



Regional pay, regional poverty?

The implications
of public sector
pay flexibility
for Wales

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by

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SUMMARY

- Proposals to introduce geographical variation in public sector pay have been a government commitment since 2001. They are driven by a wish to improve public services and a concern about recruitment and retention of staff in London and the south east of England. There is little detail about how the arrangements might be implemented other than as part of national pay frameworks.
- Responses to the proposals have highlighted existing pay flexibilities, the complexity of the public sector labour market, the importance of local, occupational and sectoral variations in pay, and the overall effectiveness of pay flexibility. Any new public sector pay system will need to take account of these points.
- The public sector accounts for approximately a third of the work force in Wales, with almost half being in education and health. The public sector includes significant numbers of part time and women workers
- Public sector pay in Wales appears to follow national rates with few obvious recruitment and retention problems other than those that are UK-wide. It is not clear whether pay is greater in the public sector than in the private sector.
- The effect of change could be a general downward pressure on public sector pay in Wales. The extent of that pressure would depend on whether the variations were local or regional, and general or specific to occupations.
- The downward shift is likely to be greatest where the labour market is slackest – in rural Wales and the south Wales valleys, in low paid occupations, and for women. Marked pay restraint could trigger a downward pay spiral in the areas with the weakest labour markets
- The impact on public services is hard to gauge but there do not appear to be any obvious gains.
- The impact on the community depends on whether a reduction in the multiplier effect is offset by job gains elsewhere in the private sector. It seems more likely that the net effect in Wales will be to lose jobs.
- More information is needed to inform the introduction of any new pay system and to monitor its effects.
- A more vigorous regional policy, including further public sector relocations to Wales, would help to tackle the underlying cause of regional pay differentials.

1 INTRODUCTION

- 1.1 Wales all too often hits the headlines with stories of the poverty and deprivation that afflict many of its people.
- 1.2 Much less well publicised are proposals that could affect the pay and conditions of approximately one third of the Welsh workforce, namely those who work in the public sector. Tucked away in the detail of successive government budget reports are plans to change public sector pay by bringing it into line with prevailing local and regional pay rates. The plans have only received publicity when they emerged as a key part of the review of the location of the public sector in the March 2004 budget.
- 1.3 Moves to bring regional and local variations in public sector pay could have a significant effect in Wales, not only on the quarter of million people who work in the public sector but on the businesses and communities which are indirectly supported by the public sector. The changes could also have an impact on public services themselves.
- 1.4 The purpose of this review is *not* to assess the merits of the proposals for regional and local pay, which are a matter for public sector employers and the trades unions representing public sector workers. Rather it is to consider the potential impact of the proposals, if they are implemented, on the people and communities of Wales.
- 1.5 In undertaking the project, it was striking how little is known about a whole range of subjects affecting the public sector, from the number of workers in Wales, to average pay in the public sector, to recruitment and retention rates. The Treasury and Sir Michael Lyons have already commented on the lack of information for the UK as a whole and how this adversely affects the consideration of pay matters^{1 2}. The position is even worse for Wales which is often omitted from UK analyses. Whether regional and local pay is implemented or not, a fair and equitable pay system requires a much better understanding of the public sector, in Wales and the UK.
- 1.6 Section 2 of this report reviews the regional pay proposals and considers the various responses to them, to inform subsequent analysis. In Section 3, the report considers public sector employment in Wales, gauging its size and nature and whether there are any issues about pay, recruitment and retention of staff. Section 4 looks at what might be the impact of introducing greater regional and local flexibility into public sector pay in Wales. The conclusions are inevitably speculative, not least because we know relatively little about how geographical flexibility might be delivered. However, the conclusions do suggest that there is likely to be a general downward pressure on public sector pay, though the amount of any change would depend on

how the proposals were implemented, especially whether flexibility was local or regional and across the board or specific to certain occupations.

- 1.7 The conclusions, in Section 5, suggest that an alternative approach might be to tackle the underlying causes of local and regional differentials in pay – namely differences in the demand for labour – by a more vigorous regional policy including further public sector relocations. It also calls for better data on public sector employment in Wales as well as the UK as a whole.

2 PROPOSALS FOR REGIONAL PAY

Key Findings

- the main rationale for regional and local pay is improved public services
- it is widely assumed that public sector workers are paid more than private sector workers outside London and the south east although there is little evidence that pay for the same job is higher in the public sector than the private sector
- the main difference in pay is between localities rather than regions, with substantial variations in the extent of difference depending on occupation
- there is already some pay flexibility in the public sector. There are uncertainties about the effectiveness of geographical flexibility as a tool for tackling recruitment problems

Towards regional pay

2.1 Proposals to introduce some sort of geographical differentiation in public sector pay have been a feature of Government statements for the last five years, during which time the proposals have gradually evolved. The idea of changes to public sector pay arrangements has its roots in the Government's commitment to the reform of public services. The White Paper '*Modernising Government*'³ called for greater flexibility in the public sector, based on the principle that the public sector needed 'to respond quickly to the rapidly changing world'⁴. This link between pay and better service delivery has continued to be the key driver for change, as expressed in numerous budget reports, as in this extract from the 2003 report:

*Delivering high quality public services demands that the best use is made of the public sector workforce. This means the responsible deployment of the significant resources directed to public sector pay and careful consideration of workplace conditions to enable the public sector to recruit, retain and reward a responsive and motivated workforce with the right skills. The Government aims to use pay as part of its package of reforms to improve public service delivery.*⁵

2.2 However, although improved service delivery is the headline reason for change, concerns about limiting the overall public sector pay bill and cutting 'red tape' have also surfaced albeit to a much lesser extent. The 2002 Pre Budget Report, for example, stated that:

*'Responsibility in setting pay is essential to ensure value for money for the public ... Against a backdrop of low inflation, large increases in basic pay across the board are neither fair nor likely to deliver the best outcomes for the public. ... In the past, pay scales were nationally determined and reward was based on time served. Pay systems were rigid and lacked flexibility'*⁶

- 2.3 The proposed mechanisms for delivering this greater 'flexibility' were initially not clear. Early suggestions appeared to support pay variation at a local level, with managers having the ability to vary pay and conditions. As the 2002 Pre Budget report again said:

*'pay systems need to give managers the freedom to recruit, retain and motivate the right number of people with the right skills in particular locations. ... Pay must be allowed to vary at the local level, according to local pressures.'*⁷

Subsequently, the importance of a national pay framework has been emphasised, as has the potential for variation on a regional as well as local level.^{8 9}

- 2.4 Much of the detailed justification for geographical variations in pay comes from a cross cutting review of the public sector labour market which was commissioned by the Treasury in 2001, and undertaken by Treasury officials, chaired by Nick Brown, then Minister for Work¹⁰. The main conclusions of this lengthy document are:

- there are significant disparities in pay between different parts of the country;
- there are differences in pay between public and private sector workers in the regions, and public sector workers outside London are 'probably' better paid than their private sector counterparts;
- there are significant variations between occupations within regions e.g. recruitment difficulties in London and the south east appear to apply only to professionals;
- local variations in pay and local labour market conditions are at least as important as regional variations;
- national pay bargaining has 'arguably' benefited public sector workers outside London and the South East;
- public sector recruitment practices 'seem less flexible'.

- 2.5 On the basis of these conclusions, some of which are hedged with caveats as can be seen above, the review recommended greater use of local flexibility on pay and non-pay benefits to deal with recruitment and retention difficulties. The review outlines various approaches that have been adopted in the private sector, including pay 'spines' and pay 'zones', but does not conclude which might be an appropriate model for the public sector.

- 2.6 The Government's way forward has been to include regional and local pay flexibility in the remits of the seven public sector pay review bodies, and in negotiations on civil service and other public sector workers' pay. To date, none of the pay review bodies or other public sector pay systems has accepted the principle, let alone adopted the practice, of wholesale geographical variation into their arrangements. Nevertheless, as statements in the 2004 budget show,¹¹ the Government remains firmly committed to changing public sector pay arrangements and will doubtless continue to press for change, in some if not all parts of public service.
- 2.7 Geographical pay flexibility is also a key element of the review by Sir Michael Lyons of the location of the public sector. He concludes that relocation should go hand in hand with pay flexibility to maximise its benefits – both for the government itself and for locations receiving jobs.

Responses to regional pay proposals

- 2.8 Within a potential impact on some 5 million public sector workers in the UK, it is hardly surprising that responses to these proposals have been varied. Almost all the reactions to the regional pay proposals have come from those with a direct interest in them - trades unions, employers' organisations and pay review bodies. The response has been almost universal scepticism about the rationale for regional pay variations and a concern about the effectiveness of geographical variations in pay as a tool for reform. The responses can be summarised as follows.

Existing flexibility

- 2.9 A number of those commenting on regional pay proposals conclude that there is already considerable flexibility within the various national pay systems. For example, the School Teachers' Review Body found that there are enhanced pay scales for inner London, outer and fringe allowances, and considerable discretion available to schools over additional payments for local recruitment and retention problems.¹² In local government, local authorities may replace national pay scales with locally negotiated pay structures¹³ and already 32 have done so.¹⁴ A UNISON survey of those 'opted out' authorities found that their pay structures and conditions of service were mostly very close to NJC conditions.¹⁵ Within national pay scales the Local Government Commission on Pay found considerable variation between regions – earnings for males in London were 29% above national levels in 2001.¹⁶
- 2.10 There are similar situations for police officers, nurses, midwives and allied professions, and the prison service.¹⁷ Even in the civil service, which might be thought of as most centralised of public sector employers, there is pay delegation. According to the Public and

Commercial Services Union (PCS), there are 170 different pay systems within the civil service which have resulted in significant pay differentials for the same job – for example an administrative assistant can earn up to £12,420 at the Department for Work and Pensions but up to £13,070 at the Department for Transport, Local Government and the Regions.¹⁸

- 2.11 There seems therefore to be some ability in the public sector to reflect variations in local and regional labour market. The scope has largely been used to enhance national conditions of service through measures to address recruitment and retention difficulties primarily in London and the south east of England.

Regional pay variations

- 2.12 The second concern raised by commentators is whether variation between regions is more apparent than real. At first sight, there are undoubtedly substantial variations in pay between regions of the UK. Average gross weekly earnings for the UK as a whole are £473.80, yet some regions, such as the north east and Wales, have significantly lower average earnings at just £402.10 and £414.50 respectively.¹⁹ However, the main regional differential is between the London / south east regions and the rest of the UK; differences between regions outside London and the south east are relatively small.^{20 21}
- 2.13 In other words, regional variation in earnings is actually a differential between relatively high average pay in London and the south east, and the rest of the country. This in turn reflects the concentration of employment, especially higher paid employment, in London and the south east compared with other regions.

Public – private differentials

- 2.14 A key contention in the proposals is that public sector pay is not as responsive to labour market conditions as pay in the private sector, and as a result public sector workers outside London and the South East are, according to the Treasury, ‘probably paid more than their private sector counterparts’.²²
- 2.15 Comparability between the public and private sector is notoriously difficult and few attempts have been made to compare pay across regions. To be meaningful, a review needs to take account of the different occupational mix of the public and private sector in each region. For example, it may be the case that public sector workers in a region have higher average earnings than private sector workers because the public sector provides better jobs than the private sector in that area. This is not the same as saying that the public sector pays more for the *same* job as the private sector. This part of the Treasury’s cross-cutting review of the labour market does not appear to have

made adjustments for occupational variation and so their conclusion about public sector pay in the regions is questionable. For this reason, the School Teachers' Review Body concluded that:

*'there were doubts over the approach of estimating private sector wage differentials between regions to apply to the public sector'*²³.

- 2.16 A recent academic review of a large number of pay studies over the last 30 years found that public – private pay differentials had varied over time and between different occupational groups. After public sector workers secured a pay premium in the early 1970s and a pay penalty in the 1980s, the authors conclude that by the late 1990s only male manual workers and female workers were better off in the public sector.²⁴ They also found that public sector workers' perceptions about pay comparability were a key factor in recruitment, retention and morale of public sector staff, and they therefore recommend local and regional differentiation in pay, it appears mainly as a means of increasing public sector pay in London and the south east.
- 2.17 There seems therefore to be little if any firm evidence that workers in the public sector are paid more than 'the rate for the job' across the UK. However it does appear that the availability of higher paid private sector jobs in London and the south east contributes to pay dissatisfaction there, in particular for male non-manual workers.

Local vs regional

- 2.18 Pay rates for regions give only part of the picture. In reality, labour markets are much more complex. A number of commentators have pointed out that pay rates vary more within regions than between them, with areas of deprivation existing within relatively prosperous regions such as London and the South East whilst local 'hot-spots' exist in relatively poorly paid regions.^{25 26}
- 2.19 Hardly surprisingly, then, some have concluded that the region is too blunt an instrument to be used to determine pay. For example, two pay review bodies noted:

*'evidence suggests to us that a system of regional pay bands or sub-regional pay bands would, amongst other defects, seem to be too broad to deal with the localised, specific labour market difficulties.'*²⁷

*'Significant variation within region in terms of the state of the labour market for different occupational groups ... renders it far too simplistic to relate such difficulties to region'*²⁸

Occupational differences

- 2.20 Surprisingly few commentators have considered the question of occupations, even though there are considerable differences between occupations in terms of whether their labour markets are local, sub-regional or national, the transferability of skills outside the public sector, and recruitment and retention. For example, occupations such as cleaners and school meals supervisors have highly localised labour markets whereas senior management occupations are regional or national; skills in IT and administrative occupations may be transferable between the public and private sector, whereas the skills of, say, environmental health officers, are almost exclusively sought after in the public sector.
- 2.21 The Local Government Commission on Pay noted that recruitment and retention of some occupations, e.g. social workers was difficult in all parts of Britain, including areas of low average pay, whilst recruitment of lower-paid occupations was generally relatively easy even in areas of high average earnings. They concluded that occupational differences transcended local and regional variations.²⁹

Impact on recruitment and retention

- 2.22 Some responses to regional pay proposals have questioned whether pay flexibility is an effective tool in tackling recruitment and retention problems. A survey of private sector employers by Incomes Data Services³⁰ found that local flexibility can be useful in tackling short term recruitment problems, but concluded that it is less useful in the long term as it does not address underlying reasons for recruitment difficulties, such as skill shortages. Similarly, amongst local authorities which had the freedom to develop their own pay systems, the majority still reported staff recruitment and retention problems.³¹
- 2.23 Pay is not the only determinant of the labour market. Recruitment and retention is also shaped by factors such as hours of work, levels of responsibility and workload, and the esteem associated with an occupation. In some cases, changing pay rates may not be sufficient alone to overcome these factors and so geographical pay flexibility alone may be insufficient to address recruitment and retention problems.

Knock-on effects

- 2.24 Perhaps not surprisingly, given that pay is only one factor in the operation of labour markets, some commentators have highlighted that the introduction of regional and local pay arrangements can have unintended and undesirable outcomes. These can include inhibiting the ability of employers to move between different sites of the same employer or between similar employers, poaching of staff between employers, concerns about equality where different rates are paid for the same job and are not fully justified, and loss of staff morale.³² For

example, the proposals by PCS for a national pay framework for the civil service gives several case studies of individuals who were deterred from changing job because of differentials between one government department and another, and also cite the problems caused when the Department for Environment, Food and Rural Affairs (DEFRA) was formed by the merger of MAFF and DETR, which had different pay and conditions of service.³³

- 2.25 Studies have also found that local pay differentiation can create complex and unwieldy pay systems which are expensive to administer, and lack coherence and rationale. They conclude that central co-ordination, monitoring and guidelines are paramount to ensuring consistency and provide control over pay bills, and most multi-branch private sector companies operate with national structures. Where companies have adopted variable pay rates, they are typically based on relatively simple geographical areas, such as inner London and outer London, or 'pay zones', covering different locations, with higher rated zones attracting a pay premium on top of national rates.³⁴

Conclusions

- 2.26 The proposals to introduce regional and local flexibility in public sector pay are rooted in the drive to reform public services. It is clear that the 'regional' problem is essentially a London and south east problem, driven by the concentration of the private sector in that region, coupled with some problems in specific occupations. There is does not appear to be firm evidence that public sector workers are paid more than the rate for the job outside London. It is also clear that there is already some flexibility within public sector pay systems, and that geographical variation in pay can bring disadvantages as well as benefits.
- 2.27 Whatever the extent of geographical flexibility eventually introduced by whichever models, they will need to be sensitive to local and occupational differences as well as regional variations, and be well co-ordinated and controlled.

3 THE PUBLIC SECTOR IN WALES

Key Findings

- the public sector accounts for approximately a third of all employment in Wales and is a very important employer of women and part timers
- half the public sector workforce work in education and health.
- there is no systematic evidence that the public sector pays more than the private sector for comparable work although there is some anecdotal evidence
- there do not appear to be recruitment and retention problems other than those that are UK-wide or that reflect particular local circumstances
- there is already some pay flexibility and some uncertainties about the effectiveness of geographical flexibility as a tool
- there needs to be much more reliable and robust information about public sector employment.

Defining the public sector

3.1 The public sector is very important employer in the UK as a whole, accounting for one in five jobs. The public sector is a term which is widely used but not easy to define. In this report we have used a relatively broad definition that includes the 'accounting' definition used by the Office for National Statistics,³⁵ with the addition of those employed in further and higher education. This gives us the following list of public sector employers:

- Central government
 - the civil service
 - other central agencies
 - HM Forces
- Local government
 - local authority employees
 - police, magistrates courts, probation service
- Public corporations
 - nationalised industries (e.g. Royal Mail Group)
 - NHS trusts
 - other public corporations (e.g BBC, Royal Mint)
- Further and higher education

How many work in the public sector?

- 3.2 It is surprisingly difficult to estimate the number of people who work in the public sector as there are no official statistics available for Wales. Our estimate is therefore based on employers' information, following the approach taken by ONS for the UK as a whole.³⁶ This figure is more reliable than using data from the workforce job count, which includes private as well as public sector workers in education and health.
- 3.3 Our estimates suggest that some 258,000 people (measured as full time equivalents) work in the public sector Wales, just under a quarter (24%) of the total workforce. This is a smaller proportion than is sometimes cited elsewhere, probably because it is based on employers' data and full time equivalents.

Table 1 Public Sector Employment in Wales

Employer	Employees (000)
Central Government	44
Local Government	122
Public Corporations	76
Further and Higher Education	16
TOTAL PUBLIC SECTOR	258
Total employment	1,070
Public sector as % of total	24%

See table 4 for sources and notes

- 3.4 However, this only a partial picture because it is based on full time equivalents and not a head count of people, whether full time or part time. Part time employment is very important in some parts of the public sector. For example, 46% of local authority employment in Wales was part time, some 74,100 jobs. Table 2 shows that in further education, the NHS and local authorities alone, some 72,000 people are not counted when full time equivalent measures are used. So, the number of *people* engaged in public sector employment in Wales, as opposed to the impact on the economy, is at least 330,000 – some 30% of the workforce.

Table 2 Comparison between total employees and full time equivalents – selected employers

Employer	Persons	FTE	Difference
Local authorities	157,891	112,800	45,089
NHS Medical	4,857	4,162	695
NHS non-medical	76,584	55,980	20,604
Further Education	14,798	9,053	5,745
Total	254,130	181,995	72,133

Source: National Assembly for Wales Statistical Bulletins 42/2003 and 43/2003;
Local Government Employers Organisation
ELWa Higher Education, Further Education and Training Statistics in Wales
2001/2002

3.5 Unfortunately there is not sufficient data available to show how many women work in the public sector as a whole, although we can see from the figures for local authorities, non-medical NHS staff and further and higher education (see table 3) that women are a significant proportion of the public sector workforce – at some 72% of employees - at least amongst these employers.

Table 3 Employment by gender – selected employers

Employer	Males	Females	Total	Percentage female
Local authorities	46,640	111,251	157,891	70
NHS non medical staff	13,788	62,812	76,600	82
Higher education academic staff	4,255	2,341	6,596	35
Further education	5,851	8,947	14,798	60
Total	70,534	185,352	255,886	72

Sources: Office for National Statistics, Labour Market Table 7.8 Persons Employed by Local Authorities
National Assembly for Wales Statistical Bulletins 42/2003
ELWa Higher Education, Further Education and Training Statistics in Wales
2001/2002

Notes: Figures are for persons not FTEs.

Where do they work?

3.6 The public sector is very varied and covers everything from people administering pensions to trading standards officers to police officers. Approximately half of public sector workers in Wales work in education and health. A further 12% work in the civil service, covering a range of activities from the two largest departments, the Department for Work and Pensions and Ministry of Defence (6,500 and 4,440 respectively) to the National Assembly for Wales (3,370). By far the largest employer in Wales is local government, with 122,000 staff.

Table 4 Distribution of Public Sector Employment

Employer	FTE (000s)	% total public sector employ ment	Notes
Central Government			
Civil Service	31	12.0	
HM Forces and other central government	13	5.0	(a)
Total central govt.	44	17.0	
Local Government			
Education	54	20.9	
Social Services	19	7.4	
Other local government	36	13.9	
Fire service	2	0.8	
Police incl civilians	11	4.3	
Total local govt.	122	47.3	
Public Corporations			
NHS Trusts	60	23.3	
Nationalised industries and other public corporations	16	6.2	(a)
Total public corporations	76	29.5	
Further and Higher Education			
Further Education	9	3.5	
Higher Education	7	2.7	(c)
Total FE and HE	16	6.2	
TOTAL PUBLIC SECTOR	258	100	

Sources:

Civil Service Statistics 2002, Table D, Cabinet Office
 Office for National Statistics, Table 7.8 Persons Employed by Local Authorities / Local
 Government Employment Survey 2002
 National Assembly for Wales Statistical Bulletins 42/2003 and 43/2003
 National Assembly for Wales Public Appointments Unit
 ELWa Higher Education, Further Education and Training Statistics in Wales
 2001/2002

Notes:

- (a) All figures are full time equivalents unless stated, and relate to the latest available year.
- (b) estimated pro-rata to ONS figures for UK
- (c) Persons, academic staff only

Geographical variations

- 3.7 The importance of public sector employment in different parts of Wales varies considerably. Employment in the public administration, education and health (which therefore includes people working in private education and health services e.g. private nurseries, private care homes, private health practitioners) accounts for over 30% of total employment in large parts of Wales, from a high of over 40% in the Vale of Glamorgan and Ceredigion, to a relative low of 20% in Flintshire, Caerphilly and Newport.

Table 5 Employment in Public Administration, Education and Health by Local Authority

Local Authority	Employment in Public Admin etc.	Total Employment	Percentage in Public Admin, Education & Health
Vale of Glamorgan	17,500	42,700	41
Ceredigion	9,700	24,400	40
Swansea	34,500	91,400	38
Denbighshire	12,200	32,500	38
Gwynedd	15,000	41,300	36
Rhondda Cynon Taff	26,200	72,900	36
Torfaen	12,700	35,400	36
Monmouthshire	11,700	34,200	34
Merthyr Tydfil	6,000	18,000	33
Conwy	11,400	34,600	33
Pembrokeshire	11,400	35,600	32
Cardiff	55,400	173,200	32
Powys	13,100	41,500	32
Carmarthenshire	15,700	51,500	30
Neath Port Talbot	11,000	39,300	28
Bridgend	12,500	45,000	28
Anglesey	4,900	18,300	27
Blaenau Gwent	5,300	19,900	27
Wrexham	13,700	52,000	26
Newport	18,600	71,300	26
Caerphilly	11,200	45,300	25
Flintshire	12,200	60,000	20
Wales total	341,900	1,080,300	32

Source: Statistics Wales Employee Jobs by Industry 2001

- 3.8 Although this data should be treated with considerable care, it is clear that the public sector provides a very important source of jobs in large parts of Wales. The income from these jobs, even the lowest paid, undoubtedly helps to maintain individuals, households and the wider community, as well as providing local public services.

Public sector pay

- 3.9 The public sector labour market in Wales, as in all sectors, is complex. It comprises a number of essentially local and sub-regional labour markets, coupled with UK-wide labour markets for professional, managerial and specialist staff. Some local labour markets cross the Wales-England boundary, particularly in north east and south east Wales.
- 3.10 In terms of pay, there is nowhere in Wales which attracts any formal pay premium so that public sector workers in Wales are, in theory at least, paid the same as those elsewhere in the UK outside London and the south east – the nurse in Swansea is paid the same as the nurse in Sunderland and the clerical assistant in Bangor is paid the same as her equivalent in Birmingham. However there is some evidence of variation through flexibility in national pay and grading arrangements: for example the Local Government Commission on Pay found that the earnings of full-time males in local government in Wales had grown rapidly in relation to the national median in recent years. The same did not apply to females.³⁷
- 3.11 The Treasury's evidence suggests that average public sector in Wales is higher than average private sector pay, for both males and females.³⁸ However, these are aggregate statistics that do not take account of different occupational mixes within each sector – higher average pay in the public sector could simply reflect the presence of more senior, higher paid jobs in that sector. Anecdotal evidence cited by Welsh local authority Heads of Human Resources in their submission to the Local Government Commission on Pay suggests that local authority pay rates may be higher than private sector rates for equivalent, usually administrative and manual occupations, especially in areas where there a local authority is the dominant employer.³⁹ However there is no reliable, robust evidence which supports a firm conclusion one way or the other – a gap that must be addressed as a priority.
- 3.12 In terms of recruitment, there appear to be relatively few recruitment difficulties in Wales other than those occupations that are hard to fill across the UK, such as social workers and certain care workers.^{40 41} Sometimes recruitment difficulties may reflect particular local circumstances that do not relate to pay, e.g. the perceived attractiveness of an area in which to live, and there may also be temporary quirks caused by sudden changes in circumstances e.g. a new government initiative.⁴²

Conclusions

- 3.13 The public sector in Wales is a major employer, accounting for between one quarter and one third of all employment, mainly with employment in education and health. As far as can be identified, workers are paid on national rates, but there is little evidence on whether these are higher or lower than equivalent occupations in the private sector. There are relatively few recruitment and retention issues specific to Wales or its localities.
- 3.14 Any changes to pay arrangements in the public sector would have implications for over a third of a million people and would impact particularly on women, who make up a substantial proportion of the public sector workforce, and on the lower paid.
- 3.15 More detailed and robust information about public sector employment in Wales is vital to inform public policy making. We need to know more about the numbers of public sector workers, their characteristics and the jobs they work in. Crucially, we need to know about their rates of pay and the operation of the labour market, especially the interaction with the private sector. Without robust and reliable information, there is a great risk of policy being based on supposition, with potentially damaging results for the people affected.

4 IMPLICATIONS FOR WALES

Key findings

- Findings are speculative because labour markets are diverse and there is little detail on how pay flexibility might operate
- Changes based on regional comparability could bring modest downward pressure on average earnings
- Changes based on local labour market rates could bring more significant downward pressure with a differential of up to £100 a week between UK and local average earnings
- Low paid occupations are more likely to be affected than professional jobs, some of which experience recruitment problems and already have above average pay
- There is no obvious gain to public services in Wales from change
- There could be significant adverse impact on local economies and communities, with offsetting gains in employment yet to be proven.

4.1 An assessment of the implications of change for people in Wales is inevitably speculative, not least because there is no detail of the model of regional pay flexibility which might be adopted nor how it might be applied. Any changes would also be introduced into a public sector which is highly diverse, with several different pay determination arrangements, and which operates, on the ground, in a multitude of local and sub-regional labour markets within Wales. The conclusions in this section are inevitably speculative.

Impact on pay

4.2 The impact on pay is the key issue. It is important to make clear that there is no evidence of government or employers' intentions to cut or even constrain pay as part of geographical pay flexibility. All the references in various statements are to increasing pay where there are recruitment and retention problems. However, when there is a firm ceiling on the total public sector pay bill it is inevitable that higher pay in some areas must be offset by lower pay elsewhere. Similarly, responsiveness to labour market conditions must surely mean lower pay where the labour market is slack. Whilst it is unlikely that geographical flexibility would bring an immediate pay cut, changes such as differentiated pay rises could start to open up substantial variations in pay over time.

- 4.3 So, what might ‘responsiveness to labour market conditions’ mean for Wales? In large part it depends on the area used to determine pay, how pay is compared, and whether differences between occupations are taken into account.
- 4.4 A crude approach based solely on regions could bring a *general* downward pressure on public sector pay in Wales, although not to a significant extent if earnings in London and the south east were excluded. Average weekly earnings in Wales are just £21 less than the average for the UK excluding these areas.^{43 44}
- 4.5 A more localised approach could well see more significant downward pressure on public sector pay in Wales. For example, eight of Wales’ twenty two local authority areas are in the twenty lowest paid local authorities in Great Britain, with average weekly earnings well below the national average. In some areas average earnings are barely 40% of the staggeringly high average earnings of central London (see table 6). Even the best paid localities of Wales, Cardiff and the Vale of Glamorgan, are only mid-way up the British pay league. It is instructive to note that the earnings data for eight local authorities in Wales are so unreliable that they cannot be published, whilst even the data deemed to be sufficiently robust to publish is based on relatively small numbers of employers’ returns and is therefore not very statistically reliable.
- 4.6 Workers in most if not all of Wales could therefore see quite significant pressure to constrain public sector pay if local, rather than regional, variations in pay were introduced. Even a broader approach, dividing Wales into West Wales and the Valleys and East Wales, sees a larger differential with average earnings in West Wales and the Valleys, at £395.10, some £40 a week less than the UK excluding the south east.⁴⁵
- 4.7 Even this picture is too simple, however. As we saw in Section 3, labour markets vary considerably according to occupation – recruiting and retaining senior managers draws on different people in different locations compared with recruiting and retaining care workers. And in Wales only *some* occupations are paid below the average. Most strikingly, average earnings in professional occupations in Wales are slightly above the average for the UK excluding London and the south east, just behind Scotland and the eastern region. These are the occupations which seem to experience recruitment difficulties and are therefore most likely to attract a premium. In contrast, average earnings in Wales are lower than the UK average for males in managerial occupations, females in operative occupations and both genders in sales and customer service occupations, although the monetary difference is relatively small at, at worst, £25 a week. With the exception of managerial positions, these are mostly already relatively low paid.

Table 6 Average Weekly earnings by local authority

Local Authority Area (Great Britain)	Average weekly earnings	Rank in GB
Gwynedd	360.16	2
Ceredigion	*	3
Blaenau Gwent	*	5
Carmarthenshire	379.32	8
Denbighshire	*	13
Swansea	385.33	16
Conwy	385.37	17
Wrexham	387.21	20
Caerphilly	388.90	26
Rhondda Cynon Taff	398.34	43
Anglesey	*	51
Pembrokeshire	*	52
Powys	401.74	53
Torfaen	407.58	63
Bridgend	408.44	68
Monmouthshire	*	81
Newport	421.87	91
Merthyr Tydfil	*	99
Flintshire	445.79	124
Neath Port Talbot	447.34	126
Cardiff	455.08	135
Vale of Glamorgan	*	139
Wales	414.50	
Great Britain	475.80	
<i>Top 5 local authority areas</i>		
City of Westminster	715.63	201
Hackney	*	202
Islington	762.22	203
Tower Hamlets	808.21	204
City of London	987.94	205

Source: New Earnings Survey 2003.

Notes: figures are gross weekly earnings for full time workers whose earnings were not affected by absence.

* indicates figures cannot be disclosed because of small sample size.

- 4.8 It is therefore likely that introducing geographical variation in pay would result in a general downward pressure on public sector pay, which would be more significant in localities or sub-regions were the basis of differentiation rather than Wales as a whole. The pressure would probably be greatest in those areas where average earnings are already relatively low, namely rural areas and the south Wales Valleys. It would particularly affect women, who comprise the majority of the public sector workforce, and workers in occupations that are already relatively low paid.

Impact on public services

- 4.9 The rationale for pay flexibility is that it helps to improve public services, by adapting pay and conditions more closely to the labour market so helping to recruit the right people. However it is not clear how this process would work where public sector pay is constrained rather than enhanced.
- 4.10 There is little evidence on whether relative pay levels in the public sector affect the skills and qualities of the public sector workforce in Wales. A study of the relocation of civil service offices in the 1970s and 1980s found that higher quality staff were recruited in new locations in south Wales compared with former locations, on the same national rates of pay.⁴⁶ Similarly, Sir Michael Lyons' review found that civil service departments that had located saved considerable sums through reduced staff turn-over.⁴⁷ However it is not clear whether and how constraining pay in the future would affect the quality of the workforce more widely. It is also possible that introducing differential pay rates could adversely affect staff morale and mobility, as suggested in some studies, and that this too could impact on the quality of public services in Wales.
- 4.11 On the other hand, savings made in the public sector pay bill could be used in other ways, either to reduce public expenditure overall or to reallocate to different aspects of service delivery, either in the same locality or elsewhere, although there is no evidence at all on the extent of savings or how they might be used if they were to be achieved. It is therefore impossible to conclude what the impact of geographical pay flexibility on public services in Wales might be.

Impact on communities

- 4.12 An equally difficult question is the possible impact of regional pay on wider communities. When public sector employment accounts for approximately a third of employment in an area, provides professional and managerial positions as well as other jobs, and it is claimed may pay more than equivalent private sector jobs, there can be little doubt that the public sector makes a very substantial contribution to the local economy and prosperity.
- 4.13 The public sector also generates jobs indirectly through the 'multiplier effect'. This is generally agreed to be between 1.0 and 1.5 – i.e every two public sector jobs generates at least one further job.⁴⁸ This is no small contribution to employment and is particularly important in depressed economies where the private sector is often relatively weak. One component of the multiplier effect is the spending power of workers. It is not unreasonable to assume that a reduction in pay and hence in spending power, would reduce the multiplier effect and hence would have knock on effects on other employment, although it is impossible to estimate its extent.
- 4.14 Any reduction in local employment through a reduced multiplier effect needs to be offset against the potentially positive benefits of a close match between public and private wage rates. Where the public sector is dominant it is suggested that its pay rates can act as a 'benchmark' for private sector jobs. The economists undertaking work for the Lyons review suggest that matching public sector rates more closely to local labour market conditions could in fact help to create jobs.⁴⁹
- 4.15 As Sir Michael Lyons notes, It is a moot point which of these opposing trends would predominate. However, with little evidence of a rush of private investment in response to existing geographic pay differentials in Wales, the balance of probability seems that further depressing pay would be unlikely to stimulate job creation. Those areas could well find themselves tipped into a downward pay spiral.

Conclusions

- 4.16 Inevitably, many of the conclusions about the impact of pay flexibility on Wales are speculative. In the absence of detail about what regional and local pay arrangements might look like, we can only sketch in the possible outcomes for pay. The wider impacts on public services and communities are even more intangible, not least because of the lack of hard research at both UK and Wales level.
- 4.17 However, from the information that is available, it seems that the impact on public sector pay rates would be much greater if comparisons are based on local rather than regional pay averages.

Ironically, it would be those localities, occupations and people which are already low paid that would be most adversely affected. It is not clear whether there would be net benefits to public services in Wales as a result of change. Nor is it clear whether the alleged potential gains for the wider economy would offset the potential depression of individual incomes and the knock-on multiplier.

- 4.18 In other words, there is a strong risk that a move to pay flexibility in the public sector in Wales would reinforce existing inequalities, both geographic and social, whilst the evidence of counter-balancing gain in Wales is weak or non-existent.

5 WHAT NEXT?

Key findings

- It is highly likely that some sort of regional and local pay flexibility will be introduced.
- Wales stands to lose from such a system which could entrench existing inequalities between places and people.
- The root causes of regional pay differentials should be tackled through a strong and vigorously pursued regional policy, including further relocation of public sector jobs, and action to tackle occupations with particular recruitment problems.
- Additional data and research are required to inform flexibility and to assess its effects.

5.1 The drive to introduce regional and local pay has its roots in improving public services. The commitment to change seems strong and it is likely that some form of geographical pay flexibility will be introduced in the near future, notwithstanding the opposition of many trades unions. The mechanisms are far from clear and considerably more work will need to be done to develop the approach, whether it builds on existing pay arrangements or is a wholly new approach, to ensure that it is fair and workable.

5.2 Wales stands to lose out from a regional and local pay system. In seeking to mirror conditions in the private sector, a new pay system risks perpetuating and reinforcing existing labour market inequalities. Average earnings in Wales are already below average, especially in some localities, with the public sector accounting for a significant share of local employment. Holding back public sector pay to 'match' already low average earnings could drive down pay rates further, particularly affecting disadvantaged localities, women and those in low paid occupations, and affecting the wider economy, without obvious gains in the quality of public services or job creation.

An alternative approach

5.3 An alternative approach would be to tackle the root causes of geographical differences in pay and staff shortages. Differences in earnings between localities and regions are fundamentally because of differences in labour demand and the very uneven distribution of highly paid jobs. High demand and a concentration of 'top jobs' combine in

London and the south east to drive up pay and earnings in that region – just as lower demand and a relative absence of senior occupations contribute to lower pay elsewhere.

- 5.4 The proposed relocation of some 20,000 civil service jobs is a welcome step.⁵⁰ However as the review hints, there is potential for many more jobs to be relocated than the 10% of civil service posts already identified: there could be more senior posts included in the proposals, and there is scope to relocate executive agencies, arm's length bodies and regulators and inspectorates as well as 'core' civil service functions.
- 5.5 If Wales is to benefit from these and any future relocations then an a highly active approach needs to be taken. For example of the 207 responses to the Lyons review's consultation, only 3 came from Wales (and one of those was a simple query by the Bevan Foundation itself!). There was no local government input, for example, or input from the private sector, trades unions in Wales or WDA.
- 5.6 More generally, a more vigorous regional policy would significantly help to reshape the geography of employment in the private sector and help to reduce the concentration of employment in London and the south east that is causing the labour market there to 'overheat'.⁵¹
- 5.7 The course of this project also identified some recruitment and retention difficulties in specific occupations in Wales. It is not clear whether there are specific measures in place to address them, but there is surely scope to develop programmes which bring together shortage occupations with people seeking work, through providing training and other opportunities.
- 5.8 Finally, the project has also identified some critical gaps in information about the labour market in general and the public sector in particular. We do not have a single source of data on public sector workers, and we know even less on a consistent basis about their characteristics. Our knowledge of average earnings is sketchy below all Wales level, and we have little reliable data on earnings by occupation, sector or industry. We also have no more than anecdotal information about recruitment and retention in the public sector. If geographical pay flexibility is introduced, it is vital that there is sufficient robust information to inform any decisions properly.
- 5.9 Equally importantly, the potential impact of any change, not only on the employer but on employees, the public and wider economy, must be assessed to gauge whether regional and local pay is an effective policy tool, or simply another means of pay restraint.

6 END NOTES

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