



Bee Boileau

25 Oct 2022

@TheIFS

Public sector pay and spending



Economic
and Social
Research Council

Decisions on public sector pay



- Departmental budgets **fixed in cash terms** for the next three years last October
 - Predicated on public sector pay awards of ~3%
 - Did not predict double-digit inflation this financial year
- Public sector employees awarded a pay rise of 5% (on average) this July
 - Estimated to increase staffing costs by approx. £5bn this year

Additional costs by department

- More than half the costs of this 5% award would fall on the **NHS and education sectors**

Estimated additional cost arising from a 5% pay award (relative to a 3% baseline)

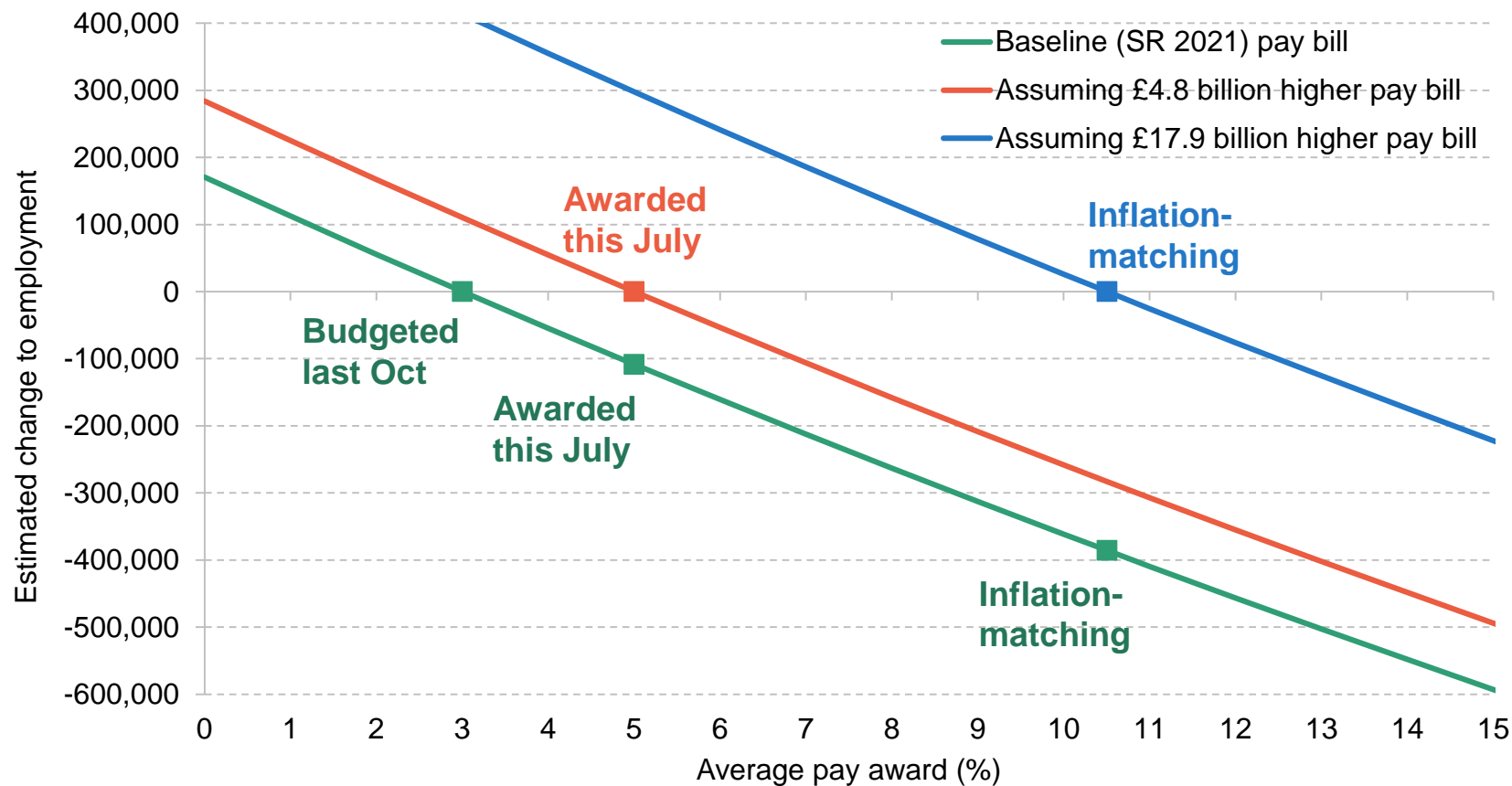
Overall public sector	£4.8 billion
Approximate split:	
NHS	£1.7 billion
Education	£1.1 billion
Public administration	£1.0 billion
Police (incl. civilians)	£0.3 billion
HM Forces	£0.2 billion
Other	£0.5 billion

Decisions on public sector pay

- **Departmental budgets not topped up** to compensate
 - Especially difficult to meet additional costs given rising energy prices and general inflation
 - Real-terms generosity of spending plans down £5 billion this year, £14 billion in 2023–24 and £23 billion in 2024–25
- Even higher-than-budgeted awards may be insufficient to prevent **recruitment and retention concerns** in the public sector
 - Represent a real-terms cut of approx. 5% to public sector pay
 - Below expected private sector settlements this year
- Trade-offs over pay, employment, and spending cuts...

Difficult trade-offs this year...

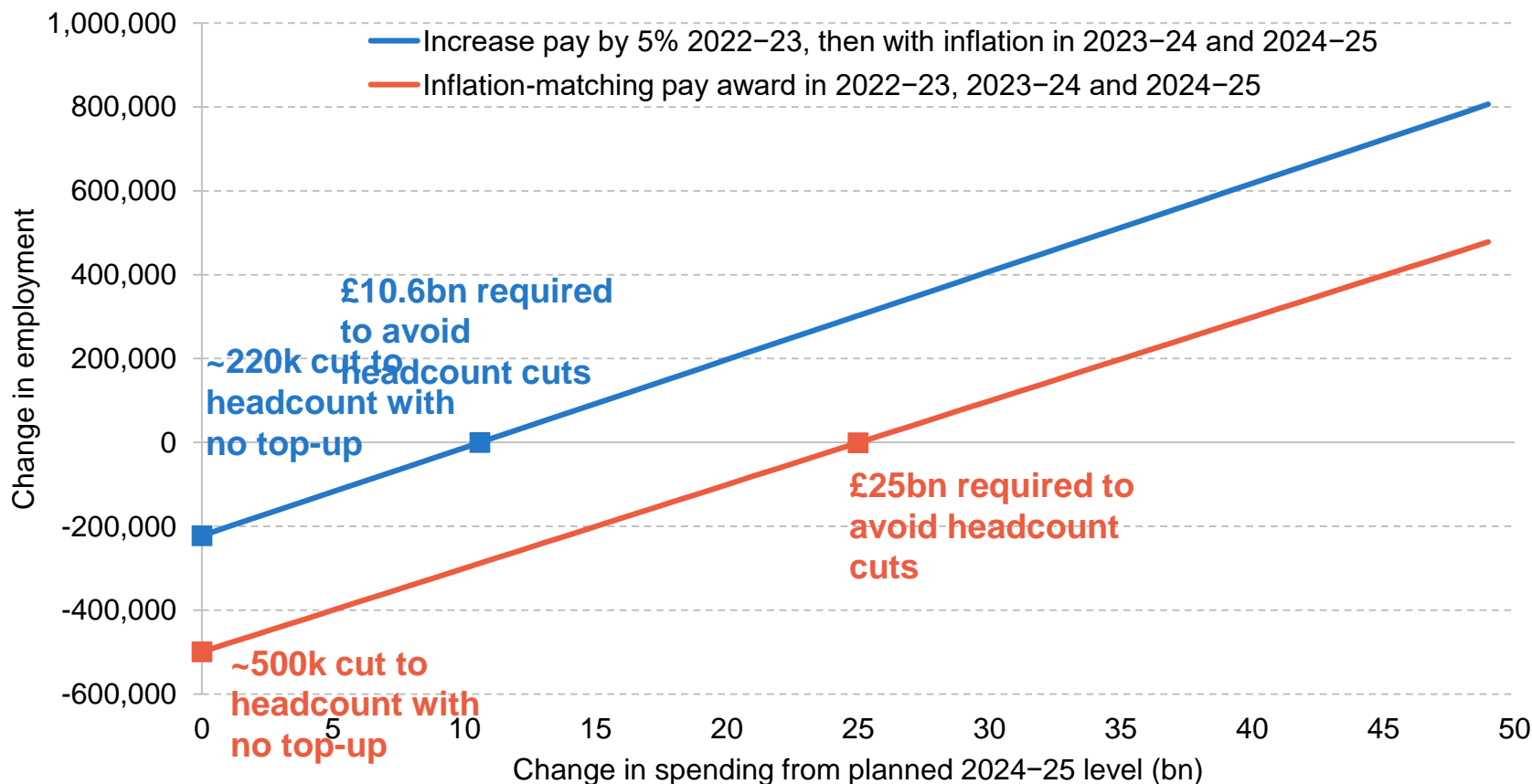
Combinations of pay awards and changes to public sector employment consistent with different illustrative overall paybills for 2022–23



Notes and sources: see Figure 4.1 of Boileau, O'Brien, and Zaranko (2022)

...and for the next three?

Combinations of spending changes and changes to public sector employment in 2024–25 under illustrative paths for public sector pay



Notes and sources: see Figure 1.3 of Boileau, O'Brien, and Zaranko (2022)

The choice this autumn

- **Choice between funding additional pay awards or accepting a deterioration in the quality of public services**
 - Delivering public service objectives already looked challenging last autumn – now virtually impossible
 - Possible that (some) departmental budgets will be reduced

■ Reforming the spending framework

- Public sector pay set annually, while departmental budgets set on a multi-year basis
 - Multi-year plans provide greater stability for planning, but make plans less responsive to changing conditions
- Planning pay deals for 3 years at a time would make public sector pay even more inflexible
- Fixing spending over a single year might stop departments planning effectively
- One possible solution: plan on a three-year basis, but automatically reassess settlements in (pre-defined) exceptional circumstances

Conclusion

- Public sector pay awards need to be higher than assumed a year ago
- This cannot be accommodated within existing spending plans without painful headcount cuts
- Either spending plans must be topped up or it must be accepted that the quality of public services will deteriorate
- Pay awards announced so far will be below inflation, and likely below private sector pay settlements

The Institute for Fiscal Studies
7 Ridgmount Street
London
WC1E 7AE

www.ifs.org.uk

