



PAY AND THE PUBLIC SERVICE WORKFORCE

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Introduction¹

Public spending and the public services are issues of the first importance in UK politics. It is perhaps surprising then, to find that the Labour Government is spending a very similar share of national output as the last Conservative administration. The government plans public expenditure of close to 42 per cent of GDP over the coming Spending Review period of 2005-08, compared to an average of close to 43 per cent over 1992-97. Of course, due to economic growth Labour's plans represent a large increase in real terms, but the share of national output is still a useful indicator of the balance between public and private spending.

Some of the most important political battles that continue to be fought between the main political parties concern the quality of public spending. Labour has argued that a combination of fiscal discipline, sound macro-economic management and effective labour market policies has 'cut the costs of failure', leaving more resources available to meet public service priorities. The Conservative response is partly to claim credit for a sound basis for the public finances, and partly to claim that the new spending on public services is being wasted on recruiting 'bureaucrats' and funding excessive public sector pay awards.

These arguments are somewhat like a set of Russian dolls. At the top level there is an argument about the size of the public sector, but on its own this does not really resonate with the electorate. More accessible but closely related arguments concern the quality of public services, and the value for money question of what people are getting in exchange for their taxes. Within this there are arguments about whether the size of public service employment and the pay of those in the public sector has risen too fast under Labour. The issue of public sector unions and associated strike action, whilst far less prominent today than it was twenty years ago, still occasionally flares from the shadows to the foreground of public debate.

The public finances

Since 1997 two central objectives of the Labour government have been to improve the quality of public services whilst maintaining sound public finances. Public services are often highly labour intensive, and the size, stability, and quality of the workforce are key factors affecting public service outcomes. The number of workers, and the level of their pay, relates directly to the level of public spending as around 50 per cent of revenue costs in the public services are accounted for by wages and salaries. There are clear implications for the level of taxation required to maintain sound public finances.

In the financial year prior to Labour taking office in May 1997, UK public expenditure was 40.8 per cent of GDP and public receipts were 37.2 per cent of GDP. By the year 2000-01, just before the next general election, expenditure had fallen - as a proportion of GDP and not of course in real terms - to 38.1 per cent whilst receipts

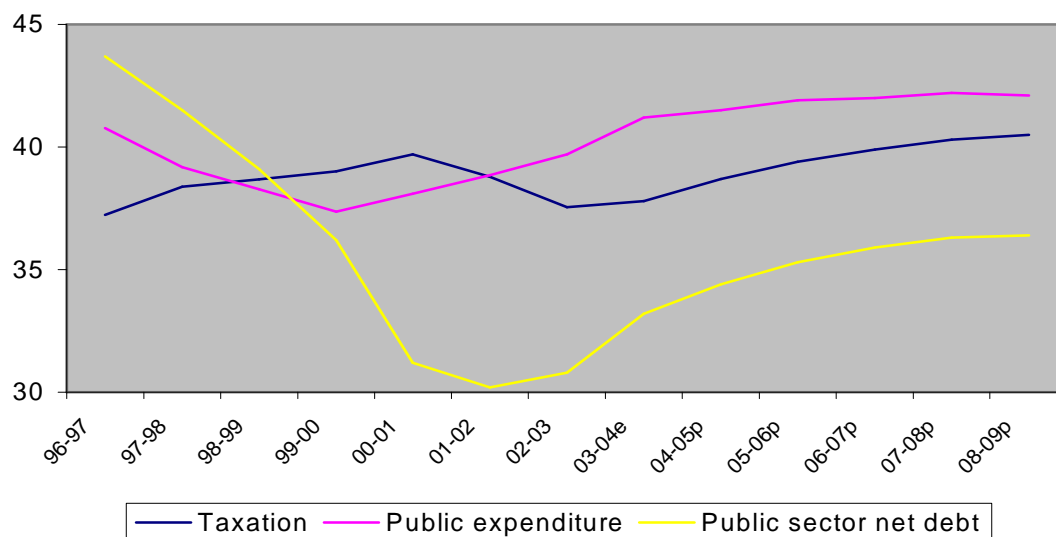
¹ My particular thanks go to Peter Robinson for his detailed comments on the draft, to other ippr staff including Nick Pearce, Martin Johnson, Tim Gosling and John Cannings for their help, and to the Learning and Skills Council for providing me at short notice with the data reported in the final section. All errors remain the author's own.

had risen to 39.7 per cent. As result public sector net debt had fallen very significantly. There was little mileage in arguing that Labour had been profligate in government.

Over the current Parliament public spending has risen significantly, from 38.1 per cent of GDP in 2001-01 to a projected 41.5 per cent of GDP in 2004-05, with a general election likely to occur next year in 2005. Tax receipts have not increased at the same rate, and as a result debt has risen but remains well below the levels of the mid 1990s. If the consensus forecasts for growth, unemployment, inflation and interest rates are fulfilled it will be extremely hard for opposition parties to make the argument that Labour has messed up the economy. However, they will certainly be able to argue that public spending has increased. There are already fierce arguments about what this extra spending has achieved, and whether it has represented good value for money.

Labour's broad plans for the public finances over the life of the next Parliament were set out in Budget 2004, with headline public revenues and expenditure projected to 2008-09. 2005-06 is effectively the last year where there is expected to be a significant increase in public expenditure as a proportion of GDP, after which it will stabilise at approximately 42 per cent. However, over the same period taxation is projected to increase from 38.7 per cent of GDP in 2004-05 to 40.5 per cent in 2008-09. The government thus faces two political challenges if it is returned to office: holding down spending growth whilst defending a rising tax burden.

**UK public expenditure and taxation 1996/97-2008/09
(%of GDP)**



Source: HM Treasury

Note: taxation = public sector total receipts; expenditure = Total Managed Expenditure

Soon after the Labour Party's election victory in 1997 the government established its new framework for the public finances. Two elements of this framework are the golden rule and the sustainable investment rule, another is the biennial spending review process with its associated public service agreements (PSAs). The 2004

Spending Review, and the choices that will need to be made within it, are discussed in detail in *Tough Choices* by Peter Robinson (2004), and that publication is the basis of the discussion in this section.

The 2004 spending review will set expenditure limits and revised PSAs for each department from 2005-06 up to 2007-08. As noted above, the government has already set out the total amount of planned spending over this period, and has projected tax revenues and the implied budget deficit and level of public sector net debt. Independent organisations such as the Institute for Fiscal Studies and the National Institute for Economic and Social Research have also made their own projections, and these assume slightly higher levels of spending, taxation, deficit and debt by the end of this period. However, even on the basis of the government's own projections there is little room for error if the fiscal rules are to be met over this period without the need for additional tax increases.

HM Treasury's projection of the public finances to 2007-08 (% of GDP)

	2003-04	2004-05	2005-06	2006-07	2007-08
Spending	41.2	41.5	41.9	42.0	42.2
Taxation	37.8	38.7	39.4	39.9	40.3
Budget Deficit	3.4	2.8	2.5	2.1	1.9
Public Sector Net Debt	33.2	34.4	35.3	35.9	36.3

Source: HM Treasury, Budget 2004

Exactly how the cake will be cut between different services will only be known when the detail of Spending Review 2004 is announced. However, the size of two large slices have been known since Budget 2004. Real terms health spending is projected to grow at an annual average rate of 7.2 per cent over the period 2005-06 to 2007-08. Education spending will grow at a corresponding annual average rate of 4.4 per cent over the review period, though only 3.3 per cent in 2006-07 and 2007-08. This means that on the basis of the government's assumptions public spending on health in 2007-08 will be 7.9 per cent of GDP and public spending on education will be 5.6 per cent of GDP.

In 2005-06 total spending is expected to be 41.9 per cent of GDP, with health and education accounting for 7.2 and 5.6 per cent respectively. In 2007-08 total spending is expected to be 42.2 per cent of GDP, with education taking the same 5.6 per cent but health increasing its share to 7.9 per cent. The problem is now apparent: all the other items of public expenditure will have to shrink from 29.1 per cent of GDP in 2005-06 to 28.7 per cent of GDP in 2007-08. There will be much less room for increasing the public service workforce and improving their levels of pay over the next parliament than there has been over the current one.

Holding spending constant as a proportion of GDP does of course allow for real growth, at a rate up to that of real output growth in the economy as a whole. However, there are a number of important cost pressures that mean this may still represent a challenge. The demand for certain public services tends to increase faster than incomes; demographic shifts will increase pressures on some activities as the age structure of the population changes; and technological change, whilst often reducing costs, can also create new demand. Finally, the labour intensive nature of the public

services, and the difficulty of securing measured productivity improvements in these areas, creates additional cost pressures on real spending levels.

Public services, the public sector and pay

The Labour Party was re-elected in 2001 on the basis that it would continue to maintain a healthy economy whilst improving the quality of key public services, particularly education and health care. Given the scale of these ambitions, this was never going to be solely a question of getting higher productivity from the existing public service workforce. Labour's 2001 general election manifesto was crammed with headline pledges to increase the numbers of key public sector workers such as nurses, teacher and police officers.

At this point it is important to introduce the distinction between the public services and the public sector. Not all of the people delivering public services and being paid from public funds work in the public sector: many work for private sector organisations. The fundamental issue when deciding whether an organisation is in the public *sector* is control. If an organisation is subject to control by part of national or local government, then it is in the public sector and its employees are part of the public sector workforce. Public services are a much more slippery concept. In general, the greater the degree to which an activity is publicly funded, and the more it is regulated to serve public rather than private interests, the more likely we are to accept that it is a public service. Universities, for example, are classified to the private sector but receive the bulk of their funding from public sources and would certainly be considered a public service. Of particular importance are those activities where the prevailing arrangement is for a public sector agency to contract with the private sector, such as in the provision of much social care, and in municipal cleansing and waste disposal services.

The public sector and public services

Economic activities are classified as public or private sector on the basis of legally binding international accounting conventions, principally the European System of Accounts 1995. The private sector includes for-profit and non-profit making organisations including charities. In the final instance a decision on classification can be taken by the standing Public Sector Classification Committee at the Office for National Statistics. Thus whilst there may be hard decisions, there is no irresolvable ambiguity over classification by sector.

The classification of being in the public *sector* applies to organisations, whilst that of being a public *service* applies to activities. There is no corresponding formal mechanism or international convention for determining whether an activity is a public service. In general, the greater the degree to which an activity is publicly funded, and the more it is regulated to serve public rather than private interests, the more likely we are to accept that it is a public service. Public services can certainly be delivered by private sector organisations. On the other hand, activities such as private education or healthcare should not be considered public services as they are privately funded and serve private interests.

In some ways the sector of those delivering public services may be irrelevant. For example, if we are concerned about the total cost of public services then there is a sense in which we should be concerned about expenditure on pay for all of those employed in their delivery, not just those in the public sector. Similarly, we might be concerned about levels of recruitment to particular activities regardless of the sector of the recruiting organisation. However, very different policy conclusions may follow from the sector of employment, and very different mechanisms operate in relation to pay and employment levels in each.

Take the case of a shortage of personal care workers. If these services were provided in the public sector, the symptom is likely to be a high level of vacancies within the affected public sector organisations. The policy problem is about how to attract and retain the required number of individuals, and the response is likely to involve attempts to increase the supply of suitably qualified individuals, and to improve the attraction of this employment through improved pay and conditions. If the service were provided through the private sector, the shortage of workers would be indicated by reduced supply and higher prices being offered by private sector providers to the public sector purchaser. In this situation it is not up to the public sector to directly improve the terms of employment. Instead the public sector purchaser is likely to have to decide whether it is prepared to pay more, thereby attracting more supply into the market. The detailed problem of how to attract sufficient labour becomes the problem of the private sector providers. In some cases the situation is complicated by the public sector being a monopsonist: a dominant purchaser. Without investigating this issue in detail, we should simply note that public service pay is not solely a public sector issue.

As the Government's own Cross Cutting Review of the Public Sector Labour Market stated in November 2002,

“The Government's plans to improve public services are dependent ultimately on the performance of those responsible for their delivery”

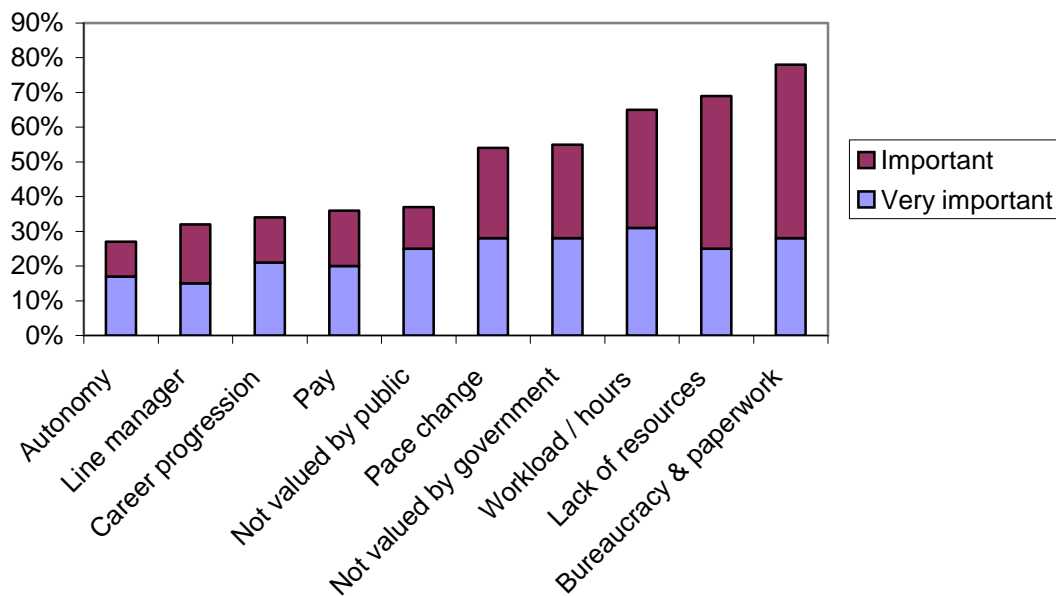
The review set out the state of the public sector labour market at the time, and recognised the challenges faced by the sector to expand employee numbers, improve recruitment and retention, and facilitate effective working practices. The review contained many sensible suggestions about how to address these issues, but was relatively cautious on the issue of pay. Other than a little-noticed reference to the case for local pay flexibility, which made much bigger news when it was repeated by the Chancellor in his 2003 Budget speech, the review's recommendations on pay were limited to making a cautious case for employers assisting their staff with housing and transport costs.

In a very important sense, decisions over the numbers of people involved in delivering public services should be derived from other objectives. The level of public sector employment, whether at the aggregate level or in individual services, is not an end in itself. Whilst pledges to increase the number of teachers or nurses may be popular, and achieving these targets may be important for the success of the services they work in, these ambitions are driven by more basic objectives to, for example, increase the volume and quality of public education or healthcare. These ambitions in turn should be driven by more fundamental objectives to improve outcomes. The level of public

service employment is an input to the production of outputs (such as clinical episodes) and outcomes (such as cancer survival rates) that are the proper first order objectives of public policy. Whilst there may be good regional policy reasons to concentrate public sector workers in less advantaged areas of the UK, it is no longer considered viable to use public sector employment as a policy tool to increase overall UK employment.

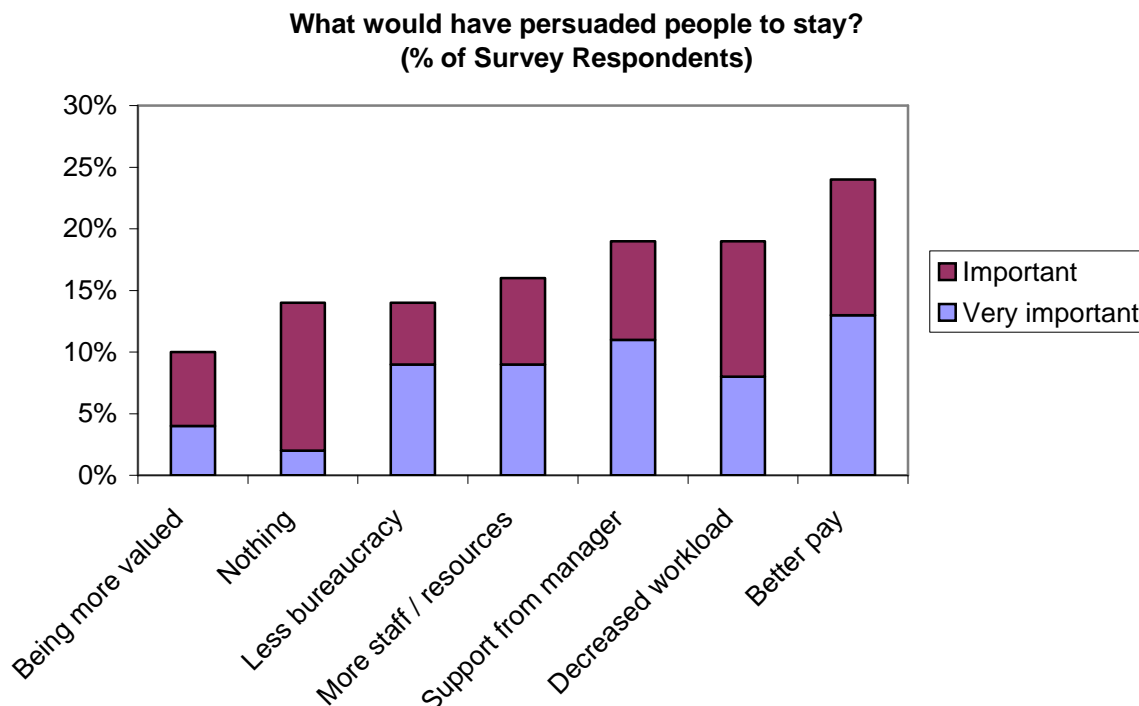
Pay has a key role in attracting and retaining individuals to jobs, and thus has to be set at a sufficient level to achieve the desired level of employment. Of course, there are many other factors that affect individual employment decisions. Work by the Audit Commission shows that most people enter the public services primarily because they feel that the work they can do there is important and is personally rewarding. The following charts are reproduced from that publication and indicate people’s reasons for leaving the sector and what would have persuaded them to stay.

**Why did people leave the public sector?
(% of Survey Respondents)**



Source: Audit Commission, 2002

Levels of pay are part of a set of considerations for the individual including the nature of the work; autonomy in the job; the relationship with their employer; flexibility of employment; career progression; security; and the reward package including pay as well as pension, bonus schemes, and leave entitlements. Whilst this paper concentrates on pay, it does not seek to downplay the importance of these other issues in any way, which are explored in more detail in the case of teachers by Martin Johnson (2004).



Source: Audit Commission, 2002

The results of the Audit Commission's 2002 survey of former public sector workers are interesting. Pay is low on the list of factors that made people leave the public sector, but top of the list of what would have persuaded people to stay. By contrast excessive bureaucracy and lack of resources were high on the list of push factors, but improvements in relation to these were lower on the list of desired improvements. One interpretation is that workers can more readily imagine extra financial compensation for the undesirable aspects of their job than that the underlying problems could be addressed. In any case, the survey certainly provides evidence that pay is an important element in public sector retention.

As well as increasing the numbers of public sector employees, the government has sought to improve the operation of the public services. The twin slogans have been 'reform' and 'modernization'. This seems to boil down to a desire to increase productivity and efficiency, ultimately in the service of improving outcomes.

Productivity and efficiency

Productivity most generally considered is a ratio of outputs to inputs. However, 'productivity' is very often used as shorthand for *labour* productivity, with outputs measured in value terms and labour measured in terms of time. Two popular measures are productivity per worker, and productivity per hour worked. International comparisons of whole economy productivity between the UK and other countries have attracted significant attention over the past few years, with most results showing UK productivity on a per hour basis significantly below that in the US, France and Germany.

The measurement of productivity, and particularly international comparisons of productivity, is fraught with difficulty. This is especially so in the service sector, and even more so in the public sector. This is principally because it is difficult to determine the value of public service outputs that are not sold in markets. Current measures generally suffer from problems of circularity, with the values of outputs derived from the values of the inputs. At the moment it is thus not possible to produce reliable statistics on public sector productivity in the UK, or for that matter in any other country.

Professor Tony Atkinson, at the request of the Chancellor, is currently undertaking a review of the measurement of public sector productivity. Perhaps inevitably, the issue has become highly political. It is quite possible that current measures of public sector output are understated, and this in turn would imply understated public sector productivity. It would be useful to everyone if more accurate measures were available. However, it would be advantageous for the government if it were able to demonstrate that productivity in the public sector is improving. If the Atkinson review appears to support this conclusion then it will come under minute and hostile political scrutiny from the government's opponents. It is thus fortunate that the report's author has the highest possible independent academic reputation.

Efficiency is the ratio of outputs to cash inputs. It can thus be considered a form of productivity in its general sense. It is certainly an intuitively simple and useful concept, and the political importance of public sector efficiency is obvious: the government is increasing taxation and public sector expenditure at least partly on the basis that this represents value for money to the public. Peter Gershon has been tasked by the Chancellor with reviewing the efficiency of government activity, and his work has been extensively leaked although not yet published.

It is important to note that public sector efficiency could theoretically go up without labour productivity improving, for example if wages were reduced whilst total hours of work and output were maintained. Similarly labour productivity could be improved without efficiency increasing, for example if wages increased, hours of work remained constant and output went up.

It is important to recognise that efficiency and productivity concern outputs rather than outcomes. This is principally because there is no agreement about how to quantify the latter: it is not at all obvious how to set educational outcomes against public health outcomes on the same numerical scale. Even more fundamentally, it is quite possible that efficiency and productivity could be higher at a lower level of output or outcomes. Larger classrooms or less doctor time per patient might increase both efficiency and productivity: they would not necessarily be desirable.

Objectives

Recruit and retain sufficient public service employees for the delivery of high quality public services. The desired numbers of public service employees should be derived from other, first order objectives concerning public service outcomes. Public sector pay policy should then facilitate the recruitment and retention of the required numbers of people with the appropriate skills and abilities. This is the fundamental

consideration when discussing pay in the public services. The resources made available for public sector pay must therefore be consistent with government objectives for the public services, and vice versa.

Maintain affordability for the public sector. Affordability is a complex issue, and what is affordable is often a matter of heated dispute, particularly when pay is at stake. At the whole economy level, affordability could be interpreted as keeping to the government's two fiscal rules: borrowing only to invest across the cycle, and keeping net public sector debt below 40 per cent of GDP. Of course, this would be consistent with total expenditure rising above its currently projected path as long as this was accompanied by counterbalancing tax increases. At the whole economy level we can therefore interpret affordability as keeping spending within the limits set by the 2004 spending review. In the longer term, the definition of affordability at the whole economy level may change if the public accepts the case for additional spending and is prepared to fund it through additional taxes or user charges

Establish the public sector as an exemplary employer. It goes without saying that public sector employers should meet the statutory requirements placed on private sector employers. In addition, they should act on issues such as equal pay in accordance with the spirit of workforce protection legislation rather than narrowly in accordance with the letter of the law. There is often a business case for progressive employment practices such as flexible and family friendly working, constructive engagement with trades unions, and good levels of workforce training provision and support. The public sector should seek to be at the forefront of such developments. However, none of this implies that the public sector should offer more generous total remuneration packages than is necessary to successfully attract and retain the right quality of staff.

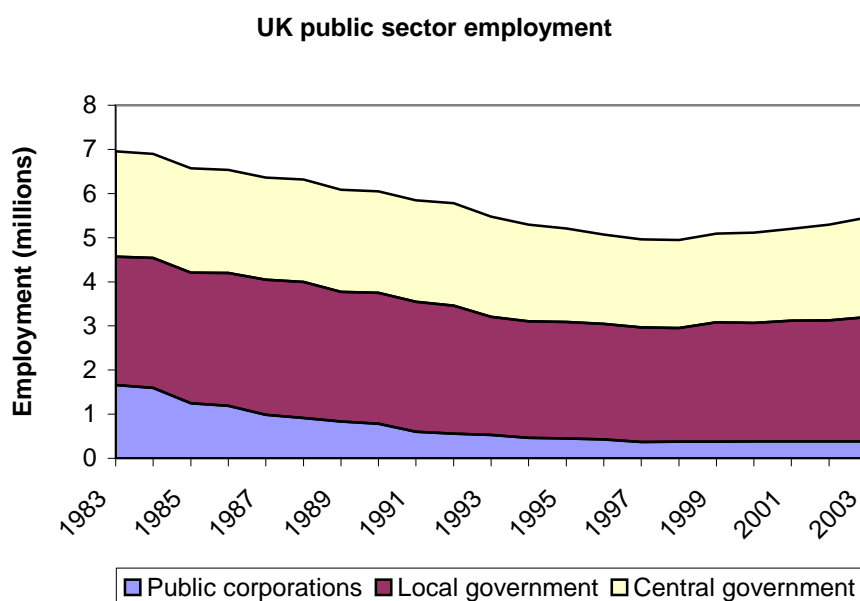
Certain non-pay elements of remuneration have become more prominent in public debate over the past few years. Perhaps the most important of these is pension provision, where concern about private sector pensions, and particularly the trend towards closure of private sector defined benefit schemes, has focused attention on the value of public sector schemes. This pamphlet does not specifically address the issue of non-pay benefits. However, such benefits should certainly be considered as part of gross remuneration.

Facilitate good levels of productivity and efficiency in the public services. As discussed earlier, productivity and efficiency are terms which are often misused and misunderstood. Nonetheless, given our objectives for public service outcomes and a budget constraint, higher levels of productivity and efficiency are desirable secondary objectives. Public sector pay policy can support this in many ways. Labour productivity *growth* may be improved by the design of pay arrangements that incentivise higher levels of skill and performance. It would be inefficient to pay more than is necessary to achieve the desired levels of recruitment and retention. Note however that as discussed earlier we should always consider increased productivity and efficiency as desirable only in relation to a given level of public service outcomes.

Do not prejudice wider economic objectives such as price stability and labour market flexibility. Public sector pay is much less of a price stability issue now than it

was in the 1970s, 80s or early 90s. High public sector pay settlements would still generate inflationary pressure, both directly and through indirect effects on private sector pay growth. However, the Bank of England is now a credible mechanism for controlling inflationary expectations, and this reduces the pressure for inflationary pay settlements. Other issues such as labour market flexibility have recently risen up the agenda, for example in the October 2003 government guidance note on progressing local pay.

How big is the public sector workforce?



Source: National Statistics

Note: Midyear headcount, not seasonally adjusted

The broad pattern of public sector employment can be seen in the chart above, which ranges twenty years from 1983 to 2003. At the start of this period the total public sector comprised 7.0 million jobs. This number fell steadily from there to a trough of 4.9 million in 1998, an average fall of 134,000 jobs per year. Since that time total numbers have increased to 5.45 million in mid 2003, an average increase of 102,000 jobs per year.

The most significant contribution to the long fall in public sector employment was the fall in employment by public corporations, of which changes affecting the nationalised industries were by far the biggest component. In 1983 the nationalised industries accounted for 1.46 million jobs. By mid 1997 after the Conservative programme of privatisations this figure was down to 242,000, and has since remained at almost exactly this level. Public corporations comprised seven per cent of public sector employment in 2003.

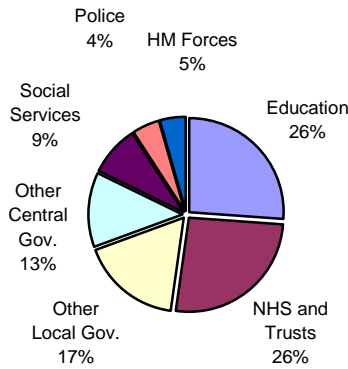
Both central and local government employment also fell between 1983 and 1998, the former from 2.38 to 1.99 million and the latter from 2.90 to 2.58 million. These falls were concentrated overwhelmingly in the years between 1992 and 1997, when 633,000 general government jobs were lost out of 718,000 in the longer period.

General government employment has since increased by 497,000 in five years under Labour. There were 2.81 million local government jobs in 2003, and 2.25 million in central government.

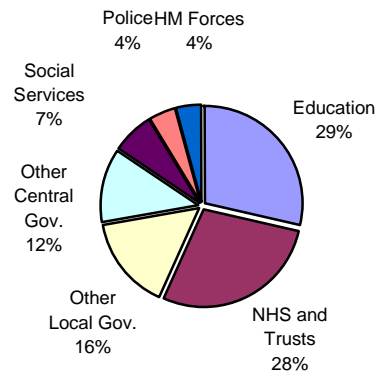
People in employment and workforce jobs

The data discussed in this section concern *jobs*, not *people in employment*. In the fourth quarter of 2003 the Labour Force Survey estimated that there were 28,152 thousand people in employment. For December 2003, essentially the same period, National Statistics' Workforce Jobs series estimated there were 30,306 thousand jobs. If a person holds two jobs then each one will be counted in the workforce jobs total. The data on public sector employment discussed here is consistent with this latter workforce jobs definition of employment.

General government jobs, midyear 1997



General government jobs, midyear 2003



Source: National Statistics

Note: Midyear headcount, not seasonally adjusted

As might be expected, the composition of general government jobs is dominated by education and health. Out of a total of 5.07 million general government jobs in 2003, 1.45 million (29 per cent) are in education and 1.42 million (28 per cent) are in the NHS and Trusts. These are historically high proportions. In 1983 education accounted for 27 per cent of general government jobs, and in 1993 just 24 per cent. In 1983 health accounted for 23 per cent of general government jobs, up to 24 per cent by 1993. These figures provide a clue to where the recent growth in public sector jobs has taken place. The following table looks at the changes in more detail.

Changes in general government employment by activity (000 s)

	Education	NHS and Trusts	Other Central Gov.	Other Local Gov.	Social Services	Police	HM Forces
83-87	53	-15	-54	-7	38	4	-3
87-92	-95	19	20	3	12	13	-29
92-97	-198	-28	-219	-103	-7	2	-80
97-01	158	83	14	8	-26	3	-6
01-03	99	133	32	-11	-26	17	2
83-97	-240	-24	-253	-107	43	19	-112
97-03	257	216	46	-3	-52	20	-4

Source: National Statistics

Note: Midyear headcount, not seasonally adjusted

The bottom two rows of the table compare the Conservative administrations of 1983-1997 with the period of Labour government from 1997 to 2003. In education the public sector workforce fell significantly under the Conservatives by 240,000 jobs in 14 years, principally in the late 1980s and early 1990s. It has increased rapidly under Labour by 257,000 jobs in just six years. 1998-99 saw a particularly large increase of 118,000 new public sector education jobs and there is little pattern to subsequent growth, although 2002-03 saw another significant rise of 88,000.

NHS employment fell slightly between 1983 and 1997, principally in the early 1990s. Since 1998 it has started to grow, and has grown more rapidly since then to 2002, followed by slightly less dynamic but nonetheless significant growth of 63,000 in 2002-03.

Perhaps surprisingly, the social services public sector workforce actually grew under the Conservative administrations of 1983-1992. It then started falling in the early 1990s and Labour has not reversed this trend. Indeed, public sector social services employment fell by 16,000 between 2002 and 2003, which was a bigger fall than in any other year since 1983. It should be noted though that the bulk of the social services workforce is now in the private rather than public sector: some evidence is presented later that gives more of an insight into the wider health and social care labour market.

The big falls in 'other' central government and 'other' local government employment that occurred under Conservative administrations, principally between 1992 and 1997, have not been reversed by Labour. The central government 'other' category comprises all those outside the armed forces and the health service. This includes most significantly those in the Department for Work and Pensions and its agencies, Inland Revenue, Customs and Excise. Numbers in the central government 'other' category rose by 7.9 per cent from 1997 to 2003. By contrast in health the increase has been 18.0 per cent, and in education 21.5 per cent. It is therefore incorrect and misleading to categorise the increase in public service employment as a rising tide of central government bureaucracy. It may or may not be the case that there is inefficient employment within services like health and education. However, the

proportion of 'other' central government jobs in total public sector employment has fallen since 1997.

'Other' local government jobs, which exclude education and social services, have remained relatively stable since 1997. These jobs include direct employment in environmental services such as street cleaning and waste disposal, local transport, planning, housing, regeneration and leisure services. Meanwhile police numbers, including civilians, grew very slowly in the 1980s and early 1990s, fell from there to the end of the decade, and increased by 9.7 per cent between 1997 and 2003. Employment in the armed forces fell significantly in the early and mid 1990s and has remained constant since 1997.

The stylised facts of this story are fairly clear. Throughout the 1980s and 1990s the Conservative programme of privatisation significantly reduced the number of public sector jobs. Conservative administrations also made significant reductions in government employment in the early to mid 1990s. These cuts fell on education and health as well as other less high profile areas. **Since 1998 the Labour government has significantly increased public sector employment in education and health care, but not in other areas. The growth in public sector employment has not been driven by increased employment of central or local government administrative staff. As a result, a higher proportion of public sector jobs are now in the health and education services.**

Employment at the whole economy level

The Labour government is particularly proud of its record on UK employment. Indeed, in early 2004 employment levels are at a record high, even if the employment rate is not quite as high as it was in the early 1970s. The unemployment rate in early 2004 was also low, even if not quite back to the levels of the early 1970s. Unemployment had almost fallen off the list of issues of concern to the general public. This is not the place for a detailed evaluation of the government's wider employment policy record (see Robinson, 2004 forthcoming), but it is certainly the case that overall UK employment levels have risen significantly since 1997 and currently look impressive. However, a concern has been voiced in some quarters that too much of this increase in employment has been in the public sector. The following table breaks down total UK jobs into public and private sectors to allow for a comparison.

We have already examined the public sector side of this story. The private sector side is also interesting: in the 1990s private sector employment rose fastest during 1994-97, somewhat less rapidly from then until mid 2000, and then at a relatively slow rate to mid 2003. For the first time in many years, the period of 2001-2003 saw faster employment growth in the public sector than in the private sector. It should be noted that over these three years the cumulative differential is small relative to total UK employment: in the three years since 2000 some 343,000 jobs have been created in the public sector compared to 228,000 in the private sector. Total UK employment (on the workforce jobs definition) was around 30.1 million at the end of this period, compared to 28.4 million in mid 1997 and 27.1 million in mid 1992. As a result the public sector share of total employment fell from 21.3 per cent in 1992 to 17.5 per

cent in mid 1997 and has since increased to 18.1 per cent in mid 2003. **Despite the recent period of increases in public sector employment, there has been very little change in the overall balance of public to private sector employment in the UK since 1997, and public sector employment remains a significantly lower share of the total than in 1992.**

Changes in employment, public and private sectors



Source: National Statistics

Note: Employment equals LFS employment plus workers with second jobs, private sector employment equals total employment minus public sector employment.

For many years it was a more or less explicit objective of the Conservative party to reduce the proportion of the economy that was in the public sector. On a case by case basis, it may well have made sense to shift some activities from the public to the private sector, especially in the case of some of the privatised industries. It still makes sense to consider using the private sector, including non-profit making bodies, for the delivery of certain public services. However, it does not make sense to have a first order objective of changing the balance between the public and private sectors of the economy. These arguments are explored in detail in *Building Better Partnerships*, the report of ippr's Commission on Public Private Partnerships.

If we accept that the public sector produces important goods such as public health, education, and community safety, and we reject the crude caricature of it as the 'unproductive part of the economy', then it follows that we should not consider the recent rise in public sector employment relative to private sector employment as a problem in itself. It may be that overall welfare will be increased more by extra employment in the public sector than by extra employment in the private sector at this point. Of course, the balance between the sectors is very different in different countries, with the northern European countries in particular having a much higher proportion of their economies in the public sector than the UK. The argument here is not that the balance in the UK should be shifted either way, but that no general argument is available for or against a particular ratio of public to private sector employment. However, one early conclusion that we can draw about public sector pay is that at the aggregate level it has been sufficiently generous to attract large numbers of new workers in a relatively tight labour market.

What about public service jobs?

When looking at the numbers of those paid from the public purse we should ideally look at all of those in the public sector (organisations which are controlled by government) and those in the private sector delivering public services (which are funded or regulated by government in the public interest). Unfortunately, it is difficult to extend our story to public service jobs in the private sector because the data is difficult to obtain. However, we can use the Workforce Jobs survey to separate jobs in certain activities into public and private sectors.

Education and health: public and private employment (000 s)

	Education			Health and social work		
	Total	Private	Public	Total	Private	Public
1983	1665	231	1434	1906	319	1587
1987	1827	341	1486	2192	582	1610
1992	1925	535	1390	2493	852	1641
1997	1973	780	1193	2580	974	1606
2001	2153	802	1351	2752	1089	1663
2003	2258	808	1450	2879	1109	1770
Change 83-97	308	549	-241	674	655	19
Change 97-03	285	28	257	299	135	164

Source: National Statistics

Note: Midyear headcount, not seasonally adjusted

This table indicates a huge increase in private sector education and particularly health care employment from 1983 to 1997. Since 1997 this trend has slowed down dramatically in education but not in the health and social care sector. It is important to recognise that not all private employment in these sectors is delivering public services: many people will be delivering private services in settings such as independent schools and private hospitals. It is unfortunately not possible to use this data to generate a robust estimate of how many people deliver public services in both the public and private sectors combined.

We do know that some significant groups of private sector employees are principally involved in the delivery of public services, including many of those involved in childcare outside the home and schools; academic staff involved in further and higher education; and more than half a million individuals working in personal social services.

Pay in the public services

Having examined the numbers of public service workers, we now turn to the question of levels of pay. As in the case of employee numbers, it is easier to talk about the pay of those in the public sector than the wider group delivering public services. There is

quite an extensive literature investigating the question of whether there is a public sector pay premium. Do similar individuals doing similar jobs get paid more in the public sector than the private sector?

The question has normally been asked this way round because some of the constraints on pay that are present in the private sector are absent or less effective in the public sector. Firms cannot over the long term meet pay claims that make them unprofitable: if they were forced to do so they would eventually go bankrupt. In the public sector the employer's budget constraint depends not on profitability, but on political decisions. High public sector pay claims result in pressure on the public finances. These may be resisted, but there is no analogue of bankruptcy acting as the backstop to the process.

A somewhat similar story can be told about strike action in support of higher pay in the private and public sectors. Private sector companies generally produce goods with alternatives available in the market: if they are not produced by one company because its workers are on strike, consumers can go elsewhere. In extremis, private sector strike action may result in company bankruptcy and unemployment for the workers. By contrast the public sector is often producing services with few available alternatives, and disruption may generate significant public pressure for a resolution. Once again, bankruptcy does not operate in the public sector as a backstop. Indeed, moments of obvious political crisis around the issue of public sector pay are often associated with industrial action: the fire service strike of 2003 is perhaps the best recent example.

There are also arguments in the opposite direction, which suggest that a public sector pay *penalty* could exist if there are situations of monopsony. In many areas of work the public sector is the dominant employer. If the hiring units of a service in this position are co-ordinated, it may be possible for them to hold down the wages of the employees, especially if they have skills which are highly job-specific. In addition, survey evidence from the Audit Commission suggests that people enter the public services primarily for reasons that are not to do with pay, but are more concerned with the type of work they can do there. Individuals may have a public sector ethos that effectively leads them to donate labour to their employer and accept lower wages than they would earn elsewhere given their qualifications and other characteristics.

It is certainly the case that many people working in the public sector entered their profession because of a desire to make a positive contribution to society, and that many remain in their job despite alternative employment opportunities that would remunerate them better. However, two qualifiers are necessary. Firstly, many people outside the public services also enjoy their work, believe it to be of value, and do it despite the possibility of better-paid alternatives. It is rarely suggested that these people are at risk of being treated unfairly as a result. Other things such as qualification and skill requirements being equal, we should expect work that is attractive to potential employees to pay less than work that is unpleasant, and 'attractive' here includes the satisfaction derived from doing a job that is of public value. Secondly, what is commonly described as a public sector ethos might in some but not all cases more accurately be described as a public service ethos. For some people the issues of ownership and control of their organisation is important, but for

many others it is the job, not the sector, that matters. Finally, it is worth noting that the nature and effects of the public service ethos is an under-researched topic.

To investigate the question of the public sector pay premium (or penalty), we need to compare the remuneration of similar employees doing similar work in the two sectors. It is of course not sufficient to compare average pay in the public and private sectors because the composition of the sectors differs. However, making a valid comparison is not straightforward. There are many public sector jobs that do not have close private sector analogues, and it is quite possible that the characteristics of people doing apparently similar jobs, such as clerical administration, may vary between sectors.

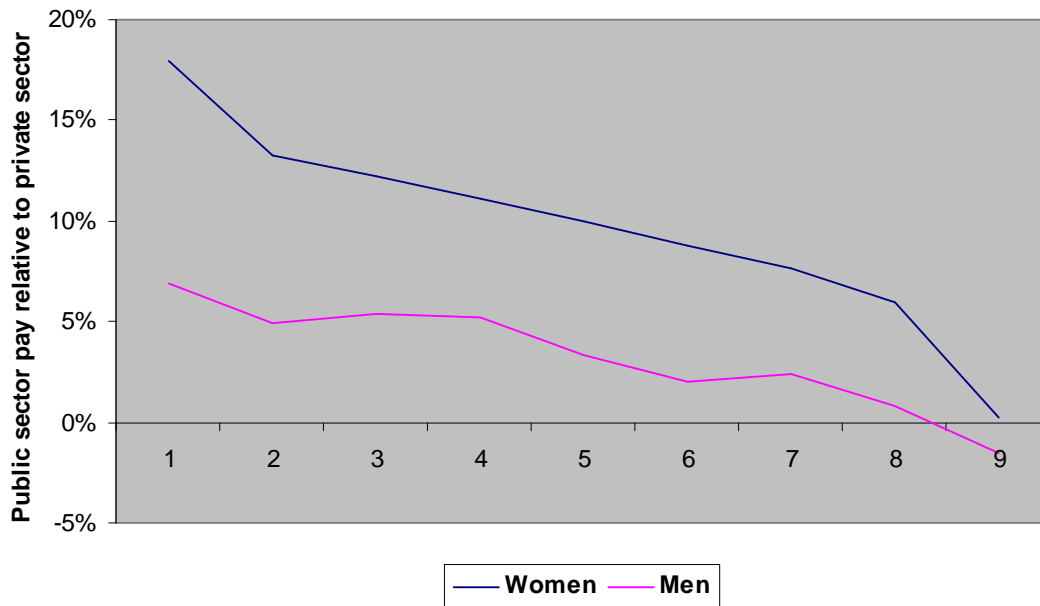
Since the mid 1990s, economists have been using micro-data to control for individual factors such as occupational group (managerial, professional, administrative etc), qualifications, age and some other characteristics. As with many micro-econometric investigations, different studies have generated different results, and each requires careful interpretation. In addition, even the most recent studies only use data up to the late 1990s, so we cannot really see the impact, if any, of policy changes associated with the post 1997 Labour governments.

The picture that emerges from these studies is complex. In general they indicate a positive public sector pay differential, with similar workers earning more in the public sector than the private sector. This differential has generally been measured as significantly smaller for men than for women, and appears to have reduced over the course of the 1990s until in some studies it disappears or turns negative. For example, a recent study by Disney and Gosling (2003) using UK panel data from across the 1990s found male public sector workers earning an average pay premium of five per cent compared to similar private sector males, with women earning a much larger average premium of 17 per cent. It is important not to put too much weight on the exact numbers reported here, but the shape of this result is representative of other authors' findings.

Several studies suggest that the public sector pay gap varies depending on the type of public sector job, and in particular that the premium is larger for lower paid workers. For example, a recent paper by Lucifora and Meurs (2004), using data from 1998, finds that the public sector premium reduces as we progress up the income distribution. Their study is also consistent with the view that the gap is generally positive and is bigger for women than men. A chart from their paper showing the gap across the income distribution is reproduced below.

For men in the lower half of the income distribution the public sector premium is measured here at around five percent. Above the mid point of the income range it reduces to just a few percent, and at the 90th percentile the best paid men in the public sector are paid slightly worse than their counterparts in the private sector. The pattern is somewhat similar for women, but with a much bigger public sector pay premium of 18 per cent at the 10th percentile reducing to six per cent at the 80th percentile, before suddenly disappearing at the top end of the income distribution.

UK public sector pay differential by income decile, 1998



Source: Figure 2 from Lucifora and Meurs (2004)

These studies do not of course provide definitive answers to the question ‘are public sector workers generally paid enough, too little, or too much?’ One reason for this is that the studies never capture all of the potentially relevant individual characteristics that lead to pay differentials between apparently similar employees. A more subtle and fundamental reason, however, is that they cannot capture all of the potentially relevant characteristics of the *employment*. As discussed earlier, some jobs in the private sector pay similar individuals less than other jobs would and can continue to do so, without causing serious recruitment and retention problems, because the job itself is more attractive to the individual than other available better paid employment. The charitable sector largely exists on this basis. **Pay comparisons are a useful tool for indicating potential workforce problems, and are likely to help in finding a level of pay that attracts and retains staff and which employees feel to be fair. However, they cannot provide the last word in pay setting.**

Since the late 1990s low paid workers have experienced significant developments in both the public and private sectors. Across the economy the National Minimum Wage was introduced in 1999, is currently £4.50 an hour and will rise to £4.85 in October 2004. This has significantly raised the pay of some of the lowest income workers, a group which includes many women. On its own, this development would probably have reduced the public sector pay premium for lower paid workers, as the very lowest wages were paid in the private sector. However, minimum rates in the public sector have also risen significantly in recent years, and the position of the lowest paid has been a consistent focus of union pressure on employers. Many of the large long-term public sector pay deals such as Agenda for Change in the NHS have included specific provisions to address these concerns. Minimum rates across the public sector are now around the low to mid £5 an hour range, for example both local government and the NHS currently share a minimum rate of £5.33 for employees such as catering assistants and cleaners. These rates are around 20 per cent above the

National Minimum Wage. There is thus almost certainly still a significant public sector pay premium at the lower end of the pay range.

Public sector pay is determined by a range of national and local mechanisms including Pay Review Bodies, National Joint Councils, and national and local collective bargaining arrangements. Both the NHS and schools are now implementing long term pay deals for some of their most important categories of staff, as are many other parts of government. The pay deal agreed as part of *Agenda for Change* in the NHS, a wider pay and reform package, currently covers most NHS employees except doctors and dentists, and runs from April 2003 to April 2006. It will deliver a compound 10 per cent increase in headline pay, although the Department of Health estimates that it will add 12.5 per cent to the overall paybill as a result of advantageous harmonisation of terms and conditions for many staff. School teachers are meanwhile starting a two and a half year deal from April 2004 to September 2006 which delivers 2.5 per cent in April 2004, 2.5 per cent in April 2005, and a further 0.75 per cent in September 2005. The table below summarises the headline pay increases recommended by the pay review bodies for nurses, school teachers and the armed forces, who together constitute around 1.2 million employees.

Pay review body recommendations 1993-2004 (% increase per annum)

	Nurses	School Teachers	Armed Forces	Average of three groups	RPI	Average real increase
1993	1.5	1.0	1.5	1.3	1.6	-0.3
1994	3.0	2.9	3.6	3.2	2.4	0.8
1995	3.0	2.7	2.6	2.8	3.5	-0.7
1996	2.8	3.8	3.5	3.4	2.4	1.0
1997	3.3	3.3	3.1	3.2	3.1	0.1
1998	3.8	3.8	3.8	3.8	3.4	0.4
1999	4.7	3.5	3.5	3.9	1.5	2.4
2000	3.4	3.3	3.3	3.3	3.0	0.3
2001	3.7	3.7	3.7	3.7	1.8	1.9
2002	3.6	3.5	3.7	3.6	1.7	1.9
2003	3.2	2.9	3.7	3.3	2.9	0.4
2004	3.2	2.5	2.8	2.8	3.1	-0.3
Average 93-98	2.9	2.9	3.0	2.9	2.7	0.2
Average 98-02	3.9	3.5	3.6	3.6	2.0	1.6
Average 03-04	3.2	2.7	3.3	3.1	3.0	0.1

Source: Pay Review Body reports, National Statistics
 Note: inflation in 2004 estimated by NIESR at April 2004

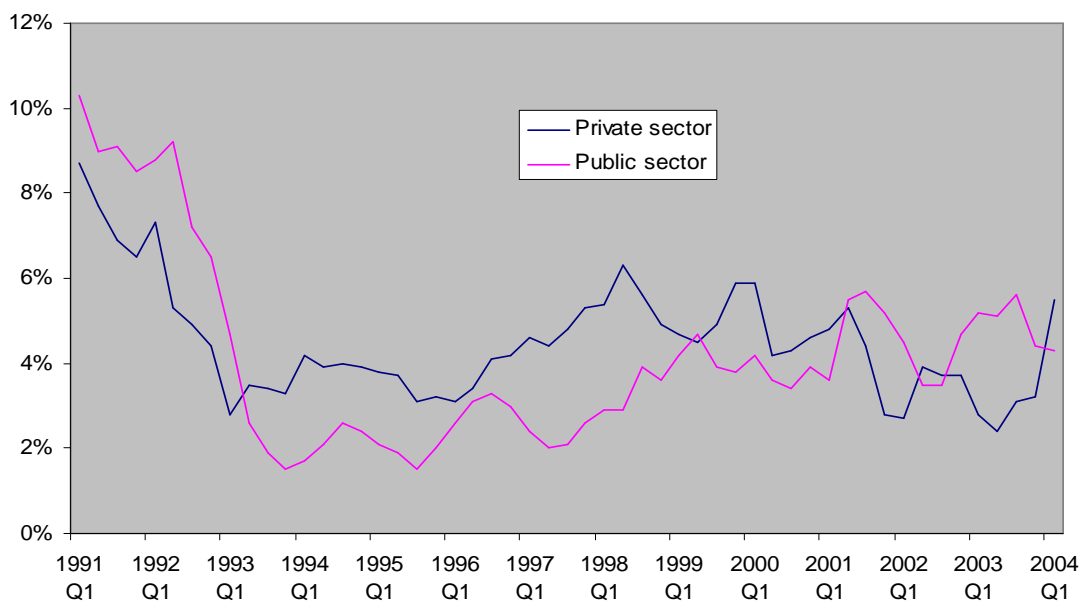
In the case of each service there are likely to be many other adjustments to total remuneration in addition to the headline rate as a result of changing scales and various additions to pay. Nonetheless the table above shows a startling story. Between 1993 and 1998 the average headline yearly increase for the three services shown here was 2.9 per cent, just 0.2 per cent above the average rate of inflation for the period. Between 1998 and 2002 the average increase for the three groups was 3.6 per cent: an average real increase of 1.6 per cent against a background of much lower inflation. For the last two years, where inflation is estimated by the National Institute for Economic and Social Research, average real pay growth may drop back to just 0.1 per

cent per annum. Of course, the relatively low headline rates at the end of this deal have been negotiated on the basis of other adjustments that sugar the pill. Nonetheless, it looks from this evidence like public sector pay restraint is already beginning to bite after a period of relative generosity between 1998 and 2002.

In the case of teachers, there has been a substantial wage drift as a result of changes to pay structure introduced in 2000 and amended since, featuring an upper pay spine for classroom teachers. Although conceived by the Government as a selective performance-related pay scheme, 97% of applicants were awarded an additional £2,000 in the first round, with similar outcomes at higher spine points. There has also been a contraction of the main scale. The top of the classroom teacher scale will be 36% higher in September 2004 than it was in 1998, and in 2003-04, a year of claimed budgetary difficulty for schools, a 12% increase in the paybill was typical.

Data on average earnings tells a consistent but slightly different story. The chart below shows three-month averages of year on year changes in public and private sector nominal earnings from the early 1990s. In the first part of the period from 1991 to 1993 the UK economy was in or close to recession, and public sector pay growth was out-stripping private sector growth. Over the long 1990s expansion the situation was reversed, with private sector pay growth consistently exceeding growth in the public sector. This is consistent with pay comparability studies finding a shrinking public sector pay premium over this period. For the first time since early 1993 public sector pay growth moved above private sector growth in 1999 for one quarter. It was not until the economic slowdown of 2001 that public sector earnings growth moved consistently above that in the private sector, where it stayed for most of the following three years. In the very recent period private sector earnings growth has been stronger once again, with the economy projected to grow more strongly in 2004 than it has since 2000.

Average earnings - % changes year on year



Source: National Statistics, Average Earnings Index series

Note: figures include bonuses, exclude arrears, are seasonally adjusted, and are 3-month averages of year on year % changes

There is clear evidence in this data of the counter-cyclical nature of public sector pay growth: it appears to lag the private sector when the wider economy is doing well, but tends to grow faster than the private sector during economic downturns. The period since 1997 does appear to be one of more rapid public sector pay growth, with perhaps an element of catch-up for public sector pay after its long period in the 1990s of slower growth than private sector pay. However, it is nonetheless the case that public sector pay growth has only exceeded that in the private sector in three years out of the past ten, and that even under the Labour governments since 1997 this situation only occurred in the period of relatively slow economic growth from 2001-03.

Levels of pay have been sufficient to attract significant numbers of new employees to the public sector over the years 1999-2003, even in a relatively buoyant wider economy. Relatively rapid public sector pay growth over this period appears to have facilitated the increase in employment, as well as easing the way for some other workplace reforms. However, there are now signs that we will see lower rates of public sector pay growth in the medium term future. The relatively tight fiscal situation also provides a motive for the government to exercise more public sector pay restraint in the coming years.

Vacancy data and the local dimension to public sector reward

Some of the best evidence for the sufficiency or otherwise of public sector reward comes from vacancy data. If there is any turnover of employment, then there will be some level of vacancies in every part of the labour market. This level can be considered a good indicator of the balance between the supply of and demand for labour, with high vacancy rates an indicator of demand exceeding supply. Of course, there are many reasons why labour demand might exceed labour supply, and not all of them are cause for concern. Vacancy rates can fluctuate rapidly as demand changes, and are likely to be higher as a sector expands and lower as it contracts.

For this reason it is useful to look not just at vacancies but also at hard-to-fill vacancies, which may be a better measure of longer-term or more fundamental problems. Skills gaps are another useful measure, indicating the proportion of the workforce which employers perceive as being not fully proficient for the job. One reason for skills gaps would be that employers were having difficulties in recruiting or retaining appropriately skilled employees, and as a result are employing less able workers.

Vacancy data tells us a story about the overall attractiveness of employment, and as discussed earlier, people are attracted to particular employment opportunities on the basis of a range of factors of which the formal reward package is only one. In addition, within the formal reward package pay is almost always the most important part, but other elements such as pensions and holidays may also be highly significant. There is no question that an organisation can improve its ability to recruit and retain workers in many ways other than via the formal reward package that it offers. An unusually high level of vacancies or hard-to-fill vacancies does not tell us that pay is too low. However, it does tell us that *given all of the other characteristics* of the sector and geography under consideration, overall levels of reward may be too low.

This section reports new findings from the 2003 National Employers' Skills Survey (NESS) on vacancies, hard to fill vacancies, and skills gaps. This is a large sample survey of 72,000 employers in England which is designed to facilitate a detailed understanding of labour market activity. It allows us to look at the pattern of recruitment problems in three sectors which are predominantly delivering public services: public administration and defence; education; health and social work.

Most importantly, the new NESS allows us to look at patterns at both regional and sub-regional geographies: the data provides robust results at the Local Learning and Skills Council level, of which there are between four and six within each English region. It thus helps answer questions about when problems in recruitment and retention in the public sector should be considered at a national, regional or sub regional level. If geographical variations in pay are considered an appropriate response to such problems, this has important implications for how regional and local pay solutions should be developed.

Vacancies, hard to fill vacancies and skills gaps by sector, England, 2003

	Vacancies	Hard to fill vacancies	Skills gaps
Agriculture, hunting and forestry, fishing	2.5%	1.2%	9.7%
Mining & quarrying	2.2%	0.8%	11.5%
Manufacturing	1.8%	0.8%	11.3%
Electricity, gas and water supply	2.2%	0.3%	9.0%
Construction	3.6%	2.1%	8.8%
Personal household goods	2.8%	1.0%	11.7%
Hotels and restaurants	5.7%	2.4%	13.9%
Transport, storage and communication	2.8%	1.2%	11.9%
Financial intermediation	2.7%	0.6%	12.5%
Real estate, renting and business activities	3.4%	1.2%	10.2%
Public administration and defence	2.3%	0.5%	11.6%
Education	2.2%	0.6%	7.6%
Health and Social Work	3.9%	2.0%	11.6%
Miscellaneous services	4.7%	2.0%	9.7%
All sectors	3.1%	1.2%	11.0%

Source: NESS 2003

Note: The table and those following show vacancies, hard to fill vacancies and skills gaps expressed as a percentage of total *employment* in the relevant sector and geography.

At the whole economy level, the public administration and defence and education sectors show, perhaps surprisingly, relatively low levels of vacancies and hard to fill vacancies compared to the national average. The health and social care sector presents a different picture, with significantly higher rates for both types of vacancy. As the next table shows, this pattern has remained remarkably stable since 1999 despite the significant increase in demand for labour from public sector employers over this period. Levels of skills gaps are similar to the national average in the public administration and defence and health and social work sectors, and significantly lower in the education sector. Again, these patterns are similar to those measured in 1999 and 2001. There is thus little evidence at the national level of severe recruitment problems in the public services compared to other sectors of the economy.

Vacancies, hard to fill vacancies and skills gaps in public service occupations, England, 2001 & 1999

	Vacancies	Hard to fill vacancies	Skills gaps
1999			
Public administration and defence	2.1%	0.4%	4.2%
Education	1.8%	0.7%	2.3%
Health and Social Work	3.5%	1.8%	3.6%
All sectors	3.2%	1.4%	4.9%
2001			
Public administration and defence	2.3%	0.7%	4.1%
Education	2.0%	0.9%	1.6%
Health and Social Work	3.9%	2.1%	2.9%
All sectors	3.7%	1.7%	3.9%

Source: ESS 1999, 2001

The following three tables look at English regional data on vacancies, hard to fill vacancies and skills gaps in 2003.

Vacancies	Public admin and defence	Education	Health and social work
West Midlands	3.2%	2.3%	4.4%
East Midlands	1.6%	1.9%	3.0%
East of England	2.6%	2.0%	3.1%
London	1.7%	4.0%	3.9%
North East	1.5%	1.8%	4.2%
North West	2.3%	1.6%	3.2%
South East	2.0%	2.1%	5.1%
South West	2.6%	2.0%	3.8%
Yorks & Humber	2.9%	1.9%	4.2%
England	2.3%	2.2%	3.9%

Source: NESS 2003

It is in the most economically successful regions, with their relatively high levels of employment and output, where we might expect the most acute public service recruitment problems. However, this pattern is not clear in the vacancy data. London has a significantly higher vacancy rate than the national average in the education sector, but not in health or public administration and defence. The South East has higher than average vacancy rates in the health sector but not in the other two categories. The East of England actually has a somewhat lower vacancy rate than the national average in its health sector, and similar rates to the national average in the other two categories. This lack of clear pattern is repeated in the less economically

successful regions, where we might expect lower than average levels of vacancies in the public sector. Only in the East Midlands are vacancy rates lower in each category than the national average. In the North West both education and health sectors have lower than average vacancy rates, and the average level in the remaining category is at the national average. In every other region at least one of the three public service sectors has vacancy rates above the national average.

Hard to fill vacancies	Public admin and defence	Education	Health and social work
West Midlands	1.4%	0.5%	2.5%
East Midlands	0.2%	0.5%	1.3%
East of England	0.7%	0.9%	1.3%
London	0.5%	0.8%	1.6%
North East	0.3%	0.6%	2.3%
North West	0.4%	0.5%	1.2%
South East	0.6%	0.7%	2.9%
South West	0.3%	0.5%	2.5%
Yorks & Humber	0.3%	0.5%	2.0%
England	0.5%	0.6%	2.0%

Source: NESS 2003

There is more of a regional pattern in the hard to fill vacancy data. In this case the South East is very slightly above the national average rates for both public administration and defence and education, and significantly above the national average in the case of the health sector. Neither London nor the East of England stand out, and in fact have lower than average hard-to-fill vacancy rates in their health sectors. Rates in both the East Midlands and the North West are below the national average in all three sectors, although not always by a significant amount. The West Midlands stands out as a region with surprisingly high hard to fill vacancy rates in two out of the three sectors given its wider economic situation. The pattern is varied in other regions.

Skills gaps	Public admin and defence	Education	Health and social work
West Midlands	16.2%	13.0%	34.0%
East Midlands	9.5%	5.1%	7.2%
East of England	8.6%	7.4%	6.0%
London	15.2%	9.7%	11.1%
North East	13.5%	5.8%	11.5%
North West	9.5%	5.9%	8.4%
South East	9.3%	7.1%	7.5%
South West	9.7%	4.5%	8.1%
Yorks & Humber	11.5%	7.7%	12.9%
England	11.6%	7.6%	11.6%

Source: NESS 2003

The skills gaps data tell a different story. In this case there do seem to be more consistent effects across the three sectors within each region, but it is very hard to discern what might be driving the pattern across regions. For example, the West Midlands stands out as a region with significant skills problems across the three sectors, but the East Midlands looks totally different, with smaller skills gaps than most other regions in each case. The South East and East fare relatively well in all three sectors, as does the North West. London appears to have a significant skills problem in the education sector, where it also has relatively high levels of vacancies.

If the pattern at the regional level is mixed and difficult to interpret, what about the pattern at the sub-regional level? Each region is divided into between four and six Local Learning and Skills Council (LLSC) areas, and this year for the first time robust data is available on the three measures we are examining, for the three public service industry groups, at the LLSC level. For ease of exposition we concentrate here on hard-to-fill vacancies, and on examples of this data. A full dataset is available from John Cannings at ippr: j.cannings@ippr.org.

Hard to fill vacancies: South East

	Public admin and defence	Education	Health and social work
Milton Keynes, Oxfordshire and Buckinghamshire	0.4%	0.2%	1.3%
Berkshire	0.3%	0.8%	1.4%
Hampshire and the Isle of Wight	0.0%	0.6%	4.3%
Surrey	0.2%	1.0%	4.4%
Sussex	1.7%	0.3%	3.2%
Kent and Medway	0.3%	1.8%	2.2%
South East	0.6%	0.7%	2.9%
England	0.5%	0.6%	2.0%

Source: NESS 2003

At this greater level of geographical detail, certain sub-regions stand out as having problems that are much less apparent at the regional level. Even in the South East, the most economically successful region, hard to fill vacancy rates in the public service sectors do not look very different from the rates for England as a whole. However, looking at the more detailed geographical level we can see that particular sub-regions do stand out as having problems, particularly in the health sector. Even in the most affluent regions problems are concentrated in particular sub-regions: Cambridgeshire is another example, with significantly worse problems than other parts of the East of England.

Hard to fill vacancies: West Midlands

	Public admin and defence	Education	Health and social work
Shropshire	0.0%	0.3%	5.0%
Staffordshire	0.5%	0.3%	0.9%
The Black Country	0.0%	0.4%	2.1%
Birmingham and Solihull	3.5%	0.8%	3.6%
Herefordshire and Worcestershire	0.6%	1.1%	2.3%
Coventry and Warwickshire	1.7%	0.7%	1.4%
West Midlands	1.4%	0.5%	2.5%
England	0.5%	0.6%	2.0%

Source: NESS 2003

However, it is not just the case that public sector recruitment problems are more apparent at the sub-regional level in successful regions. We noted earlier that the West Midlands as a whole displays surprisingly high levels of hard to fill public service sector vacancies. When we see the sub-regional data we can see that the problem is in fact concentrated within the Birmingham and Solihull area, where the hard-to-fill vacancy rates for all three sectors are above both regional average and indeed national average rates.

It turns out that there are many examples of sub-regions in less affluent regions which appear to suffer significantly greater recruitment difficulties than sub-regions in more affluent regions. Some of the *worst* recruitment problems appear to be at the sub-regional level in less affluent regions, as in the case of Birmingham and Solihull in the West Midlands. At the same time, some parts of the more affluent regions such as London, the South East and the East of England do not appear to suffer particularly severe problems compared to the national average. The tables below give examples of both situations.

Low levels of recruitment difficulty within more economically successful regions

	Public admin and defence	Education	Health and social work
Norfolk	0.9%	0.9%	0.7%
Suffolk	0.3%	0.5%	1.8%
Bedfordshire and Luton	0.4%	0.6%	0.6%
London East	1.4%	0.3%	1.2%
Milton Keynes, Oxfordshire and Buckinghamshire	0.4%	0.2%	1.3%
Berkshire	0.3%	0.8%	1.4%
England	0.5%	0.6%	2.0%

Source: NESS 2003

High levels of recruitment difficulty in less economically successful regions

	Public admin and defence	Education	Health and social work
Shropshire	0.0%	0.3%	5.0%
Birmingham and Solihull	3.5%	0.8%	3.6%
Herefordshire and Worcestershire	0.6%	1.1%	2.3%
County Durham	0.7%	0.7%	6.8%
England	0.5%	0.6%	2.0%

Source: NESS 2003

Two qualifications are perhaps necessary here. Firstly, it is certainly the case that many public service organisations in London feel under great pressure to recruit and retain the appropriate staff. However, the argument made here is not that there is no recruitment problem in the economically successful regions, but rather that it does not occur primarily at the regional level but rather at the sub regional level, and that relatively severe problems also occur in areas within less prosperous regions.

Secondly, vacancy data certainly does not reflect all of the employment stresses on the public services. High levels of temporary worker employment, and high levels of employment turnover, might also be a problem. We should be concerned if we thought that these issues impacted on the quality of public services even in the

absence of high vacancy levels. One piece of evidence is provided by the skills gap data. Taking London as the example, there does indeed appear to be a higher incidence of skills gaps in the public administration, education and health sectors in central London than the national average. However, this is not true in the other sub-regions where London public sector skills gaps frequently look better than the national average. Further research is required in this area. One final issue worth mentioning is the high and growing levels of migrant workers employed in the public services, particularly in the health sector and particularly in London. This issue is addressed in more detail in ippr's *Labour migration to the UK* fact-file (2004).

Skills gaps in London

	Public admin and defence	Education	Health and social work
London North	1.9%	6.4%	10.0%
London West	14.5%	8.3%	10.8%
London Central	19.4%	16.7%	12.8%
London East	13.7%	7.4%	10.0%
London South	10.5%	5.4%	9.2%
London	15.2%	9.7%	11.1%
England	11.6%	7.6%	11.6%

Source: NESS 2003

In conclusion, at the national level there is little indication from vacancy rates, hard to fill vacancy rates or skills gaps that levels of public sector reward are too low. It is difficult to find clear patterns of recruitment problems in the public services at the regional level. If such problems are not clearly visible at the regional level, we should not focus on pay solutions at the regional level. **New data at the sub regional level shows more pronounced recruitment issues at smaller geographical scale within the more successful regions, and more consideration should be given to how these could be addressed with more effective local, not regional, pay solutions. However, there are many examples of areas in less affluent regions with relatively severe public service recruitment problems that should also be addressed with more effective local pay policies. The focus needs to move from regional pay to local pay, and most importantly from the prosperous regions of London and the Greater South East to areas of greater need in other parts of the country.**

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