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Public sector pay and employment

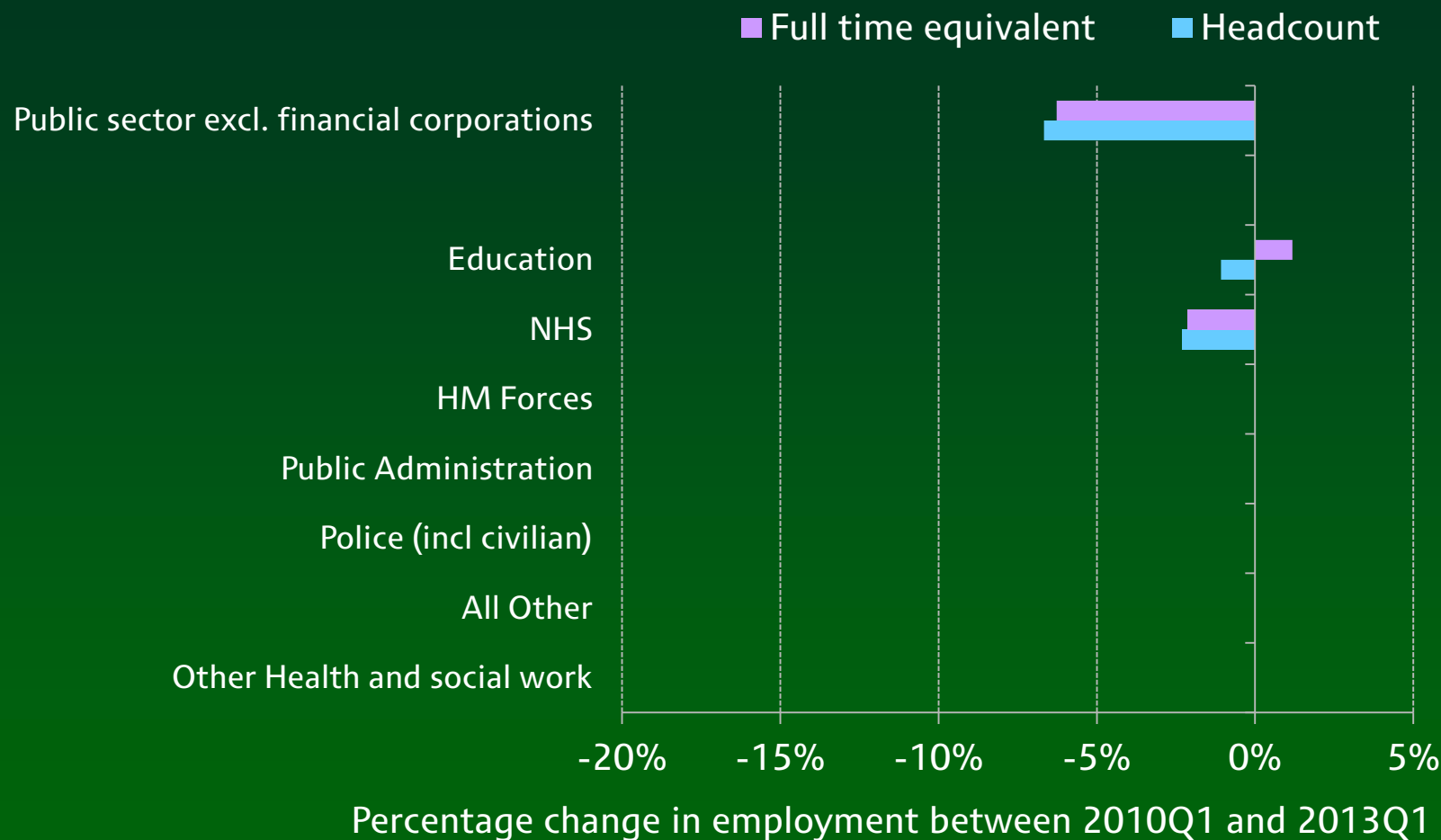
Jonathan Cribb

Post-Spending Round Briefing, 27 June 2013

Introduction

- Government announced further cuts to departmental spending in 2015–16, with more to come
- Paybill makes up half of departmental non-investment spending
- Yesterday's Spending Round announced:
 - 144,000 job cuts in 2015-16 (saving almost £4 billion)
 - Confirmed 1% pay award in 2015-16
 - End of progression pay in parts of the public sector
- OBR estimates that spending cuts will lead to falls in general government employment of 1 million by 2017–18

Education and NHS relatively protected so far....

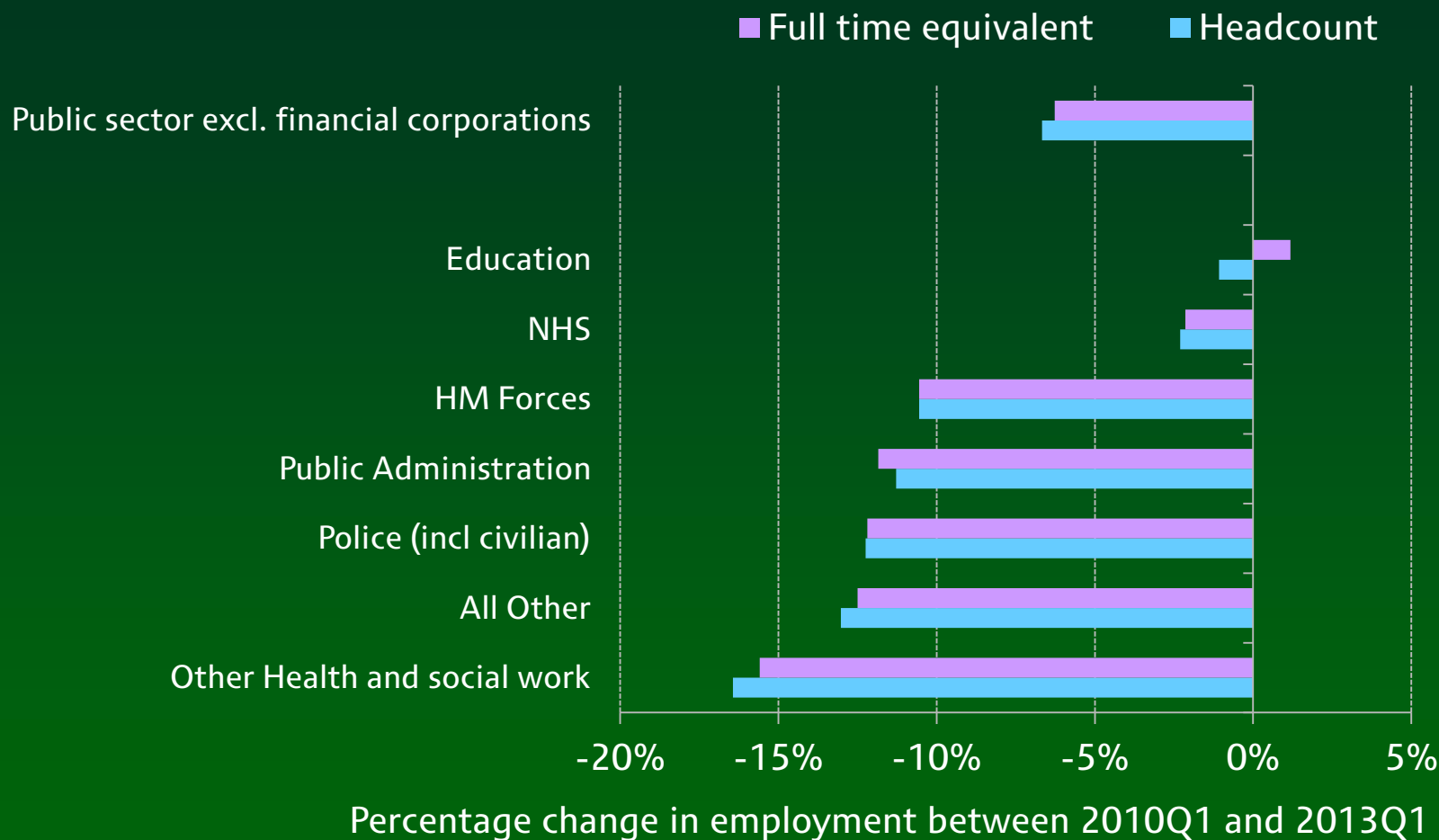


Source: IFS calculations using ONS Public Sector Employment Statistics
Notes: Excludes reclassification of workers in English Further Education Colleges to the private sector from 2012 Q2



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... but larger falls in unprotected areas

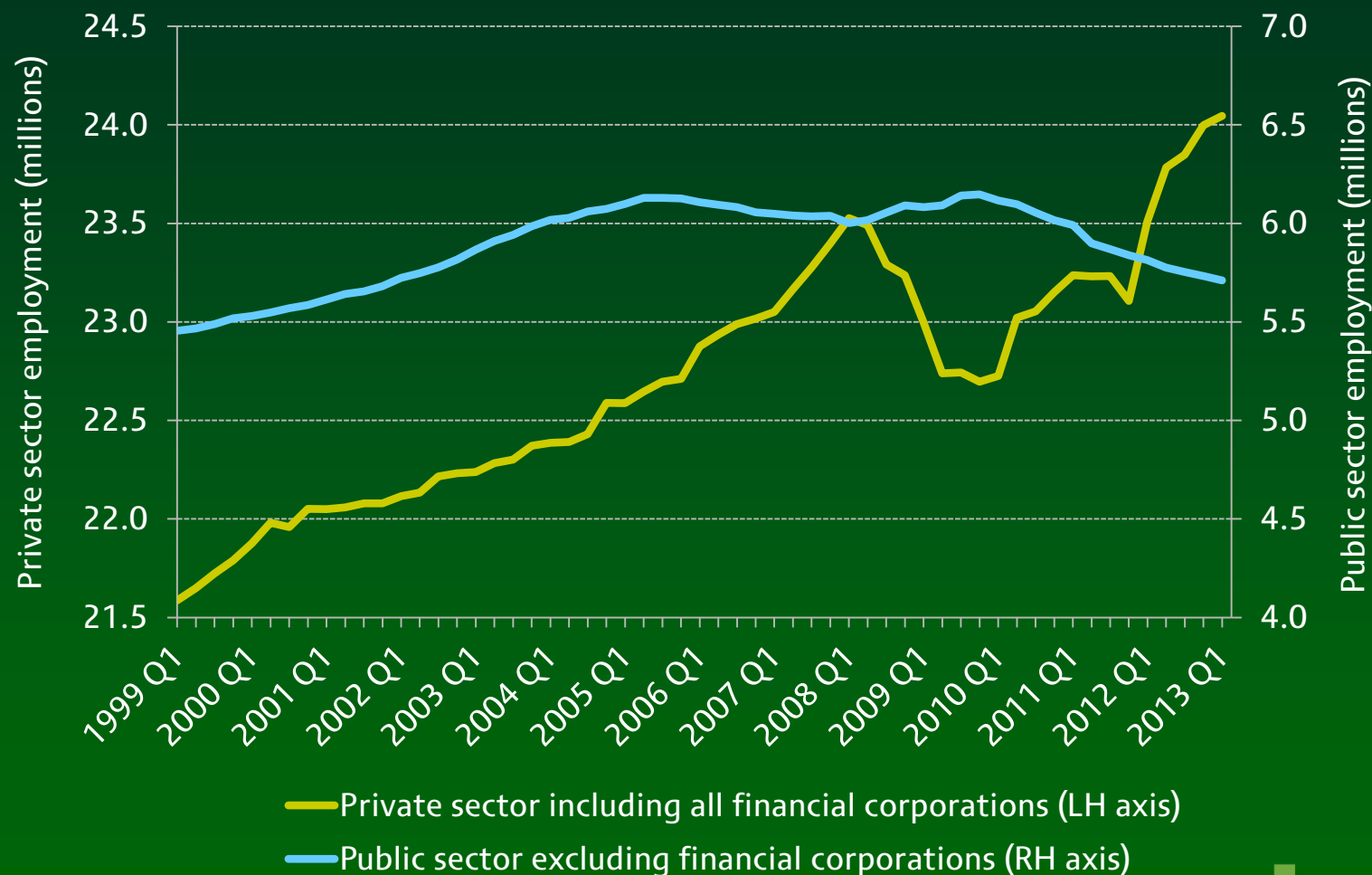


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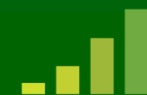
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“Every job lost in the public sector has been offset by three new jobs in the private sector”

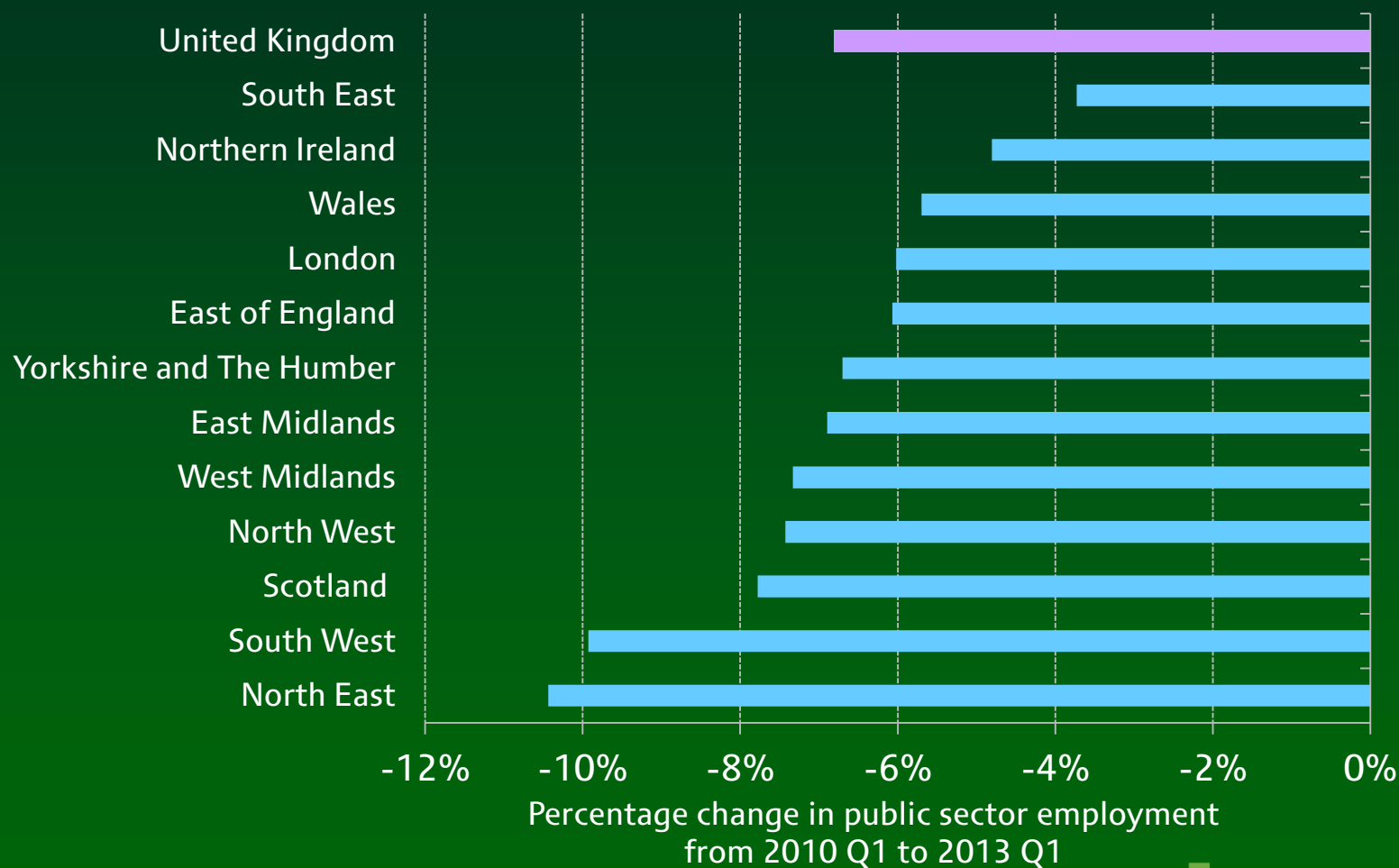


Source: IFS calculations using ONS Public Sector Employment Statistics

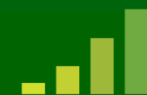
Notes: Employment measured by headcount. Excludes reclassification of workers in English Further Education Colleges to the private sector from 2012 Q2



Public employment cuts differ across regions

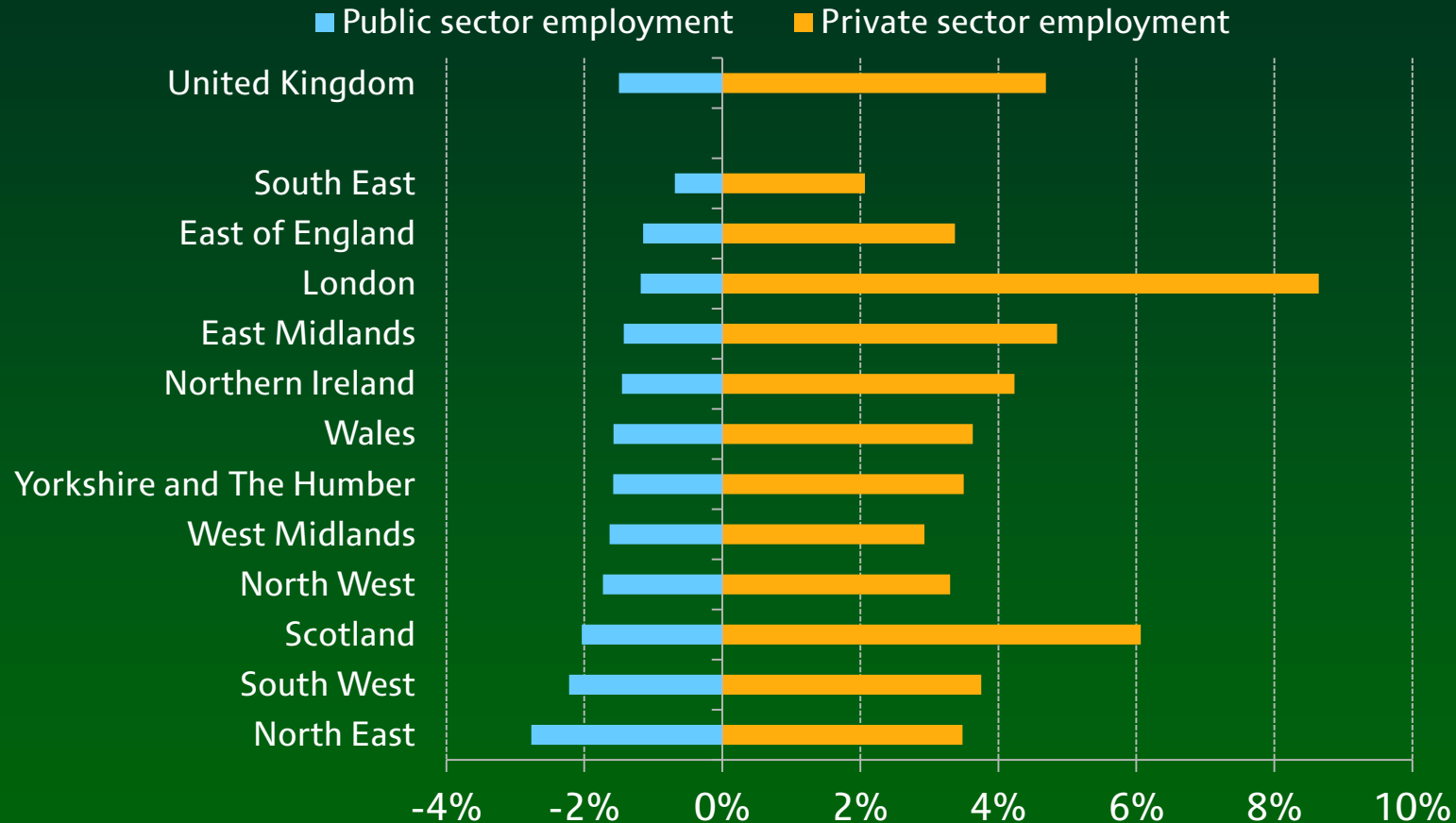


Source: IFS calculations using ONS Public Sector Employment Statistics
Notes: Excludes reclassification of workers in English Further Education Colleges to the private sector from 2012 Q2 but includes public financial corporations.



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Regional private and public sector job growth



Change in private and public sector employment, 2010Q1 to 2013Q1, as percentage of total employment in 2010Q1

Source: IFS calculations using ONS Public Sector Employment Statistics

Notes: Excludes reclassification of workers in English Further Education Colleges to the private sector from 2012 Q2 but includes public financial corporations.

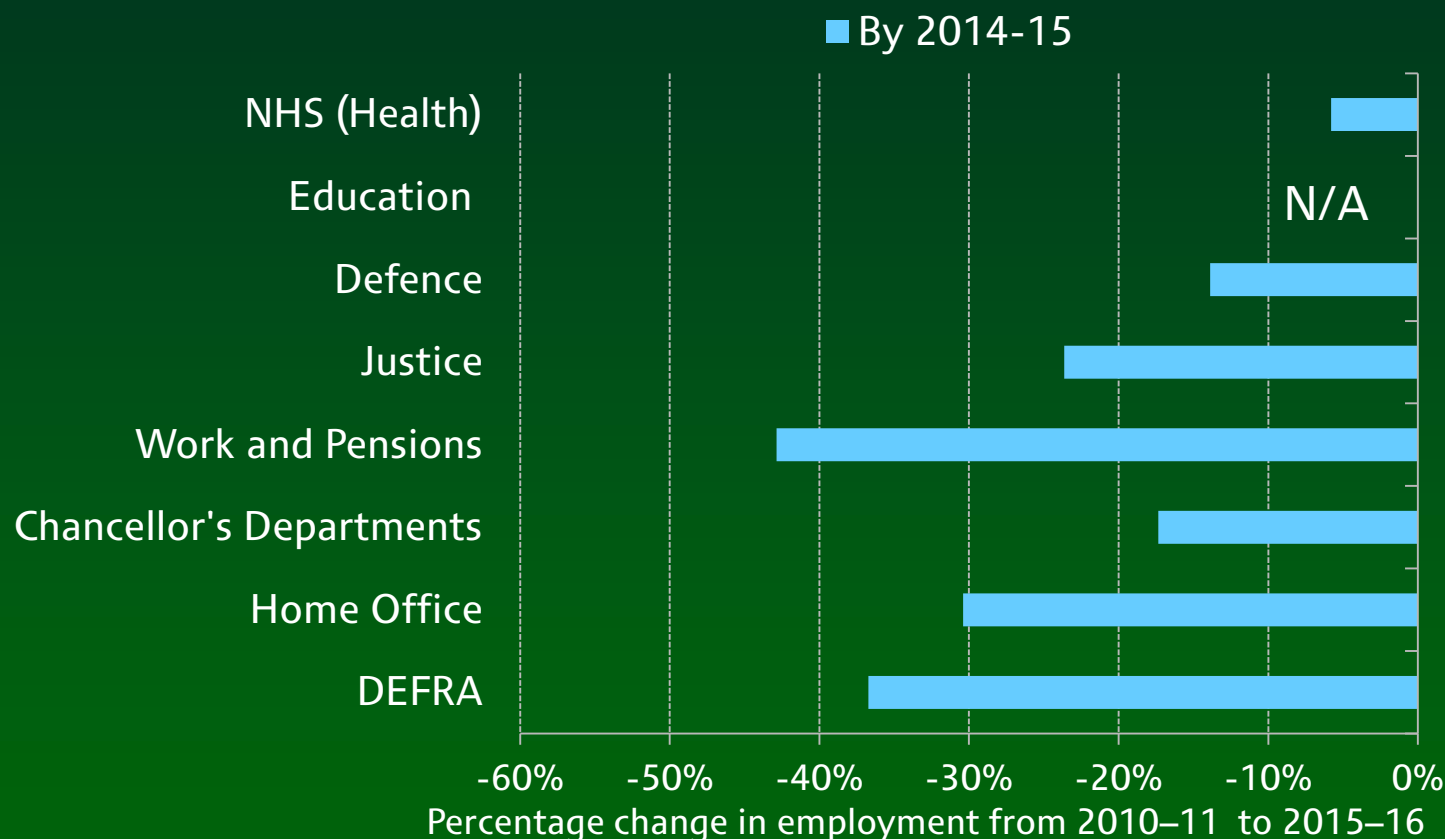


Spending Round 2013: Effect on employment

- Government announced further cuts to departmental resource spending in 2015–16
- What effect will these cuts have on departments' workforces?
- Cuts to departmental employment will be affected by:
 - Announced departmental spending settlements
 - The extent to which departments choose to cut paybill or other current spending
 - The growth in the cost of employing public sector workers (take into account 1% pay award in 2015–16)

Employment falls differ by department in 2014–15

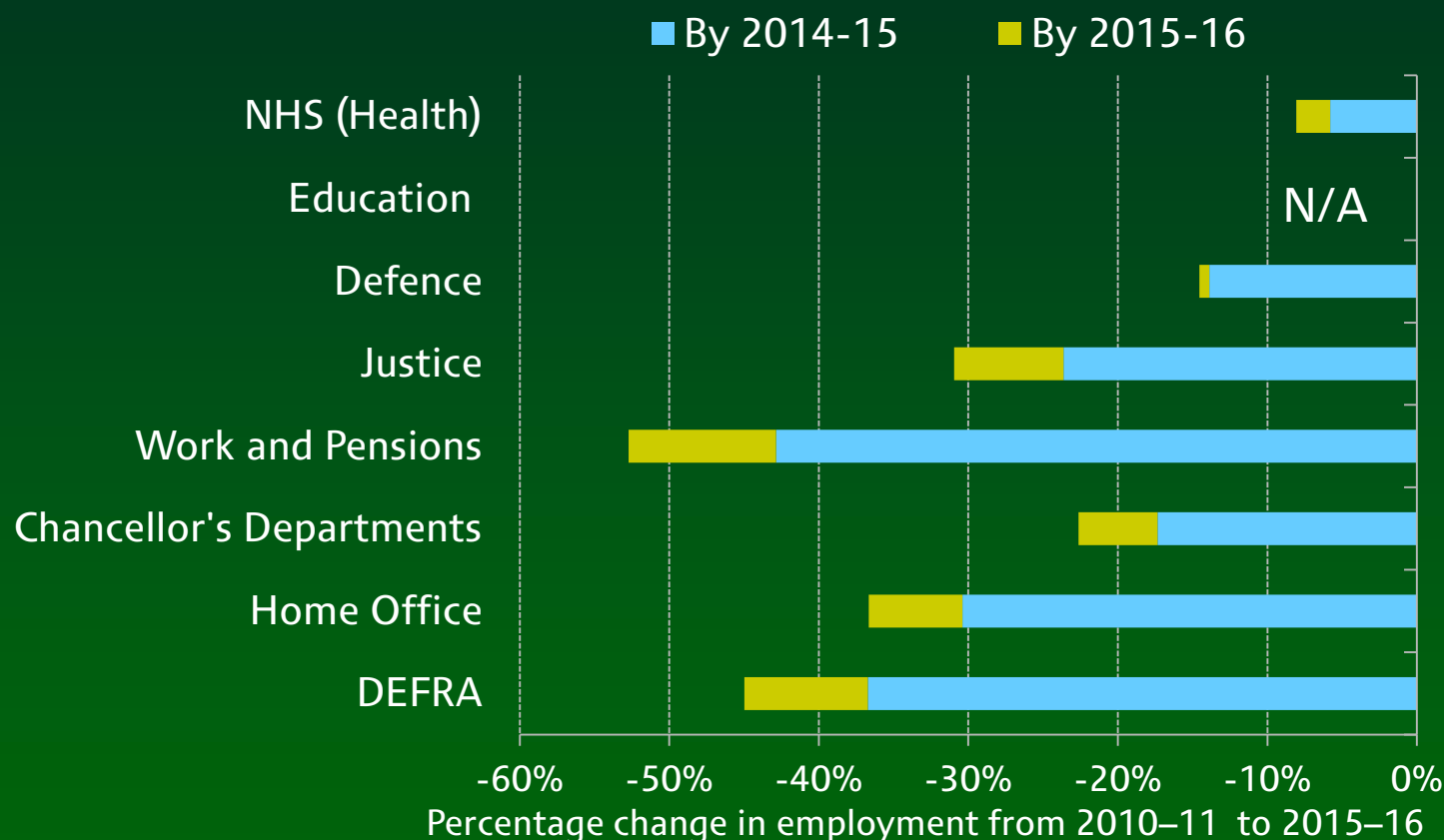
Change in employment using pattern of paybill cuts to 2014–15



Source: IFS Calculations using Spending Round 2013, PESA 2012, Budget 2013 and OBR EFO March 2013. Notes: We assume that in each department, paybill per head grows at the same rate as general government as a whole (forecast by the OBR)

Employment falls differ by department in 2015–16

Change in employment assuming pattern of paybill cuts to 2014–15 continues



Source: IFS Calculations using Spending Round 2013, PESA 2012, Budget 2013 and OBR EFO March 2013. Notes: We assume that in each department, paybill per head grows at the same rate as general government as a whole (forecast by the OBR)

Public sector pay: the end of progression pay?

- “End of automatic progression pay” in Civil Service by 2015–16
 - “Work to remove” it in schools, NHS, prisons and police
 - Not to be removed in HM Forces
- Abolition of pay scales is a large expected takeaway from public sector workers, unless replaced with revenue neutral performance related pay scheme
- Unclear what kind of pay system the government considers appropriate as a replacement for the public sector

Public sector pay since the recession

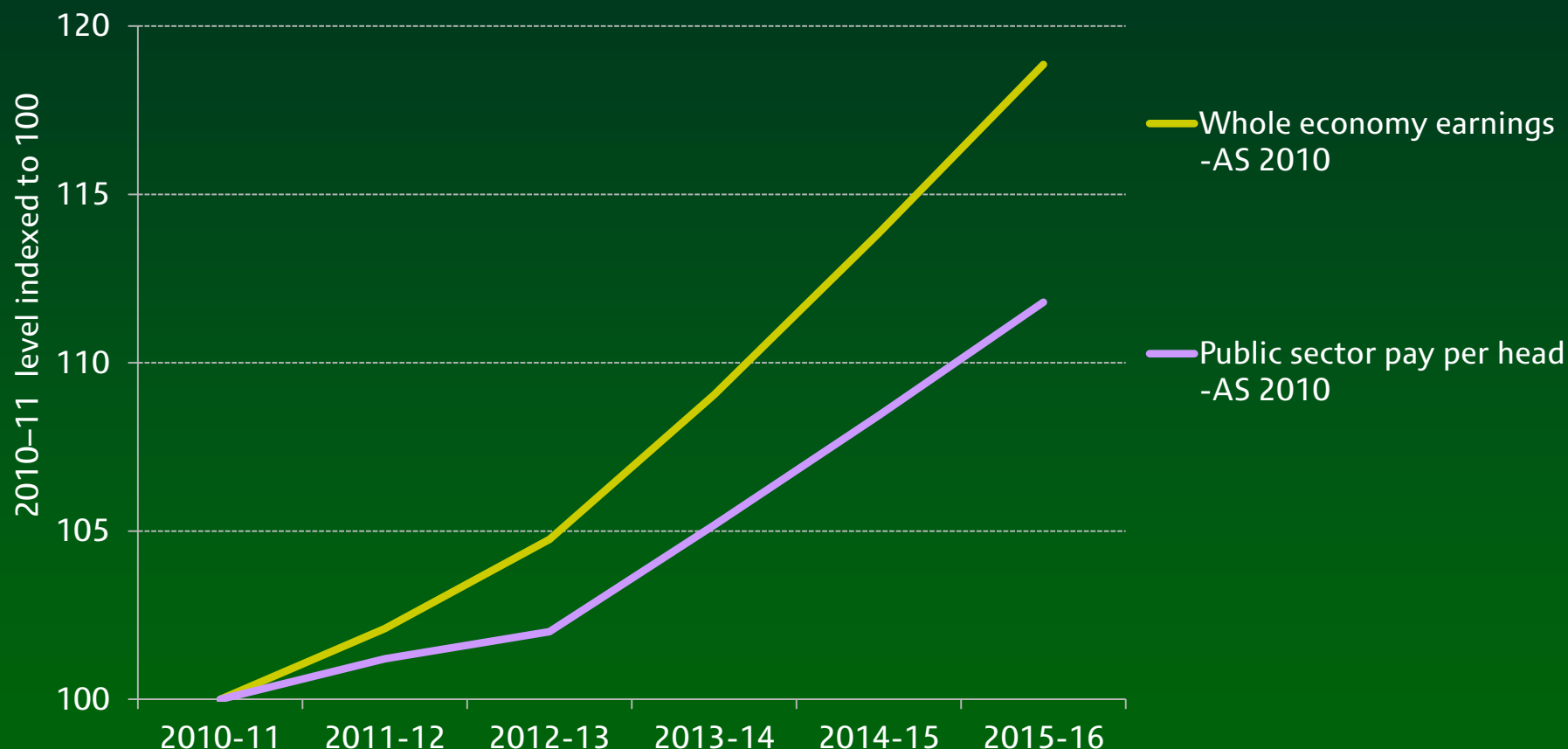
- Public sector pay growth outstripped private sector pay growth from 2007–08 to 2011–12

Public pay differential widened up to 2011–12

Change in public-private pay differential relative to 2007–08



Autumn Statement 2010: Average earnings growth expected to outstrip public pay

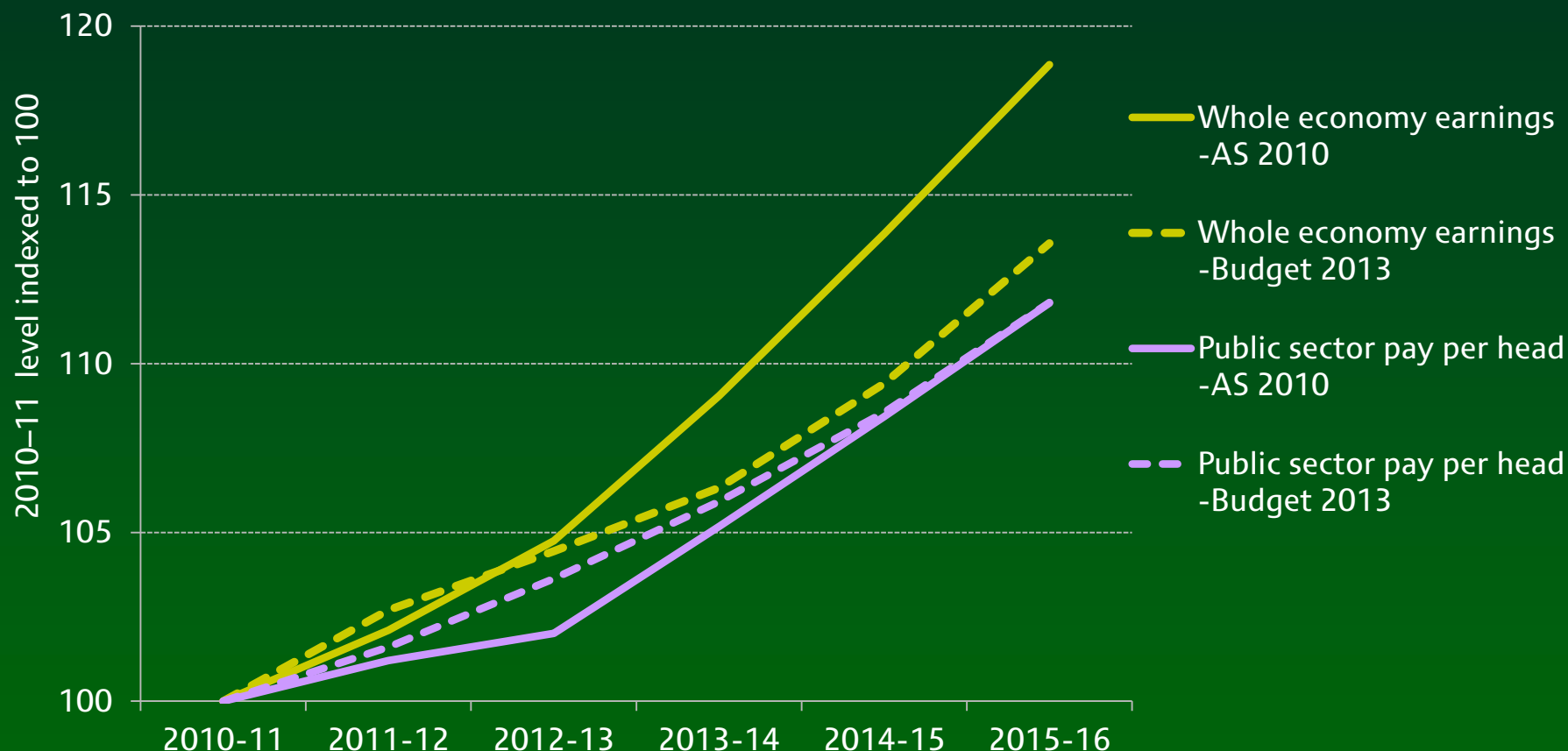


Source: OBR Economic and Fiscal Outlook, November 2010 and March 2013

Note: All levels are in nominal terms

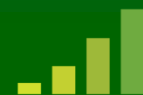


Budget 2013: Lower earnings growth, but higher public pay



Source: OBR Economic and Fiscal Outlook, November 2010 and March 2013

Note: All levels are in nominal terms



Public pay differential widened up to 2011–12

Change in public-private pay differential relative to 2007–08



Public-private pay differentials on course to return to pre-crisis levels around 2015–16?

Change in public-private pay differential relative to 2007–08



Notes: Data to 2012–13 estimated using LFS data. Forecasts take OBR forecasts for whole economy earnings growth and for public sector pay per head, but adjust for the 2015–16 public sector pay squeeze announced in Budget 2013.

Conclusion

- Large departmental spending cuts in 2015–16 set to lead to further public employment cuts
- Private sector job growth outstripping public losses in all regions
 - no correlation between public job losses and private job creation
- Despite protection, NHS may also see further falls in employment
- Further squeezing pay may be one way to mitigate further falls
- But the public private pay differential on course to return to its pre-crisis level by 2015–16
- Unclear what the government's replacement to progression pay will look like