

DISCUSSION DOCUMENT

States of Jersey Information Systems Sourcing

*A response to the Policy Paper on IS
Sourcing by the States of Jersey published
for discussion on the Digital Jersey website*

[Extract]

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Executive Summary

This document has been prepared in response to a Policy Paper on IS Sourcing by the States of Jersey (“the policy paper”) published for discussion on the Digital Jersey website on 29th October 2013. Broadly the policy paper paves the way for a significant scaling up of eGovernment funding and solicits feedback from the membership of Digital Jersey on:

- Proposals to channel both current and new spend to local firms (“*to assist the development of a stronger IT industry in the island*”);
- The merits of centralising management and control of IS within the States; and
- The “*core IS capabilities that the States IS function will need to retain/develop*”.

Building Competitive Advantage

The policy paper is predicated on the thesis that increasing spend with local firms (by overriding market mechanisms) will strengthen the IT industry in the island. There may be certain special circumstances in which a case to override market discipline can be made (viz where a distinctive competitive advantage can be built). However, far from strengthening the sector and creating enriching and sustainable jobs, a *carte blanche* policy of bypassing market mechanisms will stifle innovation, divert talent from areas where competitive advantage would otherwise be built, increase costs to both the taxpayer and the private sector and foster unsustainable businesses that can only flourish by virtue of implicit subsidies.

Centralisation and eGovernment

Organisationally the States of Jersey comprises separate departments with broadly disparate functions (albeit there are some important commonalities and some processes that span departmental boundaries). The departmental organisational structure reflects, and is well suited to those discrete business domains. Nonetheless this structure has always presented particular challenges for areas where there are potential synergies. Information Technology is a case in point, not least because of potential synergies in relation to both infrastructure and online services. However centralisation is no panacea. Significant improvements require parallel changes in culture, management, processes and technology. These improvements must be sponsored and driven by departmental management. Centralisation of control over IT spend will therefore not establish the necessary conditions for significant improvement.

The core business of most departments is served by either packaged, or in some cases custom developed, solutions. Historically little attention has been given to interoperability requirements and this does require attention. Most importantly, eGovernment strategy must guard against being narrowly conceived in terms of online services at the expense of other potentially more significant projects that should be prioritised case by case on merit.

Core IS Capabilities

The policy paper rightly recommends that IS leadership together with architecture and standards should be core competences of a central function (together with supplier relationship management). In addition attention should be directed to strengthening competences to avert supplier behaviours that erect barriers to competition. Furthermore, for reasons set out above, *departmental* capabilities in both process improvement and process innovation must be strengthened. Improvement and innovation are essentially general management competences (technology being primarily an enabler) and therefore align with departmental management rather than a central IS function.

Overview

A Policy Paper on IS Sourcing by the States of Jersey (“the policy paper”) was published for discussion on the Digital Jersey website on 29th October 2013. The policy paper comprises six sections. In summary:

- Section one explains that the policy paper aims to “*assist the development of a stronger IT industry in the island, and stronger IS delivery into the States*”.
- Section two offers a brief overview of the Information Services (“IS”) sector in the island and a States IS spend benchmark (“*considerably less than the industry average*”)¹. It questions whether the existing division between departmental and central IS functions is appropriateⁱⁱ
- The third section entitled “*Drivers for Change – Meeting States IS needs locally*” quotes Digital Jersey’s goals for the growth of the local IS industry and notes again that the “*States of Jersey, as the biggest customer/consumer on island, could help build the IS market locally*”. It asserts that departmental spend has been tacticalⁱⁱⁱ and contrasts this with Chief Ministers IS Department (“CMD- IS”) contracts awarded to C5 Alliance, JT and Prosperity 24/7. The section notes that “*A key objective of this paper is to get Digital Jersey’s view of a strategic model of the States of Jersey’s sourcing ... and most appropriate sourcing arrangements*”^{iv}. By way of example the policy paper notes that based on current supply chains “*application management services, which is estimated to be in the order of some 25% of States IS costs, or potentially worth some £7m per annum, based on 2011 benchmark figures, will [be sourced outside the island]*”^v.
- The fourth section categorises IS sourcing needs between utility (“*commodity services [that] need to be consistently reliable and as cheap as possible*”), enhancing (“*services [that] need to be aligned and enable reuse/sharing of applications and sharing of data*”) and transformational (“*value add services evolving fast needing to be piloted, proved and successes scaled*”). The policy paper proposes a sourcing strategy comprising:
 - **competition** for utility services
 - **expert contractors** for enhancing services; and
 - **innovators** to deliver transformation services respectively.
- The fifth section identifies the four “*core IS capabilities that the States IS function will need to retain/develop to maximise the value from third parties*”:
 - IS leadership;
 - architecture and standards development;
 - business enhancement & business systems thinking (albeit observing that “*this is a role Departments remain wedded to maintain for themselves*”); and
 - management of the IS service provision/service delivery

The policy paper notes that a States wide IS function ought therefore to have considerable experience and expertise in developing and managing significant IS service deals.
- Section six “The Way Forward” concludes that “*failure to embrace an enterprise model could inhibit reform and potentially inhibit the development and growth of the local IS industry*” (the policy paper does not explicate the term “enterprise model”). It asks Digital Jersey to comment on IS sourcing and specifically to identify what “*could be done by the States to help develop the on-island supplier market*”.

Building the IS market locally?

A central tenet underpinning the policy paper is the extent to which the “*States of Jersey, as the biggest customer/consumer on island, could help build the IS market locally*”. Much hinges on the answer given to this question. There is neither the space nor the time to examine such a strategy in depth here. Some preliminary observations will however indicate key aspects of the ground that would need to be covered in a systematic evaluation:

- Broadly speaking there is substantial consensus across the mainstream political spectrum that, in the right circumstances, market mechanisms provide the best available basis for resource allocation – they can serve the common good^{vi}. That consensus is underpinned by theoretical models that demonstrate that under certain (very specific) conditions market mechanisms provide optimal resource allocation^{vii}. Real world conditions only ever approximate to those conditions and market mechanisms will not always be available^{viii}. Nonetheless in many situations market mechanisms are, potentially, the most effective tool available for resource allocation decisions. Thus typically policy formulation will be concerned with the scope for state action to reduce or mitigate factors that inhibit efficient operation of market mechanisms^{ix}. Thus, in taxation policy for example, a central challenge is to design taxation regimes that, as far as practical, do not distort market mechanisms^x. Similarly a central challenge for competition regulators is to ensure, as far as possible, no firm (or small group of firms^{xi}) is able to extract excess profits by attaining a position of market dominance.
- In conditions where market mechanisms work effectively the problem of how people can be occupied in a manner that takes best advantage of each person’s capabilities and potential is optimally solved by the market. Furthermore the stimulus of competition amongst firms and the vigorous search for competitive advantage leads those firms to specialise in areas where they possess distinctive capabilities (or are able to exploit available economies of scale) and, not least, to innovate^{xii}. Information technology has a large part to play in this process. Indeed a stand out feature of information technology is its potential to dismantle geographical, knowledge and economy of scale barriers. *Information technology is transformational not least by virtue of its capacity to remove barriers to entry and thereby increase market efficiency.*
- Conversely, where vigorous competition is not present (either because no market exists or because the state has erected barriers to competition by, for example, permitting a monopoly or oligopoly^{xiii}) incentives to innovate and improve efficiency are removed and in consequence the costs to the public increase. These effects can even undermine the integrity of the political process to the extent that lobbyists are able to gain economic advantages by obtaining shields from vigorous competition.
- Thus although there may be situations in which a case can be made for the state to intervene, each requires careful consideration^{xiv}. What may superficially appear to be a clear case for intervention may, on closer inspection, turn out to rest on flawed reasoning.
- A casual observer might assume that the creation of local jobs is in itself a necessary and sufficient reason to override market signals. At this time when the need to provide fulfilling livelihoods for residents is uppermost in all our minds, one might be inclined to lend uncritical support to initiatives that appear to directly address that priority. Indeed even to question such initiatives may be perceived as hard hearted. Whilst this line of thought might therefore seem entirely convincing (and also offers a policy option that is likely to attract popular support), closer inspection reveals difficulties with this rationale, amongst others:

- Experience in the financial services sector has been that it is difficult to recruit persons of sufficient capability and potential to supply the needs of that sector^{xv}. This extends to financial services generally and is not confined to IS related roles in that sector.
- Recruiting people with the requisite capabilities and potential to meet the needs of the public sector at senior levels and in specialist areas has also historically been challenging. It is noteworthy that many posts in the public sector (not least in both EDD and CMD-IS) rely on recruitment outside the island to meet requirements - especially at senior levels.

In these circumstances any move to stimulate additional demand by overriding market signals to force the growth of the IS services sector will place greater strains on the ability of existing private and public sector organisations to meet needs from existing labour pools. The policy paper itself notes that “*certain market areas will need external skills in the short term*”^{xvi}. The assumption that this is a short term requirement must be challenged. The net effect of overriding signals that encourage people to move into other sectors (by artificially stimulating the IS sector) will drive up costs in those other sectors (given that population expansion is expected to remain subject to tight control).

Furthermore one might also note here that, other factors being equal, market mechanisms will generate employment opportunities where these are most needed^{xvii}. If those market mechanisms are overridden to increase employment in Jersey the corollary is that jobs will be diverted from other locations that might have greater need of the opportunity^{xviii}. The self-interest of the island (or more accurately some subset of the island) cannot, on its own, be sufficient justification for economic policy. An appeal to the common good arguably requires, in Jersey’s peculiar circumstances, even more subtle thinking than is required for a nation state^{xix}. The very success of the financial and professional services sector in Jersey both drives up earnings in other sectors (which must compete to attract able people) and provides a (legitimate) signal to move jobs to locations that offer a lower cost base where it is economic to do so^{xx}. Such signals should not be suppressed. There are numerous jobs that by necessity must be performed locally and competition from the financial services (and other high value added) sectors also leads to increased earnings for those jobs - the benefits are not ring-fenced within the financial services sector^{xxi}.

- It may appear that there is merit in the argument that the state should strategically override market mechanisms to “*prime the local economy*”^{xxii} in the expectation that this will kick start a viable sector. Whilst superficially this may appear convincing, closer inspection also reveals difficulties with this view:
 - Priming will only be successful if the initiative nurtures businesses that are, in due course, able to compete in a global marketplace. A business that is shielded from competition may thrive for a time but, like a hot housed plant, will be likely to wither if subsequently exposed to the full rigours of the market. To survive a firm must build competitive advantages that enable it to compete in some market niche (see below).
 - The case has not been made that the particular capabilities that are in view in this paper (e.g. application management services) are ones that have potential to seed new businesses that will develop the capacity to compete globally - see the section headed Competitive Landscape below.

Thus although there may be certain situations in which the state may be able to prime a niche segment it has by no means been demonstrated that the skill sets required to satisfy States IS requirements across the board have significant potential in this regard. Such questions would need to be considered on a case by case basis. There is merit in the state creating infrastructure and a well-educated population. There may be specific cases where further state intervention can

prime an area (e.g. if there is scope for competitive advantage based on, say, exceptional skills or knowledge). But a rationale for state intervention certainly cannot be automatically extended to the “IS market” in an undifferentiated way.

If businesses are created by state override of market mechanisms that are unable to compete in a global market could they perhaps nonetheless serve a local market niche? In general this is unlikely in that where local businesses can access the global market, it would in many cases make little sense to opt for an uncompetitive local supplier, in the absence of barriers preventing access to the global market^{xxiii}. Exceptions do arise – for example where a local business has a niche service that is able to compete or where a local presence provides competitive advantages^{xxiv}. One might locate examples in those providers of highly specialised solutions developed specifically for the niche requirements of the international financial service sector or firms that have developed exceptional talent in, say, geographic information systems.

The Competitive Landscape

Jersey’s peculiar circumstances mean that generic strategies that might be appropriate in larger jurisdictions will not necessarily be appropriate in the context of the island’s distinctive opportunities and constraints. Specifically, the financial and professional services sector has been able to generate exceptional levels of value creation per employee over a prolonged period. This has been achieved by serving niche markets in which it can compete by virtue of Jersey’s fiscal and legislative autonomy (as well as complementary competitive advantages that include concentrations of expertise in specialised areas and cultural and geographic proximity to historically key markets). A mutually reinforcing nexus of advantages and skills has developed. These advantages have outweighed the considerable economic disadvantages typical of small island economies to create an exceptionally high level of value added per capita. The financial services landscape is constantly changing - niches that are currently served may decline and others may, or may not, open up^{xxv}. The future is by no means assured. Through mechanisms discussed above, the prosperity generated has not been confined to those directly employed in areas that yield exceptionally high value creation – higher earnings have been distributed more widely across the population (albeit this has also put pressure on scarce housing and other resources). In searching for further niche markets in which Jersey based firms can compete successfully it is not enough to replicate strategies being pursued in many places – the high cost base in the island and other disadvantages of small island economies are significant obstacles. *Niches in which firms with a presence in Jersey will achieve a compelling competitive advantage are the only place to search for sustainable employment opportunities.*

Competitive advantage may be created in diverse ways. It may be as simple as a novel, innovative idea – Jersey continues to generate its fair share of innovators including some notable successes. It may be an exceptional talent. It may be a first mover advantage. It may be a niche service. It may simply be that Jersey provides a good place to pilot an innovation. But, in their nature, such opportunities are unpredictable and will not, in general, be created by state action (and specifically not the undifferentiated stimulation of the IS sector contemplated in the policy paper). The state can facilitate such opportunities by dismantling bureaucratic obstacles, creating an environment that fosters enterprise and innovation^{xxvi}, and, vitally, *dismantling barriers to competition*. The membership of Digital Jersey includes many innovative and entrepreneurial individuals with flair, drive and imagination and that body can provide a forum and voice that facilitates the flourishing of such talent – not least by stimulating thinking and making connections. There is certainly reason to encourage innovation and entrepreneurial behaviour *in those cases where this has potential to create a sustainable competitive advantage*. A location such a Silicon Valley or Hollywood may derive advantages from a long history of mutually reinforcing nexus of capabilities and specialisations that have grown out of historic business success in the case of

Silicon Valley (c.f. the critical mass of expertise in fiduciary services in Jersey) or locational advantages for early film technology in the case of Hollywood. But state intervention did not create those centres^{xxvii}.

Which Skills Build Competitive Advantage?

What then might constitute skills that have the potential to contribute to competitive advantages for firms in the island? The difficulty in approaching this question is precisely that future opportunities are of necessity uncertain and not predictable. If one reflects on examples of well-known recent game changing stories that have an information technology component, such as those associated with, say, Sergey Brin (Google) Mark Zuckerberg (Facebook) Evan Spiegel (Snapchat) or Markus Persson (Minecraft – a video game), it is not inconceivable that comparable future game changers could originate here (closer to home one can cite for example Nick Ogden (WorldPay) or Richard Goulding, Simon Perrée and Peter de Bourcier (Play.com)). One could also imagine that future game changers might move to the island (perhaps enticed by Locate Jersey). But to the extent that such players are based in the island there will be few cases where the business operation can be viably built or operated here. Such ventures need to scale rapidly. Thus it makes little sense to build IS operational capacity in the island work force (except possibly for special cases such as hosting). On the other hand it does make eminent sense to build management capacity on island (and specifically capacity to leverage scalable development capabilities located in regions where there is a strong skill base, capacity to scale and cost advantages).

Thus it is evident that there are both synergies with the skill sets associated with the island's financial services sector and potential demand for sophisticated strategy and management level information technology skills. Subject to the caveat of inherent uncertainty noted above, these are core competences that can be cultivated in general terms.

Is there an exception in relation to the “proof of concept” space – the possibility of using the island as a testing ground or launch pad for an innovation that could scale to a global market?^{xxviii} In such cases there may be advantages in locating some skills (e.g. process engineering and user experience capabilities) locally - but that reasoning does not extend to, for example, coding skills.

Organisational Structure

The multiple challenges of managing a central IS resource in the context of an organisation with a management structure arranged on departmental lines is much in evidence in the policy paper. There is no space here to provide a full discussion of this complex question and indeed such a discussion would depend on both a level of expertise and further analysis that would require substantial work. We simply note here that these challenges are well known in the management literature (and indeed closer to home will be familiar territory to the many IS managers working in the island within a business unit that is a small niche business which does not align closely with the significantly different business of a global parent). To summarise in an overused and colourful phrase much favoured in the IS sector, “*there is no silver bullet*”:

- Departmental managers will naturally be wary of the centralisation of resources on which they depend to effectively manage a department. In particular where funding for the central IS resource is constrained (as has historically been the case) or the central service is bureaucratic and unresponsive the ability of departmental heads to manage will be compromised.

- Conversely in a decentralised structure processes can be duplicated across departments and opportunities for synergies can be lost.

There are various strategies that can be pursued to steer a course between these two scenarios depending on organisational priorities. Some general observations:

- Organisationally the States of Jersey comprises discrete departments that perform core business functions that are, broadly, distinct from other departments - with notable exceptions (e.g. there is a nexus between direct and indirect taxation). There are some common processes and other processes that span departmental boundaries. The information systems and information assets that support departmental business processes will typically best be controlled by the departmental management. Moreover those departmental systems will sometimes best be served by packaged solutions, sometimes by solutions that are common across several jurisdictions and in some circumstances, custom solutions.
- Processes that are common across departments may benefit from being centralised albeit mandatory central provision does not create incentives to agility, service excellence or innovation by the central service.
- Processes that cross departmental boundaries require special attention because, broadly speaking, departmental managers do not have incentives to optimally redesign such processes and it is therefore inherently more difficult to do so. Redesign of processes that span departments can be a source of significant improvement opportunities but must be considered case by case.
- There are tools available that can be used to map out both a high level view of these processes and information assets that bring into focus both the linkages and the discrete process and information domains. Without access to this analysis it is difficult to suggest where the opportunities and priorities might lie.
- As noted in the policy paper, there are some information systems services that can appropriately be centralised to the benefit of all departments. IS architecture and standards, and management of common infrastructure are candidates. Areas of technical expertise that departments only require intermittently (procurement, technical advice in relation to supplier relationship management, project managers and business analysis) might also be pooled. However in relation to project management skills and business analysis skills it is *not* self-evident that these should form a central pool (in the recent past CMD-IS has hired project managers on contract and these project managers have sometimes also performed various business analysis tasks with varying degrees of success). Indeed there are good grounds for sourcing these from the market as these are competences that suppliers may have cultivated as competitive advantages.
- The policy paper envisages a requirement for expert contractors and innovators (the policy paper is not explicit on whether these will comprise a centrally controlled resource but this appears to be the model being advocated). *However the task of identifying service enhancements and service innovations is not primarily a technical one.* There is a strong case to be made for such changes to be led by capable business line managers. Indeed business line managers should be best placed to understand priorities. Business managers (and other able staff) with career progression potential should be given opportunities to identify and take forward opportunities (by, amongst other things, taking time to look at how others have achieved improvements that might be emulated). This will help nurture management capabilities across the States and provide valuable experience for high potential staff who might later progress to senior management positions. The recent States of Jersey *lean management* initiatives align with this thinking. To the extent that specialist expertise is

required it largely centres on facilitation, benchmarking and allied (management consulting) skill sets that draw out and stimulate management thinking. The States should also have an open door policy – allowing innovators (internal or external) to put proposals to management and to reward robust ideas.

There is a further compelling reason to locate responsibility for improvement and innovation with the departments. Simply the technical solution is generally the simplest challenge – meaningful change requires orchestrated change of technology, processes and people. Centrally driven solutions are therefore unlikely to have a significant impact because the centre is not able to control these other factors^{xxix}. In a recent penetrating critique of the apparatus of government published in the Jersey Evening Post, well known business leader and commentator John Boothman suggests that the root issue lies with a system that does not afford the Chief Minister the power to choose or dismiss ministerial colleagues and a Council of Ministers that does not assume joint responsibility for ministerial decisions. In consequence he asserts that “*we have a Balkanised system in which ministries compete openly with one another for political and financial supremacy*”. To the extent that this analysis remains accurate it will not be possible for any central function to lead cross functional improvement “from the bottom up”.

Online Services

The provision of government online services has particular potential - but also particular challenges. One can envisage, as the endpoint, a future where any citizen or business can seamlessly access a comprehensive suite of services in a unified and intuitive manner from a single sign on. The dilemma is that underlying business rules reside in discrete departmental systems. Various approaches are possible to move towards such an endpoint goal. In some cases a front end can be interposed between the user and the underlying business system, possibly in conjunction with workflow tools (albeit the latter inherently presents the risk of simply replacing a paper based process with an electronic simulation that misses the opportunity for process improvement). This may be fit for purpose where the interaction is comparatively trivial (say, pay a charge) but is not well suited to more complex scenarios where the user must interact with the business rules. For example, a patient with a hospital appointment may wish to move that appointment to another available slot. In these non-trivial cases it is possible to duplicate a subset of the business rules in an interposed front end - but that creates duplication and is both expensive to build and to maintain. Another approach would provide (appropriately controlled) access to the departmental system for the user. The feasibility of the second approach depends on the capabilities of each departmental system, case by case. A downside for the latter is that it will be more difficult to provide a consistent and uniform experience for the user. In the longer term one would expect to see back end systems that are designed from the ground up for interoperability – exposing business functionality that can be deployed to provide a seamless service to the user. But the realisation of that architecture is many years away and the challenge now is to move incrementally toward the endpoint goal.

As one component of the solution will be a layer that (at least in the case of trivial government to citizen and government to business interactions) will be a common service across several areas there is a case for this to be created centrally. There is, however, a risk that the central implementation is pursued in isolation from, rather than in tandem with, moves to expose relevant business functionality in departmental systems to online users. Given the desirability, for reasons discussed above, of continuing to maintain departmental control over core departmental information systems, some management mechanism is needed to ensure that online services move forward in a coordinated way that advances toward the desired endpoint of a seamless experience for private and business interaction. *Prioritisation needs to be based on a sober assessment of benefits case by case, and taking into account inherent dependencies.*

eGovernment

In the view of the EU Digital Agenda for Europe^{xxx} “eGovernment involves much more than just the tools. It also involves rethinking organisations and processes, and changing behaviour so that public services are delivered more efficiently to people. Implemented well, eGovernment enables citizens, enterprises and organisations to carry out their business with government more easily, more quickly and at lower cost”.

Media coverage (partly fuelled by the sales hyperbole endemic in the information technology sector) and the experience of the individual are prone to focus attention on the introduction of online services^{xxxi}. The roll out of online services does have potential in delivering efficiency improvements, better service and greater transparency. For many individuals booking a ticketless flight, making online purchases, using a mobile phone banking app or looking up information online are all taken for granted. The limited and often cumbersome facilities to interact with government online are increasingly out of step with that experience, notwithstanding exceptions such as www.jerseylaw.je (improving public access to sources of law), www.statesassembly.gov.je (improving political transparency) and the online system used by Jersey Customs (providing paperless real time transactional integration between government systems and business systems –the latter being arguably the most advanced and innovative example of eGovernment in the island). Being “departmental systems”, these appear to have fallen outwith the frame of reference of the policy paper and do not feature in its analysis.

However, online services are only one aspect, albeit the most visible, of a thoroughgoing eGovernment agenda. Technology is an important enabler for improvement but unless parallel changes in behaviour, processes and management are coordinated the impact will be, at best, muted. Furthermore, in terms of prioritising projects there may be significant opportunities that do not have a, or have only a minimal, online component^{xxxii}. It is not clear whether the forthcoming eGovernment strategy will adopt a comprehensive prioritised portfolio of projects across all these dimensions or whether it will be narrowly conceived in terms of driving online interactions and social media. There is a real danger that myopic focus on online services (perhaps driven by unrealistic expectations flowing from the sales hyperbole endemic in the sector) and technological preoccupation will place strategically more important projects (in terms of impact) on the back burner. The limited scope of the web strategy pursued since 2008 may indeed have already fallen foul of this known risk^{xxxiii}.

Digital Jersey

The policy paper sets out to gather feedback from Jersey based firms (and specifically Digital Jersey members which include teleologica). Digital Jersey provides a means of accessing a considerable body of expertise and experience. Yet it hardly needs noting that this body exclusively represents the interests of local players. It is unrealistic to expect firms operating in Jersey to disinterestedly comment on the appropriateness of a proposal to channel spend into the local market in a manner that potentially insulates purchase decisions from the discipline of global competition. *The consultation inherently gives rise to a conflict of interest.* Feedback received will need to be weighed with this limitation in mind.

Recommendations

This document is based on a review of the limited information available and there has not been opportunity to investigate or explore many of the issues raised. Nonetheless the policy paper invites comment and the analysis presented here suggests (in the form of topics for discussion rather than firm conclusions) the following recommendations:

- There is no across the board case to override market disciplines to channel business to “local” information technology companies. In general all work should be *contestable* (including existing contracts) albeit there is legitimate scope to create partnerships that reduce transaction costs and promote long term collaboration (without bypassing the essential market discipline of contestability). Indeed arguably to the extent that market mechanisms have already been overridden, innovation has been stifled and human resources redirected from skills areas of strategic importance to areas where firms in the island will struggle to build competitive advantage. To the extent that this is so it will have raised costs both for citizens and businesses and any extension of this policy will accentuate that effect.
- The critical skills that may be best cultivated in house include strategy formation, infrastructure management and advisory technical expertise. Furthermore in view of the well-known propensity within the IT sector to pursue strategies that create barriers to competition (by, for example, locking the customer into proprietary solutions), management must be especially adept at identifying, evaluating and mitigating such behaviour in suppliers. Maintaining contestability must remain at the front and centre of management capabilities.
- To the extent that a compelling case can be made to ramp up information technology spend (the case is *not* presented in the policy document) this must be targeted strategically and not ring fenced for eGovernment understood in a limited sense (viz online services).
- The States of Jersey comprises a collection of departments with distinctive priorities and business requirements. Centralising IS spend will not resolve the tensions that inevitably exist (there is no self-evident ideal “enterprise model”). Indeed departmental management must own and drive changes. These cannot be imposed by the centre because organisational power does not, and cannot, reside in the centre (significant change requires parallel action on technology, processes and people underpinned by an organisational culture that makes this possible).
- Particular attention will need to be directed to achieving improvements in processes that span organisational boundaries (because departmental managers are not incentivised to pursue these). Success will require sponsorship by departmental managers and cannot be driven by CMD-IS.

Endnotes

- i The policy paper notes that “*IS(IT) spend has increased year on year from about £11 million in 2002 to £23 million forecast spend for 2011*”
- ii “[*S*] is not yet an enterprise team but a loose affiliation of different small IS teams focussed on individual Departments...the potential power of a function, with a large focussed spend, working in concert to achieve enterprise wide delivery, is not harnessed” and “outsourcing deals historically were tactical contracts to meet particular Departmental needs and priorities, and not part of an overall enterprise strategy” (page 2)
- iii “outsourcing deals historically were tactical contracts to meet particular Departmental needs and priorities, and not part of an overall enterprise strategy” (page 3)
- iv Policy Paper on IS Sourcing by the States of Jersey, page 5
- v Ibid, page 5
- vi Competition among a plurality of firms is key to the effectiveness of the market mechanism for optimal resource allocation. This, rather than any superior intelligence or insight is the advantage over state planned resource allocation.
- vii Note in particular resource allocation choices are not a “zero sum game”.
- viii Market mechanisms are not an end in themselves and do not necessarily lead to *just* outcomes. Thus, for example, according to estimates published in The Lancet in 2011 a child died every ten seconds due to under nutrition globally. These children were unable to signal to the market to respond to their needs for adequate food or basic medication.
- ix Thus, for example, according to the Economic Growth and Diversification Strategy (P.55/2012, page 19) the Economic Development Department makes strategic economic investment decisions and seeks to influence the activity of other States Departments subject to the conditions:
1. That there exists a structural reason why markets left to their own devices will not achieve an outcome or overcome market failure; and
 2. Government intervention is likely to result in a more desirable outcome than that achieved by the market alone
- x Other challenges include questions of equity and efficiency of operation. Nations do engage in tax competition and indeed much attention is given to what may, or may not, be regarded as *potentially harmful tax competition* – a question of central importance to the Bailiwick.
- xi In the case of a small number of firms it may be advantageous to those firms to avoid vigorous competition. Competition regulation seeks to prohibit firms entering into such agreements but this behaviour can also emerge tacitly in the absence of agreements.
- xii Thus, for example, in the case of Guernsey “*A successful Guernsey economy in the future will depend, as it has in the past, upon the private sector’s capacity to innovate. The ultimate aim of the States should be to create an environment in which innovation is encouraged and*

promoted through the natural workings of market forces, but where the outcomes of such activity are channelled towards the public good and the maximisation of social well-being for Guernsey residents” Towards an Economic Development Strategy for Guernsey, February 2012, Oxford Economics, page 68

- xiii Note that if a monopoly is contestable this may be sufficient to yield innovation and productivity benefits. Conversely, the presence of a small number of firms may not in itself yield those benefits if those firms tacitly avoid vigorous competition.
- xiv “*The role of public policy in economic development should generally focus on eradicating market failures. These usually occur in the form of under-investment in desirable goods and services (such as renewable energy installations or modern transport and technology infrastructure) or the over-production of undesirable goods and services (such as inappropriate building developments or ‘externalities’ like pollution). Another common problem are informational failures, when a market transaction would have taken place if only the parties involved knew about the opportunities it presented*”. Towards an Economic Development Strategy for Guernsey, February 2012, Oxford Economics, page 2
- xv “*Latest figures from government are welcome confirmation of the recovery and growth that we have been seeing in the market place. The long-term outlook as far as employment in the finance industry is concerned is positive on balance*” Geoff Cook, CEO, Jersey Finance, 22nd January 2014 quoted in the news release published at www.jerseyfinance.je retrieved 25th January 2014
- xvi Ibid, page 1
- xvii An irony here is that many of the people who have made their home in Jersey have been attracted by employment opportunities here. Yet if comparable opportunities had been available elsewhere it would not be unreasonable to assume these people would have been willing to pursue careers in those locations. Perhaps even more so, if the opportunity did not loosen ties with kith and kin.
- xviii One might note here that Jersey’s financial services sector is overwhelmingly export oriented and entirely dependent on access to overseas markets. One cannot credibly put forward a case for removing barriers to access to those markets for Jersey based financial services firms while simultaneously introducing barriers that prevent access to Jersey as a market for overseas firms. The quandary is even starker in relation to developing countries that are becoming increasingly important markets for Jersey’s financial services offerings and for whom access to Jersey as an export market may offer significant development benefits.
- xix In the case of the nation state the concept of national interest has become increasingly subtle. Thus, for example, Baron Patten observed in a 2002 lecture “*Today, the notion of national interest has become more difficult than ever... there is a growing tension between interests defined from a purely national perspective, and interests defined in a multilateral one... the national interest is coming to be seen, perhaps, almost as a welcome by-product of the pursuit of wider goals, rather as Cardinal Newman said of virtue and pleasure that: ‘Virtue is its own reward, and brings with it the truest and highest pleasure; but if we cultivate it only for pleasure’s sake, we are selfish, not religious, and will never gain the pleasure, because we can never have the virtue’... In the modern world, nations need to pool their sovereignty to deal with problems that extend beyond national boundaries*”. Baron Patten also cites an influential Harvard Business Review article which asserts that “*efforts to protect national industry through subsidies, tariffs, anti-dumping actions and so on were increasingly self-*

defeating because national labels bore so little relation to the underlying economic realities". (Sovereignty and the National Interest – Old Concepts, New Meanings, Newman Lecture, University College, Dublin, 21st February 2002).

- xx It may be noted here that States of Jersey policy has hitherto worked in opposition to these market signals. For example, the recently published Interim Population Policy Report 2014 - 2105 notes that *"total employment in sectors with a low economic value has increased over the last 10 years... [this] profile of migration is not consistent with an objective of maximizing economic value, and is contrary to objectives around limiting migration... [this has been] facilitated over many decades through the Regulation of Undertakings and Development (Jersey) Law, 1973"* (page 16).
- xxi Thus, for example, starting pay for police officers in Jersey is more than 70% higher than in the UK (Jersey Evening Post, 24th January 2014)
- xxii Ibid, page 2
- xxiii Thus, for example, research commissioned by Skills Jersey and Digital Jersey indicates that *"Some companies outsource to suppliers in Jersey, but most found them too expensive"* (The Digital Picture: a review of Jersey's digital skills, Interim Report, September 2012, page 7). In Guernsey the situation is comparable - *"trading at a 30-40% cost premium to mainland UK and with obvious land and property restraints, Guernsey may not naturally support rapid on-island business and employment growth. But it has developed a spirit of innovation capable of building internationally-relevant experience and generating wealth and value added through tapping into growth elsewhere"*. (Towards an Economic Development Strategy for Guernsey, February 2012, Oxford Economics, page 13)
- xxiv For example the Economic Growth and Diversification Strategy (P.55/2012) includes as a case study in inward investment, epitomii, a specialist IT services business established in 2012. In the words of the Director of Inward Investment and International Trade (Business Life 10/04/13) *"epitomii is a perfect example of the type of high value, low footprint business Locate Jersey is working hard to attract to the Island. Not only are the team keeping IT business in the Island, they are also helping to diversify the economy by providing career opportunities in the IT industry."* According to Locate Jersey's marketing materials (page 11), epitomii aims *"to "repatriate" as much of [the IT expenditure going off island] as possible"*.
- xxv The Economic Growth and Diversification Strategy (P.55/2012) appears to place limited confidence in the capacity of the financial services sector to continue to innovate. It emphasises *diversification* as a dominant theme. However it is by no means certain that the sector will not continue to innovate. Bearing mind the peculiar competitive advantages that have underpinned the growth of financial services the prospect of finding other sectors that are genuinely able to compete in a global market must remain uncertain.
- xxvi The Economic Growth and Diversification Strategy (P.55/2012) already sets out many actions that the States of Jersey can take to provide an environment that promotes competitiveness, fosters enterprise and innovation and raises productivity.
- xxvii For example advice offered to the States of Guernsey *"The track record of sector-based interventionist economic development policy is at best patchy, but there is a clear role for the public sector in promoting a prosperous, sustainable and inclusive strategic direction. It can help to prepare the 'fertile soil' in which firms can grow and address market failures, but it*

should not attempt to dictate the decisions of the private sector". Towards an Economic Development Strategy for Guernsey, February 2012, Oxford Economics, page 2

- xxviii For example possible market spaces have previously been identified in the areas of telecommunications and e-Health.
- xxix Thus, for example it is recognised that "*Government needs better co-ordination of policy. The existing system does not easily support "joined up" policy development across departments. This makes it difficult to coordinate policies affecting several areas of the organisation*", Inspiring Confidence in Jersey's Future, Strategic Plan 2012, page 13
- xxx <http://ec.europa.eu/digital-agenda/en/public-services> retrieved 22nd January 2014
- xxxi Thus for example "*The [States of Jersey] target is for 75% of all resident-government interactions to be digital by 2018*" (Digital Jersey, States of Jersey Information Services Sourcing, Digital Jersey's Response & Recommendations, January 2014, page 3)
- xxxii Thus, to take one example, as this document is being written resources are being directed to the construction of a facility to pay certain charges online even though the introduction of a direct debit facility would be likely to be of greater benefit.
- xxxiii See for example, Avoiding the Pitfalls of eGovernment, OASIS (Organization for the Advancement of Structured Information Standards), http://www.oasis-egov.org/sites/oasis-egov.org/files/eGov_Pitfalls_Guidance%20Doc_v1.pdf retrieved 23rd January 2014