

By Patrick Brione,
Brigid Francis-Devine

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Public sector pay



Summary

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Summary

About 5.7 million people are employed in the public sector in the UK.

Recent developments

On 27 October 2021, [the Autumn Budget and Spending Review 2021](#) announced that public sector workers would receive “fair and affordable” pay rises across the 2022/23 to 2024/25 Spending Review period. This ended the one-year public sector pay freeze, that had been put in place in the [2020/21 Spending Review](#). This had affected all public sector workers except NHS staff and low paid workers.

Pay awards were predicted to be around 3% this year, but in the context of high inflation the pay awards announced over summer 2022 were around 5% on average.

How public sector pay is determined

The mechanism varies across the public sector:

- Pay awards for about 45% of the public sector – including the **armed forces, the police, teachers, the Senior Civil Service and the NHS** – are decided by Government Ministers and based on the recommendation of eight Pay Review Bodies (PRBs).
- Pay awards for the **Civil Service** are decided by individual departments based on remit guidance issued by the Cabinet Office.
- Pay awards for **local government** workers are agreed in negotiations between employers and trade unions through the National Joint Council for Local Government Services.
- For **devolved public sector bodies**, pay policy is set by the devolved administrations.

Trends in public sector pay

In April 2022, median weekly earnings for full-time employees in the public sector were 12% higher than those in the private sector. The gap had been

narrowing prior to the pandemic, but increased again in 2020, partly because of greater use of furlough in the private sector.

1 Public sector pay policy

According to the Office of National Statistics, around 5.7 million people are employed in the public sector in the UK.¹ The Institute for Fiscal Studies estimates the public sector pay bill represents over 20% of total government spending.²

For around half of the public sector, pay awards are decided each year by Ministers based on the recommendations of eight [Pay Review Bodies](#) ('PRBs'). PRBs are issued remits by Ministers and publish annual reports.

Civil Service pay awards are decided by individual departments based on [remit guidance](#) issued by the Cabinet Office.³ An exception is the Senior Civil Service whose pay awards are based on the recommendations of the Senior Salaries Review Body, one of the eight PRBs.

Local government pay is set by a national framework: the Single Status Agreement. Changes to the agreement are decided by the [National Joint Council for Local Government Services](#) (NJC). Firefighters' pay is set by the [NJC for Local Authority Fire and Rescue Services](#).

Public sector pay policy is announced by the Treasury in Budgets and Spending Reviews. This pay policy is then reflected in the remits that are issued to the PRBs and departments. The NJC is not formally bound by Government pay policy but has tended to follow it in the past.

The Scottish Government, Welsh Government and the Northern Ireland Executive determine pay policy for devolved public sector bodies.⁴

¹ ONS, [Public sector employment, UK: June 2022](#), 13 September 2022

² Institute for Fiscal Studies, Green Budget 2022 - Chapter 4, Public spending, pay and pensions, 8 October 2022

³ See Oliver Davies, [Civil service pay](#), Institute for Government, 17 July 2020

⁴ Scottish Government, [Public sector pay policy 2020-2021](#), February 2020; Wales Government, [Welsh Government pay policy statement 2019](#), November 2019; Northern Ireland Executive, [Public Sector Pay Policy set for 2020/21](#), September 2020

1.1

End to the pay freeze and rising inflation (2022)

On 27 October 2021, the Treasury published [the Autumn Budget and Spending Review 2021](#). The Spending Review 2021 (SR21) sets departmental budgets for the three years from 2022/23 to 2024/25.

The Chancellor announced that public sector workers would receive “fair and affordable” pay rises across the whole Spending Review period.⁵ This means that the one-year public sector pay freeze, that had been put in place in the [2020/21 Spending Review](#), would come to an end:⁶

SR21 announces that public sector workers will see pay rises over the next three years as the recovery in the economy and labour market allows a return to a normal pay setting process. The government will be seeking recommendations from Pay Review Bodies where applicable. To ensure fairness and the sustainability of the public finances, public sector pay growth over the next three years should retain broad parity with the private sector and continue to be affordable.

The size of the pay rise that public sector workers will receive in these three years has not yet been decided. [Section 1.3](#) of this paper describes the mechanisms for implementing changes in public sector pay.

Rachel Reeves, the Shadow Chancellor, welcomed the end to the pay freeze, although she questioned whether public sector workers would see a real-terms pay rise.⁷

1 Pay awards are higher than expected in 2022 to reflect high inflation

Pay awards were predicted to be around 3% this year, but in the context of high inflation the pay awards announced over summer 2022 were around 5% on average.

According to the Institute for Fiscal Studies, this will increase departmental staffing costs by around £5 billion this year, compared with the (approximate) 3% baseline built into existing spending plans.

Offering an inflation-matching pay award of 10.1% to all public sector employees would add almost £18 billion, compared to the 3% baseline.⁸

⁵ HM Treasury, [Autumn Budget and Spending Review 2021 Speech](#), 28 October 2021

⁶ HM Treasury, [Autumn Budget and Spending Review 2021](#), 28 October 2021, p44

⁷ [HC Deb Budget Resolutions](#), 27 October 2021

⁸ Institute for Fiscal Studies, [Green Budget 2022 - Chapter 4, Public spending, pay and pensions](#), 8 October 2022

1.2

Public sector pay freeze (2021/22)

As part of the November 2020 [Spending Review 2020](#) (SR20), the then Chancellor Rishi Sunak announced that public sector pay would be “paused” for 2021/22, with exceptions for NHS staff and low paid workers:

In order to protect jobs and ensure fairness, pay rises in the public sector will be restrained and targeted in 2021-22. Given the unique impact of Covid-19 on the health service, and despite the challenging economic context, the government will continue to provide for pay rises for over 1 million NHS workers. In setting the level for these rises the government will need to take into account the challenging fiscal and economic context. The NHS Pay Review Body and Doctor and Dentist’s Review Body will report as usual next spring, and the government will take their recommendations into account. The government will also prioritise the lowest paid, with 2.1 million public sector workers earning less than £24,000 receiving a minimum £250 increase.

For the rest of the public sector the government will pause pay rises in 2021-22.⁹

Then Chancellor Rishi Sunak explained that a public sector pay rise could not be justified at a time when private sector pay was falling:

Coronavirus has deepened the disparity between public and private sector wages. In the six months to September, private sector wages fell by nearly 1% compared with last year. Over the same period, public sector wages rose by nearly 4%. Unlike workers in the private sector, who have lost jobs, been furloughed, and seen wages cut and hours reduced, the public sector has not. In such a difficult context for the private sector, especially for those people working in sectors such as retail, hospitality and leisure, I cannot justify a significant across-the-board pay increase for all public sector workers.¹⁰

Public sector workers earning below £24,000 also saw a pay rise of at least £250. However, the Resolution Foundation noted that once inflation was taken into account, this was still a pay cut in real terms for many workers.¹¹

On 21 January 2021, the Treasury published [evidence to the PRBs](#) setting out in more detail the economic context and Government’s rationale for implementing the pause on public sector pay.¹²

Reaction to the pay freeze

Trade unions were critical of the decision to impose a pay freeze. The **Trades Union Congress** (TUC) said that the freeze would “drain further demand from

⁹ HM Treasury, [Spending Review 2020](#), CP 330, 25 November 2020, paras. 1.31-1.32

¹⁰ [HC Deb 25 November 2020 c828](#)

¹¹ Torsten Bell et al., [Here today, gone tomorrow: Putting Spending Review 2020 into context](#), Resolution Foundation, 26 November 2020, p12

¹² HM Treasury, [HMT Economic Evidence to Review Bodies 2020](#), 21 January 2021

the economy”, and that instead “the answer is to raise wages across the board to increase spending power in the economy”.¹³

The **Institute for Fiscal Studies** noted that while public sector workers have fared better during the pandemic, the pay freeze is set against a backdrop of real term cuts to public sector pay over the last decade.¹⁴

The **Resolution Foundation** similarly reported that the earnings gap between the public and private sector had significantly narrowed, and noted that the Institute for Fiscal Studies have estimated that it fell to zero in 2019-20. The Resolution Foundation also found that women, and workers in Wales, Scotland, Northern Ireland and the north of England, were more likely to be affected by a pay freeze.¹⁵

The **Treasury** noted that the government had determined that a temporary pause in public sector pay growth was needed until the full impact of the pandemic on the wider economy is clearer.¹⁶

Impact of the pay freeze

During the freeze, average (mean) weekly earnings for the public sector stayed at around the same level – before this they had been mostly growing. Public sector pay (not adjusted for inflation) increased by 4.9% in the three months to April 2021 (before the pay freeze) and by the three months to April 2022 growth had slowed to 1.5%.

1.3

Previous pay policy (2010-2020)

In the aftermath of the financial crisis in 2007-08, significant constraints were placed on public sector pay. In 2010, the Coalition Government announced a two-year public sector pay freeze. This was followed by a 1% average pay cap on public sector pay awards. This cap was lifted in 2017 and from 2018 to 2020 most parts of the public sector received pay awards above 2%. However, a decade of constraints led to a significant narrowing of the gap between public and private sector pay.

Public Sector Pay Freeze (2011-2013)

In [Budget 2010](#), the Coalition Government announced a new two-year public sector pay freeze:

¹³ Geoff Tily, [A spending review to level down Britain](#), TUC, 25 November 2020

¹⁴ Paul Johnson et al., [Initial reaction from IFS researchers on Spending Review 2020 and OBR forecasts](#), IFS, 25 November 2020

¹⁵ Resolution Foundation, [Here today, gone tomorrow: Putting Spending Review 2020 into context](#), 26 November 2020, p12

¹⁶ HM Treasury, [HMT Economic Evidence to Review Bodies 2020](#), 21 January 2021

The Government announces a two-year pay freeze for public sector workforces, except for workers earning less than £21,000 a year who will receive an increase of at least £250 per year in these years. This will save £3.3 billion a year by 2014-15.¹⁷

George Osborne, then Chancellor, explained the rationale for a pay freeze in the House of Commons:

A further way that we can ease the pressure on public services is to agree that we need to restrain public sector pay in these difficult times, and we need to do something about the spiralling costs of public sector pensions. Many millions of people in the private sector have in the past couple of years seen their pay frozen, their hours reduced and their pension benefits restricted. They have accepted that, because they knew that the alternative in many cases was further job losses. The public sector was insulated from those pressures but now faces a similar trade-off. I know that there are many dedicated public sector workers who work very hard and did not cause this recession, but they must share the burden as we pay to clean it up. The truth is that the country was living beyond its means when the recession came, and if we do not tackle pay and pensions, more jobs will be lost.¹⁸

Workers earning below £21,000 were guaranteed a pay rise of at least £250 each year. The Government doubled the operational allowance for the armed forces in recognition of the continuing conflict in Afghanistan.

1% pay cap (2013-2017)

In [Autumn Statement 2011](#), the Coalition Government announced that once the pay freeze ended in 2013, it would be replaced by a 1% cap on average public sector pay awards for two years.¹⁹

As with pay freezes, the 1% cap was set out in the remit letters to the eight PRBs. For example, the letter to the School Teachers' Review Body for 2013/14 said:

As I signalled in my remit letter in February 2012 I would now like to request your recommendations on how to apply the 2013 pay award. You will be aware that public sector workers have been subject to a two year pay freeze, which for teachers began in September 2011. As first announced by the Chancellor of the Exchequer in his Autumn Statement in November 2011, the Government's policy is for public sector pay awards to average 1% in each of the two years following the pay freeze. I would therefore like your recommendations on how the average 1% pay uplift should be applied in 2013. I will ask for recommendations on how the 2014 pay award should be applied in a later remit.²⁰

¹⁷ HM Treasury, [Budget 2010](#), HC 61, June 2010, para. 1.42

¹⁸ [HC Deb 22 June 2010 c171](#)

¹⁹ HM Treasury, [Autumn Statement 2011](#), Cm 8231, November 2011, p23

²⁰ Department for Education, [STRB Remit: Matters for Report](#), 17 January 2013 (archived 20 March 2013)

The 1% cap applied as an average across workforces rather than on an individual basis. As such, pay awards could be distributed differently as long as the average increase in the pay bill was limited to 1%.

In many parts of the public sector, especially the Civil Service, individual awards were informed by contractual (i.e. automatic) pay progression. Any pay progression had to be included when calculating the 1% cap.²¹ The Government has sought to phased out automatic pay progression from the public sector.²²

In [Summer Budget 2015](#), the Cameron Government announced that the 1% pay cap would remain in place for a further four years:

the government will ... fund public sector workforces for a pay award of 1% for 4 years from 2016-17 onwards. This will save approximately £5 billion by 2019-20. The government expects pay awards to be applied in a targeted manner within workforces to support the delivery of public services.²³

This was restated in [Spending Review and Autumn Statement 2015](#):

As announced at Summer Budget, to help protect jobs and the quality of public services the Spending Review funds public sector workforces for an average pay award of 1% for 4 years from 2016-17. This will protect approximately 200,000 public sector jobs.²⁴

There was some flexibility under the 1% pay cap policy. For example, in 2016/17, in the context of prison reforms, the Government agreed an exceptional average 1.36% rise for prison officers.²⁵

Lifting the 1% pay cap (2018-2020)

In a Written Statement in September 2017, Liz Truss, then Chief Secretary to the Treasury, indicated that the Government would be relaxing the 1% public sector pay cap:

The Government will continue to ensure that the overall package for public sector workers is fair to them and ensures that we can deliver world class public services, while also being affordable within the public finances and fair to taxpayers as a whole.

The last Spending Review budgeted for one per cent average basic pay awards, in addition to progression pay for specific workforces, and there will still be a need for pay discipline over the coming years, to ensure the affordability of the public services and the sustainability of public sector employment.

However, the Government recognises that in some parts of the public sector, particularly in areas of skill shortage, more flexibility may be required to deliver

²¹ See e.g. HM Treasury, [Civil Service Pay Guidance 2013/14](#), March 2013, para. 1.12.3

²² See e.g. HM Treasury, [Summer Budget 2015](#), HC 1093, March 2015, para. 2.16

²³ HM Treasury, [Summer Budget 2015](#), HC 264, July 2015, para. 1.87

²⁴ HM Treasury, [Spending Review and Autumn Statement 2015](#), Cm 9162, November 2015, para. 1.295

²⁵ HM Treasury, [Pay awards for over a million public sector workers](#), 8 March 2016

world class public services including in return for improvements to public sector productivity.²⁶

In [Autumn Budget 2017](#), the Government made it clear that the 1% pay policy had been lifted:

In September 2017 the government announced its intention to move away from the 1% basic public sector pay award policy, which is paid to public servants in addition to any incremental pay progression and allowances. The government will ensure that the overall pay award is fair to public sector workers, as well as to taxpayers, and reflects the vital contribution they make to delivering high quality public services. In 2018-19, for those workforces covered by an independent Pay Review Body (PRB), the relevant Secretary of State will shortly write to the PRB Chair to initiate the 2018-19 pay round, before later submitting detailed evidence outlining recruitment and retention data and reflecting the different characteristics and circumstances of their workforce. Each PRB will then make its recommendations in the spring or summer, based on the submitted evidence. Secretaries of State will make final decisions on pay awards, taking into account their affordability, once the independent PRBs report.²⁷

This position was reflected in the Civil Service pay guidance and in the remit letters that were sent to the eight PRBs.

In each of 2018, 2019 and 2020, the average pay awards for each of the bodies covered by the eight PRBs were 2% or higher.²⁸

Impact of pay policies from 2010 to 2020

In 2019, the Institute for Fiscal Studies published a report assessing the impact of public sector pay constraints from 2010 onwards. The report highlighted how public sector pay constraints over the last decade have significantly narrowed the gap between public and private sector pay.²⁹

In a 2020 report the TUC criticised past public sector pay policy as a “decade of lost pay”. It noted that the pay rises from 2018 onwards did not capture many parts of the public sector. This included those not covered by the PRBs such as social care workers and local government workers, as well as many NHS staff who are on a three-year pay deal under the Agenda for Change. The report estimated that public sector workers made up 52% of key workers

²⁶ [Public services: Written statement - HCWS127](#)

²⁷ HM Treasury, [Autumn Budget 2017](#), HC 587, 22 November 2017, para. 6.27; HM Treasury, [Public sector pay: Autumn Budget 2017 brief](#), 22 November 2017

²⁸ HM Treasury, [Around one million public sector workers to get pay rise](#), 24 July 2018; HM Treasury, [Almost a million public sector workers handed a second year of inflation-busting pay rises](#), 22 July 2019; [HM Treasury. Pay rises for doctors, police and more in the public sector](#), 21 July 2020.

²⁹ Jonathan Cribb, Alex Davenport and Ben Zaranko, [Public sector pay and employment: where are we now?](#), Institute for Fiscal Studies, 19 November 2020

during the COVID-19 pandemic and called for fair pay rises for all public sector employees.³⁰

A more detailed overview of trends in public sector pay can be found in Section 2 (below).

1.4 History of public sector pay policy

The table on the next page provides an overview of the public sector pay policies that were adopted by governments from 1979 onwards.

³⁰ TUC, [Key workers: Decent pay and secure work for key workers through coronavirus and beyond](#), 14 September 2020

History of public sector pay policy from 1979~2021

Conservative governments

2022	No explicit pay policy
2021	One-year pay freeze, excluding NHS staff and workers earning below £24,000
2018-2020	No explicit pay policy
2015-2017	Pay awards limited to an average of 1% per year

Coalition Government

2013-2015	Pay awards limited to an average of 1% per year
2010-2012	Two-year pay freeze, excluding workers earning below £21,000

Labour governments

2009	Pay settlements of up to 1%, excluding staff on 3-year pay agreements. No pay rise for senior staff. No limit for the Armed Forces.
1998-2008	No explicit pay policy
1997	“Public sector pay settlements need to be fair, affordable [...] and responsible in terms of a general approach to pay throughout the economy” [HC Deb 11 June 1998 c703]

Conservative governments

1996	Chancellor announces continuation of previous pay policy
1993-1996	Public sector pay increases intended to be self-financing through productivity or efficiency gains
1992-1993	1.5% pay cap
1986-1992	No cap
1984-1985	3% cap for central government
1983-1984	3.5% cap for central government
1982-1983	4% cap
1980-1982	6% cap for central government
Nov. 1980	6% cap for local government
Jan. 1980	14% cap for public services
1979-1980	No cap

2

How changes to public sector pay are implemented

The mechanisms for public sector pay policy are complex.

Strictly speaking, UK Government pay policy is only directly binding on the Civil Service and public sector bodies that are covered by the PRBs.

By contrast, the pay awards for 2.0 million local government workers are agreed in negotiations between the Local Government Association (LGA) and trade unions through the National Joint Council. However, if a public sector pay freeze is accompanied by cuts to local government funding, this can lead to pay freezes in local government. In fact, from 2011/12 local government workers were subject to a three-year pay freeze, compared to two years in the rest of the public sector.³¹

Pay Review Bodies

There are currently eight PRBs that cover approximately 45% of the public sector. The eight PRBs are:

- Armed Forces' Pay Review Body
- Review Body on Doctors' and Dentists' Remuneration
- NHS Pay Review Body
- Prison Service Pay Review Body
- School Teachers' Review Body
- Senior Salaries Review Body
- Police Remuneration Review Body
- National Crime Agency Remuneration Review Body

The PRBs are supported by a secretariat – the [Office of Manpower Economics](#) ('OME') – a non-departmental body sponsored by the Department for Business, Energy and Industrial Strategy (BEIS).

As noted above, the PRBs are issued remits by Ministers and asked for recommendations on pay awards. The PRBs commission research and receive

³¹ "[Council workers face third year of pay freezes](#)", BBC [online], 23 February 2012 (accessed 26 November 2020)

evidence and make their recommendations in annual reports. The final decision on pay awards is made by the relevant Ministers.

The timetable for this process can vary. In recent years, remit letters have been sent to PRBs around November and pay awards have been announced in July and implemented in September. For some parts of the public sector, including the armed forces, prisons officers and NHS staff, pay awards are supposed to come into effect in April. In such cases, pay has had to be backdated.³²

When a pay freeze is in place, the remit letters sent to the PRBs will reflect this. For example, the letter to the School Teachers' Review Body for 2011/12 said:

I am setting this new remit in a considerably different economic context. As you will know the emergency Budget imposed a two-year public sector pay freeze, apart from those earning £21,000 or less. The Chief Secretary to the Treasury (CST)'s 26 July letter to Review Body Chairs set out further details, including that there should be a minimum uplift of £250 for those earning below this threshold. I am now seeking your recommendations on this matter, which will affect a proportion of unqualified teachers.³³

All of the remit letters for 2022/23 have been sent: [NHSPRB](#), [Review Body on Doctors' and Dentists' Remuneration](#), [Senior Salaries Review Body](#), [Police Remuneration Review Body](#), [Armed Forces Pay Review Body](#), [Prison Service Pay Review Body](#), [School Teachers' Review Body](#), [National Crime Agency Review Body](#).

All the reports of the PRBs for 2022/23 have also been published as of 27 October 2022, with the exception of the National Crime Agency Review Body: [NHSPRB](#), [Review Body on Doctors' and Dentists' Remuneration](#), [Senior Salaries Review Body](#), [Police Remuneration Review Body](#), [Armed Forces Pay Review Body](#), [Prison Service Pay Review Body](#), [School Teachers' Review Body](#).

Civil Service

Civil Service pay awards are decided by individual departments based on remit guidance issued by the Cabinet Office. For example, the guidance for 2022/23 says average awards should be up to 2%, with some flexibility of awards up to 3% for targeting specific priorities.³⁴ Ultimately awards for 2022/23 were higher than this due to rising inflation (see box 1 above under part 1.1 of this briefing paper).

As with the PRBs, if there is a public sector pay freeze this is reflected in the remit guidance. For example, the guidance for 2021/22 stated:

³² See e.g. [Armed Forces Pay: Written Statement – HCWS410](#), 21 July 2020

³³ Department for Education, [STRB Remit: Matters for report](#), 27 October 2020 (archived 5 May 2011)

³⁴ Cabinet Office, [Civil Service pay remit guidance 2022/23](#), 31 March 2022

In November 2020, the Chancellor announced as part of the Spending Review 2020 that there will be a temporary pause on pay rises for most public sector workforces in 2021/22, including the Civil Service.

The exception to this policy are organisations in legally binding pay deals (including those in multi-year deals).

To protect the lower paid staff those on full time equivalent base pay of under £24,000pa, excluding overtime and allowances will receive a consolidated increase of £250. For those who will be receiving an increase to the new National Living Wage rate of £8.91 an hour, they will receive the National Living Wage increase or £250, whichever is greater.³⁵

Civil Service [pay remit guidance for 2022/23](#) was issued on 31 March 2022.

Local Government

As noted above, local government is not directly bound by public sector pay policy. Instead, pay for local government workers is negotiated through the NJC. However, local government pay policy is impacted by the settlement funding that it receives from central government.³⁶

In response to Spending Review 2020, the Local Government Association noted that it was not bound by the pay freeze. However, it also said that exemptions for workers earning below £24,000 would not apply, meaning pay rises would need to come from local government funds:

The Government has no formal role in the decisions around annual local government pay increases which are developed through negotiations with the trade unions.

Calculations around the affordability of pay increases take full account of the financial settlement given overall to local government but this is not the only factor involved. Thus, the Government cannot automatically impose a pay freeze in local government unless it uses a legislative route to do so.

This means also that the announcement of an increase of £250 for employees earning less than the national median wage of £24,000 per annum does not apply automatically for local government staff (30 per cent of whom earn below this salary), as was made clear after a similar announcement by the then Chancellor in 2010/11.

If applied in local government, an increase of £250 to each employee earning £24 thousand or less would cost in the region of £100 million.³⁷

³⁵ HM Treasury, [Civil Service Pay Remit Guidance 2021/22](#), 25 March 2021, section 2.1

³⁶ See [Local government funding](#), Commons Library Briefing Paper CBP-8431, 23 March 2021

³⁷ LGA, [Local Government Association 2020 Spending Review: On the Day Briefing](#), 25 November 2020, p8

3

Trends in public sector pay

Summary

Average pay is higher in the public sector than in the private sector. Although the gap between the public and private sector was narrowing before the pandemic, 2020 saw an increased gap due to factors such as a greater use of furlough in the private sector.

Workers in the public and private sectors have different characteristics. When we take these differences into account, the pay gap reduces significantly.

3.1

Average pay in the public sector

In April 2022, median weekly earnings for full-time employees were £695 in the public sector compared to £620 in the private sector – making earnings 12% higher in the public sector.^{38 39}

The chart below shows the trend in median pay in both sectors since 1997, adjusted for inflation. The median is the point at which half of people earn more and half earn less.

Real earnings decreased in both the public and private sector in 2022 because of high inflation. The gap between public and private sector pay decreased from 15% in 2020 to 12% in 2022, due at least partly to the public sector pay freeze.

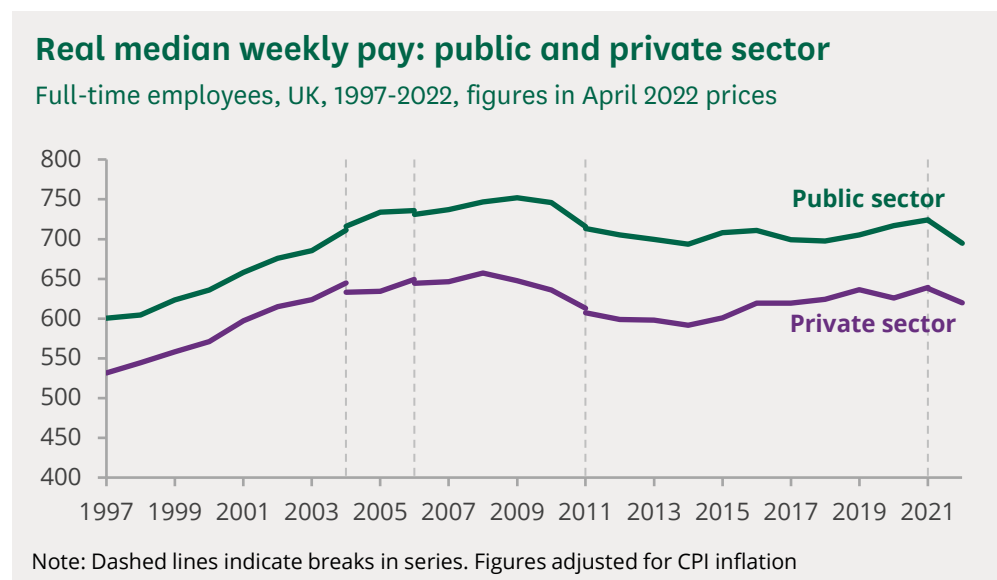
Earnings figures for 2020 and 2021 were affected by the pandemic, and 2020 saw the gap between pay in the public sector and the private sector increase. Many people were furloughed or worked fewer paid hours, especially in 2020, and pay was also affected by a fall in the number and proportion of lower-paid jobs. Industries that operate predominately in the private sector, such as

³⁸ All the figures in this section refer to employees only. The primary sources of earnings statistics do not include self-employed workers.

³⁹ Office for National Statistics, Annual Survey of Hours and Earnings, 2021 – see ONS, [Employee earnings in the UK: 2021](#) and linked associated releases and data. Figures for trends in public and private sector pay can be found in Table 9 of the [Annual Survey of Hours and Earnings time series of selected estimates](#).

construction, hospitality and retail, saw pay being more affected, as they have a higher proportion of furloughed workers.⁴⁰

Between 2016 and the pandemic, private sector pay growth was outstripping that in the public sector, and the gap between public sector and private sector pay was decreasing, at least partly because of pay caps in the public sector



Source: ONS [Annual Survey of Hours and Earnings time series of selected estimates](#) – Table 9

Note that changes between years arise both from changes to individuals' pay packets, and from changes to the composition of the public and private sector workforces.

3.2 Why are average earnings different in the public and private sector?

Comparing public and private sector pay is complicated because of structural differences between the sectors, and if we control for differences in workforce characteristics, then the gap in average earnings narrows considerably.

Age: Young workers tend to be paid less than older workers, and jobs in the private sector are skewed towards younger age groups.⁴¹

Skills/occupation: The public sector employs a higher proportion of upper-skilled employees than the private sector. Many of the lowest paid occupations (for example, elementary sales occupations, bar and restaurant staff, hairdressers) are largely found in the private sector. However, high

⁴⁰ Office for National Statistics, [Employee earnings in the UK: 2021](#), 26 October 2021

⁴¹ ONS, [Public and private sector earnings: 2019](#), 23 September 2020

earners in the private sector tend to be paid more than high earners in the public sector.⁴²

Working patterns: Full-time employees tend to earn more per hour than part-time employees, and slightly more private sector employees work full-time than public sector employees.⁴³

Location: Most public sector pay scales are set nationally, while private sector pay varies substantially by region and nation within the UK. This means public sector pay is lower relative to private sector pay in London and the South East than in other parts of the UK.⁴⁴

Pensions: Earnings data alone does not take into account more generous workplace pensions available to public sector employees. The IFS notes that public sector workers are much more likely than private sector workers to be enrolled in a pension, although automatic enrolment has narrowed this gap considerably. Public sector workers are also likely to receive more generous pensions.⁴⁵

Other factors: The ONS notes that factors like job tenure, sex, organisation size and proportion of permanent staff also have an impact on the average earnings of the public and private sector.⁴⁶

Once these factors are taken into account, and we control for differences in workforce characteristics, then the gap in average earnings narrows significantly. Analysis by the ONS finds that after controlling for age, sex, region, occupation, pension and job tenure, the difference in public and private sector pay, including employer pension contributions, went from 12% to 7% in 2019.⁴⁷

Analysis by the Institute for Fiscal Studies (IFS) compared public and private sector pay using the Labour Force Survey. Like ONS, the IFS found the gap in average earnings between the public and private sector was smaller after controlling for workers' age, sex, region, education and experience; in 2018 they found a gap of 1% in hourly pay, compared to a 10% gap before differences in workforce characteristics were taken into account. This was the smallest gap in public and private sector pay since the early 2000s.⁴⁸

⁴² ONS, [Public and private sector earnings: 2019](#), 23 September 2020

⁴³ ONS, [Public and private sector earnings: 2019](#), 23 September 2020

⁴⁴ Jonathan Cribb, Alex Davenport and Ben Zaranko, [Public sector pay and employment: where are we now?](#), Institute for Fiscal Studies, 19 November 2019

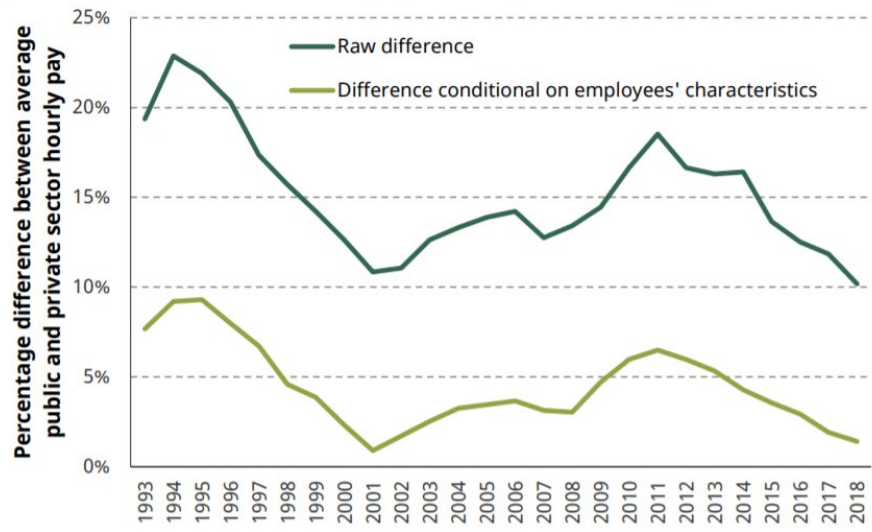
⁴⁵ Jonathan Cribb, Alex Davenport and Ben Zaranko, [Public sector pay and employment: where are we now?](#), Institute for Fiscal Studies, 19 November 2019

⁴⁶ ONS, [Public and private sector earnings: 2019](#), 23 September 2020

⁴⁷ ONS, [Public and private sector earnings: 2019](#), 23 September 2020

⁴⁸ Institute for Fiscal Studies, [Public sector pay and employment: where are we now?](#), 19 November 2019

Figure 1.9. Difference between average public and private sector pay



Source: IFS, [Public sector pay and employment: where are we now?](#), November 2019, p13

4 Related developments

4.1 Public sector exit payment cap

For more detail see the Library Briefing [Public Sector Exit Payment Cap \(CBP-9020\)](#).

On 14 October 2020, the Government made the [Restriction of Public Sector Exit Payment Regulations 2020](#). The Regulations came into force on 4 November 2020, but were revoked in February 2021.

The Regulations prevented relevant authorities from making exit payments in excess of a £95,000 cap.

- “Relevant authorities” were defined as public sector bodies listed in the legislation, which captured the majority of the public sector.
- “Exit payments” were payments made to employees on termination or to office holders leaving office. The cap could be waived in some circumstances, including in settlement agreements for discrimination or whistleblowing claims.

On 12 February 2021, the Treasury announced that the Regulations would be revoked. It said that a review had shown that the exit payment cap has led to “unintended consequences”.⁴⁹ The [Restriction of Public Sector Exit Payments \(Revocation\) Regulations 2021](#) were made on 25 February 2021 and came into effect on 19 March 2021. These required authorities to make payments to any employee who was affected by the cap to cover the balance of what their exit payment would have been had the cap not been in place.

4.2 Gender pay reporting

Read more about gender pay gap reporting in the Library Briefing, [The gender pay gap \(SN07068\)](#).

From 2017/18, public and private sector employers with 250 or more employees have been required to publish data on the gender pay gap within their organisations each year.

Due to the impact of COVID-19, employers were given an extra six months (to October 2021) to report their gender pay gap information for 2020/21. Depending on the type of organisation, reports are based on a snapshot date

⁴⁹ HM Treasury, [Restriction of Public Sector Exit Payments: Guidance on the 2020 Regulations](#), 12 February 2021

of 31 March 2020 or 5 April 2020. Employers normally have to submit this within a year of their snapshot date.⁵⁰

In addition, in light of COVID-19, the Equality and Human Rights Commission – the body charged with enforcing the reporting obligation – said it would not take enforcement action against employers in 2019/20. It has been estimated that only around half of in-scope employers reported in 2019/20.⁵¹

In April 2022, the gender pay gap for full-time employees was 11% in the public sector and 14% in the private sector.⁵²

4.3 Proposals for ethnicity pay gap reporting

In late 2018 the Government also consulted on introducing mandatory ethnicity pay gap reporting.⁵³ The consultation closed in early 2019 but, to date, the Government has not published a response.⁵⁴

The Lords Library In Focus article [Mandatory ethnicity pay gap reporting](#) looks at the ethnicity pay gap in the UK and current reporting obligations.

4.4 National Minimum Wage

For further information see the Library Briefing, [National Minimum Wage: Rates and enforcement \(SN06898\)](#).

All workers are entitled to be paid the National Minimum Wage (NMW). The right is set out in the [National Minimum Wage Act 1998](#) and the [National Minimum Wage Regulations 2015](#).

There are [five rates of NMW](#). The top rate, for those aged 23 and over, is called the National Living Wage. It is currently set at £9.50 per hour.⁵⁵

The NMW is updated in April each year through secondary legislation. The Government makes updating decisions based on recommendations from the [Low Pay Commission](#) (LPC), a non-departmental public body set up by the 1998 Act to advise the Government on relevant issues.

⁵⁰ Government Equalities Office, [Gender pay gap reporting: changes to enforcement](#), 23 February 2021

⁵¹ Business in the Community, [Half of businesses choose not to report 2019-2020 gender pay gap](#), 29 May 2020

⁵² Office of National Statistics, [Annual Survey of Hours and Earnings time series of selected estimates](#) – Table 9, published 26 October 2022. Figures are based on hourly earnings excluding overtime.

⁵³ BEIS, Ethnicity pay reporting,

⁵⁴ See response to [PQ107059 \[on Equal Pay: Ethnic Groups\]](#), 21 October 2020

⁵⁵ Reg. 4, National Minimum Wage Regulations 2015

In 2015, the Government's remit to the LPC stated its aim was to ensure that the rate of the NLW reached 60% of the median wage by 2020.⁵⁶ This was achieved in April 2020.⁵⁷

In 2020, the Government's remit to the LPC stated its new aim is to ensure that the rate of NLW is two-thirds of the median wage by 2024. In addition, the Government said its intention is to reduce the age limit for the NLW to 21 by 2024.⁵⁸

The LPC estimated that in April 2021, only 1% of workers aged 23 and over in the public sector were paid the NLW/NMW compared to 7% in the private sector.⁵⁹

⁵⁶ BEIS, [National Minimum Wage: Low Pay Commission Remit 2016](#), July 2015

⁵⁷ LPC, [Low Pay Commission Report 2019](#), CP 206, January 2020, para. 31

⁵⁸ BEIS, [National Living Wage and National Minimum Wage: Low Pay Commission Remit 2020](#), March 2020

⁵⁹ [Low Pay Commission estimates](#) using ASHE April 2015-2019, low pay weights, UK

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