Box C: Are the Pay Review Bodies fit for purpose in 2023?

By Peter Dolton

At the start of 2023, the UK Economy is caught up in a period of widespread and damaging industrial unrest with teachers, nurses, ambulance workers, and many others in the middle of disruptive strikes over wage demands. This crisis has been brought about by the huge hike in oil and gas prices and their knock-on effects on all costs induced by the Russia-Ukraine War. With the Cost-of-Living (CoL) rising at over 10 per cent per annum for much of 2022 the Government steadfastly wants to limit wage rises of public-sector workers to around 4 per cent. What are the arguments in this debate? Why is the Government trying to limit these pay rises? What is the role of the Pay Review Bodies (PRB) in this process and how might they be appraised? In the light of the CoL crisis, is there a case for reviewing what the PRBs do and how the government uses them? This box reviews brief answers to these questions.

What are the PRBs and how well have they worked up to 2021?

There are seven core PRBs (for School Teachers, Nurses and other Health professions, Doctors and Dentists, the Prison Service, the Police, the Armed Forces and Senior Salaries plus two other similar bodies which cover the National Crime Agency and the Independent Parliamentary Standards Authority which determines MPs pay). The PRBs cover 2.5 million workers out of the over 5 million employed in the public sector or central and local government. The main function of these independent Review Bodies is to advise the government about appropriate pay awards taking into account the particular circumstances of the remit group and reflecting the different conditions across disparate labour markets. Most of the PRBs are required in their remit to make recommendations on pay giving consideration to relative pay comparisons, cost of living changes, the relative position of recruitment into and retention within the occupation and finally the fiscal affordability position of the government. This means inter alia that the PRBs explicitly take into account information about wastage from the profession, the demographic age profile of the profession as well as any difficulties of recruitment into the profession. The PRBs are evidence-based bodies that do not have constituent statutory members from either employers or the unions but do take evidence from all such bodies on board in making their recommendations. Appointees to the PRBs are independent experts appointed to make objective judgements and the pay determination process should be strongly influenced by these independent bodies. This is in sharp contrast to the other public-sector occupations (like civil servants and Local Government employees) whose pay is determined by a collective bargaining arrangement between the unions and the employers. (It is also worth emphasizing that the current disputes involving transport workers and other groups are not covered by the PRBs and not considered in the present discussion.)

Recent econometric evidence suggests that these PRBs have played an important role in keeping wage inflation under control and have also been central to limiting harmful industrial disputes and damaging lengthy strikes. For the most part, up to 2021, these PRBs have broadly enjoyed the confidence of the trade unions and kept the Government out of protracted conflictual disputes. Unfortunately, the traumatic events of 2022 have brought this steady equilibrium into a new sharp focus. What has changed is that we have experienced a profound exogenous shock to the CoL with the Russia-Ukraine war.

There is no doubt that for the government the PRBs act as convenient objective bodies which consider public-sector pay awards. This means that the individual government departments are not involved directly with public-sector unions in disputes over potential pay rises.

What have the PRBs most recently recommended?

The most recent annual cycle of PRB deliberations culminated in their reports being published in July 2022. In 2022 the basic recommendations of pay rises for each group was: Prison officers 4 per cent, Nurses 4 per cent, Police 5 per cent, Judges 2.5 per cent, the Armed Forces 3.75 per cent, Doctors 4.5 per cent, and Teachers 5 per cent in 2022 and 5 per cent in 2023. Most of these recommendations have been accepted by the relevant government departments. But these recommended pay awards have not been acceptable to the unions involved as the events of the rest of 2022 unfolded.

A most critical factor this year has been that the PRB annual cycle of evidence means that these most recent recommendations relate to the evidence taken by the PRBs in late 2021 and very early in 2022 – before the Russia-Ukraine War. During this period the Retail and Consumer Price Indices were rising by around 4 per cent per annum. Hence the recommendations were broadly in line with the then rising CoL. The reality is, though, that by the time these recommendations were being accepted by the relevant government departments the rise in the CoL had shot up to around 10 per cent. In this heightened dispute it is not surprising that many unions have expressed dissatisfaction with the PRB review process and already said they will withdraw from future participation in the process.

Should the PRBs' remit be changed in be light of the Cost-of-Living crisis?

Since they were set up the PRBs have only ever had the remit of making recommendations about pay and working conditions and affordability in the different occupations. In practice the relevant Secretary of State is under no obligation to accept these recommendations (and sometimes chooses not to).

It would be a major change of their remit to ask them to play a different role in modern times. But arguably this may be justified. More specifically, suggestions have been made that they should be involved in making recommendations about the future supply of workers from abroad and that they should give consideration to improvements in public-sector productivity and tie wage increases to them.

For example, since Brexit we have not had the flow of health professionals from overseas that we need to staff our NHS. Should the NHS PRB have a role to play in making recommendations about recruitment requirements from overseas? The problem here is that this would impinge on what is the remit of the Migration Advisory Committee.

It could be argued that the CoL crisis is an exceptional situation due to the Russia-Ukraine war and the PRBs are not flexible enough to adjust quickly to adverse events if they have an annual cycle which uses evidence that may be 18 months old by the time it is being implemented. Maybe the PRBs should be asked to make interim recommendations in times of rapidly moving inflation?

It could also be argued that the PRBs should explicitly have productivity considerations built into their terms of reference. The research work on public-sector productivity is vital here. Recent work from the Productivity Commission (van Ark 2022) suggests that the ONS figure of 0.7 per cent productivity rises in much of the public sector has some credence. What is less clear though is how this productivity rise translates into a pay award for different occupational workers. It is also a separate question of how that might feed into PRB deliberations. Proposing that public-sector wage increases be linked to productivity would be a big change for the terms of reference of the PRBs and one which could not be implemented quickly.

What is the purpose of PRBs as an institutional device?

The purpose of the PRBs is to provide objective recommendations on pay and conditions. According to recent econometric evaluations (Dolton et al., 2014), they have been appraised as being very effective.

Politically they also serve a very useful function, for Government, which sits outside political processes. The Government can, and does repeatedly, say that PRB recommendations are objective. This has, in the past got the Government out of some very difficult conflictual situations by enabling them to say that an expert body has considered the evidence and made its recommendations, which they are following. In this regard is the PRBs are like other advisory bodies such as the Migration Advisory Committee, which makes recommendations on immigration policy, and the Low Pay Commission, which advises the Government on the National Living Wage and its recommended uplift. But PRBs only make recommendations and do not have teeth like the Monetary Policy Committee, which has the power to fix the base rate of interest.

In practice the Government can use the PRBs to absolve them from making difficult decisions. But the reality is that His Majesty's Treasury (HMT) only welcomes the advice of the PRBs if they give back the recommendations that HMT are happy to implement. When a PRB has not done this then the recommendations have often been rejected. So, in reality, it is questionable whether the PRBs actually have the political agency they should do.

Does the electorate understand the trade-off between public-sector wages and taxation?

The process by which higher wages in the public sector (which are not backed by productivity increases) could give rise to lower quality provision or higher taxation is seldom explicitly spelt out to the electorate. Often HMT will stipulate that public-sector wage rises need to be funded within the 'current government department spending envelope' but seldom is it acknowledged to the electorate that this may mean a lower level of public service provision. Research should clearly be done here on the extent to which the public understands this trade-off and may or may not wish to have a lower quality of service provided by, for example, the NHS and schools, if it meant lower taxes. Alternatively, by how much would they be prepared to see their taxes rise to fund the present NHS and teacher wage demands? Ultimately these questions may be decided at the ballot box in the next General Election.

The case for limiting public-sector wage increases

The Government's case for limiting the size of a public-sector pay uplift hinges on six major premises. We review these in the order that they have been most commonly invoked in recent weeks:

1. Official projections for inflation are that it will fall dramatically in 2023 and into 2024. It is widely suggested that inflation will fall to around 3 per cent in the next 12-18 months.
2. The country can't afford a public-sector pay uplift unless it were funded by increasing public taxation – and the electorate is not in favour of this.
3. Allowing higher public-sector pay will cause future wage inflation which will induce a wage-price spiral and lead to further inflationary pressures.
4. Public-sector workers are better paid than private-sector workers as they have more generous pension benefits.
5. Public-sector workers are in occupations which benefit from 'wage drift' induced by them getting occupational scale pay rises for years of service and seniority which many private-sector workers do not get.
6. Public-sector workers enjoy lower risks of redundancy, shorter working hours and longer holidays than their private sector counterparts.

The counter arguments to these points are, respectively:

- The wage rises due in 2022/23 should be at a level to compensate workers for the changing CoL over this period – hence it is irrelevant what may happen in 2023/4 – and this should be taken care of next year.
- Most people may now prefer to pay higher taxes to fund pay rises for nurses (and others) – they may only be asked to express this preference at the next General Election.
- Recent research evidence suggests that it is the private sector which 'leads' in terms of the wage spiral.
- Public-sector workers (for the most part) no longer enjoy Defined Benefit – so called 'Gold-plated' pensions – and most are in pension schemes which are no more generous than private-sector schemes.
- The perk of 'wage drift' is now common in many private-sector occupational wage structures.
- Private-sector workers are, for the most part compensated for the higher risk of unemployment by pay bonuses which have no role to play in the public sector.

The case for public verses private-sector wage enhancements has a large literature which merits closer scrutiny, particularly regarding the value of the 'Total Reward' package, in each occupation, which takes all of the above factors (pensions, wage drift, bonuses, hours of work, and unemployment risk) into account. The leading studies of this have suggested broadly that the perceived public sector Total Reward advantage has fallen over time and been overstated in recent times by policy commentators. Given that, the current case for limiting public-sector pay increases seems weak at best.

Conclusion

The PRBs are an effective way of handling public sector wage rises, which has in the past worked admirably well. The present situation is a very abnormal one due to the timing of the huge hike in the CoL coming just after the PRBs had reported in 2021/22. The Government needs to rethink its current stance or the PRBs risk losing their credibility.

References

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