



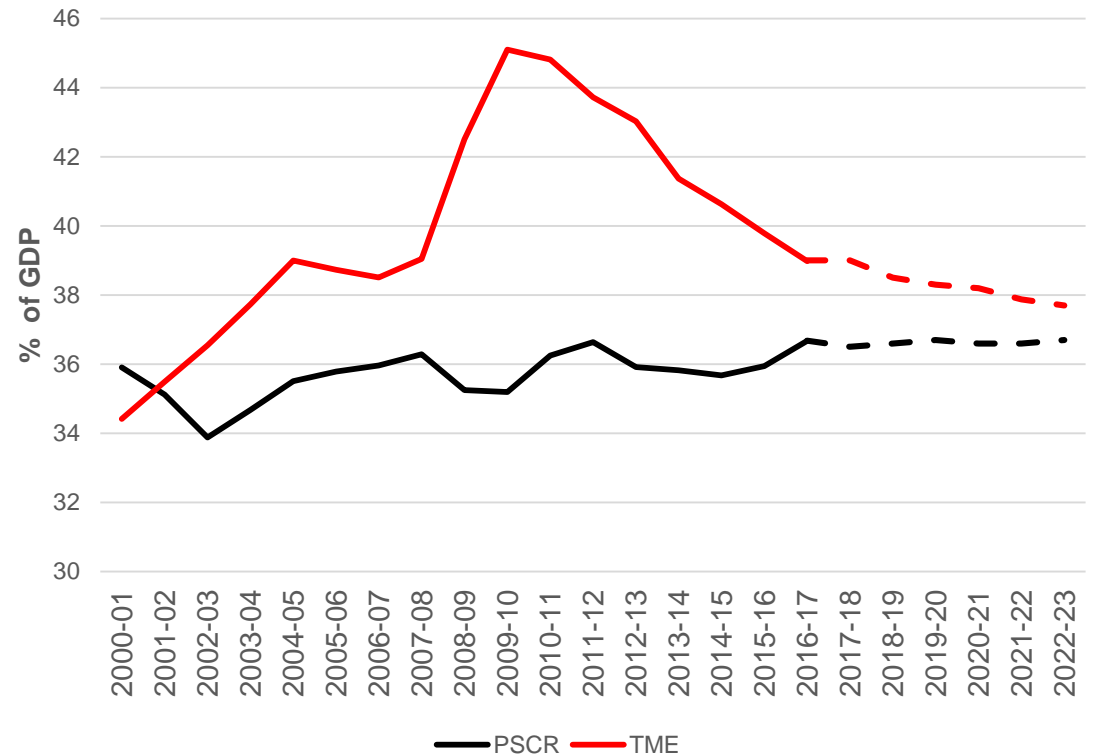
HM Treasury

# Public Sector Pay in the UK

# Public spending control

- Total spending as share of GDP expected to fall to 37.7% in 2022/23
- Office for Budget Responsibility forecast debt to peak this year and the deficit will reach 1.1% GDP in 2022/23
- Public sector paybill is c. £180bn, almost £1 in every £4 the UK government spends
- Pay-bill is comprised of several components:
  - Base pay
  - pension contributions
  - National Insurance contributions
  - other elements of pay (e.g. allowances)

## Public Sector Current Receipts vs Total Managed Expenditure

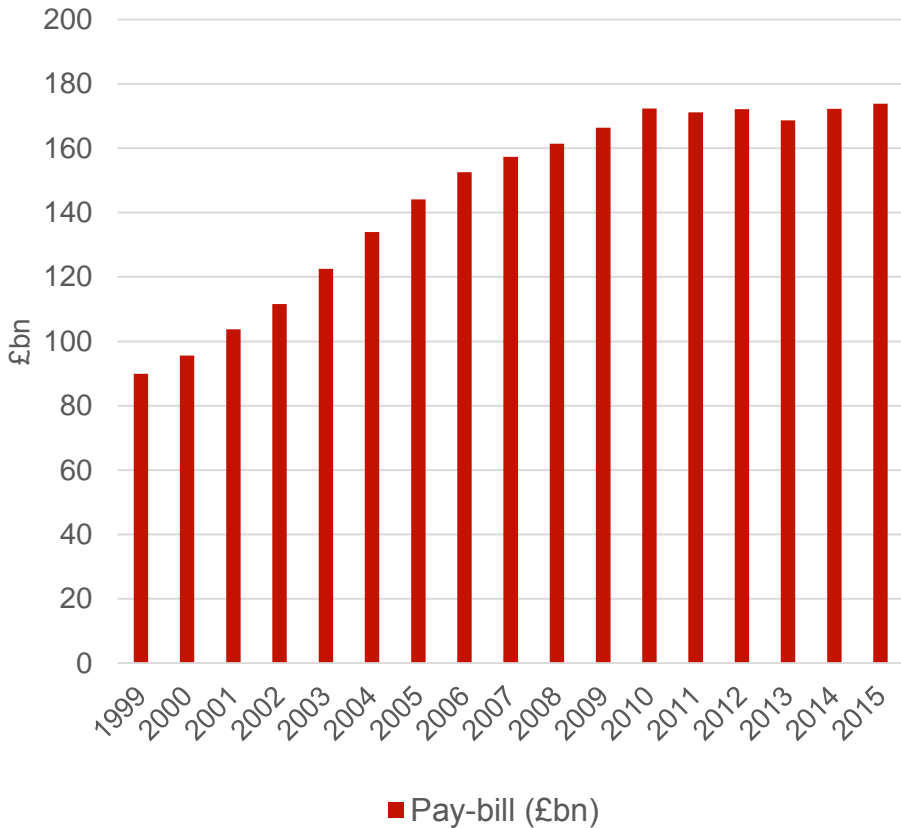


Source: Office for Budget Responsibility



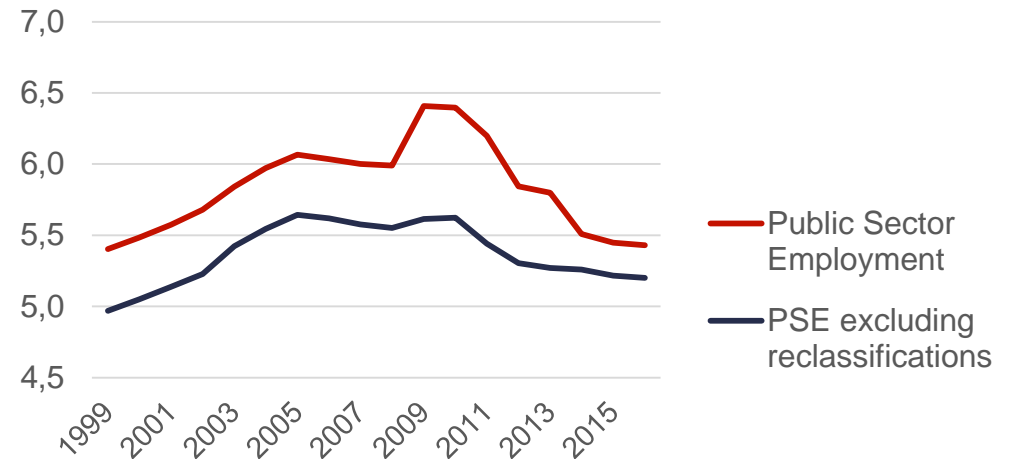
# Total public sector pay-bill and headcount

## Public sector pay-bill

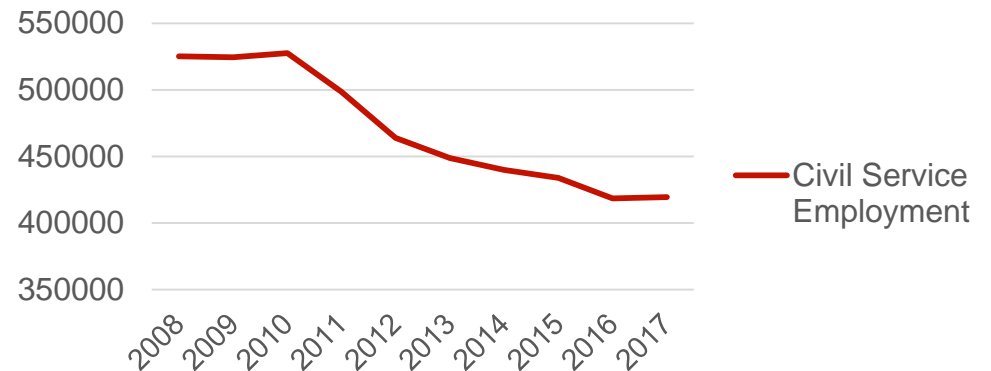


Sources: Office for National Statistics (Blue Book, Public Sector Employment statistics and Civil Service Statistics)

## Public sector employment, millions



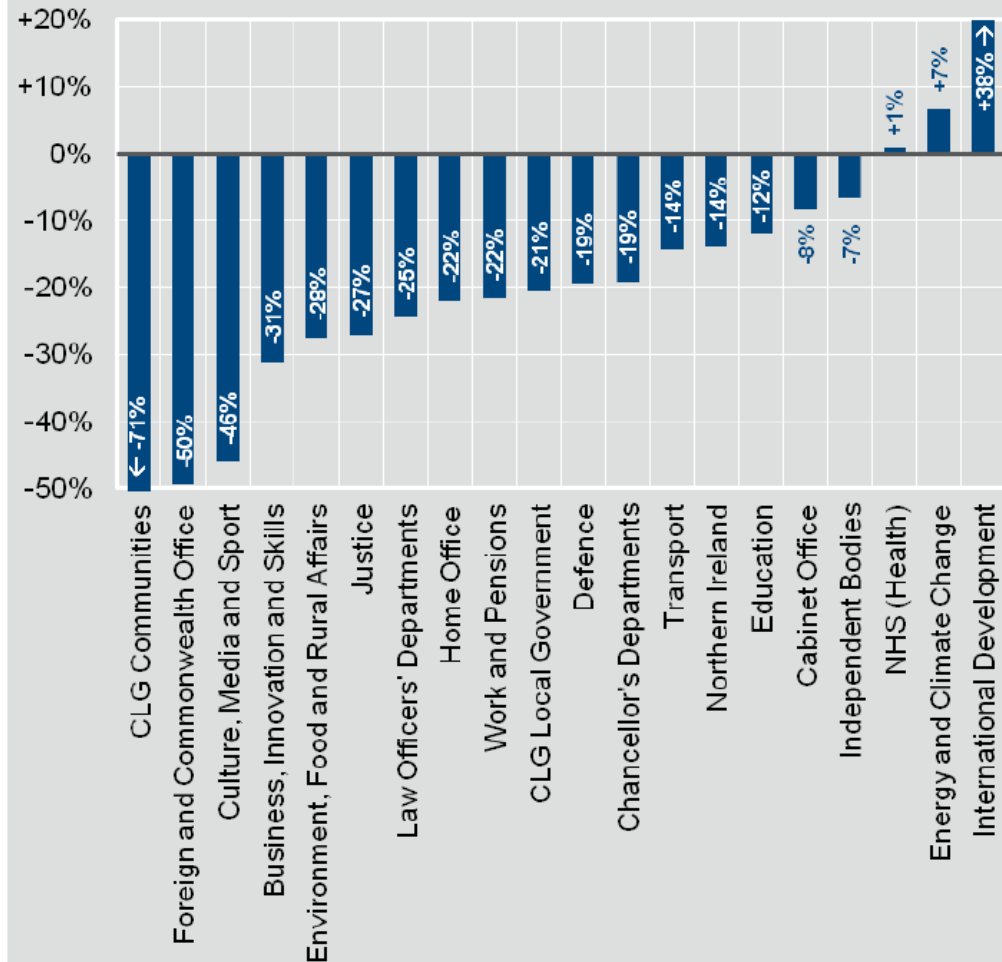
## Civil Service Employment



# The 2010 Comprehensive Spending Review

- The 2010 Comprehensive Spending Review sought to identify efficiency savings across the public sector
- It had different impacts by department and had an impact on workforce planning decisions
- Reductions for the Department for Culture, Media and Sport include Olympics-related expenditure. Excluding Olympics-related expenditure, the reduction would be 24% rather than 46%

Real-terms changes in Departmental Expenditure Limits over the 2010 Comprehensive Spending Review period

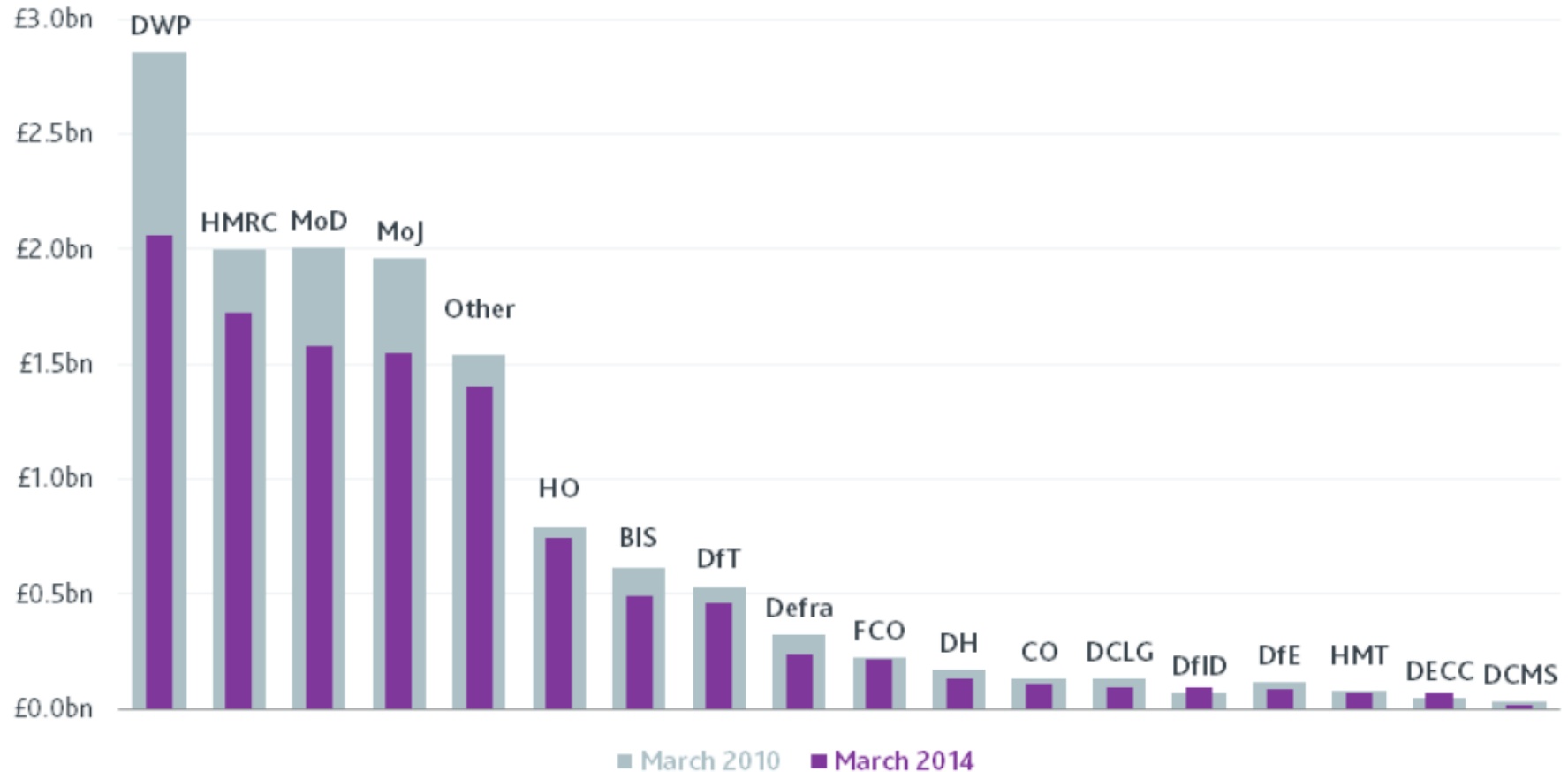


Source: Public Expenditure Statistical Analysis, 2011

# Pay-bill changes in Central Government

Between 2010 and 2014, annualised Civil Service salary costs decreased by around £2.5 billion.

Change in staff salary costs, March 2010 to March 2014, by departmental group (March 2014 prices)



Source: IfG analysis of data provided by NAO, *Central Government Staff Costs* (2015), from ONS Annual Civil Service Employment Survey, 2010 to 2014.

# Pay policy and fiscal events

- *“The Government announces a two-year pay freeze for public sector workforces, except for workers earning less than £21,000 a year who will receive an increase of at least £250 per year in these years. This will save £3.3 billion a year by 2014-15”*

**Emergency Budget, 2010**

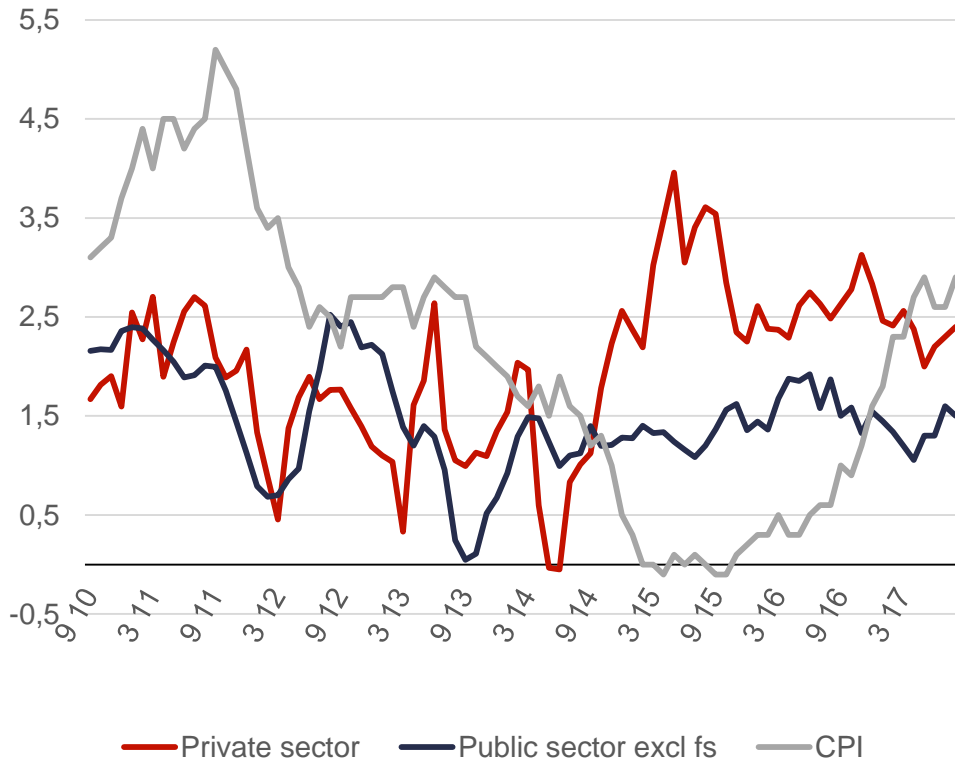
- *“In the last Parliament, the government exercised firm restraint over public sector pay to deliver reductions to departmental spending, saving approximately £8 billion”*
- *“The government will fund public sector workforces for a pay award of 1% for 4 years from 2016-17 onwards. This will save approximately £5 billion by 2019-20.<sup>42</sup> The government expects pay awards to be applied in a targeted manner within workforces to support the delivery of public services”*

**Summer Budget, 2015**

Fiscal event	Emergency Budget 2010			Autumn Statement 2011		Budget 2013	Summer Budget 2015			
	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20
<b>Award for majority of public sector</b>	-	0%	0%	1%	1%	Up to 1%	1%	1%	-	-

# Pay trends in the public and private sector

Total Pay: 3 month average growth rate:  
September 2010 - August 2017



Source: Average Weekly Earnings, Labour Market Statistics, October 2017. Office for National Statistics

Hourly % public sector pay premium,  
controlling for personal characteristics



Source: HM Treasury analysis based on Annual Survey of Hours and Earnings data, comparing the average hourly earnings of public and private sector workers with similar characteristics

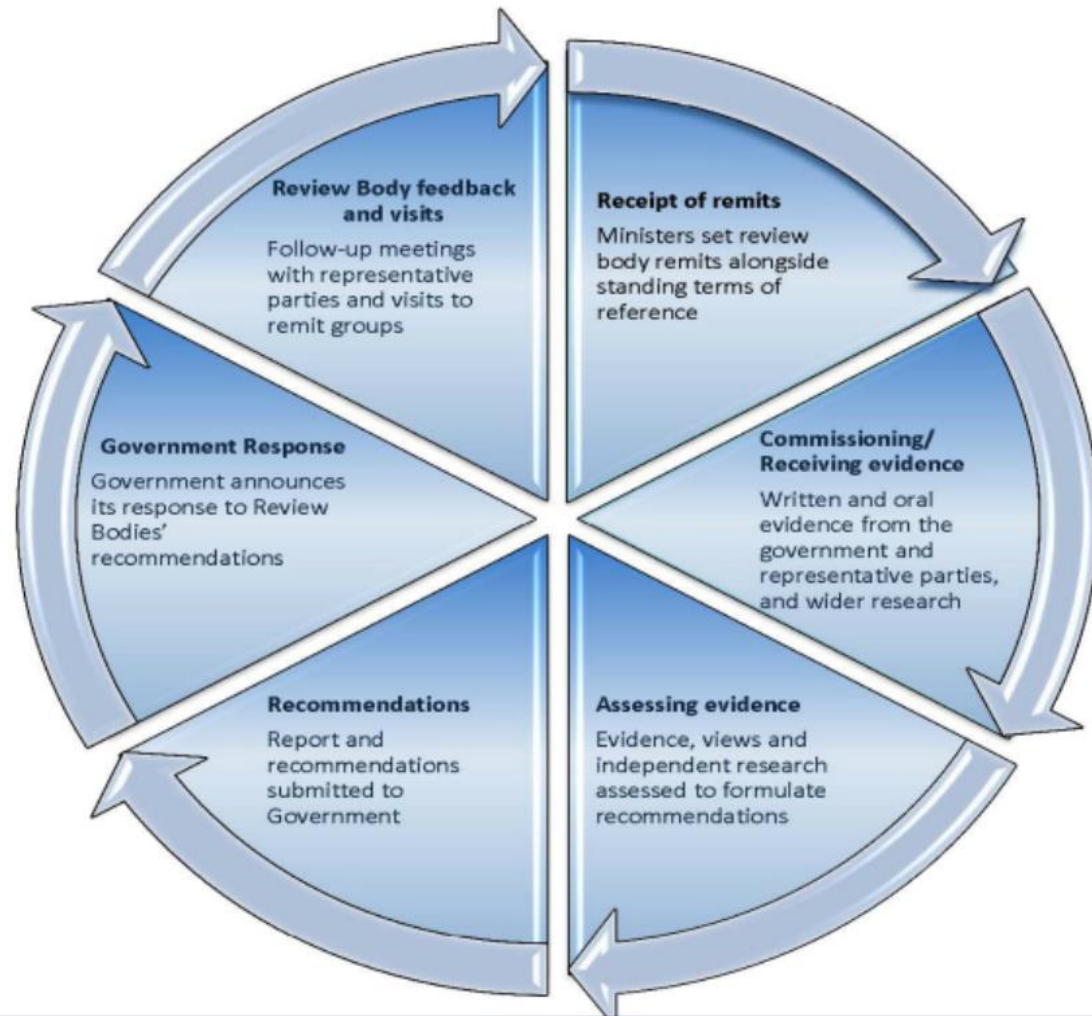
# Central Government's role in the Annual Pay Round

Workforce	% of total	Pay process
<b>Civil Service</b>	10%	HM Treasury sets overall parameters. Departments set individual pay remits
<b>Pay Review Body (PRB) workforces</b>	40%	Independent PRBs produce annual recommendations which the Government can accept or reject
<b>Other workforces</b> <i>(Devolved Administrations, Local Government, Public Corporations)</i>	50%	Pay set independently from Central Government



# The Pay Review Body (PRB) Process

- Eight independent PRBs specialise in different workforces
- Departments, HMT and unions provide evidence to support PRBs' work
- PRBs provide evidence-based pay recommendations to the Government
- The Government decides whether to accept or reject the recommendations



Source: Office for Manpower Economics

## Remit Timetables

While the review bodies follow a similar process, they operate independently of each other and their timetables (from receipt of remit to submission of recommendations) vary:

- The timetables for AFPRB, DDRB, NHSPRB, PSPRB and SSRB typically run from October to February; STRB from October to April; NCARRB and PPRB from December to June.
- Individual Review Body pages provide more details about the latest remits.

# Pay Remits for the Civil Service

	Description	Pay remit
<b>Senior Civil Service</b>	<ul style="list-style-type: none"> <li>Comprises Deputy Directors and higher grades</li> <li>Pay-setting is centrally controlled from the Cabinet Office</li> </ul>	<ul style="list-style-type: none"> <li>The Senior Salaries Review Body produces annual recommendations to the Government</li> </ul>
<b>Delegated Grades</b>	<ul style="list-style-type: none"> <li>Comprises middle management and more junior grades</li> </ul>	<ul style="list-style-type: none"> <li>Departments set remits within delegated Civil Service Pay Guidance boundaries</li> </ul>
<b>Prison Service and National Crime Agency (NCA)</b>	<ul style="list-style-type: none"> <li>Prisons were recently formally integrated into the Civil Service. The NCA was a newly created organisation</li> </ul>	<ul style="list-style-type: none"> <li>The NCA Pay Review Body and the Prison Service Pay Review Body produce annual recommendations to the Government</li> </ul>

# Pay Flexibility

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## **“Pay-bill control” pilots, announced at Autumn Statement 2013**

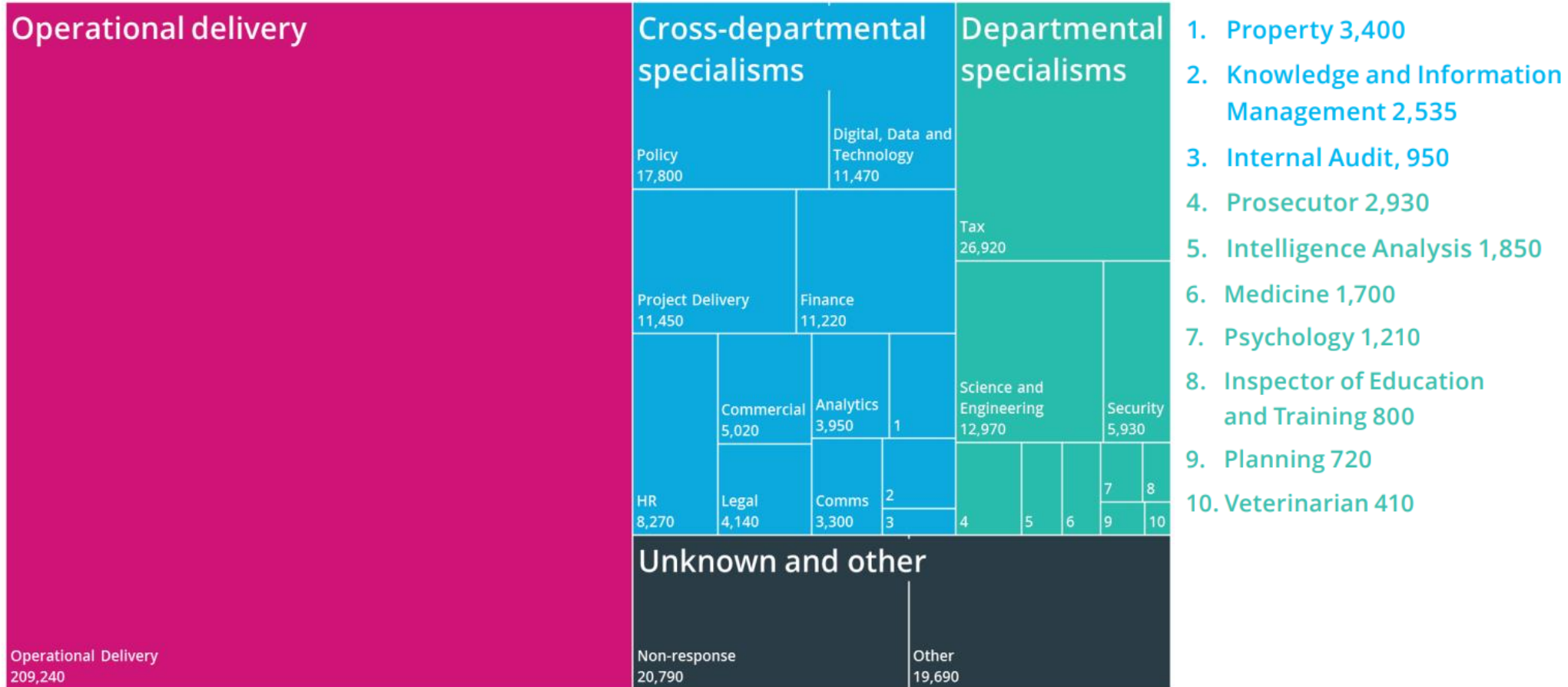
- Department negotiates pay-bill total and can then recycle savings into pay awards
- Two organisations were selected: Department for the Environment, Food and Rural Affairs (DEFRA), and the Intellectual Property Office (IPO)
- DEFRA adopted new pay award matrix, targeting consolidated pay to higher performers

## **Pay flexibility during Spending Review 2015**

Strict access criteria:

- Evidence of significant Recruitment and Retention challenges
- Benchmarking showing organisation is comparatively low payer
- Transformational workforce plan
- Transformation must generate the savings to fund flexibility
- Business case to be submitted during the Spending Review

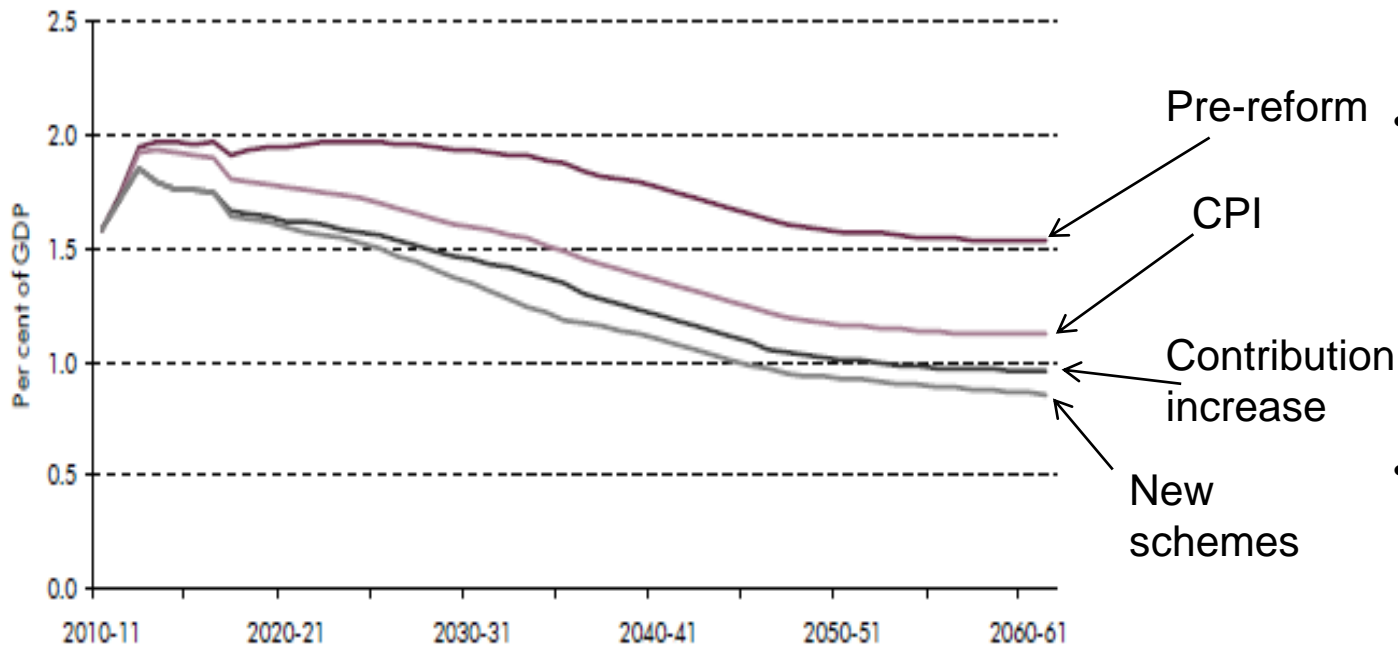
# Civil Service composition by function (March 2017)



Source: Institute for Government (2017a)

# Pension reform

**Spending in 2061-62 will be 0.9% of GDP rather than 1.5% without these changes**



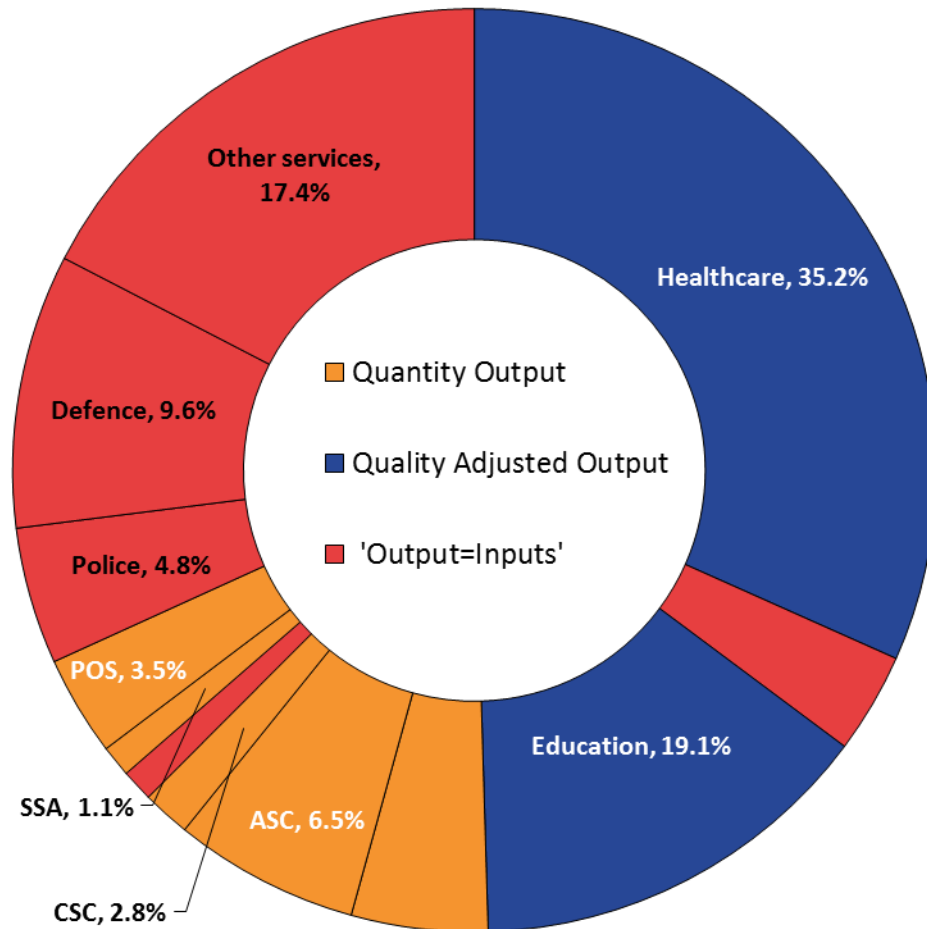
Source: OBR Fiscal Sustainability Report, March 2012

- Indexation for pensions in payment changed from Retail Price Index to Consumer Price Index
- Employee contribution rates were increased by 3.2 percentage points on average over three years from 2012
- Final-salary schemes changed to career-average schemes with later retirement ages

# Other measures

- Senior pay: small proportion of pay-bill, but publicly significant. Two commitments:
  - Accountability. All appointments on salaries above £142,500 need sign-off from the Chief Secretary to the Treasury
  - Transparency. All earning over £150,000 will have their names published
  - Bonuses. Limited to top 25% performers
- Compensation reform
  - Cap. Exit payments capped at £95,000.
  - Claw-back. Those earning £80,000 who return to public sector employment less than two years after termination will have to return part of their exit payment, on a tapered basis
- Modernised terms and conditions
  - Progression pay
  - Changes to annual leave and sickness pay entitlements
  - Mobility and working hours
- National Living Wage increase, and protection of lowest earners in first two years of freeze.

# Productivity: measurement challenges

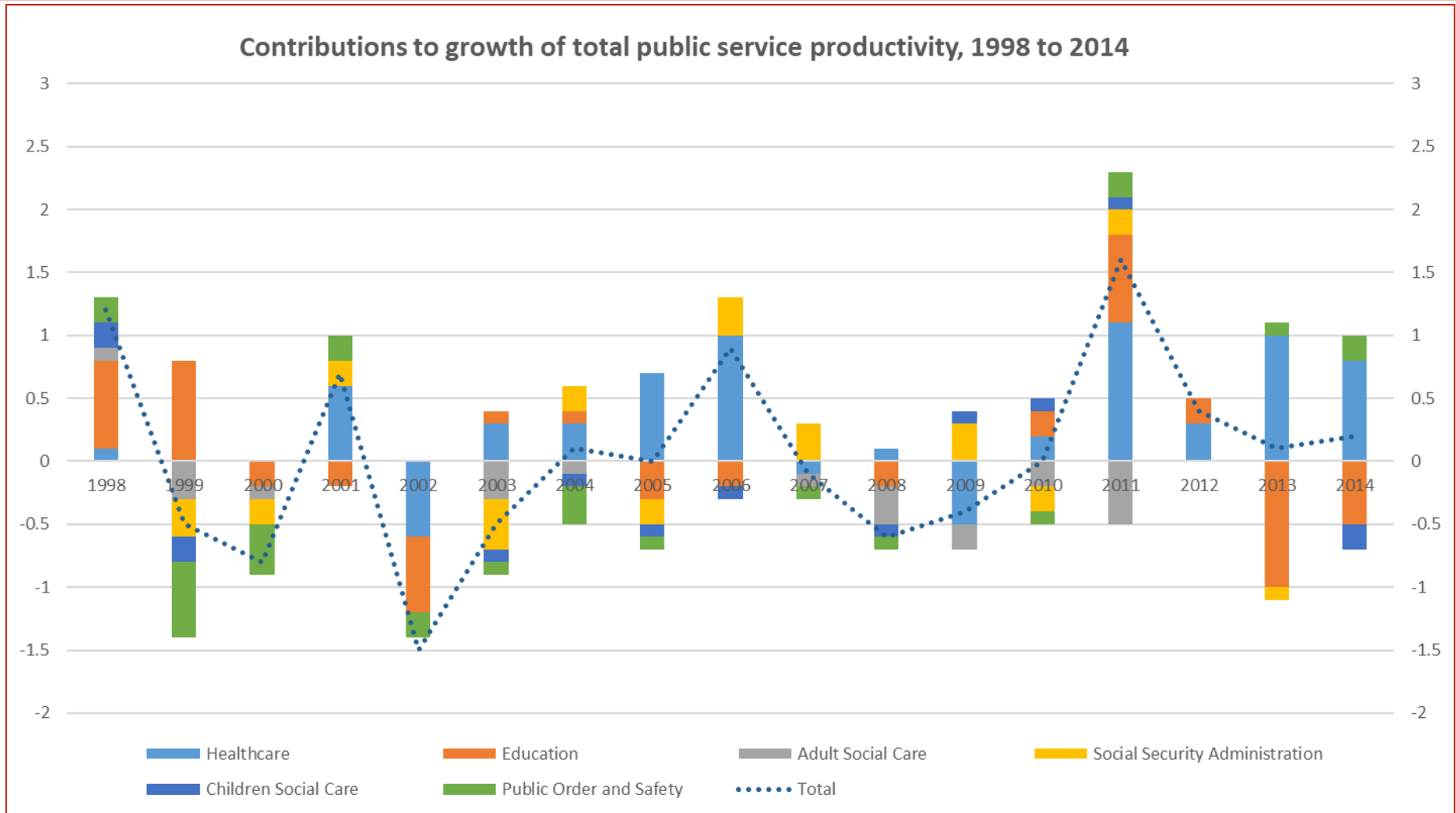


Output Measure	Coverage (%)
Quantity output	17%
Quality- adjusted output	46%
'Output = Inputs'	37%

- 37% of public sector expenditure has a very difficult measure of productivity (output = input)
- Of the remainder, most is Health, Education, and workforces Central Government has less direct control over (e.g. Social Care and Public Order and Safety)

Source: Office for National Statistics

# Productivity: trend since 1998

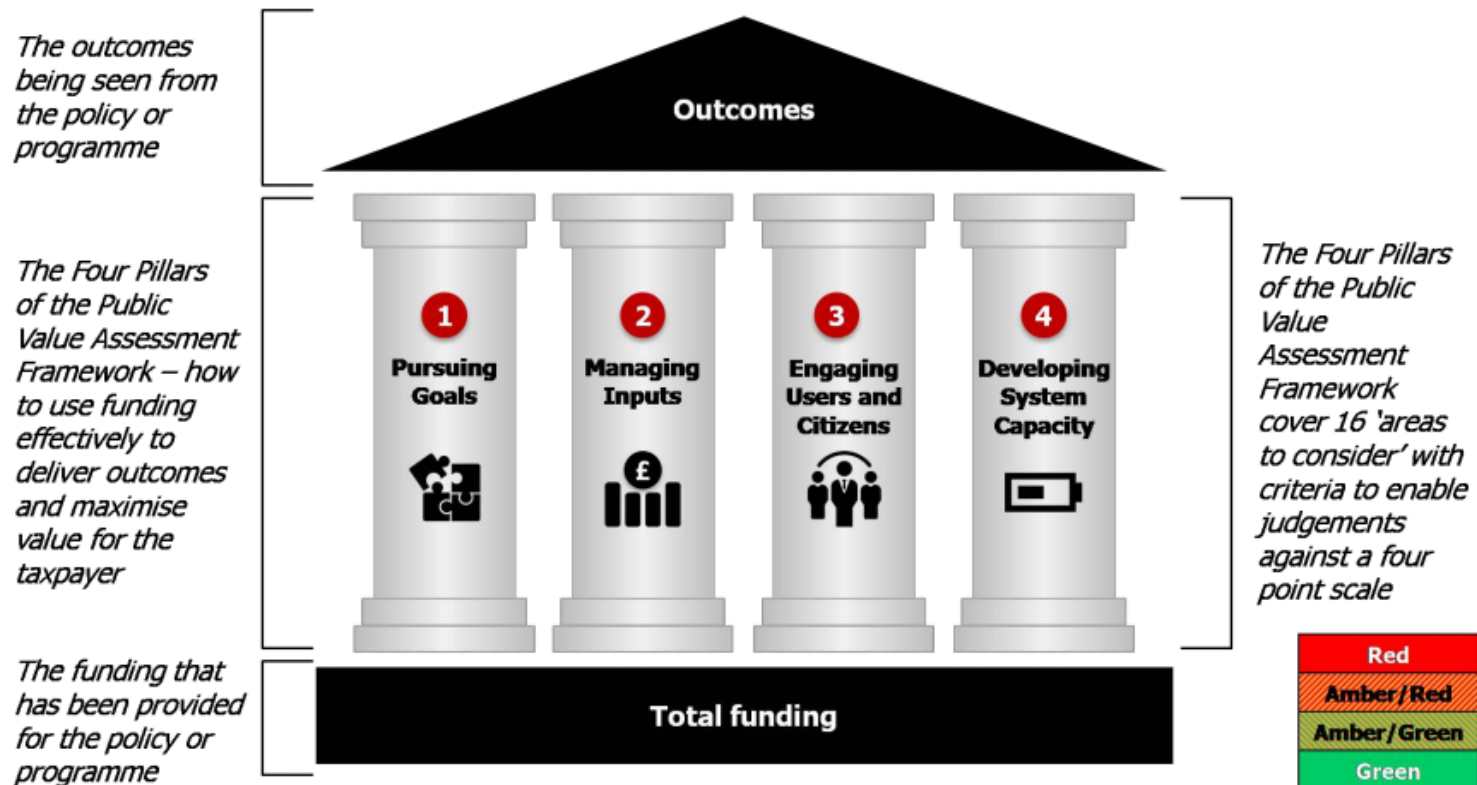


Source: Office for National Statistics



# Productivity: the Public Value Framework

Chart 4.A: Public Value Framework



Source

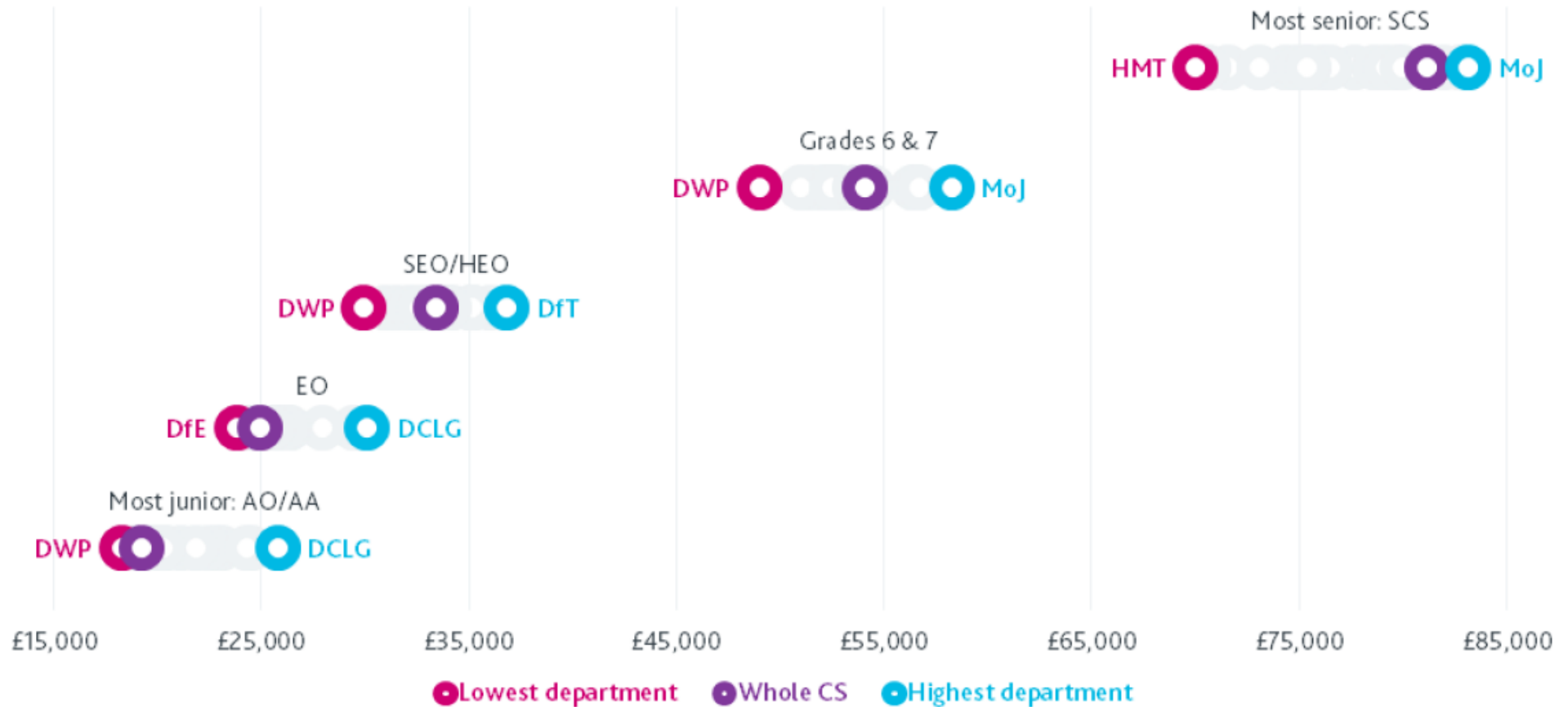
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# **Annexes and additional charts**

# Annexes and additional charts

Even within grades, there is a wide range of average earnings across Whitehall.

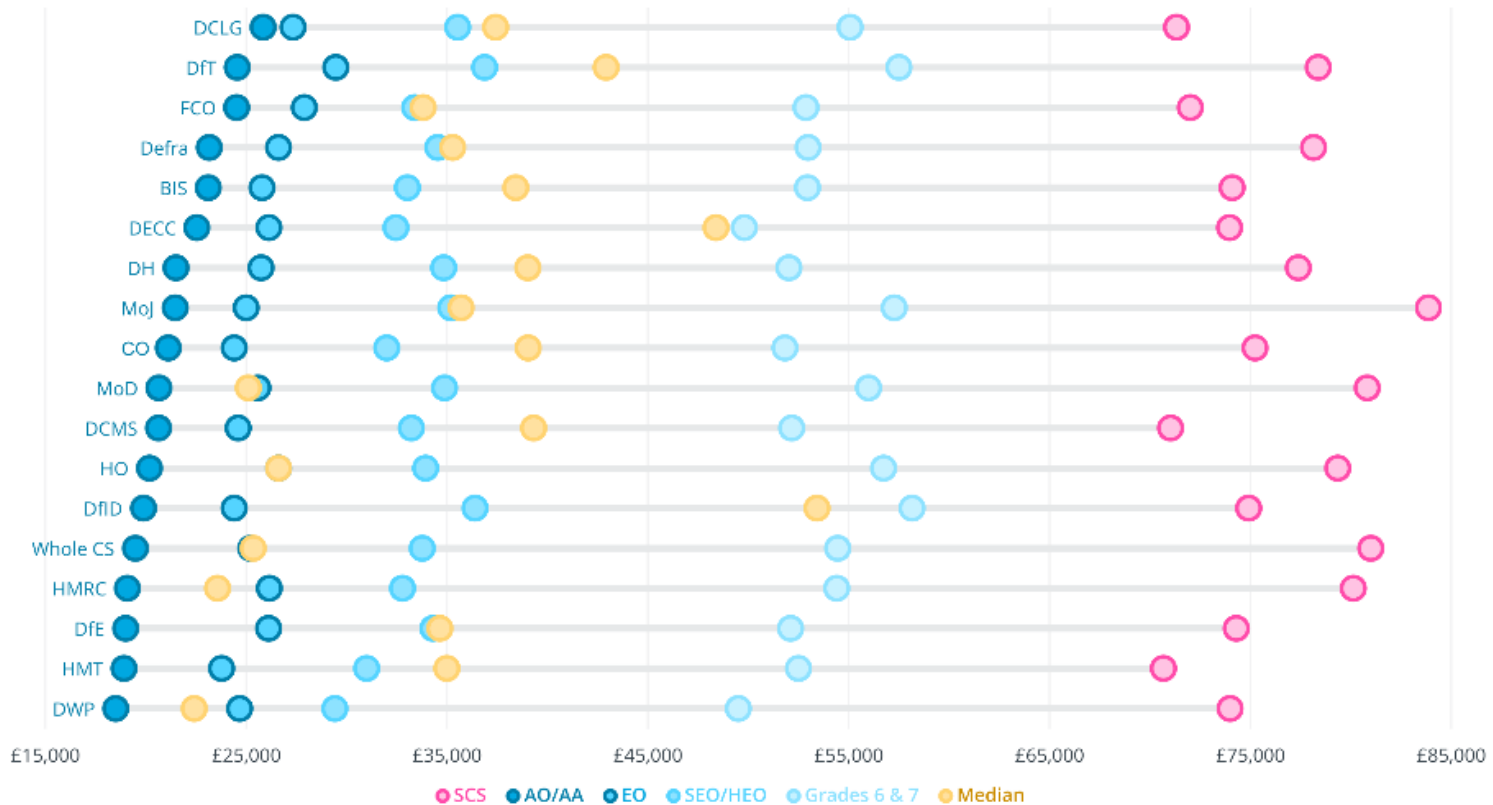
Median earnings by grade by core department (full time equivalent), 2015



Source: Institute for Government analysis of ONS Annual Civil Service Employment Survey, 2015. We use the core organisation as defined by the ONS.

# Annexes and additional charts

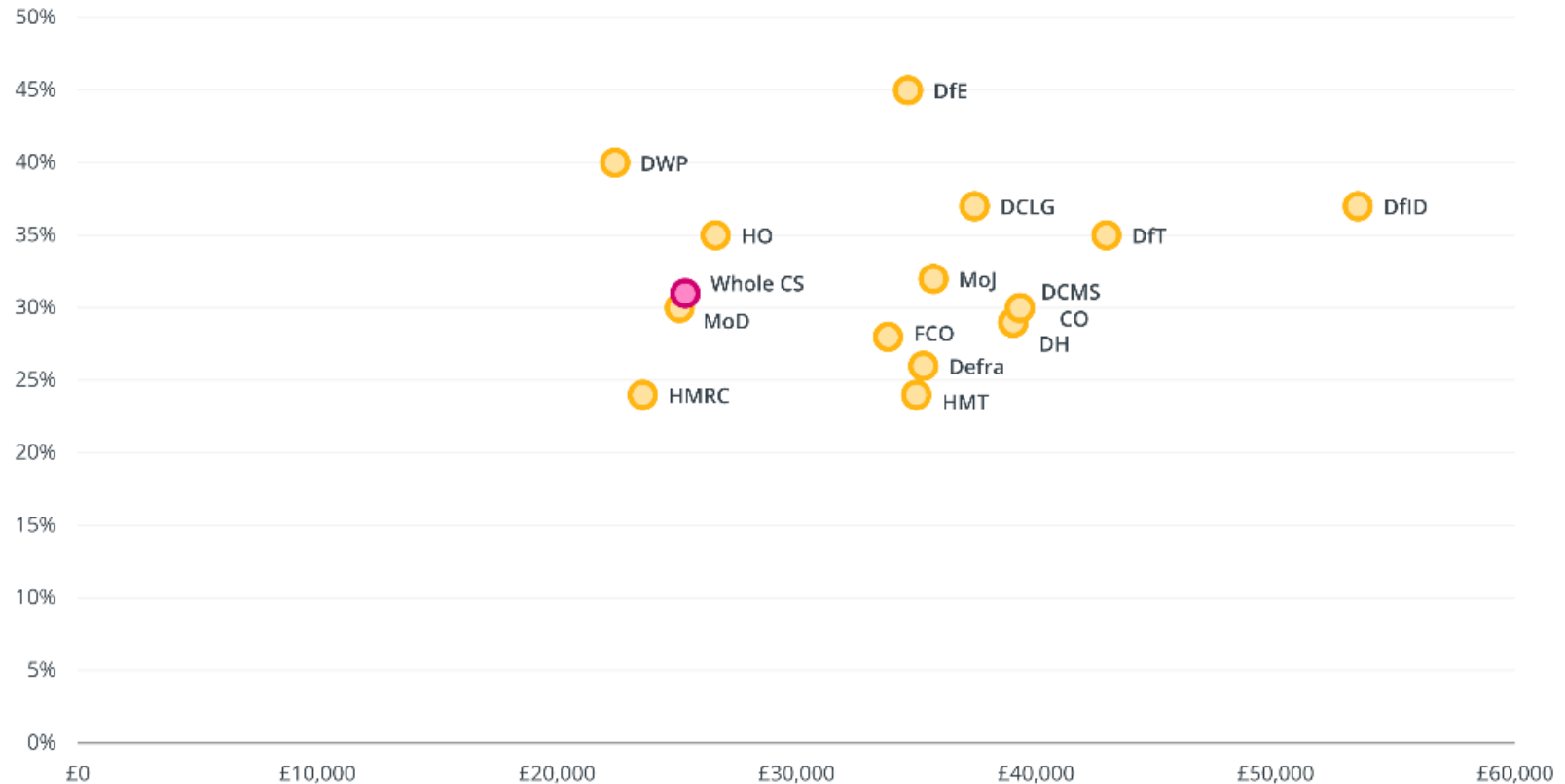
Median pay by grade, 2016



Source: Institute for Government analysis of ONS, Annual Civil Service Employment Survey, 2016.

# Annexes and additional charts

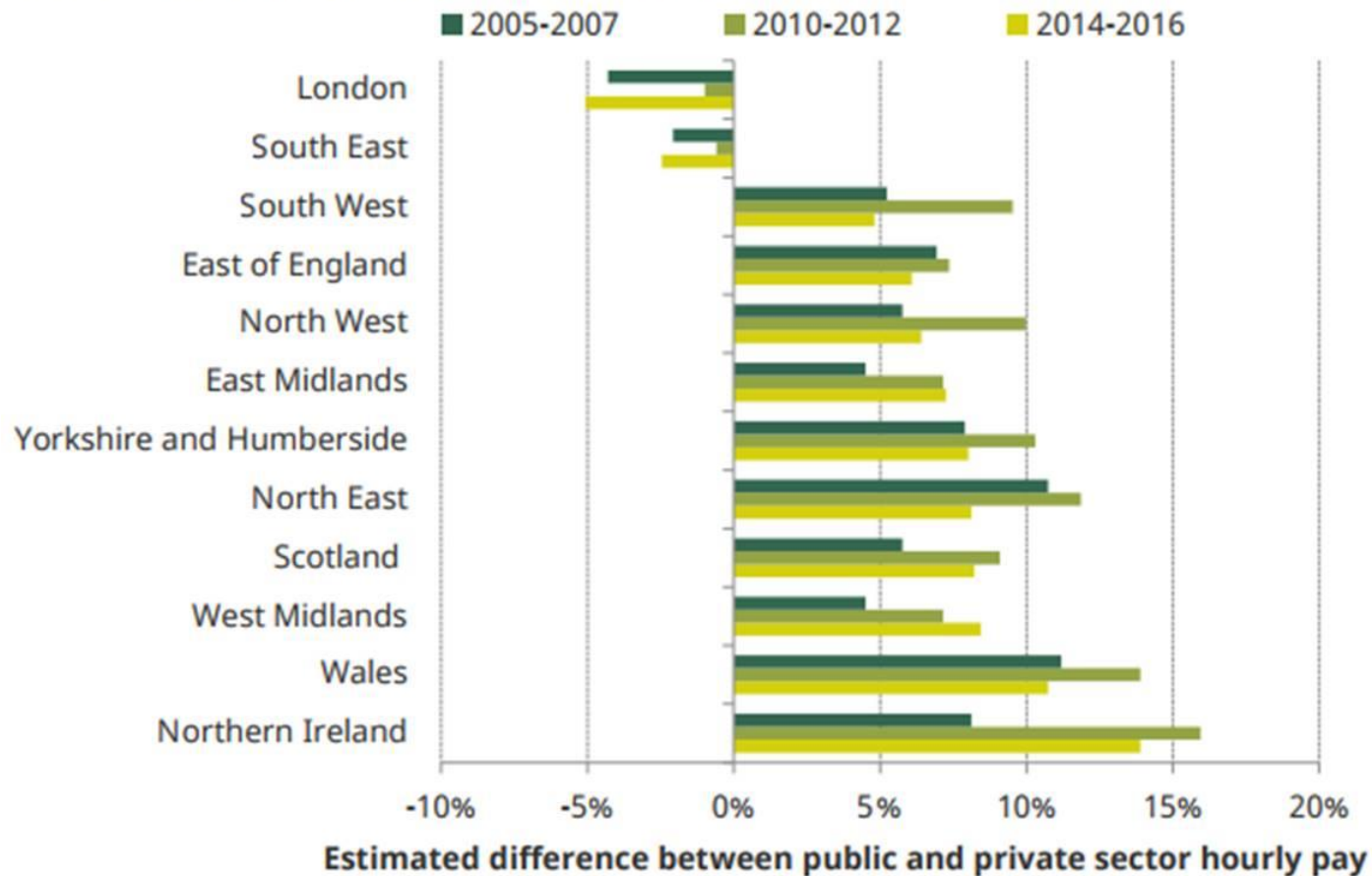
Departmental pay and benefits scores and average pay, 2016



Source: IfG analysis of ONS, Annual Civil Service Employment Survey 2016, and Cabinet Office, Civil Service People Survey, 2016.

# Annexes and additional charts

Figure 5. Differential between public and private sector hourly pay controlling for workers' characteristics, by region and nation of the UK



Source: Institute for Fiscal Studies

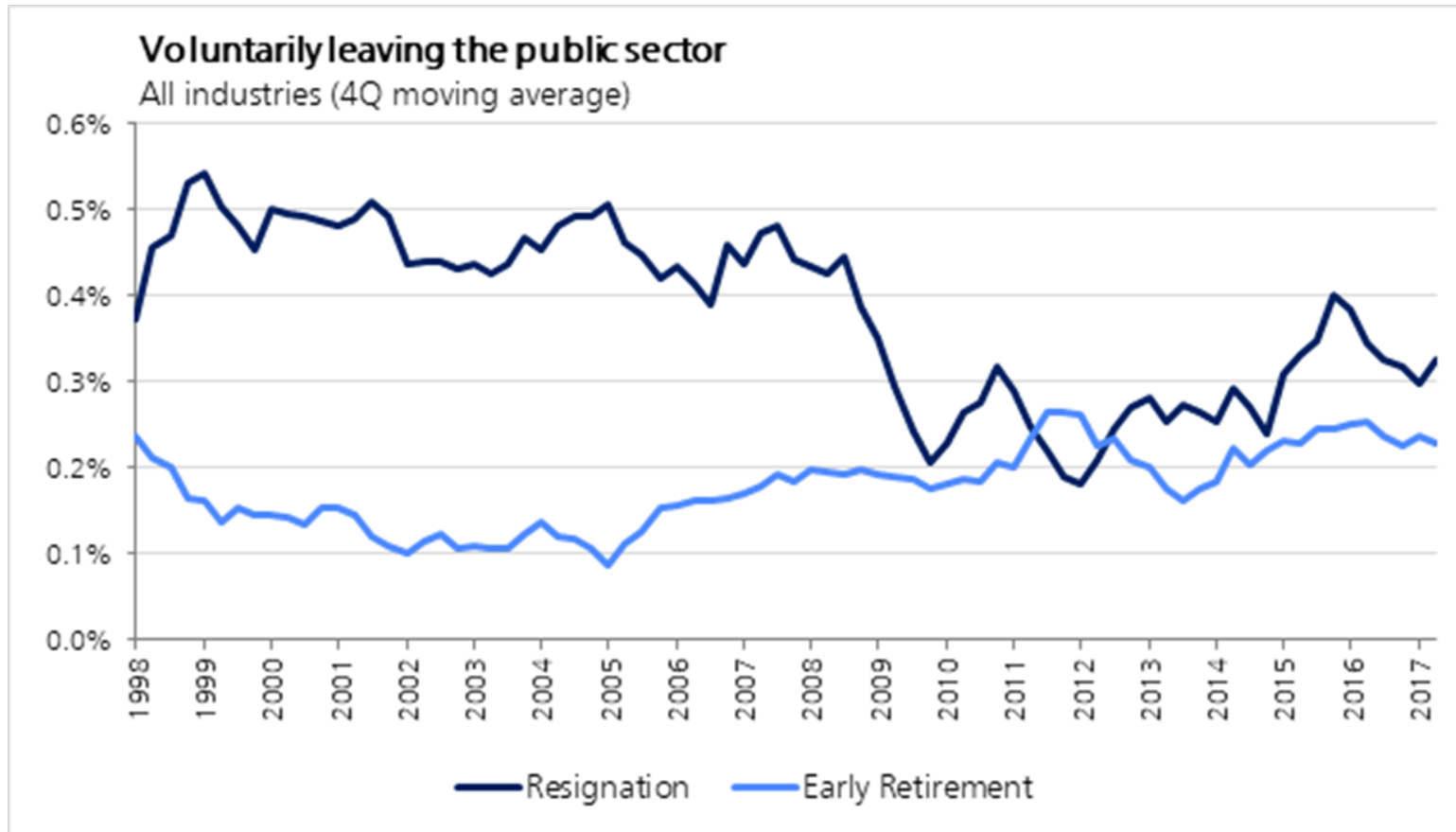
## Annexes and additional charts

Hourly % public sector pay differential compared to the private sector, by earnings percentile  
(controlling for personal characteristics)

	5th	10th	50th	90th	95th
2012	13.1	12.4	6.3	-3.3	-5.9
2013	12.6	11.9	4.7	-3.2	-6.4
2014	11.6	11.0	2.6	-4.8	-7.4
2015	11.8	11.0	2.7	-4.8	-7.3

Source: Office for National Statistics, 2015

# Annexes and additional charts



Source: HMT analysis using Annual Survey of Hour and Earnings data



# Annexes and additional charts

Chart 4.C: Areas to consider

Four Pillars	16 areas to consider
1. Pursuing Goals	<ul style="list-style-type: none"><li>i. Understanding goals and indicators</li><li>ii. Degree of ambition</li><li>iii. Progress towards indicators and goals</li></ul>
2. Managing Inputs	<ul style="list-style-type: none"><li>i. Processes to manage resources</li><li>ii. Quality of data and forecasts</li><li>iii. Benchmarking and cost control</li><li>iv. Cost shifting</li></ul>
3. Engaging Users and Citizens	<ul style="list-style-type: none"><li>i. Public and taxpayer legitimacy</li><li>ii. User/client experience and participation</li><li>iii. Key stakeholder engagement</li></ul>
4. Developing System Capacity	<ul style="list-style-type: none"><li>i. Capacity to innovate and learn from innovation</li><li>ii. Capacity to plan and deliver</li><li>iii. Capacity to engage with the delivery chain</li><li>iv. Capacity to work across organisational boundaries</li><li>v. Capacity of the workforce</li><li>vi. Capacity to review performance data and evaluate impact</li></ul>

Source: Public Value Review, by Sir Michael Barber



# Annexes and additional charts

## Armed Forces' Pay Review Body

### TERMS OF REFERENCE

*The Armed Forces' Pay Review Body provides independent advice to the Prime Minister and the Secretary of State for Defence on the remuneration and charges for members of the Naval, Military and Air Forces of the Crown.*

*In reaching its recommendations, the Review Body is to have regard to the following considerations:*

- the need to recruit, retain and motivate suitably able and qualified people taking account of the particular circumstances of Service life;*
- Government policies for improving public services, including the requirement on the Ministry of Defence to meet the output targets for the delivery of departmental services;*
- the funds available to the Ministry of Defence as set out in the Government's departmental expenditure limits; and*
- the Government's inflation target.*

*The Review Body shall have regard for the need for the pay of the Armed Forces to be broadly comparable with pay levels in civilian life.*

*The Review Body shall, in reaching its recommendations, take account of the evidence submitted to it by the Government and others. The Review Body may also consider other specific issues as the occasion arises.*

*Reports and recommendations should be submitted jointly to the Secretary of State for Defence and the Prime Minister.*

