

STATES OF JERSEY



MEDIUM TERM FINANCIAL PLAN 2013 – 2015 (P.69/2012): FIFTH AMENDMENT (P.69/2012 Amd.(5)) – COMMENTS

**Presented to the States on 2nd November 2012
by the Council of Ministers**

STATES GREFFE

COMMENTS

Deputy G.P. Southern of St. Helier is proposing to increase net revenue expenditure 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. The financial implications are that the proposed Amendment would result in deficits of £9,993,000, £8,641,000 and £8,502,000 in 2013, 2014 and 2015 respectively. The proposed Amendment would also cause a significant reduction in the available Consolidated Fund balance in 2013 to £9,017,000. By 2014 the Consolidated Fund would be overdrawn by £7,837,000, and in 2015 the Consolidated Fund would be overdrawn by £18,624,000.

The Council of Ministers considers that Deputy Southern's proposal comes at a time when negotiations with public sector pay groups have not been concluded. Whilst the Council of Ministers acknowledges that it is important to ensure that States employees are rewarded fairly, this proposal is unaffordable and does not reflect the wider economic climate in Western Europe and the extensive public sector pay restraint shown in the UK.

On this basis, the Council of Ministers opposes this amendment.

Council of Ministers' Comment

Background

Detailed negotiations have been taking place between the Employer and the full range of public sector pay groups since March 2012. The initial offer was 0% in 2012, 0% in 2013 and 2.5% in 2014, which reflects the pressures on the public purse. Each pay group submitted their own claim, with an average of 5.4%, which reflected the RPI.

Elsewhere in the Island, economy pay settlements have been between 2–3%, often after significant restructuring. In particular, we have seen job losses, the loss of significant employers from the Low Value Consignment Relief (LVCR) sector, and some negotiated pay reductions. Many companies have had to make tough decisions over the last few years and this has included reducing staff numbers. By doing this, they have ensured that they can continue to operate and reward those that have remained in their businesses. This will be reflected in the pay awards that they are able to give.

Our local economy has seen –

- Job losses and a general lack of job security (such as in HSBC). The Jersey economy has seen unprecedented levels of unemployment this year, and it is cavalier in the extreme to recommend such an increase employment costs in an economic climate which remains uncertain;
- Business closures (such as AIB and Condor logistics);
- Pay reductions (such as Granite products); and
- The withdrawal of LVCR (Play.com etc.).

From March to date there have been extensive negotiations, both collectively and singly, with pay groups, during which the Employer has moved its position to culminate in the Employer's final offer for a 3 year pay settlement –

- 1% (of basic pay) non-consolidated for 2012;
- 1% (of basic pay) non-consolidated and 1% (of the pay bill) consolidated for 2013;
- 4% (of the pay bill) consolidated for 2014;
- No compulsory redundancies for the duration of the proposed agreement.

The 3 year agreement was centred on each pay group entering into workforce and reward modernisation discussions relevant to their arrangements, to provide the enabling conditions to support public sector reform. In doing so, we have made clear commitments to ensure job security where necessary and appropriate, which we believe has a value to our employees.

The Police Association settled with the Employer in July 2012 on the above basis.

Deputy Southern's proposed amendment will cost an extra £28 million in excess of the Medium Term Financial Plan over the next 3 years.

In the vast majority of cases, pay groups have not substantially moved from their opening position, and indeed some negotiators – both staff and manual – have expressed the view that the Employer can afford their pay claims and that employees have a right to a cost-of-living increase because Jersey has a reasonable fiscal position based on its lack of debt. They view the failure of the employer to offer a cost of living style award as a direct result of political choice, not one of affordability.

There is little or no recognition of the wider economic climate in Western Europe, such as extensive public sector pay restraint in the UK, significant public sector pay reductions in Italy, Spain, Portugal and Greece, and the loss of public sector jobs across these jurisdictions.

There is also little or no recognition of the difficult long-term economic climate evident during the period 2012 – 15.

Other key points regarding Deputy Southern's Proposition

1. Deputy Southern's choice of statistics is selective. The **Appendix** to these comments illustrates the pay award history for the States of Jersey as a whole from 2000 to date, and also shown is the RPI and AEI for the same period. This demonstrates that the Employer has maintained, whilst it was affordable, pay parity for the public sector with the cost of living during the period.
2. The 1% consolidated award in 2013 will mean that £3.3 million of the £14 million Terms and Conditions proposed saving will not be delivered by the end of 2013. Any breach of the final offer will further widen this gap and have a significant and consequential impact on future cash-flow. It may be that one outcome would be a reduction in heads to provide for the equivalent savings with the obvious impact on services.
3. The work on negotiating changes to Terms and Conditions referred to by Deputy Southern has been incorporated into the wider workforce modernisation programme which the Employer's final offer is designed to facilitate. The States Employment Board has consistently stated that it wishes

to work with all pay groups and employee representatives in partnership to jointly design the future workforce for the States of Jersey. Such work, in addition to terms and conditions of service, will cover reward frameworks designed to ensure equal pay for work of equal value, job evaluation, HR policies and processes, etc., to ensure a public service which is sustainable, flexible and has the capacity to provide the services the Island needs in the foreseeable future. In doing so, we are seeking to move away from a traditional adversarial negotiating model to one where we create with our workforce a transparent approach to the future working environment.

4. Deputy Southern has challenged the assumptions in the Medium Term Financial Plan with regard to growth; these have been seen as realistic by the Fiscal Panel. He suggests that the Employer may choose to withdraw the 2014 segment of the pay award if economic conditions either do not improve or further deteriorate. He has not recognised that pay awards when agreed by pay groups, are legal agreements of which the Employer would be in breach if they were withdrawn. The circumstances he highlights when changes were made were budgeted positions not a legal agreement.
5. Deputy Southern's proposal as highlighted in Table 4 of his document is unaffordable (as costed in the **Appendix** to these comments) as he accepts, since it places the Medium Term Financial Plan in deficit, which is in breach of the legal obligation of the Minister for Treasury and Resources to bring forward a balanced budget. The presumption is that Deputy Southern expects a balancing reduction elsewhere in the Medium Term Financial Plan, with a consequent impact on services.
6. In his proposition, the Deputy refers to the fact that the current negotiations are not concluded and this creates uncertainty in the salary estimates contained within the Medium Term Financial Plan. As the Deputy and Members must appreciate, it is the responsibility of the States Employment Board to determine the pay negotiations, which often can be lengthy. Such negotiations should not be conducted in the Assembly, and the Medium Term Financial Plan has to contain an estimate that reflects the best information at the point of lodging. In this case, the Medium Term Financial Plan reflects the Employer's final offer. Although pay group representatives have yet to complete their consultation with staff, progress is being made, and there is no current information to suggest that employees will not recognise the reasons for the offer and be willing to wait until 2014 for the 4%.
7. It is imprudent not to recognise the threat of industrial action to which he alludes, indeed the Employer understands that some pay groups might ballot their members on such action. However, the Employer has made a fair offer which many other Islanders, in particular those not in the public sector, will see as not only reasonable but possibly generous especially when linked to a no compulsory redundancy guarantee.

The simple truth is that the States cannot afford to add £10.7 million to its wage bill for 2013, with 2014 and 2015 increasing by £8.7 million. This will result in a deficit in all 3 years and leave a negative balance in the consolidated fund for 2014 onwards.

Council of Ministers' Key Themes

Key Theme – Balanced Budgets

The States endorsed a 3 part plan to address the deficits which were forecast from the move to a zero/ten tax regime and the impact of the economic downturn. The 2012 Business Plan presented proposals for a balanced budget from 2013, and this has been the basis for the States Strategic Plan and Council of Ministers' proposals for the Medium Term Financial Plan.

This 3 part plan is delivered and is working –

1. Savings have been removed from budgets to deliver over £61 million by 2016,
2. Economic growth has been boosted by a fiscal stimulus package, and
3. Taxes have been raised where necessary to close the remaining gap.

The Medium Term Financial Plan proposes balanced budgets in 2013 through to 2015, and the Council of Ministers is proposing a number of budget reductions and other measures over the next 3 years to ensure that these balanced budgets can be maintained while providing the necessary resources to deliver the agreed Strategic Priorities.

It is important to keep public sector spending under control so that the Island can remain competitive with relatively low levels of inflation. If the States is to provide sustainable services to the public, it is fundamental that we take account of the economic outlook, be prudent in our spending plans, ensure that savings and efficiencies are implemented and not increase public spending unless it is matched by savings or additional income.

It is also important that the States endorse the proposals for balanced budgets and do not dilute the tough decisions that have been taken so far on tax and spending by accepting amendments that would not result in balanced budgets.

Balanced budgets are essential to provide certain, stability and confidence in the Island to be able to deal with uncertainty, enable the Island to be competitive internationally and be in a position to take advantage of global economic growth when it returns.

Key Themes – Affordability and Sustainability

The States Strategic Plan approved 7 resource principles to ensure that the States maintain balanced budgets, but also so that public services remain affordable and sustainable over the medium term and longer term.

These resource principles are –

1. *Be prudent, taking account of the uncertain economic and financial outlook.*
2. *Identify and implement all possible savings and efficiencies. (For 2013 and beyond we will optimize methods of service delivery and provide value for money.)*
3. *No additional spend unless matched by savings or income.*

4. *The Stabilisation Fund will only be used during an economic downturn, as advised by the Fiscal Policy Panel, to fund the effects of reductions in States revenues or increased demand for States services, and to provide appropriate stimulus to the economy.*
5. *Maintain balanced budgets over the medium term for current expenditure and achieve an appropriate balance between taxation and spending over the course of the economic cycle.*
6. *Actively manage the Balance Sheet as well as the Budget by maximising investment returns within agreed levels of risk.*
7. *Plan our expenditure on capital and infrastructure over the long term and consider carefully the appropriate sources of funding for major projects, including borrowing.*

The Medium Term Financial Plan is an important next step in Jersey's sustainable long-term planning and will provide a foundation for our future. Developing medium and long-term financial plans to deal with taxation and funding strategies for long-term capital and revenue expenditure is vital in meeting the challenges of the economic downturn and the ageing population. The Medium Term Financial Plan will ensure that we have the financial ability to achieve the goals of the Strategic Plan over the next 3 years.

These principles should be borne in mind when considering each amendment. Any amendment that increases total spending or reduces income will worsen the financial position, potentially meaning that the States doesn't have balanced budgets and also that less funds are available in the Consolidated Fund to address future priorities.

Financial and manpower implications

The financial implications are that the proposed Amendment would result in deficits of £9,993,000, £8,641,000 and £8,502,000 in 2013, 2014 and 2015 respectively. The proposed Amendment would also cause a significant reduction in the available Consolidated Fund balance in 2013 to £9,017,000. By 2014 the Consolidated Fund would be overdrawn by £7,837,000, and in 2015 the Consolidated Fund would be overdrawn by £18,624,000.

The Public Finances (Jersey) Law 2005 requires the Council of Ministers to bring forward proposals at any point that it envisages the Consolidated Fund would be overdrawn.

1. Data analysis demonstrating the impact of past pay revisions, the current offer and Deputy GP Southern's proposal compared with Jersey RPI and UK Public Sector figures using a salary £20,000 as an example baseline.

STATES OF JERSEY - Average Pay Group Award				Jersey Retail Price Index	
Date of Award	AVERAGE PAY GROUP AWARD	Example Base line	Total received	RPI Date	RPI
	Pay Awards (Con)	£20,000	£30,000		
01/06/2000	5.50%	£21,100	£21,100	March 2000	4.60%
01/06/2001	4.00%	£21,944	£21,944	March 2001	4.00%
01/06/2002	4.50%	£22,931	£22,931	March 2002	4.00%
01/06/2003	5.15%	£24,112	£24,112	March 2003	4.90%
01/06/2004	2.57%	£24,732	£24,732	March 2004	3.70%
01/06/2005	3.50%	£25,598	£25,598	March 2005	4.50%
01/06/2006	2.71%	£26,291	£26,291	March 2006	2.40%
01/06/2007	4.40%	£27,448	£27,448	March 2007	4.40%
01/06/2008	3.20%	£28,327	£28,327	March 2008	3.20%
01/06/2009	0.00%	£28,327	£28,327	March 2009	2.10%
01/01/2010	2.00%	£28,893	£28,893	Sept 2009	-0.60%
01/01/2011	2.00%	£29,471	£29,471	Sept 2010	2.10%
2011	Over RPI %	£66			
		0.23%			
UK Public Sector - Median (IDS data)					
Date	Approx Median	Pay if Matched RPI			
2000		£21,944			
2001		£22,778			
2002	3.80%	£23,632			
2003	3.75%	£24,459			
2004	3.50%	£25,193			
2005	3.00%	£25,949			
2006	3.00%	£26,727			
2007	3.00%	£27,529			
2008	3.00%	£28,355			
2009	3.00%	£28,922			
2010	2.00%	£29,067			
2011	0.50%				
2011	Over UK public sector %	£404			
		1.39%			
UK Public Sector					
2012	0.00%	£29,067			
2013*	2.50%	£29,793			
2014*	2.50%	£30,538			
2014	Over UK public sector %	£418			
		1.37%			
Deputy GP Southern's Proposal					
01/01/2012	1.00%	£29,766	£29,766	Sept 2011	5.40%
01/01/2013	4.00%	£30,956	£30,956	Sept 2012*	2.50%
01/01/2014	2.50%	£31,730	£31,730	Sept 2013*	2.50%
2014	Under RPI %	-£1,605			
		-5.19%			
Jersey RPI					
01/01/2012	0.00%	£29,471	£29,766	Sept 2011	5.40%
01/01/2013	1.00%	£29,766	£30,063	Sept 2012*	2.50%
01/01/2014	4.00%	£30,956	£30,956	Sept 2013*	2.50%
2014	Under RPI %	-£1,605			
		-5.19%			
Deputy GP Southern's Proposal					
01/01/2012	1.00%	£29,766	£29,766	Sept 2011	5.40%
01/01/2013	4.00%	£30,956	£30,956	Sept 2012*	2.50%
01/01/2014	2.50%	£31,730	£31,730	Sept 2013*	2.50%
2014	Under RPI %	-£831			
		-2.62%			

* figure not known (2.5% used as a constant estimate)

2. A comparison of the Jersey Private and Public Sector Average Earnings Index

Average Earnings Index (Private sector)			Average Earnings Index (Public sector)		
Date	AEI	Pay if Matched AEI	Date	AEI	Pay if Matched AEI
		£20,000			£20,000
2000	6.40%	£21,280	2000	1.10%	£20,220
2001	7.20%	£22,812	2001	11.40%	£22,525
2002	5.30%	£24,021	2002	-2.40%	£21,984
2003	3.90%	£24,958	2003	8.30%	£23,809
2004	3.60%	£25,857	2004	2.10%	£24,309
2005	5.00%	£27,149	2005	6.90%	£25,987
2006	3.40%	£28,072	2006	2.50%	£26,636
2007	4.30%	£29,280	2007	6.70%	£28,421
2008	4.20%	£30,509	2008	4.90%	£29,813
2009	3.30%	£31,516	2009	1.00%	£30,112
2010	1.10%	£31,863	2010	1.10%	£30,443
2011	2.20%	£32,564	2011	3.90%	£31,630
2011	AEI private sector above AEI public sector by				£934
				%	2.95%

Notes:

Comparison of the average earnings in the public and private sectors is made more complex by the periodic lag in implementation of pay awards for some pay groups as well as the historic 2 year nature of pay negotiations and awards seen in the States of Jersey (this is particularly highlighted by the -2.40% in 2002). Nevertheless, it is informative to compare the rates of increase of earnings in the sectors over periods of several years in order to smooth out the effects of such factors –

- since June 2000, average earnings in the public sector have increased by 57%; over the same period, earnings in the private sector increased by 56%;
- since June 2007, the public and private sectors have seen similar overall increases in average earnings, 12% and 13% respectively.

N.B. The AEI should be used with caution when quoted in reference to determining pay awards because these figures represent outcomes often derived from RPI and inclusive of overtime payments which could be seen as inflationary.

3. The estimated costs of the current pay offer compared to the proposed offer by Deputy Southern

	2012	2013	2014	2015
	£'000	£'000	£'000	£'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
Deputy Southern proposals				
Deputy Southern proposals				
- Consolidated 1% Pay Offer 2012 (July 2012)	3,300	3,300	3,300	3,300
- Consolidated 4% Pay Offer 2013 (July 2012)	-	13,300	13,300	13,300
- Consolidated 2.5% Pay Offer 2014 (July 2012)	-	-	8,700	8,700
- Consolidated 2.5% Pay Offer 2015 (July 2012)	-	-	-	8,700
	3,300	16,600	25,300	34,000
Estimated Pay Award - Doctors and Consultants	-	-	400	400
Less: Existing Base Pay Provision	-	372	9,059	18,351
Additional Pay Provision Required	3,300	16,228	16,641	16,049
Impact of Deputy Southern proposals				
Impact of Deputy Southern proposals				
Increased Pay Provision required	700	10,700	8,700	8,700

Additional Pay Provision required over MTFP period = £28.1 million.