STATES OF JERSEY

OUTSOURCING

Lodged au Greffe on 18th March 2016
by Deputy G.P. Southern of St. Helier

STATES GREFFE

PROPOSITION

THE STATES are asked to decide whether they are of opinion −

to request the Council of Ministers to bring any scheme to cease, reduce or outsource any public service for which a Minister is responsible to the States for approval, accompanied by the full analysis of the business, social and economic case, whenever the scheme involves the compulsory redundancy of 12 or more employees.

DEPUTY G.P. SOUTHERN OF ST. HELIER

REPORT

I begin this report with a reminder to members that what is approved when a proposition is passed by the States is the wording of the proposition alone, and not the words of the report that accompanies the proposition. In the case of the Medium Term Financial Plan, P.72/2015 (MTFP), which is included in the **Appendix** to this report, what was approved was a set of figures contained in Summary Tables A to J.

The Minister for Infrastructure, however, is convinced that the States, in endorsing the spending limits in the MTFP have endorsed, not only the principles of outsourcing, but also implicitly the design and reach of any scheme that a Minister might devise which has outsourcing as its aim. Thus, earlier this year, the Minister, in answer to the Connétable of St. John –

> "***The Connétable of St. John:***
> *The question was: will you come back to this Assembly before outsourcing projects rather than individuals being laid off or whatever? The principle of outsourcing, will it come back to this Assembly or not?*
>
> ***Deputy E.J. Noel:***
> *We are here to provide public services to the Island in the most efficient way****. It does not need for any department to come back to this Assembly if they decide to outsource those services*** *and provide those services to the public in a more efficient and less expensive way than they are currently doing now.*
>
> ***The Connétable of St. John:***
> *I take it as an answer, no.*"

Even if the Minister were correct in his assumption that endorsement of P.72/2015 meant endorsement of any scheme involving compulsory redundancy, he should be aware that the words "outsource" and "outsourcing" appear nowhere in the report, and that the words "redundancy" and its plural appear only 21 times, each time either in relation to "voluntary redundancy" or referring to "reducing the need for" compulsory redundancy. There is no endorsement for any large-scale compulsory redundancy scheme whatsoever.

The Chief Minister, whilst not being quite so adamant about the issue, nonetheless seems reluctant to bring outsourcing schemes to the Assembly –

> ***Deputy G P Southern****:*
> *"Will he further assure members that any such schemes to outsource/privatise will be brought to the States for approval and not pushed through via Ministerial decisions?"*
>
> ***Chief Minister:***
> *"The delivery and structure of services are* ***operational matters for departments****, working with their respective Ministers, under the oversight of the States' Employment Board. Significant changes to service delivery will be brought to the States Assembly for debate when it is appropriate to do so, following established procedures for such matter."*

When further pressed on what these words might mean, we have the following exchange –

“**6.9 Deputy G.P. Southern:**
Does the Chief Minister agree with what I think is a new policy announced by the Minister for Transport and Technical Services that he has absolutely no need to return to the States with any of his outsourcing proposals and that it is covered by the general acceptance of this Chamber that £70 million of cuts have to be delivered? Is that policy?

Senator I.J. Gorst:
I have no wish to second-guess the Minister for Transport and Technical Services in regard to the work that he is doing, but I accept his argument in the Assembly. Of course there may be cases where there needs to be a legislative change to enable outsourcing and that obviously would be treated differently.

6.9.1 Deputy G.P. Southern:
As a matter of principle in first instance, the Minister proposes that the policy will be that nothing comes back to this House unless it is exceptional, is that the case? Surely it should be the other way around.

Senator I.J. Gorst:
I do not think that is the case. If it is governed by legislation or there is a particular reason that a Minister may wish to come back to get the reinforcement of the Assembly, I think that is a fair process.”

I am convinced that P.72/2015 contained no endorsement for any schemes for large-scale compulsory redundancies, even in principle. There certainly was no detail of any scheme from any department. It so happens that the Minister for Infrastructure was the first to complete a review of some of the services provided by his department. His initial reviews suggested that up to 93 cleaning posts and up to 54 posts in the Parks and Gardens section could be lost. We are now told that, by various means, these figures have been reduced to between 30 and 50 job losses.

Based on the original figures, we were informed that savings from outsourcing and redesign of services would produce savings of around £2 million annually, with total costs in severance pay of some £1.8 million. In other words, the process appears to cover costs in the first year. Despite having asked the Minister how these figures were calculated, I have yet to receive any response, and in the absence of any detail from the department, here is my analysis of what the hidden costs of outsourcing might be.

On the assumption that the majority of employees at risk are on manual Grades 1 and 2, on a 38-hour week, payable at an hourly rate of between £11 and £12, this produces a weekly wage of £440 and an annual salary of £23,000 a year.

The first thing to note from these figures is that they indicate an average redundancy payment of 27 weeks. This would indicate a long-serving workforce with significant numbers in their late 40s or 50s, a group that is probably the most difficult to find other employment for. Many may find themselves unemployed for a considerable period.

There will be obvious impacts on income tax and social security contributions collected, as well as increases in the costs of income support and supplementation from making 50 employees redundant.

Income Tax

If, say, one third of the group are single, they would have paid –

£23,000 - £14,200 = £8,800 x 26% = £2,290 x 17 = £39,000 in total income tax.

All those with families are likely to be earning below the tax thresholds and unlikely to be paying much income tax. Even if ALL employees quickly find work in the private sector as unskilled manual workers, this is likely to be at or close to the minimum wage of £7 per hour. Total tax revenue for the whole group will fall close to zero.

Income Support

Whist the impact on tax of these 50 redundancies is minimal, the impact on the Income Support bill is significant. If all these workers were to claim income support following redundancy, then assuming an equal distribution between single and married couples with and without children, an average claim the average claim could reasonably be around £450 weekly. This would produce a total of around £1.2 m annually on the cost of IS. Even if all were successful in finding unskilled employment at or near the minimum wage, the annual bill would only fall to half at £600k.

Social Security

Again, on the unlikely best-case assumption that all these low-skilled employees immediately find work at or around the minimum wage, we can examine the decrease in social security contributions. Each individual in low-paid work will pay around £1,100 less per year in social security contributions. In addition, the cost in supplementation, paid directly out of taxpayer funds, would be similar, giving a total cost to the contributory system of about £110k.

Whatever the savings claimed for the outsourcing of the 2 Infrastructure services in this initial trial, Ministers must recognise that the costs to be paid in other parts of the economy are far from being insignificant. In this case, the minimum cost is around £650k annually and may stretch to over £1 million.

So far, the only “hard” facts that have been presented by the Minister for Infrastructure to support his case are those of the cleaning contract for Morier House. The Minister repeatedly quotes the in-house cost of £160k compared with an outsourced price of £90k, on a strict like-for-like basis. One has to wonder just where a such a massive (44%) saving can be made. One can imagine that a 10% improvement in productivity, perhaps through some piecework contract, might be achieved, but a saving of almost half can only be achieved through a reduction in employee terms and conditions. Reducing the hourly rate to, or close to, the minimum wage of £7 gives a reduction in costs of around 36%. That will do the trick. The Minister is apparently engaged on a race to the bottom, requiring increased support for a low-wage economy, through Income Support. What is saved by one hand is paid out from the other.

But this is only the beginning; the Council of Ministers is committed to cease, reduce or outsource public services in order to produce £60 million of savings in staff costs over the next 3 years. With the average (median) wage in the public sector at £43,000, and the cost of employment in the public sector averaging £53,000 per head annually (salary + PECRS + social), this might mean the loss of over 1,100 jobs in the longer term.

It seems to me that there must be some safety mechanism put in place to ensure that the approval of the MTFP is not a means by which any scheme to reduce, cease or outsource any number of public sector workers can be pushed through via Ministerial Decision. The figure of 12 redundancies or more to trigger the scrutiny of any scheme corresponds to the figure agreed by the Assembly previously as being sufficient to ensure notification to the Minister for Social Security by any company wishing to make multiple redundancies under Jersey employment law.

Financial and manpower implications

There are no financial or manpower implications for the States arising from this proposition.

APPENDIX

PROPOSITION

MEDIUM TERM FINANCIAL PLAN 2016 – 2019

THE STATES are asked to decide whether they are of opinion –

to receive the draft Medium Term Financial Plan 2016 – 2019 and, in accordance with the provisions of Article 8 and 8A of the Public Finances (Jersey) Law 2005 –

(a) to approve –

(i) the intended total amount of States income for each of the financial years 2016 – 2019, as set out in Summary Table A and being the central forecast of the States income forecast range for 2016 – 2019 as shown in Figure 18,

(ii) the total amount of States net expenditure for each of the financial years 2016 – 2019, being the total net revenue expenditure and the total net capital allocations, as set out in Summary Table B,

in order to deliver a balanced budget by 2019;

(b) to approve the following amounts (not exceeding in the aggregate the total amount set out in paragraph (a)(ii) above) –

(i) the appropriation of an amount to a revenue head of expenditure for each States funded body (other than the States trading operations) being the body's total revenue expenditure less its estimated income for the financial year 2016 as set out in Summary Table C,

(ii) the amount to be allocated for Contingency for the financial year 2016 as set out in Summary Table D,

(iii) the total amounts set out in Summary Table F that in a Budget for the financial years 2016 – 2019 may be appropriated to capital heads of expenditure, being an amount that is net of any proposed capital receipts, noting that the sum of up to £1 million of the 2016 allocation, up to £39 million of the 2017 allocation and up to £8,233,000 of the 2018 allocation will be subject to the States' approval of the intended transfer of funds from the Strategic Reserve Fund detailed in paragraph (f), and the use of funding from the Criminal Offences Confiscation Fund subject to the requirements of the Proceeds of Crime (Jersey) Law 1999, and noting that future amendments to the Medium Term Financial Plan and appropriate legislation, as necessary, will be brought forward for approval to facilitate the funding for the office consolidation project and a future hospital provision;

(c) to approve the total estimated non-cash net revenue expenditure for depreciation for States funded bodies (other than the States trading operations) for the financial year 2016 as set out in Summary Table C;

(d) to approve the following, as set out in Summary Table G, in respect of each States trading operation for the financial year 2016 –

(i) its estimated income;

(ii) its estimated expenditure;

(iii) its estimated minimum contribution to be made to the Consolidated Fund, if any;

(e) to approve, in respect of each States trading operation, the total cost of the capital projects that each is scheduled to start during the financial years 2016 – 2019 as set out in Summary Table H;

(f) to agree, in principle, that the use of the Strategic Reserve Fund income, over and above that required to maintain the real value of the Fund (namely, in accordance with their Act dated 23rd September 2014, its value at 31st December, 2012 uprated in line with increases in Jersey RPI(Y)), to be available to transfer to the Consolidated Fund and to be allocated for the measures identified in Summary Table J, and that withdrawals should be made from the Consolidated Fund in 2017 and 2019 to replenish the Strategic Reserve Fund and to request the Minister for Treasury and Resources to bring forward for approval the necessary report and proposition to enable the use of the aforesaid additional income of the Strategic Reserve Fund and the intended funds transfers.

COUNCIL OF MINISTERS