STATES OF JERSEY

PUBLIC FINANCES (JERSEY) LAW 2005: AMENDMENT TO MEDIUM TERM FINANCIAL PLAN FOR 2019

Lodged au Greffe on 15th November 2018
by Deputy G.P. Southern of St. Helier

STATES GREFFE

PROPOSITION

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

that the Minister for Treasury and Resources is requested to bring forward an amendment to the Public Finances (Jersey) Law 2005 in order to provide for there to be a revised Medium Term Financial Plan for 2019, in which the maximum amount of net States expenditure from the Consolidated Fund is increased above the limit set in 2015, so that additional monies can be made available to fund public sector pay claims, or additional investment to deliver CSP priorities such as “children first”; and the Council of Ministers is accordingly requested to bring forward a draft Medium Term Financial Plan for 2019

DEPUTY G.P. SOUTHERN OF ST. HELIER

REPORT

Back in 2015, the then Council of Ministers proposed, and the then Members of the Assembly accepted, a proposal to move from year-on-year planning to a 4-year planning cycle, wherein public spending limits were capped for the years ahead. With the hindsight possible in the year 2018, it is my opinion that this decision was wrong on both economic and social grounds. This proposition seeks to demonstrate a way to mitigate the damage that is being done to the goodwill we have left with our employees.

In his speech introducing the MTFP in 2015, the then Chief Minister had the following to say –

> *"One of the most important aspects of this financial plan is its vision. It proposes our overall finances for 4 years, setting the spending limits for 2017, 2018 and 2019, as well as the detail for 2016. This is a sensible way to approach public finances. It maintains the important principles of medium term financial planning and avoids a return to annual budget and short-term thinking."*.

"Medium-term financial planning" as he said, represented "a sensible way to approach public finances". He went on to state –

> *"It is vitally important that we have time to work with departments – as I have said, that work has already started – to develop a detailed plan for 2017 and beyond. It is also important that we have time to assess those detailed plans, their distributional impacts and* ***their impact on public services****. That is why we will present detailed departmental plans in the M.T.F.P. Addition next June, but today or tomorrow or the day after we are asking the Assembly to agree caps on spending for 2017, 2018 and 2019 so that we can maintain control of our finances."*.
>
> *"….. to go back to the F.P.P. (Fiscal Policy Panel), in line with their advice, they said* ***we must present balanced budgets.*** *We are committed to delivering a balanced budget. We are committed to sustainable public finances and I believe that this Assembly wants to make those long-term decisions in the best interests of our Island."*.

The Fiscal Policy Panel was also concerned that the target for savings was sustainable, thus –

> *"The draft MTFP and 2016 MTFP Addition should be clearer about how much of the £90 million savings will be due to improving efficiency."*.

This drew the following response from the Council of Ministers –

> *"The reason for the MTFP being produced in 2 parts was to provide more time for the detail of the individual measures to be produced and to ensure that the measures are sustainable rather than short-term. The detailed work will be driven by the Public Sector Reform programme. The cross-organisational streams for LEAN, eGovernment, Workforce Modernisation and Office Consolidation are the enablers to achieve the required service redesign from which the required efficiencies and savings will be identified."*.

In addition to this wide range of measures, we have now added the latest device for producing more from less, the Target Operating Model ("TOM").

As many a General can affirm, it is rare for any plan, no matter how good, to survive the first engagement with the enemy. And so it proved in this case. The **balanced budget** was doomed by the failure of Ministers to get the liquid waste charge and the health charge through the Assembly. Thus for 2019, whilst tax revenues are healthy, we are in the ridiculous position of having £50 million to salt away in the Stabilisation Fund whilst facing a £30 million to £40 million shortfall requiring savings measures, because we agreed the cap on spending nearly 4 years ago.

In terms of the second aim, to understand what **impact on public services** would result from the proposed savings, the then Chairman of the Health and Social Services Scrutiny Panel, now the Minister for Health and Social Services, had some considerable difficulties with the plan when he addressed Members in 2016 –

> *"When it arrived, I wondered if I was missing something, because I did not see the detail, once I had examined it. I thought there must be more. I did not really see the detail I thought was coming in such a plan. I can see it works very well, as an accounting exercise, all the sums look good and they add up and it all balances, at the end of the day, and that it is a comprehensive, large, good piece of work, but as a plan for the delivery of public services I feel it is all rather underwhelming. To me, it lacks the details that would give me confidence that services are not at risk, because I cannot adequately see what we might be losing in terms of public services ……".*

What further undermined the whole process was the failure of Ministers, then as now, to take the public sector workforce with them. The adoption of totally unrealistic caps on spending has resulted in States workers seeing their pay subject to restraint, or freeze, for years on end. Pay negotiations, such as they were, became intertwined with 'Workforce Modernisation' ("WFM") measures. Ministers refused to negotiate, instead they sent in their officers with no negotiation brief except to repeat: "There is no more money.". This remains the state of play today, but the impossible position the Council of Ministers adopted was revealed much earlier, in Written Questions to the Chief Minister on pay provision on 26th September 2016.

> 2.10 DEPUTY G.P. SOUTHERN OF ST. HELIER OF THE CHIEF MINISTER REGARDING PAY PROVISIONS CONTAINED IN THE MTFP ADDITION: [9614]
>
> **Question**
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> *"Will the Chief Minister advise Members of the following in relation to the pay provisions contained in the MTFP Addition:*
>
> *(a) How the figures for pay restraint efficiencies in the years 2016 to 2019 were determined and how these savings will be delivered;*
>
> *(b) What policy underpins the figures provided for pay awards in 2017 and the indicative pay provision figures for 2018 and 2019;*
>
> *(c) To what extent delivery of the MTFP Addition is dependent on continued wage restraint in relation to public sector workers; and*

(d) *What analysis, if any, has been undertaken to assess the potential for wage restraint in the Department of Health and Social Services, given the potential impact developments in this area can have on maintaining and improving recruitment and retention?"*

Answer

"(a) Pay restraint for the MTFP2 period was determined after extensive deliberations of the Corporate Management Board, SEB and Council of Ministers advised by officers from the HR function. They form part of the overall savings plan for balancing the finances of the States of Jersey by 2019 ... The proposed savings (c. £25 million over the duration of the MTFP) are to be delivered by a mixture of pay restraint, headcount reduction, service redesign and close vacancy management. Experience to date says that all these aspects are contributing to the savings required. On the basis of the pay awards that have been agreed for 2015 and the employer's offer of 1% for 2016, almost £11 million of the planned £25 million planned pay restraint savings have already been delivered.

(b) The Pay policy of the States of Jersey remains as it always has – to provide for the recruitment and retention of the key skills needed for the provision of effective public services which is affordable and sustainable for the Island's taxpayers ... The importance of developing a fairer and more equitable remuneration structure through Workforce Modernisation is the basis of the pay provisions for 2017–2019.

(c) All aspects of sustained control of public sector headcount and costs are critical to the delivery of a balanced budget – headcount costs – wages, pensions, social security etc. are the most significant cost factor in public services. Hence they are pivotal to the ability of the States of Jersey to balance its budget in this MTFP. ...... The delivery of Workforce Modernisation within the pay provisions proposed in the MTFP Addition would deliver the required level of pay restraint.

(d) The majority of the pay groups in Health and Social Services, including Nurses and Midwives, are included in the Workforce Modernisation review which has as its objective a fairer and more equitable remuneration structure.".

Furthermore, the Council of Ministers refused to agree arbitration to resolve the issues –

> *"... During the meeting the S.E.B. (States Employment Board) were asked to consider binding arbitration as a possible outcome to the negotiations. Officers made it clear that given that binding arbitration could reach an outcome outside the budgeted mandate for pay in 2015/2016 it was not appropriate to consider as the extra costs might need to be provided for by either a reduction in jobs or an impact on services which was not an acceptable outcome.".*

Members will note the heavy dependence on WFM to deliver savings, adding to what can only be described as pay-cuts. WFM has been abandoned. Pay discussions are at an end. Most public sector unions have declared a dispute with the employer, and most are balloting for action up to and including strike action. The States has boxed itself into a corner as is revealed by the responses to 2 questions asked on 6th November 2018.

WRITTEN QUESTION TO THE MINISTER FOR TREASURY AND RESOURCES BY DEPUTY R.J. WARD OF ST. HELIER
ANSWER TO BE TABLED ON TUESDAY 6th NOVEMBER 2018

Question

"Further to her answers to Written Question 110/2018, in which she said that £12.293 million was available for pay and workforce modernisation in 2017 (of which £4.767 million had been allocated for the recurring effects of the 2017 pay award), and to Oral Question 113/2018, in which she said that £6.7 million was allocated in the Medium Term Financial Plan for pay awards in 2018, will the Minister explain how these two answers can be reconciled and clarify how much funding is available for pay awards in 2018?".

Answer

"… … In the MTFP addition that provision was £12.293 million in year 2 which was made up of year 1's provision of £5.6 million and year 2's new provision of £6.7 million, as stated in the answer to oral question 113/2018.

Again, for clarity these sums of money that have been provided for include funding not just pay awards but also for other Workforce Modernisation costs. They include a provision for the increased costs to the employer of moving from the old PECRS (Public Employees' Contributory Retirement Scheme) pension scheme to the new PEPS (Public Employees' Pension Scheme) care (career averaged revalued earnings) Scheme and a provision for the increases to the Pre-1987 debt repayment.

Of the sums provided for in the MTFP addition after deducting the recurring effect of the 2017 award and the PECRS to PEPS cost increases and the Pre-1987 Debt repayments, £5.6 million remains available in 2018.".

To put these sums into perspective, a 1% award to the whole of the States workforce would cost something of the order of £3.5 million. The cap on pay provision prevents any realistic progress in the dispute with States employees.

WRITTEN QUESTION TO THE CHIEF MINISTER
BY DEPUTY G.P. SOUTHERN OF ST. HELIER
ANSWER TO BE TABLED ON TUESDAY 6th NOVEMBER 2018

Question

"Further to the response to Written Question 201/2018, which indicated that savings of approximately £24 million would be achieved if 639 currently vacant posts were not filled, and further to the response to Written Question 212/2018, in which the Minister for Health and Social Services stated that 123 of 335.6 vacancies in front-line services were currently subject to active recruitment, and in light of his statement to the Chamber of Commerce regarding sustainable savings of £30 million, will the Chief Minister undertake to provide members with information on where savings arising in respect of staffing will be achieved before a vote is taken on the 2019 Budget?".

Answer

"As outlined by Connétable Taylor on the 23rd October 2018, the overall spending limit established in the MTFP, as approved by the Assembly, will remain in place for 2019.

However, over the remainder of this year and next, £30 million of savings within this overall spending limit will be identified and delivered in 2019. This will help us to tackle a £30 million structural deficit in 2020, as explained in the draft Budget.

Other corporate and public sector organisations have done this, and the due diligence work undertaken as part of the 'One Government' programme shows that the States of Jersey can do this too.".

The current Minister for Health and Social Services has now seen what the vague outlines given in the MTFP Addition actually translate to in 2019. The figures are frightening:

Savings of approximately £24 million would be achieved if 639 currently vacant posts were not filled. Of these 639 vacancies, 335.6 are vacancies delivering front-line health services, only 123 of which are currently being recruited. The intention is to produce between £30 million and £40 million in 2019. What will remain of our vital heath service then?

Income forecasts

Turning back to the advice received from the FPP, we find ourselves in a positive position with respect to the economic and fiscal position.

The latest forecasts produced by the Income Forecasting Group (IFG) – details of which are presented in the Budget statement, show that:

A combination of the following factors have resulted in markedly stronger income forecasts over the forecast period than those produced in September 2017 for Budget 2018 –

- better-than-expected tax receipts in 2017 – in respect of personal income tax, corporate income tax and stamp duty;
- the stronger economic assumptions endorsed by the FPP for the next few years – resulting in increased revenue from personal income tax, corporate income tax and GST; and
- based on the latest IFG's forecasts of tax revenues, total States' income for 2018 is forecast to be £30 million higher than predicted in Budget 2018, while for 2019 that figure is projected to be £36 million higher.

The net result of these figures is that the balance of the Consolidated Fund is forecast to be £135 million, higher than forecast in the Budget 2018. In what are described as "large" forecast balances on the Consolidated Fund, it is proposed to reinstate the transfer of £50 million, not to the Consolidated Fund, but to place it instead in the Stabilisation Fund, where it is available in the event of the need for economic stimulus.

And yet here we are, stuck with a spending cap created and decided upon 4 years ago when the economy and income was in a very different place. We have a rise in income, along with legitimate demands to increase spending, but a total block on such spending. Members will recognise that the move to the 4-year plan, far from being "sensible", as advised at the time, is now regarded as a mistake.

This is reflected in the new Government Plan, which brings together expenditure and income decisions so that increased expenditure can be matched to increases in income as appropriate each year, with a rolling forecast (but not a hard and fast cap) for the following 3 years. This more flexible plan is to be in place for the MTFP 2020–2023, but that leaves this Assembly stuck with the previous out-of-date and rigid plan, which cannot cater for the breakdown in our relationship with the public sector workforce, on whom we rely for the delivery of much-needed front-line services.

A new 2019 MTFP, with a rebalancing of transfers and revenues, may be the only way to open fresh routes to re-engage with our employees in order to avoid industrial action. Although I have spent little time on it, if we are to adopt a fresh MTFP for 2019, then this would permit additional spend, earlier that previously envisaged, on the delivery of services for children under the "putting children first" initiatives.

Financial and manpower implications

The financial and manpower implications of this proposition largely relate to the team in the Treasury and Resources Department, which must draw up legislative drafting instructions and prepare a 2019 MTFP; and the legislative drafting itself. These cost pressures should be met from within existing budgets, which can then be replenished in the 2019 MTFP.