Public sector pay and employment

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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....

Percentage change in employment between 2010Q1 and 2013Q1

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 larger falls in unprotected areas

Percentage change in employment between 2010Q1 and 2013Q1

-20% -15% -10% -5% 0% 5%

Public sector excl. financial corporations
Education
NHS
HM Forces
Public Administration
Police (incl civilian)
All Other
Other Health and social work

Full time equivalent
Headcount

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
“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

Percentage change in public sector employment from 2010 Q1 to 2013 Q1

- United Kingdom: -12%
- South East: -10%
- Northern Ireland: -8%
- Wales: -6%
- London: -4%
- East of England: -2%
- Yorkshire and The Humber: 0%
- East Midlands: 2%
- West Midlands: 4%
- North West: 6%
- Scotland: 8%
- South West: 10%
- South East: 12%

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.
Regional private and public sector job growth

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

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

Percentage change in employment from 2010–11 to 2015–16

-60% -50% -40% -30% -20% -10% 0%

By 2014-15

NHS (Health)
Education
Defence
Justice
Work and Pensions
Chancellor's Departments
Home Office
DEFRA

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

By 2014-15  By 2015-16

-60%  -50%  -40%  -30%  -20%  -10%  0%

NHS (Health)  Education  Defence  Justice  Work and Pensions  Chancellor's Departments  Home Office  DEFRA

Percentage change in employment from 2010–11 to 2015–16

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

<table>
<thead>
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<th>Year</th>
<th>Change since 2007–08 (ppt)</th>
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<tr>
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<tr>
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<td>2015–16</td>
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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.
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

Whole economy earnings - AS 2010
Whole economy earnings - Budget 2013
Public sector pay per head - AS 2010
Public sector pay per head - Budget 2013

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

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.
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