

Public sector pay policy: Still time for restraint?

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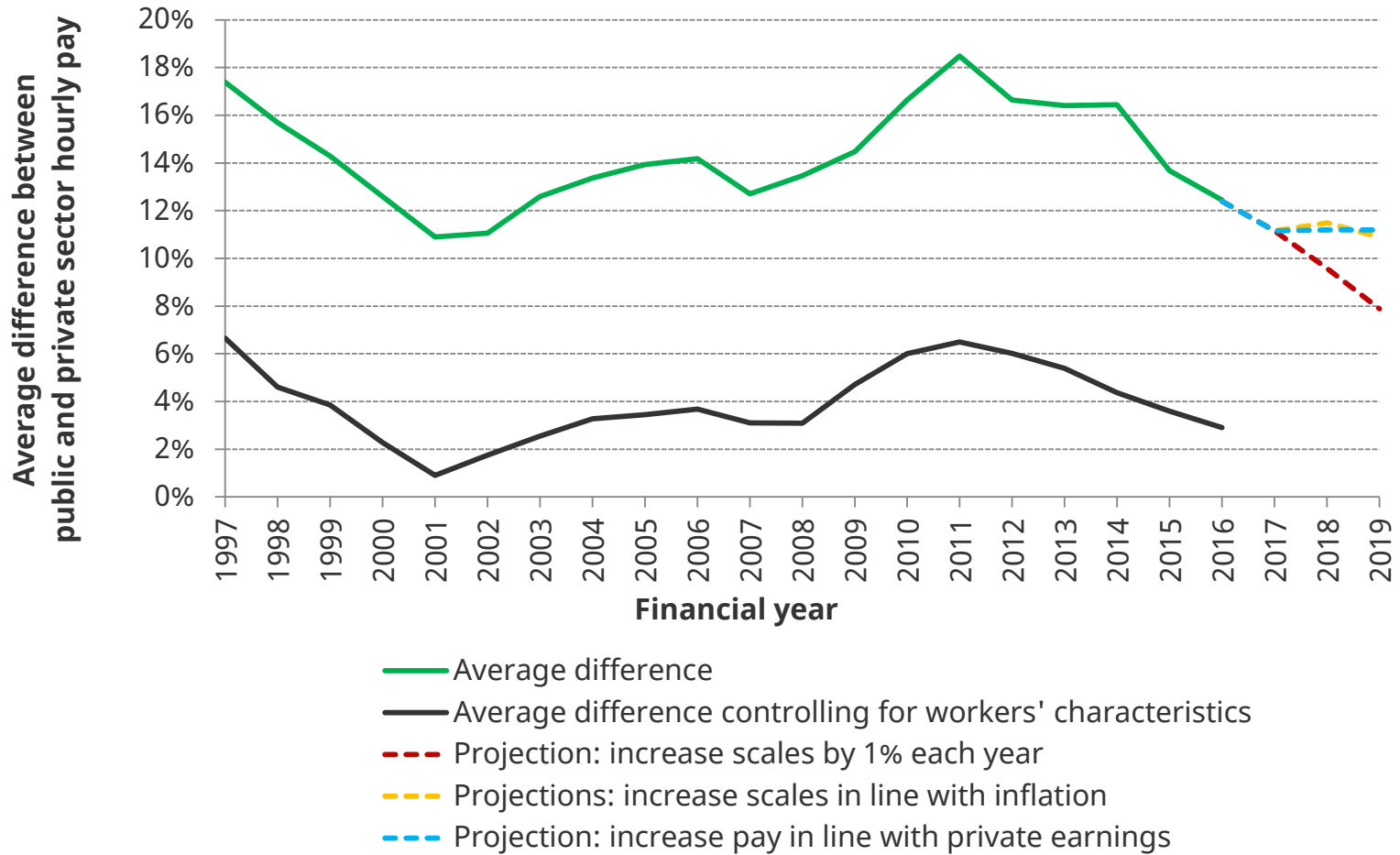
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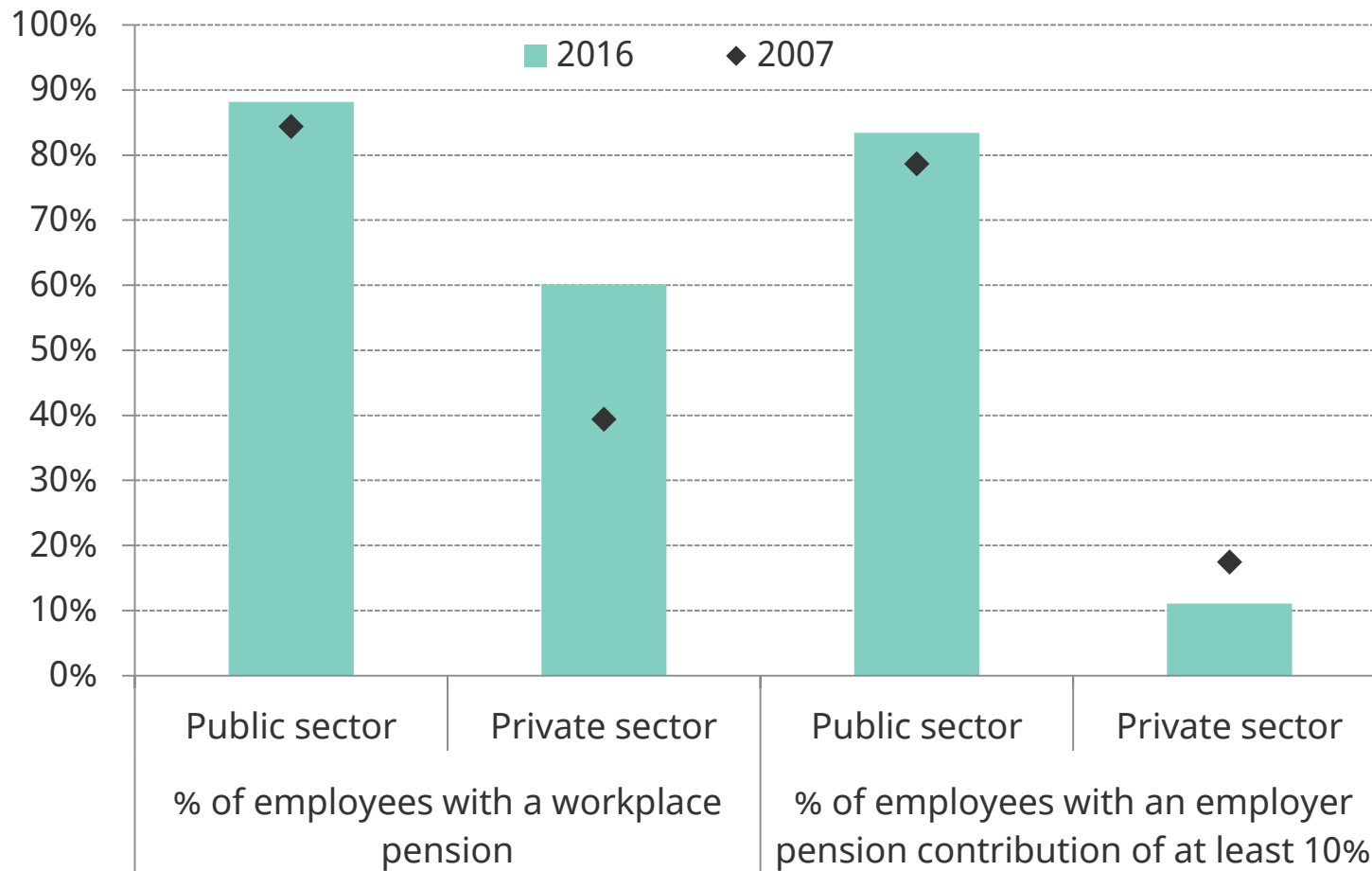
For more details, see:

Cribb, J. (2017) "Public sector pay: still time for restraint?"
<https://www.ifs.org.uk/uploads/publications/bns/BN216.pdf>

Differential between public and private sector pay



Public sector workers receive much larger pension contributions on average



Pensions in the public and private sectors

Public sector pension reforms reduce value of public sector pensions

- CPI indexation of pensions; introduction of career average schemes and gradual retirement of those with “unreformed” pensions
- Increase in employee contributions since 2010-11, particularly for higher earners
 - NHS employee on £25,000: 6.5% cont. in 2010-11, 7.1% in 2016-17
 - NHS employee on £50,000: 7.5% cont. in 2010-11, 12.5% in 2016-17

Private sector pensions boosted by automatic enrolment

- Automatic enrolment (since 2012) boosted pension participation in private sector
 - Mostly with very low employer contributions, though some with significantly more

Cost to public sector employers of increasing pay compared to pay scales rising by 1% p.a.

Annual cost to public sector employers (£ billion)	Public sector earnings growth per year:		
	CPI inflation	Private sector earnings growth	1.7% (award for prison service in Sept 2017)
Cost per year in 2018–19	3.5	2.9	1.3
<i>Approximate split:</i>			
NHS	1.1	0.9	0.4
Education	1.0	0.9	0.4
Public administration	0.7	0.6	0.3
Police (including civilians)	0.2	0.1	0.1
HM Forces	0.1	0.1	0.0
Other	0.4	0.3	0.1
Cost per year in 2019–20	5.8	6.4	2.6

Conclusions

Combined with evidence of recruitment, retention and motivation problems, differential between public and private sector pay implies there is a good case for easing pay restraint in public sector

- Case more clear for the better paid, higher educated (or in London/South East) where pay differentials are below pre-crisis levels

However:

- Workplace pensions remain far more valuable in public sector than private sector
- We have not examined non-pay elements of jobs (except pensions). Deterioration in working conditions make some lower paid jobs less attractive (e.g. in prisons)?
- Increasing pay is expensive. What are the effects on public service quality if Treasury does not provide extra funds to pay for higher pay?