



Unite submission to Hutton Review of Fair Pay in the Public Sector

This response is submitted by Unite the Union. Unite is the UK's largest trade union with 1.5 million members across the private and public sectors. The union's members work in a range of industries including manufacturing, financial services, print, media, construction, not for profit sectors, local government, education, the NHS and other health services, prisons and Royal Mail. Unite is a significant player in public services representing over 250,000 workers.

Unite welcomes this opportunity to submit evidence to the Fair Pay Review in the Public Sector and is happy to discuss further with the review any points contained within it.

Executive summary

- **Fair pay is not just an important issue for individual and organisational performance, but needs to be seen in the wider context of economic inequality and the serious implications it has for society.**
- **Unite is concerned that moves towards variable pay systems can lead to unfair pay and perceptions of unfair pay.**
- **Transparent, equitable and equality-proofed pay systems are essential to fair pay.**
- **Trade unions and collective bargaining have a significant role to play in delivering fair pay.**
- **Unite is extremely concerned about attacks on national pay bargaining systems.**
- **Unite is concerned about any proposed attempts to do away with the Code of Practice on Workforce Matters (commonly referred to as the 'Two Tier Code') which has been a valuable instrument in the pursuit of fair pay.**
- **Pay ratios can assist in the promotion of fair pay, not least as useful audit tools.**

- **Fair pay is also about the lowest paid and attention needs to be given to appropriate minimum benchmarks.**
- **Unite is concerned about some of the sectors and organisations excluded from the review's remit, where the issue of high pay differentials appears to be starkest.**
- **The review needs to understand the special role that public services play in society and the value they have beyond economic cost. It is important that the review does not ignore the impact of damaging cuts to public services, including the impact of pay freezes in the public sector.**
- **The review also needs to recognise the issue of fairness across the public sector more generally and the issue of gender inequality, given the concentration of women in low paid public sector jobs.**
- **Pay inequality is greatest in the private sector and any examination of fair pay in the public sector needs to also look at pay in the wider economy.**
- **Unite believes that remuneration committees (in the public and private sectors) should include trade union representation to provide an employee perspective.**
- **Unite supports the creation of a High Pay Commission to consider proposals to restrict disproportionate remuneration such as maximum wage ratios and bonus taxation across both the private and public sectors.**

Implementing fairness

Do you agree that the organising principle of the Review should be that for pay to be fair it must be proportional to the effort of the individual and the value of the work done?

1. Proportionality to effort and value of work done are elements of what might constitute fair pay. But proportionality should not be used as a means by which to justify pay systems and practices which are unfair or perceived to be as such. Unite is familiar with many problems around the use of bonuses, performance related pay and other variable pay systems. Our members' experiences of performance-related pay systems often find that targets are unrealistic, imprecise or over-generalised, staff are demotivated as 'the few gain at the expense of the many' and teamwork is undermined due to the emphasis on individual performance.

2. In addition, inappropriate performance-related pay systems can have a detrimental effect on service users and customers. For example, Unite members in the finance sector have expressed serious concerns about the target based sales practices used by most companies. This is reported in more detail in Unite's submission to the Financial Services Authority's discussion paper on Pure Protection sales by retail investment firms¹, but by way of illustration, one member told us:

"We have gone from being professionals who provide an excellent service to bullied workers who are constantly under threat of our jobs. If their ridiculous outlandish targets are not met, then the company has virtually provided its case for dismissal and has no regard for loyalty, hard work and especially customer opinion or services".

3. The House of Commons Public Administration Select Committee in its report on *Top Pay in the Public Sector* also makes the observation that performance-related pay in the public sector can be less a matter of individual or even organisational performance and more about the performance of the wider economy². It finds that *"it is clear that the political and economic environment is not favourable towards introducing a system that would lead to more public sector workers receiving a greater part of their salary in the form of bonuses and other incentives"*³.
4. Any analysis of fair pay has to consider the extent to which pay systems are transparent and equitable. Unite's approach to fair pay includes:
 - pay levels that are comparable with other appropriate companies and organisations;
 - fair internal relativities and range of earnings;
 - pay increases in line with organisational financial performance and movements in the cost of living;
 - equal treatment of all employees in pay and grading, including people performing the same job satisfactorily getting the same salary;
 - job content to be recognised as an important aspect of salary determination.
5. These objectives apply to whatever form of pay system is in operation, but it is Unite's experience that inequalities are greater where pay systems seek to link pay to performance, competency and other subjective criteria. Unite wants pay systems:

¹ http://www.epolitix.com/fileadmin/epolitix/stakeholders/FSA_Pure_Protection.pdf

² PASC, *Top Pay in the Public Sector*, page 27 (2009)
<http://www.publications.parliament.uk/pa/cm200910/cmselect/cmpublicadm/172/172i.pdf>

³ Ibid.

- where pay decisions are objective, rather than subjective;
 - where principles are explicit, clear and straightforward;
 - which are free of favouritism and treat all staff in the same way, regardless of gender, ethnicity, age, sexual orientation, etc.;
 - where outcomes can be measured.⁴
6. Pay structures should be based on reputable job evaluation schemes with appropriate union involvement. In addition, attention should be paid to the Equality and Human Rights Commission's *Code of Practice on Equal Pay*⁵ which aims to help organisations move towards systems of pay which are fair and which value the entire workforce.
7. Unite believes that collective bargaining and national pay systems have an important role to play in delivering fair pay and this is covered in more detail in paragraphs 36-48 of this response.

Total Reward

8. One of the more recent developments in pay trends is Total Reward which has been considered in respect of both the private and public sectors⁶. The Chartered Institute of Personnel and Development has defined Total Reward as:
9. *"...a reward strategy that brings additional components such as learning and development, together with aspects of the working environment, into the benefits package. It goes beyond standard remuneration by embracing the company culture, and is aimed at giving all employees a voice in the operation, with the employer in return receiving an engaged employee performance."*⁷
10. This definition is a useful benchmark not just in terms of the thinking of HR practitioners, but because of the specific reference it gives to giving employees a voice (something addressed later in this response).
11. Flexible benefits packages allow individuals to determine the make up of their own pay and conditions. In fact, no system in operation allows total flexibility. There will usually be a group of common core benefits which everyone will get and there will be maximums and minimums for each benefit. But part of remuneration will be ring-fenced as a 'flexfund' from which employees 'purchase' their choice of benefits. These will vary from scheme to scheme but may include things like holidays, private health care, company cars or enhanced pensions⁸.

⁴ For further details see Unite's Guide to Bargaining Pay Systems, 2008 (<http://www.unitetheunion.org/pdf/BargainingPaySystemsGuide.pdf>)

⁵ http://www.equalityhumanrights.com/uploaded_files/code_of_practice_equalpay.pdf

⁶ It is worth noting that whilst Total Reward and 'flexible benefits' are often spoken of together, they are not necessarily the same thing.

⁷ <http://www.cipd.co.uk/subjects/pay/general/totrewardf.htm>

⁸ IDS HR Studies 871, June 2008

12. Unite's practice and experience tells us that there are very good grounds to be sceptical about Total Reward and flexible benefits. Central to our concerns is the need to ensure employee voice through trade union influence.
13. Firstly, one needs to ask what are the objectives? Are they being introduced merely as a cost cutting exercise or do they contain some real improvements for staff? It is also evident that some employers see this as an opportunity to reduce the role of trade unions and weaken collective bargaining (the issue of trade unions and collective bargaining is developed further in paragraphs 24-48 of this response).
14. There is also the issue of take up. Unite's experience shows that there is lower take-up amongst lower paid grades. Affordability appears to be an issue, which says something about the importance of basic pay. In addition, a Head of Group Reward at a leading UK retail bank has commented to Unite that if Total Reward packages are overcomplicated one ends up with an unintended elitism whereby some people are able to understand them and work them better than others.
15. The issue of equality and equal pay is clearly critical. Transparency is crucial and in the context of Total Reward it is worth considering whether these systems allow for greater transparency or whether the lumping of things together makes it more difficult to be transparent.
16. Total Reward might be seen in the context of moving towards a more holistic approach to reward and work as illustrated by the quotes from some employers such as Total Reward being about "articulating quality of working life benefits" and "the way we treat people". There is good reason to consider the quality of people's working lives – striving for 'good jobs' rather than 'bad jobs' – but when employers consider a more holistic approach, will this include recognising – and rewarding – the downside of people's work experiences, such as increased workloads, violence at work and cutbacks in training?

Total Reward case study: Bank A

17. Bank A – a major high street bank - introduced Total Reward in the late 1990s to replace the profit-related pay scheme which ended when the tax relief on these schemes ended. It is worth noting that pension schemes were kept separate from Total Reward.
18. The ability of employees to buy and sell holidays proved a difficult issue as it impacted upon work-life balance, particularly in sales-orientated roles where employees can buy more holidays but targets are not reduced if employees take more time off. Equally employees will sell holidays if they are struggling to meet targets.

19. Unite believes there was less emphasis on the annual pay rise since the introduction of Total Reward was considered a complete package. The Bank sought to justify lower percentage rises as this was combined with a host of other benefits as presented in an employee's total reward statement.
20. On take up, it appears that it was only really beneficial to those on the higher pay grades as employees must have the ability to invest in benefits. Age also appeared to be a significant factor. There were low participation levels at the lower grades, among those with shorter tenure and younger age groups.

What should Government's role be in promoting fairness in public sector pay?

21. Government clearly has a role in promoting fairness in public sector pay. Firstly, as an employer it has a responsibility to ensure that its own pay policies and practices are fair. The Government also needs to retain its national pay bargaining systems in the public sector (see paragraphs 36-48) as well as conduct and promote fair pay audits and proper job evaluation.
22. Secondly, as a purchaser of products and services it should ensure its procurement policies promote fair pay in the organisations it contracts to. Beyond this, government's behaviour also serves to act as a benchmark of good practice for other public sector organisations and for the private sector.
23. Unite is also concerned about any proposed attempts to do away with the Code of Practice on Workforce Matters in local government (commonly referred to as the 'Two Tier Code'), which was extended to cover other public services in 2005. The *Two Tier Code* arose after trade unions raised serious concerns that after services were being outsourced from the public sector newly recruited employees were being given worse terms and conditions than their transferred colleagues. Unite has particular concerns in respect of 'outsourced' services and how this can lead to the erosion of employees' terms and conditions and the establishment of a 'two-tier workforce'. The 'Two Tier Code' has been a valuable instrument in the pursuit of fair pay and its removal will have a detrimental effect on the lowest paid, particularly part-time women workers. The issue of the outsourcing is also considered elsewhere in this response.

Do you agree with a pay differential between highest and lowest earners of 20:1 as a means of promoting pay fairness? If not, what is your preferred alternative?

24. The 2010 Unite policy conference passed a motion on the issue of fair pay in both the private and public sectors. It called for the creation of a High Pay Commission⁹ to consider proposals to restrict disproportionate remuneration such as maximum wage ratios and bonus taxation across both the private and public sectors.
25. On the specific issue of the 20:1 ratio, a couple of points need to be made. Firstly, it is not clear from the review's terms of reference on what basis this particular ratio has been chosen.
26. Secondly, fair pay (in the public and private sectors) is not simply a question of ratios. Ratios can have a role to play in helping to promote fairness, not least in providing a useful audit tool by which organisations can report more clearly on pay and allow for more effective monitoring and challenge. For example, organisations could be required to report on pay ratios and explain the level and changes from year to year.
27. But fair pay is also about the lowest paid. Unite's policy motion also recognised the role of the National Minimum Wage in lifting low paid workers out of poverty wages. The National Equality Panel report identified improving the level of the minimum wage relative to other wages as a potentially powerful weapon in reducing labour market inequality¹⁰. There have been calls for this Fair Pay Review to recommend a benchmark for the lowest paid as well as the highest¹¹, and it is worth noting that when the Greater London Assembly committed to a 20:1 wage ratio (lowering over time to 10:1), it is also committed to paying the London Living Wage as a minimum salary¹².
28. Incomes Data Services has observed that whilst the lowest pay rates in the public sector are not in minimum wage territory, large proportions of public sector employees are paid at levels not far above it¹³. Furthermore, low pay may remain an important feature in the future years of public sector pay restraint.
29. The Government's promise to "*protect those on low incomes from the effect of public sector pay constraint and other spending constraints*"¹⁴ does not square with the complete freeze on pay rates for those under

⁹ Signatories to a 2009 campaign for a High Pay Commission included Vince Cable MP, then Deputy Leader and Shadow Chancellor for the Liberal Democrats and currently Secretary of State for Business, Innovation and Skills - <http://www.compassonline.org.uk/campaigns/comments.asp?n=5246>

¹⁰ An Anatomy of Economic Inequality in the UK: Report of the National Equality Panel, January 2010., page 401 <http://www.equalities.gov.uk/pdf/NEP%20Report%20bookmarkedfinal.pdf>

¹¹ <http://www.guardian.co.uk/commentisfree/2010/may/18/fair-pay-hutton-public-sector>

¹² See <http://www.guardian.co.uk/commentisfree/2010/jun/16/london-assembly-closes-wage-gap>

¹³ IDS *Pay in the public services, 2010*, page 21

¹⁴ <http://programmeforgovernment.hmg.gov.uk/deficit-reduction/index.html>

the national NJC agreement for local government. These start at just 37p above the forthcoming National Minimum Wage adult rate of £5.93 per hour, effective from October, while 869,000 workers – over 60% of the workforce –earn below £18,000 a year¹⁵.

30. Fair pay is not just an issue for individual and organisational performance and effectiveness – although these are important. It also needs to be seen in the wider context of economic inequality and the serious implications it has for society including for life expectancy, mental illness, and levels of literacy¹⁶. Recent research published in the British Medical Journal looking at the link between health and wealth has led its lead researcher to conclude that failure to tackle the income gap between rich and poor could see life expectancy starting to fall in the poorest areas¹⁷.
31. For Professor Richard Wilkinson and Professor Kate Pickett, authors of *The Spirit Level*, the use of multiples to limit maximum pay are vulnerable to changes in government and it is the concentrations of power at the heart of economic life that need to be addressed in order to ensure that greater equality is more deeply rooted¹⁸. They report that it is hard to escape the conclusion that the high levels of inequality in our societies reflect the concentrations of power in our economic institutions – it is, after all, the institutions in which we are employed that are the main source of income inequality, and trade unions can make a difference.
32. A study which analysed trends in inequality during the 1980s and 1990s in the UK, the United States, Australia, Canada, Germany, Japan and Sweden found that the most important single factor was trade union membership¹⁹. But as Wilkinson and Pickett point out, it is not only the extent of unionisation but provisions for labour representation that are likely to affect wage settlements. In the countries of the European Union, some 70 per cent of employees have their earnings covered by collective agreements. At 35 per cent, the figure in the UK is amongst the lowest in the EU. This raises the role of government in supporting strong workplace representative institutions.
33. Professor Stephen Machin of University College London and the London School of Economics' Centre for Economic Performance has identified that the sharpest burst of rising wage inequality in the UK occurred in the 1980s. In the 1990s, wage inequality continued to rise but at a more muted pace and in the 2000s, 'lower tail inequality' (the gap between the 10th percentile and the 50th percentile) narrowed but

¹⁵ Labour Research, July 2010, page 10

¹⁶ See, for example, *The Spirit Level* by Richard Wilkinson and Kate Pickett (Penguin, 2010)

¹⁷ <http://www.bbc.co.uk/news/health-10730095>

¹⁸ *The Spirit Level* by Richard Wilkinson and Kate Pickett, page 249 (Penguin, 2010)

¹⁹ J. Weeks, *Inequality Trends in Some Developed OECD Countries*. Working Paper No.6. New York. United Nations Department of Economic and Social Affairs, cited in *The Spirit Level* by Richard Wilkinson and Kate Pickett (Penguin, 2010)

'upper tail inequality' (the gap between 90th percentile and the 50th percentile) continued to expand²⁰. He concludes that changes in the role of labour market institutions – specifically the decline of trade unions and the introduction of the National Minimum Wage – are key to explaining this, and that both could be important in reversing the trend in inequality.

34. Of course in the UK, there is a notable distinction between collective bargaining coverage in the public sector (68 per cent) and the private sector (18 per cent)²¹. This not only helps explain the lesser degree of pay inequality in the public sector, but makes the threat to national pay bargaining arrangements in the public sector even more alarming. This is considered in more detail in paragraphs 36-48 of this response).

Pensions

35. On the issue of pensions, Unite notes that the review will take into account any recommendations or findings from John Hutton's review of public sector pensions and will not make independent recommendations on areas covered by the scope of that review. Unite has made a separate submission to the first phase of John Hutton's review²², but this Fair Pay Review should be alert to some of the myths that have been perpetuated around public sector pensions²³ and the links with fair pay. As respected pay experts have written, pensions for public servants are fairly modest. Only the highest paid employees in the public sector have substantial pension expectations and even those would be put in the shade by the 'diamond-encrusted' pensions of the type paid in the private sector²⁴. What's more, the net pay of public sector workers will be cut even further beyond the announced pay freeze if increased pension contributions are demanded.

How important do you consider the process by which pay is determined to delivering fairness?

36. Further to the points concerning trade unions and collective bargaining made in response to the previous three questions, Unite is very concerned about the attacks on national pay bargaining and the detrimental impacts this will have on fair pay.

37. The Government has already signalled its intention to 'reform' national pay bargaining for schools and the NHS, and some academics have

²⁰ *Big ideas: rising wage inequality*, CentrePiece, Autumn 2008, pages 8-10

²¹ *Trade Union Membership 2009* (BIS, 2010)

²² Available at http://www.epolitix.com/fileadmin/epolitix/stakeholders/Hutton_phase1_D2_final.pdf

²³ <http://www.tuc.org.uk/extras/publicsectorpensions.pdf>

²⁴ Alastair Hatchett, *Paying the price*, Public Finance, July 2-15 2010, pages 12-15

called for Britain's public service workers to be given individual contracts instead of having pay and conditions set at a national level²⁵.

38. The Government's white paper on NHS reform states that *"in future, all individual employers will have the right, as foundation trusts have now, to determine pay for their own staff"*.

39. The principles of *Agenda for Change*, set out in the *NHS Terms and Conditions Handbook*, place a clear emphasis on collective, national bargaining setting the definition and structures of achieving fair pay²⁶. These include the agreement of the national partners to:

- *assist the goal of achieving a quality workforce with the right numbers of staff, with the right skills and diversity, and organised in the right way;*
- *improve the recruitment, retention and morale of the NHS workforce;*
- *improve all aspects of equal opportunity and diversity, especially in the areas of career and training opportunities and to ensure working patterns that are flexible and responsive to family commitments;*
- *meet equal pay for work of equal value criteria, recognising that pay constitutes any benefits in cash or conditions;*
- *implement the new pay system within the management, financial and service constraints likely to be in place.*

40. Attempts by the Conservative government to adopt local pay bargaining in the the NHS in 1992/93 ended in failure in 1997. In the words of one noted pay expert: *"It turned out that the assumed frustration with national pay and grading structures was a chimera rather than a reality"* as human resource departments in individual trusts agreed the same increases²⁷. Furthermore, a Treasury guidance note issued in 1993 stated: *"In practice, extremely devolved arrangements are not desirable. There are risks of workers being treated differently for no good reason. There could be dangers of leapfrogging and parts of the public sector competing against each other for the best staff."* As has been pointed out, paying people differently for doing like work, with no good reason leads to equal pay tribunals and it was equal pay issues that led to the modernisation of public sector pay in the first half of the last decade²⁸.

41. Rather than moving away from *Agenda for Change*, the principle of equality proofed job evaluation systems should be extended to senior managers and doctors in the NHS.

42. The proposed shift away from the *Agenda for Change* framework has also been met with caution by senior health figures, with the chief

²⁵ *More than we bargained for*, Alison Wolf (Reform, 2010)

²⁶ http://www.nhsemployers.org/SiteCollectionDocuments/AfC_tc_of_service_handbook_fb.pdf

²⁷ Alastair Hatchett, *Paying the price*, Public Finance, July 2-15 2010, pages 12-15

²⁸ *Ibid.*

executive of Managers in Partnership, which represents healthcare managers, quoted as saying:

“Local pay bargaining is resource-intensive and does require a particular level of skills. It is also potentially wasteful to have duplicated discussions around core principles, and for organisations to start developing their own pay grading systems to support local pay bargaining.”²⁹

43. In education, Unite, and other unions, have worked hard in helping to establish a new national agreement for non-teacher employees in schools, but the Schools Support Staff Negotiating Body (SSSNB) is also under threat.
44. In agriculture, the recent decision to abolish the Agricultural Wages Board, which regulates pay and terms and conditions in the farming industry is reckless and short-sighted. Unite’s National Officer for rural, agricultural and allied workers, has stated that *“Farming is already suffering from an inability to attract and retain skilled workers. Bad employers will now undercut the good and drive a race to the bottom on pay which will exacerbate the skills shortage and threaten the viability of agriculture in England and Wales.”³⁰*
45. It is often forgotten that in some parts of the private sector national company-level bargaining is still the norm and that multi-employer bargaining exists in construction and in printing.
46. Contrary to claims made by national bargaining’s detractors that it is rigid and inflexible, it can have a stabilising influence. The British Printing Industries Federation (BPIF) corporate affairs director has recently been quoted saying: *“Most member companies still support the idea of a national agreement, seeing it as a force for stability.”³¹*
47. In the construction sector, longstanding national agreements between employers associations and the trade unions facilitate good employment relations in an industry that is prevalent with small employers. These employers do not have the resources or administrative capacity to provide a range of benefits for their employees.
48. Finally, on the issue of the pay review bodies that operate in respect of public sector pay, Unite notes that it has been observed that whilst they remain nominally independent, their room for manoeuvre has been significantly restricted³².

²⁹ *HR negotiation skills bar to NHS local pay*, People Management, 29 July 2010, page 6

³⁰ http://www.unitetheunion.org/news_events/latest_news/unite_s_reaction_to_the_abolit.aspx

³¹ *Labour Research*, July 2010, pages 9-11 (Labour Research Department)

³² *IDS Pay in the public services*, 2010, page 1

From the perspective of your sector / area of expertise, do you have any other comments on the approach this Review is taking?

49. The review needs to understand the special role that public services play in society and the value they have beyond economic cost. It is important that the review does not ignore the impact of damaging cuts to public services, including the impact of pay freezes in the public sector. The review also needs to recognise the issue of fairness across the public sector more generally and the issue of gender inequality, given the concentration of women in low paid public sector jobs.
50. Clearly, there is a lack of clarity as to what constitutes the public sector. As the House of Commons Public Administration Select Committee has observed, the boundary lines between public, private and third sectors are blurred rather than clearly demarcated. As a result it concluded that *“it would be not only wrong but impossible to look at public sector pay in isolation from pay elsewhere in the wider economy”*³³.
51. Unite questions why certain organisations and sectors have been excluded from the review. Despite being advised by the review team that “the review will focus on sectors where public concern about fairness and proportionality in public sector pay is greatest”, Unite is not clear why it has been decided that organisations such as Royal Mail, the BBC and the nationalised banks are outside the scope of the review’s recommendations. These would appear to be clear examples of where the 20:1 ratio is exceeded.
52. Unite has already requested that the review should investigate the glaring pay differentials that exist in the not for profit sector where there are organisations where the chief executive’s pay exceeds the 20:1 ratio, even though their organisations are heavily dependent on statutory sources of income³⁴. This is particularly relevant given the Government’s determination to make wider use of the sector for the delivery of public services.
53. The review also needs to consider pay levels for private firms doing public sector work. Would a pay ratio apply to private organisations undertaking public functions, such as large outsourcers like Serco and Capita and temp agencies? It should also be noted that transparency in this context is also often hindered by companies citing confidentiality and market sensitivity. The outsourcing of work, such as cleaning, catering, care work, and security, conceals low pay in a number of public sector workplaces as organisations hide terms and conditions behind commercial clauses.
54. It is also worth noting that the TUC’s Commission on Vulnerable Employment reported that in certain low-paid sectors, including care,

³³ PASC, *Top Pay in the Public Sector*, page 9 (2009)

<http://www.publications.parliament.uk/pa/cm200910/cmselect/cmpublicadm/172/172i.pdf>

³⁴ http://www.unitetheunion.org/news_events/latest_news/will_hutton_asked_to_probe_cha.aspx

cleaning, hospitality, security and construction, evidence shows that some employers routinely break the law³⁵. Better enforcement of employment rights, and the role of trade unions in this and promoting awareness, were amongst its key recommendations.

55. The problem of unfair pay and unjustifiable multiples is most significant in the private sector. This is an important issue in itself and not just because of the knock on effects for pay determination in the public sector.
56. Unite concurs with the view expressed by the House of Commons Public Administration Select Committee that measures to address executive pay in the public sector “...will only be effective in the longer term if senior salary restraint in the public sector is matched in the private sector”³⁶. As the Fair Pay Review acknowledges in its own terms of reference: “distortions and market failures in private sector pay create pressure for unfair pay multiples in the public sector”.
57. Whilst any examination of fair pay in the public sector needs to consider what is happening in the private sector, it is also important to be aware of the pitfalls of comparing private and public sector earnings, not least in respect of the compositional differences between the public and private sector workforces (e.g. proportion of specialist roles in the public sector which require a higher degree of training and skills) and changes to the make-up of both the private and public sectors in the past decade³⁷.
58. The review should also give regard to other factors which influence fairness in general and fair pay in particular, such as access to training, promotion and the organisation of work.
59. The National Equality Panel report identified that the low level of hourly pay for part-time work reflects both the low value accorded to it and a failure of work organisation, including the lack of opportunities for training and promotion. The NEP called for part-time opportunities to be opened up beyond routine and low-paid occupations, and to open up career progression for part-time workers³⁸.
60. The Public Administration Select Committee point out that it is almost always cheaper to promote from within than to go to the market to recruit. It is therefore disturbed by “a lack of clear evidence that government is successfully growing its own talent in those areas long identified as suffering from a skills shortfall.”³⁹ The Committee also

³⁵ *Hard Work, Hidden Lives*, 2008

³⁶ PASC, *Top Pay in the Public Sector*, (2009), page 4

<http://www.publications.parliament.uk/pa/cm200910/cmselect/cmpubadm/172/172i.pdf>

³⁷ See IDS *Pay in public services 2010*, pages 23-26

³⁸ An Anatomy of Economic Inequality in the UK: Report of the National Equality Panel, January 2010, page 400
<http://www.equalities.gov.uk/pdf/NEP%20Report%20bookmarkedfinal.pdf>

³⁹ PASC, *Top Pay in the Public Sector*, (2009), page 50

<http://www.publications.parliament.uk/pa/cm200910/cmselect/cmpubadm/172/172i.pdf>

identifies the need to ensure that elements such as job interest and satisfaction, development opportunities and work-life balance are not eroded when considering the challenges facing public sector organisations⁴⁰.

61. Finally, it is also worth noting the extent of unpaid overtime that is worked in the public sector. Analysis conducted by the TUC finds that one in four (25.3 per cent) public sector workers worked unpaid overtime in 2009, worth nearly £9 billion a year, compared to one in six staff in the private sector (18.3 per cent)⁴¹. Public sector workers are also more likely to do 'extreme' unpaid overtime.

Benefits of fairness

Do you have any evidence that fair pay, or a perception of fair pay, has an impact on productivity or brings other benefits to organisations and their staff?

62. Fair pay, and perceptions of fair pay, are important, not just for organisational effectiveness, but for society more generally (see paragraphs 24-34).

63. Research shows that perceptions of fair pay and treatment at work can have an important impact on levels of employee motivation⁴², and Will Hutton, leader of this review, is right to observe that “*where there is a fairness deficit, organisations and societies start to become dysfunctional*”⁴³.

64. The huge gap in salaries and wealth has led to a massive swell of mistrust for business. Richard Lambert, director general of the CBI, has himself acknowledged that “the reputation of business has been dented” and that business leaders risk being viewed “aliens” if they do not address public perceptions of their rewards, pointing out that the typical chief executive now earns 81 times the average wage, up from 47 times a decade ago⁴⁴.

65. Unite has evidence of the link between union organisation – and management attitude to the union – and perceptions of fair pay. In a survey of Unite members in the finance sector conducted in 2008 in collaboration with Professor Jeremy Waddington of the University of Manchester, many members, irrespective of gender or hours of employment, voiced dissatisfaction with their pay. However, women in

⁴⁰ Ibid. Page 52

⁴¹ http://www.tuc.org.uk/work_life/tuc-17614-f0.cfm

⁴² <http://www.personneltoday.com/articles/2010/04/28/55377/election-2010-why-fair-pay-policies-should-matter-to.html>

⁴³ *The Work Foundation Annual Debate 2010: Are we heading for a fairer workplace?* Will Hutton (<http://www.theworkfoundation.com/research/publications/publicationdetail.aspx?oItemId=248>)

⁴⁴ <http://www.guardian.co.uk/business/2010/mar/31/myners-urges-fsa-to-investigate-shareholders-role>

particular felt that they were under-paid and discriminated against. 54 per cent of all respondents did not think that their pay was reasonable and 46 per cent said that their pay system discriminated against them.

66. Where an employer encourages union participation, members were more likely to be satisfied with their pay and are less likely to feel discriminated against. Where there is a positive employer attitude to the union, 37 per cent of members said that their pay system discriminated against them and 64 per cent said that their pay was reasonable. Where participation is not encouraged, 58 per cent of members said that they were discriminated against and 39 per cent that their pay was reasonable.
67. Furthermore, where there is a Unite office representative in the workplace, there is also less sense of discrimination and greater satisfaction with pay. 52 per cent of members with no office representative said that their pay system discriminates against them and 46 per cent said that their pay was reasonable. However, among those with an office representative, 42 per cent said that their pay system discriminated against them and 58 per cent said that their pay was reasonable. Where there is union organisation and participation, members pay experiences are better.
68. Equality proofed pay systems also have the huge advantage of long term cost effectiveness. For example, together the Department of Health, NHS Employers and the joint unions legally defended the *Agenda for Change* framework in the NHS from accusations of gender bias.

Do you believe that there could be negative effects of a pay ratio, or other means of promoting fair pay?

69. As mentioned earlier, pay ratios can play a valuable role in promoting fairness. However, they are not sufficient in themselves and counters to concentrations of power in the institutions where people are employed – such as strong trade unions and collective bargaining - are important. This is relevant to any consideration of the monitoring and enforcement of fair pay policies and practices.
70. Some specific problems that might arise with pay ratios include the potential to deter high-flyers away from public sector organisations. The Public Administration Select Committee says *“it would be particularly damaging if talented managers able to deliver substantial savings left the public sector because of pay reductions that would contribute relatively little to deficit reduction.”*⁴⁵

⁴⁵PASC, *Top Pay in the Public Sector*, (2009), page 20
<http://www.publications.parliament.uk/pa/cm200910/cmselect/cmpublicadm/172/172i.pdf>

71. A fixed ratio may also become a target rather than a limit, encouraging executives to push for unjustified levels of pay. There is also a need to guard against the possibility of 'gaming', whereby chief executives seek to create headroom for their own salaries by outsourcing low cost services⁴⁶. The issue of outsourcing is also covered elsewhere in this response.

What relationship do you think there is between fairness in pay and innovation and entrepreneurship?

72. Unfair pay and perceptions of unfair pay are unlikely to foster innovation and entrepreneurship, particularly in areas that require a strong degree of collaboration and teamwork. See also paragraphs 62-68.

Public sector

In the public sector, do you know of any examples of high pay differentials, or executive pay that could otherwise be considered unfair? What is your perception of the trend in pay differentials over time?

73. This is also covered in paragraphs 49-61.

74. Estimates of the extent of excessive pay in the public sector suggest that in many public sector organisations the lowest salary is of the order of £13,000, not much higher than the national minimum wage. A twenty times multiple would set an upper limit of £260,000 a year, a sum earned by very few public servants. The same analysis asks: *"Given the complexity of the organisations in which these executives are employed, any multiple might appear to be arbitrary. And in the context of a financial crisis created by bankers taking risks to secure bonuses worth millions of pounds, why is the focus on a couple of hundred executives in the public sector?"*⁴⁷

75. The Public Administration Select Committee found that *"top pay can be both significantly too low and much too high, depending entirely on perspective. Judged against the private sector the public sector has exercised considerable restraint on executive pay...But pay for public sector executives has been increasing far more quickly than average pay in the economy as a whole."*⁴⁸

76. In the higher education sector, where the average pay for a vice-chancellor is about £250,000, Unite has warned about employers'

⁴⁶ See *Top pay in the public sector: navigating the storm*, Peter Smith (IDS Executive Compensation Review 353, July 2010)

⁴⁷ Alastair Hatchett, *Paying the price*, Public Finance, July 2-15 2010, pages 12-15

⁴⁸ PASC, *Top Pay in the Public Sector*, (2009), page 14

<http://www.publications.parliament.uk/pa/cm200910/cmselect/cmpublicadm/172/172i.pdf>

refusal to engage in meaningful national negotiations to address the position of the low-paid within the sector and failure to consider measures to improve equality in the sector⁴⁹.

77. Last year Unite highlighted the case of a housing association chief executive whose pay of £391,000 in 2008/09 greatly exceeded that of his employees earning just above the minimum wage⁵⁰.

How could a 20:1 pay ratio be enforced in the public sector?

78. Pay levels for senior posts across the public sector are set in a variety of ways including by politicians and by remuneration committees of boards.

79. The House of Commons Public Administration Select Committee has called for more rigorous processes for setting public sector pay, including the appointment of stronger remuneration committees and access to an independent source of information⁵¹. It also calls for the establishment of a Top Pay Commission that brings together and expands the remit of existing pay advice bodies acting as an independent source of data and information, producing pay principles, investigating cases where principles appear not to have been followed or benchmarks have been substantially exceeded⁵².

80. Unite believes that remuneration committees (in the public and private sectors) should include trade union representation to provide an employee perspective. The Trades Union Congress (TUC) in its Budget submission June 2010 also raised the issue of trade unions being represented on remuneration committees⁵³.

Should there be exceptions to a 20:1 pay ratio within the public sector, and where and why?

81. Please see paragraphs 24-35, 69-71 and 78-80.

How important is remuneration in attracting top candidates to executive positions in the public sector?

82. Financial gain is often not the main reason why people choose to work in public services, believing instead that the work that they do is worthwhile and has a wider, important and beneficial role in society.

⁴⁹ http://www.unitetheunion.org/news_events/latest_news/22000_jobs_could_be_lost.aspx

⁵⁰ http://www.unitetheunion.org/news_events/2009_archived_press_releases/charity_bosses_city_pay_cult.aspx

⁵¹ PASC, *Top Pay in the Public Sector*, (2009), page 3

<http://www.publications.parliament.uk/pa/cm200910/cmselect/cmpublicadm/172/172i.pdf>

⁵² Ibid. Page 42

⁵³ <http://www.tuc.org.uk/economy/tuc-18115-f0.cfm>

Research by the Audit Commission found that the biggest factor in people's decisions to enter particular professions considered as public services was to make a positive difference⁵⁴.

83. Unite believes the goodwill and commitment of staff to ensuring users receive good quality services – what might be referred to as a 'public service ethos' -should not be taken advantage of to pay low wages and reduce costs by lowering terms and conditions, and cutting training and resources.
84. Public service staff should be properly rewarded for their work. If public services are not able to retain skilled staff the result is a loss of skills impacting upon the delivery of quality public services.
85. This 'public service ethos' and proper reward issue is relevant to all levels in the public sector and needs to be acknowledged in any consideration of fair pay rather than exclusively focusing on executive positions.

Private sector

Do you have any examples of high pay differentials within private sector organisations?

86. The vast pay differentials that exist in the finance sector have been widely reported. Unite's own figures in respect of a number of finance sector companies show ratios of 80:1, 90:1 and even 100:1 between the lowest and highest paid (excluding bonuses which can be in excess of 100 per cent of base salary). This includes banks in which the Government has a significant stake.
87. Furthermore, the gender pay gap in the finance sector is the largest across all industrial sectors. An EHRC Inquiry revealed that women in the finance sector working full-time earned up to 55 per cent less annual average gross salary than their male colleagues⁵⁵. This compared to the economy-wide gender pay gap of 28 per cent. In evidence to a Treasury Select Committee inquiry on Women in the City, Unite stated that:
 - it is necessary to look at the jobs women do and occupational segregation;
 - the long hours culture is a barrier to women's progression to upper grades in the sector, where unpaid overtime is regarded as part of the job;
 - employers should do more to promote flexible working opportunities throughout the organisation and in particular in more senior grades;

⁵⁴ Audit Commission, *Recruitment and Retention: A Public Service Workforce for the 21st Century*, page 15 (2002)

⁵⁵ http://www.equalityhumanrights.com/uploaded_files/financial_services_inquiry_report.pdf

- the distribution and awarding of bonuses are a significant factor behind the gender pay gap in the sector;
- employers appear less than willing to accept discrimination in pay systems exists which makes it difficult to address a fundamental barrier to women's progression.⁵⁶

Do you think that high pay differentials (between highest and lowest earners in the organisation, and between senior management) are beneficial or detrimental to senior management behaviour and wider business performance?

88. Please see paragraphs 62-68.

Interaction between private and public sectors

How influenced is the public sector by private sector pay practices, and vice versa?

89. There is evidence of certain private sector pay practices and trends influencing the developments in the public sector (see paragraphs 1-20 and 36-48).

Do the public sector and private sector compete for the same people, and if so in which professions / levels of seniority / geographical areas?

90. There are cases of public sector and private sector competing for the same people. For example, Unite has previously highlighted the problem of the loss of pharmacists to the private sector that the NHS has trained whereby 26% of those doing their training year in the NHS then leave to become either a locum or work in community pharmacy.⁵⁷

91. The former head of HR at the Home Office has reported of a 'bidding war' taking place between public sector organisations leading to 'rampant pay increases' at senior levels⁵⁸. This has been said to be exacerbated by an increased number of private sector employees moving into roles in finance, HR and IT in particular. The same article also raises the prospect of an exodus of talented people to the private sector during the difficult and challenging environment facing the public

⁵⁶ http://www.epolitix.com/fileadmin/epolitix/stakeholders/Treasury_Committee_Women_in_the_City.pdf

⁵⁷ Unite evidence to the National Health Service Pay Review Body 2009.
http://www.unitetheunion.org/pdf/Unite%20evidence%20to%20the%20NHSPRB_Sept2009.pdf

⁵⁸ <http://opinion.publicfinance.co.uk/2010/05/where-theres-a-will-by-john-marsh/>

sector over the next few years, including pay freezes and reduced pension entitlements.

Should pay be set differently in the public sector to the private sector?

92. There is no 'one size fits all', but the principles of fairness should apply to both public and private sectors.

Can and should the public sector compete with the private sector on executive pay? Are there other means by which it can attract top candidates?

93. The public sector should be able to attract the best talent. This depends on fair pay and the working environment in the public sector, as well as dealing with disproportionate remuneration in the private sector. See paragraphs 16 and 82-85.

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