

STATES OF JERSEY



VOTE OF NO CONFIDENCE: STATES EMPLOYMENT BOARD (P.142/2009) – COMMENTS

Presented to the States on 5th October 2009
by the Chief Minister

STATES GREFFE

COMMENTS

The report argues that the States Employment Board (SEB) has seriously mishandled negotiations with representatives of the public sector workforce over the 2009 pay award.

The criticism appears to focus on two issues –

1. whether no overall increase in pay rates in 2009 is justified; and
2. whether negotiations have been mishandled.

Was the Pay Freeze justified?

The States Employment Board is of the clear view that it was necessary to have a pay freeze in the public sector this year given the economic downturn. Wages and salaries are the biggest proportion of the revenue budget at over £300 million and freezing pay costs was vital in order to maintain our finances on a sound footing in the economic climate that prevailed early in 2009.

This decision, which was subsequently supported by a substantial majority of 21 votes when the States debated P.78/2009 (Annual Business Plan 2009: Variation in Respect of Pay Freeze) in July 2009, was right at the time, and in the view of the Board, remains so today.

In relation to the justification for no pay increase, the SEB adopted the policy having considered the significance of the world economic recession, its potential impact on Jersey when other employers were having to lose jobs and make people redundant, and some young people were not able to find their first job. It did not feel it could justify increasing public sector pay rates which would have to be paid from taxes suffered by other workers in the private sector. A pay freeze would help ensuring as much employment security as possible for States employees at this difficult time.

In the 2009 Business Plan which was agreed by the States in September 2008, a relatively modest 2% was set aside to fund a pay award in 2009, based at that time on a projection for the March 2009 RPI of 4%, and then deducting the effect of GST (*see Annex A*). This 2% would have amounted to a significant addition of over £6 million to the annual pay bill.

Over the winter and into spring 2009, the economic outlook worsened and by late March when the SEB met, it was clear that something needed to be done.

The SEB decided to take the proposal for a pay freeze to the Council of Ministers for wider debate because this was no longer a decision just about pay but about the financial management of the island.

The States Employment Board regrets that there is no realistic option other than to have a pay freeze in 2009 to avoid increasing the public sector pay bill and therefore overall public sector spending. Taking this tough line on public spending does not mean that public sector staff are not valued, but recognises the importance of job security in a tough economic climate.

Handling of the Pay negotiations

The States are asked to note the information in Annex B which shows the timeline relating to the review of public sector pay this year. It shows that negotiations were not prevented with the Trades Unions who were involved in discussions as the changing economic picture became clearer.

There has been no desire or intent to circumvent the working of normal industrial relations, nor has the SEB sought to deny or prevent the normal negotiating process from continuing.

It should be noted that within a few days of the Council of Ministers discussion in late April, the outcome was shared with the Unions at a meeting on 27th April. The purpose of that meeting was to brief the staff representatives so that they knew what was being proposed. It would have been dishonest not to have told them, which would have led to the usual discussions taking place without the Unions or their members being aware that the intention was to constrain the pay bill.

It is clear from the timetable set out in Annex B that what happened shortly after the Council of Ministers meeting in late April, was that the Deputy of St. John brought a proposition (P.68/2009) to the States, and Deputy Southern then brought an amendment to that proposition. This is what brought the pay discussions to the States Chamber. As a result of these propositions the Council of Ministers felt obliged to make clear their policy on a pay freeze, and as a result the Minister for Treasury and Resources lodged P.78/2009.

Until the States had debated P.68/2009 and P.78/2009, it would have been very difficult for either side to hold meaningful negotiations without a clear States decision on its pay policy.

Whilst it might be regrettable that the SEB and Council of Ministers found it necessary to recommend to the States a significant change from that budgeted in the 2009 Business Plan, at a time of such unprecedented world economic change a balance had to be struck that protected both employees' jobs and the island's prosperity in the longer term. The SEB also considered the relative position of Jersey's public sector workers in relation to their private sector counterparts employed in Jersey in comparable roles.

Members should be aware that as a matter of established practice, SEB does not directly get involved in pay negotiations. That is delegated to the Head of Employee Relations who acts in this respect on behalf of the Employer. Such negotiations remain ongoing within the constraints identified.

The Future role of the States Employment Board

The SEB has stated and will continue to make clear its full support for public sector workers, who deliver good public services and show a very high level of commitment to the public. The decision to constrain spending this year should not be seen as a failure to value public sector workers. It is simply a necessary financial measure in difficult economic times.

The Board's view is that the current approach to pay negotiations and remuneration needs to be carefully reviewed and a much greater spirit of partnership should be engendered between the States as employer and its workforce. Staff representative bodies and Unions have a fundamentally important role to play in Industrial relations, but the current system has too many opportunities for adversarial negotiation. It is entirely understandable that staff will want to maintain pay levels in real terms, but a responsible Government also needs to have regard to the state of Public Finances. These issues suggest that it is necessary to develop a system of pay settlement and remuneration which better recognises the major contribution that public sector workers make to the community of Jersey.

When the SEB was formed in late 2005, the Employers side was keen to establish a more formal partnership approach with the Trades Unions and Staff Representatives. It did this with some of the pay groups but not all were comfortable at that time to establish a formal agreement of this type.

The SEB will be seeking to reconfirm this commitment and to re-open discussions on establishing these formal partnership agreements. These discussions will need to address the separation of agreeing overall cash limits in the Business Plan from the pay negotiating process, to bring greater clarity for the future.

The SEB also wish to commission a thorough review of Terms and Conditions of Service within the public sector in 2010, to identify and address many of the issues the employee representative groups are raising. This can only be successfully achieved through a collaborative partnership approach, to which SEB remain fully committed.

The SEB therefore considers that all parties to collective agreements should now concentrate on agreeing improved processes and working to ensure that June 2010 pay settlements are concluded in a more positive environment.

The Board therefore rejects the criticism and asks the States to reject the proposition.

EXTRACT FROM 2009 ANNUAL BUSINESS PLAN

Section 3.5 (pages 53 and 54)

3.5 Revised Inflation Assumptions

The Business Plan 2008 included assumptions for inflation, which at that time were based around the March 2007 RPI and forecasts of future interest rate changes.

In this year's business plan the pay and inflation provisions are similarly based on the latest March 2008 RPI and forecast assumptions from the States Economic Advisor in April taking account of predicted changes to interest rates and other factors.

In 2008 and 2009 there is the further complication of the one-off effect of the introduction of the Goods and Services Tax (GST) in May 2008 on the RPI. This is estimated to increase the RPI by as much as 2% for the 12 months beginning with the June 2008 RPI (assuming that all retailers pass GST on to the consumer).

GST is an integral part of the States Fiscal Strategy which secures the future of the finance industry in the Island and allows Islanders to continue to enjoy their high quality of life with a high standard of public services and low personal/corporate taxation. The Fiscal Strategy recognises that Islanders have to pay slightly more tax now to prevent a much larger increase in tax in the future. GST is the means by which this will be achieved.

The States can not afford to fund the costs of GST in pay awards to its employees otherwise it will not recoup the net £45 million revenue. It will also mean that GST will not meet its objectives as public sector employees will not in fact pay more in tax because they will initially be compensated for GST through higher wages. Furthermore, such an approach could influence decisions in the private sector.

If the outcome is that wages across the economy rise by the amount of GST and without additional productivity improvements then the outcome will be inflationary. Higher inflation is bad for all Islanders and Island businesses and will undermine the Fiscal Strategy because it will reduce the scope for economic growth and tax revenues. The purpose of GST is to take money out of the economy, and therefore from individual's pockets. Only in this way will it have a downward effect on inflation.

The States has however, already agreed to protect those people on low incomes from the effect of GST by:

- providing £1.75 million in additional funding for Income Support;
- increasing tax exemption thresholds by 6% in the 2008 Budget to assist those on lower incomes; and
- setting aside £400,000 for additional allowances to protect those low income earners who fall between the Income Support and Income Tax systems.

The Council has carefully considered the pay and inflation provisions based on the advice of the States Economic Advisor and against the background of provisions already made for those on lower incomes.

Provision for Annual Pay Awards

The Council has maintained its policy of making provision for pay awards at the level of the March RPI, allowing negotiations with employee groups up to that level. In the case of civil servants, police and prison officers these groups have already accepted the level of March 2008 RPI at 3.2% being the final year of a three-year agreement at RPI.

Other employee groups, notably Manual Workers, have expressed their intention to pursue negotiations for a much higher increase. This is not affordable within approved States spending limits and consequently the Council is proposing that the States confirm the pay award assumptions as part of the revenue expenditure proposition for 2009.

For future years the Council is proposing a provision at the forecast of RPI, and for June 2009 less the one-off effect GST estimated at 2%. Based on current assumptions March 2009 RPI would be 4%, less the 2% estimated one-off effect of GST, leaving a 2% provision.

TIMETABLE

- **5 February** – SEB meeting with Unite the Union and Manual Worker representatives on pay where the latter declare that their main concern was the threat of compulsory redundancies
- **9 February** – Chief Minister writes to Unite the Union proposing a Joint Working Party to establish a formal partnership agreement in an attempt to avoid compulsory redundancies wherever possible
- **23 March** – SEB resolves that, because of the deteriorating position in the local economy and significantly falling Retail Price Index, it was minded to pursue a pay freeze for all public sector workers this year. It sought the endorsement of the Council of Ministers for this proposal
- **22 April** – March RPI published, showing an increase of 2.1%, nearly all of which was attributed to GST
- **23 April** – Council of Ministers supports proposal for pay freeze in the public sector this year in view of the prevailing economic climate and pressure on public finances in the medium term
- **27 April** – Chief Executive to the Council of Ministers/Head of the Public Service meets with senior representatives of all the main pay groups and informs them of the SEB's proposal to have a pay freeze this year. This was intended to ensure that Unions would consider their pay claims in the full knowledge of the employer's position of not being in a position to fund a pay increase
- **12 May** – the Deputy of St John lodges a proposition (P68/2009) proposing that all States employees receive a pay increase of £400 per annum
- **19 May** – Deputy G P Southern lodges an amendment to P68/2009 proposing that all full time States employees receive a pay increase of £1,250 per annum
- **29 May** – Minister for Treasury and Resources lodges a proposition (P78/2009) proposing the withdrawal of the 2% previously inscribed in the Annual Business Plan for pay awards this year
- **18 June** – SEB agrees comments concerning P68 and the amendment and maintains its view that a pay freeze is reasonable and responsible in the prevailing economic climate
- **1 July** – States reject P68 and amendment
- **14 July** – States overwhelmingly adopt P78 by 31 votes to 10
- **15 July** – June RPI published showing a decrease of 0.4%. The effect of GST has now fallen away.
- **24 July** – Trades Unions and Staff groups write collectively to SEB asking for a meeting to discuss cuts to services and the pay freeze
- **10 August** – SEB and other Ministers meet senior representatives of all main pay groups. Latter are reassured that negotiations on a pay award this year may continue provided that the overall pay bill does not increase.