

Public sector rates and the National Minimum Wage

With a pay freeze in place across the public sector and pay restraint set to be extended past the end of the freeze, we look at the closing gap between the lowest rates in the public sector and the National Minimum Wage (NMW). Dipping into the IDS archives, we can see how the changing NMW rate since 1999 has compared to the lowest points of a number of key public service grading structures.

The Chancellor, George Osborne, recently argued that public sector pay held up better than private sector pay during the recession. However, in some low-paying parts of the public sector, the gap between the bottom of pay structures and the adult National Minimum Wage rate has narrowed significantly over the past decade. The result of this is that continued restraint under the new policy on public sector pay – for average increases of no more than 1 per cent for two years following the end of the freeze – may require underpinning increases in some sectors, particularly in local government, if some employers are not to fall foul of minimum wage legislation.

The National Minimum Wage was first introduced in April 1999, at an adult rate of £3.60 an hour. Since then this figure has increased by just over two-thirds, with the adult NMW rising to £6.08 an hour in October 2011. IDS has reported on pay structures across the public sector throughout the period of the NMW's existence, allowing us to track how the lowest pay rates in the various public services have changed in relation to the adult NMW.

We can see that the differentials between the statutory minimum and the rates for some of the lowest-paid public sector workers have eroded, particularly in local government. In other sectors, like the NHS, the lowest-paid have benefitted from restructuring and bottom rates have pulled away from the minimum wage. In central government most departments maintained a relatively constant gap, helped recently by modest underpinning increases at a time when their better-paid colleagues have seen pay frozen.

Gaps with NMW

The narrowing gap between rates for low-paid public sector workers and the NMW does not necessarily mean that increases to minimum public sector pay rates have been abnormally low during this period. The minimum wage saw a series of large uplifts from its initial rate of £3.60 an hour during its first few years, increasing by almost 50 per cent from April 1999 to October 2006. This coincided with a period of restructuring in some parts of the public sector, most notably the NHS, coupled with steady (though not enormous) annual pay rises throughout the public services. Several public sector bargaining groups, including local government,

saw the deletion of one or more spine points from the bottom of the grading structure during this period in a form of underpinning increase.

Since 2006, growth in the NMW rate has slowed, with each of the last five annual uplifts to the minimum wage below 4 per cent, and each of the last three at 2.5 per cent or less. However, this most recent period has coincided with the credit crunch, financial crisis and subsequent recession, followed by a government austerity programme that has seen multi-year pay freezes across the public sector. It is no surprise, then, to see the differential between the NMW and rates in some lower-paying parts of the public sector being eroded.

Local government

The clearest examples of a narrowing gap between the lowest rate and the minimum wage are in local government. In England and Wales, the local government premium at the lowest end of the pay scales has eroded significantly for staff covered by both the NJC services agreement and the JNC craft agreement. In Scotland, a similar picture has emerged over the past 12 years. This has been accelerated in all cases by the pay freezes for local government groups, and intensified further by the fact that the underpinning £250 increase for the lowest-paid was also not awarded to any local government employee group. Local government workers are a particularly significant group when analysing low pay in the public services, as a greater proportion of employees in the sector earn below £21,000 than in almost any other part of the public services.

Currently, the lowest spine point in the NJC pay scale is £6.30 an hour, just 22p higher than the adult minimum wage rate. Local government employers have just announced that they will not be offering a pay increase for 2012-13, effectively extending the pay freeze into a third year (see p.6). This means that any significant increase to the adult NMW rate in October 2012 would mean the gap with the lowest NJC spine point would all but disappear.

This catch-up of the NMW with pay rates in the sector has been exacerbated by the effective two-year pay freeze, but is also part of a longer-term trend. In October 1999, the lowest spine point in local government was 24 per cent higher than the NMW,

at £4.47 an hour compared to the initial minimum wage rate of £3.60. By October 2006, long before any hint of austerity or public spending cuts, this margin had declined from 24 per cent to just 8.5 per cent, and it has since declined further. This has come about despite underpinning in the last three years in which a pay increase was negotiated – extra uplifts were made to one or more of the bottom few spine points as part of the awards in 2007, 2008 and 2009.

In the wake of the local government pay freeze in 2011, October's uplift to the adult NMW left the lowest NJC spine point just 3.5 per cent above the statutory minimum. If this trend continues then some form of earnings underpinning will be inevitable from a legal standpoint, either through the national agreement or through individual councils uprating or deleting the lowest spine point(s).

It should be noted that, in practice, many councils do not actually use the lowest pay point. Only one in eight councils told us they employed any staff on the lowest NJC spine point in our most recent local government survey. However, even given this caveat, the margin between the minimum wage and spine points just above the minimum has also reduced dramatically, so the differential has eroded whether individual councils use the very bottom spine point or one a few places higher as the start of their grading structure. The Local Government Employers have estimated that as much as two-thirds of the local government workforce earn salaries of less than £21,000, and the gap between these

employees and the NMW rate is likely to continue to narrow as long as a pay freeze remains in place.

Craft rates

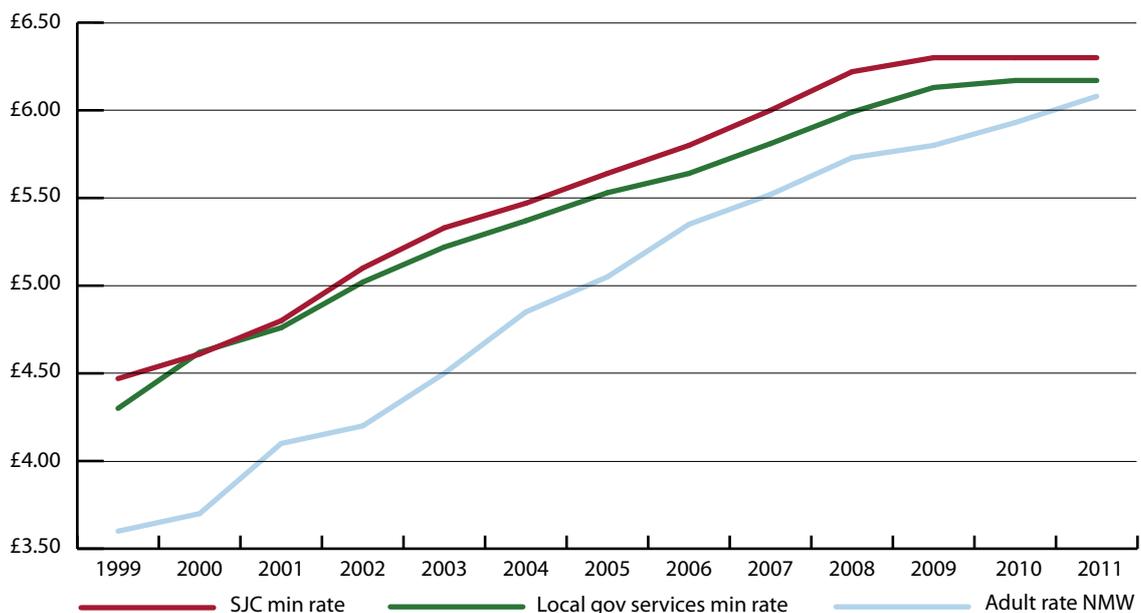
Craft rates in England and Wales are typically increased by the same amount each year as the NJC award for local government services. As a result, the minimum craft wage has lost its advantage over the NMW at a similar rate, albeit from a higher base. In 1999 the minimum craft rate in local government was £4.94, some 37 per cent above the minimum wage. In October 2011 it was £6.59, or 8.5 per cent above the adult NMW.

Scottish local government

The narrowing of the margin between the lowest rates in the local government structure and the statutory minimum wage has been even more obvious in Scotland than in England and Wales. The lowest pay rate in the SJC local government pay structure is now £6.17 an hour, only 9p above the national minimum wage rate of £6.08, or a margin of just 1.5 per cent. This has declined from a gap of almost 25 per cent in October 2000.

Pay in Scottish local government is set to be frozen again in April 2012 in the final year of an imposed three-year deal, meaning that an uplift to the NMW in October 2012 could conceivably see a forced increase to the lowest spine point under the SJC to avoid breaking the law. Any increase of more than 1.5 per cent in the NMW level in

Gap between NMW and lowest local government pay rates 1999-2011



Source: IDS

October would take it above £6.17 and mean that the lowest Scottish spine point would need to rise to keep up with the statutory minimum.

As with England and Wales, however, in practice fewer councils than previously actually make use of the lowest spine point, so in the immediate short term it would not cost councils a very great deal to uprate the lowest pay point in line with the minimum wage. Furthermore, the campaign for a 'Living Wage' has found a greater level of support from local authorities in Scotland than in England and Wales. The Scottish local government minister recently told Parliament that more than half of Scotland's 32 local authorities either pay the Living Wage of £7.20 to all staff or have committed to doing so.

The introduction of the Living Wage as a higher base at participating councils may cause some squeezing of differentials. However, when the NMW was first introduced some critics forecast major problems for the effect on pay differentials, problems which never really materialised. And the Living Wage, where in use, provides a far larger buffer between the lowest-paid council workers and minimum wage employment. That said, even the Living Wage figure of £7.20 an hour is just 18 per cent above the adult statutory minimum wage. Although significantly above the current lowest pay point in the structure, this still represents a smaller gap to the minimum wage in percentage terms than existed in 1999 when the NMW was introduced.

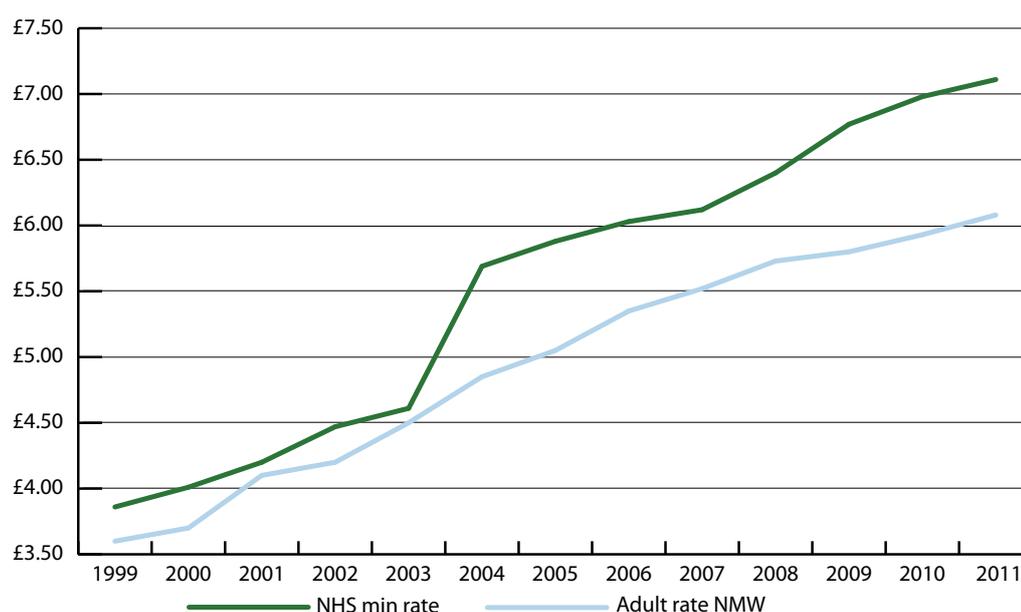
NHS

In the NHS, the overall trend has been opposite to that in local government, with the differential between the lowest pay rate and the adult NMW larger in October 2011 than it was in 1999 when the minimum wage was introduced. However, this does not quite tell the whole story, as an entirely new pay and grading structure called Agenda for Change was brought in for the NHS in 2004. The relationship between the lowest NHS rate and the NMW changed significantly at this stage.

As a result of the restructuring, wages for the lowest-paid staff in the NHS increased significantly. When calculated as an hourly rate, the lowest pay rate in the NHS in 2003 was £4.61, just 2.5 per cent above the adult NMW level. The following year, under Agenda for Change, the lowest rate in the structure increased to £5.69 when calculated as an hourly rate – 17 per cent above the minimum wage.

Since the implementation of Agenda for Change, the lowest rates in the NHS have broadly kept pace with increases to the NMW, with the current lowest point in the structure at £7.11, still 17 per cent above the adult minimum wage. This has been in part a result of lower annual increases to the minimum wage since 2004, and partly a result of the £250 underpinning increase for employees earning under £21,000 in 2011. This underpinning meant that the lowest spine point increased by 1.8 per cent despite the wider pay freeze.

Gap between NMW and lowest NHS pay rate 1999-2011



Source: IDS

HMRC

In central government and the civil service, attempts to track a single lowest rate of pay over time are difficult, due to the frequency of department mergers, splits and restructuring. The best series of consistent data for monitoring low pay is HM Revenue and Customs, which employs a number of staff paid less than £15,000 a year, and has only had one major restructuring since 1999, when it was formed in 2005 from the merging of HM Customs and Excise and the Inland Revenue.

Pay growth for low-paid staff at HMRC and its predecessors has kept pace relatively consistently with growth in the adult NMW rate. In 1999, the minimum rate for both Customs and Excise and the Inland Revenue was £4.38 when calculated as an hourly rate, 22 per cent above the adult NMW. The current minimum is equivalent to £7.52 an hour, or 24 per cent higher than the minimum wage figure.

Pay at HMRC has been frozen for two years, effective from June 2011. However, for 2011 at least, those earning less than £21,000 received a £250 increase, meaning that the lowest end of the pay scale increased almost in line with the rise in the minimum wage. Since increases to the minimum wage have been less than 3 per cent in

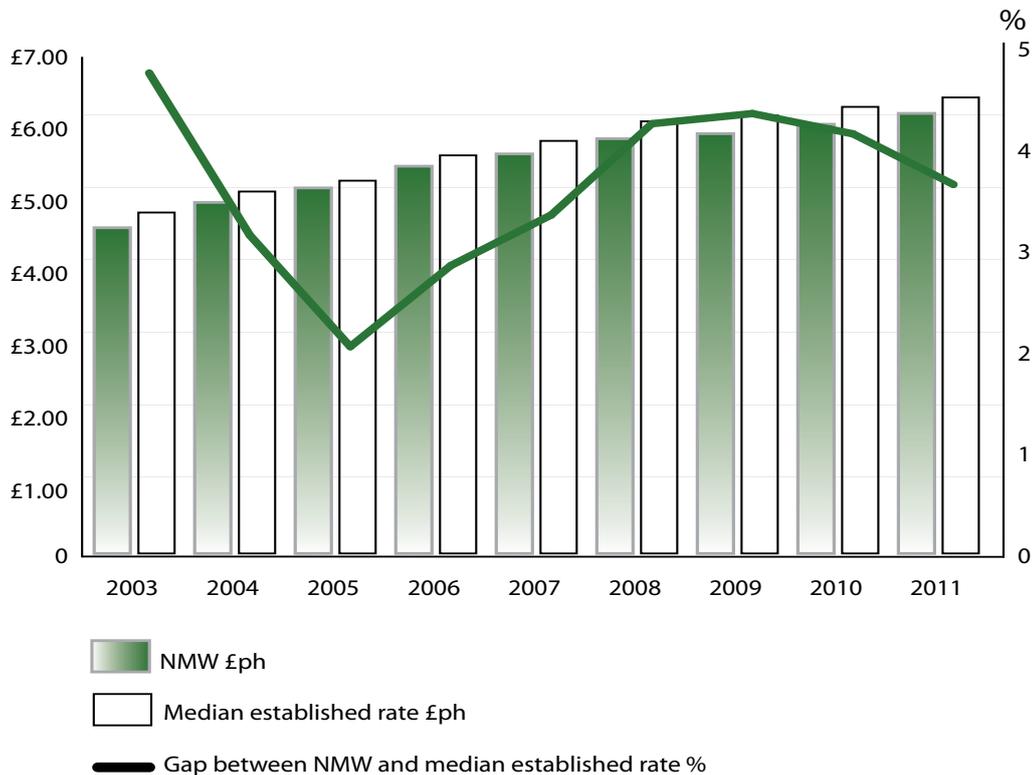
each of the last three years, underpinning increases of £250 or more are enough to keep lower-paid government workers in line with increases to the minimum wage, if not in line with inflation.

Department for Work and Pensions

The lowest rates in the Department for Work and Pensions (DWP) have mirrored HMRC in their relationship with the minimum wage since 1999. When the NMW was introduced in 1999 the minimum salary in the structure for the old Department of Social Security was £8,500 a year, equivalent to £4.41 an hour, or 22 per cent above the minimum wage rate. By October 2011, the minimum salary at DWP had risen to £14,400, equivalent to £7.46 an hour. This meant that the relationship of this bottom pay point with the NMW was almost unchanged over the period, at just under 23 per cent in 2011.

As with HMRC, the reason the DWP's lowest rates have maintained their lead on the minimum wage in recent years has been the application of an underpinning increase to protect the lowest-paid workers during the pay freeze. In the case of the DWP, the lowest pay point was increased by £400 – an uplift of almost 2.9 per cent. For a department with a larger proportion of lower-paid staff than

Gap between NMW and established retail rates 2003-2011



Source: IDS Pay and conditions in retail 2012

many other parts of the civil service, this is a significant payment, which has kept the differential between the bottom pay point and the NMW at a constant level despite the wider pay freeze.

Sixth-form support staff

The National Minimum Wage has also been creeping up toward the bottom end of another public-sector pay structure for which IDS has consistent records since 1999 – sixth-form support staff. When the minimum wage was introduced, sixth-form support staff at the bottom of the pay structure received £4.30 an hour, 19 per cent above the adult NMW. In October 2011 this differential had shrunk to less than 5.5 per cent.

Retail

To compare trends, it is worth also looking at a low-paying industry in the private sector. Since 2003, IDS has calculated the median established

pay rate across a series of retail organisations. Pay in the sector is far more closely aligned to the NMW, with around a third of employers employing at least some staff on minimum wage, and most others keeping a relatively constant differential between their lowest rates and the statutory minimum.

Since 2003, the gap between the IDS-calculated median established pay rate for retail workers and the NMW has shown relatively little fluctuation, with the differential constantly between 2 and 4.7 per cent. Perhaps more significantly, however, in 2011 the median established rate in retail reached £6.30, equivalent to the lowest rate on the NJC local government scale, 13p an hour higher than the lowest point on the SJC local government scale and just 11p an hour behind the lowest rate for sixth-form support staff. It is the first time that average rates in this traditionally low-paying sector have caught up to the lowest-paid operators in the public services.

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