

# Managing pay

## Keeping pay bills under control while restructuring your workforce

In recent years, the management of public sector pay has been characterised by increasingly centralised control of pay decisions through national pay bargaining, leading to poorly designed services and wasteful spending.

Pay amounts to around 30% of total public spending and the way in which pay systems are designed can impact directly on the services being provided. As the public sector begins to realise the impact of spending cuts, managing pay will become a valuable option for achieving the savings necessary to maintain service levels.

### Our response

PricewaterhouseCoopers LLP (PwC) has developed a two-pronged strategy in managing pay. These short- and long-term programmes will both reduce employment costs and improve services through better job design.

Employment costs will ultimately be treated as a part of the overall costs within which a service should be managed, enabling service providers to adapt pay and other terms and conditions to fit with local service needs and employment markets.

A carefully planned four year transition period will enable this to be achieved alongside the immediate objective of reducing public expenditure.

### The benefits

- Reduce employment costs
- Improve services through better job design
- Short-term reduced public expenditure
- Long-term pay structures that suit your organisations needs
- More local pay flexibility

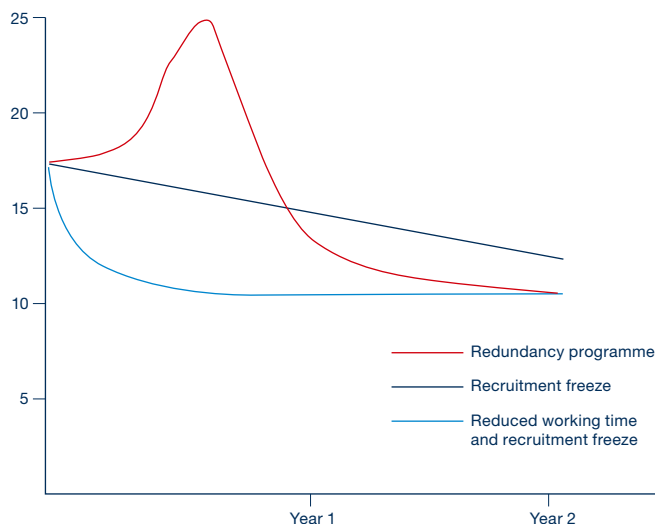
## Short-term solutions

In the short-term the imperative is to control costs and the government has taken a number of important measures to do this, including the two-year pay freeze, initiatives to reduce the redundancy and sick pay benefits in the civil service, and the reduction in the numbers of senior civil servants who will receive bonuses.

In addition to this we believe the following additional three measures should be put in place:

- Wage drift (largely through incremental pay progression) typically accounts for a third of the annual public sector pay increases in a normal year. This cost is likely to increase now that pay and recruitment freezes are in place (primarily because in normal times part of the cost is offset by less expensive staff being recruited at the bottom of pay scales). Controls therefore need to be put on the number of employees progressing through incremental pay scales. For example, in the NHS a 50% reduction in the numbers of staff progressing over two years would save around £600 million over that two year period.
- Where headcount reductions are needed, the government should support local agreements for public sector workers to reduce their working hours for time-limited periods until natural wastage reduces headcount to an appropriate level. [Figure 1](#) shows the illustrative cost profiles for an organisation that needs to reduce its staffing costs by 30%. A combination of reduced working time and a recruitment freeze achieves the objective more quickly and at substantially less cost than a redundancy programme.
- New thinking is needed in the measurement of employment costs. Targets relating to reductions in the employed headcount result in organisations using expensive interim managers and contractors, rather than taking on additional employees where needed. Contractor and agency costs should be included as part of employment costs for the purpose of setting costs reduction targets.

Figure 1: Illustrative cost profiles to achieve a 30% reduction



## Longer term solutions

It is important to plan for the longer term and to begin moves that will enable local organisations to design pay systems to suit their needs. We would suggest six simple and practical policy initiatives that would help to achieve more local pay flexibility:

- 1 Require the Pay Review Bodies to differentiate recommended increases on a regional bases as the pay freeze ends
- 2 Give more flexibility on pay to NHS Foundations trusts and other NHS organisations, including the flexibility to pay lesser amounts than those stipulated under Agenda for Change
- 3 Take account of local market rates of pay when allocating local government funding
- 4 Increase the emphasis on regional pay in the Civil Service through the annual pay remit process
- 5 Introduce separate pay negotiating machinery for the devolved parts of the UK where this continues to be carried out centrally
- 6 Reduce the numbers of speculative equal pay claims by a fairer allocation of the costs of unsuccessful claims

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