STATES OF JERSEY

DRAFT MEDIUM TERM FINANCIAL PLAN ADDITION FOR 2017 – 2019 (P.68/2016) – SIXTH AMENDMENT (P.68/2016 Amd.(6)) – COMMENTS

Presented to the States on 26th September 2016
by the Council of Ministers

STATES GREFFE

COMMENTS

Deputy J.A.N. Le Fondré of St. Lawrence proposes –

- to agree in principle that, in respect of public sector employees earning more than the average annual salary, the employer rate in respect of PECRS/PEP should be reduced by 1% per annum, and the employee rate increased by 1% per annum, from 2019 until such time that the employer rate and the employee rate are equal;

- that the Minister for Treasury and Resources is requested to bring forward the necessary legislation, if any, to give effect to this change for debate in the States Assembly;

- to reduce the net revenue expenditure of each States department and non-ministerial States funded body in 2019 by the amounts specified in table 1 in the report accompanying this proposition; and

- to increase the allocation to Contingency expenditure for 2019 by £1,475,000 in 2019.

The Council of Ministers opposes this Amendment and urges States members to reject it.

Summary of Council of Ministers' Comments

- The Council of Ministers has already negotiated substantial changes to the public service pension (PECRS/PEPS). This means new staff employed since 1st January 2016 pay an average of 3% more of their earnings towards their pension. Existing employees will pay an average of 3% more of their earnings towards their pension, to be phased in from 2019.

- The employee contributions are already increasing to an average of 8% of earnings. That's higher than the average employee contribution in the private sector in the Channel Islands (5%)[1].

- The States agreed only last year to fixing the contribution rates until 2023, this amendment breaches that commitment.

- The PECRS/PEPS funding arrangements took more than 18 months to negotiate with the Joint Negotiating Group, and have been accepted by unions representing the overwhelming majority of scheme members after a full ballot. The funding arrangements have also been accepted by the Scheme's Committee of Management and the Scheme Actuary. This proposition would require a fundamental re-negotiation of these pension arrangements which were only agreed by the States last year.

- The amendment is unlikely to create savings as it will lead to rising pressures for greater pay awards.

[1] BWCI Survey of occupational pension provision in the Channel Islands

- The proposition, if agreed, would increase employee contribution rates to an average of 12% of earnings. This would breach the employee contribution cost cap (8.25%) contained in Regulations, and would make it harder to recruit key public sector front-line staff from the UK – that includes nurses and allied health professionals. It may also make the Public Service less attractive as a career for the population as a whole, by applying a blanket change to all jobs.

- The MTFP 2016 – 2019 includes funding for putting the main Public Service pension scheme into a sustainable position, using prudent assumptions for the costing of future benefits, and thereby contributing to the States' aim for more sustainable public finances.

Detailed Comments

Deputy Le Fondré's proposition advocates a change to the funding arrangements for the main public sector pension scheme for States employees. These arrangements for the Public Employees' Pension Scheme (PEPS) were agreed by the States in November 2015 after 18 months of negotiations with the Joint Negotiating Group. The funding arrangements have been accepted by the Committee of Management and the Scheme Actuary.

The proposition advocates a change to the agreed 2:1 funding ratio, where the employer pays contributions twice the level of employee contributions. The proposition advocates reducing the employer contributions and increasing the employee contributions over a period of time until the employer and employee contributions are equalised (a 1:1 funding ratio). It also proposes that contingencies are increased in 2019 by the corresponding reduction in expenditure.

The existing 2:1 funding ratio provides for an equitable risk sharing between employer and employee. The funding arrangements, agreed by the States in November 2015, also introduced a cost cap that protects the employer, for the first time ever there is absolute certainty about the maximum cost to the employer of the main public service pension scheme.

The States agreed in 2015 to prioritise sustainable public finances as part of the Strategic Plan. The final-salary public service pension scheme was unsustainable, as contributions were not enough to fund the benefits being promised to new and existing employees. It was necessary to change the pension scheme to make it sustainable, affordable and fair, and the Regulations adopted by the States in November 2015 were developed to deliver these aims.

The Public Employees (Pension Scheme) Regulations introduced a career average revalued earnings scheme. New employees appointed since 1st January 2016 have been put into this new Scheme. By 2019 all employees, except members within 7 years of their normal retirement age, will move to the new scheme. Employees will pay more for benefits based on lower career average earnings.

These new Regulations increase the contribution rate for existing employees from 2019 onwards in phases. Employees will eventually pay an average of 3% more of their earnings towards their public service pension. This was negotiated with the Joint Negotiating Group and agreed by unions representing the overwhelming majority of States employees.

Deputy Le Fondré's proposition for equalisation would increase the average employee contribution rate by a further 4% of earnings. Inevitably, this will put further pressure on the pay restraint which is factored into MTFP 2016 – 2019 proposals.

While the proposition proposes protection from the proposed increase in employee contributions for members earning below average annual salary, this in itself would create a cliff edge where a scheme member could see their contribution rate increasing by 3% and then a further 4% of earnings after a pay award that increased pay to just marginally above the average annual salary. Such an approach will reduce the incentive for career development, and lead to a 2-tier workforce which may well be challenged on the grounds of discrimination. It is noted that the Amendment does not apply to the Jersey Teachers' Superannuation Fund.

The Regulations agreed by the States last November included specific requirements for –

- the employer and employee contribution rates for PEPS to be fixed until 31st December 2023,
- an employee contribution cost cap at 8.25% which means that the employee contribution rate cannot be increased above this level without the agreement of the relevant trade unions, which will include a re-ballot of their membership.

The Amendment would therefore increase the employee contribution levels beyond the employee cost cap contained within Regulations and would require a change to the fixed employer and employee contribution rates defined within Regulations.

The States has addressed the unsustainable final-salary pension arrangements in a way consistent with the changes made in the U.K. public sector. Public sector workers have been moved to career average revalued earnings (CARE) pension schemes, and employee contribution rates have typically increased by an average of 3% of earnings. It is important for the recruitment and retention of front-line public sector workers, such as nurses and allied health professionals, that pension arrangements are broadly comparable with the U.K. public sector schemes, and that the Jersey schemes retain membership of the Public Sector Transfer arrangement.

The average employee contribution rate into private sector pension schemes in the Channel Islands is 5% of earnings. The Council of Ministers has already implemented changes to the main public service pension scheme, which will see the average employee contribution rate increasing from 5% to 8% of earnings. By comparison, the average employee contribution rate in the only major funded U.K. public sector pension scheme, the Local Government Pension Scheme (LGPS), is 6.5% of earnings. Increasing employee contributions further may make it harder to recruit front-line public sector workers from the U.K.

It is worthwhile recalling that a pension is a form of deferred pay. The proposition, in its comparison to the local market, does not take into account the other benefits that are often available to industries such as the finance industry. For example, bonus, share options, LTIPs, car allowances, private health, etc. Hence it is disingenuous to focus exclusively on one aspect of what should be a total reward comparison.

The States is reshaping the cost and means of delivering public services. At first sight, the proposition appears to offer an opportunity to "save" money. The reality is that such cost savings will undoubtedly appear elsewhere – for example, as increased basic pay to compensate for the increase in contributions, increased recruitment and turnover costs, etc.

The negotiations between the employer and the workforce were conducted in good faith by both parties, who reached an affordable conclusion.

For the States Assembly to potentially renege on a legal agreement which was endorsed by the States Assembly through the new Law will set a new and potentially explosive context for employee relations. There can be no guarantee that the workforce will accept such changes without reacting in a way that could compromise service delivery to Island citizens.

The introduction of such changes by the Assembly will undermine the workforce's trust in the employer as work continues to reshape the public service.

It is acknowledged that every effort needs to be made to minimise costs and improve efficiency; however, the main public service pension scheme has already been reformed into a sustainable public service pension scheme.

In summary, the MTFP 2016 – 2019 provides for a sustainable pension scheme, funded on a prudent basis that meets the States' aim for sustainable public finances. This has been negotiated and accepted via ballot by trade unions representing the overwhelming majority of scheme members. The Regulations agreed by the States in November 2015 already increase the average employee contributions rate to levels higher than the private sector in the Channel Islands, and this Amendment would breach the employee contribution cost cap contained within Regulations agreed only last year.

Financial implications

The net revenue expenditure of each States department and non-ministerial States funded body in 2019 will be reduced by the amounts specified in table 1 in the report accompanying the Amendment, and the allocation to Contingency in 2019 will increase by £1,475,000.

This would only represent a saving if the increased allocation to Contingency was not spent. Increasing central contingencies as a result of raising employee contributions into PECRS/PEPS creates a risk that trade unions will request use of the increased contingencies to fund higher pay awards so that employees can pay the higher pension contributions.

The financial implications of this Amendment are also to the funding and risk-sharing arrangements of the PECRS/PEPS, which would require a complete review, agreement with the Committee of Management and re-negotiation with the Joint Negotiating Group.

There are no staffing implications.

Statement under Standing Order 37A [Presentation of comment relating to a proposition]

These comments were received by the States Greffe after the deadline set out in Standing Order 37A because the Council of Ministers wanted to ascertain the views of members and to ensure proper consideration was given to the Amendments and the later Amendments to Amendments, to provide the latest information ahead of the debate.