HOUSE OF COMMONS LIBRARY

BRIEFING PAPER

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Public sector pay

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Summary

Since 2013 the Government has funded public sector workforces for average pay awards of 1%. During the period 2011-2013, a public sector pay freeze was in place for public sector workers excluding those earning £21,000 or less, who received pay increases of at least £250.

The pay for many public sector workers is set in light of recommendations from Pay Review Bodies, covering pay in the armed forces, NHS; the Prison Service; teachers; senior public sector workers; the police; and the National Crime Agency. The Pay Review Bodies are issued with remits from the Government and report annually. The remits restate current Government pay policy, and it is within these constraints that the Pay Review Bodies issue their recommendations.

When the Coalition Government introduced the two-year public sector pay freeze in Budget 2010 the Government suggested that it would "save £3.3 billion a year by 2014-15" relative to wages rising in line with the Bank of England's 2% inflation target.[1 2] The Government estimates that the latest incarnation of the 1% cap, introduced in Summer Budget 2015 and covering the four years up to 2019/20, will save "approximately £5 billion by 2019-20".[3]

Average pay is higher in the public sector than in the private sector: at April 2016, median weekly earnings for full-time employees in the public sector were £594 in the public sector compared to £517 in the private sector. However, public sector workers tend to be older and more highly-educated than for the private sector as a whole, so after controlling for differences in workers' characteristics, the gap in pay is much less.

The experience of earnings *growth* across both the public and private sector is very broad and there are a substantial number of workers who see large rises or falls in pay each year. Nevertheless, since 2012 pay increases have been more positively skewed in the private sector than in the public sector.

While public sector pay constraints have always been the subject of debate, this has intensified since the 2017 General Election. This briefing provides an overview of public sector pay policy; the financial implications of the cap and the cost of removing it; trends in public sector pay; and recent debate on the subject.

1 HM Treasury, Budget 2010, June 2010
2 For those earning less than £21,000 a freeze wasn't applied. Instead such workers received an increase of at least £250 per year.
3 HM Treasury, Summer Budget 2015, 8 July 2015

1. Public sector pay policy

The current public sector pay policy, set out at *Summer Budget 2015*, provides for an average pay award of 1%:

> the government will … fund public sector workforces for a pay award of 1% for 4 years from 2016-17 onwards. This will save approximately £5 billion by 2019-20. The government expects pay awards to be applied in a targeted manner within workforces to support the delivery of public services.[4]

The policy was restated in the *Spending Review and Autumn Statement 2015*:

> As announced at Summer Budget, to help protect jobs and the quality of public services the Spending Review funds public sector workforces for an average pay award of 1% for 4 years from 2016-17. This will protect approximately 200,000 public sector jobs.[5]

Public sector pay policy applies as an average across workforces rather than on an individual basis. As such, departments may distribute pay in a manner they see fit according to their own priorities, so long as the average increase in the pay bill is limited to 1%. For many workers in the public sector, pay awards are informed by the recommendations of independent Pay Review Bodies (see below), which report annually in accordance with remits set by the Government, and in accordance with public sector pay policy.

Pay for individual public sector workers is affected a number of factors, including contractual pay progression. While the Government's policy is to phase out automatic pay progression, many workers remain contractually entitled to it, which may see their pay exceed the 1 per cent limit.[6] The Treasury does not collect data on pay for public sector workers on an individual basis,[7] and as such it is difficult to estimate the current coverage of contractual progression pay entitlement.

The pay policy applies to the Civil Service "including departments, non-ministerial departments and agencies, and for public sector workers in non-departmental public bodies".[8] The Treasury's guidance note on public sector pay and terms provides further detail on the scope of the policy, stating that it applies to "government departments and their arm's length bodies" and indicating that local authorities, including fire and rescue authorities, fall outside its scope although are expected to "operate to the same standards as the rest of the public sector in relation to decisions on senior pay and reward".[9]

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4 HM Treasury, *Summer Budget 2015*, HC 264, July 2015, p28
5 HM Treasury, *Spending Review and Autumn Statement 2015*, Cm 9162, November 2015, p72
6 Civil service pay guidance 2016 to 2017, section 1.3
7 Public Sector: Pay: Written question - 2338
8 Civil service pay guidance 2016 to 2017, section 1
9 Guidance note: public sector pay and terms, 5 February 2016, section 2.11

Previous pay policy

The current 1% pay cap is a continuation of earlier public sector pay policy, announced at Autumn Statement 2011:

> the Government will … set public sector pay awards at an average of one per cent for each of the two years after the current pay freeze comes to an end. Departmental budgets will be adjusted in line with this policy, with the exception of the health and schools budgets, where the money saved will be recycled[10]

Budget 2013 announced the continuation of the policy in 2015-16.[11] Prior to the 1% cap, there was, under the Coalition Government, a two-year public sector pay freeze, from 2011. The pay freeze, announced during *Budget 2010*, applied to all public sector workers excluding those earning £21,000 or less, who received pay increases of at least £250.[12] Successive governments have adopted varying approaches to public sector pay, as shown below.

Conservative governments	
2015 - 2017	Continuation of the 1 per cent cap.
Coalition Government	
2013 - 2015	Pay award limited to an average of 1 per cent per year.
2011 - 2013	Two-year pay freeze, excluding those earning £21,000 or less (who received a pay increase of at least £250).
Labour governments	
2009	"The Government believes that senior staff should show leadership in pay restraint". Pay settlements of up to 1 per cent for public sector workforces excluding staff on 3-year pay agreements. No pay rise for senior staff. No limit for the Armed Forces.
1999 - 2008	No explicit pay policy.
1998	No explicit pay policy.
1997	"Public Sector pay settlements need to be fair, affordable within existing spending plans, consistent with the good inflation prospects, and responsible in terms of a general approach to pay throughout the economy" [HC Deb 11 June 1998 c703]
Conservative governments	
November 1996	Chancellor announces continuation of previous pay policy.
November 1993 - 1996	Public sector pay increases intended to be self-financing through productivity or efficiency gains.
November 1992 - 1993	1.5 per cent cap.
November 1986 - 1992	No cap.
1984 - 1985	3 per cent cap for central government.
1983 - 1984	3.5 per cent cap for central government.
1982 - 1983	4 per cent cap.
November 1980 - March 1982	6 per cent cap for central government.
November 1980	6 per cent cap for local government.
January 1980	14 per cent cap for public services.
May 1979 - January 1980	No cap.

[10] HM Treasury, *Autumn Statement 2011*, Cm 8231, November 2011, p6
[11] HM Treasury, *Budget 2013*, HC 1033, March 2013, p24
[12] HM Treasury, *Budget 2010*, HC 61, June 2010, p45

2. Finances of the cap

Savings from the cap

When the Coalition Government introduced the two-year public sector pay freeze in Budget 2010 the Government suggested that it would "save £3.3 billion a year by 2014-15" relative to wages rising in line with the Bank of England's 2% inflation target.[13][14]

In the years since the freeze ended, public sector pay has been limited to an average of 1% growth.[15] The latest incarnation of the cap was introduced in Summer Budget 2015 and covers the four years up to 2019/20. The Government estimates that the policy will save "approximately £5 billion by 2019-20".[16]

Cost of raising the cap

The cost of ending the current cap is not necessarily the same as the original estimate of what it would save, ie £5 billion by 2019/20. This is because the cap has already had effect in some years so ending it now would not cost quite as much.

The Institute for Fiscal Studies (IFS) has carried out its own analyses of the pay cap. In an article for The Times on 4 July 2017,[17] the IFS's director Paul Johnson stated that:

> We spend an awful lot on employing all those nurses and teachers and doctors and soldiers and civil servants — about £180 billion each year. So another 3 per cent on public pay could cost something like £5 billion. By the end of the parliament, increases in line with inflation, or with private sector earnings, could easily cost twice that.

The IFS compared the manifestos of the Conservatives, Labour and the Liberal Democrats in the run-up to the 2017 General Election, including their respective proposals concerning public sector pay. The IFS found that increasing public sector pay:[18]

- in line with inflation (the Liberal Democrat's policy) would cost an additional £4.1 billion in 2019/20
- in line with private sector pay (the IFS' interpretation of Labour's policy) would cost an additional £6.3 billion in 2019/20

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13 HM Treasury, Budget 2010, June 2010

14 For those earning less than £21,000 a freeze was not applied. Instead such workers received an increase of at least £250 per year.

15 Autumn Statement 2011 announced public sector pay awards at an average of 1% for two years (2013/14 & 2014/15). Spending Review 2013 announced an extension of the 1% pay award into 2015/16.

16 HM Treasury, Summer Budget 2015, 8 July 2015

17 Also available on the IFS's website.

18 IFS. Public sector pay in the next parliament, 19 May 2017. Rowena Crawford, Spending on public services (presentation slides), Institute for Fiscal Studies, 25 May 2017

3. Trends in public sector pay

Summary

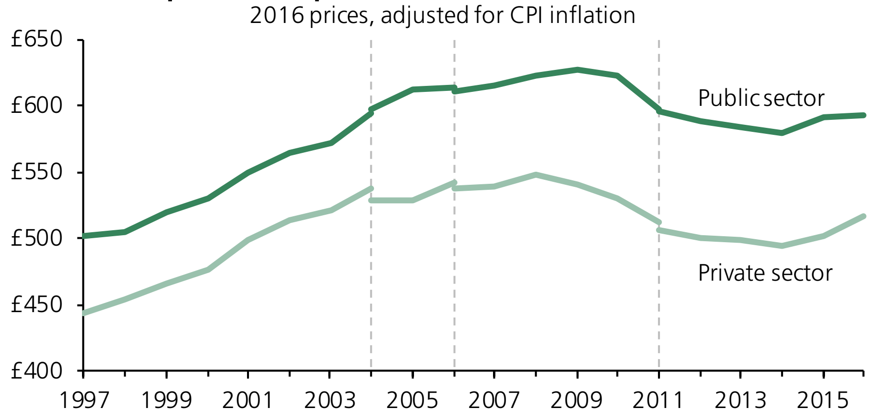
Average pay is higher in the public sector than in the private sector, but once we take into account differences in workers' characteristics, the gap narrows or is even reversed. In both the public and the private sectors, there is wide variation in earnings growth from one year to the next. Between 2008 and 2010, in the immediate aftermath of the economic downturn, pay increases were more positively skewed in the public sector than in the private sector. However, since 2012 this pattern has been reversed.

3.1 Average pay in the public and private sector

At April 2016, median weekly earnings for full-time employees were £594 in the public sector compared to £517 in the private sector.[19] [20]

The chart shows the trend in median pay in both sectors since 1997, adjusted for inflation. Some of the change between years arises because of changes in the make-up of the workforce rather than in pay received by individual workers (discussed further below).

Median weekly pay for full-time employees in the public and private sectors: UK, 1997-2016
2016 prices, adjusted for CPI inflation



Note: dashed lines indicate breaks in series
Source: ONS *Annual Survey of Hours and Earnings*

The median is the middle point of the earnings distribution – the point at which half of people earn more and half earn less. Earnings for those at the middle and bottom of the public sector pay distribution tend to be higher than for those at the middle and bottom of the private sector pay distribution. In particular, there is a higher share of jobs in the private sector paying close to the minimum wage than in the public sector. However, high earners in the private sector tend to be paid more than high earners in the public sector.[21]

[19] All the figures in this section refer to employees only. The primary sources of earnings statistics do not include self-employed workers.
[20] ONS, *Annual Survey of Hours and Earnings, 2016 provisional results*
[21] Jenny Vyas, *Analysis of factors affecting earnings using Annual Survey of Hours and Earnings: 2016*, Office for National Statistics, 26 October 2016, Figure 6

Why are average earnings different in the public and private sector?

Some of the difference in median earnings is attributable to differences in the workforce: employees in the public sector tend to be older and more highly-educated than those working in the private sector. Furthermore, many of the lowest paid occupations (for example, elementary sales occupations, bar and restaurant staff, hairdressers) are largely found in the private sector.

If we control for differences in workforce characteristics, then the gap in average earnings narrows or is even reversed. Analysis by the Office for National Statistics of data from the *Annual Survey of Hours and Earnings* indicates that mean hourly pay (i.e. simple average of hourly pay) in the public sector was around 1.0% less than in the private sector in 2016 after controlling for region, occupation, age, gender and job tenure. If we also control for organisation size, then mean hourly pay in the public sector was around 5.5% less than in the private sector.[22]

Separate analysis by the Institute for Fiscal Studies (IFS) compared public and private sector pay using a different source dataset, the Labour Force Survey. Similarly to ONS, the IFS found the gap in average earnings between the public and private sector was smaller after controlling for workers' age, sex, education, experience and region. However, average pay remained slightly higher in the public sector by around 3% in 2016/17 (compared to a 13% gap before controlling for differences in workforce characteristics).[23]

In recent years, the gap between public and private sector earnings (adjusted for differences in workforce characteristics) has not remained fixed but has rather widened then contracted. The gap increased between 2008 and 2011 as private sector pay fell sharply in the immediate aftermath of the recession. However, since 2011 the gap has reduced, most likely owing to pay restraint in the public sector.[24]

3.2 How has pay changed?

Common misunderstandings

In statistics on pay, most attention is paid to changes in average pay between one period and the next but these figures can easily be misunderstood. Average pay can change because individual workers see their pay change from one year to the next, but also because workers enter and exit the workforce. For example, if lots of high-paid people leave the workforce, this will push down median pay even if pay is unchanged for all those remaining in employment. Similarly, if lots of new workers enter employment on low levels of pay, this will also act to reduce the median.

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22 Ibid, section 2

23 Jonathan Cribb, *Public sector pay in the next parliament*, Institute for Fiscal Studies Briefing Note BN210, 19 May 2017

24 Ibid

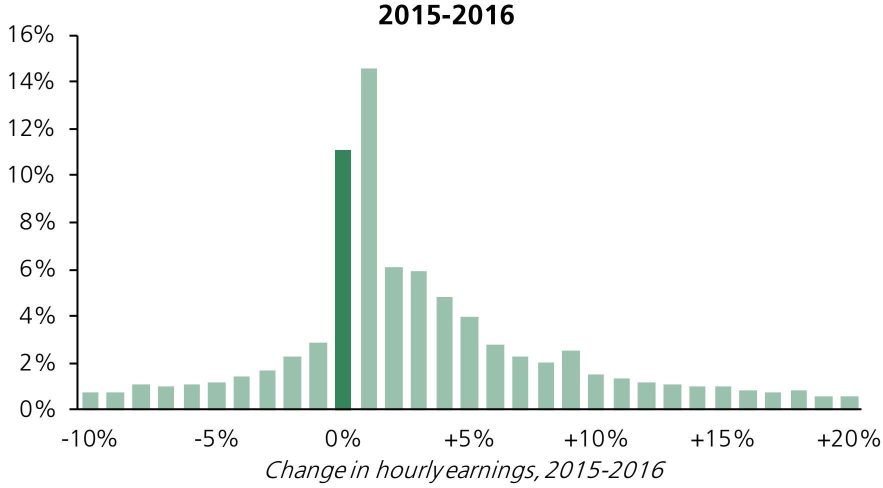
Therefore, changes in average pay may not give an accurate account of how the public sector pay cap is being implemented, or how much individual workers saw their pay increase or decrease. As an alternative, we can look at the range of earnings growth experienced by employees between one year and the next.[25] For those employees who were in work in both 2015 and 2016, there was wide variation in the amount by which their pay changed between years.

Experiences of earnings growth

A substantial number of workers in both the public and private sectors saw large rises or falls in pay between 2015 and 2016, as can be seen from the long 'tails' in the charts below. The charts show the proportion of employees working in both 2015 and 2016 who experienced different percentage changes in hourly pay.[26] Figures are not adjusted for inflation.

In the **public sector**, around 11% of employees who were working in the public sector in both 2015 and 2016 saw no change in hourly pay (the dark green bar on the chart below). Approximately 15% saw their pay increase by around 1%.[27]

% of public sector employees by change in hourly earnings 2015-2016



N.B. Excludes employees who were not employed in public sector in both years.

How does the wide variation in earnings growth for public sector employees reconcile with the pay cap? Some workers may have changed roles or got promoted. Others may have seen their pay increase as a result of pay progression. Public sector organisations have also taken different approaches to implementing the cap, for example to award larger pay increases to high-performing staff. Additionally, the

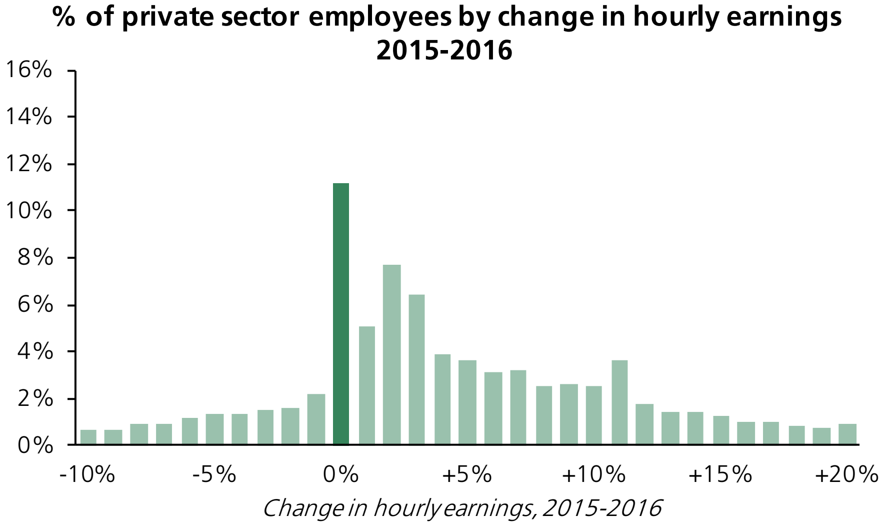
25 This sort of analysis is possible using the ONS Annual Survey of Hours and Earnings, although the survey methodology is not specifically designed to model earnings growth for individuals over time.

26 Charts adapted from originals published in Fiona Massey, Amina Syed et al, *Economic Review: November 2016*, Office for National Statistics, 3 November 2016. The original source for the data is the ONS Annual Survey of Hours and Earnings.

27 The charts show the proportion of employees whose pay changed by within +/- 0.5% points of a given figure. For example, 11% of public sector employees in work in both years saw a change in hourly pay in the range -0.5% to +0.5%. 15% saw a change in hourly pay in the range +0.5% to +1.5%.

cap does not automatically extend to all parts of the public sector: as noted in section 1, local authorities are technically outside the scope of the cap even if they are expected to operate in a similar fashion.

Turning to those employees who were working in the **private sector** in both 2015 and 2016, around 11% saw no change in hourly pay, similar to the public sector. Around 14% of employees saw their pay increase by 2-3% between 2015 and 2016. There was a smaller spike of employees seeing an increase in hourly pay of around 11%, reflecting the introduction of the National Living Wage in April 2016:



N.B. Excludes employees who were not employed in private sector in both years.

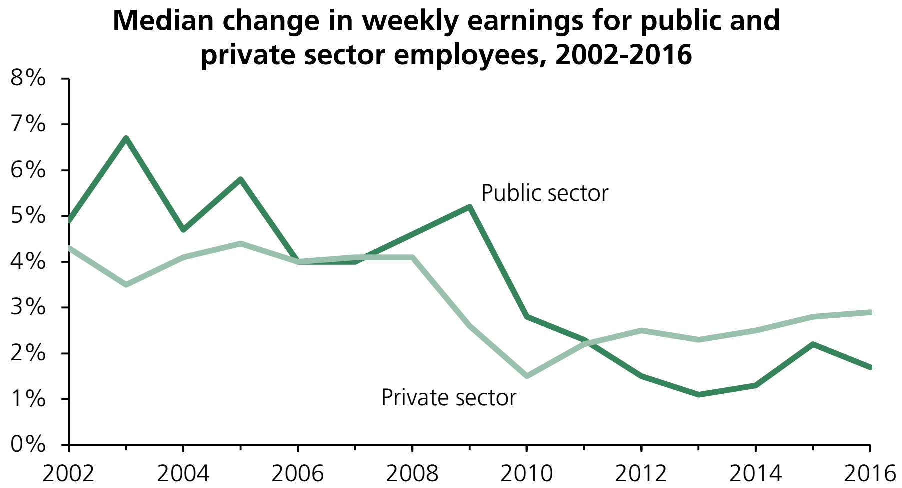
Shifting patterns of earnings growth

To get a sense of how these distributions of pay increases have changed over time, we can look at the trend in the median change in pay (i.e. the point at which half of employees saw their pay increase by less, and half of employees saw their pay increase by more).

Between 2015 and 2016, median growth in weekly pay for employees in work in both years was 2.5%. The median change was 1.7% for those working in the public sector compared to 2.9% in the private sector. (These figures are for weekly rather than hourly pay, unlike the two preceding charts, so will be affected by changes in the number of hours people work.)

This continues a pattern seen since 2012, where median increases in pay in the private sector have been larger than for the public sector. Before 2011, the opposite was true and median pay growth tended to be higher in the public sector, as shown in the chart below.[28]

[28] Office for National Statistics, *Annual Survey of Hours and Earnings*, ad hoc data release (reference number 007227, 12 July 2017). Updates analysis in ONS *Economic Review: December 2015*, 1 December 2015. For consistency over time, employees of banks classified to the public sector in 2008 have been treated as if they were in the private sector throughout the whole period. If we do not adjust for these reclassifications, then median growth in weekly pay between 2015 and 2016 was 1.6% in the public sector and 2.8% in the private sector (ONS ad hoc release 007204, 6 July 2017).



In other words, we can see that in the immediate aftermath of the economic downturn, the distribution of pay increases was more positively skewed in the public sector than it was in the private sector, but this pattern has been reversed since 2012. Nevertheless, median growth in pay in both sectors was considerably lower between 2010 and 2016 than it was prior to the downturn.

Of course, given the very wide range of earnings growth that employees experience, we need to be cautious about summing it up in a single figure such as the median. For example, the median change does not tell us what share of workers saw their pay decrease or remain flat.

4. Pay Review Bodies

The Pay Review Bodies (PRBs) were introduced, over time, since 1971, and are responsible for providing independent advice to government on pay for certain groups of public sector workers. The first PRBs, established by the Heath Government in 1971, were the Doctors and Dentists Review Body, the Top Salaries Review Body (as it then was) and the Armed Forces Pay Review Body. There are now eight pay review bodies:

- Armed Forces' Pay Review Body
- Review Body on Doctors' and Dentists' Remuneration
- NHS Pay Review Body
- Prison Service Pay Review Body
- School Teachers' Review Body
- Senior Salaries Review Body (formerly the Top Salaries Review Body)
- Police Remuneration Review Body
- National Crime Agency Remuneration Review Body

The individual PRBs are supported by a secretariat - the Office of Manpower Economics (OME) - a non-departmental body sponsored by, but independent of, the Department for Business, Energy and Industrial Strategy. The OME's page on Gov.uk states that the PRBs currently

> make recommendations impacting 2.5 million workers – around 45% of public sector staff – and a pay bill of £100 billion[29]

While the specific PRB cycles vary somewhat, they all follow the same process year-on-year. Ministers issue PRBs with their remits; the PRBs commission research and receive representations, then evaluate this; the PRBs make their recommendations in a report submitted to Government and laid before Parliament; the Government then announces its response to those recommendations. The public sector pay policy is restated in the PRBs remits and they are expected to make recommendations within those constraints. For the 2017/18 pay round, at the time of writing, three PRBs have reported: the NHS Pay Review Body; the Armed Forces' Pay Review Body; and the Review Body on Doctors' and Dentists' Remuneration.[30]

There is flexibility for the Government to award pay settlements in excess of the 1% cap in exceptional cases. For example, for the period 2016/17 the Prison Service Pay Review Body recommended, and the

[29] Office of Manpower Economics, About us, Gov.uk [accessed 7 July 2017]

[30] *NHS Pay Review Body Thirtieth Report 2017*, Cm 9440, March 2017; *Armed Forces' Pay Review Body Forty-Sixth Report 2017*, Cm 9437, March 2017; *Review Body on Doctors' and Dentists' Remuneration, Forty-Fifth Report 2017*, Cm 9441, March 2017

Government accepted, a 1.36% pay increase in recognition of challenges faced during a period of prison reform.[31]

Differing approaches are taken to public sector pay setting in areas not covered by PRB remits. For example, local government workers' pay and conditions are governed by a national framework – the Single Status Agreement – agreed through the National Joint Council for Local Government Services. Civil servants' pay is set at by individual departments. Firefighters' pay is set through negotiating machinery – the National Joint Council for Local Authority Fire and Rescue Services. Local government officials make up the employers' side while employees are represented by the Fire Brigades Union.

[31] Pay awards for over a million public sector workers, Gov.uk, 8 March 2016, [accessed 7 July 2017]

5. Recent debate

While public sector pay constraints have always been the subject of debate, this has intensified since the 2017 General Election. Labour moved an amendment to the 2017 Queen's Speech calling on the Government to end the pay cap:

> but respectfully regret that the Gracious Speech fails to end cuts to the police and the fire service; commend the response of the emergency services to the recent terrorist attacks and to the Grenfell Tower fire; call on the Government to recruit more police officers and fire-fighters; and further **call on the Government to end the public sector pay cap** and give the emergency and public services a fair pay rise.[32]

The amendment was defeated by 309 votes to 323.[33]

During Prime Minister's Questions on 5 July 2017, the Prime Minister was pressed repeatedly on the pay policy by the Leader of the Opposition, who asked for clarification on whether the cap remains in force:

> On Monday, the announcement was that the public sector pay cap at 1% remains, and a rare moment of agreement between Nos. 10 and 11 was seen, but yesterday we heard news that firefighters will be offered 2% this year and 3% next year, so can the Prime Minister confirm whether the public sector pay cap will remain for all other public servants until 2020?[34]

The Prime Minister responded:

> For the information of the House, perhaps I can just set out what the current position is. Three public sector pay review bodies reported in March—they covered doctors and dentists, NHS staff including nurses, and the armed forces—and the Government accepted the recommendations of all three. The firefighters' award is not determined by the Government—it is determined by the employers—and is not subject to a pay review body. There are outstanding pay review body reports that cover teachers, prison officers, police officers and those on senior salaries.[35]

Later that day, an urgent question tabled by the Shadow Chancellor of the Exchequer, John McDonnell, asked the Government to set out its public sector pay policy. The Chief Secretary to the Treasury, Elizabeth Truss, set out the policy as follows:

> Government pay policy is designed to be fair to public sector workers, who work so hard to deliver these strong public services, but we must also ensure that we are able to provide those public services on a sustainable basis for the future. In many services, workers have received pay additional to the 1% national increase. Teachers had an average pay rise of 3.3% in 2015-16. More than half of nurses and other NHS staff had an average increase of over 3% in 2016. Military service personnel also saw an average additional increase of 2.4%. Salaries in the public sector remain comparable to those in the private sector. In addition, many

32 HC Deb 28 June 2017 c600
33 HC Deb 28 June 2017 cc699-702
34 HC Deb 5 July 2017 c1158
35 Ibid., cc1158-1159

> benefit from higher pension entitlements. They also benefit from the rise in the personal allowance, worth £1,000 to a basic-rate taxpayer.
>
> We are currently completing the pay review process for 2017-18. We have accepted the pay review body recommendations made for doctors, the NHS and the armed forces. We will be looking very carefully at the recommendations on the remainder and making determinations in the usual way. As the Chancellor said on Monday, our policy on public sector pay has always been designed to strike the right balance of being fair to our public sector workers and fair to those who pay for them. That approach has not changed, and the Government will continually assess that balance.[36]

Ms Truss confirmed later[37] that these pay awards in excess of the 1% policy were the result of progression pay, which, as noted above, is for many public sector workers a legal entitlement and not subject to the cap.

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36 HC Deb 5 July 2017 c1171
37 Ibid., c1173

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