparent delivers along clearly agreed principles;
- Protection for Sark's biodiversity and natural habitats on land and sea;
- The ability to borrow against legally compliant freehold and leasehold properties.

(v) Economic Instruments

It is the case that most Governments have relatively few instruments of direct control over the type and size of companies conducting business. The principal exception is normally in the financial services area where licensing of activities is typically required (although here the criteria for granting a licence do not extend to matters of general economic benefit). Rather most of the means available to it are of the kind which can only encourage or discourage activity.

A major way in which many governments try to encourage companies to establish and develop is through various financial assistance schemes. It is important that such schemes are not, either in design or in implementation, used to sustain activity which is either non-viable or else not fulfilling a role agreed within government policy to be worthy of support on grounds other than economic. As an integral element of a Sark

Economic Policy, a requirement to use assistance to promote efficiency and sustainable economic activity should be examined, with the following items worthy of consideration:

- Review existing opportunities for the provision of financial and other assistance to businesses.
- Encourage businesses to improve efficiency, invest in new technologies, increase staff training and development, and enhance environmental management through increased dialogue and potentially, support from Government.
- Devise systems of measurement in order to gain a greater understanding of the value of the assistance to the businesses concerned and to the economy.
- Assess opportunities to introduce agricultural support schemes that might enable Sark to remain or become self-sufficient in dairy products such as milk, yoghurt, ice-cream and cheese and create viable employment opportunities for local residents.
- Assess opportunities to meet the demands of the local market for red meat products by considering support schemes to assist in the rearing of additional quantities of beef, lamb and pork, with appropriate slaughter facilities.

One direct form of control which Chief Pleas might consider is the introduction of some form of work permit system. It must be stated at the outset that such systems are invariably imperfect and can be said to have much less value in times of full or near full employment. However, even in times of low unemployment the work permit system on balance still has a role to play from an economic perspective in providing a potential instrument for shaping Sark's economic base.

Accordingly, the relevant Committee of Chief Pleas should:

- Establish a review of the implications of introducing some form of work permit system in order to regulate the taking up of employment opportunities in Sark in a manner that is complementary to Government's assessment of labour market requirements and its broad economic objectives.

The work permit system would have a much reduced role in the event of the implementation of some form of residency control. A Residence Act could provide a direct instrument for helping to shape the future economic base of Sark and help manage its development. The drafting of such legislation would provide an opportunity for economic considerations to be high up on the list of criteria under which prospective new residents would be assessed. Applications forwarded on the back of the taking up of an employment opportunity could be assessed on the benefits generated by different types of economic activity, the state of the labour market in general and in specific trades and skills, and Government's economic objectives and plans.

However, residency management is not a first resort in the economic strategy. The objective of continuing to expand but with less need for additional labour can be achieved without recourse to what would inevitably be a burdensome process and one fraught with difficulties in application. Nevertheless, it is incumbent upon Government to review such options, in order to ensure it can develop its policies in the knowledge that all solutions have been considered. To this end Chief Pleas could:

- Establish a project to investigate the advisability and the practicality of some form of residency control, as an alternative to a work permit system, possibly utilising a points system of assessment.

RAISING ECONOMIC PARTICIPATION

Getting more of the indigenous population to join Sark's workforce and participate in economic activity is an obvious target for containing demand for off-island labour. It is suggested that the objective can be approached through three areas of action:

- (i) making individuals more suitable for employment;
- (ii) making the employment alternative a more financially attractive one; and
- (iii) making employment a more practical option.

(i) Improving Suitability for Employment

Raising the capabilities of individuals and the imparting of skills is an objective of various forms of training and a prime objective of the general education system. Education and vocational training plans should be reviewed to ensure that they:

- Assist towards the development of a lifelong learning strategy which incorporates objectives to facilitate the development and education of the population to be able to contribute to the economy of Sark.
- Identify appropriate work experience placements for young people and improve the co-ordination of, and access to, appropriate information on such matters.
- Consider the further development of training facilities, in conjunction with Guernsey, to bring about improvements to the environment within which vocational training is delivered.
- Develop targeted initiatives aimed at specific groups in the population, such as disabled people and working parents, to deliver learning and development opportunities appropriate to areas of local skills shortage. Review opportunities for suitable workshops to enable unemployed people to develop appropriate job application and interview skills.

(ii) Making Employment More Attractive

Sark is fortunate in that it does not have the issues that arise in many jurisdictions relating to the need to ensure wage rates are sufficiently high as to provide incentives for individuals to accept offers of work as opposed to drawing state unemployment and similar social security payments and allowances.

However, this in itself might cause issues to arise as employers might seek to take advantage of the absence of a social system safety net to pay artificially low wages, especially in times where there was a surplus of labour, due to difficult economic conditions.

With a view for further action in this area Government may wish to consider:

- Review any requirement to consider the introduction of a Sark minimum wage in the light of economic and social objectives.

The attractiveness of joining or re-joining the workforce can be affected by non-financial as much as financial factors. In this regard the work life balance takes on significance and Chief Pleas may wish to include the following considerations in this area:

- Develop the e-business initiative to facilitate flexibility and homeworking, including the continued support for high quality broadband internet access.
- Progress a review of employment regulations in areas such as ageism, racism, gender and other factors to ensure a modern and EU compliant regime exists in Sark.

Expanding upon this Government could:

- Commission a study to ascertain the nature of any fiscal or benefit rules that militate against more flexible working.
- Provide an educational and advisory service to employers considering adopting more flexible working regimes.
- Lead by example by piloting further flexible working initiatives in the public sector.

(iii) Making Employment a More Practical Option

For individuals with dependants, notably mothers with young children, there are particular problems acting against taking up employment. The cost and availability of good childcare has long militated against greater economic participation amongst females. Increasing provision is the best means of increasing participation for this group of the population. Moreover, provision needs to be all year round and on a full day basis.

Some governments have historically made a distinction between pre-school childcare and education and separated out pre-school provision attached to school premises. But as a means of seeking to increase overall provision and at the same time provide opportunities for small businesses Chief Pleas could now:

- Request a review of the purposes of, the supply of, and the support mechanisms for pre-school provision.
- Examine the case for funding the establishment and upgrading of childcare accommodation and facilities by private enterprise or community groups, including where changing health and safety requirements impose additional capital costs on operations.

BETTER ALLOCATION OF LABOUR

Improving the allocation of labour means having the human resource deployed into areas of economic activity that maximise value-added production. It means having a labour market in which changes in the kind of labour being demanded by employers can be quickly responded to with changes in the pattern of the supply of labour.

The basic capability of the labour force and its transferability between sectors and occupations is critically determined by education, training and retraining provision and quality. The need for a responsive labour force is particularly key where economic strategy is to 'move up the value chain' and develop economic activity that is of a more skilled and knowledge-based nature.

There are a host of training initiatives underway detailed in existing Departmental Plans and they include aims to:

- Complete the development of vocational training strategy that includes a training needs assessment of relevant sectors of the economy, by sector, by discipline and by level.
- Implement such a strategy, identifying the respective roles of appropriate Committees in developing sectoral initiatives.
- Liaise with relevant education providers to widen the range of academic and vocational learning opportunities for pupils from all relevant age groups.
- Review the scheme for Training of Individuals for Vocational Employment.
- Increase the number of apprentices and technicians under formal training agreements.

Where change in the economic structure is being sought then it is imperative that planning for new skills and competences is in advance of market change. A strategy that includes the attraction and development of higher value-adding activity is bound for failure if the human skills required are not forthcoming. Government should therefore consider:

- Commission the development of a model of the projected supply and demand of labour and skills in Sark.

Aside from training needs, arguably the other major issue concerning how labour is deployed within the economy is that of the relative size and efficiency of the public sector. In many economies, there are issues concerning the extent to which the public sector is depriving the wealth-generating private sector of the labour to allow it to grow further and whether the extent of Government involvement in service provision remains warranted. In Sark, this is not an issue. The manner in which unpaid politicians deliver the varied and often specialised services appertaining to the operation of Government has resulted in there being very few public sector employees. However, such thrift has to be balanced against the impact increasing workloads have upon individuals and the growing complexities of the governance of Crown Dependencies.

The commissioning of the Crowe Report in 2012 was the commencement of a process designed to bring about a solution to the increasing size of Conseillers' workloads and the requirement to advance projects arising from residents' concerns. International obligations arising from the status of Sark as a Crown Dependency are also creating additional workloads.

The Crowe Report (full title "Government of Sark - Administration and Executive Support") has yet to be fully debated, but the first recommendation, namely the appointment of a senior experienced civil servant to further expand upon certain aspects of the Report was agreed by Chief Pleas in August 2012 and the new appointment commenced for a four month period on 1st November 2012. In the light of these initiatives, Chief Pleas should:

- Continue to undertake comprehensive reviews of Government structures and policies and implement changes designed to design and implement agreed changes to create a modern structure which will deliver the business of Government in an efficient and effective manner. Examine the scope of Government involvement in service provision, the efficiency of current Government provision and options for alternative means of provision, and ensuring the maximum application in all this for the deployment of labour, information technology and solutions.

RAISING PRODUCTIVITY AT THE WORKPLACE

The issue in this part of the report is not to do with getting people into productive areas of the economy but how they perform once they are there. Training is once again a key consideration; but so is staff motivation and the degree to which staffing is increasingly deflected into what may be described as 'non-productive' activity in order to meet regulatory and legislative requirements, although these are currently not a major issue in Sark. In respect of training there are opportunities to assist the economy by:

- Implement a training programme for staff in the retail and visitor sectors.
- Introduce and evaluate (with Guernsey if appropriate,) a pilot Graduate Placement Scheme to help local businesses and Chief Pleas access knowledge and skills from the UK's knowledge base of universities, colleges, independent research and technology organisations.
- Encourage a continuous learning culture within local organisations including Chief Pleas in which people can acquire, update and upgrade their skills

The motivation of staff and their ability to be more productive and quality-orientated can be raised through financial and non-financial inducements. Essentially the financial inducements are a matter for employers although the maintaining of low personal direct taxation will continue to be a positive factor in Sark.

Raising productivity at the workplace has always been inextricably related to the application of new technology and to an overwhelmingly large extent the application of technology is market-driven i.e. technology is adopted in order to retain competitiveness. Globally, many government assistance schemes provide capital funding for the adoption of equipment embodying improved technology in a wide range of sectors, especially where energy savings or other environmental benefits can be demonstrated.

Government has a role to play in the diffusion and take up of new technologies. In particular there is the aim to:

- Review options to provide grant support to those businesses who wish to invest in new technology;
- Raise awareness amongst businesses and individuals through use of invited visitors and the External Affairs Division of Guernsey, of the benefits of e-Business i.e. using modern information and communications technology to explain how the use of e-Business solutions can improve service delivery and reduce costs.

The outsourcing of work to Sark residents via electronic communication channels has been identified as a source of potential employment. Such work can take many forms but teleworking has the potential to raise economic participation rates. It can also raise productivity by facilitating longer working hours and by providing an environment and working arrangements more conducive to quality and improved output. To progress this sector, Government could:

- Assign resources to promote awareness of the possibilities and potential benefit of teleworking to business.
- Pilot teleworking within Government.
- Develop a funding scheme to assist employers with the costs of establishing genuine teleworking systems in Sark.

Social legislation and employment legislation can bring benefits. But they also impose compliance costs on employers. These can be costs in terms of lost business, or the deployment of staff into work which is not directly

improving the company's 'bottom line'. It will be incumbent upon Chief Pleas to ensure that the benefits of its actions outweigh the costs when viewed from the perspective of the whole economy. Such considerations should extend to:

- Having regard to the cost of compliance when implementing taxation, legislation, financial regulation and employment legislation.
- Investigating cost and benefit analysis regarding proposed new legislation.

A logical progression of this would be to:

- Develop a framework wherein submissions of primary and secondary legislation will be accompanied by an impact assessment covering the projected benefits to all stakeholders and estimated costs to private industry as well as to Government itself.
- Enhance the resources of the relevant Committee by enlisting advice from knowledgeable residents or by hiring consultants to provide such impact assessments as are deemed necessary.

MEASURING SUCCESS

Although it will be possible to ascertain whether the individual actions expressed in this document have been implemented and aims met, it is contended that the success of the strategy will better be assessed by references to macroeconomic measures; that is to say, whether the policies introduced have produced the growth and the changes in the economic structure desired.

So rather than using a plethora of measures, which can serve to cloud matters and remove focus from the core objective, it is suggested that the following could be used as the basic indicators of the success or otherwise of the strategy and its resultant policies:

Goal	Criteria
Expansion of the output of the economy annually	<ul style="list-style-type: none"> i) Annual increase in real Gross Domestic Product (GDP) ii) Annual increase in GDP to exceed that of the EU
Raising of the standard of living of the resident population	<ul style="list-style-type: none"> i) Annual increase in real GDP per head of population ii) Maintain GDP per capita above the UK level iii) Annual increase in real GDP per capita to exceed that of the EU
Raising the productivity of the workforce	<ul style="list-style-type: none"> i) Annual increase in real GDP per employee over the whole economy ii) Annual increase in real GDP per employee in each sector of the economy
Maintaining full employment	Unemployment to be no higher than 2% of the economically active population

However, it would be wrong to measure the success or failure of economic strategies simply by financial data. The correlation between social well-being and economic prosperity is not automatically positive, but generally speaking, it is only when economic success becomes overwhelming, that negative social consequences arise for a community.

In cases where economic activity is relatively low, and it is suggested that this is currently the situation in Sark, an increase in activity within the economy as a result of increased employment, productivity and outputs, will have a significant impact upon the morale of those who rely upon the economy to maintain their standards of living. Any increase in such standards will, until extremes are reached, produce a greater feeling of contentment and lead to a more harmonious community.

Such sentiments cannot be quantified financially, but within a small community such as Sark, non-financial values may take on a greater significance due to a lesser reliance upon material possessions. As such, a more holistic approach to assessing the success or failure of economic policies should be considered.

SUMMARY AND CONCLUSIONS

It is recognised that in a simple economy such as Sark, the opportunities for significant expansion of the economy are limited. However, the reverse of this principle is that relatively small interventions by Government could have relatively significant results.

The precedent that has been set has been the safeguarding of the ferry service through public ownership. Such a principle might be extended in a variety of areas, such as Government investing in agricultural produce facilities, which would not only enhance self-sufficiency in certain foodstuffs, but provide employment and protect the environment by maintaining the land in accordance with the wishes of the electorate.

At present, Public Works staff are employed to maintain the roads and undertake a variety of other facilities. Public management of other businesses in Sark, including utility services, should not be dismissed, as on small islands, it is quite normal for the state to own, or to assist, the operation of vital services, in order to prevent exploitation by firms who have a monopoly situation or to maintain services that a private operator would not deem to be commercially viable. Alternatively, a private/public model involving public ownership and private management through a licence to operate or similar arrangement are options.

At first read, many of the thoughts and proposals contained within this document may be considered inappropriate for Sark due to the size of the economy and the lack of coherent strategies to stimulate economic activity. Many will consider Sark's economy "unique" and consider the proposals unrealistic. However, the options put forward for consideration are based upon sound economic principles that underpin all economies, to a larger or smaller extent. These principles can be equally applied to any sector of the economy that Sark wishes to expand or introduce.

The main obstacle to considering the options and recommendations contained within this paper is not the availability of finance, which in the majority of instances may be quite modest, but the availability of suitable personnel resources to manage the various projects. As such, the recently drafted papers suggesting major reforms to existing committee structures and supporting administrative and executive support should be adopted as the means of providing an environment in which Sark's economy can be advanced.

It is extremely difficult to argue that economic prosperity is not invariably inked to social prosperity. Sark has the financial means at its disposal to effectively manage its economy and drive it forwards in whatever direction it wishes. On one extreme, the current *laissez faire* approach, where market forces are able to influence activity with almost no state intervention, could continue, or a policy could be adopted whereby a more communal approach to government control is considered.

A decision as to the strategic position Chief Pleas wishes to adopt in relation to the economy will guide the extent to which it believes it appropriate to work with private sector interests to develop the economy. Any Sark strategic economic plan should consider a clear economic policy of diversification, both to reduce the risks to growth and to provide a wide range of education and training for the people of Sark. It is only with this focus on maintaining current full employment in core sectors such as tourism and agriculture, combined with a clear focus on incubating and nurturing the new sectors in the economy will opportunities be identified for the future. Prosperity for all people in Sark needs to be assured and the allocation of resources within Chief Pleas to secure this can, or some might say must, reflect this fact.

Sark has the opportunity to strengthen links with the private sector and other Channel Islands to assess any opportunities for such diversification and growth as may be required. A further analysis of where each of the sectors are currently focused and what needs to be done to develop them further and then ensure that they are

consistently and actively promoted both locally and overseas can be undertaken, possibly through the recruitment of suitable qualified external consultants, to support local knowledge and resources.

Sark can create the right environment for business to flourish and to minimise bureaucracy by ensuring a variety of tools are harnessed including capital investment, marketing, training, work permits, advice and specialist support in a wide range of areas including energy efficiency and use of information technology. Based upon the reaction to this document, a more detailed economic strategy can be evolved to help Sark's economy to diversify and grow, creating a range of employment opportunities for all age groups in the community and maximising revenue earning opportunities.