STATES OF JERSEY

MEDIUM TERM FINANCIAL PLAN 2013 – 2015 (P.69/2012): FIFTH AMENDMENT

Lodged au Greffe on 23rd October 2012
by Deputy G.P. Southern of St. Helier

STATES GREFFE

1 PAGE 2, PARAGRAPH (b) –

After the words "as set out in Summary Table A" insert the words –

> "except that the total amount of States net revenue expenditure shall be increased by £10,700,000 in 2013, £8,700,000 in 2014 and £8,700,000 in 2015 to provide additional funding for public sector pay awards".

2 PAGE 2, PARAGRAPH (c)(ii) –

After the words "Summary Table C" insert the words –

> "except that the allocation for Contingency (Pay Provision) shall be increased by £10,700,000 in 2013, £8,700,000 in 2014 and £8,700,000 in 2015 to provide additional funding for public sector pay awards".

DEPUTY G.P. SOUTHERN OF ST. HELIER

REPORT

There can be no doubt that public sector workers' pay has been seriously affected by the response of the government to the recession. The pay freeze in 2009 was followed by 2 further years of below-inflation pay awards in 2010 and 2011. Public sector pay has fallen behind both the cost of living (RPI) and private sector earnings by large margins, as the following tables illustrate –

Table 1 – Public Sector pay awards 2008 – 2012: Teachers

	2008	2009	2010	2011	2012	Total
Pay rise %	3.5	0.0	2.0	2.0	0.79 u/c	8.5
RPI %	6.4	-0.6	2.1	5.4	3.0	17.2
AEI % private	4.2	3.3	1.1	2.2	1.8	13.2

Table 2 – Average Earnings Index (AEI)

Year	2008	2009	2010	2011	2012	Total
Public sector %	4.9	1.0	1.1	3.9	0.3	11.6
Private sector %	4.2	3.3	1.1	2.2	1.8	13.2
Finance sector %	4.6	3.5	1.0	2.4	2.1	14.3

The Index of Average Earnings measures changes in average earnings (gross wages and salaries) that have occurred, and been paid, to workers in Jersey. It includes overtime payments, but excludes bonuses.

The Minister for Treasury and Resources made much play in the 2012 Business Plan and Budget of getting the States of Jersey finances back into balance by 2013, the first year of the new Medium Term Financial Plan. He has striven manfully to do so. Indeed, in accepting the challenge to cut £65 million from States' expenditure, he took on a very demanding target.

He, along with all Ministers, will say that he has done so without cuts in front-line services. This is not the place to expose that particular canard to the cold light of day. However, it is the place to explore the Minister's claim to have *almost* met his expenditure targets. Apart from a little difficulty with delivering the Education Department's contribution to spending cuts, the Minister is proud to have delivered a "return to balanced budgets".

However, he has done so by ignoring "the elephant in the room" that is the ongoing dispute over public sector pay awards.

On the surface, summary Table A shows surpluses, albeit tiny, and well within any reasonable margins of error, for all years of the MTFP. These surpluses are of course illusions, based as they are on a set of assumptions on outcomes over which the Minister has no control, and are dependent on the results of free and open negotiations with the other parties concerned. The assumptions are that the States Employment

Board can impose a near wage freeze on its employees and expect them not to react and to wait until 2014 for some inadequate recompense.

This proposal asks Ministers to take a dose of harsh reality in looking at the numbers in the plan. No agreement has yet been arrived at over the pay awards between the public sector and the States Employment Board for 2012 and 2013. There has only been, so far, a “failure to agree” which has the potential to escalate into a “dispute”.

The figures presented to the States, presented on page 47 of the MTFP in Fig. 7, States Expenditure Limits, assume that agreement has been reached and can be relied on to form the basis of future spending. Nothing could be further from the truth.

	2012 £,000	**2013 £,000**	**2014 £,000**	**2015 £,000**
Existing Base Pay Provision	7,000	14,372	23,059	32,351
Corporate Terms and Conditions Savings	(7,000)	(14,000)	(14,000)	(14,000)
Net Existing Pay Provision	–	372	9,059	18,351
July 2012 – Employer Pay Offer				
– Non Consolidated Pay Offer 2012 and 2013 (July 2012)	2,600	2,600	–	–
– Consolidated 1% Pay Offer 2013 (July 2012)	–	3,300	3,300	3,300
– Consolidated 4% Pay Offer 2014 (July 2012)	–	–	13,300	13,300
– Consolidated 2.5% Pay Offer 2015 (July 2012)	–	–	–	8,700
	2,600	5,900	16,600	25,300
Estimated Pay Award – Doctors and Consultants	–	–	400	400
Less: Existing Base Pay Provision	–	372	9,059	18,351
Additional Pay Provision Required	2,600	5,528	7,941	7,349
Forecast Surplus/(deficit)	(7,154)	707	59	198

Very few of the figures elsewhere in the MTFP are so speculative. Achieving the £65 million of CSR savings has become dependent on a establishing a (near) pay freeze for public sector workers, or delivering savings of £7 million on terms and conditions across the public sector in 2012 and 2013.

The “existing base pay provision” of £7 million amounts to a 2% pay offer to the public sector in 2012. This was to be repeated for 2013. This was the understanding of public sector representatives involved in pay negotiations prior to 2012. Before this came to the negotiations table, however, it was made dependent on the delivery of £7 million of savings on terms and conditions. These savings could not be delivered in 2012, with the result that this meant that savings would have to come from the salary bill of the public sector.

No progress has been made with these changes whatsoever. No serious negotiations have been held over such changes. In fact, no concrete proposals have been laid before public sector representatives.

We are told that the company ATOS has been engaged as consultants to lead us through this restructuring process. This is the company that has caused such distress to the UK disabled population with its delivery of fitness to work assessments with its woeful inaccuracy and expensive numbers of appeals it has generated. This is also the company that almost closed down UK borders when its computer system failed to deliver adequately. I have little confidence that it will deliver changes to the delivery of public services that will be readily acceptable to public sector employees. In any case, it looks extremely unlikely that any changes can be implemented before 2014.

It is noted that provision for pay awards is heavily end-loaded with 4% factored in for 2014 and 2.5% for 2015 to match the target RPI figure. It is notable that even this apparently generous offer leaves employees falling behind inflation over the 4 year period, and this assumes that inflation, over which the government has very little control, can be kept to 2.5%. Already, we have been warned that both food and fuel prices are due to rise steeply in 2013.

The end-loading is, one supposes, meant to coincide with higher growth rates as we clamber out of recession, but both the FPP and the Chamber of Commerce have cast doubt on the growth estimates. Indeed, the FPP have urged us to bring forward some spending to stimulate the economy sooner rather than later. This proposition does so. Having withdrawn provision for public sector pay rises in 2009and 2012 and 13, what is to stop the Council of Ministers withdrawing the 4% in 2014 if circumstances suggest it?

As can be seen in Table 3, the current offer leaves public sector workers further behind RPI by 2015.

Table 3 – Public Sector: current offer

Year	**2012**	**2013**	**2014**	**2015**	**Total**
Pay rise %	0.79 u/c	0.79 u/c	4.0	2.5	8.3
RPI %	3.0	2.5	2.5	2.5	10.9

Proposed offer %	1.0	4.0	2.5	2.5	10.4

u/c = unconsolidated, non-pensionable, one-off payments

The approach taken to pay negotiations in 2012 and 2013 has been deeply resented by public sector workers. At least one sector will shortly be balloting on action. I expect that other sectors will follow. If the stance taken by the Council of Ministers on pay and conditions for the public sector is allowed to continue, I believe we are in for a prolonged and intense period of unrest which will put at risk the Island's reputation for stability. The reality is that we cannot afford to ignore the consequences of our actions. Nor can we stir up unwanted and damaging strife for the sake of a balanced budget.

Table 4 – New provision

	2012	2013	2014	2015
Pay 2012: 1% consolidated	3,300	3,300	3,300	3,300
Pay 2013: 4% consolidated	–	13,300	13,300	13,300
Pay 2014: 2.5% consolidated	–	–	8,700	8,700
Pay 2015: 2.5% consolidated	–	–	–	8,700
Additional pay required	700	10,700	8,700	8,700
In percentage terms	1%	4%	2.5%	2.5%
Forecast Surplus/(deficit)	(7,854)	(9,993)	(8,641)	(8,502)

This proposal removes all consideration of any unconsolidated pay awards. These are simply the equivalent of one-off cash payments which are non-pensionable and are removed after one year or two. They are, to put it briefly, an insult. It also makes the provision more front-loaded, bringing forward the 4% provision from 2014 to 2013. This has the effect of putting the MTFP into deficit in 2013 and in subsequent years, as shown in Table 4. It does, however, mean that pay offers have some chance of matching inflation, which just might be acceptable to public sector workers. It may also prevent large-scale industrial unrest, damage to the economy, to our international reputation and consequent damage to industrial relations for years to come.

Financial and manpower implications

The financial impacts are as laid out in the proposition and report. There are no manpower implications.