Public Sector Pay – Press Briefing

Introduction

In 2011/12, the government imposed a two year pay freeze which was followed by a 1 per cent pay cap on the public sector pay bill until 2015/16. The 1 per cent cap was renewed for a further four years in the 2015 Spending Review.

Impact on public sector workers

A decade of pay restraint is having a significant impact on public sector workers' pay. The table below shows real terms pay loss of earnings for a variety of public sector occupations

Mapping pay growth at the top of the relevant pay band for each of the occupations against both CPI and RPI inflation, we are able to show how much less each occupation will be earning in 2020 compared to 2010 – using today's prices.

Real terms pay cuts by public sector worker, 2010 - 2017

Occupation	Pay in 2017 (£)	Pay in 2010 at CPI in 2017 prices (£)	Nominal real terms pay cut at CPI (£)	Pay in 2010 at RPI in 2017 prices (£)	Nominal real terms pay cut at RPI (£)
NHS Paramedic	35,577	39,435	3,858	41,717	6,140
Teacher	33,160	35,574	2,414	37,633	4,473
Prison Officer	29,219	33,038	3,819	34,930	5,731
Lifeguard	22,658	24821	2163	26257	3,599
NHS Specialist Dietician	35,577	39,435	3,858	41,717	6,140
Firefighter	29,638	32,526	2,888	34,408	4,770
Nuclear Maintenance Engineer	33,633	36,224	2,591	38,320	4,687
Crown Prosecutor	58,679	63083	4,404	66,735	8,056
NHS Ancillary staff	15,671	16,568	**897**	17,527	**1,856**

This is leading to a considerable squeeze on the living standards of public service workers and a decline in workforce morale as a result.

A significant majority of respondents to union member surveys are feeling the pinch. In the NHS, 63 per cent of UNISON members responding and 79 per cent of Unite members saying they felt worse off than they did 12 months ago.

Many of the 21,000 health service members responding to the UNISON pay survey of October 2016 stated that increased food, transport, utility and housing costs were having a serious impact on their cost of living.

Alarmingly, two thirds of staff had used financial products or made a major change to their standards of living over the last year. Of that group:

- 73% asked for financial support from family or friends
- 20% used a debt advice service
- 17% had pawned possessions
- 16% used a payday loan company
- 23% moved to a less expensive home or re-mortgaged their house
- Just over 200 respondents said that they had used a food bank in the last year.

Public service workers are also squeezed with other increased costs

School teacher union, the NASUWT points out that, from 2012 to 2014, teachers saw an average 3.2 per cent increase in pension contributions, which translated into an employee contribution structure of 9.6 per cent from 2014 onwards. This means that, in addition to a real-terms pay cut, in 2017/18 a teacher at the top of the main pay band will expect to pay an additional pension contribution of £589 when compared with their 2012 pension contribution

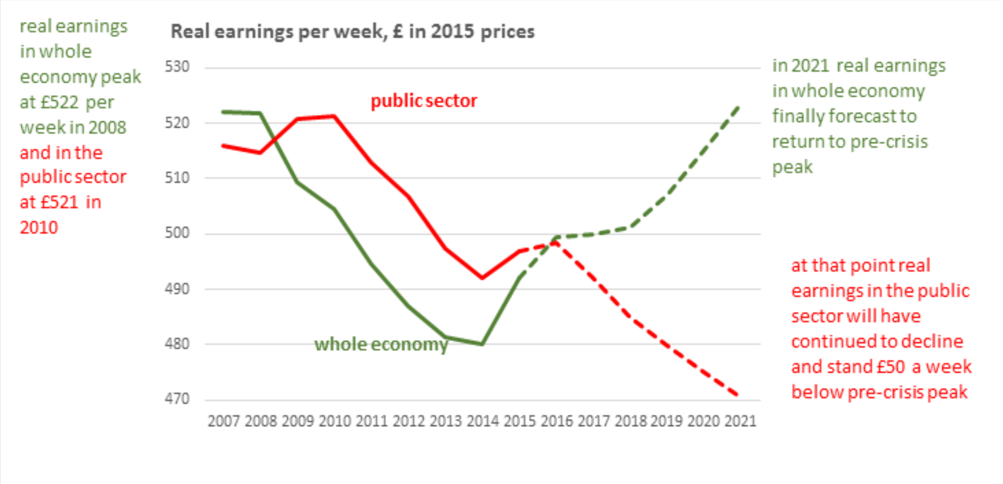
Midwives have also seen their pension contributions rise substantially, with the majority of midwives seeing their contribution rise from 6.5% to 9.3% from 2012 to 2015. Additionally, the changes to the second state pension resulted in increases to national insurance contributions for members of the NHS pension scheme by 1.4% from 2016. Midwives have seen increases of over 30% to their Nursing and Midwifery Council (NMC) registration fees (midwives must pay their fees to legally work as a midwife).

Public v Private Sector Pay

Analysis by the TUC shows that real terms pay growth in the public sector is set to decline significantly against real wage growth in the wider economy, according to OBR forecasts at the time of the 2016 Autumn Statement.

The chart below shows that public sector pay will have declined by 15 per cent from its pre-crisis peak, lagging behind growth in the wider economy from 2016 onwards.

Public sector v whole economy real earnings growth 2007 – 2021



In their Green Budget of February 2016, the Institute for Fiscal Studies states that:

The government's announced 1% limit on annual pay increases for a further four years from 2016–17 is therefore expected to reduce wages in the public sector to their lowest level relative to private sector wages since at least the 1990s. This could result in difficulties for public sector employers trying to recruit, retain and motivate high quality workers, and raises the possibility of (further) industrial relations issues.

Impact on the wider economy

As well as the impact on public sector workers' living standards and its contribution to growing morale, recruitment and retention problems, public sector pay restraint also has a significant macro-economic impact.

As the government attempts to stimulate economic growth in different parts of the country, it is worth noting the impact that public sector wage restraint has had by taking disposable income out of local economies.

The table below provides an indication of this. Looking at different regions of England, we mapped the average real terms loss of earnings of public sector workers over the last six years (using CPI inflation) against the number of FTE public sector jobs in 2016 to estimate the total loss of disposable income from those local economies.

Total loss of disposable income in regional economies 2010 – 2016 through public sector pay restraint

Region	Real terms pay gap in 2016 per worker (£)	Cumulative loss of real terms earnings 2010 – 2016 per worker (£)	Total public sector FTE jobs in 2016 (000s)	Total loss of disposable income 2010 – 2016 (£bn)
North East	689	7,666	243	1.8
North West	584	5,740	643	3.7
Yorkshire and Humber	819	6,101	489	3.0
East Midlands	1,805	9,974	303	3.0
West Midlands	828	6,825	441	3.0
East	1,140	4,533	461	2.1
London	2,202	11,997	756	9.1
South East	680	5,109	617	3.1
South West	1,220	7,464	420	3.1

How affordable are public sector pay rises?

The Institute for Fiscal Studies has estimated the increase in employment costs (including NI and pension contributions) to central and local government as a result of plans set out in the Labour and Lib Dem manifestos, compared with current government policy of a 1 per cent cap to 2019/20.

Their figures show the extra amount that departments and local government would need to receive in funding to pay for the higher wage bill, without making any offsetting reductions in staffing or further cuts to non-wage costs.

Their estimate assumes that, under Labour plans, public sector pay would rise at the same rate as private sector pay. Lib Dem plans are costed on the basis of public sector pay rising in line with inflation.

They estimate the costs as follows:

Table 1. Estimated increase in funding needed for central and local governments to increase public sector pay under Labour and Liberal Democrat plans compared to current Conservative government policy

	Increase in required funding per year for central and local government in:	
	2019–20	2021–22
Labour	6.3bn	9.2bn
Of which: NHS	*2.0bn*	*2.9bn*
Liberal Democrat	4.1bn	5.3bn
Of which: NHS	*1.3bn*	*1.6bn*

Source: Author's calculations using ONS series NMXS (Total Compensation of general government employees), Office for Budget Responsibility Economic and Fiscal Outlook March 2017 and Labour and Liberal Democrat party manifestos.

What does this mean in terms of total public spending?

Mapping these estimates against spending plans set out in the Treasury's Public Expenditure Statistical Analysis (PESA) 2016 for 2019/20 we can see the following:

2019/20	Cash increase	Total Managed Expenditure (TME)	Resource Departmental Expenditure Limits (RDEL)
		810.4bn	**340.3bn**
In line with private sector wage growth	6.3bn	0.8%	1.9%
In line with CPI inflation	4.1bn	0.5%	1.2%

What this tells us is that:

- Increasing in line with private sector wage growth would mean an increase of 0.8 per cent in total public expenditure in 2019/20 – however this includes all spend, including departmental, annual managed expenditure (welfare, tax credits, pensions) and capital.
- A more accurate comparison would be departmental resource spending, which would need to rise by 1.9 per cent in 2019/20.