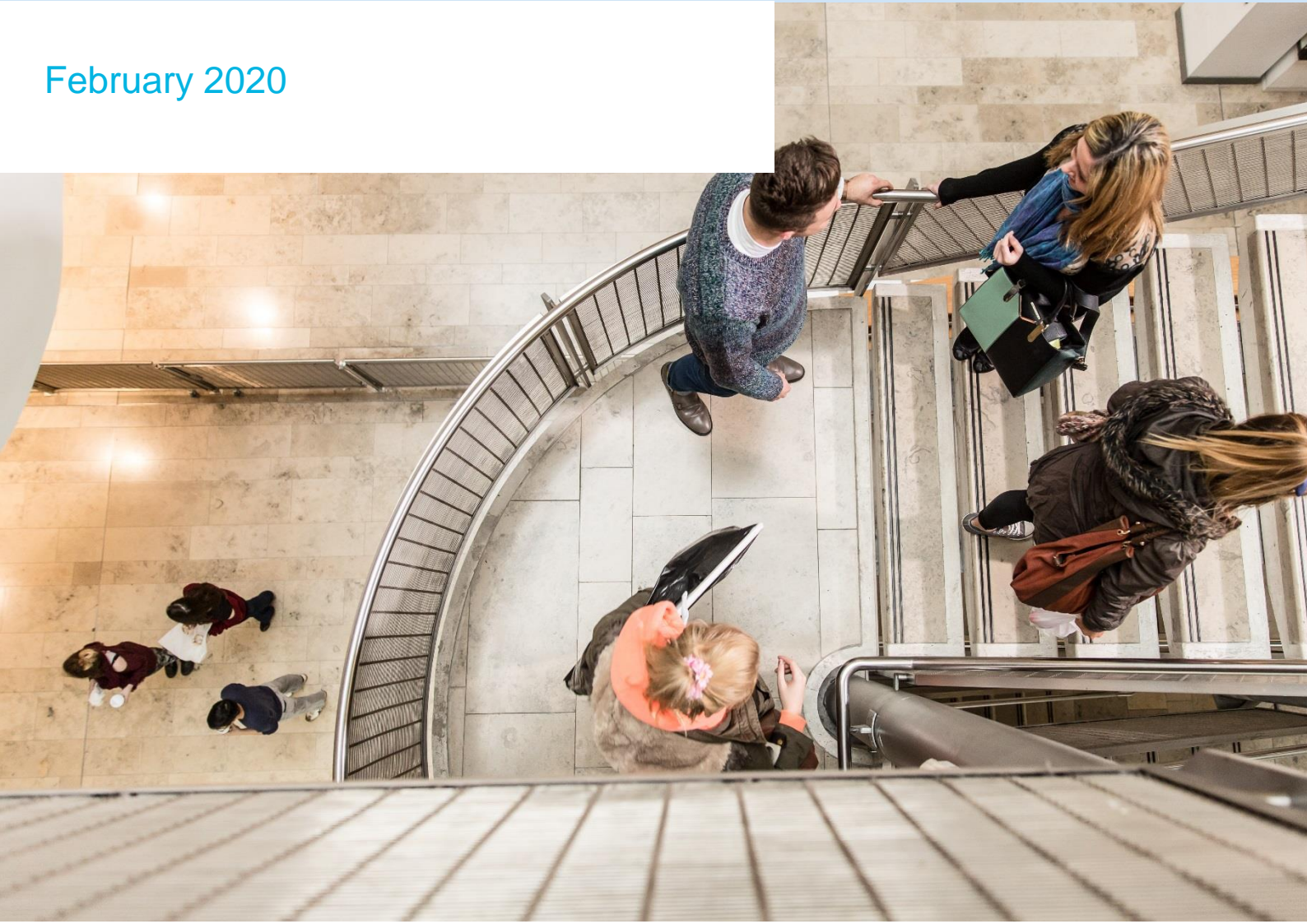


Public and private sector earnings

Briefing Paper

February 2020



Public and private sector earnings

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Public and private sector earnings

1. Introduction and context

Background

Ulster University Economic Policy Centre (UUEPC) was commissioned in November 2019 by the Department of Finance (DoF) to analyse recent trends in public and private sector wages in Northern Ireland.

The issue of public sector pay is contentious and headline comparisons with the private sector often stimulate significant debate. Furthermore, data can be presented differently to support a particular argument. By way of example, the narrative around the difference between public and private sector pay growth and the differences in headline rates are heavily influenced by the following factors:

- The time period of analysis;
- Hourly vs weekly pay;
- Occupational mix;
- Qualifications profile; and
- Use of mean vs median pay – median pay is the generally accepted measure used by the statistical authorities collating pay data. Mean tends not to be used to summarise earnings, as it can be disproportionately impacted by a very small number of very high earners. This research focuses primarily on median pay analysis¹.

As a consequence, the aim of this paper is to provide independent analysis to inform engagement between stakeholders on the issue of public sector pay.

Public sector pay policy context

Public sector pay totals £6.3bn p.a. in Northern Ireland (NI) which accounts for 57% of the overall resource budget. Public sector pay policy was devolved to the Executive in 2007, but sits within broader parameters set by the UK Government (UKG). The Finance Minister has lead responsibility within the Executive.

The UKG typically sets out its overarching approach to public sector pay, including pay growth limits, in the UK Budget each year. The Finance Minister then determines how pay policy is to be applied locally and DoF officials issue guidance to the wider public sector.

The current period of pay restraint began in 2010 when the then Chancellor of the Exchequer announced a two year pay freeze for public sector workers as part of his Emergency Budget following the financial crisis. In the years that followed, a 1% pay cap was then applied until 2018/19 when this was removed. However, while the 1% pay cap was removed in 2018/19, the UKG indicated that awards above this would need to be funded from existing budgets and by efficiency savings.

These restrictions on pay awards were replicated in the local pay policy put in place. However, the extent to which pay awards are constrained in practice by pay policy depends on individual pay determination processes in place for individual staff groups, of which there are around

¹ However as identified by NERI, this may also be imperfect. If low paid jobs are lost or outsourced from the public sector, this could have the impact of increasing the median wage even if individual workers receive no increase in their pay. MacFlynn, P. (2017) Public sector pay in Northern Ireland NERI Research inBrief

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120 in the public sector in NI. Some of these are determined locally (e.g. NICS), and others with links to national pay agreements (e.g. support and administrative staff in the education sector who follow the National Joint Council) or other legal entitlements; and/or where decisions on pay awards are informed by the recommendations of Pay Review Bodies.

There are two main elements to any pay increase for public servants:

- i. revalorisation (cost of living increase); and
- ii. pay progression (a step up a defined pay scale).

The significant majority of public sector staff have a legal entitlement to performance based progression pay. However, not all staff have a legal entitlement to revalorisation, or the scale of that increase. Therefore, when limits on pay increases have been imposed as part of the pay policy, this has generally applied to the revalorisation element of the award, with contractual progression increases also paid.

Current Public Sector Pay Policy 2019/20

In the absence of an Executive, the DoF Permanent Secretary determined NI's Public Sector Pay Policy for 2019/20 on 31 October 2019. In line with the overarching policy set by the Treasury, this confirmed that the flexible approach to public sector pay policy would continue to apply in 2019/20, including the move away from the public sector pay cap of 1%, which was lifted in 2018/19.

Labour market overview

The UK labour market has created on average 529k jobs per annum since 2012, and the employment rate (76%) is at its highest level and unemployment (3.8%) is near its lowest rate since the Labour Force Survey (LFS) records started in 1992. In NI, the headline indicators are also very positive, with an employment rate of 72.6% and unemployment of 2.3%. Whilst the employment rate is marginally lower than the UK average, it is also at its highest level since LFS records began in 1992 and suggests that the labour market is also approaching capacity.

As employment levels increase and the supply of available labour falls, it should in theory place upward pressure on wage growth and this appears to be emerging in national trends.

Trends in the public sector workforce

In NI there are currently 211k jobs provided by the public sector and although overall, public sector employment has fallen from a peak of 228k in Q2 2009, it has increased from a low of 203k in Q3 2016.

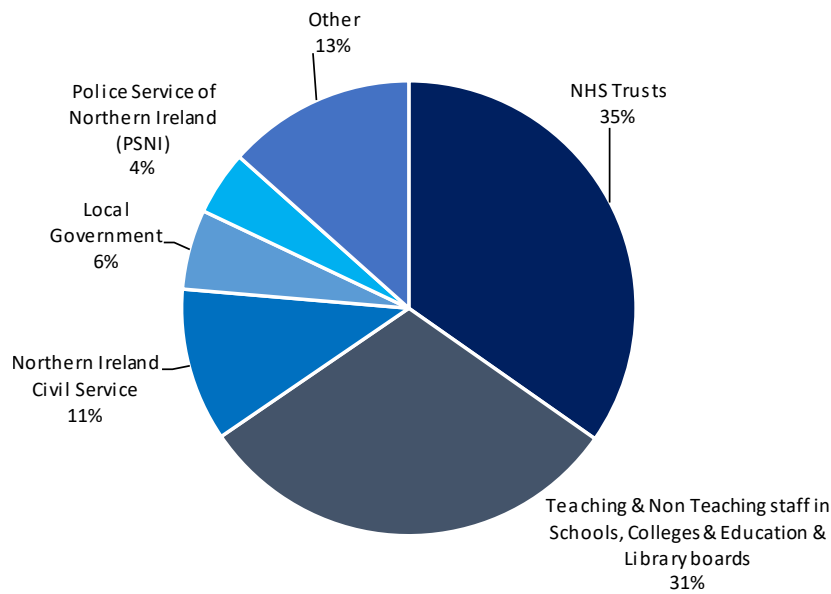
The fall in public sector employment has not been uniform across all parts of the public sector. Areas such as health and education, where budgets tend to be more protected have seen marginal increases in employment levels with more significant reductions elsewhere (such as the mainstream NICS).

Health represents the largest sub-sector within the public sector (NHS employs 73,100), followed by education (64,700) and then the NICS (22,900²).

² Figure does not include people employed in bodies under the aegis of NI central government.

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Fig. 1.1: Public sector workforce by sub-sector, NI, Q2, 2019

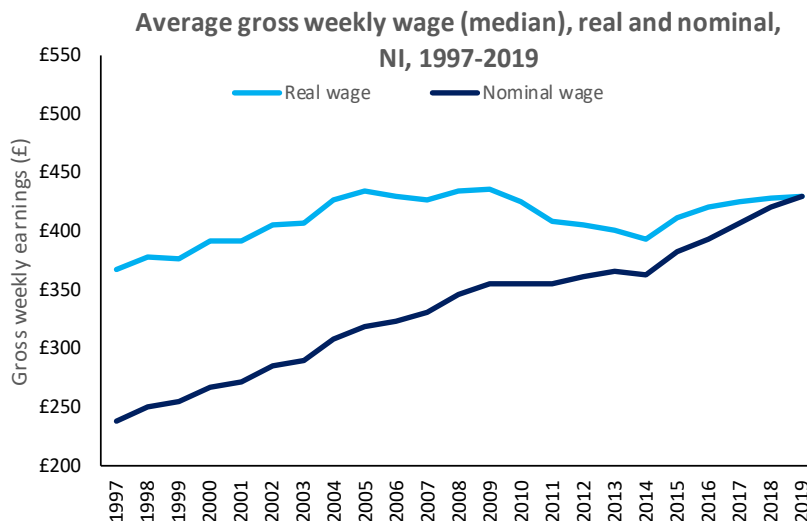


Source: Quarterly Employment Survey

A decade of low pay growth

Over the last decade, the UK overall (public and private sector combined) has experienced an unprecedented slowdown in wage growth. In real terms, the current (2019) median weekly wage in the UK remains 1.9% below that of a decade earlier (2009). The same analysis for **NI** highlights that the median weekly wage is 1.6% below that of a decade earlier.

Fig. 1.2: Weekly wage (median) all employees, real and nominal, NI, 1997-2019



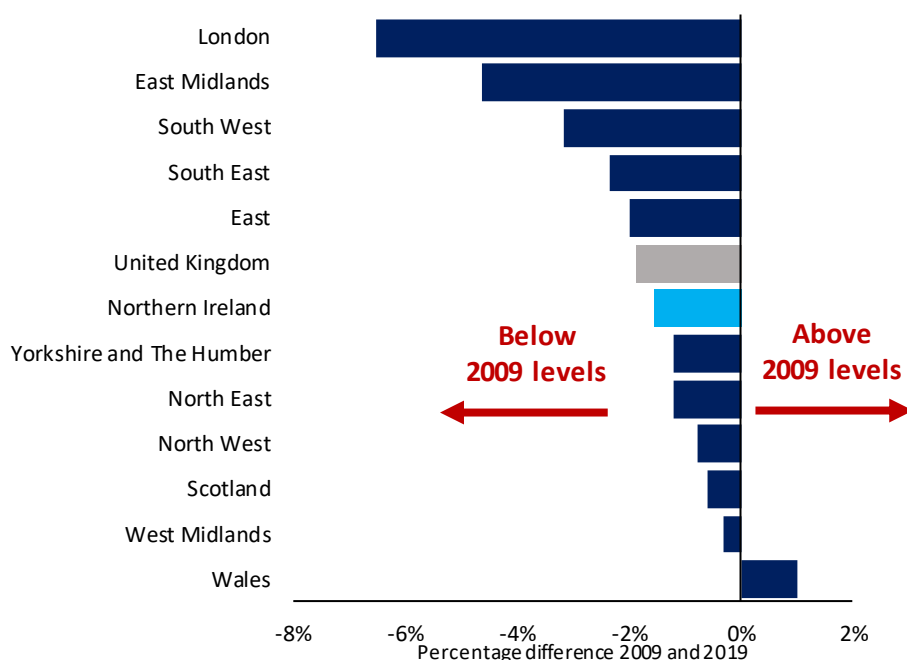
Source: ASHE, NISRA, ONS

Note: CPIH has been used to convert to real wages

Public and private sector earnings

The trend is similar across all UK regions, where real³ weekly wages have returned to 2009 levels in only one of the 12 UK regions, Wales. In London weekly wages still remain 6.5% below 2009 levels, the largest differential across all UK regions.

Fig. 1.3: Percentage change (%) in weekly wage (median) all employees, real (2019 prices), UK regions, 2009-19



Source: ASHE, NISRA, ONS

Note: CPIH has been used to convert to real wages

Distribution of pay growth

In more recent years some cohorts of workers have experienced stronger wage growth. This is largely attributable to increases in the National Minimum Wage⁴ (NMW) and the introduction of the National Living Wage⁵ (NLW), where **the main beneficiaries are predominantly low paid workers.**

Since 2013, the weekly wage for the lowest 30% of earners has increased significantly. Weekly wages for the lowest 10% of earners has risen by 17%, for those in the 20th percentile group the increase is 19%. This compares to an increase of only 2% for those in the top 10% of the wage distribution.

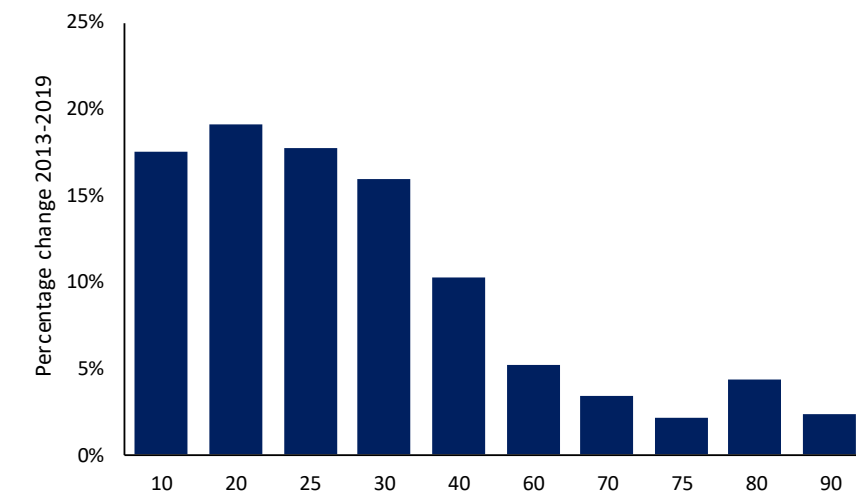
³ This paper hereafter will refer to real wages in 2019 prices, unless otherwise stated.

⁴ The NMW is the minimum hourly wage which an employee will receive. The NMW applies to employees who are under 25 and apprentices. The NMW for an employee under 18 is £4.35. For an employee aged 18-20 the NMW is £6.15. For an employee aged 21-24 the NMW is £7.70. An apprentice is entitled to a NMW of £3.90.

⁵ The NLW is the minimum hourly wage which an employee will receive. The NLW applies to employees aged 25 and over and was introduced in 2016. The current rate for the NLW is £8.21.

Public and private sector earnings

Fig. 1.4: Percentage change (%) in weekly wages (real, 2019 prices) by percentile, NI, 2013-2019



Source: ASHE, NISRA, ONS

Note: CPIH has been used to convert to real wages

It is reasonable to conclude that at least a portion of the strong wage growth experienced over the past five years amongst the lowest earners, represents a recovery from the real wage decline experienced over the 2006-12 period.

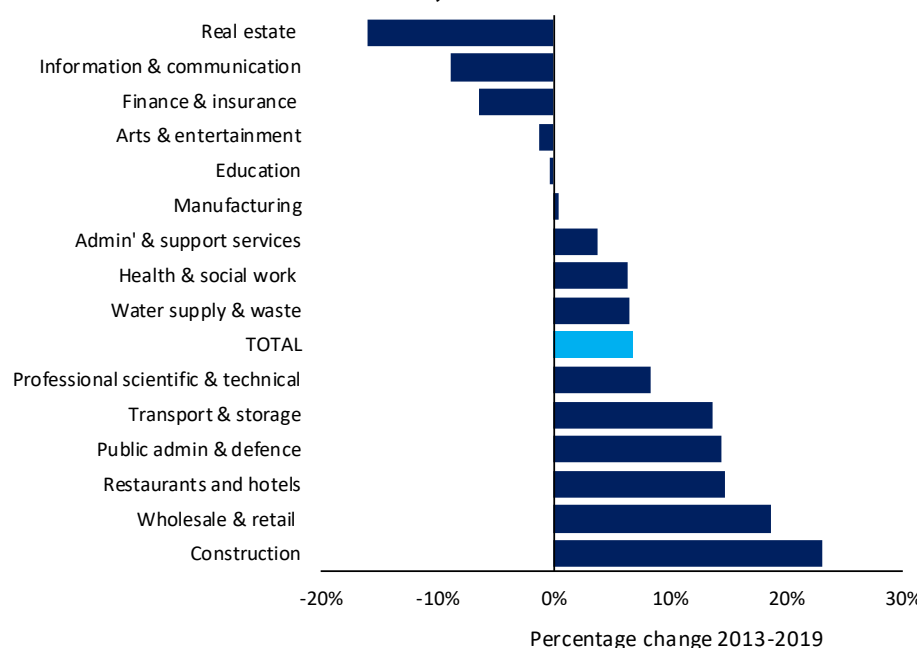
Percentage change across sectors

Sectors with a high proportion of low paid workers have experienced relatively strong median weekly wage growth in recent years, consistent with increases in the NMW/NLW. The wholesale and retail (19%) and restaurants and hotels (15%) sectors experienced relatively strong weekly wage growth over the 2013 to 2019 period. Construction experienced the most rapid wage growth (23%) over the 2013-19 period, which in part represents a recovery following the 2007/08 global recession.

However, recent real wage growth has not been spread equally across all sectors. For example, the information & communication sector median weekly wage declined by 9% and the finance and insurance sector experienced a decline of 6% over the same period. These sectors are typically associated with higher average earnings and relatively higher skill levels among their workforce.

Public and private sector earnings

Fig. 1.5: Percentage change (%) in median weekly wages (real, 2019 prices), by sector, NI, 2013-2019



Source: ASHE, NISRA, ONS

Note: CPIH has been used to convert to real wages

Note: This chart excludes the following sectors due to data disclosure; agriculture, electricity and gas, other service activities

Levels of low pay in the public and private sector

Analysis of low paid workers can be taken further using the OECD's international measure of low-paid⁶ work. **The majority of the lowest paid workers are in the private sector** (see Figure 1.6 below). It is estimated 7.6% of private sector workers in 2019 were low paid. Although the latest two years of data for the public sector are not available due to disclosure issues (typically because the numbers are so low), the level in 2017 was just 0.2%.

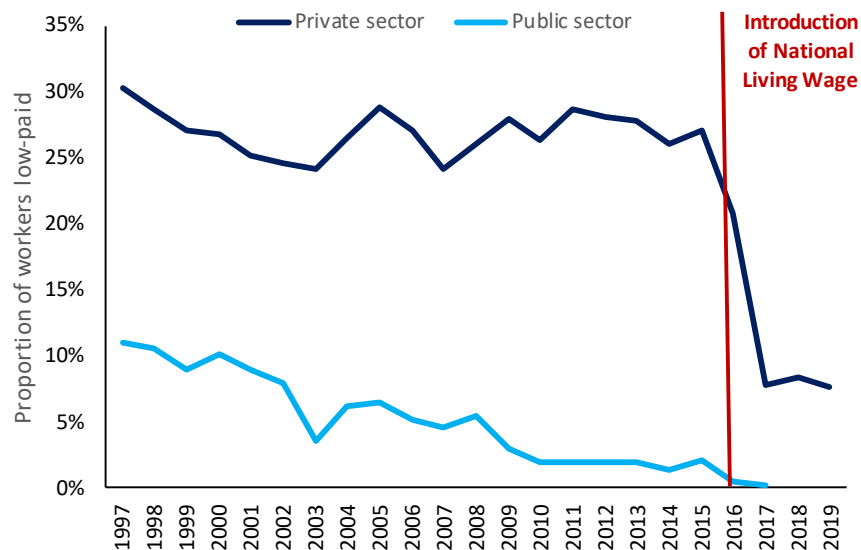
The difference in the proportion of low-paid workers in the public and private sectors has narrowed significantly since the introduction of the NLW. The low pay threshold of two-thirds of the NI median hourly wage is now below the NLW⁷.

⁶ The incidence of low pay refers to the share of workers earning less than two-thirds of NI median earnings.

⁷ In defining low pay this research has used two-thirds of the NI median. NI's median wage is lower than the UK's median wage. Therefore, the low pay threshold is lower compared to the UK.

Public and private sector earnings

Fig. 1.6: Proportion of employee jobs that are low paid, public and private sector, NI, 1997-2019



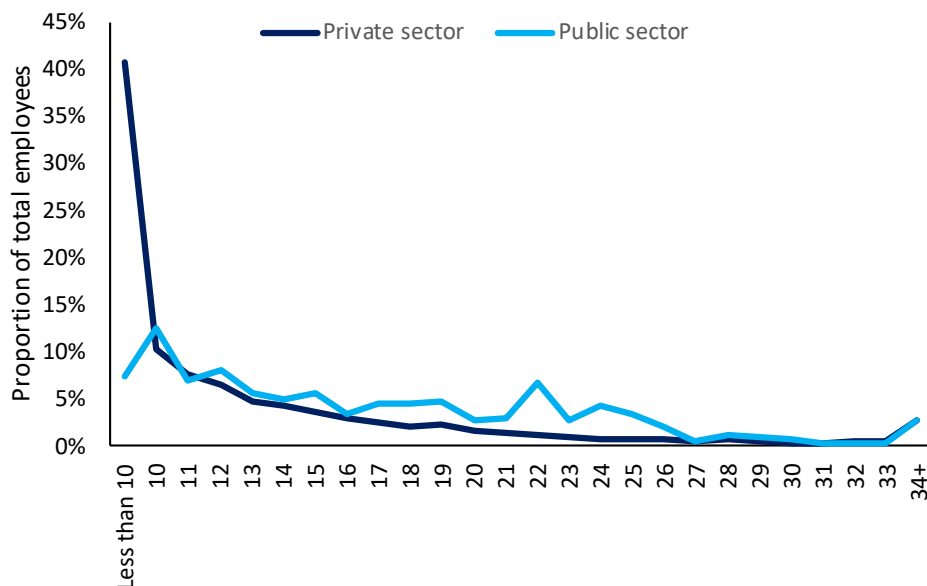
Source: ASHE, NISRA

Note: The incidence of low pay refers to the share of workers earning less than two-thirds of median earnings as defined by the OECD.

Note: The data for public sector low-paid workers in 2018 and 2019 is not disclosed.

The earnings distribution by public and private sector shows the extent to which lower paid workers are in the private sector. Approximately 234k employees earn under £10 per hour, and 91% of these are within the private sector.

Fig. 1.7: Hourly earnings distribution (£, intervals) by public and private sector, NI, 2019



Source: ASHE, NISRA

Public and private sector earnings

2. Comparing public and private sector wages

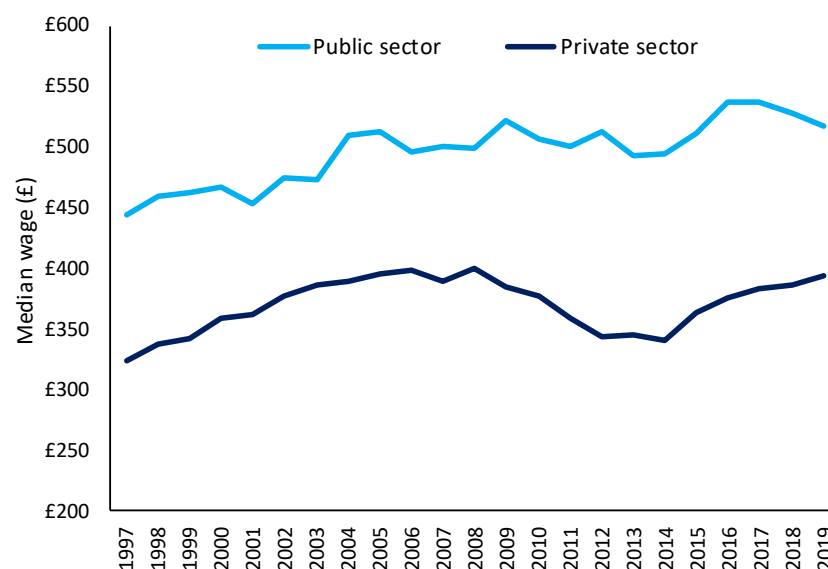
Introduction

There are significant factors influencing the differences between public and private sector median wages and this section of the report sets out the growth and differential in the headline rates of public and private sector pay.

Growth and differential in the headline rates of public and private sector pay

In 2019, median weekly public sector pay (£517) was still 1.1% below its pre-recession peak in 2009 (£522). Similarly, private sector median weekly pay in 2019 (£394) was 1.4% below its pre-recession peak (£400) of 2008.

Figure 2.1: Median weekly wages (real, 2019 prices) by public and private sector, NI, 1997-2019



Source: ASHE, NISRA, ONS

Note: CPIH has been used to convert to real wages

The following comments are made in respect of this analysis:

- In the pre-recession years (1997-2007) public sector median weekly wages increased by 1.2% p.a., compared to 1.4% p.a. in the private sector;
- In the aftermath of the 2007/08 global recession, public and private sector pay started to diverge – between 2007 and 2012, public sector median weekly wages grew by an average 0.6% p.a. compared to a fall of 2.5% p.a. in private sector real wages; and
- Then from 2013 onwards public and private sector wages started to converge again – over the period 2013 to 2019 private sector median weekly wages increased by 1.6% p.a. compared to 0.8% p.a. increase in public sector wages.

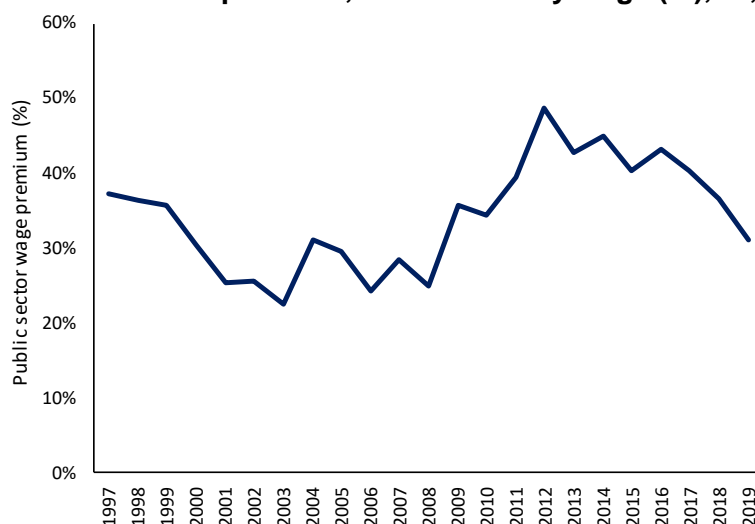
The steeper fall in wages in the private sector between 2008 and 2012 may be a factor in the more rapid acceleration in the recent wage recovery relative to the public sector. **This shows**

Public and private sector earnings

that the time period of analysis is critical to setting the tone for the narrative around public and private sector pay comparisons.

The differential in headline rates between the public and private sectors widened during the recession years to a peak of 49% in 2012, but the faster rate of wage growth in the private sector since 2013 has narrowed the 'public sector earnings premium' to 31% (similar to levels seen 2008/09).

Figure 2.2: Public sector premium, median weekly wage (%), NI, 1997-2019



Source: ASHE, NISRA, ONS

Note: CPIH has been used to convert to real wages

The reduced differential was also caused by the pay restraint policy in the public sector described earlier in this report.

Making a more accurate comparison

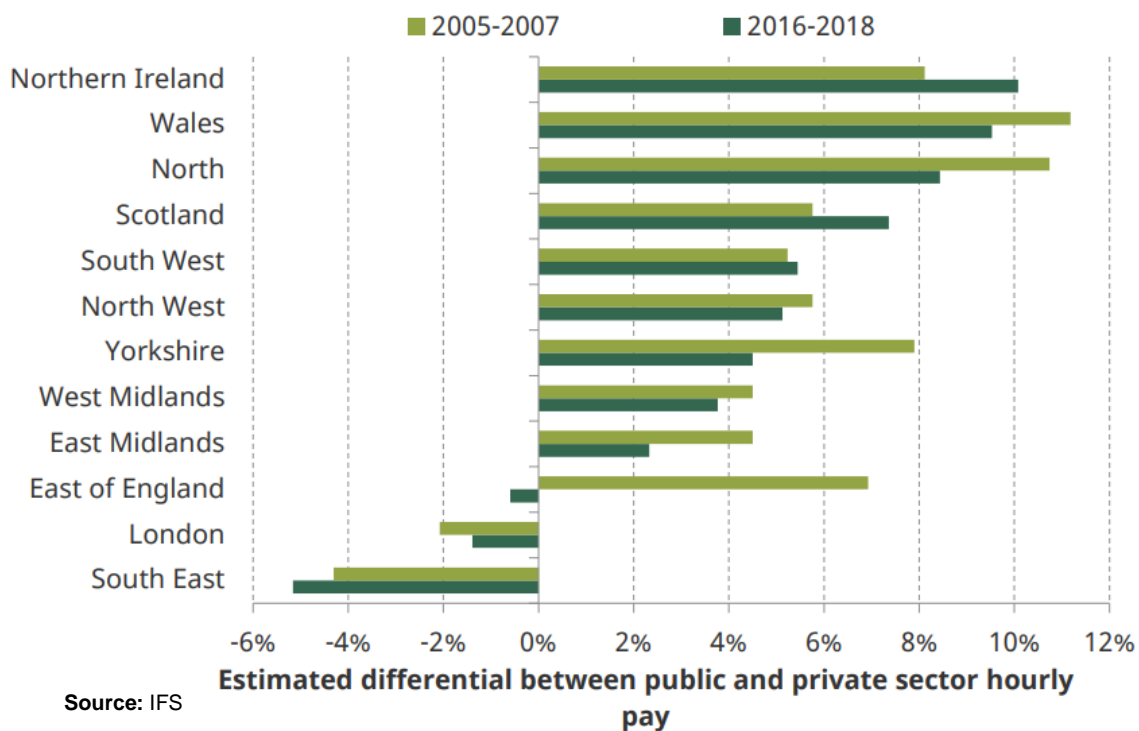
The headline wage metrics indicate there is a significant difference in median weekly pay in the public and private sectors. However, simply comparing headline public and private pay rates is not a like for like comparison. There are a number of structural characteristics which determine the scale of the public sector pay premium such as working time, occupational structure, qualifications and demographic factors.

The Institute for Fiscal Studies (IFS) have undertaken research to quantify the pay differential between the public and private sectors across the UK regions⁸. Their research uses data from the LFS and analyses pay differentials after controlling for differences in age, gender, experience and qualifications.

⁸ Cribb, J. Davenport, A. & Zaranko, B. (2019) Public sector pay and employment: where are we now? IFS briefing note BN263

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Fig. 2.3: Differential between public and private sector hourly pay controlling for workers' characteristics, by region of the UK, 2005-2007 and 2016-2018



The IFS analysis using a pooled dataset covering the 2016 to 2018 period suggests the public sector pay premium in NI is approx. 10%, after controlling for worker characteristics (compared to a headline differential of approx. 30%). This was the largest public sector premium of any UK region.

Public and private sector earnings

3. Impact of individual factors contributing to the headline gap

This sub-section of the report provides an analysis of the impact of primary individual factors contributing to the headline gap. In particular:

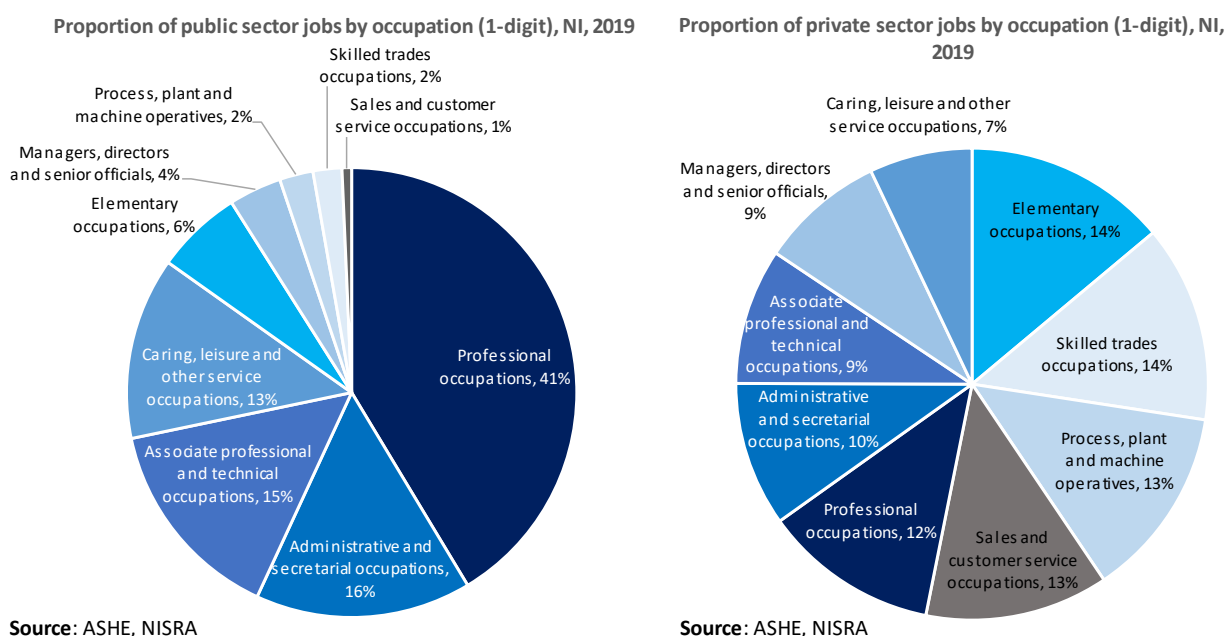
- Occupational mix;
- Qualifications profile;
- Age distribution.

Occupational mix

The public sector tends to employ a greater proportion of staff in higher qualified occupations (Fig. 3.1) which is an important factor in the wage differential:

- Professional Occupations (typically higher wages) represent 41% of public sector workers, compared to just 12% in the private sector; and
- Elementary occupations (typically lower wages) make up 14% of private sector workers compared to just 6% in the public sector.

Fig. 3.1: Employee jobs (ASHE), public and private sector, by occupation (1-digit, SOC), NI, 2019



Therefore, comparing median wages across broad occupational areas (1-digit SOC) between public and private sector provides a more accurate picture.

Public and private sector earnings

Table 3.1: Public sector wage premium, median weekly wage, by occupation (1-digit, SOC) NI, 2019

Occupation (1-digit, SOC)	Public sector weekly wage (£)	Private sector weekly wage (£)	Public wage premium (%)
Managers, directors and senior officials	£924	£736	26%
Professional occupations	£675	£649	4%
Associate professional and technical occupations	£639	£528	21%
Administrative and secretarial occupations	£419	£344	22%
Skilled trades occupations	£452	£479	-6%
Caring, leisure and other service occupations	£310	£255	21%
Sales and customer service occupations	x	£246	x
Process, plant and machine operatives	£471	£427	10%
Elementary occupations	£197	£257	-23%

Source: ASHE, NISRA

Note: X refers to where data is unavailable

Of the eight broad occupations where data is available, the public sector has a pay premium in six:

- managers, directors and senior officials enjoy the largest pay premium (26%). May be a function of lower pay in the private sector as there are relatively few corporate head offices based in NI.
- other occupations including administrative and secretarial occupations (at 22%); caring, leisure and other service occupations (21%); and associate professional and technical occupations (21%) also have a significant public sector premium.
- public sector only has a wage deficit in elementary occupations (-23%), and in skilled trade occupations (-6%).

A more granular analysis (at 2-digit SOC level) highlights greater variability across narrower occupational areas. For example, within administrative and secretarial occupations, the administrative jobs component has a 20% pay premium in the public sector compared to the private sector, whereas the secretarial occupations component has a 59% wage premium.

Public and private sector earnings

Table 3.2: Public sector wage premium, median weekly wage, by occupation (2-digit, SOC) NI, 2019

Occupation (2-digit, SOC)	Public sector median weekly wage (£)	Private sector median weekly wage (£)	Public wage median premium (%)
Corporate managers and directors	£948	£767	24%
Science, research, engineering and technology professionals	£644	£665	-3%
Health professionals	£604	£543	11%
Teaching and educational professionals	£726	x	x
Business, media and public service professionals	£698	£692	1%
Science, engineering and technology associate professionals	£441	£464	-5%
Health and social care associate professionals	£521	x	x
Protective service occupations	£892	x	x
Business and public service associate professionals	£669	£575	16%
Administrative occupations	£435	£361	20%
Secretarial and related occupations	£385	£242	59%
Caring personal service occupations	£298	£256	16%
Leisure, travel and related personal service occupations	£401	£246	63%
Process, plant and machine operatives	£376	£412	-9%
Transport and mobile machine drivers and operatives	£493	£462	7%
Elementary administration and service occupations	£193	£232	-17%

Source: ASHE, NISRA

Note: X refers to where data is unavailable

It should be noted that **the ASHE data does not provide a complete picture, and data constraints limit further analysis.** For example, the 'health occupations' SOC contains the wages for nurses, but will also contain doctors, dentists, psychologists etc. and each of these more granular occupations will exhibit very different wage patterns. Furthermore, many of these more detailed occupations are almost exclusively public sector and therefore a comparison with a private sector equivalent is not possible.

Qualifications profile

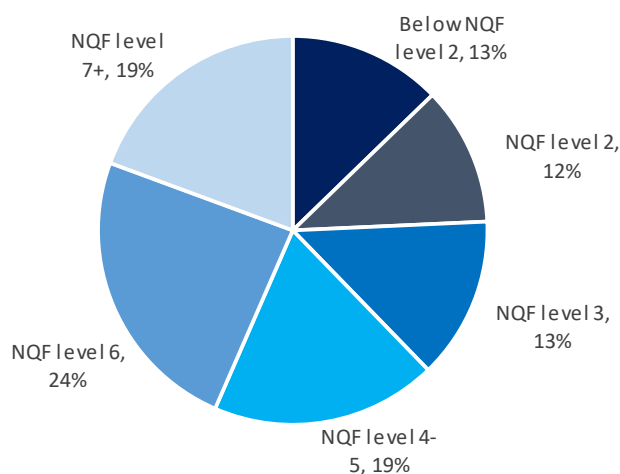
It is widely recognised that the qualifications held by workers influences their earnings potential. Public sector workers are more likely to have a higher qualifications profile relative to the private sector and thus able to command higher wages in the labour market:

- Graduate level and above (NQF Level 6+) – 43% of people employed in the public sector have at least an undergraduate degree (NQF level 6+) compared to 21% in the private sector.
- Low level skills (NQF Level 2 and below) – 25% in the public sector compared to 40% in the private sector.

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Fig. 3.2: Qualification level (NQF) by public and private sector, NI, Q2 2019

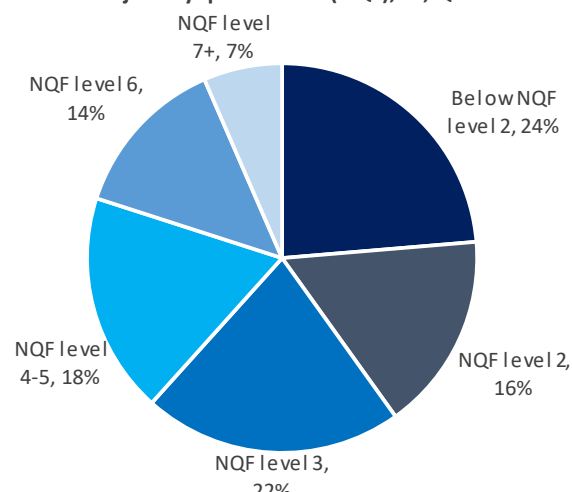
Public sector jobs by qualification (NQF), NI, Q2 2019



Source: Labour Force Survey

Note: Figures refer to a 4-quarter rolling average

Private sector jobs by qualification (NQF), NI, Q2 2019



Source: Labour Force Survey

Note: Figures refer to a 4-quarter rolling average

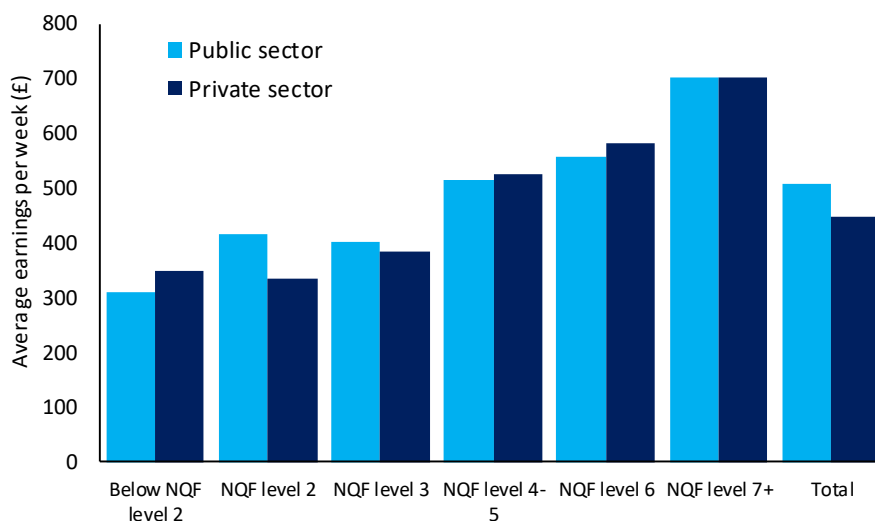
A graduate in NI typically earns 62% more than a person with below NQF level 2 qualifications. Therefore, a higher proportion of employees with higher levels of qualifications in the public sector will create a higher wage profile in the public sector.

A comparison of wages by qualifications level (Fig. 3.3) is set out further below and the following high level comments are made:

- Lower skills levels (up to NQF Level 2-3) – public sector workers tend to be paid marginally more; and
- Higher skills levels (NQF Level 6 and above) – private sector workers tend to be paid marginally more.

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Fig. 3.3: Mean weekly wages (£) by qualification level (NQF), NI, Q2 2019



Source: Labour Force Survey

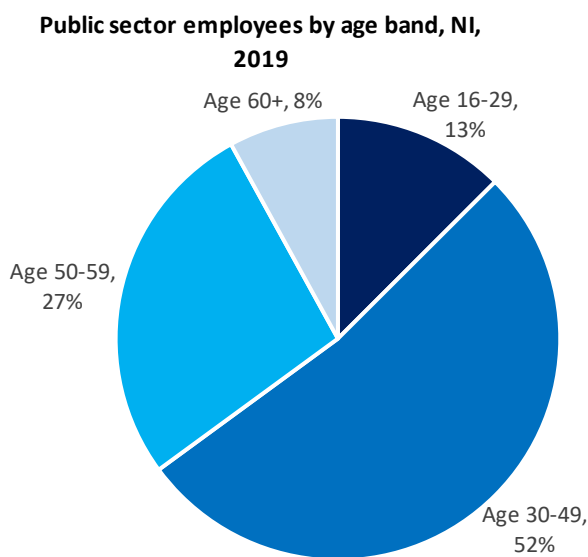
Note: Figures refer to a 4-quarter rolling average

Age distribution

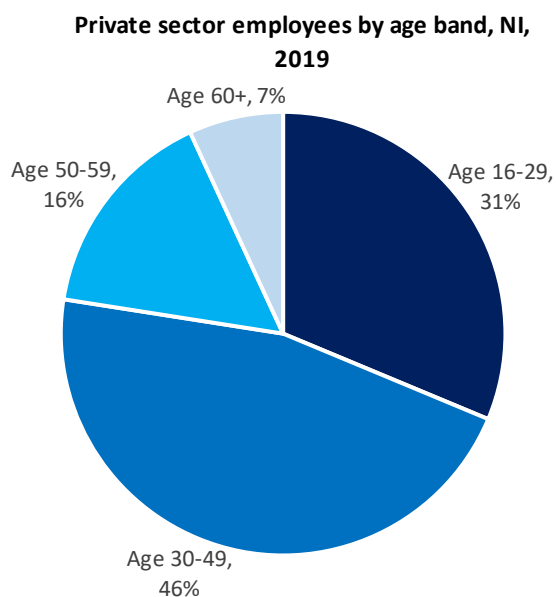
Earnings tend to increase over the course of employees' working lives. In NI, an employee aged 18-21 earns a median wage of £192 per week, compared to £507 per week for an employee aged 40-49. Therefore, the age structure within a sector will have a significant influence on pay aggregates.

The public sector has a higher proportion of older employees, only 13% of the employees in the public sector are aged under 30 compared to 31% in the private sector. Likewise, over one-third (35%) of public sector workers are aged 50 or above, compared to less than one-quarter (23%) in the private sector.

Fig. 3.4: Employee jobs (ASHE), public and private sector, by age band, NI, 2019



Source: ASHE, NISRA



Source: ASHE, NISRA

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Therefore, a higher weighting of older workers in the public sector leads to higher average wages. The table below shows higher median weekly pay across all age bands for public sector workers relative to their private sector colleagues (although the premium decreases with age from 55 onwards).

Table 3.3: Median weekly wages (£), public and private sector by age band NI, 2019

Age band	Public sector median weekly pay (£)	Private sector median weekly pay (£)	Public sector premium (%)
Age 16-21	x	£166	x
Age 22-29	£525	£385	36%
Age 30-34	£532	£410	30%
Age 35-49	£565	£470	20%
Age 50-54	£591	£426	39%
Age 55-59	£476	£415	15%
Age 60-64	£416	£409	2%
Age 65+	£256	£253	1%

Source: ASHE, NISRA

Note: x refers to where data is unavailable

Summary of differentials

Table 3.4: Summary of scale of influencing factors

Factor	Data source	Headline differential	Like-for-like differential
Occupational mix	ASHE	20%	5%
Qualifications profile	LFS	13%	0%
Age	ASHE	20%	11%

The headline differential between public and private sector pay differs depending in the calculation used (median or mean) and the data source (ASHE or LFS), but in all instances, public sector pay is higher. However as identified in this research, a range of factors influence the differential and when these are considered the premium is reduced:

- Occupational mix – the public sector has a greater proportion of staff employed in professional and other senior level occupations. When this is taken into account, the pay differential falls significantly;
- Qualifications profile – the public sector is often referred to as being ‘qualifications hungry’. Many jobs in health, education and civil service all require high level qualifications. In contrast, a much greater proportion of jobs in the private sector require lower level qualifications. Equalising the qualifications mix would significantly reduce the pay differential.

It is likely that the occupational and qualifications mix factors are mutually reinforcing i.e. professional occupations also require higher levels of qualifications.

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- Age – as people become more experienced their pay tends to increase to reflect that increased experience. This analysis highlights that the public sector has a lower proportion of younger workers, therefore also contributing to the pay differential.

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4. Total Reward Package

Introduction

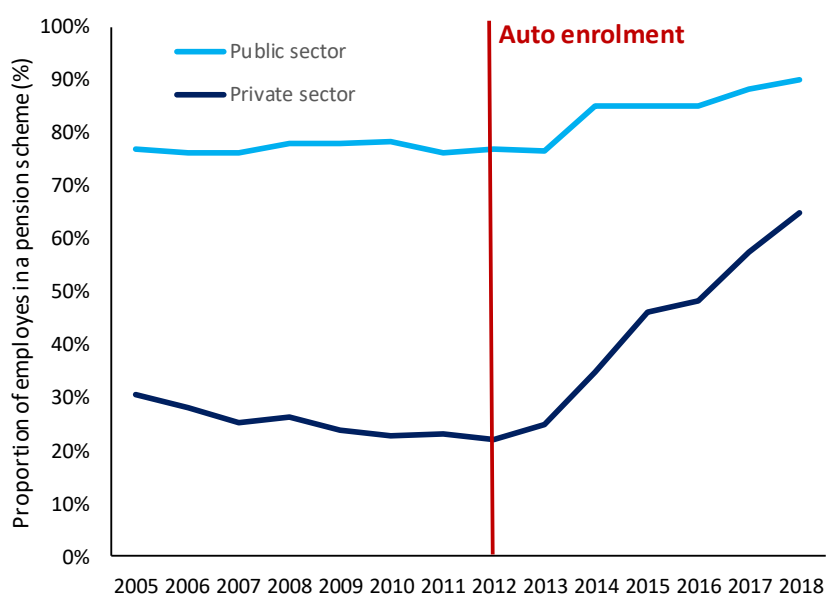
On many occasions the total reward package is greater than the gross salary. Public sector positions are typically associated with an attractive pension scheme and private sector jobs are sometimes associated with incentive pay such as an annual bonus payment.

Pensions

Pension enrolment

The largest and most widespread additional benefit in an employee's total reward package is the provision of employer contributions to workplace pensions. **The provision of workplace pensions is much more widespread in the public sector as 90% of employees were enrolled in a workplace pension, compared to 65% of private sector employees.**

Fig. 4.1: Workplace pension enrolment (% of total employees) by public sector and private sector, NI, 2005-2019



Source: ASHE, NISRA

In 2012 the Government introduced its policy of auto-enrolment, to increase the proportion of employees saving for retirement (with the option of opting out). Previously the onus was on the employee to opt into a workplace pension scheme.

Following the introduction of auto-enrolment in 2012 the proportion of private sector employees enrolled in a workplace pension scheme increased significantly, from 23% to 65%. The pension participation rate amongst public sector employees increased only marginally as the majority already participated in a workplace scheme.

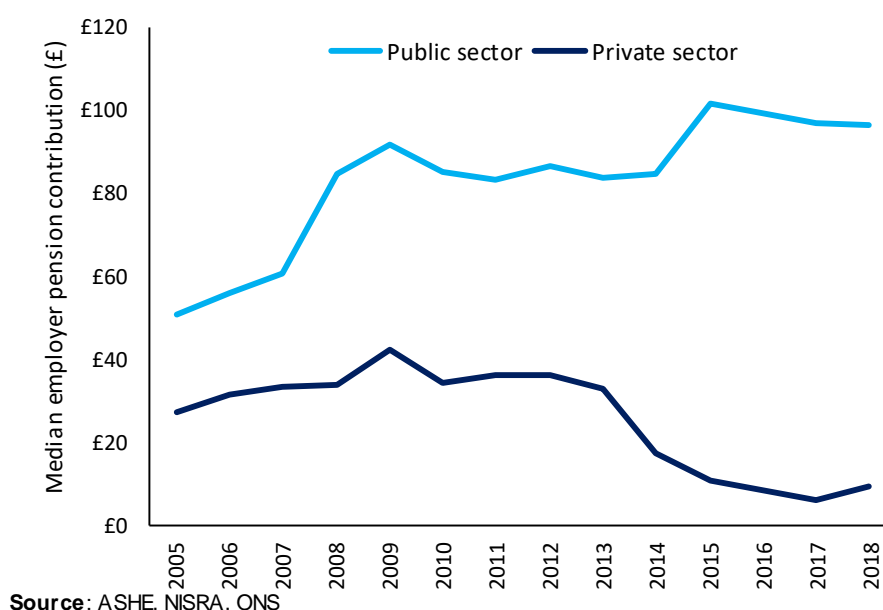
Public and private sector earnings

Scale of employer contribution

Although the gap between public and private pension provision has narrowed considerably, public sector employees are more likely to receive more generous pension contributions from their employers than their private sector counterparts:

- Defined Benefit Pension Schemes – over three-quarters (76%) of public sector employees are enrolled on a defined benefit pension scheme compared to just 7% in the private sector;
- Scale of employer contribution – in 2018 the median weekly employer pension contribution for workers enrolled in a workplace pension in the public sector was £94.53, compared to £9.24 in the private sector⁹.

Fig. 4.2: Median weekly employer pension contribution (real, 2019 prices) by public sector and private sector (employees on a pension scheme), NI, 2005-2018



Source: ASHE, NISRA, ONS

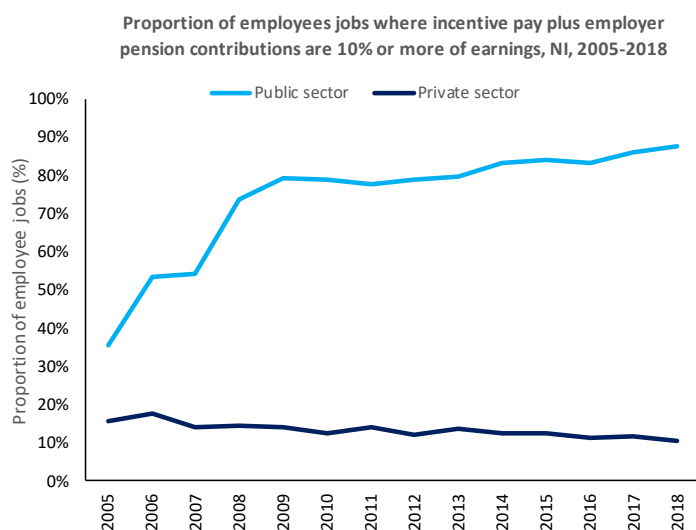
Note: This analysis excludes employees who do not participate in a workplace pension scheme.

In 2018 87% of public sector employees received an employer pension contribution plus incentive pay worth at least 10% of their salary, compared to only 9% of private sector employees. In the public sector, 31% of employees receive an employer pension contribution plus incentive pay more than 20% of their earnings, in comparison to just 3% in the private sector.

⁹ This relates only to those employees participating in workplace pension schemes, and does not account for the higher proportion of employees in the private sector who are not enrolled in a workplace pension scheme. The median employer pension contribution amongst all employees (both those enrolled and not enrolled in a workplace pension scheme) in the public sector is £88.91, compared to just £4.63 in the private sector.

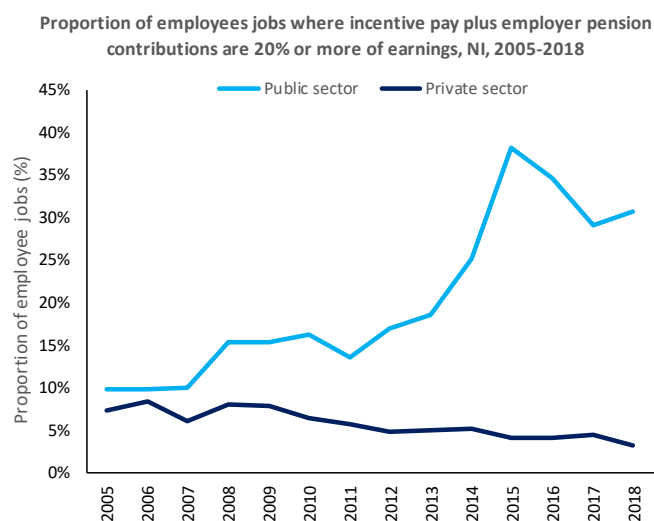
Public and private sector earnings

Fig. 4.3: Employees receiving employer pension contributions plus incentive pay worth 10% of basic earnings and 20% of basic earnings or more, public sector and private sector, NI, 2005-2018



Source: ASHE, NISRA

Note: This is as a percent of basic earnings



Source: ASHE, NISRA

Note: This is as a percent of basic earnings

Participation and contribution levels by occupation

Employee participation and the employer contribution to pension schemes varies by occupation but a number of trends can be identified:

- Participation rates are high across all public sector occupations, however in the private sector they tend to be lower, particularly in lower paid jobs; and
- The scale of public sector contributions is broadly similar across all occupations and significantly higher than private sector contributions.

Table 4.1: Pension participation (%) and employer contribution (% of pensionable pay) by occupation (SOC, 1-digit), NI, 2012-2018

Occupation	Pension participation (%)			Pension contribution as percentage of earnings (%)			Percentage point change in pension participation (2012-2018)		
	Public sector	Private sector	All	Public sector	Private sector	All	Public sector	Private sector	All
Managers, directors and senior officials	100%	69%	78%	19%	4%	6%	11%	26%	27%
Professional occupations	94%	82%	89%	16%	5%	16%	12%	34%	19%
Associate professional and technical occupations	93%	76%	82%	23%	3%	16%	7%	44%	22%
Administrative and secretarial occupations	95%	66%	79%	19%	2%	16%	8%	42%	23%
Skilled trades occupations	97%	67%	70%	19%	2%	2%	34%	41%	41%
Caring, leisure and other service occupations	77%	57%	67%	19%	2%	16%	26%	54%	41%
Sales and customer service occupations	66%	48%	49%	x	2%	2%	12%	40%	40%
Process, plant and machine operatives	98%	73%	75%	19%	2%	2%	6%	55%	48%
Elementary occupations	65%	53%	54%	19%	2%	2%	8%	42%	33%

Source: ASHE, NISRA

Note: X refers to where data is unavailable

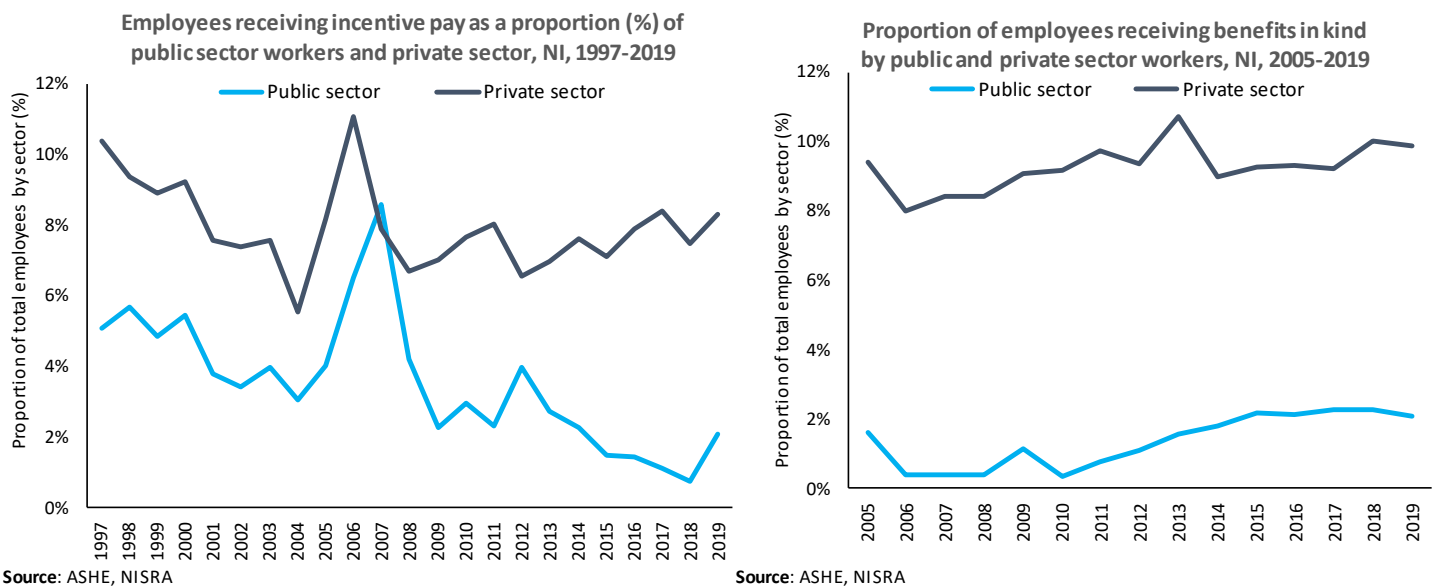
Public and private sector earnings

Incentive pay and benefits in kind

Other benefits in an employee’s total reward package are more prevalent in the private sector, such as incentive pay and benefits in kind.

- Incentive pay refers to payments above the normal salary (such as profit sharing, commission, performance related pay or other bonuses). Only 2% of workers in the public sector receive incentive pay compared to 8.3% in the private sector¹⁰.
- Benefits in kind refers to non-cash benefits (such as a company car and subsidised housing). One in ten (10%) private sector workers receive benefits in kind with a median annual value of £628 per worker. Only 2% of public sector workers received benefits in kind with a median annual value of £54.

Figure 4.4: Employees receiving incentive pay and benefits in kind as proportion of total employees in public sector and private sector, NI, 1997-2019



¹⁰ The median incentive payment in the private sector was £45 per week in 2019. Due to the small number of workers receiving incentive pay in the public sector data is not available for that comparison.

Public and private sector earnings

5. Real wage growth

Introduction

This section reviews real wage growth across the main occupational groups as well as across the earnings distribution.

Occupation wage growth

Wage growth differs within occupations when comparing the public sector and private sector. For example, both the public and private sector elementary occupations experienced growth of 12% in their median hourly wage over the 2015 to 2019 period. In contrast public sector associate professional and technical occupations experienced a decline of 5% over the period, but private sector associate professional and technical occupations workers experienced a 7% increase.

Table 5.1: Median hourly wage and growth (real, 2019 prices) by occupation (1-digit, SOC) by public and private sector, NI, 2011-2019¹¹

Occupation (SOC, 1 digit)	Hourly wage (£)			Hourly wage growth (2011-2015)		Hourly wage growth (2015-2019)	
	Public sector	Private sector	Public sector premium	Public sector	Private sector	Public sector	Private sector
Managers, directors and senior officials	£24.07	£18.91	27%	-5%	10%	-4%	8%
Professional occupations	£21.31	£17.80	20%	-5%	2%	1%	-2%
Associate professional and technical occupations	£16.78	£14.22	18%	10%	-7%	-5%	7%
Administrative and secretarial occupations	£11.34	£10.35	10%	3%	-2%	1%	4%
Skilled trades occupations	£11.63	£11.38	2%	11%	-2%	-4%	4%
Caring, leisure and other service occupations	£10.91	£8.46	29%	-8%	-1%	7%	12%
Sales and customer service occupations	£9.62	£8.50	13%	x	3%	0%	12%
Process, plant and machine operatives	£11.93	£10.09	18%	-3%	-4%	3%	9%
Elementary occupations	£9.53	£8.35	14%	-12%	2%	12%	12%
Total	£15.24	£10.36	47%	-1%	1%	0%	6%

Source: ASHE, NISRA, ONS

Note: CPIH has been used to convert to real wages

Note: X refers to where data is unavailable

In recent years (2015 to 2019) the private sector has experienced growth in median hourly wages across almost all broad occupations (with the exception of professional occupations), most likely driven by the introduction of the National Living Wage. Areas such as Caring, leisure and other service occupations; Sales and customer service occupations; and Elementary occupations in the private sector all experienced hourly wage growth of 12%.

Public sector occupations did not experience similar growth patterns over the same 2015 to 2019 time period. For example, three occupations experienced a decline in median hourly wage growth, namely associate professionals and technical occupations (-5%) and skilled trade occupations (-4%) and managers, directors and senior officials (-4%).

¹¹ It should be noted occupation level data is not available on a consistent basis pre 2011.

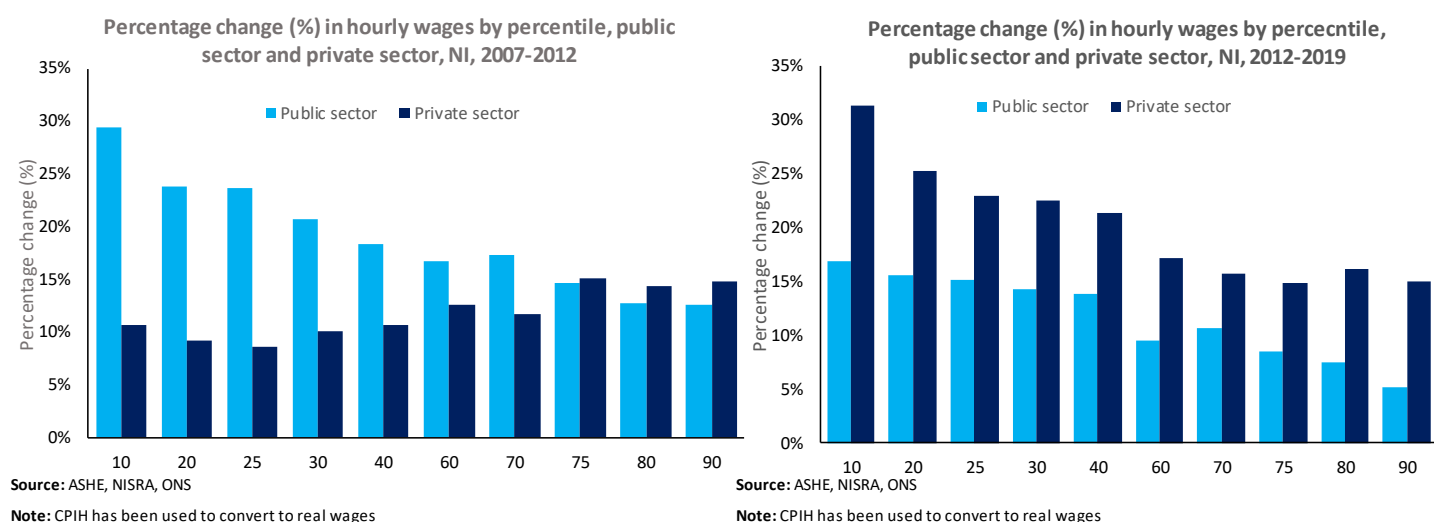
Public and private sector earnings

Wage growth across the earnings distribution

The pattern of growth across the earnings distribution has shifted over the last 10 years:

- During the recessionary period (2007 to 2012) the public sector experienced stronger growth than the private sector across most percentiles, with the exception of the top twenty-five percent of earners.
- However, in the post-recession period (2012 to 2019) the private sector has recorded stronger growth across all percentiles.
- A particular feature over the entire 2007 to 2019 time period is the strong growth amongst the lowest earning percentiles, where the private sector accounts for the majority of workers.

Figure 5.1: Percentage growth (%) in full-time hourly wage (real, 2019 prices) by percentile, public and private sector, NI, 2007-2019



Public and private sector earnings

6. Regional earnings comparison

Introduction

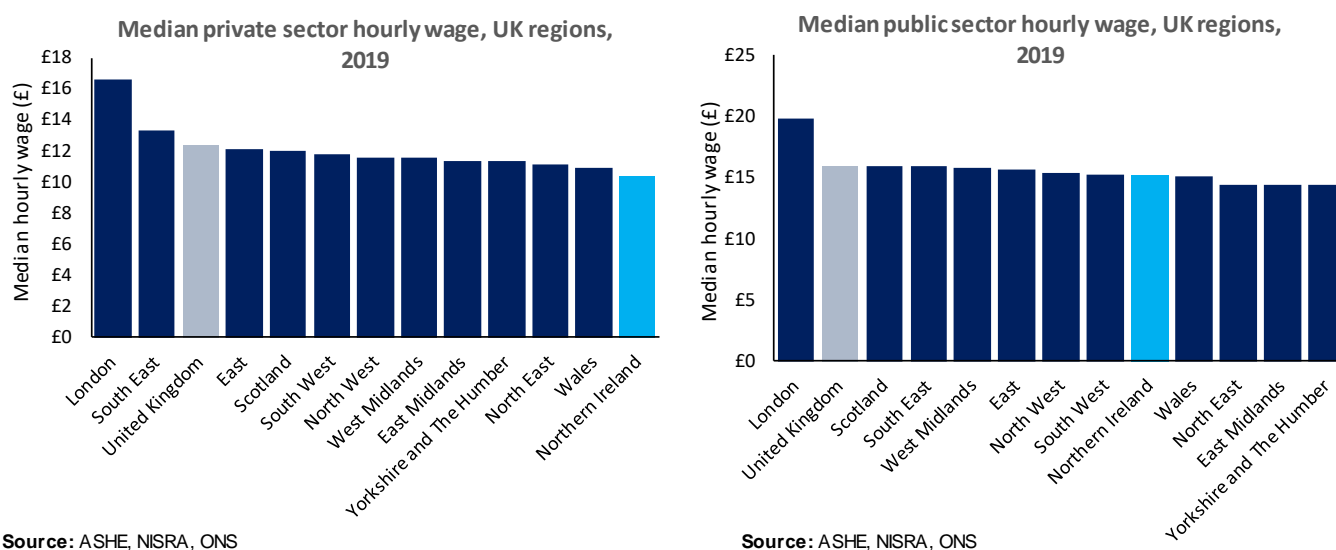
This section compares NI public and private sector wages and growth rates by occupations across the UK regions. In addition, the relative cost of living and housing costs are analysed.

Headline regional comparison

The NI median hourly wage (public and private sector combined) is the lowest across all 12 UK regions. Splitting this between public and private sector wages reveals the following:

- The NI private sector median hourly wage (£10.36) is the lowest across all UK regions and approximately £2 per hour below the UK average (£12.30). NI has had the lowest or second lowest hourly wage in 18 of the past 23 years.
- The NI public sector median hourly wage (£15.24) is ranked joint 7th (compared to UK average of £15.97). With the exception of London, public sector wages are very similar across all other UK regions.

Figure 6.1: Median hourly wage (£) by public and private sector, UK region, 2019



Source: ASHE, NISRA, ONS

Source: ASHE, NISRA, ONS

The range of structural factors that explain differences between public and private sector wages in NI discussed earlier in this paper also applies when comparing public sector wages across UK regions. The occupational mix, age profile, qualifications levels, regional cost of living and a range of other factors across regions will influence regional pay differences.

Public and private sector earnings

Occupational comparisons across the regions

Public sector

NI's public sector rankings across occupations is set out below, but the following high level comments can be made:

- Overall NI's regional ranking varies significantly across occupations, but in most of the largest occupations (by employment) the **median wage level** ranks in the top 3.
- The picture is more mixed with regard to **wage growth**. In the past five years, Managers, Directors & Senior officials and Assoc. Professionals have experienced amongst the highest levels of wage growth across the UK, but in general NI has tended to rank in the bottom half in terms of wage growth.

Table 6.1: Public sector hourly wage, regional rank and growth (real, 2019 prices) by occupation (SOC, 1-digit), NI, 2013-2019

Occupation (SOC, 1 digit)	Proportion of public sector employees (%)	Median hourly wage (£)	Regional rank	Hourly wage growth (2013-2019)	Regional rank
Managers, directors and senior officials	3.9%	£24.07	3	5%	2
Professional occupations	43.0%	£21.31	3	-4%	12
Associate professional and technical occupations	15.4%	£16.78	2	9%	1
Administrative and secretarial occupations	16.1%	£11.34	7	0%	11
Skilled trades occupations	2.2%	£11.63	8	-2%	7
Caring, leisure and other service occupations	13.6%	£10.91	3	3%	8
Sales and customer service occupations	0.7%	£9.62	12	-18%	12
Process, plant and machine operatives	2.5%	£11.93	9	5%	11
Elementary occupations	2.5%	£9.53	6	3%	10

Source: ASHE, NISRA, ONS

Note: CPIH has been used to convert to real wages

Note: For regional rankings, 1 refers to the highest paid region or growth rate and 12 refers to the lowest paid region or growth rate.

At a more granular level (2-digit SOC) the main public sector occupations have wages ranging from some of the highest across UK regions to some of the lowest. Similarly, in terms of wage growth, there is a mixed picture but the larger occupations (by employment) tend to have a lower ranking.

Table 6.2: Public sector hourly wage, regional rank and growth (real, 2019 prices) by main public sector occupations (SOC, 2-digit), NI, 2019

Main Public Sector Occupational Groupings (SOC, 2 digit)	Proportion of public sector employees (%)	Median hourly wage (£)	Regional rank	Hourly wage growth (2013-2019)	Regional rank
Corporate managers and directors	3.3%	£25.29	5	5%	2
Health professionals	20.0%	£18.55	11	-3%	11
Teaching and educational professionals	15.9%	£23.53	4	-6%	10
Business, media and public service professionals	5.9%	£20.30	3	4%	10
Health and social care associate professionals	2.6%	£14.87	4	x	x
Protective service occupations	5.9%	£20.92	1	36%	1
Business and public service associate professionals	5.2%	£17.63	2	4%	4
Administrative occupations	14.4%	£11.40	8	0%	11
Caring personal service occupations	12.2%	£10.66	7	-4%	11
Elementary administration and service occupations	6.3%	£9.53	4	4%	8

Source: ASHE, NISRA, ONS

Note: For regional rankings, 1 refers to the highest paid region or growth rate and 12 refers to the lowest paid region or growth rate.

Note: X refers to where data is unavailable

Public and private sector earnings

Earnings are typically higher in NI compared to other UK regions in key public sector occupations (with the notable exceptions of health professionals, administration occupations and caring occupations), but wage growth has been slower over the 2013 to 2019 period.

Private sector

In the private sector a clearer picture emerges. In 8 of the 9 broad occupation groups, the NI **private sector median hourly wage is ranked either 11th or 12th (out of 12 regions) in the UK**. However, performance in terms of wage growth is better, where in most occupations NI is in the top half and the top three across five broad occupations.

Table 6.3: Private sector hourly wage (£), regional rank and growth (real, 2019 prices) by occupation (SOC, 1-digit), NI, 2013-2019

Occupation (SOC, 1 digit)	Median hourly wage (£)	Regional rank	Hourly wage growth (2013-2019)	Regional rank
Managers, directors and senior officials	£18.91	6	13%	1
Professional occupations	£17.80	12	4%	3
Associate professional and technical occupations	£14.22	11	10%	1
Administrative and secretarial occupations	£10.35	11	5%	9
Skilled trades occupations	£11.38	12	3%	5
Caring, leisure and other service occupations	£8.46	12	16%	2
Sales and customer service occupations	£8.50	12	16%	4
Process, plant and machine operatives	£10.09	12	6%	2
Elementary occupations	£8.35	12	17%	5

Source: ASHE, NISRA, ONS

Note: CPIH has been used to convert to real wages

Note: For regional rankings, 1 refers to the highest paid region or growth rate and 12 refers to the lowest paid region or growth rate.

Public and private sector earnings

Regional cost of living: goods and services

This research focuses on a comparison of public and private sector wages, but a regional comparison of earnings should take at least some cognisance of regional cost of living. A sub-regional cost of living index is not published regularly, but in 2016 the ONS published UK relative regional consumer price levels (RRCPLs) of goods and services.

Table 6.4: Regional price level relative to national price level (UK=100) by COICOP, 2016

Division	London	England (excluding London)	Scotland	Wales	Northern Ireland
Food & non alcoholic beverages	102.2	97.6	99.8	100.8	99.7
Alcohol & tobacco	103	96.8	99.4	102.3	98.6
Clothing and footwear	103.5	101.3	99.2	97.7	98.5
Household & housing services	105.1	98.7	99.7	99.6	97
Furniture & household goods	112.2	97.4	103.2	95.5	99.8
Transport	103.3	100.4	99.7	100.6	96.1
Communication	100	100	100	100	100
Recreation & culture	114.8	96.2	101.4	96.8	95.8
Restaurants & hotels	113	97.4	100.4	95.1	98.3
Miscellaneous goods & services	110.5	99.7	104.8	96.2	93.4
All	107	98.7	100.4	98.5	97.7

Source: ONS

Note: Household and housing services excludes rent

Footnote: Costs associated with owning, maintaining and living in one's home (known as owner occupiers' housing costs (OOH)), along with Council Tax and property rents did not form part of this ONS exercise and have been excluded.

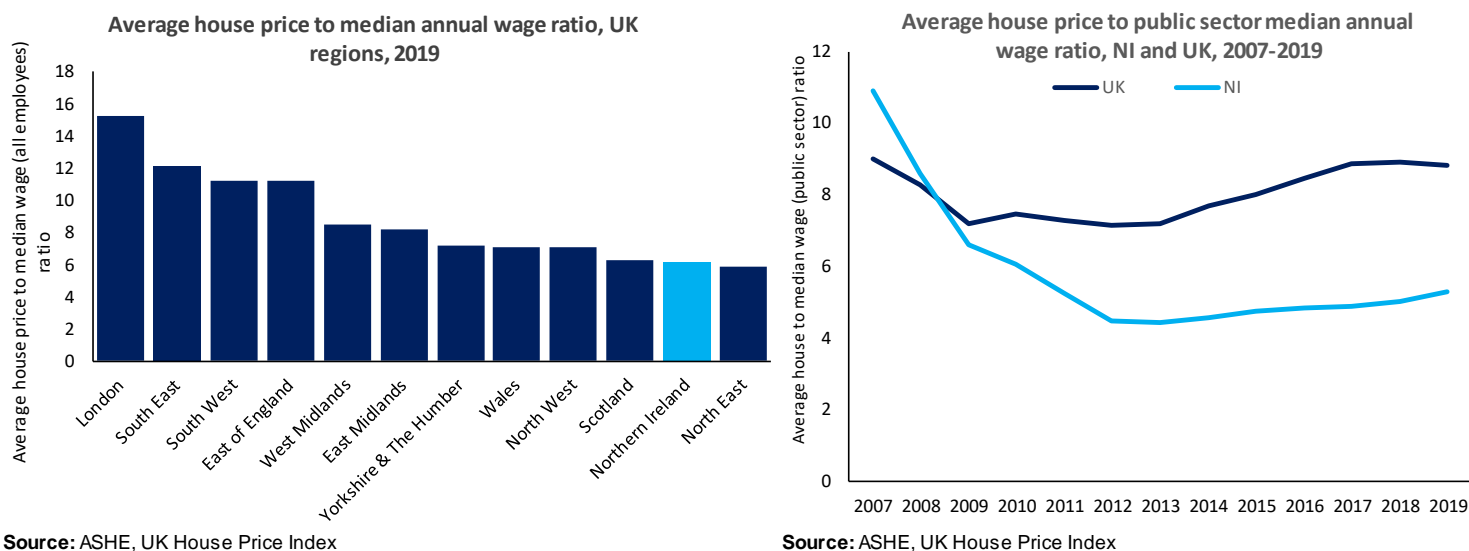
This index provides a price level compared with the UK average and shows that NI had the lowest RRCPL across the UK regions provided, at 97.7. This means in 2016 **prices were on average 2.3% lower in NI than the UK average.**

Public and private sector earnings

Regional cost of living: property costs

The largest household cost for most wage earners relates to property costs. The average house price in NI is £139,951¹² which is 60% of the UK average and the average house price to wage ratio in NI is the second lowest across all UK regions. Therefore, NI has a more affordable housing market relative to most other parts of the UK.

Fig. 6.2: House price to median wage ratio, all employees and public sector employees, UK regions, 2007-2019



Source: ASHE, UK House Price Index

Source: ASHE, UK House Price Index

The time series analysis from 2007 shows that **the house price to public sector wage ratio declined significantly**, from 10.9 to a low of 4.4 in 2013. It has increased again recently, but remains well below the UK average.

Although rates of home ownership are high in NI, 35%¹³ of people live in private and socially rented accommodation. Similar to house prices, **average rents in NI are much lower than other parts of the UK**. NI's private sector average rent is £96 per week compared to £137 in the UK¹⁴. Overall NI has the lowest housing rents across all UK regions.

¹² Department for Communities (2019) "Northern Ireland Housing Statistics 2018-2019" <https://www.communities-ni.gov.uk/system/files/publications/communities/ni-housing-stats-18-19-full-copy.PDF>

¹³ Family Resource Survey (2019) 'Family Resource Survey: Northern Ireland 2017/18, Department for Communities <https://www.communities-ni.gov.uk/system/files/publications/communities/frs-201718.pdf>

¹⁴ Department for Communities (2019) "Northern Ireland Housing Statistics 2018-2019" <https://www.communities-ni.gov.uk/system/files/publications/communities/ni-housing-stats-18-19-full-copy.PDF>

Public and private sector earnings

7. Stakeholder comments

Introduction

In addition to the quantitative analysis, this research also included consultations with a range of stakeholders including public sector employers, public sector trade unions and private sector employers. These stakeholders all bring a different but important perspective to the public sector pay debate and research.

This sections sets out the comments made by each of the three constituent groups and does not necessarily represent the views of the research team.

Public sector employers' comments

Scale of staff costs is significant in the public sector

- Staff costs represent a very significant proportion of total public sector costs (approx. 57% of the overall NI resource budget). Therefore, controlling pay growth (while recruiting, retaining and motivating staff) is crucial given the many competing demands for the funding of public services.
- This percentage varies across the public services, and the proportion of the budget required to fund pay can be in excess of 80% of budget. Therefore, there is very limited scope to reduce other costs (or services) in order to fund pay rises in those sectors.

National agreements versus local pay arrangements

Public sector employers typically have a mix of staff with different pay determination processes – some of which are entirely determined locally, and others with links to national pay agreements/ terms and conditions frameworks or other legal entitlements such as national minimum / living wage. This can create a number of challenges:

- The extent to which pay awards are constrained in practice by pay policy depends on the individual pay determination processes of the staff group in question and can have a significant impact.
- Separation between pay award decisions and budgetary decisions – employers are obliged to agree awards where there are legal entitlements, irrespective of their own individual funding constraints. Therefore, a large pay rise for staff in such circumstances could impact on the funding available for other staff (and services) in the same organisation, creating significant internal inconsistencies. For example the headline NJC settlement was a 2% increase for staff in 2018-19 and 2019-20. However, it was necessary to award higher increases to staff on lower pay points (under £19k for 2018-2020) to reflect changes with the National Living Wage. These increases range from 2.7% to 7.3% for low paid staff on NJC terms and conditions in 2019-20. Given that over two thirds of non-teaching staff in Northern Ireland are paid less than £19k p.a., best estimates for the overall pay uplift are 5.41% for 2018-19 and 4.04% for 2019-20.
- Employers across the public sector have different mixes of staff pay determination processes – therefore the scale of challenge faced by organisations across different sectors will vary. The public sector is not a single homogenous entity.

Public and private sector earnings

Pay parity, but with who?

- Pay rates for many public sector occupations vary across the UK. For example, there is not a direct read-across between Civil Servants in NI and their counterparts in the UK Civil Service, for a number of reasons:
 - the NICS does not have to maintain pay parity with the UK Civil Service as it is a separate employer
 - the NICS has one pay framework covering staff in all NI Departments. In Whitehall, each individual department has delegated authority to make its own pay award, so there are differences in pay even within the UK Civil Service.
 - Agenda for Change is a UK-wide framework for most health and social care staff, but pay rates vary across the four UK jurisdictions
- Therefore it is not always clear how parity can be defined or who would be the most appropriate comparator and this can ultimately impact on industrial relations.
- Pay statistics show that NICS pay rates for all grades AA – G6 are broadly similar (some higher, some lower) to colleagues working outside London in the UK Civil Service.

Understanding the full pay increase

- The full pay increase is made up of two components, the 'pay progression' component and the 'cost of living' increase. In most instances the headline rate includes only the 'cost of living' increase.
- E.g., Budget 2019/20 was generally predicated on a 1% revalorisation (cost of living) increase. When added to 'pay progression', this typically translates to around a 2% increase on the 2018/19 pay baseline position for many public sector employees.

Cumulative impact of pay awards must be recognised

- Pay awards are often quoted at a specific cost, which is accurate for that year, however this then becomes a recurring annual cost. If this increase is not included in the baseline budget for the employing organisation, it becomes a recurring pay pressure which would be compounded by all future pay awards.

Funding pay increases is linked to reform and requires political decision-making

- Public sector workers are an integral part of our everyday lives and make a significant contribution to society. There is recognition that they need to be appropriately paid for that.
- Higher pay awards should be linked to service reform and transformation, and improving public service outcomes. As a result, there is a requirement to link pay increases with reform and efficiency savings which in turn needs to be facilitated in a longer-term planning environment. Multi-year pay deals linked to reform agendas have not been possible in the context of 1 year budgets. A returning Executive and multi-year budgeting will hopefully enable this.
- In some cases pay increases can only be funded by a reprioritisation of spending commitments and/ or reduced levels of staff and/ or a reduction in services. These are fundamental policy areas which requires political decision making.

Public and private sector earnings

Some flexibility to recruit and retain specialist staff but these are limited

- There are a number of ways in which public sector organisations can offer more attractive reward packages in order to attract and retain key talent. For example, through the use of 'skills points' in some posts and recruitment and retention allowances. However, the scope to increase salaries in this way is relatively limited (approx. 5% - 10%. But up to 30% under Agenda for Change) and there has not been a significant desire to do so, for a range of policy and affordability reasons.

Public sector pay in general does not impact recruitment but is one factor in retention

- There tends to be significantly more applicants than posts available across many areas in public service. Therefore, in general, pay levels do not seem to be impacting recruitment into the public sector. Although, it is important to recognise that recruitment is an issue in some specialist skills areas (such as IT).
- In most instances where recruitment issues exist, non-pay factors can also play a significant role. For example, at the time of conducting this research, nursing pay is a significant issue but safe staffing levels has also been identified as a key factor in the action being taken by nurses. In this instance, increasing training capacity locally may form part of the solution, not pay alone.

Public and private sector earnings

Trade Union comments

Current public sector pay environment has to be set in a much broader context

- Constraint on pay and the pay cap – this has been framed as a tool to control public expenditure following the financial crisis, to help bring the public finances back into balance. However, the pay restraint was not lifted when the public finances stabilised and has been in place for too long resulting in the industrial relations fallout now being experienced.
- Reducing the cost of delivering public services – there has been a multi-decade drive to reduce the cost of public services across the UK. Given the high proportion of staff costs in the delivery of public services, this has resulted in the suppression of public worker's wages.
- Deterioration in terms and conditions – linked to the point above there has been a long term deterioration in workers terms and conditions which have not been reflected in pay wards.
- Automation is a major risk to public sector jobs – there are a range of projects being taken forward to automate jobs in the public sector and there will be a significant need to reimagine the workplace of the future. It is highly likely that any 'new' jobs created as a result of automation will be significantly lower than the number of jobs lost and will have a higher skills profile.
- Salary restoration is a priority – there is a need to restore public sector salaries to the levels they would have been without the impact of government austerity policies.

Linking pay to efficiency savings

- There is recognition of the need to link pay increases to reform/ efficiency savings, however, there tends to be quite a confrontational relationship between staff and employer sides in negotiations.
- The reform debate must be framed in the context of delivering better outcomes and improved quality of services, including the need for a better understanding of public sector productivity as GVA has limited meaning in public services.
- Experience would suggest that finding cost savings has come at the expense of the quality of public services rather than achieving true efficiency savings (i.e. delivering the same level of service for a lower cost).
- Delivering reform requires trust between staff and management side and the prolonged period of pay restraint has hampered the building of trust between the two sides.

Filling skills shortage vacancies

- The trade union side have a clear position that the common pay spine should be maintained and paying staff differential rates would not be supported. Valuing one member of staff more than another could have a detrimental impact on morale.
- Potential solutions may include:
 - More attractive working environment – this includes greater pay but also improved working conditions such as flexible working and clearer career progression pathways; and
 - Other financial inducements – such as bursaries or bonus payments. However this should be temporary in nature to reflect current conditions rather than framed as a permanent pay differential.
- There is also a need to properly value public sector workers and their role in wider society.

Public and private sector earnings

Recruitment vs Retention

- In general public sector pay is not a barrier to successful recruitment (with the exception of a relatively small number of hard to fill/ skill shortage vacancies). However, pay impacts staff morale and in turn staff retention issues. Higher morale across the public sector workforce should also improve productivity and quality of public sector services.

Pay progression vs cost of living increase

- The headline pay increase tends to focus on the revalorisation component rather than also include the progression component. This is appropriate because the progression component is a contractual requirement and therefore does not reflect an increase in the reward framework.
- Furthermore, given the static nature of budgets over the last 10 years, many public sector workers are now at the top of the progression scale and therefore the only increase they receive is the revalorisation component.

Movement between public and private sector

- There has been an emerging trend in recent years of more staff being recruited from the private sector into senior public sector positions.

Public and private sector earnings

Private sector employers' comments

Impact of public sector pay awards on the private sector

- Higher public sector pay increases disposable income in the economy – larger pay awards support increased spending in the local economy and in particular the retail and hospitality sectors
- Limited direct correlation between public and private sector pay awards – for many large corporates, pay awards are set at a national level and outside the control of regional managers
- Life-time value of public sector pay can be difficult to compete against – the full value of public sector pay (in particular the pension) is often seen by private sector employers as very difficult to compete against.
- Crowding out an issue in a small number of areas – in some areas where similar skillsets are required, public sector pay and conditions can be attractive. Therefore private sector employers have had to respond by increasing wages.

Attracting talent

- Finding people with the right skills is the main challenge – the key issue for private sector employers is talent identification and salaries are driven by the need to attract and retain talent. This is more of an issue in some sectors than others
- Using professional advice – private sector firms would frequently use the services of recruitment agencies to help inform the appropriate rate of pay to attract the appropriate level of applicant. More recently, private sector employers are increasingly providing attractive packages to attract and retain skilled staff.
- Greater flexibility in the private sector – companies have greater flexibility to make pay awards/ offers to current/ potential recruits in an effort to retain/ attract talent than public sector organisations (albeit larger corporates tend to have to operate within regional or national pay boundaries).
- Smaller firms face challenges attracting talent – larger companies can be seen as more attractive employers for a range of reasons (more secure, broader range of career opportunities, more structured training and development). As a consequence, smaller companies can experience more challenges when trying to attract talent.

Public and private sectors tend to operate in separate labour markets

- In general people tend to work in either the public or private sector – there is a perception in the private sector that staff are more likely to move from a private sector employer to a public sector employer than vice versa, but typically people tend to spend their careers working in either the public or private sector. As a result employers are “fishing in separate labour market pools” for talent. This places significant importance in attracting talent at the start of the career journey when they leave the education system.

Public and private sector earnings

8. Summary of key points

This briefing paper has been produced to provide an independent and unbiased analysis of public and private sector pay in NI. This paper does not provide any recommendations in respect of pay awards but should be used to help inform public pay policy moving forward. By way of conclusion, the following key points are made in respect of the analysis undertaken:

- **Strong labour market in recent years driven largely by increases in private sector employment** – the employment rate is at a historic high, and the unemployment rate is at a record low. This all points to a tight labour market which in turn should increase wages, and there is evidence this has started to occur in the last few years. However, real wages in NI remain below that of a decade earlier.
- **Real wages have typically returned to pre-recession levels in both the public and private sectors, but followed different paths over the last decade** – following the 2007/08 global recession, public and private sector pay started to diverge, between 2007 and 2012, public sector median weekly wages grew by an average 0.6% p.a. compared to a fall of 2.5% p.a. in private sector real wages. Then from 2013 onwards, public and private sector wages started to converge again, over the period 2013 to 2019 private sector median weekly wages increased by 1.6% p.a. compared to 0.8% p.a. increase in the public sector.
- **NI public sector wages are on a par with other UK regions, with the exception of London, in contrast private sector wages are the lowest in the UK** – as a consequence, combined (public and private sector) median hourly wages is the lowest across all twelve UK regions.
- **The cost of living in Northern Ireland is lower than the UK average** – ONS regional consumer price levels in 2016 suggested prices were on average 2.3% lower in NI than in the UK. Housing costs were also significantly lower.
- **Headline public sector pay remains significantly higher than private sector pay but is significantly reduced when controlled for workers characteristics** – econometric analysis across UK regions estimated that, after controlling for worker characteristics, public sector workers in NI maintain a 10% pay premium on an hourly basis.
- **Specific factors result in higher pay in the public sector** – in addition to the econometric analysis, some specific factors heavily influence the differential:
 - *Occupational mix* – the public sector has a greater proportion of staff employed in professional and other senior level occupations;
 - *Qualifications profile* – the public sector is often referred to as being ‘qualifications hungry’. Many jobs in health, education and the civil service all require high level qualifications. In contrast, a much greater proportion of jobs in the private sector require lower level qualifications.
 - *Age* – as people become more experienced their pay tends to increase. This analysis highlights that the public sector has a lower proportion of younger workers.

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- **Lower paid workers have experienced larger increases in earnings, in particular since 2015** – the gains from wage growth have largely occurred amongst the lowest paid, primarily as a result of increases in the NMW and the introduction of the NLW. This is an important factor when considering the recent higher rates of pay growth in the private sector. There are relatively fewer public sector workers in lower paid jobs, therefore, higher wage growth in this cohort disproportionately benefits private sector workers.
- **Total reward package is also a significant factor** – the public and private sector pay debate tends to focus on gross pay only, however total reward goes beyond salaries. The largest and most widespread additional benefit in an employee's total reward package is the provision of employer contributions to workplace pensions. Participation in workplace pensions has traditionally been high in the public sector (90% participate in a workplace pension). Private sector participation has increased significantly following the introduction of auto-enrolment from 23% in 2012 to its current level of 65%.

Although the gap in participation has narrowed significantly, public sector pension schemes are much more generous. The median weekly public sector employer contribution is £94.53 compared to just £9.24 in the private sector.

Other benefits are more prevalent in the private sector, such as incentive pay and benefits in kind. 10% of private sector workers receive benefits in kind (e.g. company car) with a median annual value of £628. That compares to 2% of public sector workers with a median annual value of £54.

Although not based on the data analysis, the research team have also made the following small number of observations:

- **Public sector pay setting arrangements can be inflexible for addressing skills shortage vacancies** – overall public sector pay settlements are made at either a regional or national level and given the scale of the public sector, broad scale agreements are understandable. However, it is possible that this creates an inflexible system that cannot respond to specific labour market factors where similar skills are in high demand in the private sector e.g. IT teachers¹⁵. Although mechanisms exist to provide some flexibility in these instances, the consultations indicated that they were limited both in scale and in frequency of use. Skills shortage vacancies provide an economic rationale for pay growth in some specific areas. Although this is a contentious issue with some stakeholders, further consideration should be given to providing flexibility in pay setting arrangements in some instances.

¹⁵ UUEPC (2019) NI Skills Barometer, 2019 update. <https://www.economy-ni.gov.uk/publications/northern-ireland-skills-barometer-2019-update>

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- **Higher public sector pay may be justified to maintain high quality public services** – recent research has linked a decline in the quality of public services in education and health to a decline in the public sector pay premium which limits the attractiveness of the position to new recruits to such professions¹⁶¹⁷. The case for pay growth is less strong in occupations where a public sector pay premium already exists relative to similar occupations in the private sector and continues to receive a high volume of applications for vacant posts.
- **Enhancing relationships between trade union and management sides** – there is a general understanding from all sides that reform should be linked to longer term increases in pay. In a world of finite resources and increasing demand for services, new and improved ways of delivering services are required. However, at the heart of any reform programme, there needs to be trust between staff and management. This research did not include an assessment of industrial relations in the public sector, but there may be scope for both sides to move to a greater level of collaboration in delivering improved public sector outcomes – the goal all sides are seeking to achieve.

¹⁶ Propper, C. and Van Reenen, J. (2010) 'Can pay regulation kill? Panel data evidence on the effect of labor markets on hospital performance', *Journal of Political Economy*, 2010, 118, 222-73

¹⁷ Britton, J. and Propper, C. (2016) 'Teacher pay and school productivity: exploiting wage regulation', *Journal of Public Economics*, 2016, 133, 75-89.

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Glossary of terms

Annual Survey of Hours and Earnings (ASHE) – The ASHE is the most comprehensive data source on the structure and distribution of wages in the UK. ASHE is completed by employers, providing information across a range of indicators associated with wages (e.g. levels, distribution, gender, age, work patterns, industry and occupation). ASHE is based on a 1% sample of employee jobs taken from HM Revenue and Customs PAYE records.

Basic pay – The measure refers to pay before deductions for PAYE, National Insurance, pension schemes, student loan repayments and voluntary deductions. This includes paid leave, maternity/paternity pay, sick pay and area allowances. This does not include pay that relates to a different pay period, shift premium pay, bonus or incentive pay, overtime pay, expenses and the value of salary sacrifice schemes and benefits in kind.

Benefits in kind – Benefits which employees or directors receive from their employment, but which are not included in their salary cheque or wages (e.g. a company car or subsidised housing).

Consumer Price Index (CPI) - The CPI is measure of the rate at which the prices of goods and services bought by households rise and fall. The CPI utilises a large and representative sample of goods and services wherein their price is regularly measured across UK outlets. The CPI is the official measure used by the Government to set targets for inflation.

Consumer Price Index including housing costs (CPIH) – The CPIH is the most comprehensive measure of inflation as it extends the CPI to include owner occupiers' housing costs and Council tax (which are excluded from the CPI). The costs associated with owning, maintaining and living in one's own home are significant expenses, which should be reflected in price inflation.

Employee pension contribution – Normal employee pension contributions made through salary sacrifice to their main pension, excluding any additional voluntary contributions.

Employer pension contribution – Normal employer pension contributions made to an employee's main pension.

Full-time employee - Anyone aged 16 years or over that is directly paid from a business' payroll for carrying out more than 30 paid hours per week (or 25 or more for teaching professions).

Gross annual earnings – This measure is estimated using annual earnings over the tax year accounting all employees on adult rates of pay who have been in their job for more than one year.

Gross hourly earnings (excluding overtime) – This measure includes basic pay, commissions, shift premium pay, bonus or incentive pay and allowances, and is before deductions for PAYE, National Insurance, pension schemes, student loan repayments and voluntary deductions.

Gross weekly pay – This measure includes basic pay, overtime pay, commissions, shift premium pay, bonus or incentive pay and allowances, and is before deductions for PAYE, National Insurance, pension schemes, student loan repayments and voluntary deductions.

Group personal pension (GPP) - An arrangement made for the employees of a particular employer or group of employers to participate in a personal pension on a group basis. This is

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a collecting arrangement only; the contract is between the individual and the pension provider, normally an insurance company. In ASHE, this category also includes group self-invested personal pensions. GPPs are a form of workplace pension.

Incentive pay – This refers to payments above the normal salary or wage, associated with profit sharing, piecework, commission, productivity, performance, or other bonuses and incentive pay.

Occupational defined benefit scheme - An occupational pension scheme in which the rules specify the rate of benefits to be paid. The most common defined benefit scheme is a salary-related scheme in which the benefits are based on the number of years of pensionable service, the accrual rate and either the final salary, the average of selected years' salaries or the best year's salary within a specified period before retirement.

Occupational defined contribution scheme - A pension scheme in which the benefits are determined by the contributions paid into the scheme, the investment return on those contributions, and the type of annuity (if any) purchased upon retirement. It is also known as a money purchase scheme. Defined contribution pensions may be occupational, personal or stakeholder pensions.

Part-time employee - Anyone aged 16 years or over working 30 or less paid hours per week (or less than 25 for teaching professions).

Private sector – The private sector includes all for-profit business (not owned or operated by the government). This does not include any non-profit body or mutual association.

Public sector – The public sector consists of five areas: central government; bodies under aegis of central government; local government; and public corporations.

Real earnings - This provides a comparison of the amount of goods and services that can be bought over time (also known as purchasing power), through removing the effects of inflation. Thus, an increase in real earnings means earnings growth is above the rate of inflation.

The National Living Wage (NLW) – Minimum hourly wage which an employee will receive. The NLW applies to employees who are aged 25 and over and is a rate of £8.21 per hour in across the United Kingdom.

The National Minimum Wage (NMW) – Minimum hourly wage which an employee will receive. The NMW is as follows: £4.35 for under 18s; £6.15 for those aged 18-20; £7.70 for those aged 21-24; and £3.90 for an apprentice.

Total paid hours worked – Basic paid hours plus paid overtime hours calculated using employees on adult rates whose pay was unaffected by absence.