Sent by email to

The Scrutiny Officer.
Corporate Services Scrutiny Panel

7th November 2018

Dear Deputy Ahier,

Response to request from Corporate Services Scrutiny Panel in relation to the Draft Budget Statement 2019 (P114/2018)

On 25th October 2018, the Corporate Services Scrutiny Panel invited JCSA/Prospect to provide a submission on how the 2019 Budget might impact on its members. The Panel provided six questions which are outlined below with answers in blue.

A link to the Terms of Reference for the Panels work was also provided and have been reproduced below with comments where appropriate.

Following on from the questions asked by CSSP, it would be appropriate for the JCSA/Prospect Union to discuss the following question with the Panel:

How does the Budget impact on Civil Servants?

That question is examined leaving it clear that political decisions need to be made in the current round of pay talks.

CSSP Questions

1. What will be the impact of the below tax changes set out in the Budget have on you and/or your organisation?
   - Personal tax
   - Stamp duty

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- Business tax
- Alcohol, Tobacco and Fuel taxes (Impôts duties)
- Other tax proposals

The increase in allowance of 3.5% appears generous but the RPI for September 2018 is 4.3%. In real terms there is no gain for members.

- Personal tax

The increase proposed is £500 which saves single persons £130. Were this in line with inflation at 4.3% there would be an increase of £640, providing a saving of £166. In other words, in real terms, the single person is still going to be £36 worse off.

- Stamp duty

The changes in stamp duty appear favourable.

- Business tax

Being our members are public sector workers, business tax does not impact directly upon them.

However, it is known that there is a groundswell of opinion that the 0/10 tax regime creates serious problems for budgeting of the States finances which brings pressure on higher taxation for individuals than would otherwise be the case. There is no relief in that respect within this budget.

- Alcohol, Tobacco and Fuel taxes (Impôts duties)

Raises in this area, generally below RPI, are good for members on the provision that there will not be increases in taxation elsewhere to compensate the States for this loss.

The UK have frozen duty on road fuel. Increases in fuel impôts duties, even below RPI place pressure on every aspect of island life. Such pressure could be reduced further by matching the UK in this case by freezing the duty.

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- Other tax proposals

It is recognised that current GST De-Minimis levels cause inequity in taxation for local retailers, however, the union members are all states employees and therefore the existence of this exemption is to the benefit of members.

2. Are the proposed changes to the tax rates, bands and exemptions either about right, too high or too low?

No feedback in relation to the changes.

3. Has enough consultation been carried out in relation to the Budget proposals?

This Union has not been invited to enter into consultation regarding the budget at any point prior to the request from Scrutiny. We would welcome the opportunity to work with those constructing the budget.

4. Is there anything not included in the Budget which should have been, if so what?

Staff costs for the States runs at approximately £380m per year depending on the document being interrogated. Given a total income for the States of Jersey of £756m[1], this is a very significant proportion of the budget. There is no mention of this expenditure in the budget, or of protection against external influences such as RPI.

Given the steady raising of concern amongst staff over the last few years and increased seriousness within warnings from Unions, it would seem prudent for the budget to have built in some wriggle room for failures in the MTFP to meet RPI awards for wages.

Within the budget there should be details of the savings and efficiencies expected within the Target Operating Model.

This budget fails to explain revenue expenditure. It is difficult to understand how figures are arrived at without that level of detail.[2]

It would seem reasonable that the annual budget would be intended to iron out difficulties found within the four year cycle of the MTFP. It appears that the process does not allow

[1] Fig 1, page 117 Draft Budget 2019
[2] Pages 85 and 95, Fig 25 and 30. Draft Budget 2019

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for changes to be made which deals with developing inadequacies within the MTFP. Even if the budget provides money to deal with unexpected emerging problems, transferring that money into the MTFP seems problematic.

5. Are the financial forecasts in the Budget for the next 5 years reasonable?

This area is outside the remit of the Union.

6. What will be the implications for Jersey's economy as a result of the Budget proposals?

Without considering the devastating impact it might have directly on the maintenance of the workforce, failure to meet RPI within the public sector pay awards may have significant impacts on the island as a whole. Failing to maintain the standard of living for over 6000 people in the island could mean:

- Lower personal tax returns than predicted, particularly when raises in allowances are included.

- Lower levels of disposable income meaning fewer meals out, less money spent shopping in town etc. This impacts on every aspect of business in Jersey and could be the catalyst for a period of artificially created austerity within the local economy.

- Greater dependency on Income Support or other benefits available to islanders.

Examination of the budget has left the Union with two questions unanswered:

i. Depreciation is mentioned throughout the budget and is taken off the bottom line. How does it apply to a fund, such as the long term care fund (P170) and where does this money go?

ii. How is the Capital Fund financed?

Terms of Reference

JCSA has made comment in response to the Panel's Terms of Reference where appropriate (in blue)

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1. To consider the proposals of the Minister for Treasury and Resources in the Draft 2019 Budget Statement in respect of:

    - Personal Tax
    - Stamp duties
    - Business Tax
    - Impôts Duty
    - VED Proposals
    - Any other tax proposals as set out in the Draft Budget Statement 2019

2. To consider the Capital Programme for 2019-2020, as presented in the Draft Budget Statement.

3. To evaluate the proposed central growth allocation for 2019.

4. To evaluate proposals in relation to the States Reserves and any transfers either to or from Reserves.

The Union questions whether the transfer of £50m from the consolidated fund to the stabilisation fund is appropriate. The money being put aside is apparently to deal with the possibility of an event that is uncertain, Brexit. That money could be used to meet the shortfall in the MTFP and provide RPI for all staff. This would deal with an event that is unfolding at this time, namely, all unions connected to the public sector are moving down a path towards industrial action.

The wage increase is revenue and the £50m a one off, but it would provide sufficient to move us through 2018 and 2019. The next MTFP must deal, at a political level and all other levels, with the needs of maintaining pay standards within its workforce, in the same way that it will need to find money to create equal pay for work of equal value if there is serious political intent behind the words.

5. To consider proposed legislative changes arising from the Draft Budget Statement.

6. To consider the financial forecasts and economic implication of the Minister's proposals in the Draft 2019 Budget Statement, including the potential impact of Brexit on the economy.

There is no detail in relation to breakdowns of revenue expenditure, however there is an indication of significant rises in revenue expenditure year on year between 2019 and 2023.

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How does the Budget impact on Civil Servants?

The budget quotes the Common Strategic Policy and seeks to support the strategic priorities which are:

- **We will Put Children First**
- **We will improve Islanders wellbeing and mental and physical health**
- **We will create a sustainable, vibrant and skilled local workforce for the future.**
- **We will reduce income inequality and improve the standard of living.**
- **We will protect and value our environment.**

It is immediately clear that a below the cost of living pay offer for 2018 and 2019 directly fails to meet the following strategic objectives:

- **We will put children first.**

Failing to maintain the standard of living of all States Workers, directly impacts on the standard of living of the families of those workers.

Many of our members work with children in care or have contact with children in other provision lines. Below RPI pay awards restrict recruitment, prevents retention and creates a feeling of being undervalued and disrespected amongst staff. All of which is failing to put children first.

- **We will improve Islanders wellbeing and mental and physical health.**

Tighter budgets for most families means additional stress which can only result in an increase in mental health issues. That in turn can increase the burden on the health departments already overstretched mental health facilities and staff.

Below RPI pay awards mean staff are distracted from their primary function by feeling the need to look for work elsewhere. This provides instability and increases mental stresses and strains. A directly opposite direction from the strategic priority.

- **We will create a sustainable, vibrant and skilled local workforce for the future.**

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Failing to maintain wage standards will push good, qualified and skilled people away from the public sector. Instead of providing a vibrant efficient public sector, the Island will end up with a public sector that is second rate, devalued and lifeless.

- **We will reduce income inequality and improve the standard of living.**

Real terms reduction in wages of States employees provides less disposable income has greater influence in the island than 6,500 people having less spending power due to the multiplier effect. This is creating austerity, not preventing it.

JCSA/Prospect look forward to the 'Government Plan' to see how the Council of Ministers intend to achieve this particular priority.

There is wriggle room within the current MTFP. The public see money found for other projects which did not exist when the MTFP was agreed, such as £3.5m for cultural changes and this causes questions to be asked.

Unions are very cognisant that terminology exists within the budget to point a finger at union demands for RPI pay awards with comments such as:

> *"Making allowance for inflation and commitments made with ongoing financial consequences, the lack of commercial waste charges, along with the unwinding of other provisions in the current MTFP will, if action is not taken, lead to a deficit of up to £30m in 2020."*[3]

Political decisions have been taken that show the public sector is required to provide a given level of service that is both expected and valued by islanders. It is unfortunate that those political decisions apparently failed to make suitable financial provision to maintain the finance for staff to do the job. JCSA/Prospect would like to discuss possible options to relieve the situation.

We hear arguments that there is money sloshing about within the system so perhaps we should examine those claims:

[3] P7 Draft Budget 2019

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Better than expected tax receipts were achieved in 2017 in respect of personal income tax, corporate tax and stamp duty.[4] Forecasts for States Income for 2018 are £30m higher than predicted in the 2018 budget with higher still (£36m) predicted for 2019.[5]
There are variations showing greater than expected returns from various documents. For example, the following variations have been published in actual and expected total States income.

2016 +£40m[6]

2017 +£40m[7]

2018 +£30m

These may be all one-off surpluses, but each would fund the revenue gap in the MTFP for staff RPI for 2018 and 2019.

Approximately £31.7m should be available from the money put aside for WFM. That was originally £47m[8] albeit that some was used in the work done on WFM. That money must be about somewhere. The location of that sum has been kept very quiet on every occasion it is mentioned by Unions.

In addition, there was £119m in the Consolidated Fund at the end of 2017 with forecasts of more in 2018 and 19.[9]

Total States Income forecast in the 2018 Budget for 2018 was £751.3m[10]
Total States Income forecast from September 2018 for 2018 is £783.7m[11]

[4] P6 bullet points Draft Budget 2019
[5] P6 Just below bullet points. Draft Budget 2019
[6] 2016 taken from FPP Annual Report Oct 2017 page 27
[7] Page 86 Fig 25 Total States Income – Summary Variations. Draft Budget 2019
[8] Figure from F.O.I. request No 67317249. April 2018
[9] Page 112 2019 Budget*
[10] Page 95 2018 Budget
[11] Page 107 2019 Budget

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This increase is £32.4m and whilst it is an estimation, one is bound to ask where is it or where has it been allocated to that prevents that money being used to resolve the current serious industrial unrest?

Perhaps it is appropriate to examine what RPI awards across the States would cost. (Figures created for example only):

2017 @1%[12]	**£3.8m**. (The second 1% of the 2% award came from departmental budgets.)
2018 @ 3.1%	£3.8 + £11.8 = **£15.6m**
2019 @ 4.3%	£3.8m + £11.8 + £16.3m = **£31.7m**

Total for the three years 2017, 18 and 19: £3.8m + £15.6m + £31.7m = £51.1m

The MTFP has money within it for pay rises. Hopelessly insufficient, but there is money available. The above suggestion could provide the finance for RPI across the public sector.

Any one or more of the above points may have been incorrectly interpreted by union representatives. However, it is unlikely that every point is incorrect and any one would resolve the current impasse on pay.

The Union recognises the circular arguments within the Public Finance (Jersey) Law 2005 which creates restrictions by maintaining the overall spend as approved in the heads of expenditure to an amount not exceeding the total expenditure of the MTFP. We hear frequently that the money in the consolidated fund cannot be accessed other than in an emergency (Art 20).

It appears to the union that this is a substantial straight-jacket for government because it means that any top up, however justified due to fluctuating external pressures on the public purse, is difficult to access.

Difficult but not completely beyond reach. Article 9(1)(b) and (2)(ca) reveals that once the MTFP has been approved by the States, the total amount of net States expenditure for a financial year may only be varied on a proposition where the Council of Ministers is

12 1% taken from total staff costs 2017 of £380m (Page 260 Annual Report and Accounts 2017)

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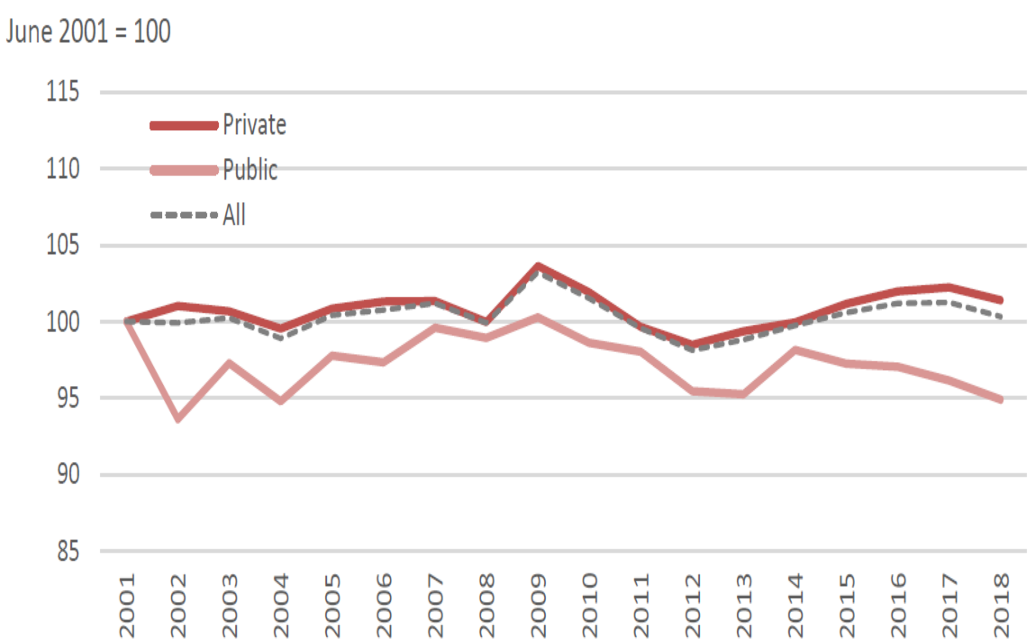
satisfied that there is an urgent need for expenditure, that cannot reasonably be funded from existing heads of expenditure and there is currently insufficient money available within the MTFP.

The Chief Minister showed significant contempt for all States workers by failing to answer a question on Article 9 from Deputy G. Southern in the States on 6th November.

It would be folly for the employer to consider that staff will be pacified by less than an offer that meets RPI. As can be seen in the following graph taken from the average Earnings Index June 2018 published by Statistics Jersey, public sector pay continues to fall behind private sector pay.

Index of Average Earnings June 2018.[13]

Figure 8 – Index of Average Earnings in real terms for the public and private sectors from 2001 to 2018 (June 2001 = 100)



[13] Statistics Jersey

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Conclusion

So JCSA/Prospect has shown that the pay claim for RPI satisfies the Common Strategic Policy. We have shown that there is money in the coffers and we believe it is within the reach of the SEB.

The current dispute over public sector pay is a politically engineered position.

- Politically engineered because politicians failed to ensure that staff were sufficiently catered for financially within the MTFP,

- Politically engineered because promises made to some groups, at SEB level, have not materialised,

- Politically engineered because the previous SEB sat on their hands and failed to consider staff pay rounds in a timely manner before the elections and

- Politically engineered because the current incumbents of SEB have inherited a shambles to resolve.

None of those issues are the fault of the workforce. None of those issues are the fault of the members or representatives of JCSA/Prospect. It is totally unreasonable for politicians to now consider that severe pay restrictions on certain sections of the States workforce will resolve any of the outstanding problems.

Pay for States workers set below RPI will not fill the recently stated £30m gap in public finances. Using Civil Servants as a scapegoat will also do nothing to close that gap. A stated aim of the employer's current offer is to provide larger increases for the lowest paid. Some Civil Servants are amongst the lowest paid in the workforce and currently face the lowest offer of any pay group.

In order to close that gap, politicians need a lively, vibrant and keen Civil Service who are willing to take on more significant challenges in their everyday work. That will only be achieved by treating staff with respect. Paying RPI is one such step towards showing respect and would achieve things much greater than the sum of the financial effort required to make it happen.

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Such a move would align the SEB and Council of Ministers very neatly with the Common Strategic Policy in relation to wellbeing, sustainability of a vibrant skilled workforce and improving standards of living (or at least maintaining those standards).

Yours sincerely

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