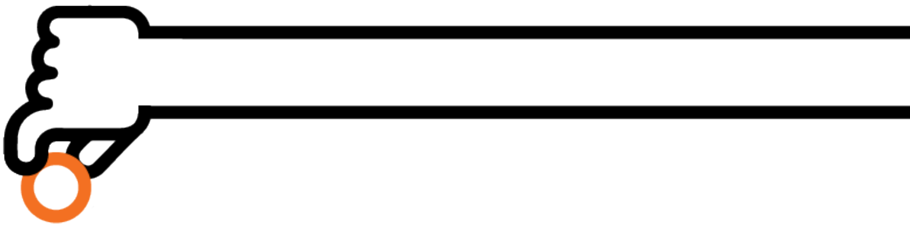
GMB@WORK

END THE PUBLIC SECTOR PAY PINCH

GMB'S CASE TO GOVERNMENT

CONTENTS

FOREWORD



Seven years into the public sector pay squeeze and our worst fears have been realised.

Real terms cuts to public sector pay aren't just failing our members.

They're failing everyone who relies on our vital public services.

This report sets out how the pay cap and funding cuts have created a recruitment and retention crisis. We all end up paying more in the end.

Ministers like to talk about pay 'restraint' – as if George Osborne had to be held back from properly paying our nurses, teaching assistants and refuse workers.

Let's call the policy what it really is – a deep cut to our members' quality of living.

The financial crash wasn't caused by teaching assistants, council officers or hospital porters. It's outrageous that they are still expected to pay the price for the banking crisis over a decade later.

The policy has already cost our members thousands of pounds in lost earnings. Enough is enough.

Theresa May and Philip Hammond now have a chance to break with the failed policies of their predecessors, and make sure that helping those 'just about managing' actually means something to the UK's five million strong army of public sector workers.

This isn't just in our members' best interests. It's in the best interests of the country as a whole.

The UK's public services keep the country on the road. Public sector workers already do more than anyone could reasonably ask.

That's why GMB stands with them, and it is why we will not rest until we have secured the decent pay deals our members need and deserve.

Rehana Azam
National Secretary, Public Services Section, GMB

EXECUTIVE SUMMARY

- **The Government's pay constraint policy is not only unfair on individual workers, it is failing on its own terms.** The cap has already been breached in strategic areas. Recruitment and retention problems are mounting as the pressure on public services rises. 75% of voters support an end to the cap, and the challenges posed by Brexit mean that the assumptions the policy was based on are no longer valid (Chapter 1).

- **The average public/private sector pay gap is no longer significant, and public services will be seriously harmed if the pay differential is allowed to fall any further.** There is a strong body of evidence that links private sector competition for public sector staff to worse outcomes in our schools and hospitals (Chapter 2).

- **Public sector workers have suffered severe real-terms cuts to their salaries.** The average NHS wage for workers on the top of their pay bands has increased by just 3% since 2010 - less than a third of average pay growth in the private sector. This is contributing to severe recruitment and retention challenges across the public sector (Chapter 4).

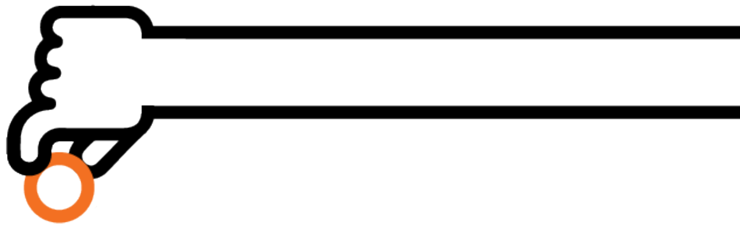
- **The equalities impacts of the public sector pay freeze have been downplayed.** Women are especially likely to be affected by constraints on public sector pay and cuts to public sector jobs. The gender pay gap within the public sector has actually widened in recent years, and the policy has had an especially negative affect in England outside London and the South East (Chapter 5).

- **The Government's preparations for Brexit are placing additional strains on our public services which are compounded by the public sector pay cap.** The extra inflation projected to be created by Brexit will cost the average public sector worker over a thousand pounds in real wage losses. Without adequate training places and improved workforce retention, new restrictions on immigration could have a severe impact on some public services (Chapter 6).

- **Ending the public sector pay cap in this Parliament is both realistic and affordable.** GMB has set out a range of options for how the Government could fund an early end to the policy (Chapter 7).

- **Public sector workers are facing a pay squeeze that is unprecedented in modern history.** The real term cuts to public sector wages are even more severe and prolonged than pay restrictions in the 1990s (Appendix).

INTRODUCTION



Since 2010 public sector workers have been subjected to an unprecedented squeeze on their wages.

A planned decade of deep, real terms cuts to wages is driving people out of their professions and undermining the quality of public services for everyone.

This is why the GMB is calling on Ministers to take four steps:

- **No ifs, no buts – an end to public sector pay cuts**
- **Proper funding for public services**
- **Restoration of independence for the Pay Review Bodies**
- **A real Living Wage of at least £10 an hour for all public sector workers.**

Alongside the need to reduce the deficit, the Government has defended the policy on two grounds: that public sector pay remains attractive compared to the private sector, and that its pay policy has protected the total number of public sector jobs (especially for women).

This report argues that this defence cannot be sustained. The Government's pay constraint policy is not only unfair on individual workers, it is failing on its own terms. The cap has already been breached in strategic areas.

Recruitment and retention problems are mounting as pressures on public services rises. The challenges posed by Brexit and inflation mean that the assumptions the policy was based on are no longer valid.

Public sector labour markets are complex entities that need flexibility to adapt to rising demand. By contrast, the pay cap is an inexact instrument that has inflicted a blunt force trauma on the nation's public sector.

There is compelling evidence that poor pay differentials between public and private sectors are associated with declining standards, such as worsened exam results and hospital fatality rates.

It is vital that the ability of Pay Review Bodies to make independent recommendations is restored on the basis of need, not an arbitrary cap.

This report is based on a variety of sources, including testimony from our members, official statistics and information obtained from the Treasury under the Freedom of Information Act. However, the available material is uneven in nature.

Comparably good information is available on the labour market in NHS, although the quality of the data is generally lessened for roles at the lower end of the pay scale. The same cannot be said for school workers who are not teachers.

The Government collects only the most basic data in this area, and following the scrapping of the School Support Staff Negotiating Body in 2010 there is no independent source of pay information at a national level.

Similarly, leaver and joiner rates are published for police officers but not other police staff.[1]

Ministers do not collect data on the wastage and turnover rates for Local Government workers, despite the impact of Central Government's policies on Local Government staff.

When it comes to policy making at a senior level, it is difficult to resist the conclusion that some grades of workers are out of sight, and out of mind.

GMB believes that our public services cannot succeed without the contributions of all their workers – teaching assistants as well as teachers, hospital cleaners as well as consultants.

Within the constraints of the Government's approach to information collection, this report attempts to redress the balance by examining the impact of the pay squeeze on groups of public sector workers that do not typically receive national attention, including over six hundred thousand school support staff employees.

The limitations of the available data do, however, underline the need for the restoration of the School Support Staff Negotiating Body and better information collection across the public sector as a whole.

GMB strongly supports the TUC's public sector pay campaign[2], as well as the ETUC's wider 'Year of the Pay Rise' campaign[3], and this report is intended to add another voice to the growing calls for change.

The pay cap is hurting, but it is not working. We have reached the point where the policy cannot be continued without impairing productivity gains.

Recruitment and retention challenges are present across the sector, but in some areas they are at boiling point.

As this report sets out, ending the pay cap is both practical and affordable. It is time for the Government give public sector workers the real pay rise that they deserve.

CHAPTER 1 – BACKGROUND

"Our economy should work for everyone, but if your pay has stagnated for several years in a row and fixed items of spending keep going up, it doesn't feel like it's working for you."

Theresa May, October 2016

Policy and political background

Public sector workers are now entering their seventh year of deep, real-terms pay cuts. This squeeze on living standards is unprecedented in the modern era. The only comparable period was under John Major, when pay constraints contributed to the perception and reality of public services in deep decline (this issue is discussed further in the Appendix).

Despite the severity of the cap, a prolonged, restrictive cap on public sector pay has never been put to voters. The 2010 Conservative Manifesto proposed a one year pay freeze with an exemption for the million lowest paid public sector workers.[4]

This compared to the then Labour Government's plan to cap pay awards at 1% for two years.[5] The Liberal Democrats proposed an initial two year cap of £400 on individual pay awards.[6]

Following the 2010 election, and contrary to the Conservative Manifesto policy, George Osborne announced that wages would be frozen in absolute terms for two years, with the exception of a flat £250 increase for workers who earned less than £21,000, and any unconcluded pay awards would be scrapped.

Even this mitigation fell short of expectations, as the £250 increase was not automatically applied to 'non-Crown' public sector employees such as Local Government staff and academy employees.

Although the cap does not directly apply to all public sector workers, in practice it has been followed across the sector in all but exceptional cases.

The impact of the policy has been more severe in some parts of the sector: in the early part of the last Parliament, Local Government staff effectively faced three years of absolute freezes after employers failed to make a pay offer in 2009/10.

The gap between pay and inflation was most acute during these early years of the national policy after both the CPI and RPI increased by around 5%. The two year freeze was succeeded by a 1% pay cap. After the 2015 general election the 1% cap was extended for a further four years.

The impact of this policy on staff cannot be separated from the wider effects of general funding reductions, which has raised workloads across the public sector.

This is especially true in Further Education, which has been hit disproportionately as an unprotected part of the Education budget, and reductions in real wages have therefore been accompanied by job losses and mergers of long-established colleges.

While executive and senior management pay has grown, with few checks and balances, GMB members who work primarily in the administrative and support services have been disproportionately hurt by casualisation, the outsourcing of services (often resulting in the adoption of agency or zero hours contracts) and by the implementation of a basic 1% (below inflation) pay rise in the 2015-16 pay round.

Theresa May's commitment, made shortly after she became Prime Minister, to devise policies that would help 'just about managing' families was therefore welcome, but it is not yet clear how, or if, this pledge will apply to public sector workers.

We also welcome the Labour Party's recent statement, in the context of the pay cap in the NHS, 'about the need to end pay restraint ... that further pay restraint for NHS staff would be self-defeating and unsustainable.'[7]

We are asking all political parties to now go further and support an early end to the cap not just in the NHS but across the public sector as a whole.

Although the 1% cap has been generally followed across the UK, national governments have interpreted the policy in different ways.

The NHS in Wales and Scotland have become Living Wage employers in recent years, with the costs funded externally to existing budgets (unlike the cost of the National Living Wage in NHS England, which has been paid for from within the existing budget).

By contrast, Northern Ireland followed England in 2014/15 by rejecting a recommended 1% consolidated increase in NHS wages. GMB analysis, which is discussed in detail in Chapter 6, shows that it is practical and affordable for Central Government to fund an early end to the pay cap policy both in England and in the devolved nations.

Independent polling carried by Survation shows that the public recognises the basic unfairness of the policy and that ending it would be popular. Three quarters of all voters would support an above-inflation pay-rise for public sector workers this year, including 69% of Conservative voters. There is a clear majority in favour of ending the policy in every region and across every demographic group that was surveyed.

Research by the GMB shows that public sector workers could play a decisive role in the next election. Public sector employees outnumber the majority of incumbent MPs in 224 constituencies – over a third of the total – including in 85 Conservative-held seats.

GMB is determined to raise the public profile of real-terms cuts to public sector wages ahead of the next general election.

Public-private pay differentials

It has sometimes been claimed that public sector workers enjoy a significant premium compared to their private sector counterparts (or even that public sector workers enjoy perks such as 'gold plated pensions'). These comparisons are not conducted on a like-for-like basis, and there is good reason to believe that any further reductions to the differential will have a profoundly negative impact on public services.

In 2014 the Institute for Fiscal Studies found that, when adjusted for job responsibilities and education levels, the pay differential amongst men was 'close to zero' and amongst women it was around 8%.

The IFS concluded that if current policies remained in force then during the current Parliament 'pay levels will fall back to levels last seen in the late 1990s and early 2000s, when there were recruitment and retention problems in parts of the public sector.'[8]

This report further argues (in Chapter 4) that the differential, such as it exists, is important in some areas of the country it reflects job opportunities for women that do not tend to exist in the private sector.

Although pensions are largely outside of the scope of this report, it is worth noting that the IFS also argued in 2014 that, although public sector pensions continue to offer better value than in the private sector (partly reflecting the decline of private sector Defined Benefit schemes over the last twenty years), 'recent reforms have significantly reduced the generosity of public sector schemes.'

New entrants in particular are paying higher contributions for less by the way of eventual remuneration. Three years ago the IFS found that once pay and pensions are taken into account, the real average public/private differential (adjusted for experience and education levels) was 4.6% - and this gap has been eroded further since then.[9]

The cost-control mechanisms within public sector pensions will see this element of their reward package remain static as pay is eroded.

The increase in National Insurance contributions for formerly contracted-out employees is especially an issue: according to the Pay Review Body, this has lead to some NHS workers losing £449 a year in take-home pay.[10]

Low to medium earners in the public sector are also at risk of having their pensions devalued by the public sector exit payments, especially in the Local Government workforce.

According to the Government's own modelling, a worker who retires on a final salary of as low as £25,000 could be caught by the cap.[11]

There are good reasons for believing that the differential should not be allowed to fall any further. The IFS has drawn attention to research which associated strong pay competition from the private sector with worsened hospital fatality rates and GCSE scores.[12]

Similarly, the National Institute for Economic and Social Research recently reviewed evidence which suggested that there was a link between dependence on agency staff and impaired levels of patient satisfaction in the NHS.[13]

International comparisons

Public sector pay cuts or freezes were instituted in most European countries following the crash, although the trend was not universal: during the period of the financial crisis public sector pay freezes or cuts were avoided in several countries including Belgium, Denmark, Poland and Sweden.[14]

However, there are signs that by persevering with the pay cap policy until 2020 the UK is increasingly out of step with other countries.

In Croatia, following a sustained period of GDP growth, 6% cuts to public sector wages have been reversed, and under an agreement with public sector trade unions automatic pay rises will follow if GDP growth is sustained.

In Germany, after a prolonged period of wage stagnation, public sector wage increases worth approximately 2.5% a year have been agreed over a two year period between unions and both federal and state governments.[15]

Pay policy in America has largely mirrored that of the UK until recently. A two year pay freeze was introduced, which was subsequently extended into a third year by Congress against the wishes of the Executive. Pay awards of 1% followed in 2014 and 2015, and wages were raised by an average of 1.3% in 2016.

The apparent similarities between US and UK public sector pay policies ended in December 2016 when President Obama announced that federal salaries would rise by an average of 2.1% in 2017, partly in recognition of the 'significant sacrifices' that federal workers had been asked to make during the period of pay constraint.[16]

Recent developments

The pay cap has already been breached in the course of the last year. Following negotiations with the GMB and the other ambulance trade unions (Unison and Unite) the Department for Health agreed to fund an uprating for paramedics from Band 5 to Band 6 salaries.

Departments have been given the flexibility to hire civil servants to work on Brexit outside of the normal pay structures and the Cabinet Office is discussing the introduction of enhanced contracts to attract new staff in IT and Government Commercial activities.

Additional funding has recently been found to secure pay increases for Band 3 prison officers in the South of England.[17]

While piecemeal improvements for some grades may be welcome, it is not a comprehensive solution to the wider recruitment and retention problem in the public sector.

Future Government public sector pay policy

As recruitment and retention pressures mount, GMB is deeply concerned by the Government's stated intention to target pay awards within the 1% cap in future bargaining rounds within this Parliament.

Ministers have already said pointedly that 'this may mean that some workers receive more than 1 per cent whilst others receive less, and there should be no expectation that every worker will receive a 1 per cent pay award.'[18]

In some Departments, proposals have been made to trade unions for 10% of staff to get no rise at all and a further 20% to get less than a 1% increase.

There is clearly a danger that, without additional funding, exceptional pay awards for some staff groups will be made at the expense of others, which would effectively shift the problem to elsewhere in the public sector.

CHAPTER 2 - IMPACT ON WORKERS

Public sector workers are facing an unprecedented squeeze on their wages.

Prices are projected to rise by more than double the Government's planned annual 1% pay increases over the course of this Parliament, reducing the average value of full-time public sector workers' wages by a further £4,073 by 2020.

On average, public sector salaries have lost around a tenth of their value over the last seven years.

The value of pay points in the NHS has increased by just over 3% on average – less than a third of private sector wage growth during the period. Local Government workers' salaries have not been raised in real terms since 2008/09.

To calculate the value of this real terms loss of wages, GMB compared salary values for typical full-time workers on the top of their pay band with the value of those salaries if they had been allowed to rise in line with the Consumer Price Index (Figure 1).

Although some staff will have received pay progression during this period, these figures are broadly representative: 40% of NHS staff in 2010 were at the top on their salary band[19], and according to a more recent estimate by the National Institute for Economic and Social Research half of all nursing staff have hit the top of their band.[20]

Figure 1 – Real terms wage cuts compared to Consumer Price Index inflation 2010 – 2017, not including London or other cost of living weightings[21]

Job title	Salary in 2010	Salary 2017	Annual real-terms cut (2016/17)	Total real-terms cut 2010 - 2017
Catering Assistant	£13,589	£14,975	£549	£4,417
NHS Cleaner	£14,364	£15,516	£893	£6,025
Hospital Porter	£16,753	£17,978	£1,161	£7,285
999 Call Handler	£18,577	£19,655	£1,567	£8,646
Teaching Assistant	£16,830	£17,547	£1,680	£6,531
Library Assistant	£17,161	£17,891	£1,714	£6,659
Refuse Collector	£17,161	£17,891	£1,714	£6,659
Administrative Assistant	£20,198	£21,057	£2,017	£7,838
Qualified Residential Care Worker	£22,221	£23,166	£2,219	£8,624
Social Worker	£25,472	£26,556	£2,543	£9,565
Higher Level Teaching Assistant (SEN Specialist)	£26,276	£27,394	£2,624	£10,196
Homelessness Prevention Officer	£28,636	£29,854	£2,860	£11,114
Staff Nurse	£27,534	£28,442	£3,013	£14,572
Midwife	£34,189	£35,225	£3,833	£18,011

The Department of Health has also recently published its own estimates of the real terms fall in the value of NHS salaries for staff who are at the top of their pay band between 2009/10 and 2015/16, which show an average fall in the real value of those wages of around 10% if the assessment was extended to 2016/17 (Figure 2).

The NHS regulator Monitor warned in 2013 that:

"We do not believe [the 1% pay cap] is a sustainable strategy for improving productivity in the NHS. Periods of wage restraint are generally followed by periods of "catch up" with their trend level in subsequent years. Capping wages for longer to keep costs down would be self-defeating for the sector in the long term as it would make recruiting and retaining good quality professionals increasingly difficult."[22]

Figure 2 – real terms fall in value of NHS salaries compared to the Consumer Price Index[23]

AfC band	2009/10 to 2015/16	Annual Average
1	-4.4%	-0.7%
2	-5.4%	-0.9%
3	-7.0%	-1.2%
4	-9.5%	-1.6%
5	-8.9%	-1.5%
6	-9.5%	-1.6%
7	-9.5%	-1.6%
All bands	-8.2%	-1.4%

numbers of people to [the private] sector so I am trying to negotiate on behalf of the Government with people who are paid substantially less than the people on the other side of the table and industry is coming along and cherry-picking the best of my team. That is not the best way to drive value for the public purse."[26]

A number of independent warnings have been made to the Government that continuing the pay cap is not sustainable. Nowhere has this been more prominent than in the NHS.

"The Review Body system has proved its value over decades in balancing the interests of all the different parties – notably workforce, employers and government – for workforces where there is a strong and continuing public interest in the outcomes."

Lord Deighton, Treasury Minister, 2013-2015

Recruitment and retention

Although data is not available on a uniform basis, pay dissatisfaction is mounting across the public sector.

Pay satisfaction in the NHS has fallen by 5 per cent since 2010, with greater falls recorded by staff in hard-to-fill posts.[24]

In the Ministry of Defence, civilian staff pay satisfaction rates fell from 40% to 30% between 2009 and 2016.[25]

As early as 2013, Bernard Gray – then Chief of Defence Matérial with responsibility for managing half the Ministry of Defence's procurement – told MPs that:

"We all know that public sector pay restraint is very strong... [but] I am losing significant

NHS

Despite its insistence that the pay cap will remain in place until 2020, the Department of Health itself admits that the its pay cap policy poses 'risks to the NHS ...including recruitment and retention, agency costs and staff morale.'[27]

These concerns have been expressed for some time by the independent NHS Pay Review Body (PRB). Before the last election, and before the Government announced its plans to extend the pay cap policy to the end of this Parliament, it warned that 'as the economy recovers [pay restraint] cannot continue to be the main mechanism by which the NHS achieves cost savings.'[28]

The Review Body has also said that:

'Bearing down too hard on the pay of the whole workforce, at a time when they are being asked to deliver large scale transformational change, will not support innovation and may well be counterproductive. ... Similarly, hiring extra staff should help with workload, but if that is done at the expense of maintaining competitive pay levels for existing staff, then turnover will increase, and productivity will come under more pressure.'[29]

The NHS's influential 2014 publication, the *Five Year Forward View*, warned that the policies of the previous four years '*will not be indefinitely repeatable. For example as the economy returns to growth, NHS pay will need to stay broadly in line with private sector wages in order to recruit and retain frontline staff.'*[30]

Despite the *Forward View's* clear statements that pay constraints could no longer be relied upon to deliver efficiency savings, and despite the 2015 Conservative Party Manifesto's commitment to implement the *Forward View*, the cap has remained in place.

In a survey conducted by NHS Employers, 93% of organisations reported that they encountering a recruitment 'gap,' and it was found that 78% of all vacancies that had to be advertised for more than three months were in the field of adult nursing.[31]

The gap is largely being filled by migrant labour – and non-EU immigration rules have been relaxed in order to accommodate this trend.

Whereas previously only neo-natal specialists had been included, from November 2015 all categories of nurses were added to the Government's Tier 2 Shortage Occupation List. The shortfalls are not limited to nurses. Other occupations on the Tier 2 list include paramedics and radiographers.[32]

Although Department rightly insists that pay is not the only factor that is relevant for recruitment and retention, it has been sharply criticised by the Migration Advisory Committee for underplaying the importance of pay. It concluded last year that:

'We are not convinced that the health and care sectors are employing non-EEA nurses at the lowest possible rates for reasons other than to save money. *The health sector controls its own supply of nurses through training commissions and yet has managed to leave itself without sufficient nurses.*

... The sectors have, in our opinion, an unrealistic view that the role of pay in recruitment and retention is only weak. *Ultimately, it comes down to cost. It has been the desire to cut costs and to save money that has left the sectors reliant on non-EEA nurses to fill staffing shortfalls. We have real concerns that these non-EEA nurses are employed because they are a cheaper option.*

...If we were looking at almost any other occupation than nurses, we would find it easy to conclude that our sensible criteria were not met. In which case, ***we would suggest to the employers that they go and increase the number of training places to meet capacity and increase staff pay to reduce the numbers leaving the profession.'***[33]

Agency staff

As the NHS experiences growing difficulties with recruiting and maintaining its permanent staff - between January 2015 and September 2016 the number of vacancies in the NHS increased by a quarter[34] - it has become increasingly reliant on agency and in-house bank staff.

This trend has been one of the main drivers of increased costs and Trust deficits over the last seven years. In 2016 the National Audit Office found that there was 'a statistically significant relationship' between Trusts' expenditure on agency staff and the scale of their deficits.[35]

Even though the Government has introduced measures to try to control the burgeoning costs of agency staffing, the problem is partly a matter of supply: there are not enough new entrants to the workforce following cuts to nursing bursaries and commissioned training places, and poor pay rates causing existing permanent staff to take up agency work.

Although staff choose to take up agency work for a variety of reasons, a recent literature review by the National Institute for Economic and Social Research found that:

'Specialised staff, who have specialist skills in scarce supply within the NHS or were higher-graded, were more likely to cite higher hourly pay as their motivation for undertaking agency work, reflecting their ability to command higher returns and stipulate their own terms to the agencies. ...

Another study highlights that for employees at the top of their pay grade (as is the case with 50% of the nursing workforce), agency work provides an attractive, and indeed the only, option to obtain higher pay.'[36]

The growing reliance on agency staff is not unique to the NHS. In 2010 an estimated 8% of public sector jobs were supplied by an agency – by 2015, that number had increased to 13%.[37]

The annual cost of temporary and contract staff to the public sector rose by £2 billion between 2011/12 and 2014/15 (this is discussed in more detail in Chapter Six). The NHS is, however, the clearest example of how retention pressures are driving a growth in agency staffing, which in turn creates a vicious cycle as budgetary resources that could be invested in long-term requirements are instead consumed by short-term needs.

Paramedics

In December 2016 the ambulance trade unions (GMB, Unite and Unison) secured a settlement with the Department of Health that will reband paramedic roles from Band 5 to Band 6.

This national pay increase for paramedics follows local decisions in a number of Trusts to offer the higher band in order to stem the number of paramedics who are leaving the service. This has led to intense competition between Trusts to attract ambulance staff from within the existing NHS workforce.[38]

It was also argued that the changing roles of paramedics and the increased responsibilities they are asked to undertake had rendered the old pay structures anachronistic.

While the GMB welcomed the Department of Health's concession, the same arguments apply to many other staff groups.

Nursing has been particularly hit by post-2010 cuts to commissioned training places, the growth of agency work (as some nurses chose to transfer to agencies to reduce stress and obtain higher pay), and increased workload pressures.

There is evidence that some NHS Trusts are rebanding nurses' pay from Band 5 to Band 6 in order to aid recruitment and retention.[39]

GMB believes that, as with paramedics, pay for nurses and other NHS employees has failed to keep pace with either the cost of living or the increased workload pressures that staff face.

Education

As a general union, GMB represents a significant share of the school support staff workforce, including teaching assistants.

Despite the growth in public investment in support staff over the last decade, gathering a clear national picture is more challenging than in the NHS.

There are, however, strong indications that the pay cap is having the same detrimental effect in schools as in other parts of the public sector.

Although support staff make up 62% of the education workforce in England, the Department for Education does not collect any information on recruitment and retention pressures for school support staff or teaching assistants.

The Department does not collect information on days lost to sickness (including stress), skills attained, or the prevalence of term time-only contracts.[40]

Despite the extremely limited nature of the available data, it is possible to infer some conclusions from support staff employment numbers and information on salaries, not all of which is routinely published by the Government.

Wider conclusions can also be drawn from the School Teacher's Review Body's comments where they also apply to support staff.

Roughly 30% of teachers leave the profession after five years and, according to the National Audit Office, the number of teachers exiting the system rose by 11% between 2011 and 2014.[41]

In 2016 the Pay Review Body noted that 'after several years of pay restraint, the strains are showing,'[42] and argued that:

'If current recruitment and retention trends continue, we expect an uplift to the pay framework significantly higher than 1% will be required in the course of this Parliament.'

The total number of pupils in the school system rose by 5.7% between 2010 and 2016, but in primary schools the growth in demand was even stronger as pupil numbers increased by 12.7%.[43]

This growth has largely been accommodated through the recruitment of additional support staff: the number of teaching assistants increased by 12.9% between 2010 and 2015.

Classroom teacher number increased by just 1.6% over the same period. This trend reflects the concern raised by our members, and by external bodies like the Education Endowment Foundation, that teaching assistants are increasingly being asked to function as 'substitute teachers.'[44]

It has become more and more common for teaching assistants to face many of the same pressures as teachers.

For example, GMB has drawn attention to the unacceptable risks that school support face, including the threat of violent assault.[45]

Official figures reflect the messages GMB receives from its members – that teaching assistants are being asked to play an ever more important role in schools, but they are not receiving fair rewards for their efforts.

The extent of the application of the cap across the education sector is difficult to assess. The cap does not technically apply to school support staff who are classed as Local Government or otherwise non-Crown employees, but the policy has in practice been adopted by a number of academy chains.

Figure 3, which uses data released by the Department for Education, gives an indication of changes to average pay for teaching assistants (compared to CPI inflation between November 2011 and November 2015):

Figure 3 – average full time teaching assistant salaries[46]

	General Teaching Assistants	Higher Level Teaching Assistants	All Teaching Assistants
2011	£18,600	£21,300	£18,800
2012	£18,500	£21,400	£18,800
2013	£18,700	£21,800	£19,000
2014	£18,700	£21,700	£19,000
2015	£18,900	£22,100	£19,200
Change	**1.60%**	**3.80%**	**2.10%**
Real terms cut	**£2,059**	**£2,358**	**£2,081**

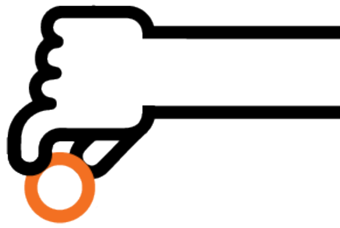
It is notable that, on average, general teaching assistants' salaries have increased at a compound rate of just 0.3% per year - well below the nominal cap.

It is plausible that these very low average increases are due to some academy chains not following the national pay policy. Equally, it could reflect a very high turnover rate amongst teaching assistants.

It will also in part reflect the growth in Free Schools, which offer support staff salaries that are £2,000 lower on average than in the maintained or academy sectors.

None of these explanations are exclusive, but they do point to the same recruitment and retention problems that are being experienced elsewhere in the public sector.

CHAPTER 3 – EQUALITY AND REGIONAL ANALYSIS



In connection with its duties under the Equalities Act, the Government produced three brief Equality Impact Assessments of the pay freeze/cap over the course of the last Parliament (no Impact Assessment was undertaken of the decision to extend the pay cap for a further four years in the current Parliament).

The Treasury's own Impact Assessments point to some of the equalities challenges posed by the cap, and they acknowledge that: 'as the public sector workforce is more likely to be female, Black or Black British, DDA disabled and Christian, in comparison to the rest of the workforce, these groups are more likely to be disproportionately affected.'[47]

Although the Impact Assessments are not lengthy documents, they do acknowledge that the blunt nature of the cap does not allow for adjustments on the grounds of equalities: 'because this policy will relate to an average uplift, it is not possible at this stage to determine the precise impact on individuals – and therefore to design mitigations.'[48]

According to the Impact Assessments, 3.2% of the public sector workforce self-identifies as black or black British, compared to 2.4% of the general workforce. 7% of public sector workers are DDA-disabled, compared to 5.8% in all employment.[49]

There is evidence that, within the public sector, lower paid workers are generally more likely to be disabled.

For example, 10% of civil service administrative assistants and officers are disabled, compared to 4.7% of those paid on the Senior Civil Service scales.[50]

The most distinguishing feature of the public sector workforce's demographic is, however, its gender balance.

Two thirds of public sector workers are female[51], including 90% of teaching assistants[52] and 80% of NHS workers[53].

The Government has argued that because public sector budgets are protected from wage inflation, more public sector jobs have been preserved and women are likely to be the main beneficiaries (in 2012 David Cameron went as far as claiming that the public sector pay freeze 'has actually helped women.')[54]

For reasons covered in the previous Chapter, such as the suppressive effect on the permanent workforce of the growing reliance on agency staff, this argument is difficult to sustain.

It also fails to take into account the regional complexities of the public sector labour market, the effects of which, when combined with public sector job cuts, mean that women outside of London and the South East have experienced an acutely negative impact.

Relatively speaking, and excluding those jobs that have exited the public sector due to outsourcing, privatisation or other reclassifications, public sector job cuts in England have been disproportionately concentrated in the North and the South West (Figure 4).

Jobs have been cut in the North East by double the national average rate. By contrast, in net terms, London has been relatively insulated from reductions in the public sector headcount.

Figure 4 – net changes to public sector jobs in thousands, excluding the effects of major transfers[55]

	2010	2016		# change	% change
North East	266	230		-36	-14%
South West	479	427		-52	-11%
Wales	325	290		-35	-11%
Yorkshire & Humber	498	451		-47	-9%
North West	642	583		-59	-9%
West Midlands	468	431		-37	-8%
Scotland	574	530		-44	-8%
UK	***5,617***	***5,196***		***-421***	***-7%***
England	4,476	4,156		-320	-7%
East Midlands	356	331		-25	-7%
Northern Ireland	218	204		-14	-6%
East	425	404		-21	-5%
South East	634	614		-20	-3%
London	708	686		-22	-3%

As Figure 5 shows, public sector pay for women is higher on average than private sector pay for women across the country, but there is significant regional variation.

Those regions that have experienced the proportionately greatest public sector job cuts also tend to be the regions that exhibit the greatest pay differentials between women in the public sector and women in the private sector.

The pay gap amongst women is by far the smallest in London (which is also the only region where the pay gap is greater for men than it is for women).

Again, average pay for women in the North East has the greatest pay disparity between sectors. It is likely that women in the North East who have moved from the public sector into the private sector will not have been able to find work with equivalent wages and responsibilities.

Figure 5 – Gender pay gap between public sector and private sector workers by region[56]

	Female	Male
Wales	42%	22%
Scotland	41%	11%
North East	35%	15%
South West	32%	21%
East Midlands	32%	20%
North West	31%	24%
Yorks & Humber	31%	12%
East	28%	16%
West Midlands	28%	14%
UK	***26%***	***15%***
South East	13%	5%
London	5%	6%

If the pay cap had positive impact on women, it would be reasonable to expect the gender pay gap to have closed within the public sector. In fact, the opposite is true.

According to ONS estimates, average full-time female public sector salaries increased by just 7.4% between 2010 and 2016 whereas male public sector salaries increased by 8.8%. By contrast, average male salaries in the private sector increased by 9.9% and average female salaries increased by almost 14%.

This trend is despite efforts by the Pay Review Bodies to target pay awards at lower paid workers within the overall 1% envelope.

In reality, the pay cap has had the effect of ossifying an unfair pay structure at the same time that some progress is being made towards closing the gender pay gap in the wider economy.

Figure 6 – TUC estimates of pay cap related loss of spending power by region in England[57]

Region	Real terms pay gap in 2016 per worker (£)	Cumulative loss of real terms earnings 2010 - 2016 per worker (£)	Total public sector FTE jobs in 2016 (000s)	Total loss of disposable income 2010 - 2016 (£bn)
North East	689	7,666	243	1.8
North West	584	5,740	643	3.7
Yorkshire and Humber	819	6,101	489	3.0
East Midlands	1,805	9,974	303	3.0
West Midlands	828	6,825	441	3.0
East	1,140	4,533	461	2.1
London	2,202	11,997	756	9.1
South East	680	5,109	617	3.1
South West	1,220	7,464	420	3.1

CHAPTER 4 - BREXIT

"We will take back control of our money - our official EU bill is £350 million every week. We'll be able to spend our money on the public's priorities, particularly public services."

Boris Johnson, 22 June 2016

It has been said that 'the sheer scale of the challenge set by Brexit for the civil service is unprecedented in peacetime.'[58]

This is undoubtedly true for our members in the civil service, but Brexit also poses serious challenges for the public sector as a whole.

The Government has already been forced to breach its normal pay restrictions for Senior Civil Servants in order to attract sufficient new entrants in advance of Brexit.[59]

With pay consistently emerging as the leading cause of dissatisfaction amongst departmental workforce, it is likely that the pay cap will harm the Government's ability to retain civil servants assigned to Brexit as demand for their expertise builds in the private sector.

Brexit also poses two additional challenges for our members and public sector employers: inflation, and uncertainty over the future of non-UK nationals who work in public services.

Inflation

In November 2016 the OBR revised its inflation forecasts upwards. This means that, measured by the Consumer Price Index, the average public sector worker is set to lose a total of **£4,073** in real terms by 2020, of which **£1,426** can be attributed to the additional inflation triggered by Brexit.[60]

As the exact form that Brexit will take remains unknown the OBR did not project any additional inflation beyond 2019, and it is likely that the true cost to public sector workers in 2019/20 will be even higher than estimated.

The public sector pay cap was introduced on the assumption that inflation would remain relatively low (although, in fact, it quickly hit a high of around five per cent during 2011/12). That assumption no longer holds.

Figure 7 – real-terms cost of the cap for full time workers in selected occupations measured by forecast Consumer Price Index, including the cost of revised inflation predictions associated with Brexit (not including cost of living weightings)

Job title	Salary in 2017	Real-terms loss 2017 - 2020	*Of which - cost of Brexit*
Teaching Assistant	£17,547	£2,337	*£818*
Refuse Collector	£17,891	£2,383	*£834*
Hospital Porter	£17,978	£2,394	*£838*
999 Call Handler	£19,655	£2,617	*£916*
Qualified Residential Care Worker	£23,166	£3,085	*£1,080*
Social Worker	£26,556	£3,422	*£1,198*
Staff Nurse	£28,442	£3,788	*£1,326*
Homelessness Prevention Officer	£29,854	£3,976	*£1,392*
Midwife	£35,225	£4,691	*£1,642*

The additional inflation triggered by Brexit looks set to increase the squeeze on public sector workers' living standards and compound the wider recruitment and retention problems in the sector.

Non-UK nationals

GMB is proud to represent all its members in public services, and we recognise the invaluable contribution that people of different nationalities make to those services.

In the NHS in particular, a combination of rising patient numbers caused by cuts to social care and reductions in nursing training places has greatly increased the service's reliance on overseas workers.

Concern about the future status of both EU and non-EU nationals under a new immigration system is widespread in the public sector.

In the Chartered Institute for Professional Development's Autumn 2016 employers' survey, 53% of public sector employers said they believed that reductions to their ability to hire EU nationals would have a detrimental effect on their operations – the highest negative response of any sector.[61]

According to data collected in 2015, one in five NHS workers are non-UK nationals, and one in twenty are citizens of the European Union (not including the UK).

Some areas of the service, such as nursing and ambulance staff, are particularly vulnerable to future restrictions on immigration (Figure 8).

In July 2016 – the latest month for which figures are available – the number of nurses who newly registered to work in the NHS fell by 90% compared to the previous year.[62]

It is clear that staffing shortages will present a profound challenge for public sector employers post-Brexit, and that the more restrictive the new future immigration controls prove to be the greater that challenge will become.

Without adequate investment in training places for nurses and other key roles, along with an improved focus on workforce retention which must include fair pay deals, new restrictions on immigration could have a severe impact on public services including the National Health Service.

The likely labour supply shortages caused by Brexit makes it even more important that the public sector is able to offer competitive salaries in order to retain its existing workforce.

Figure 8 – Non-UK nationals employed by the NHS in England as workforce percentage, 2015

	All		Qualified nursing, midwifery & health visiting staff	Qualified ambulance staff	Support to clinical staff	NHS infrastructure support
Non-UK nationals	20%		22%	22%	17%	17%
EU nationals excl. UK	5%		6%	1%	3%	3%

It is clear that many people voted for the UK to leave the European Union on the strength of assurances that were made about the priority that would be placed on future funding for public services.

Polling conducted during the closing days of the campaign found that 56% of voters believed that the NHS would be better off if the UK left the EU, including a majority in every region (with the exception of Northern Ireland where opinion was tied).[63]

As Dominic Cummings, Campaign Director for

Vote Leave, has written: 'Would we have won without £350m/NHS? All our research and the close result strongly suggests No.'[64]

However, so far, these pledges have not translated into firm commitments from the Government.

Given the profound recruitment and retention pressures facing public services, pay should form a core part of any additional funding award.

It is clear that the Referendum has rendered the pay cap as long out of date even on its own terms, and that providing a competitive pay offer for public sector workers must form a part of the Government's post-Brexit strategy.

CHAPTER 5 - THE COST OF ENDING THE PAY PINCH

"In the last Parliament, the government exercised firm restraint over public sector pay to deliver reductions to departmental spending, saving approximately £8 billion. In light of this and continued low inflation, the government will therefore fund public sector workforces for a pay award of 1% for 4 years from 2016-17 onwards. This will save approximately £5 billion by 2019-20."

Summer Budget, 2016

To better understand the cost implications of abolishing/lifting the pay cap, GMB used a combination of information obtained from the Treasury and official statistics to produce estimates for the additional expenditure that the Government would have to make in order to end the pay cap early.

In the 2015 Summer Budget the Treasury stated that the pay freeze/cap saved approximately £8 billion in the last Parliament, and that the policy would go on to save approximately £5 billion by 2020.

According to a summary of the Treasury's approach that has been obtained through the Freedom of Information Act, the policy's savings were estimated by projecting increases to the public sector pay bill by GDP growth and by the 0% and 1% caps, and then comparing the two sets of figures.

It is possible to recreate the Treasury's figures by applying this methodology to the total public sector wage bill for the UK.

In order to produce as accurate a cost estimate as possible, the original 2015 GDP projections have been substituted for the latest (December 2016) GDP deflator numbers.

As economic growth forecasts are downgraded the estimated savings achieved by continuing the policy also decrease. On the latest figures, the total, cumulative saving in this Parliament is therefore reduced from £12 billion to £8.5 billion.

From a public accounting perspective, the savings appear greater the longer the time-series is continued. If the policy's end year is rebased, as the Treasury already did for 2015/16, then the apparent savings quickly reduce in value.

For illustrative purposes, Figure 9 includes cost estimates on a three, two, and one year basis for ending the policy in this Parliament.

This approach is not without its drawbacks. Projections of wage growth on a linear basis fail to account for changes to job numbers and more dynamic factors such as reductions to temporary costs and the elasticity of demand for public services when recruitment and retention issues are addressed. The true complexity of the public sector pay bill is shown in Figure 10.

As such, it is likely that Figure 9 represents an overestimate of the real cost of ending the cap. Nevertheless, the figures do cover all of the public sector across every nation of the UK.

On the basis of these estimates GMB believes that ending the public sector pay cap is both practical and affordable. Two options for funding an end to the cap include:

1. Using the proceeds of growth

As the economy strengthens, it is vital that the benefits of growth are shared with everyone who has contributed to its success. According to the OBR, the public sector borrowing requirement for the 2017 Budget is likely to be approximately £12 billion less than forecast.[65]

This single in-year saving would be enough to fund an end to the public sector pay sector across the course of this Parliament even based on the higher range Treasury cost estimates.

2. Reversing the cut to corporation tax

Using the Treasury's latest GDP projections reduces the cost of ending the policy to around **£8.5 billion.**

This is equivalent to the forecast revenue loss that will be incurred by the forthcoming cuts to Corporation Tax rates.[66] The Government could fund an end to the pay cap by reversing this decision.

Ultimately, continuing or ending the cap is a political decision that reflects Government priorities. For example, the cost of ending the public sector pay cap for civilian staff in the Ministry of Defence is estimated to be £250 million – roughly the same amount as the capital that has been set aside to fund the expansion of grammar schools.[67]

GMB believes that after seven years of a gruelling pay squeeze, it's time to put public sector workers first.

Figure 9 – pay cap estimated savings in this Parliament (£bns)[68]

	2016-17	2017-18	2018-19	2019-20		Total
HMT Summer Budget '15 estimate	1	2.2	3.5	5		11.7
Revised Dec '16 GDP estimates						
¬ *in current prices*	0.5	1.2	2.8	4		8.5
¬ *in constant (2016/17) prices*	0.5	1.2	2.7	3.8		8.2
Savings if series rebased (in current prices)						
¬ *three years*		0.6	2.2	3.5		6.3
¬ *two years*			1.6	2.8		4.4
¬ *one year*				1.2		1.2

Cost of the public sector pay bill

At face value, it may appear that the Government's reduction in the public sector headcount and pay restraint policies has not had a meaningful impact on wages; the total bill for wages and associated costs fell by only 1% in real terms between 2009/10 and 2014/15 (Figure 13).

This headline figure disguises a sharp fall in wages and salaries for permanently employed public sector workers, which has been reduced by 16% (or £26.5 billion) in real terms.

In fact, the main drivers of public sector costs have been increased pension schemes, the costs of which have been increased by policies such as academisation and the future value of which has been steadily reduced due to, and a growing reliance on temporary employees.

Expenditure on temporary and contract staff increased by 28% (or £2 billion) between 2011/12 and 2014/15.

It is likely that the Government's growing reliance on more expensive contractors, agency staff and consultants reflects broader recruitment and retention problems within the permanent workforce.

Despite efforts to cap the cost of agency staff within the NHS, this trend is likely to continue due to the pressures that preparations for Brexit are placing upon the civil service and the wider public sector.

Although it is not possible to predict what pay increases liberated Pay Review Bodies would award, precedent suggests that the cost to the public purse would not be unreasonable.

In the years leading up to 2010, pay awards in the NHS averaged around two and a half per cent, and did not exceed 2.75 per cent in any year (historical comparisons are explored in the appendix).

Figure 10 – total UK public sector wage bill (£bs)[69]

Real (2014/15) prices	**09/10**	**10/11**	**11/12**	**12/13**	**13/14**	**14/15**
Permanently Employed Staff						
Salaries and wages	164.4	162.1	147.4	143.3	138.7	137.9
Social security	11.4	11.4	11.2	11.2	10.5	10.4
Staff pension costs	15.1	13.3	14.6	14.3	14.5	14.9
Pension scheme costs	30.9	42.8	36.1	36.0	39.6	44.3
Intra-Government balances	-25.7	-23.5	-24.6	-24.8	-24.5	-24.0
Net total	***196.1***	***206.2***	***184.7***	***180.1***	***178.8***	***183.5***
Temporary Staff & Contractors						
Salaries and wages			8.1	9.0	9.6	10.4
Social security			0.1	0.1	0.2	0.1
Staff pension costs			0.1		0.4	0.1
Pension scheme costs						
Intra-Government balances			-0.1	-0.1	-0.5	-0.3
Net total			***8.2***	***9.0***	***9.7***	***10.3***
NET TOTAL	**196.1**	**206.2**	**192.9**	**189.1**	**188.5**	**193.8**

APPENDIX

COMPARISON WITH HISTORIC PAY CONSTRAINT POLICIES

Public sector wage caps have been an intermittent feature of post-war economic policy. Wage controls are most popularly associated with the Labour and Conservative governments of the 1970s, but there are examples from other decades.

Most caps did not attempt to limit salary increases below the rate of inflation, however, and those that did are generally regarded as failures.[70] As new research from the House of Commons Library shows, the closest parallels available are with the policies pursued by John Major's government between 1992 and 1997.

For the first two years of his premiership Major broadly continued Thatcher's 'merit, skill and geography' incomes policy, whereby there were no formal, centralised controls on settlements and the emphasis was placed on individual sector needs and affordability.

A 1.5% cap was imposed in November 1992, which one year later was replaced by a policy of self-financed pay settlements. In practice this meant that all pay awards had to be paid for through efficiency savings or job losses. As with now, the restrictions on wage settlements took place against a backdrop of demands for increased general funding and rising demand for public services.

This policy directly contributed to the public unpopularity of the Major administration. According to the Social Market Foundation, 'the Major government used its monopoly to drive public sector wages substantially below market levels, but by 1999 there were severe staff shortages, as new workers shunned the public sector in favour of the private.'[71]

The issue became increasingly politicised as the 1997 election approached, and the public sector workforce suffered from a 'double whammy' of failing to attract new entrants and experienced workers seeking early retirement.[72]

The 1997 – 2010 Labour government did relax public sector pay restrictions once the period of adherence to its predecessor's spending plans ended. Some caps were imposed in the last year of the Labour administration on the minority of public sector workers who had not been covered by the three year pay deals which had been agreed in 2007 (before the financial crash). Pay settlements during these years cannot be considered excessive, and in the NHS they never exceeded 2.75% under Agenda for Change arrangements (Figure 12).

An academic survey of all Pay Review Bodies between 1979 and 2006 did not find that recommendations rose to an unreasonable level once the Major-era restrictions had been lifted (Figure 13).

Figure 11 - Public sector pay constraint policies 1979 to 2020[73]

Conservative Government elected May 1979

May 1979 – January 1980	No limit.
January 1980	14 per cent limit for public services.
November 1980	6 per cent limit for local government from Nov 1980.
February 1981	6 per cent limit for central government. A separate pay provision figure set for the first time. Limit to cover settlements from 1 Nov 1980 to 31 March 1982.
September 1981	4 per cent limit from due settlement dates 1982 - 1983.
October 1982	3.5 per cent limit for central government. 1983-1984.
September 1983	3 per cent limit for central government. 1984 - 1985
February 1984	3 per cent policy tightened. No offsetting of manpower savings.
November 1986–Nov 1992	No formal limits. Policy of 'merit, skill and geography'.
November 1992–Nov 1993	Chancellor announces 1.5 per cent limit for the public services for the year from November 1992 to November 1993.
November 1993 – Nov 1996	Policy to offset public sector pay increases by improvements in efficiency or productivity with all increases to be self-financing.
November 1996	Chancellor announces above policy to be continued.

Labour Government elected

1997	Pay settlements to be 'affordable within existing spending plans'
1998	No explicit pay policy, but awards to be consistent with the Government's inflation target and affordable.
1999 to 2008	No explicit policy, but public spending including pay should be consistent with the Government's inflation target and affordable within Departmental Expenditure Limits. It should also be used to support pay and organisational modernisation.
October 2009	The public sector should show 'leadership in pay restraint'. Pay settlements of up to 1 per cent for public sector workforces excluding staff on 3-year pay agreements. No pay rise for senior staff. No limit for the Armed Forces.

Coalition Government formed May 2010

2011-12 – 2012-13	Two year pay freeze for the public sector, with the exception of those earning £21,000 or less. Pay increases of at least £250 for those earning £21,000 or less.
2012 – 2015	Pay restraint. Pay awards that average 1 per cent per year.

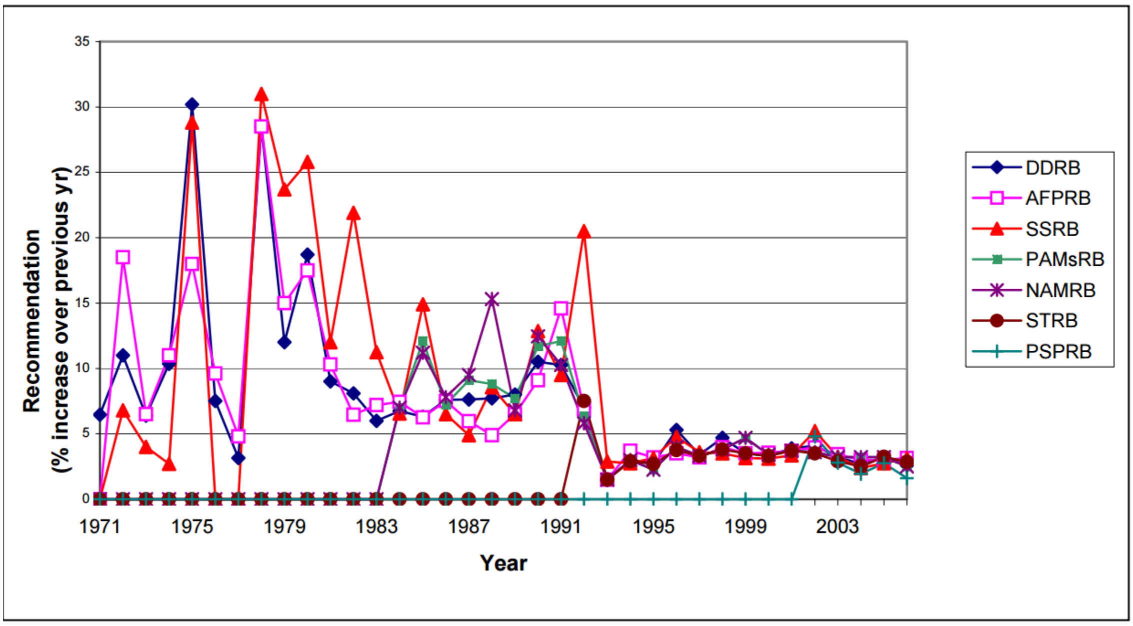
Conservative Government elected

2015 – 2020	1 per cent average pay awards extended to 2020.

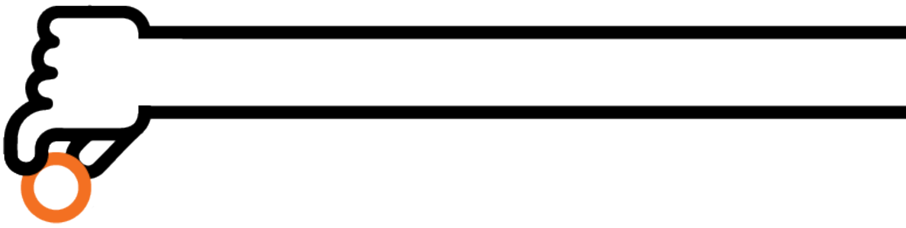
Figure 12 – Changes to historic NHS (Agenda for Change) pay rates[74]

Year	Change	Notes
2006/07	2.50%	
2007/08	2.50%	
2008/09	2.75%	
2009/10	2.40%	
2010/11	2.25%	
2011/12	0.00%	Plus £250 for spine points 1 - 15 and an already agreed 0.33% increase to the top of Band 5
2012/13	0.00%	Plus £250 for spine points 1 - 15
2013/14	1.00%	
2014/15	0.00%	DoH refuses the PRB's recommended consolidated 1% increase; staff who did not receive pay progression were awarded an unconsolidated 1% pay rise
2015/16	1.00%	Pay spine point 1 deleted; pay spine point 2 increased by 1% + £200 consolidated; pay spine points 9 to 42 increased by 1% consolidated
2016/17	1.00%	

Figure 13 – Overview of Pay Review Bodies' recommendations, percentage changes on pervious years 1971 to 2006[75]



ENDNOTES



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WRITTEN BY:
LAURENCE TURNER, RESEARCH & POLICY OFFICER, GMB

END THE PUBLIC SECTOR PAY PINCH
WWW.GMB.ORG.UK/PINCHED

WWW.GMB.ORG.UK
COMMUNICATIONS@GMB.ORG.UK

GMB@WORK