

Working Paper 43

Submission to the Hutton Review

Review of Fair Pay in the Public Sector

By **Elizabeth Smart**



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Introduction

1. The Prime Minister and the Chancellor have commissioned the leading economist and commentator Will Hutton to conduct an independent Review of Fair Pay in the Public Sector. This Review will investigate pay scales across the public sector, and make recommendations on how to ensure that no public sector manager can earn more than twenty times the lowest paid person in the organisation. An Interim report is due in the autumn with a final report in March 2011. This response to the call for evidence in the Review has been prepared by GLA Economics. The response addresses each of the topics raised in the call for evidence. It does not deal specifically with each subsidiary question but addresses them by bringing to bear the evidence that is relevant to London.

Implementing Fairness

1. Do you agree that the organising principle of the Review should be that for pay to be fair it must be proportional to the effort of the individual and the value of the work done?
2. What should Government's role be in promoting fairness in public sector pay?
3. Do you agree with a pay differential between highest and lowest earners of 20:1 as a means of promoting pay fairness? If not, what is your preferred alternative?
4. How important do you consider the process by which pay is determined to delivering fairness?
5. From the perspective of your sector / area of expertise, do you have any other comments on the approach this Review is taking?

2. The organising principle of the review is to establish that *pay be fair and proportional to the effort of the individual and the value of the work done*. However, this does not take into account how wages are determined in practice and the role of market forces, which also could be taken to reflect an aspect of fairness - namely, that those workers who are in demand are paid more. It is not clear how the 20:1 ratio between the lowest and highest paid in the public sector would help to achieve this principle. Taking the national minimum wage (NMW) as a proxy for the lowest wage, this would imply a top salary limit of around £240,000. It is unclear how this represents any particular degree of fairness.
3. Moreover, there are questions about how this multiple would be applied – i.e. would it relate to particular individuals within an organisation, and how would other in-work benefits such as variable pay, bonuses and pensions be accounted for? These can be substantial for high earners and would obviously have considerable impact on the 'bite' of the 1:20 multiple. We have found it difficult to acquire data which allows comparisons which address the role of such benefits. This suggests that transparency is a key principle of fairness which we cannot meet with such a scheme.
4. It is possible that using a multiple of the lowest paid could change behavioural incentives of public sector bodies/senior management. For instance, management could seek to contract out low paid staff in order to increase the pay of the lowest paid staff directly employed by the organisation thus allowing senior management to increase their pay. This would do nothing to improve the fairness of pay. Setting senior public sector pay as a multiple of some generic measure of low pay (for instance the 10th percentile wage) could get around this problem. We would argue that if this were done, it should be at a regional level rather than nationally.
5. It must be recognised that the ratio would have differing impacts across the regions. For example in London, a high cost and high wage area, the multiple would potentially be more restrictive, because for the most part the lowest paid will be much the same level across the country (as dictated by national minimum wage legislation) and so the maximum will have very different consequences in different regions.

6. While the level of pay at the top is a matter for general concern, we would argue that the best way to increase the fairness of pay in the public sector is to focus on raising the wages of those at the bottom end of the income distribution. At the bottom end of the income distribution fairness should be concerned, at the very least, with ensuring an acceptable standard of living, which is what the Mayor's London Living Wage policy sets out to do.
7. The London Living Wage (LLW) was established in 2005 to tackle poverty and inequality by targeting the earnings of low paid employees in the capital. The first Living Wage report was published in 2005 with the figure set at £6.60, which was £1.65 above the National Minimum Wage (NMW) at the time. It now stands at £7.85, around £2 above the NMW. The GLA Group¹ has committed to paying at least the London Living Wage to all staff, whether directly employed or contracted. The policy has also been taken up by around 100 organisations in the private and voluntary sectors.²
8. The LLW is the lowest wage paid in the GLA group and Table 1 below illustrates what the 1:20 ratio would therefore mean for the top pay level, and compares this with the National Minimum Wage. This puts the top annual salary at just over £314,000. The Mayor has confirmed that no employee in the GLA is paid 20 times more than the lowest paid employee, and only one official in the GLA family earns more than 20 times the lowest salary – the Chief Executive of Crossrail.³ As noted earlier however, this does not take account of other in work benefits such as pensions.

Table 1: London Living Wage and NMW with 1:20 ratio applied

	Wage per hour		Gross weekly pay		Gross annual pay	
		x20		x20		x20
NMW (from Oct 2010)	£5.93	£119	£228	£4,566	£11,872	£237,437
LLW 2010	£7.85	£157	£302	£6,045	£15,716	£314,314

Source: GLA Economics calculations

9. Fairness (and efficiency) of public sector pay could also be increased by replacing national pay bargaining with regional pay bargaining, such that pay reflects local market conditions rather than what the Government decides to pay. Centralised pay bargaining leads to a situation where public sector workers with the same job experience a worse standard of living in London when compared with elsewhere, given the higher costs of living in London. This leads to recruitment and retention problems, as demonstrated by London's public sector vacancy rates (see Figures 1 and 2, and Annex 1).
10. To consider the potential costs of moving to more localised pay bargaining we looked at the likely cost of moving to regional (rather than national) pay bargaining. Using

¹ This includes the London Development Agency, Transport for London, the Greater London Authority, London Fire Brigade Metropolitan Police Authority and the Metropolitan Police Service.

² See "A Fairer London, the 2010 Living Wage in London", GLA Economics June 2010.

³ Mayor's Questions – Fair Pay Review, question number 2239/2010, meeting date 14/7/2010.

ASHE 2009 data for mean private and public sector weekly wages (excluding bonuses) and ONS Public Sector Employment numbers for the regions, the public sector wage bill in each region was calculated and then recalculated if private and public average wages were equalised in each region. Table 2 shows that the move from national to regional pay bargaining could result in a saving to the Exchequer of £6 billion. These results are based on a rather simplistic calculation and, as such, should be treated with caution. However, they do illustrate that any shift to more local pay bargaining over time need not be at a net cost to the Exchequer.

Table 2: Wage change required to eliminate the differential in pay between public and private sector by region

	Public mean gross weekly wage (£)	Private mean gross weekly wage (£)	Difference £ (private less public)	PSE regional public sector employment	Change in public sector wage bill required to adjust public mean pay to private mean pay / £million
North East	459.0	395.1	-63.9	290,000	-963.61
North West	470.3	428.5	-41.8	699,000	-1,519.35
Yorkshire and The Humber	453.2	416.2	-37.0	538,000	-1,035.11
East Midlands	460.4	443.1	-17.3	385,000	-346.35
West Midlands	459.4	433.3	-26.1	507,000	-688.10
East	458.8	463.2	4.4	459,000	105.02
London	657.4	701.2	43.8	764,000	1,740.09
South East	466.3	518.1	51.8	687,000	1,850.50
South West	463.8	422.7	-41.1	518,000	-1,107.07
Wales / Cymru	459.5	384.1	-75.4	341,000	-1,336.99
Scotland	486.8	441.3	-45.5	614,000	-1,452.72
Northern Ireland	487.7	379.8	-107.9	229,000	-1,284.87
Total					-6,038.57

Notes

The ASHE samples from the PAYE system, but weights responses to the number of jobs from the Labour Force Survey (employee jobs plus second jobs).

Source: http://www.statistics.gov.uk/articles/nojournal/ASHEMethod_article.pdf

Northern Ireland is included in the UK total but not as a separate category due to confidentiality agreements with Department of Trade in Northern Ireland (DETINI).

ONS PSE regional jobs are UK PSE admin data apportioned regionally with LFS data

Gross Weekly pay will not include full data on bonus payments

11. The cost of living in London is significantly higher than in other parts of the UK.⁴ A study carried out in 2003 for GLA Economics⁵ found that, based on the average composition of household spending across the UK, the cost of living in London is 17 per cent higher than in Edinburgh and 23 per cent higher than in Manchester. Although much of this difference is accounted for by housing costs, even excluding

⁴ For instance: GLA Economics, 'Cost of living comparisons between London, Edinburgh and Manchester: Case for London Technical Report 3', December 2003.

⁵ GLA Economics, 'Cost of living comparisons between London, Edinburgh and Manchester: Case for London Technical Report 3', December 2003.

housing costs, the study finds the cost of living in London is 10 per cent higher than in Edinburgh and 7 per cent higher than in Manchester. Moreover, the differences in the cost of living are larger for those on the lowest incomes (see Table 3). For example, for those on the first decile of weekly disposable income, the cost of living in London is 30 per cent higher than in Manchester.⁶

Table 3: The relative cost of living in London by income decile

			% differences in cost of living in London compared with...	
Income decile		Weekly disposable income (2001-02)*	Edinburgh	Manchester
Poorest	1	Less than £111	+18	+30
	2	£111-£166	+18	+32
	3	£166-£223	+18	+29
	4	£223-£290	+17	+26
	5	£290-£361	+18	+26
	6	£361-£437	+17	+24
	7	£437-£527	+17	+22
	8	£527-£644	+16	+21
	9	£644-£850	+17	+21
Richest	10	More than £850	+17	+22
Average			+17	+23

* Source: Family Spending 2001-02, ONS – From Costs of Living Comparisons between London, Edinburgh and Manchester, Case for London, Technical Report 3 – Oxford Economic Forecasting, 2003.

12. The ONS also looked at regional price data in 2003.⁷ Using a slightly different methodology it found cost differences of between 17.6 per cent and 20.4 per cent between London and the North East. The ONS methodology does not make a specific adjustment for the costs of commuting however, which we would argue, underestimates the differential.
13. London weighting is designed to cover the extra costs of living and working in London, however it is applied unevenly across the public sector. Harding (2007) noted that “the London bonus paid to the Metropolitan Police has expanded to £6,276, with the result that the Met is fully staffed, but inner London lecturers in higher education receive only £2,845, and London colleges continue to struggle”.⁸ Further, research by Holmes and Lilico⁹ suggests that in the NHS, workers outside London are underpaid relative to their London counterparts but this becomes much less pronounced higher up the income scale. Therefore, whilst London weighting in the public sector is important, it is uneven and is unlikely to counteract recruitment problems.

⁶ See Table 3.3, GLA Economics, ‘Cost of living comparisons between London, Edinburgh and Manchester: Case for London Technical Report 3’, December 2003.

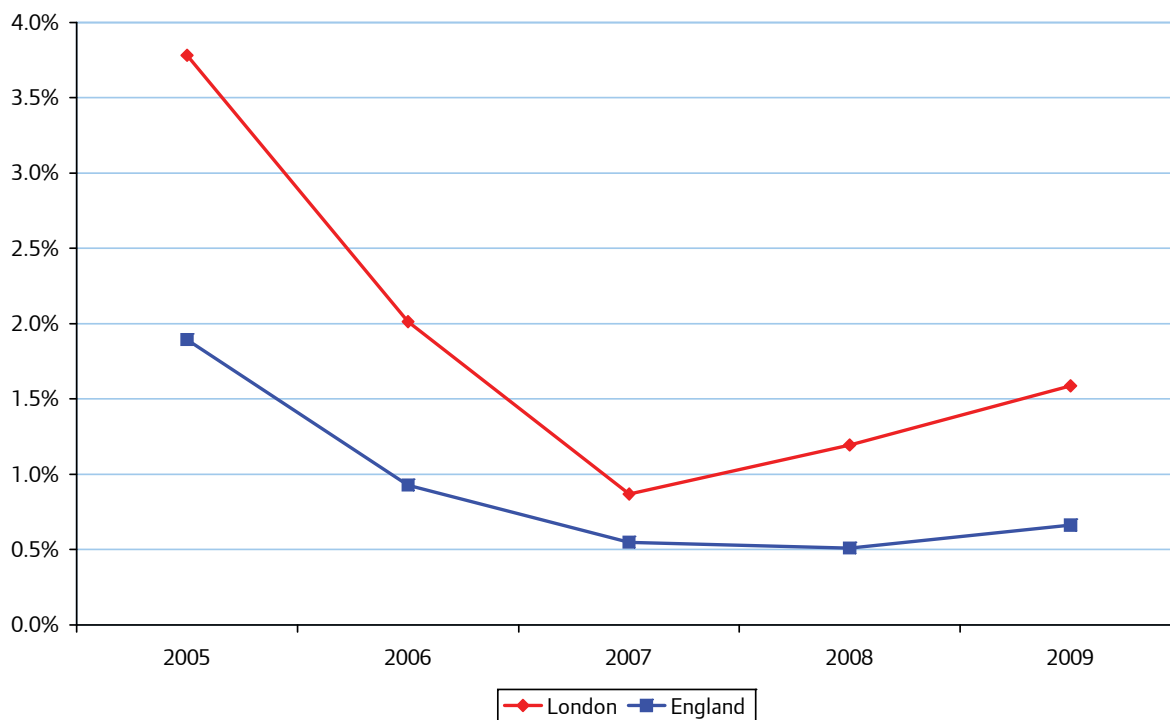
⁷ ‘Relative Regional Consumer Price Levels in 2003’ ONS November 2003.

⁸ Harding, R., ‘Poverty pay: How public sector pay fails deprived areas’, The Social Market Foundation, April 2007.

⁹ Holmes, E. and Lilico, A., ‘Controlling Public Spending: Pay, Staffing and Conditions in the Public Sector’, Policy Exchange, 2010.

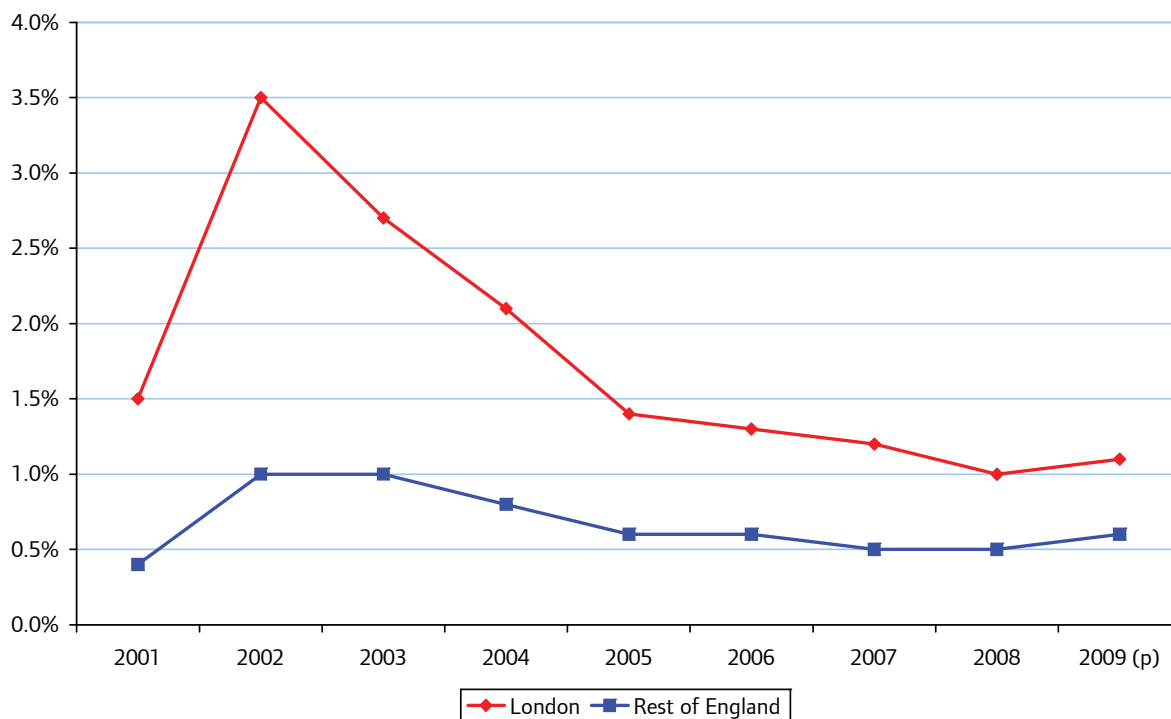
14. This situation has led to London's public sector vacancy rates diverging from those of the rest of England. Figure 1 shows that the vacancy rates for nurses, midwives and visiting staff have been consistently higher in London than England over the period 2005-09. Figure 2 further highlights this, indicating the difficulty that London's schools have experienced in filling teaching vacancies since 2001, compared to the rest of the UK.

Figure 1: NHS vacancies of at least three months duration by Strategic Health Authority area for qualified nursing, midwifery & health visiting staff



Source: The NHS Information Centre for health and social care Vacancies Survey March 2009.

Figure 2: Full-time vacancy rates in local authority maintained nursery/primary, secondary and special schools by Government Office Region



Source: Department of Education

15. This does not necessarily imply that public sector workers are paid too little on average compared to the private sector in London (although given the arbitrary nature of London weighting this is likely to be the case in certain occupations); rather it may indicate that national pay bargaining has led to those in other regions being paid more than the optimal level. This would seem to be suggested in a more general comparison between wage differentials between the public and private sectors in the different regions of the UK that controls for education, age and qualification, carried out by the Institute for Fiscal Studies.¹⁰ This finds that although raw pay differentials between the public and private sector are large in London; “once differences in characteristics are accounted for, these differentials disappear in London and the South-East, where the public sector workers appear to be slightly less well paid than private sector employees with similar characteristics (although the differences are not statistically different from zero). In contrast, in the rest of the country, on average, public sector workers enjoy a wage premium of roughly 5 per cent for men and 11–13 per cent for women.”
16. The consensus from the literature would indicate that most commentators view the current system of national wage bargaining as sub-optimal, and that greater account should be taken of the local economic environment. We believe that any top to bottom pay ratio would need to do the same.

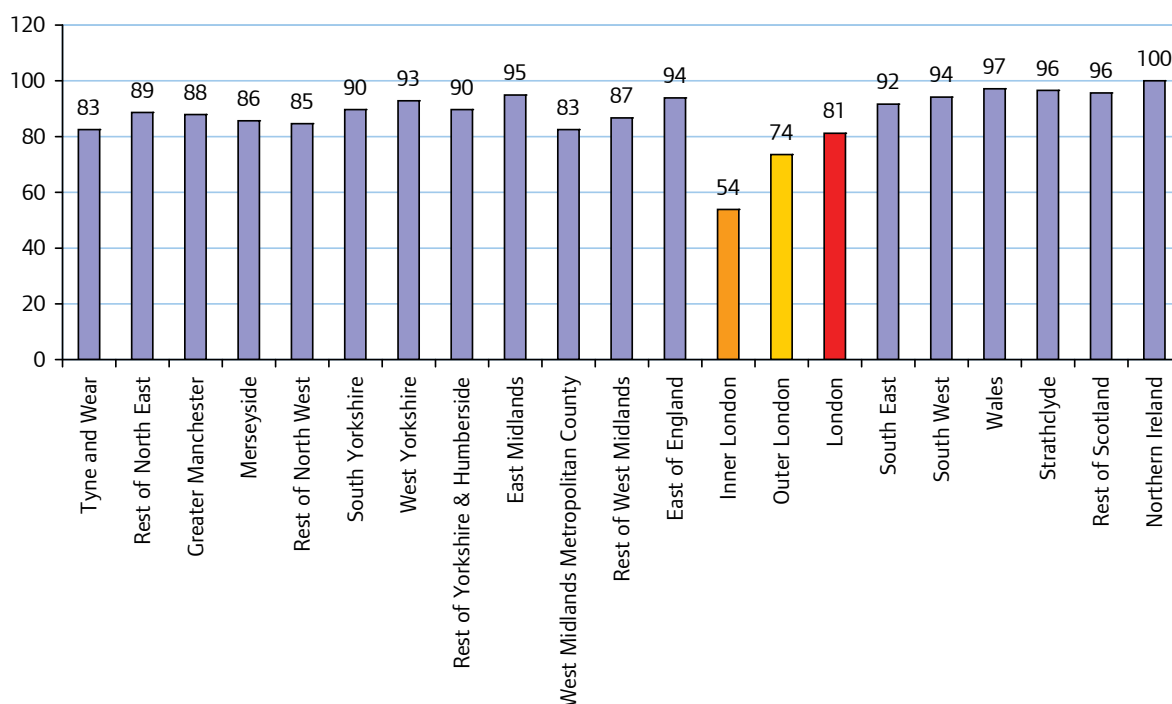
¹⁰ Bozio, C and Johnson, P., Chapter 9: Public sector pay and pensions, in Chote, R., Emmerson, C. and Shaw, J. (eds), ‘The IFS Green Budget: February 2010’, the Institute for Fiscal studies, 2010.

Benefits of Fairness

6. Do you have any evidence that fair pay, or a perception of fair pay, has an impact on productivity or brings other benefits to organisations and their staff?
7. Do you believe that there could be negative effects of a pay ratio, or other means of promoting fair pay?
8. What relationship do you think there is between fairness in pay and innovation and entrepreneurship?

17. Clearly the higher cost of living, and particularly of housing, affects the ability of public sector workers to live in London. Figure 3 shows that in London, more public sector workers commute in than in any other region. In London the proportion which lives and works in London has fallen since 2005.

Figure 3: Proportion of Public Sector Workers living and working in same region, 2009



Source: Annual Population Survey 2009

NB: adding figures together for Inner and Outer does not sum to the London figure as the London figure also includes those who work in inner and live in outer and vice versa

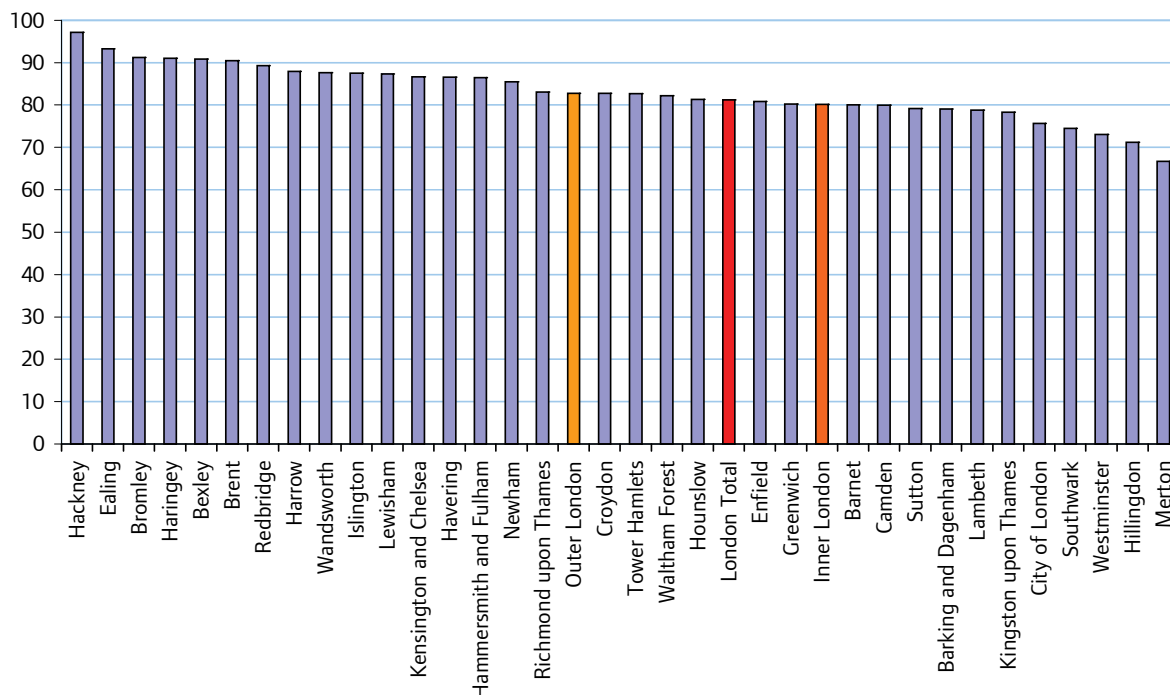
18. Figure 4 shows, for each borough, the proportion of public sector workers that live (as well as work) in London. Figure 5 shows the proportion of public sector workers that live and work within the same local authority. As might be expected, Figure 5 shows that many of the Outer London Boroughs have high proportions (between 50 and 78 per cent) of public sector workers who live and work in the same borough suggesting these tend to operate as local economies, in contrast to Inner London boroughs such

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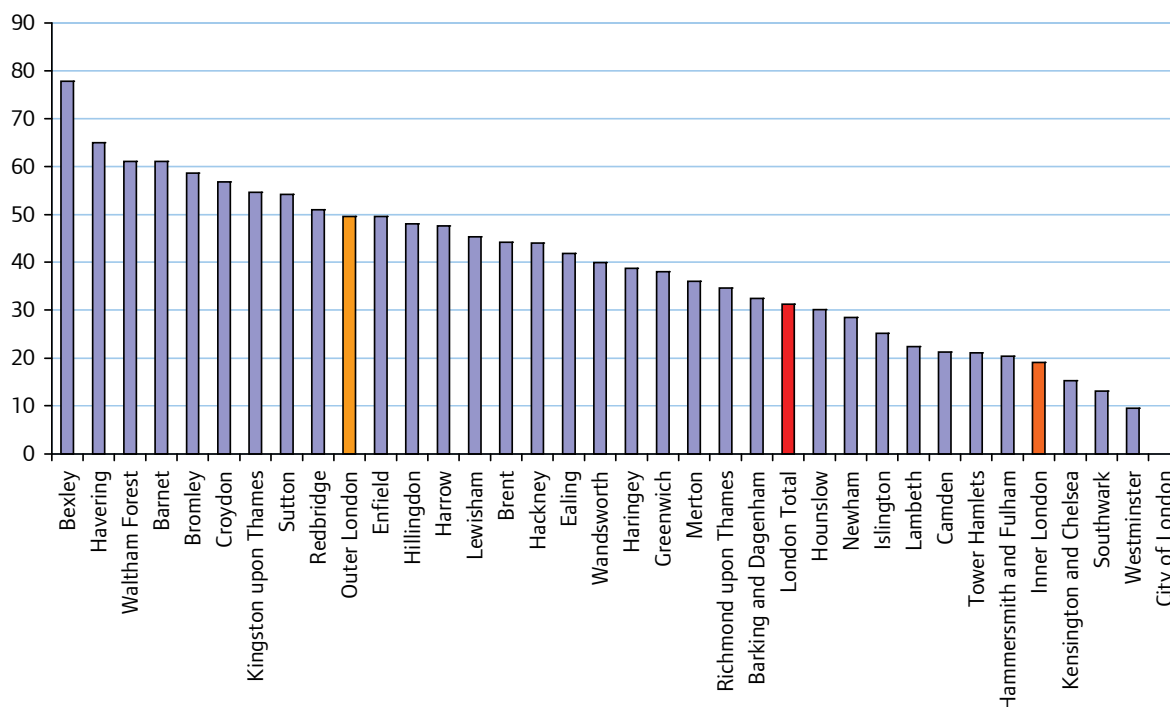
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as City, Westminster and Southwark which rely on in-commuting for between 85 and 90 per cent of staff. This is likely to be in part due to both the availability and affordability of residential housing.

Figure 4: Proportion working in the public sector in each borough who live in London, 2009



Source: Annual Population Survey 2009

Figure 5: Proportion of public sector employees in London, working and living in the same local authority

Source: Annual Population Survey 2009

Benefits of increasing low wages- the experience of the London Living Wage

19. The London Living Wage aims to compensate low paid workers in London for the increased costs of living. It is now five years on from its introduction and we are increasingly aware of its benefits both for employees and employers.
20. KPMG decided to implement the London Living Wage policy for both directly and indirectly employed staff in 2006.¹¹ KPMG also increased wages of supervisors by the same differential. It used service efficiencies to help finance the wage increase. A case study of KPMG by SERTUC found that its staff turnover rates were halved, staff training costs were reduced, staff continuity increased, and it had a much more motivated workforce.
21. The GLA commissioned an independent study of the benefits of the London Living Wage policy.¹² The results are published in a report by London Economics in February 2009. Although the study was carried out when it was still early days in terms of implementation of the living wage, a number of benefits were noted both by

¹¹ SERTUC (2007), "London Living Wage – a working guide for trade unions".

¹² "An Independent Study of the business Benefits of implementing a Living wage Policy In London", London Economics, February 2009.

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employees and employers. Most convincing is the finding that all buyers and contractors surveyed in this study reported that they would, if faced with the same choice today, implement the London Living Wage.

22. The most significant impacts noted were recruitment and retention, improved worker morale, motivation, productivity and reputational impacts of being an ethical employer.
23. Employees receiving the Living Wage noted substantial financial and welfare benefits, and that the wage difference not only made them happier in their work but had improved their standard of living enabling them to better manage bills, have a better standard of family life and pay for education and training.
24. A study on the employee impact of the improved pay and conditions of the LLW at the Royal London Hospital¹³ resulted in higher worker commitment, an improved atmosphere and a sense of belonging, with almost 85 per cent of workers indicating their intention to remain long-term.
25. In 2009 16 per cent of workers in London earned less than the London Living Wage,¹⁴ however if you consider part-time workers alone, 40 per cent receive below the London Living Wage of £7.85 per hour.
26. The Living Wage Unit of GLA Economics looked at patterns of low pay in London in 2008¹⁵ and concluded that between 15 and 19 per cent of working-age employees in London were low paid.¹⁶ In terms of the risk applying to low paid workers we note the strong evidence of a 'low pay, no pay' cycle, initially identified by Mark Stewart.¹⁷ This cycle describes the higher probability for low paid employees to become unemployed in the future, and for workers re-entering the labour market to be in low paid jobs. Accordingly, they conclude that low paid individuals are therefore most likely to fall into poverty.

¹³ Sokol, Wills et al, (2007), "The impact of improved pay and conditions on low-paid urban workers: the case of the Royal London Hospital, Queen Mary University of London".

¹⁴ Data from ASHE 2009, see "A Fairer London – the 2010 Living wage in London" GLA Economics, June 2010.

¹⁵ Melville and Harker (2008), "Current issues Note 22: Patterns of low pay in London", GLA Economics.

¹⁶ In this report low pay is defined as being pay below the London Living Wage.

¹⁷ Stewart (1999) Low Pay in Britain, in "The State of Working Britain", edited by Paul Gregg and Jonathan Wadsworth, Manchester University Press.

Public Sector

9. In the public sector, do you know of any examples of high pay differentials, or executive pay that could otherwise be considered unfair? What is your perception of the trend in pay differentials over time?

10. Are public sector leaders able to have the impact over their organisations that would warrant high pay differentials?

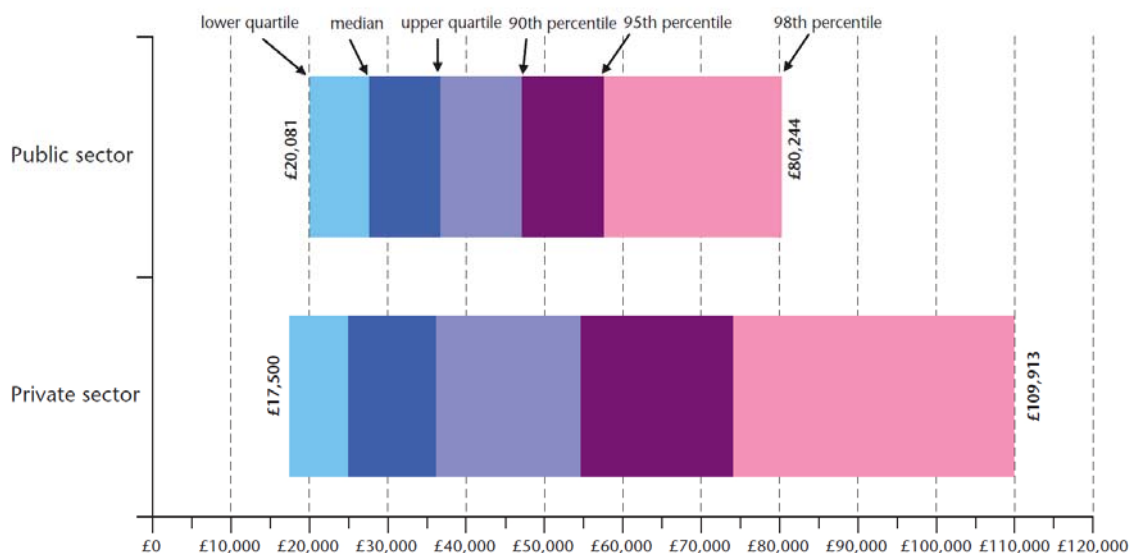
11. How could a 20:1 pay ratio be enforced in the public sector?

12. Should there be exceptions to a 20:1 pay ratio within the public sector, and where and why?

13. How important is remuneration in attracting top candidates to executive positions in the public sector?

27. Since for the most part the lowest paid will be much the same level across the country, the top to bottom pay ratio set across the public sector could exacerbate the problems for London that result from centralised/national pay bargaining in the public sector. In particular it is likely to exacerbate differences in senior-level pay between the public and private sectors.

Figure 6: Distribution of full-time earnings in the public and private sectors, 2009



Source: ASHE (ONS), taken from Review Body on Senior Salaries, Report no. 73, March 2010

28. The range of public sector pay is more compressed than that in the private sector, as Figure 6 shows. Indeed the divergence between public and private sector pay could be even larger if total reward were taken into account (including bonuses and variable pay etc). A study by the Office of Manpower Economics in 2010¹⁸ compared

¹⁸ Towers Watson, "Research into total reward offered by comparator sectors", Office of Manpower Economics 2010.

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total reward of workers in senior civil service posts with private sector counterparts on similar salaries. This study found that although public pensions were significantly higher than those offered to private sector counterparts, there were few if any other quantifiable benefits such as bonuses, long-term incentive plans, cars, private health insurance and other benefits which equal or outweigh the additional value of public sector pensions.

29. There are understandable reasons for senior public sector pay to be lower than that in the private sector. Intangible benefits such as job variety and interest, ability to influence and work-life balance are often quoted as benefits. Job security is on the whole much higher in the public sector (although this is changing), and public sector pensions are attractive and more secure. Nevertheless, the public sector needs to pay sufficient to recruit, retain and motivate people of high calibre to lead and manage public services. Otherwise it will become harder over time to fill senior posts with people of sufficient quality.
30. This point is particularly pertinent for London as Table 4 helps to illustrate. The ratio between top and bottom decile wages is 4 in the UK and 5 for London. Breaking this down between the private and public sectors shows the difference between the UK and London is even greater. The London wage premium (i.e. premium above the UK) for the highest earners in the private sector is 57.6 per cent, compared to just 25.2 per cent for the public sector.

Table 4: Gross hourly wage and regional differentials

By occupation (2-digit SOC)					
All employees					
		10th percentile	median	Mean	90th percentile
					90th/10th
1	UK	6.21	11.03	14.40	24.53
2	London	7.11	15.33	19.69	35.29
3	London premium (%)	14.5	39.0	36.7	43.9
	<i>UK</i>				
4	Public sector	7.34	12.97	15.55	24.77
5	Private sector	5.99	10.08	13.88	24.29
	<i>London</i>				
6	Public sector	9.39	16.85	19.32	31.01
7	Private sector	6.54	14.37	19.96	38.28
	London premium (%)				
8	Public	27.9	29.9	24.2	25.2
9	Private	9.2	42.6	43.8	57.6

Source: ASHE 2009

NB: $3 = (((2)/(1)) - 1) \times 100$

$8 = (((6)/(4)) - 1) \times 100$

$9 = (((7)/(5)) - 1) \times 100$

31. The ratios between the 10th and 90th deciles of wages in Table 4 look low in comparison to the proposed 20 to 1 multiple for the top and bottom earners, though the two measures are clearly different. Nonetheless we should bear in mind that the wage data for the top and bottom deciles relates only to gross wages, whereas the review is stated to “examine all aspects of the public sector pay package, including base pay, variable pay, bonus and other elements, to the extent to which all can contribute to fairness across the pay range”. This could make the ratio more limiting because of the other benefits likely to accrue to senior posts, particularly pensions.
32. The way national wage bargaining impacts on public sector recruitment both between and within areas is summarised in Table 5. London is undoubtedly a high wage region with areas of both high and low deprivation, in which ‘extreme difficulty’ and ‘considerable difficulty’ in recruiting good public sector workers can be expected.

Table 5: The impact of general wage differentials on public sector recruitment in a system of standardised public sector pay

	High wage region	Low wage region
High deprivation locality	Extreme difficulty in recruiting good public sector workers because of: High living costs Fixed salaries Difficult working conditions Alternative opportunities	Considerable difficulty in recruiting good public sector workers because of: Fixed salaries Difficult working conditions
Low deprivation locality	Considerable difficulty in recruiting good public sector workers because of: Fixed salaries High living costs Alternative opportunities	No difficulty in recruiting good public sector workers

Source: Wolf, A., ‘More than we bargained for: the social and economic costs of national wage bargaining’, CentreForum, 2010.

33. All this suggests that if a multiple were used as a general rule – it should not preclude higher multiples in certain cases.

Private Sector

14. Do you have any examples of high pay differentials within private sector organisations?

15. Do you think that high pay differentials (between highest and lowest earners in the organisation, and between senior management) are beneficial or detrimental to senior management behaviour and wider business performance?

16. What relationship do you think there is between executive pay in the private sector and the competitiveness of UK businesses?

Interaction between private and public sectors

17. How influenced is the public sector by private sector pay practices, and vice versa?

18. Do the public sector and private sector compete for the same people, and if so in which professions / levels of seniority / geographical areas?

19. Should pay be set differently in the public sector to the private sector?

20. Can and should the public sector compete with the private sector on executive pay? Are there other means by which it can attract top candidates?

34. Not only does the lack of regional variation in public sector pay result in labour shortages and retention difficulties in high-wage areas like London, but it also makes it more difficult for private firms in low-wage areas to compete with the public sector salaries on offer.

35. Private sector pay varies greatly between regions in the UK, impacting heavily on the median weekly wage in the different regions. The median weekly wage in the north-east in 2009 stood at £435.90 compared to £627.40 for London.¹⁹ However, it is estimated that 80 per cent of public sector workers in England are involved in national wage agreements,²⁰ meaning that 20 per cent of all jobs in England are covered by such agreements.²¹ These bargains often set very detailed conditions for pay as well as for conditions, and hence distort the local labour market with pay determined not by local conditions, but rather by how much the government decides to pay. This can lead to significant relative wage differentials developing between regions. For example, teachers in London earn just 18 per cent more than the local median wage, whilst those in the north-east earn 79 per cent more.²²

36. It has been argued that central wage bargaining in the public sector is particularly important in the UK,²³ and this in part is due to the relatively high level of union membership in the UK compared to other OECD countries (see Table 6).

¹⁹ NOMIS, Annual Survey of Hours and Earnings.

²⁰ Wolf, A., 'More than we bargained for: the social and economic costs of national wage bargaining', CentreForum, 2010.

²¹ Ibid.

²² The Financial Times, 'Beyond the M25', 29 June 2010.

²³ Wolf, A., 'More than we bargained for: the social and economic costs of national wage bargaining', CentreForum, 2010.

Table 6: Union Membership – Selected OECD countries

Country	Overall union membership 2007 (% employed population)	Private sector union membership (% employees): year as dated	Public sector union membership (% employees): year as dated
France	7.8	2003: 5.2	2003: 15.1
Germany	19.9	West (East): 2004 White-collar: 13.8 (17.7) Blue-collar: 29.6 (19.6)	2004: 42
Spain	14.6	2004: 15.7	2004: 24.9
Sweden	70.8	2008: 65	2008: 84
UK	28	2008: 15.8	2006: 59.5
USA	11.6	2004: 7.9	2004: 36.4

Sources: Wolf, A., 'More than we bargained for: the social and economic costs of national wage bargaining', CentreForum, 2010. From: OECD employment database; C Schnabel, 'Trade unions in Germany', 2007; French Ministry of Labour, 'Premières synthèses et informations' April 2008; Statistics Sweden; T Colling and M Terry eds, 'Industrial relations', 2010.

37. National wage setting in the public sector distorts local labour markets and this can in turn impact on the private sector. For example, in regions where the public sector wage for similarly skilled jobs is significantly higher than the private sector, the public sector out competes the private sector for suitably qualified candidates and thus "crowds out" private enterprise. In a more market-determined labour market public sector wages would be lower in these regions.
38. Differing wage differentials between the private and public sectors will also impact on the ability of regions to attract high quality public sector workers and therefore the quality of service provided by the public sector in the different regions. For instance, in those regions where public sector wages are below those in the private sector, it is likely that the quality of provision will be below that provided in other regions. Indeed, Hall et al. found that 'the regulation of nurses' pay led to higher fatality rates for heart attacks' in areas with strong²⁴ labour markets.²⁵
39. Within regions, standardised pay and conditions can add to the problems faced by providers of public services in deprived areas, as they will have an inability to compensate workers for working in more demanding work environments. This could impact on the ability of government to deliver on their spending priorities, with for example the 'pupil premium' likely to have limited results if the extra money resulting from the premium cannot be used to attract good teachers and is instead diverted into expenditure that has limited impact on pupil performance.

²⁴ 'Strong' labour markets refers to those where the 'outside' (or unregulated) wages are higher than the 'inside' (or regulated) wage.

²⁵ Hall, E., Proper, C. and Van Reenan, J., 'Can pay regulation kill? Panel data evidence on the effect of labour market performance on hospital performance', NBER, 2008.

Conclusion

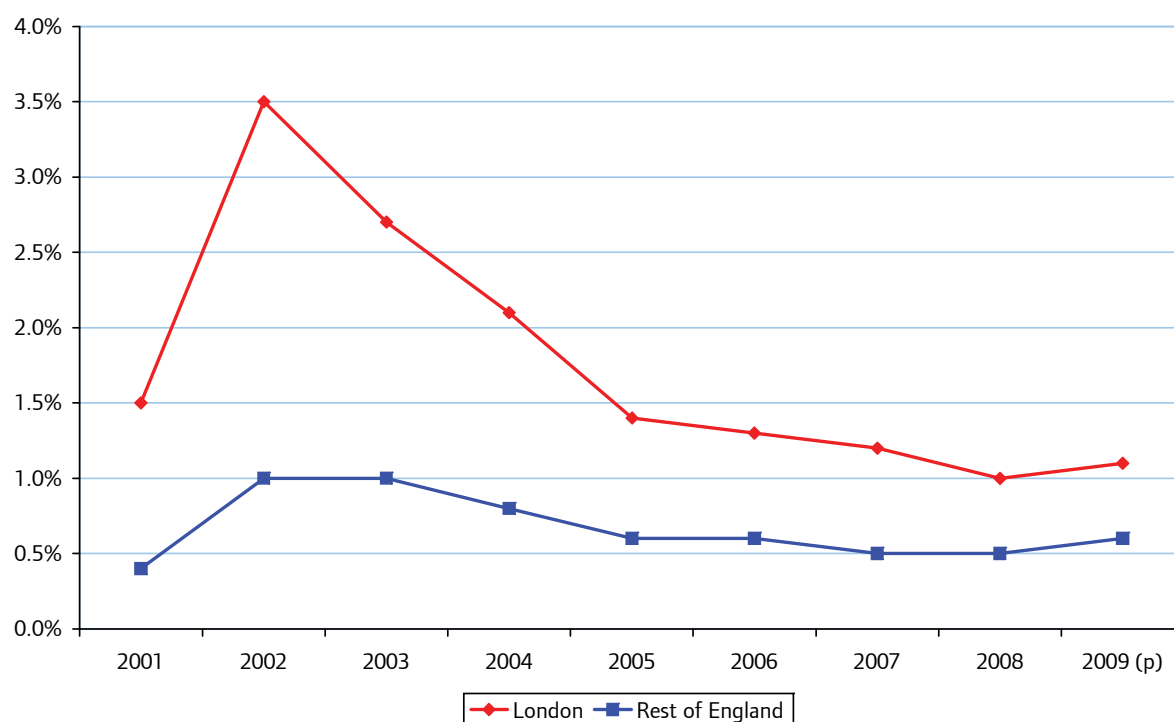
40. Setting a top to bottom maximum ratio for public sector pay -like centralised pay bargaining- is likely to exacerbate problems of recruitment and retention in London's public sector. Already it exhibits higher vacancy rates, lower standards of living and a relatively large proportion of workers living far from their workplace.
41. We argue that the focus should be on raising low pay in the public sector, and on regional rather than national pay bargaining such that wages in the public sector can be determined within the local economy. The London Living Wage achieves both these things.
42. Instead of the maximum top to bottom ratio for public sector pay, a better tool for increasing fairness of pay in the public sector would be through monitoring of decile ratios across the country.

Annex 1

Public Sector Vacancies

The following charts present vacancy rates in the public sector for London and for the rest of England. (For 2009 vacancy rates are presented across the regions). This is an update to the work carried out by NERA²⁶ for our 2004 Case for London report.²⁷

Figure A1: Full-time teacher vacancy rates in local authority maintained nursery/primary, secondary and special schools by Government Office Region



Source: Department for Education, School Workforce Survey 2009

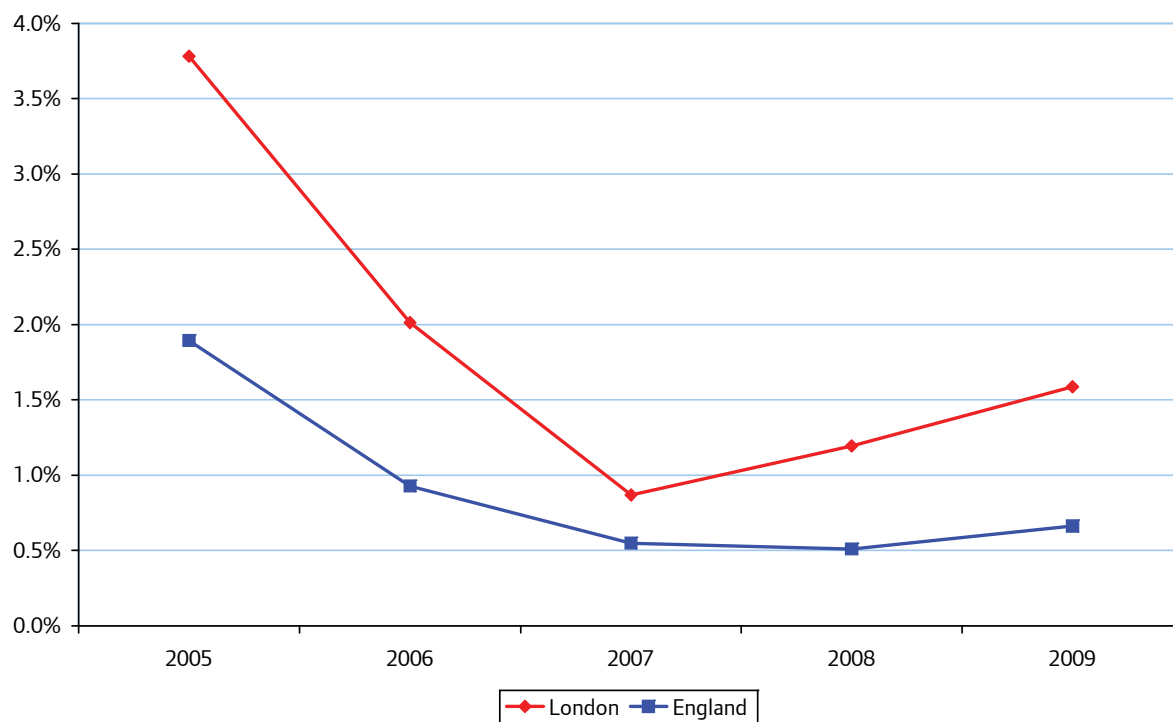
1. Advertised vacancies for full-time permanent appointments (or appointments of at least one term's duration). Includes vacancies being filled on a temporary basis of less than one term.

London has consistently had teacher vacancy rates in maintained schools above that of the Rest of England. Also London has suffered more volatile movements compared to the rest of England. The same is true for qualified nursing, midwifery and health visiting staff.

²⁶ The London Labour Market – Case For London Technical Report 4, 2004.

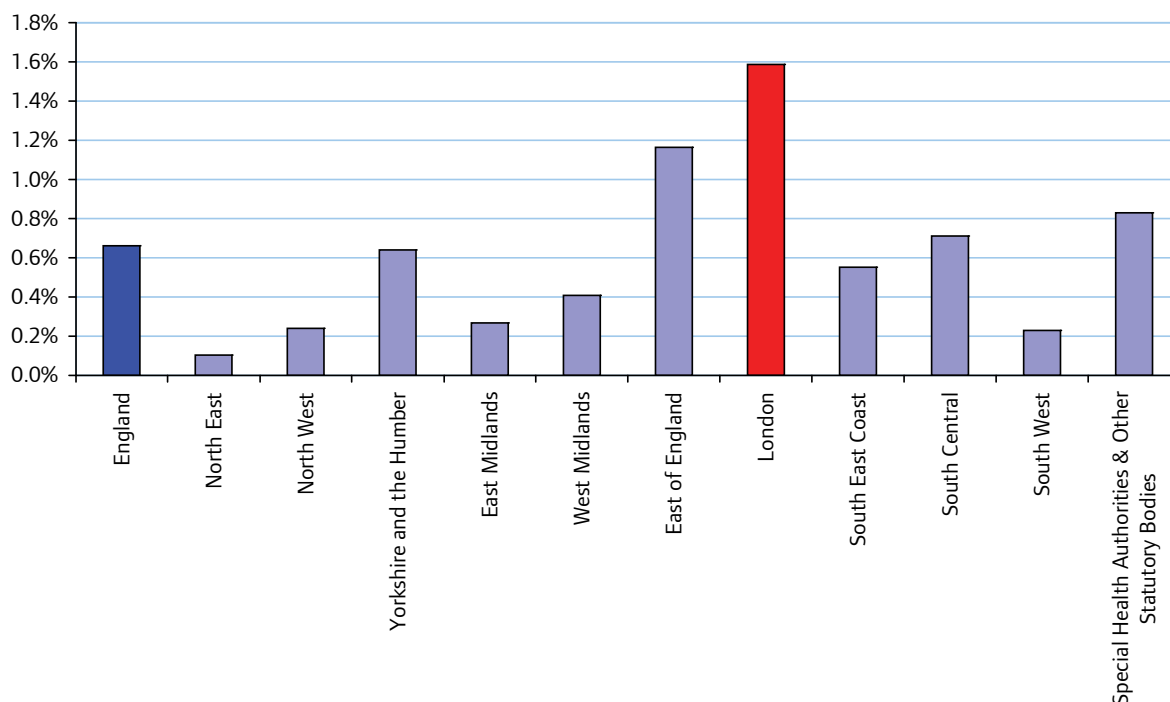
²⁷ The Case for London, London's loss is no one's gain, Greater London Authority 2004.

Figure A2: NHS vacancies of at least three months duration by Strategic Health Authority area for qualified nursing, midwifery & health visiting staff



NHS Vacancy Survey 2005-2009

1 Three month vacancy rates are three month vacancies expressed as a percentage of three month vacancies plus staff in post (staff in post figures as at 30 September 2008).

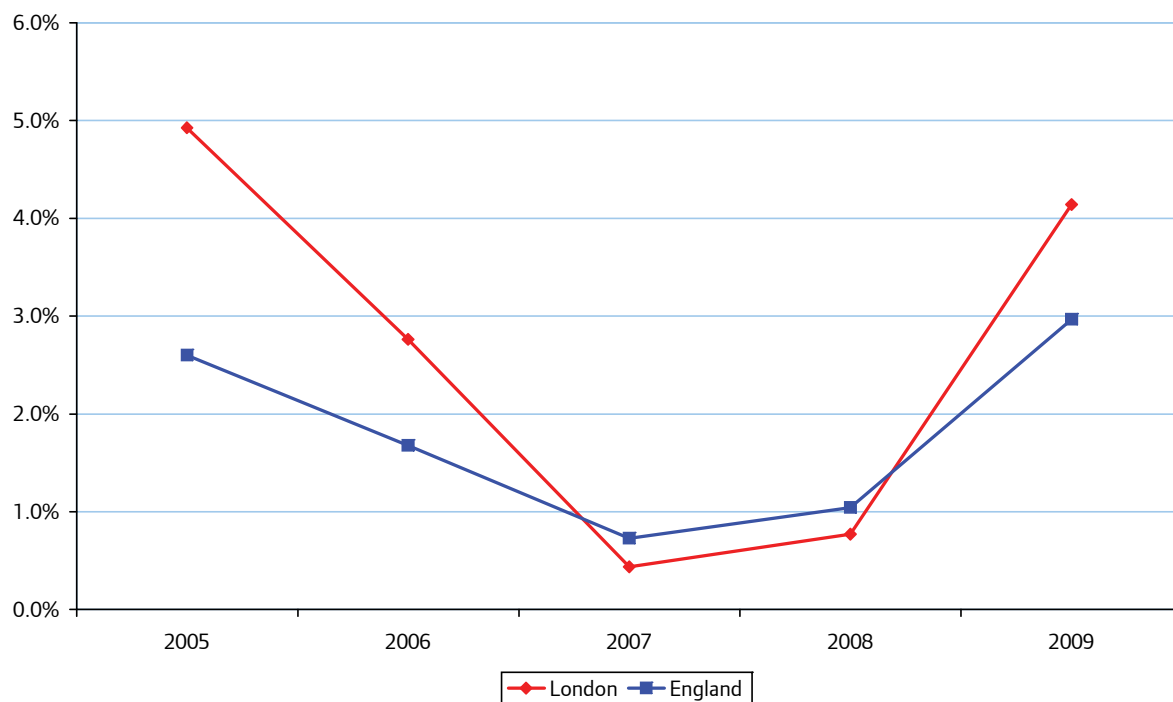
Figure A3: NHS vacancies of at least three months duration by Strategic Health Authority area for qualified nursing, midwifery & health visiting staff 2009

NHS Vacancy Survey 2005-2009

1 Three month vacancy rates are three month vacancies expressed as a percentage of three month vacancies plus staff in post (staff in post figures as at 30 September 2008).

Strategic Health Authorities have been consolidated since we last looked at this in 2004. London now has one Strategic Health Authority. This chart shows that London has the highest vacancy rates for qualified nursing, midwifery and health visiting staff of all the English regions. Indeed London's vacancy rates are in most cases more than double those in other regions.

Figure A4: NHS vacancies of at least three months duration by Strategic Health Authority area for Doctors and Dentists (excluding Consultants)

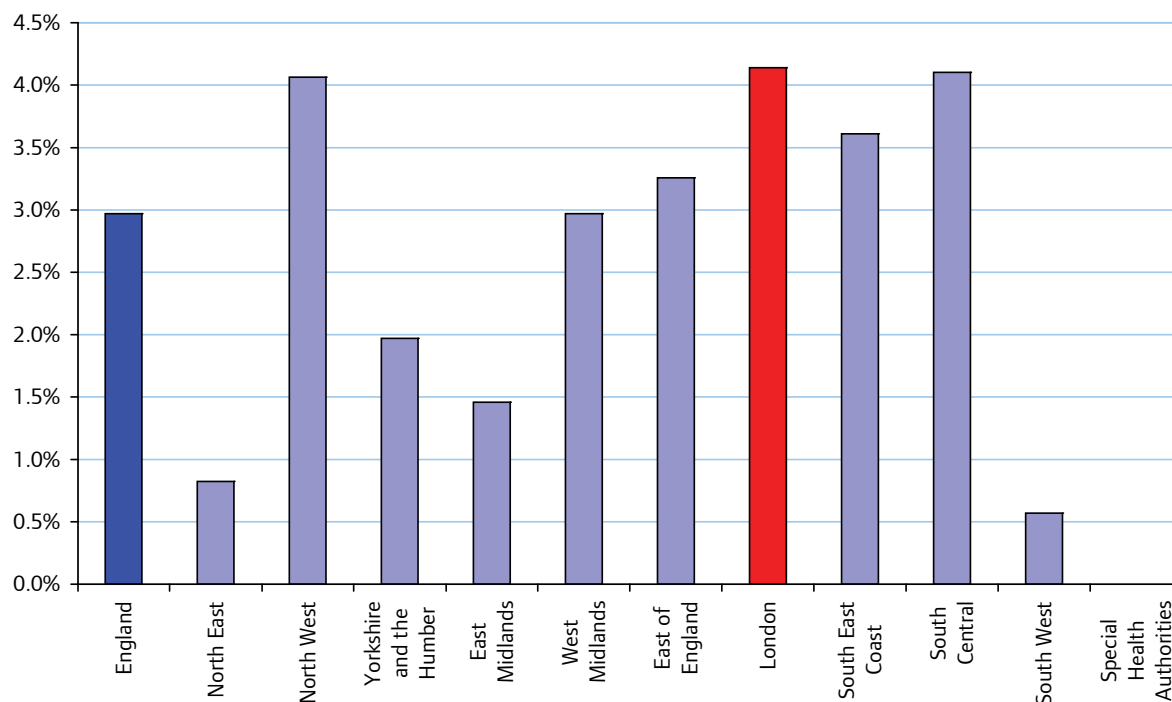


NHS Vacancy Survey 2005-2009

1 Three month vacancy rates are three month vacancies expressed as a percentage of three month vacancies plus staff in post (staff in post figures as at 30 September 2008).

Apart from in the years 2007 and 2008 London's vacancy rates for doctors and dentists have exceeded those in England as a whole.

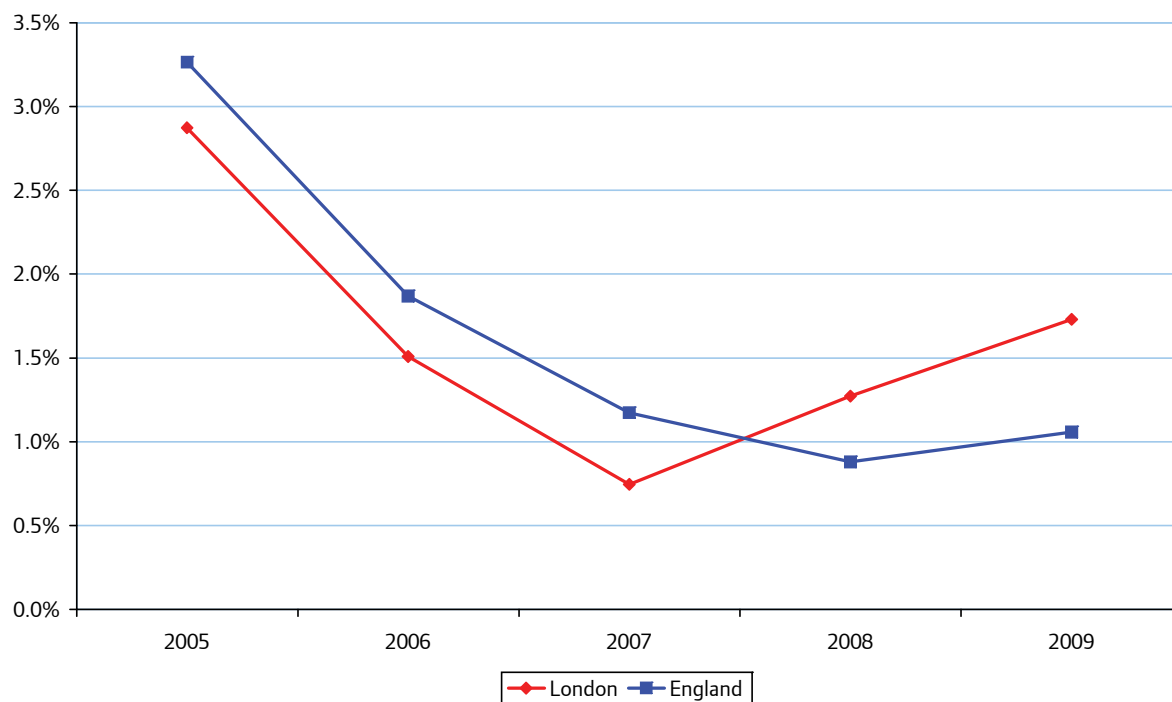
Figure A5: NHS vacancies of at least three months duration by Strategic Health Authority area for Doctors and Dentists (excluding Consultants) 2009



NHS Vacancy Survey 2005-2009

1 Three month vacancy rates are three month vacancies expressed as a percentage of three month vacancies plus staff in post (staff in post figures as at 30 September 2008).

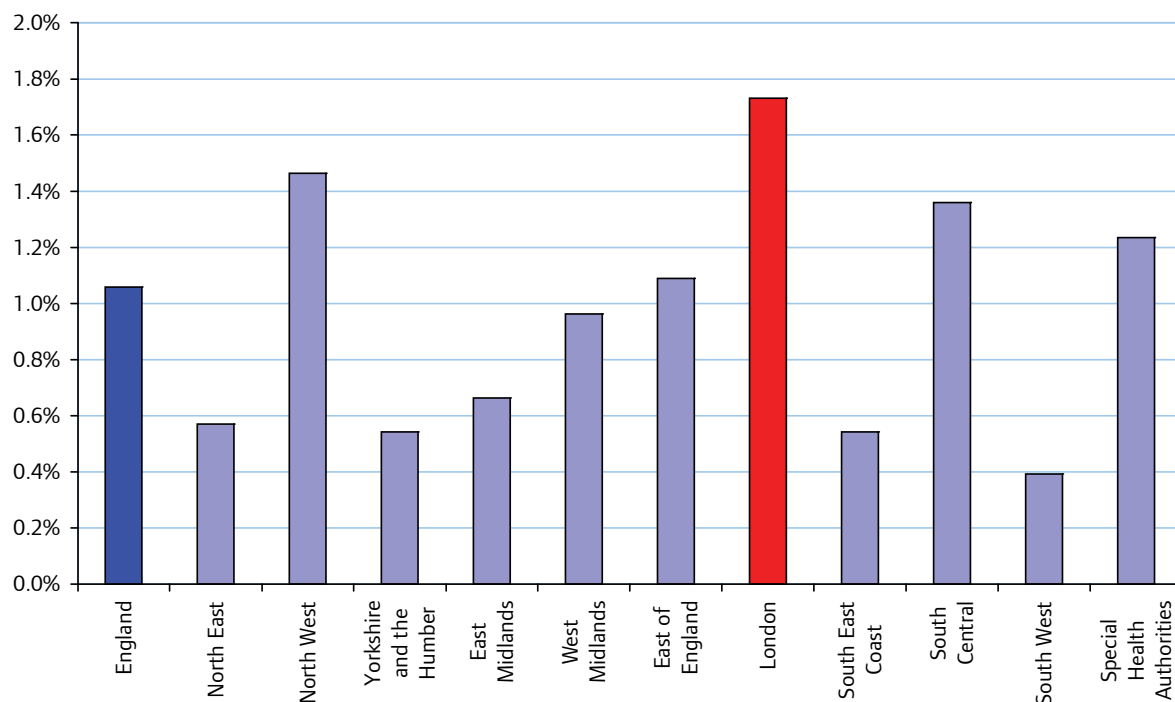
Figure A6: NHS vacancies of at least three months duration by Strategic Health Authority area for Consultants



NHS Vacancy Survey 2005-2009

1 Three month vacancy rates are three month vacancies expressed as a percentage of three month vacancies plus staff in post (staff in post figures as at 30 September 2008).

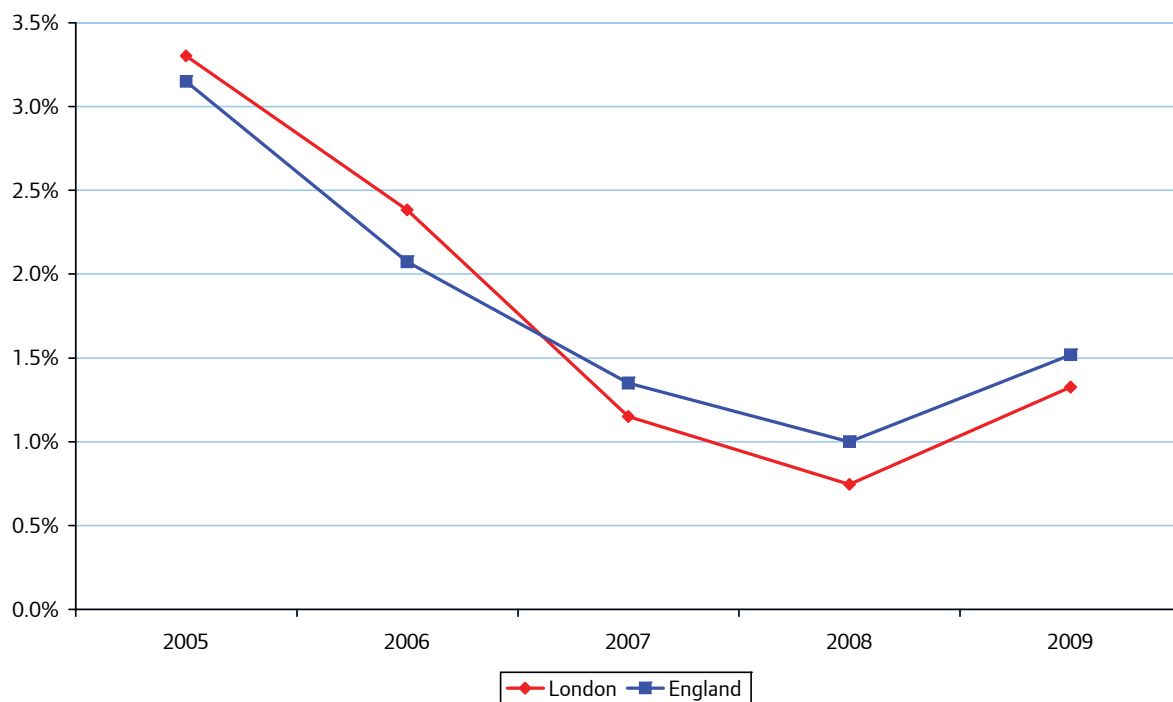
Figure A7: NHS vacancies of at least three months duration by Strategic Health Authority area for Consultants 2009



NHS Vacancy Survey 2005-2009

1 Three month vacancy rates are three month vacancies expressed as a percentage of three month vacancies plus staff in post (staff in post figures as at 30 September 2008).

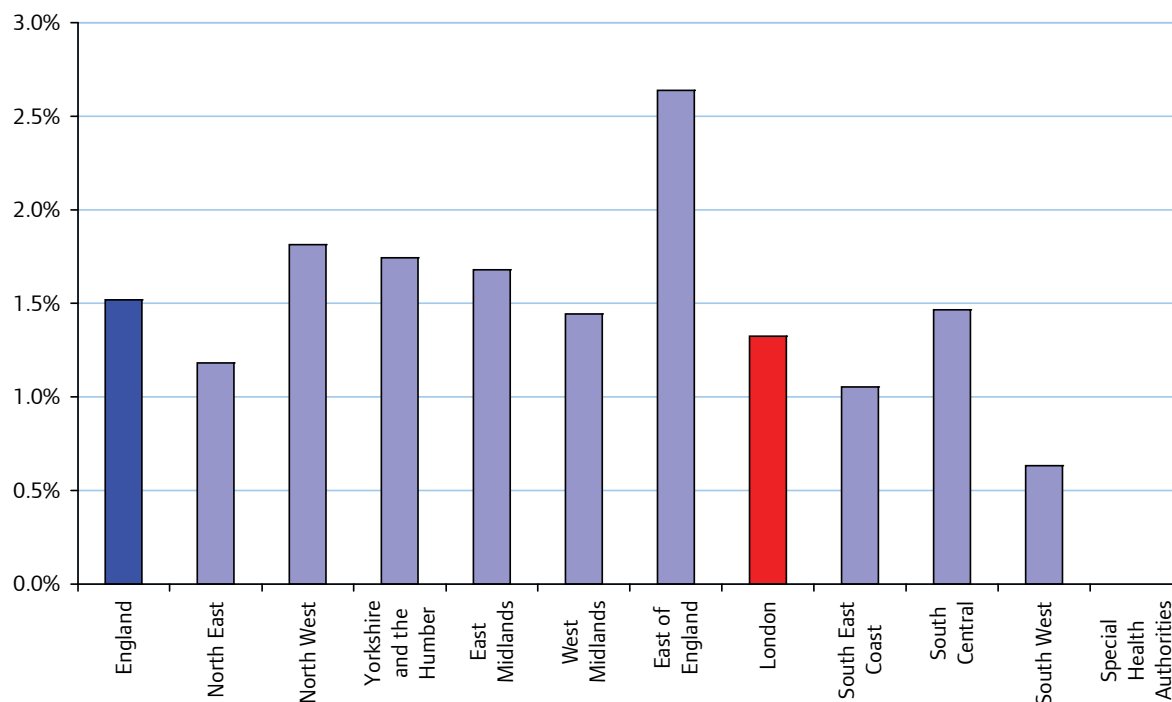
Figure A8: NHS vacancies of at least three months duration by Strategic Health Authority area for Registered Pharmacists



NHS Vacancy Survey 2005-2009

1 Three month vacancy rates are three month vacancies expressed as a percentage of three month vacancies plus staff in post (staff in post figures as at 30 September 2008).

Figure A9: NHS vacancies of at least three months duration by Strategic Health Authority area for Registered Pharmacists 2009



NHS Vacancy Survey 2005-2009

1 Three month vacancy rates are three month vacancies expressed as a percentage of three month vacancies plus staff in post (staff in post figures as at 30 September 2008).

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Vietnamese

Nếu bạn muốn có văn bản tài liệu này bằng ngôn ngữ của mình, hãy liên hệ theo số điện thoại hoặc địa chỉ dưới đây.

Greek

Αν θέλετε να αποκτήσετε αντίγραφο του παρόντος εγγράφου στη δική σας γλώσσα, παρακαλείστε να επικοινωνήσετε τηλεφωνικά στον αριθμό αυτό ή ταχυδρομικά στην παρακάτω διεύθυνση.

Turkish

Bu belgenin kendi dilinizde hazırlanmış bir nüshasını edinmek için, lütfen aşağıdaki telefon numarasını arayınız veya adrese başvurunuz.

Punjabi

ਜੇ ਤੁਹਾਨੂੰ ਇਸ ਦਸਤਾਵੇਜ਼ ਦੀ ਕਾਪੀ ਤੁਹਾਡੀ ਆਪਣੀ ਭਾਸ਼ਾ ਵਿਚ ਚਾਹੀਦੀ ਹੈ, ਤਾਂ ਹੇਠ ਲਿਖੇ ਨੰਬਰ 'ਤੇ ਫ਼ੋਨ ਕਰੋ ਜਾਂ ਹੇਠ ਲਿਖੇ ਪਤੇ 'ਤੇ ਰਾਬਤਾ ਕਰੋ:

Hindi

यदि आप इस दस्तावेज की प्रति अपनी भाषा में चाहते हैं, तो कृपया निम्नलिखित नंबर पर फोन करें अथवा नीचे दिये गये पते पर संपर्क करें

Bengali

আপনি যদি আপনার ভাষায় এই দলিলের প্রতিলিপি (কপি) চান, তা হলে নীচের ফোন নম্বরে বা ঠিকানায় অনুগ্রহ করে যোগাযোগ করুন।

Urdu

اگر آپ اس دستاویز کی نقل اپنی زبان میں چاہتے ہیں، تو براہ کرم نیچے دئے گئے نمبر پر فون کریں یا دیئے گئے پتے پر رابطہ کریں

Arabic

إذا أردت نسخة من هذه الوثيقة بلغتك، يرجى الاتصال برقم الهاتف أو مراسلة العنوان أدناه

Gujarati

જો તમને આ દસ્તાવેજની નકલ તમારી ભાષામાં જોઈતી હોય તો, કૃપા કરી આપેલ નંબર ઉપર ફોન કરો અથવા નીચેના સરનામે સંપર્ક સાધો.

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