STATES OF JERSEY

VOTE OF NO CONFIDENCE: CHIEF MINISTER (P.76/2010) – COMMENTS

Presented to the States on 21st June 2010
by the Chief Minister

STATES GREFFE

COMMENTS

The report to this motion of confidence appears to focus on two main issues –

1. The Comprehensive Spending Review (CSR).

2. The States Employment Board (SEB) handling of pay negotiations and suspensions.

During the course of the debate on this proposition it is these issues which I shall primarily wish to address, and naturally I am strongly urging the Assembly to reject this Proposition.

The Comprehensive Spending Review and the Economic Context

It may be right to say that the current situation is the 'worst global economic recession in living memory'. Certainly the global economic crisis of the past few years has been the worst in decades and one which has had a significant adverse effect on the economies and public finances of many countries. Despite entering this crisis in what many would argue is the strongest possible position – no government debt and significant reserve funds – the Island has inevitably been similarly affected.

Members will be aware that forecasts show that future government expenditure is expected to exceed tax revenue by at least £50 million per year. If such deficits were simply as a result of the economic cycle they would disappear when the economy recovered. However this is not what the forecasts show. The likelihood is that this shortfall is a long term structural issue which will require strong and sustained action to address, and for this reason the Council of Ministers supported the need for an early and lasting solution.

The Fiscal Policy Panel, which has been established to advise the States on future fiscal policy, has made it absolutely clear that we could be facing serious structural rather than cyclical deficit. The Panel has emphasised this on two occasions: in its 2009 Annual Report it stated, "*a large part of the projected shortfall could be structural*" and in its November 2009 Update it noted that "*the Panel remains concerned that much of the deficit may be structural*". We need to be quite clear that the projected future deficits will still exist irrespective of any likely economic growth.

In addition, the Comptroller and Auditor General has noted that the deficit could get much worse quickly – perhaps reaching £100 million – if spending continues to rise in the same way as it has been in the past. The Council of Ministers recognises this as a reality, appreciating for example that ongoing additional funding will be required for Court and Case Costs (for which there is no longer sufficient monies within the Criminal Offences Confiscation Fund) and for the seemingly inevitable but unforeseen expenditure which arises from year to year but for which there is no contingency provision.

Members will be aware that other jurisdictions are facing similar challenges, albeit on a larger scale. For example –

- Greece is set to cut its budget by 7% of GDP this year and a further 4% of GDP next year.
- Spain, Portugal and Ireland are all set to cut their budgets by 2-3% of GDP in 2010 and 2011.
- In 2010 the UK is expected to have a deficit of around £156 billion, or just over 23% of total government expenditure. Further, the structural component of this – that which will not disappear as the economy recovers – is estimated to be in the region of 2-3% of GDP. A combination of expenditure cuts and tax increases, in order to deal with it, is expected to be announced as part of the emergency budget on 22nd June.

Although Jersey began the crisis in a much stronger position than many other jurisdictions – with no government debt and significant reserve funds – we have been affected in a similar way and the resultant mismatch between revenue and expenditure is unsustainable.

There can be no room for doubt that the situation facing the Island is one which demands immediate and strong action. Against this backdrop of unprecedented financial turmoil, the Council of Ministers has launched a three part strategy to tackle the problem. The three components are cost reductions, economic growth and tax increases. All three parts are designed to ensure that the Island can afford to maintain and enhance high-quality public services long into the future; it is important to realise that any solution will involve the balance of all three parts. It would be erroneous and misleading to look at the Comprehensive Spending Review in isolation.

The first part of the solution is indeed the Comprehensive Spending Review (CSR), the aim of which is to re-organise the way that public services are delivered in order to make best use of public money and put expenditure on a sustainable path in the medium-term.

Secondly, if it is possible to raise some revenue by growing the economy without putting an undue strain on resources, then this should be encouraged. All of the options with regard to increasing productivity and the other drivers of economic growth are being explored but the best estimates suggest that we cannot rely on economic growth to solve the problem for us.

Finally, the Fiscal Strategy Review (FSR) will examine all the options for raising any additional revenue that is required through personal and corporate taxes, and will ensure that it will be raised in a way that is fair and which preserves the Island's economic prosperity. As Members will be aware, the Minister for Treasury and Resources is shortly to publish a consultation paper on the various possible options. The business tax revenue will ensure that we maximise the revenues we get from the corporate sector while maintaining competitiveness.

All the elements of this strategy are necessary. Without the CSR business and individuals – quite rightly – will be reluctant to pay more taxes before they can be sure that what that they currently pay is being used effectively. The CSR is also key to strengthening the management of public finances and ensuring that the cycle of continued annual increases in spending is broken. Economic growth should be used as far as possible since this is a relatively painless way of raising revenue, but it would be unrealistic to assume this can solve the problem. The FSR is necessary since the other two elements are unlikely to be sufficient to enable the States to maintain and enhance public services. However, higher taxes should not be considered unless we can be certain that this money is absolutely necessary and delivers tangible benefits from better public services, and therefore it cannot happen without the CSR. That is why the CSR is absolutely key to the process, and why the process began by looking at cost cutting before looking at additional revenue raising. If some of the cost cutting proposals can be improved upon we should all be working to that aim, and whilst the target for 2011 is relatively modest we should still be looking for the best way to deliver it.

Jersey can be proud of its standard of public services, and they make an important contribution to the quality of life that Islanders enjoy.

Action needs to be taken now because deficits beyond 2011 have not been financed. Reductions in public expenditure and increases in taxes should not generally be undertaken when the economy is weak. Consequently, the proposal is that any changes to taxes and expenditure are phased in from 2011 onwards, a year in which economic growth is expected to become positive again. The Stabilisation Fund is being used to finance the deficits forecast in 2010 and 2011, which will prevent the need for cuts and/or tax increases in 2010 that could worsen the downturn and endanger more jobs.

Further, the States are putting £44 million into the economy in the form of a discretionary fiscal stimulus. This is being spent on a variety of schemes that support businesses so that fewer employees are laid off, or which support individuals who do not have jobs by providing training and helping them find new employment. A deficit in 2011 of £70 million is forecast, which is to be funded from the Stabilisation Fund. That means that, even with a 2% (£10 million) reduction in expenditure, the States would still be putting a net sum of around £60 million extra into the economy to support the recovery.

The Deputy asserts that 'spending cuts are the first and priority option'. The above comments demonstrate that, on the contrary, the first and priority option has been to support the economy, and indeed public services, through the most acute phases of the most serious economic downturn in recent years.

This is the backdrop against which the Comprehensive Spending Review has been established by the Council of Ministers. It is a backdrop of unprecedented financial turmoil which will require tough action and strong leadership if the Island is to continue to deliver the key services which Islanders rightly expect, in the most cost-effective way.

The public services provided in Jersey are vital and the Council of Ministers recognises this. However, reductions in public expenditure must be made to help bridge the deficit, and I believe that the public wants to see the States reduce its spending before paying more in taxes.

The Comprehensive Spending Review Process and Employment Issues

The 2% savings for 2011 is a starting point for the CSR total savings target of 10% over 3 years – this level of annual savings is well below the norm in many companies and other public sector organisations. It is also acknowledged that because of the imperative for early action, some of the 2% savings proposals may be different in nature to proposals for subsequent years. The 2012 and 2013 savings will need a more fundamental review as to how services are provided in the future which will be informed by the 6 major departmental reviews that are also being undertaken. The outcomes of the departments' considerations and these reviews will be finalised in September when the consultation from the Fiscal Strategy will also have been completed. The second part of the Business Plan, incorporating the 2012 and 2013 cash limits, will be debated in December in the full knowledge of the whole context of tax and spending.

The Deputy's report makes particular reference to the pay negotiations for the 2009-10 pay award and makes specific comment to the lack of any consultation with respective public sector representatives. This was raised by Deputy Southern in his previous Proposition P.142/2009; Vote of No Confidence: States Employment Board (SEB), and robustly refuted by comments presented at that time and attached as an Appendix to these comments. His proposition was debated and rejected by the States on 7th October 2009 by a majority of 35 votes to 11.

Whilst the Island and all major economies are facing very significant financial challenge, there is no doubt that the recent pay negotiations have been difficult and as all economies are faced with reducing the level of public expenditure, future pay negotiations will also be tough. However, whilst recognising these difficulties, virtually all pay groups have now accepted the 2 year offer of 2% for 2010 and 2011. Members are no doubt aware that in many European countries it has actually been necessary to reduce levels of pay or the number of staff employed. Whilst we do not need to match such measures, it is right that there should be a thorough review of terms and conditions of employment across the whole of the public sector workforce, and this is one of the six areas of review referred to above.

The Deputy's report also suggests that there was no consultation with staff representatives on the proposed Voluntary Redundancy funding package. This is not true. There was a meeting of all senior staff representatives on 3rd March 2010 when the Comprehensive Spending Review process was presented. At that meeting, Voluntary Redundancy (VR) was discussed and it was stated that the States Employment Board was about to consider the current terms for VR. On 30th March 2010, the Head of Employee Relations wrote to all of the senior staff representatives advising them that the SEB had agreed that the current terms of the VR scheme would remain in place for the remainder of 2010.

The current Proposition P.64/2010 requesting the States to approve a sum of £6 million to fund the VR scheme in 2010 and beyond is to enable departments to manage the delivery of their 2011 savings plans and to work with all staff affected by these cuts to manage the process properly. Prior to approving any VR application, a rigorous vacancy management procedure will be put in place to ensure that service levels are maintained and all other opportunities for re-training and deployment to other areas of the public service are fully explored before staff leave States employment.

Until the Council of Ministers had agreed its proposed savings plan for 2011, it was not possible to enter into meaningful dialogue with staff representatives as premature discussion about cuts which did not have the Council of Ministers' endorsement would have led to unnecessary concerns amongst sections of the workforce. Now that the Council of Ministers has agreed on the proposed level of savings for 2011, staff in all areas affected are being fully consulted.

The SEB recognises the need to open dialogue with staff side representatives. Although finalising the 2011 CSR programme to a position where discussion with the staff side could take place took longer than originally anticipated, departments are now discussing the proposed savings with respective staff side representatives. Looking forward to the 2012 and 2013 CSR savings proposals, it is essential that open and constructive dialogue is maintained as these savings will be achievable only through re-designing services. This re-design can succeed only if the people who are at the heart of delivery are engaged in the process from the outset.

Arrangements are in hand to establish a forum for open and constructive dialogue between all senior staff side representatives so that they can be fully involved in reviewing and re-designing services to ensure that standards are maintained wherever possible whilst every opportunity is also taken to deliver efficiency savings.

States Employment Board Handling of Suspensions

The SEB is well aware that there have been two high profile suspensions of senior officers within the States which has caused much anxiety amongst States Members and attracted adverse media publicity. Each case has been extremely complicated and both have involved very significant levels of external investigation; in one case a full trial had to run its course though the Court process.

It was as a result of these investigations that delays occurred, however, in the case referred to within Health and Social Services it is recognised that had they followed the recommended procedure, the length of time the Consultant was suspended from duty could have been reduced. At the time, the advice consistently received was that it was a medical matter and as such fell outside of the remit of the SEB.

The matter concerning the suspension and ongoing investigation of the Chief Officer of the States of Jersey Police has taken a long time to complete which is of concern. Under the disciplinary code for the Chief Officer it is entirely a matter for the Minister for Home Affairs to manage, as the Chief Officer is a States appointment under the Police Force (Jersey) Law 1974 and all matters relating to the Chief Officer are for the Minister to address. Accordingly the States Employment Board plays no part whatsoever in determining the conduct of this particular suspension.

The Deputy's report makes specific reference to the way in which the suspension process for the Chief Officer of Police was managed, suggests foul play and implicates the Chief Executive Officer. These comments have been made with no supporting evidence and have been refuted. To address these accusations and provide certainty for all concerned, the Chief Minister has appointed an eminent QC who specialises in employment law matters to undertake a full review of the process and report on his findings. This report is in the process of being finalised and as soon as it is available, the general findings will be published.

The SEB's role has recently been strengthened by the addition of two new non ministerial States Members. The Board takes its role very seriously in terms of setting overall policy and direction for the employment of all States employees. The SEB is keen to reaffirm its position in terms of building and maintaining a strong working relationship with the unions to meet the many challenges facing the Island in the future, in order to ensure that the public sector continues to deliver appropriate service levels as effectively and efficiently as possible.

Summary

Members should be aware of the overarching policies of the States Strategic Plan to address as a priority the States' response to the economic downturn, balanced alongside securing the long term future of the Island and its people. As Chief Minister I am proud to be leading a team of Ministers determined to achieve these objectives.

Recently the States Employment Board has addressed a legacy of complex and long standing issues. Ministers are determined that the SEB, in its new and revised form, will continue to work with, and support, public sector employees to ensure that we can provide efficient and effective public services valued by the community.

Members will be acutely aware that we live in difficult economic times – not only here in Jersey but also across the world. Difficult times make for difficult, and tough, decisions.

In order to ensure the sustainability of the Island's financial future we have three simple choices –

- to reduce States expenditure;
- to increase taxation – both on businesses and individuals;
- or, a combination of both measures.

Whilst the Council of Ministers appreciates that reductions in States expenditure will inevitably cause some disquiet, it is convinced that the majority of the people of Jersey want to see the States reduce expenditure to ensure that it has a productive and efficient public service **before** any consideration of increasing taxation in the Island, although some increase will inevitably be necessary. That is one of the main purposes of the Comprehensive Spending Review.

Ministers have my total support in taking the necessary tough decisions on States expenditure, which may not be well received in the short term, but which are essential to maintaining the Island's success and the quality of life of our people in the longer term.

Members are urged emphatically to reject this Proposition, and allow the Council of Ministers to continue with its work in these challenging times and throughout the remainder of its term of office to deliver agreed States policies.

APPENDIX

The matter of how the negotiations were undertaken was clearly set out in the Comments to P.142/2009 from the Chief Minister and the relevant section is reproduced below –

> "***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.*"

A copy of Annex B is also attached to these Comments.

Annex B from P.142/2009 Comments

"ANNEX B

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."*