STATES OF JERSEY

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

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

STATES GREFFE

COMMENTS

Deputy G.P. Southern of St. Helier proposes that –

- the net revenue expenditure of the Education Department shall be increased in 2018 by £240,000 and in 2019 by £480,000 by not pre-empting through a States' decision the proposed review of terms and conditions for teachers and the total proposed contingency allocation shall be reduced by £240,000 in 2018 and £480,000 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 is proposing significant investment in Education over the period of the MTFP, amounting to almost £11 million per year by 2019.

- The MTFP also proposes £55 million investment in schools at Les Quennevais, Grainville and St. Mary.

- This investment is made possible by the reprioritisation of resources to States' strategic priorities and also means that all departments, including Health and Education, must contribute to the savings required.

- The Minister for Education does not support this Amendment.
    - Newly qualified teachers ("NQTs") starting work in Jersey currently earn up to £16,000 or 70% more than their counterparts in the U.K.
    - However, the measures only proposes an average £8,000 reduction.
    - It would not affect existing teachers and only apply to teachers recruited from 2018.
    - There is currently an over-supply of new teachers at primary level in Jersey, indicating that there is no longer a need for such a large financial incentive in this sector.
    - The Education Department needs greater flexibility to react to market forces in teacher recruitment and the savings proposal will provide this. If the proposed savings initiative goes ahead, funds can be diverted to offer enhanced pay in shortage subjects.
    - The Education Department is clear that the proposal to reduce NQT starting salaries does not pre-empt the important negotiating process.

- The Council of Ministers cannot support reducing Central Contingencies for the purpose of this Amendment.

- Contingencies provide the essential flexibility within the MTFP to react to future uncertainties, changes in economic and financial outlook and associated expenditure pressures, and importantly the scale of change and reform that is needed.

Detailed Comments

Newly qualified teachers ("NQTs") starting work in Jersey currently earn up to £16,000 more than their counterparts in the U.K. The proposed changes to starting salaries would –

(a) narrow the gap by up to £8,000 for areas where there is no teacher shortage, e.g. in primary schools;

(b) free up funds and provide the flexibility for the Education Department to offer financial incentives to attract teachers in shortage subjects such as mathematics, particularly at secondary level.

<u>Starting salaries of Newly Qualified Teachers</u>

Jersey MPS3	£38,296	From January 2016
Jersey MPS1	£33,900	
Inner London	£27,819	NASUWT figures for academic year to August 2016
England and Wales	£22,244	

All NQTs hired in States schools during the past 4 years have started their careers on the third level of the Main Professional Scale ("MPS3"). This is because the applicants have qualified with an honours degree.

There is no plan to reduce Jersey NQT starting salaries to the England and Wales level. The extent of the change has been misrepresented by some. The proposed adjustment in the starting wage would bring the Jersey more in line with inner-London, but still retain a premium for coming to the Island.

In order to achieve a saving of £8,000 per NQT, the salary would be lowered to £30,296, which is still 9% higher than the rate for teachers in inner-London and 36% higher than the average for maintained schools in England and Wales.

It is important to emphasize that the proposal would be subject to the full, formal negotiating process and, if approved, would not commence before 2018. Also, the change would only apply to staff joining the service in future. It would not be retrospective and would not affect any teacher already employed in States schools. This means the impact on the workforce is kept to a minimum.

The proposal is based on an initial benchmarking of the starting salary and progression of Jersey in comparison to the U.K. The benchmarking recognised that it is more expensive to live in Jersey than in the U.K., particularly with regard to housing costs. However, the comparative financial position is affected by other factors including the respective tax regimes –

- Jersey GST of 5% compared to the U.K. VAT of 20%
- Jersey income tax of 20% (or 13% due to the marginal rate) compared to U.K. income tax of 25% to 40%.

In addition, there are Jersey factors that continue to make the Island attractive as a career destination for teachers; the term is shorter, at 190 days compared to 195 days in the U.K., the school day is generally shorter, Jersey class sizes are comparable (and lower in primary schools), the majority of school buildings are of a high quality and the social environment is good, particularly when compared to inner cities.

There is currently an over-supply of new primary school teachers in Jersey, which suggests that there is no longer a need for a large financial incentive in this sector. However, Jersey schools do need to attract more specialist teachers at secondary level, and they have to compete with U.K. schools and academies to do so. The Education Department needs greater flexibility to react to market forces in teacher recruitment, and the proposal will provide this. If it goes ahead, funds saved can be diverted to offer enhanced pay in shortage subjects. Having the best qualified teachers in G.C.S.E. and A-level subjects ultimately benefits students and is a significant factor in raising standards.

This increased flexibility would sit alongside other recruitment initiatives, including the Jersey Graduate Teacher Training Programme, improved advertising and direct contact with graduates in specific U.K. universities. Four science teachers have recently been recruited from Newcastle University and are now working in Jersey schools.

There is also the issue of financial incentives in the Jersey pay-scale. A high starting salary means there is a relatively small pay increase for taking on extra responsibilities, and as a result teachers have been reluctant to seek promotion. A greater differential will make progression more attractive.

The proposal to reduce NQT starting salaries does not seek to pre-empt the negotiating process. It gives advance notice of government's intention to reduce school salary costs without affecting the existing workforce. The Minister for Education does not support this Amendment.

<u>Proposed use of Contingency</u>

The Deputy's proposal would reduce the allocation to Central Contingency expenditure by £240,000 and £480,000 in 2018 and 2019 respectively. The same arguments apply as for all other proposals to reduce Contingency:

<u>Contingency Provisions</u>

- Although the provision for Contingency spending may appear significant, it is very clear from the MTFP Addition Report (Section 8) that this includes a number of specific allocations.
- The provision for the actual annual contingency is only £7 million, made up of –
    - £5 million or 1% for total States general department expenditure, and
    - £2 million or 2% for Social Security benefits.
- The rest of the money allocated for Contingency is specifically for –
    - pay, workforce modernisation, and pensions proposals
    - restructuring projects and redundancy funding to support Public Sector reform and deliver the planned savings in this MTFP period and beyond
    - economic and productivity growth initiatives
    - important initiatives to support vulnerable children.
- These additional provisions for restructuring and redundancy, economic and productivity growth and initiatives to supporting vulnerable children are proposed as part of the Contingency Expenditure Allocation, only to provide appropriate governance and control over the allocation of this funding.

Principles of Contingencies

- The £7 million annual Contingencies provide an important part of the flexibility within the MTFP.
- They are to enable departments to respond to unforeseen and unexpected one-off events.
- A fundamental principle of Contingencies is that they should not be used to fund recurring spending, but only to provide temporary funding until a permanent re-allocation of funding is agreed.
- The annual Contingencies also provide an important buffer for more volatile areas of spending, such as social security benefits. These areas, termed annually managed expenditure ("AME"), are extremely difficult for departments to forecast, so central contingencies are provided in addition to those held in departments.
- Allocation of all contingency funding is closely managed through approval by the Council of Ministers and Minister for Treasury and Resources. All allocations follow tight governance processes.
- Adequate annual contingency provisions are an important part of the overall flexibility in the MTFP to –
    - help deal with the scale of change and reform that is needed, and
    - react to the uncertainties and changes in economic and financial outlook and associated expenditure pressures.
- The Fiscal Policy Panel has emphasized in its Annual Report the importance of flexibility in the MTFP Addition to deal with uncertainties in the economic and financial outlook. These expert economists have encouraged the States to maintain that flexibility.
- The Amendments that propose to take funds from Contingencies are not all large reductions individually, but taken together could remove a significant and recurring sum from Contingencies over the period of the MTFP Addition.

Financial implications

The Education Department's net revenue expenditure would increase by £240,000 in 2018 and £480,000 in 2019, and the Contingency funding would be reduced by the same amount in each of those years.

Taken alone, this Amendment may not seem substantial, but in itself removes nearly 10% of annual Contingencies in 2019, and together with similar proposed Amendments, the impact on central Contingency would be significant.

This would leave department expenditure and social security benefits and the services they fund at risk during the MTFP period, or could also mean that progress on restructuring, public sector reform, economic and productivity initiatives and the important initiatives to support vulnerable children are not possible.

Funding recurring expenditure from Contingency now will also add to the solutions required to balance budgets in the next MTFP.

There would be no manpower 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.