STATES OF JERSEY

PUBLIC FINANCES (JERSEY) LAW 2005: AMENDMENT TO MEDIUM TERM FINANCIAL PLAN FOR 2019 (P.137/2018): COMMENTS

Presented to the States on 4th December 2018
by the Chief Minister

STATES GREFFE

COMMENTS

The Council of Ministers cannot support the proposition and urges Members not to support it.

Summary

The proposition calls for significant and open-ended increases in pay costs, without suggesting measures to pay for them, other than by using up reserves.

This would be unsustainable and irresponsible. It would open the floodgates to a wave of historical pay claims that our Island simply cannot afford.

The current staff pay bill of £359 million a year already accounts for nearly half of the States' annual budget.

Forecasts for 2020 show deficits of £30–£40 million, in part because of the failure by the previous Assembly to deliver on measures within the current Medium Term Financial Plan.

Paying all staff in line with the Retail Prices Index would add more than £9 million a year, forever, to pay costs, and would further increase the forecast deficit.

But it would also unlock a raft of current and historical pay claims, which would take these costs to unknowable levels.

This proposal threatens the very sustainability of States finances and is simply not affordable – because we cannot fund ongoing increases in revenue expenditure from our reserves.

Financially unsustainable

At the heart of this proposition is a plan to increase expenditure by considerable – but unspecified – amounts, without a plan to raise the revenue to fund that expenditure on an ongoing basis.

Should Members agree the proposition, they would, by implication, be doing so without knowing how high these costs are and how such expenditure would be afforded.

The Deputy suggests using reserves. It is irresponsible to fund costs of such a significant and recurring nature from reserves, without a plan to pay for those costs on an ongoing basis.

Neither are they affordable from within current departmental budgets, as these are already fully committed to funding day-to-day services, with some seeding of the Common Strategic Policy initiatives, ahead of a comprehensive Government Plan for 2020 and beyond.

Those departmental budgets need to generate efficiencies, to contribute towards plugging the £30–40 million budget deficit. They do not have the slack also to fund an additional £9 million a year for RPI pay increases.

If departments were asked to do this, it would threaten both current services and the deliverability of the CSP priorities over the current MTFP period, such as "putting children first".

The error made in the current MTFP was to agree to expenditure increases on the basis of in-principle decisions to raise revenue and deliver savings, including pay restraint.

The previous Assembly, despite the expenditure having been committed to, then rejected most of the revenue-raising measures needed to fund those commitments.

In addition, it transpires that many of the savings identified are not on track to be delivered.

Increased flexibility will be proposed in the new Public Finances Law, such that annual Government Plans will be considered by the States Assembly.

However, were we to already have that flexibility, it would not be wise to propose expenditure increases without agreement of the measures to afford that expenditure – thereby compounding the financial deficits.

If it were not for the robust resilience of tax revenues – which cannot be guaranteed every year – the States would now find itself with far more painful steps to make to be able to afford the current levels of expenditure.

As it is, the failure to agree revenue-raising and other measures, as well as needing to provide funds above those provided for in the MTFP, is forcing the Council of Ministers to divert funding in the current envelope towards plugging these gaps.

However, without replacement measures, this position unwinds and creates deficits from 2020 onwards.

Increasing pay awards to the level of the claims would grow this deficit yet further.

A change to the law which then translates into higher offers to pay bargaining groups which have balloted for, or are planning to ballot for, industrial action, will significantly reduce the opportunity for applying pay restraint in future.

It should be noted that negotiations for nurses and midwives, and manual and energy recovery facility workers, are ongoing and positive, and that these groups represent around half of all States employees; these negotiations will be undermined if higher offers are made to other groups.

Pay decisions this year have redirected funds from the generally best-paid group – civil servants – to nurses and midwives, and manual and energy recovery workers, which is a deliberate policy aimed at redressing the longstanding pay inequalities between these groups.

The Pay and Reward Review, due to report to the States Employment Board at the end of March 2019, will address known pay anomalies, and is expected to assuage the continuing concerns of some groups regarding equal pay for work of equal value.

Delivery Challenges

In the event that the Assembly agree to proceed along the lines envisaged by the proposition, there would be consequences for the delivery of the Government's priorities.

The CSP is being debated at this meeting; however, policy options are being drawn up and costed, in order to ensure that the Government can make a start in delivering its priorities in 2019.

These plans will be ready in draft by spring 2019, and will require extensive research and drafting, but also a process of consultation, challenge and prioritisation.

In addition, a strategy to afford these initiatives is also being developed for completion to the same exacting timescale.

This proposition asks the States to bring forward proposals to fund additional expenditure, of considerable but unspecified amounts, ahead of that work having been completed.

The proposition calls for a revised MTFP for a year that starts in less than a month.

This will require law drafting and a proposition to be lodged. That proposition will then need to be debated by the States.

In the meantime, a new Plan for 2019 will need to be developed, by the same teams who are currently drafting the Government Plan.

In the most optimistic of scenarios, it is unlikely that such a new MTFP for 2019 would be agreed until the end of the first quarter.

Even this would assume that the States are willing to forego lodging periods usually required for both the legislation changes and propositions.

This would be a revised plan for at best 9 months of the year only.

The knock-on impact would be that it would be highly unlikely that a Government Plan would be lodged before the summer recess.

Resourcing CSP priorities

The proposition aims to provide funding for CSP priorities, without any attempt to quantify amounts, or address how they might otherwise already be afforded from within existing resources.

Over the current MTFP, funds have already been provided for CSP priorities.

For example, Pupil Premium funding was agreed in the MTFP; and in addition, more than £10 million of funding for initiatives which put children first have been awarded out of contingencies over the period. More than £2.5 million of that funding remains available for 2019.

Currently, Departments have cash limits of more than £700 million for 2019, affording Ministers significant resources to plan for and seed-fund CSP priorities ahead of the comprehensive Government Plan.