

Managing public sector pay in the austerity crisis: fair and unfair practices in UK local government

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Outline

- **Context of reforms**
 - How to cut pay in a fragmented wage-setting system?
 - Cost advantages of outsourcing?
- **Local government case study**
 - What types of downsizing practices?
 - Did employers try to legitimate job cuts and real pay cuts?
 - Are there any brakes on outsourcing?
- **Conclusions**

How to impose restraint on a fragmented model of public sector pay?

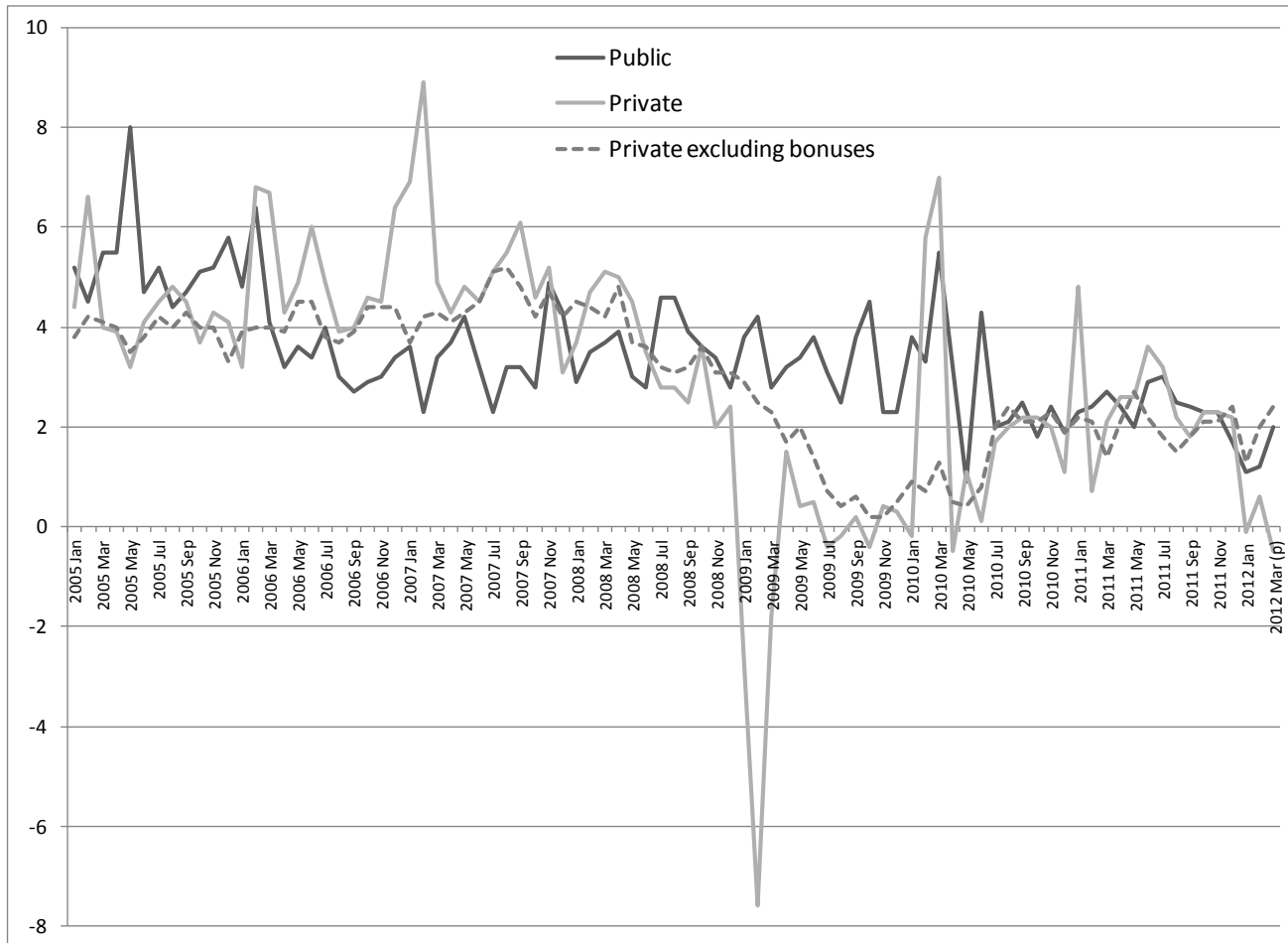
- Previous studies argue for merits of coordinated/integrated systems for effective policy of pay control (OECD, Meurs, Marsden)
- But UK case highlights innovative government policy approach in a context of fragmented pay systems:
 - Pay freeze ‘legitimated’ by low pay supplements
 - Use local pay to help rebalance the economy – rhetoric of public sector pay crowding out local entrepreneurs
 - Shrink the state by increased outsourcing
- Surprising degree of unity in pay settlements to date, in both ‘free’ and ‘quasi’ arrangements for collective bargaining
- Massive programme of downsizing, especially local government & police
- Limited industrial relations conflict to date

Table 1.1. Summary of public sector pay reforms and their effects during the crisis, 2010–2012

Pay issue	Pay reform	Effects on wage levels and wage structures
Annual pay settlement	Unilateral government imposition of a 2-year freeze (most from April 2011), followed by 2-year imposed 1% limit	3% cut in public sector real earnings 2010-11; likely to be higher in 2011-12; falling real pay will continue until at least 2014-15; cut in ‘raw unadjusted gap’ between public and private sector
High-wage earners	High profile independent review commissioned to examine ‘culture of excess’ in public sector, but no mention in 2012 budget	None to date
Low-wage earners	Government provision of £250 fixed supplement for earnings < £21k	Limited impact in reducing real pay cut among lowest paid. Not applied in local government
Local pay	Government aims to dismantle national agreements and hopes to implement local/regional pay	Awaiting Responses from pay review bodies for health, education, prisons due July 2012; already planned for civil service from April 2012. Motivated by goal to cut public wage premium (unadjusted) in regions outside London. But government propaganda obscures complex issues: likely to increase public sector wage inequality, widen inter-regional income inequality and worsen pay for the lowest skilled who are least protected
Automatic pay increments (seniority)	Government pressure on pay bodies to freeze pay increments	Mixed response – eg. no increments for civil servants at the Dept Work & Pensions but honoured for prison service workers.

Government argues for public sector workers to take their turn of pay cuts but the evidence is not wholly supportive:

Figure 1.1. Rates of pay growth in the public and private sectors, 2005-2012



Note: Average weekly earnings

Legacies of policy efforts to impose local pay bargaining point to the positive value of national arrangements in the UK

- Government has asked Pay Review Bodies to consider how to make their pay structures more ‘market-facing’
- Represents a repeat of the 1980s/1990s, but national systems proved resilient then:
 - Risk of ‘anarchy’ of local pay versus ‘comfort’ of national level
 - Character of professions fits a national approach to pay
 - High resource costs for local pay
 - Strong countervailing power of unions
 - Mid-1990s austerity meant insufficient funding for local pay innovations

Resilience of national pay determination

Workforce group

National system to determine pay

CB=collective bargaining; PRB=Pay Review Body

Central government:

Armed forces	PRB (1971-)
Senior civil servants, judges & senior military	PRB (1955-)
Civil servants	CB (separate departmental bargaining units)

Healthcare:

Doctors & dentists	PRB (1963-)	} —————> Process of integration of groups in 2004 and completed in 2007
Nurses, midwives	CB (1948-1982); PRB (1983-)	
Other health professionals	CB (1948-2003); PRB (2004-)	
NHS ancillary workers	CB (1948-2006); PRB (2007-)	

Education:

School teachers	CB (1919-1987); PRB (1991-
School support staff	PRB (2010 -2011); CB (2012-)

Local government:

Police officers	Indexation (1978-1993; 1994-2006); Arbitration tribunal (2007); CB (2008-10)
Police staff	CB
Fire service	Indexation (1978-2002, 2005-)
Local government	CB (1918-)
Prison service	PRB (2001-)

Government is committed to levelling down
'privileged' conditions in the public sector

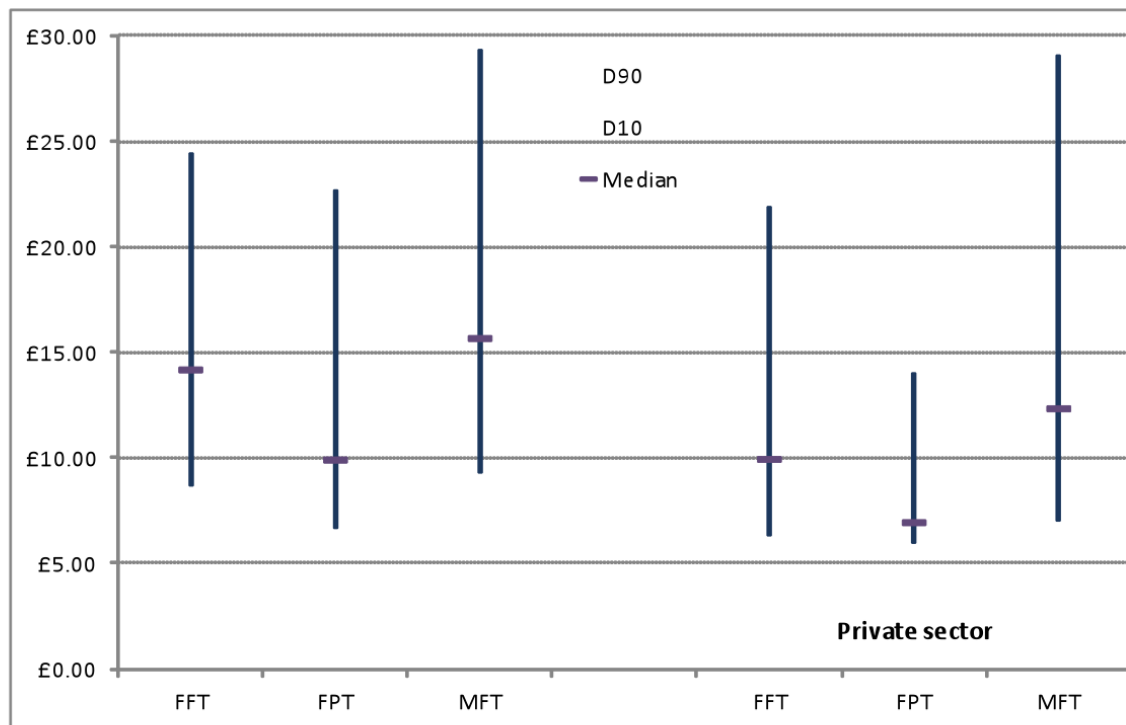
But public-private wage comparisons
inappropriate:

1. Differences in composition
2. Private sector misuse of MW as a going rate
3. Wider unexplained gender pay gap in private sector
4. Differences in age-earnings profiles – dynamic comparisons narrow pay gaps
5. Pay is only one part of the reward package

Public sector faces strong pressures to outsource public services: What are the country-specific conditions?

- Strong ideological pressure from government
- Strong economic incentive because of wide unadjusted pay gap with private sector
- Strong industrial relations incentive (break union strongholds) – although social dialogue may prove more sustainable ...
- Limited labour market protections for targeted workers
 - TUPE - but evidence of avoidance through ‘fragmentation of services’ contracts
 - Two-Tier Code – but abolished
 - Social clause in procurement – fearful of legal implications

Figure 1.6. Pay distributions in the public/private sectors (FFT, FPT and MFT), 2011



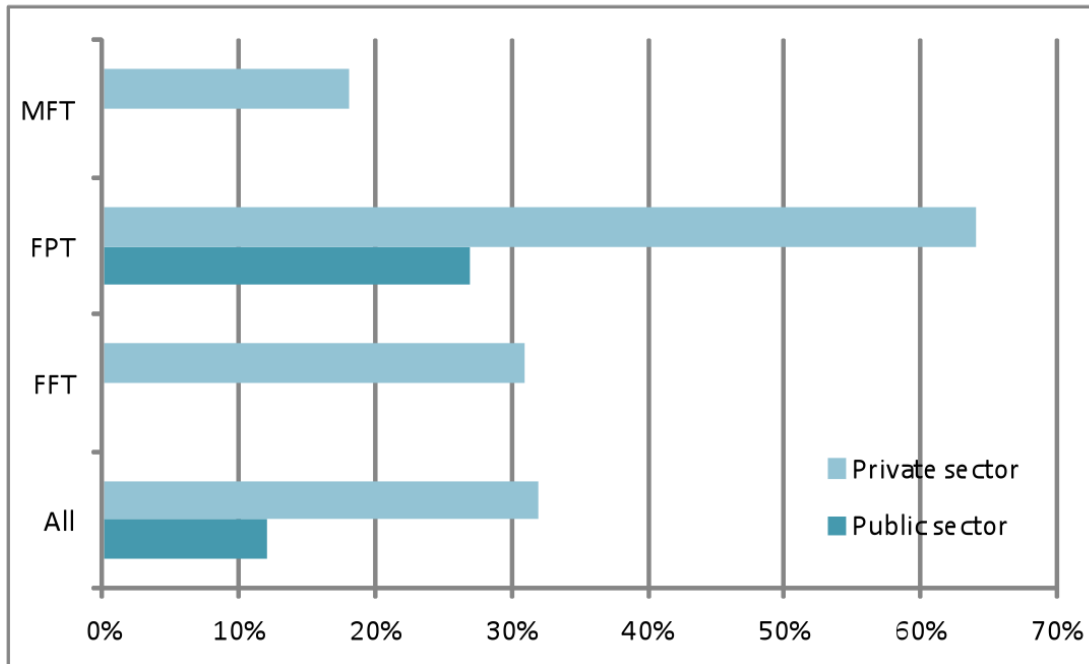
Public sector pay relative to private sector pay for same worker group and percentile point

	10	20	30	40	50	60	70	80	90
FFT	1.37	1.40	1.41	1.43	1.42	1.39	1.34	1.25	1.12
FPT	1.13	1.24	1.31	1.38	1.42	1.52	1.65	1.77	1.62
MFT	1.32	1.31	1.31	1.30	1.27	1.24	1.19	1.10	1.01

Note: gross hourly pay excluding overtime for all employees.

Source: specially requested ASHE earnings data (Office for National Statistics), own compilation.

Figure 1.8. Low pay incidence in the public and private sectors, 2011



Note: gross hourly pay excluding overtime for all employees. Low-wage threshold is two thirds of median hourly pay for all employees (£7.95 in 2011). Incidence is estimated using the available decile earnings data and assuming a linear inter-decile pay distribution.

Source: specially requested ASHE earnings data (Office for National Statistics), own compilation.

Local government case study

- Context of major budget cuts – 2011-12 was first of four years of planned cut of 26% in revenues (12% in year 1)
- Especially severe because UK is relatively centralised, limited tax/spending powers at local levels
- Cuts distributed unevenly across the country – strong correlation by income deprivation
- Downsizing of 200,000 workers in 4 quarters of 2011 (8% cut) – 2 in 3 were women (FFT more at risk than FPT)

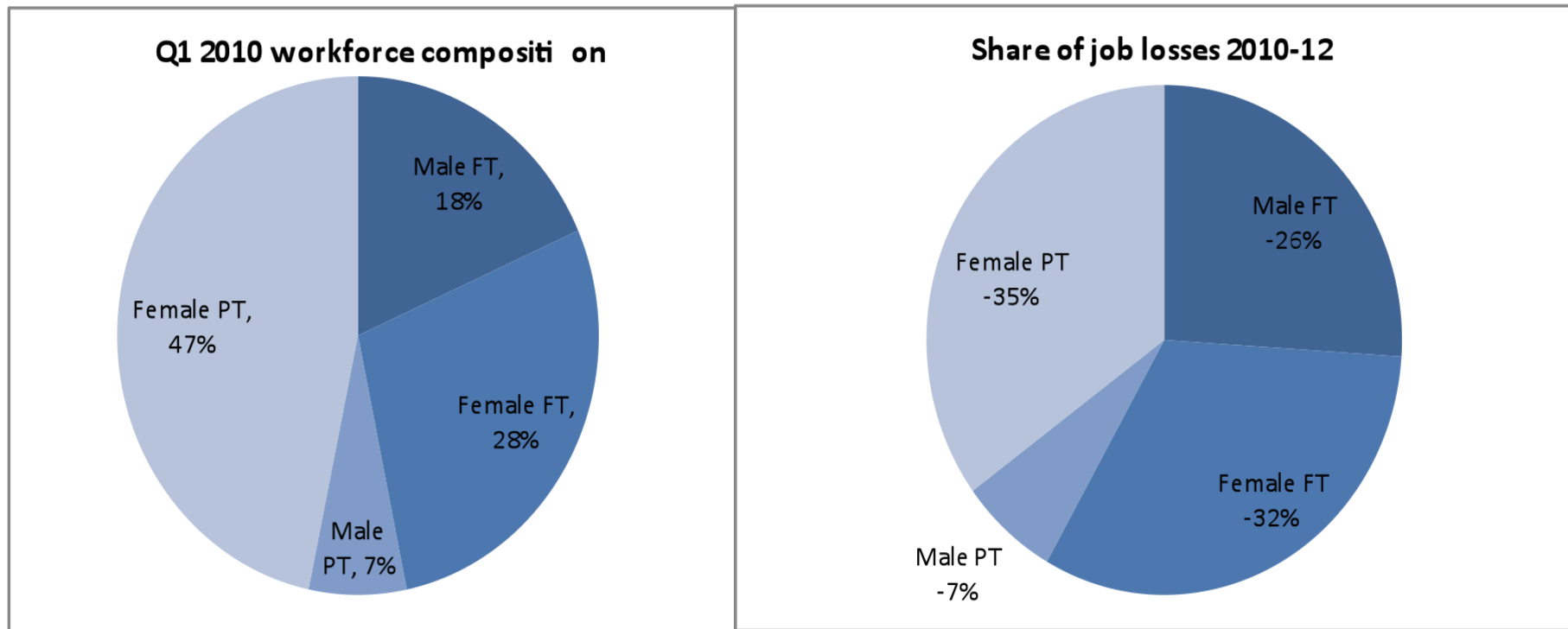
Figure 2.2. Change in revenue 2010-11 to 2011-12 by index of local deprivation (2007)



Source: Hastings et al. (2012: figure 1); unitary and urban authorities only.

Most jobs lost have so far been full-time

Figure 2.4. Composition of local government employment losses by sex and full-time/part-time, Q1 2010 to Q1 2012 (England and Wales)



Source: Quarterly local government data from ONS, <http://www.lga.gov.uk/lga/core/page.do?pageId=1955843>.

Six case-study local authorities

Table 2.2. Characteristics of six case-study local authorities

	Council type	Local population	Political balance	Workforce size
North-West LA1	Metropolitan borough (unitary)	498,800	Labour	8907
North-West LA2	Metropolitan borough (unitary)	308,800	Labour	1859
North-Wes LA3	Unitary authority	327,300	Conservative	12281
East LA1	District council	125,700	Lib Dem/ Labour	1010
South-East LA1	County council	1,427,400	Conservative	12,652
South-East LA2	Unitary authority	239,700	Labour	3,888

1. What practices were used to downsize workers?

- Job cuts ranged from 6% to 30%
- All anticipate problems in meeting future rounds of spending cuts

'We've probably exhausted, bar a few hundred, as many people as we can afford to leave. ... So each department is going to have to review everything it does and review those [services] against [the question] do we stop doing them? ... We have got to find the money from somewhere and if it can't be through less people the other options need to come higher up the agenda' (North-West LA2 13).

- Variation in downsizing practices – mix of voluntary/compulsory redundancies, use of redeployment with pay protection

Table 2.3. Employment downsizing and compensation measures in six local authorities

	North-West LA1	North-West LA2	North-West LA3	East LA1	South-East LA1	South-East LA2
Workforce reduction	30% over 24 months	18% over 18 months	8% over 24 months	6% over 12 months	14% over 24 months	27%
Use of compulsory redundancy?	No, retains a formal non-compulsory redundancy policy	No, customary non-compulsory redundancy	Yes	Yes	Yes	Yes
Redundancy compensation equivalent to statutory regulation?	3 weeks' pay per year of service, capped at 30 weeks	Yes	2 x statutory but capped at 52 weeks	Yes	Yes	n.a.
Redeployment policy?	Yes plus job flexibility	Yes	No, dismissal & re-engagement on new contract (<i>strike action</i>)	Yes	Yes	No, dismissal & re-engagement on new contract (<i>strike action</i>)
Pay protection for redeployed	3 years	1 year capped at £2,000 (but payments up to £4000 cap in 2012)	6 months full, 6 months half (but lump-sum for care workers)	1 year full, 2 nd year half, 3 rd year 25%	3 years	n.a.

Unfair practices

- A. In addition to downsizing, 2 councils dismissed and re-engaged workforces in order to change contractual conditions
 - North West LA3: new clause for PRP, abolished weekend working and overtime pay premiums
 - East LA1: abolished overtime pay premium
 - Strikes in both cases but all workers signed the new contract
- B. 4 councils reduced pay protection prior to downsizing: Problems of very low caps lead to ad hoc compromise payouts to targeted groups of workers

2. Did local authorities implement the national pay freeze? Did they negotiate local deals to 'legitimate' austerity measures?

- A feeling that national bargaining has not delivered for workers – 3 years of pay freeze plus lowest base rate of pay in public sector – but still better than local pay (risk of union derecognition, problem of resources/expertise/ etc)
- Not all 6 local authorities imposed the 3-year pay freeze (problem of pay cuts --- strikes/unfair dismissal claims)

Figure 2.5. Trends in the local government national base rate, the NHS national base rate and the National Minimum Wage, 2004-2012

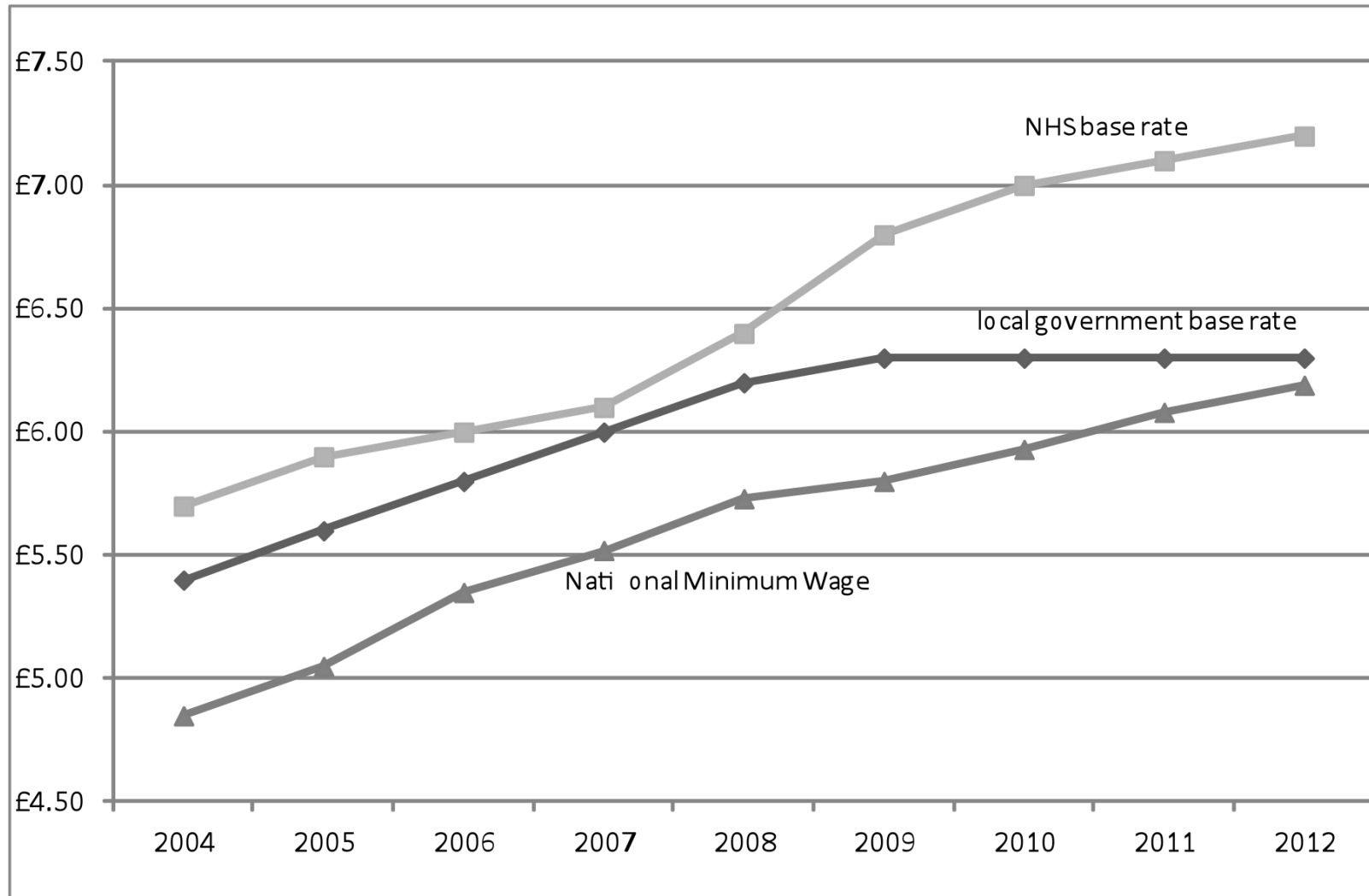


Table 2.4. Pay policy at national and local levels

	NATIONAL PAY AGREEMENT	North- West LA1	North- West LA2	North- West LA3	East LA1	South- East LA1	South- East LA2
Council applies national pay-scale?	--	Yes	Yes	Yes	Yes	No	Yes
Date of implementation of single status pay agreement?	Agreed in 1997	2005	--	--	2004	2003	2000
3-year pay freeze? (2010-2013)	Yes	Yes	Yes	Yes	Yes	Yes 2010-12, pay rise of 1% 2012-13	Yes 2010-2012, then pay cut of 2%-5,5%
Low pay supplement? (£250 for earnings < £21k)	No	No	Yes	No	No	No	Yes
Minimum collectively agreed hourly wage (2012)	£6.30	£6.84 per hour	£7.20 'living wage'	£6.30	£ 7.04	£6.75	--
Seniority increments or PRP during pay freeze?	--	No	Yes	Yes	Yes (PRP only)	Yes (PRP only)	No

Local legitimation by paying the lowest paid more?

- National employer body rejected payment of £250 (government policy initiative)
- Major problem in light of sector's very low base rate of pay (only 22 pence above Minimum Wage)
- Only 1 of 6 case studies stuck with the national base rate. Pay uplifted in 5 organisations - *not a response to local labour market conditions* – Instead:
 - new politics of addressing local poverty
 - justifiable economic reward for work intensification following job cuts
 - positive effect of retention/staff turnover

- ‘The Labour group at the time ... were taking reports to committee in relation to child poverty and the poverty situation on the [North-West LA2]. So we started talking to the Labour group in relation to getting them to accept the £250 for those people who were earning £21,000 and less. ... If you are real about poverty, if you’re real about child poverty, you’ve got to have a decent living wage to do the things that you need to do with children, etc. ... That’s how we bought into it. ... I just thought there’s an opportunity here. They’re talking about child poverty, let’s test them. ... Let’s see what they want to do about it.’ (Unison 7).
- ‘In 2008 ... turnover in [the catering unit] ranged between 15 and 25%. Because basically what people were doing was thinking I can get the same amount of money doing hours that I choose somewhere else ... People say, ‘Well I can get the same money there, I can pick my hours’. ... When you factor in the disruption to scheduling, service planning, arranging cover, induction, training people – so we pay a bit more. Turnover currently stands at something like 7.6%.’ (North-West LA1 4).

3. Has austerity put the brakes on outsourcing?

- Local government among the first to outsource public services
- New mantra of rejecting ‘public sector monopolies’
 - Waste services mostly outsourced (except 1 LA)
 - School catering – inhouse units compete for market share
 - Cleaning services inhouse or mixed in 5 of 6 LAs
 - Elderly care all or mostly outsourced

Varied approaches but slide towards more and more outsourcing

- Where inhouse units are retained, preparation for market-testing
- Renegotiation with suppliers to reduce contract spend (also reduced funding from other local authorities that purchase services from local authorities)
- Only one example of innovative organisational form – joint venture

What protections for pay and employment?

- Managers see pros and cons of TUPE:
 - Levels playing field since private contractors have to account for public sector costs for transferring staff
 - But constrains profit opportunities for potential contractors
- Unfair practices: Widespread use of *fragmenting of services contracts* to avoid TUPE – fragmented or rebundled services makes it difficult to identify which employees were assigned to which part
 - LA may be able to purchase services at a lower cost, but risk of high redundancy costs where no redeployment opportunities
- Limited evidence of social clauses in procurement (except joint venture for waste services) – fear of ‘non-commercial considerations’
- Union ambitions, but limited evidence, of extending ‘living wage’ via procurement

Conclusions

- UK austerity measures have targeted local government - services for the elderly and vulnerable given low priority, women workers and low-wage workers hardest hit
- National pay agreement and national forum for social dialogue has provided weak resistance: institutional resilience in question
- Surprising variety of local downsizing practices – scale and form
- Local responses to the question of how to legitimate austerity – exploratory data reveal varying forms of interventions to re-set pay and conditions through social dialogue, but unfair practices also
- Outsourcing continuing - despite all the risks of entering contracts with private sector contractors, the unregulated private sector offers the promise of savings