

PAY DETERMINATION IN THE U.K PUBLIC SERVICES

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INTRODUCTION

For years successive British governments have set out to be *model* employers with respect to the terms and conditions of employment, attempting to lead or match the better private sector practices, and encouraging improvement in less progressive organisations. From about 1918 onwards, British governments became acutely conscious of the importance of their role as a *model* employer. For the next 60 years the nature of that model remained unchanged in its basic assumption: the government ought to set a *good* example for the private sector by encouraging trade union organisation, supporting collective bargaining and offering a high degree of job security.

Based on the *model employer* concept, the British government endorsed collective bargaining as a preferred method of determining terms and conditions of employment in both the public and the private sectors. The good employer concept also influenced government policy in determining appropriate levels of pay and other conditions for civil servants. In some areas, of course, the good employer ideal was less than fully realised; for instance, workers in some areas of local government and the National Health Service (NHS) were consistently badly paid and income policies in the 1960s and 1970s wreaked havoc with the public service pay determination systems.

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However, the position has been radically transformed by the application of the economic philosophy of Thatcherism since 1979, with its emphasis on the primacy of the market and the perception of the *free market* as the most efficient organisational principle. The restructuring and the reshaping of the public sector based on this new philosophy created changes not only in the structure and process of management, but also, in pay determination mechanisms. This changed the patterns of pay from those found in the 1970s, and affected the development of public sector industrial relations itself.

Therefore, this article describes the mechanisms of pay determination in the U.K public sector in the 1990s and analyses how patterns of pay have changed since Thatcherism.

THE MECHANISMS FOR PAY DETERMINATION IN THE U.K. PUBLIC SECTOR IN THE 1990s

There are several mechanisms for pay determination in the UK public sector in the 1990s: first, the major mechanism, decentralised collective bargaining; second, Independent Review Bodies; third, indexation; fourth, incomes policies, and finally, Performance-Related Pay.

1. Collective Bargaining and Decentralisation

In the public sector, collective bargaining provides the major institutional means to determine pay. According to Millward et. al (1992), about three-quarters of the public sector employees still have their pay and conditions determined by collective bargaining, much of it in the form of what is known as *Whitleyism*, and much of it taking place at the national level. *Whitleyism* rests on three main principles: negotiations between employer and employee representatives at a jointly agreed level (much of it national in practice); joint agreements; and formal conciliation and arbitration procedures.

Recently however, pay determination in the public sector has tended

to be the result of decentralised bargaining or pay determination without negotiation. There has been a decline in collective bargaining and a corresponding increase in the proportion of establishments where pay is determined unilaterally by management or by some external body. Employees now have their pay and conditions determined away from the national level, to more desegregated occupation groups, to local plant level, to business groups, or to the level of the organisation unit (Millward et. al 1992). This is the case for instance, in the civil service, National Health Service (NHS) Trust, the local authority or the school. The first agency to pull out from national bargaining and adopt its own pay and grading system was Her Majesty's Stationery Office (HMSO) in 1990. This indirectly minimised the role played by the Whitley procedure but generally retained collective bargaining.

Table 1 indicates a very substantial drop in the extent of workplaces with collective bargaining for both manual and non-manual employees. It shows that almost all of this fall was in multi employer bargaining and in the public services administered by local government. There was also a corresponding increase in the proportion of establishments where pay was determined unilaterally by management at higher levels in the organisation or by some external body. This also reflected the changed arrangement for determining the pay of teachers, nurses and midwives who experienced a much higher rise in salary compared to the non-manual employees, i.e. from 1 percent in 1982 to 11 percent in 1990 occurred (Millward et al. 1992).

Table 1: Basis for Most Recent Pay Increase in the Public Sector, 1984 and 1990

	Manual Employees		Non-Manual Employees	
	1984	1990	1984	1990
Result of collective bargaining	91	78	98	84
Most important level:				
Multi-employer	72	58	83	67
Single-employer, multi-plant	16	13	13	13
Plant / establishment	1	1	1	•
Other answer	3	5	2	3
Not result of collective bargaining	9	22	2	16
Locus of decision about increase:				
Management at establishment	1	1	•	•
Management at higher level	2	11	-	3
National body	3	7	1	11
Wages Council	2	•	-	-
Not stated	1	1	•	•

Source : Millward et al (1992)

2. Independent Review Bodies

For the remaining 1.4 million employees not covered by collective bargaining, a system of independent third party reviews, known as **review bodies**, applies (Bailey 1994). Pay increases are presented by service managers, employee representatives and the Treasury. Review body members then make recommendations to the Prime Minister on the annual increase. While only accorded the status of advice, rather than that of binding settlement, the recommendations have rarely been rejected outright (except in the context of pay policy - the 1.5 % increase), but awards are often staggered throughout the year to meet expenditure constraints.

The review body in the case of nurses was regarded as a means of rewarding and encouraging the Royal College Nursing's (RCN) no strike-ruling. It was seen very much as a victory for the RCN, with two other unions, National Union of Public Employees (NUPE) and Confederation of Health Service Employees (COHSE), being strongly opposed to the loss of bargaining rights.

On the other hand, the teachers' review body emerged from the

Interim Advisory Committee (1987-91) set up when the bargaining rights were withdrawn by way of punishment for extensive industrial action in the mid-1980s. The 1993 School Teachers' Review Body (STRB) report contains detailed analysis and recommendations of changes in the pay scale for state school teachers, and also in the range of incentive allowances available on individual bases. In 1991-1992 when only three percent of all school teachers received some sort of extra payment that had anything to do with performance quality, it recommended a clarification and simplification of the types of reward available. It also sought to build incentives into the pay scale itself, by recommending changes that allow greater flexibility and more scope for promotion for all teachers.

The STRB recommendations are similar to the steps taken by the nurses' review body in 1988, which introduce a new pay and grading system for nurses. This shows that a third party is able to take existing views and evidence on rewards and acts on them in a way which the process of negotiation cannot do.

3. Indexation

Another alternative to collective bargaining is indexation, which determines the pay of one-third of the public sector employees (Bailey 1994). This allows automatic increases in line with the chosen index, while other terms and conditions remain the subject of collective bargaining. For instance, police wage increases since 1975 have been linked to the annual increase in average earnings in the country. And fire-fighters' pay has been linked since 1977 to the top quartiles of the earnings of male manuals.

The incompatibility between indexation and a set pay increase seems obvious. While the police accepted the 1.5 percent, the fire-fighters responded to the pay limit in a manner rarely seen in pay negotiation in either the private or the public sector. For both police and fire-fighters, the retention of the indexation formula is crucial, and in order to preserve this they accepted an increase of 1.4 percent - the amount dictated by the link with male manual earnings.

Indexation also means that internal relativities within the two services cannot be readily shaped to fit changing circumstances and to avoid cases of over or underpayment. Policemen and women may not go on strike, but ensuring continuity in work is not the same as ensuring that the work is done effectively. If pay levels can be adjusted by alternative means, such as more flexible pay scales or performance-related pay, the costs of indexation may gradually be reduced.

4. Incomes Policies

In November 1992, the government announced its hope that the public sector pay increases in 1993 would be constrained to within the 0 percent to 1.5 percent range and its funding arrangements for the financial year of 1993/94 for local authorities, the NHS and the civil services reflected this assumption (HM Treasury 1992). In February 1993, the government announced new pay rates for nurses, armed forces, teachers and others covered by the Pay Review Bodies. These increased the national scales for most of the 1.5 million public servants whose pay is determined by 1.5 percent.

The focus of the Conservative government public sector pay policies has shifted through three phases. In the first phase the Thatcher administration sought to reduce the high levels of inflation that it had inherited, and to confront the wage militancy of public sector unions. In the second, the government sought to encourage a more decentralized and flexible system of pay determination within the existing framework of national agreement. And in the third, the economic recession and the gathering pace of structural reform in the public sector saw the erosion of national pay arrangements and the creation of a fragmented pattern of local agreements.

The final phase witnessed the abolishment of the Standing Commission on Pay Comparability, the recommendation of the Megaw Report that comparability data should 'have a less decisive influence' in pay settlement, the removal of the Whitley system of bargaining in the health service staff and the abandonment of the 'good employer' model by the government.

5. Performance-Related Pay

One of the mechanisms for pay determination in the public sector in the 1990s is the Performance-related Pay for employees not covered by collective bargaining. For these, individual performance was cited as a consideration influencing the level of their pay increase (Millward et. al 1992). In relation to the principles of pay determination, the present government's emphasis is clearly now on market forces and individual performance rather than any desire to be perceived as a 'good employer.' The changes have primarily involved a shift towards relating pay more directly to individual characteristics and away from reliance on pay for the grade or job.

The emergence of individual performance related pay schemes has been striking. According to Workplace Industrial Relations Survey (WIRS), 45 percent of establishments have either individual payment-by-results or merit based schemes (Millward et.al 1992). These schemes rely upon mechanisms for uprating pay which lie beyond the scope of collective bargaining and are often dependent upon the exercise of managerial discretion.

Formal trade union hostility to performance pay over the decades is a further indication of the perceived threat posed to collective bargaining and collective organisation. There has been considerable union concern about merit pay, expressed by, for example, the National and Local Government Officers Association, the Transport Salaried Staff Association and the Association of University Teachers. Union leaders, however, have also had to confront the fact that the principle of pay for performance sometimes finds strong support among the workforce. Employees strongly favour the use of individual performance as a means of determining pay increases.

HAVE PATTERNS OF PAY CHANGED SIGNIFICANTLY FROM THOSE FOUND IN THE 1970s?

Patterns of Pay

Until the 1970s the relationship between the average pay in the public sector and in the rest of the economy had been stable. Public sector pay increases followed the average for the rest of the economy fairly closely. However, in the 1970s this came to an end. It was replaced by a cyclical pattern of relative pay decline.

Compared to the private sector workers who managed to keep their jobs, average earnings per head in the public sector have risen more slowly, and probably half as much in 1993/94 - a full 2 percent lower (Trinder, 1993). This can be seen in Table 2 which provides information on the relative performance of pay in different major occupations. It also gives real earnings changes between 1970s and 1990.

Table 3 shows the pay rates for manual workers in the local government. The 1.5 percent pay increase due in July and September 1993 for 1.5 million staff has relevance to these workers in as much as the central government considers that the level of financial support to local authorities reflects this pay assumption. However, local authorities argue that the amount of money provided is too small and that they cannot afford them pay rises of 1.5 percent.

Table 2
Earnings Changes In Selected Groups 1972-1990

	Percentage change relative to average of all employees' earnings					Real earning change		
	72-75	75-77	77-80	80-81	81-90	72-90	81-90	72-90
Teachers	-10	4	-20	15	-8	-21	12	13
Police	-18	11	11	6	6	13	29	61
Nurses	4	11	-15	14	2	14	24	62
Armed Forces	-20	12	-3	1	-16	-25	3	6
NHS Ancillaries	-12	12	-14	2	-24	-35	-7	-7
Central Govt Manual	-23	22	-16	17	-15	-22	3	11
Local Govt Manual	-10	11	-16	3	-9	-22	11	11
Town Hall Staff	-23	7	-17	10	-17	-38	2	-11
Civil Servants	-18	18	-15	9	-15	-23	3	9
Public Non-Manual	-12	9	-12	10	-9	-15	12	21
Public Manual	-13	13	-15	4	-16	-27	2	4
All Public	-13	10	-13	9	-10	-17	10	18
Whole Economy:								
Non Manual	-3	0	0	2	3	2	26	45
Manual	2	-1	-1	-3	-7	-9	14	28
All Employees	0	0	0	0	0	0	22	41

Note: Public manual = NHS ancillaries, central government, local government manuals.
Public non-manual = all other groups shown

Source: National Institute Economic Review and New Earnings Survey in Brown and Rowthorn (1990)

Table 3: Public Service Pay Structure : Salary Structure Changes Since 1980

	After Comparability Award (PS p.a)	Current Pay Structure (PS p.a)	% Change
Local Authority Manuals			
	1 April 1980	1 September 1992	
Lowest grade	2.831	7.015	248
Highest grade	3.583	8.500	237
NHS ancillaries			
Lowest grade	2.831	6.300	223
Highest grade	3.900	8.323	213

Source: Public Financial Foundation, London in Trinder, C. (1993)

Armed Forces pay has been determined by a Pay Review Body since 1971. The changes since 1980 are shown in Table 4. The mandatory income policies of the 1970s were adhered to, but the appropriate relativities were to be restored as soon as possible. Because of the 'peace dividend' and the consequent reductions in staff numbers taking place presently, pay increases could be restricted to 1.5 percent even though pay rises for those still employed rose by this amount in 1993.

Table 4
Armed Forces Covered by Pay Review Bodies Since 1980

		After review body recommendation 1 April 1980 (PS p a)	Current pay 1 April 1992 (PS p a)	% change
Armed Forces				
Private				
	Lowest	3,781	8,001	212
	Highest	5,530	13,848	250
Major				
	Lowest	10,008	26,744	267
	Highest	11,994	32,051	267
Brigadier				
		18,250	53,600	294

Source: Public Finance Foundation, London in Trinder, C. (1993).

The rates of pay for schoolteachers and head teachers can be seen in Table 5. The pay levels reflect the second award of the Teachers' Pay Review Body, which was set up by the government in 1991, to try to take the politics out of the settling of teachers' pay.

Table 5
School Teachers' Pay : Salary Structure Changes Since 1980

		1 Sept 1980 (PS p a)	1 Sept 1993 (PS p a)	% change
Schoolteachers				
	Lowest point	4,329	11,295	261
	Highest point	10,656	30,573	287
Headteachers				
	Lowest	7,614	22,404	294
	Highest	18,249	50,682	278

Source: Public Finance Foundation, London in Trinder, C. (1993)

The national scales for nurses are shown in Table 6 and for ancillaries in Table 3. However, more and more of them are now classified as working in public corporations. For example, ninety five percent of the total of all those working in NHS Trusts, are expected to be in that position by 1994. Pay determination for nurses, administration staff, ancillaries and technical employees is already sometimes set within a single pay spine for the unit concerned, rather than by the many national Whitley agreements or Pay Review Body recommendations. These agreements could become less binding if more flexible work practices can be introduced into the presently quite rigid national framework.

Table 6: Public Service Employees (NHS) Covered By Pay Review Bodies Since 1980

	1 April 1980 (PS p.a)	1 April 1992 (PS p.a)	% change
Nurses			
Nursing auxiliary			
Lowest	2.966	7.105	240
Enrolled Nurse			
Lowest	3.781	9.275	245
Highest	4.561	11.350	249
Staff nurse			
Highest	5.119	14.565	285
Nursing sister			
Highest	6.807	23.040	338

Source : Public Finance Foundation, London in Trinder, C. (1993)

HOW HAVE THE CHANGES BEEN DONE?

The changes in patterns of pay in the 1990s from those found in the 1970s are the outcome of the restructuring and the reshaping of the public sector. This influenced pay determination itself as well as the changing patterns of pay.

Restructuring Public Sector

There have been great changes in industrial relations in the public sector over the last ten years as management has reacted to tighter financial controls, greater competition and the privatisation programme. These changes have had an impact particularly on patterns of pay.

The restructuring of the public sector proceeded in two phases. The first phase, from 1979-1987, concentrated on reforming management within the public sector to enhance efficiency and accountability. In most cases this involved managerial reforms such as :

- i) the appointment of managers with private sector experience;
- ii) the delegation of the responsibility for budgets; and
- iii) the development of performance targets and performance-related pay.

The second phase, which developed after 1987, marked a more radical programme of market-based restructuring, underpinned by the previous managerial reforms. The Public sector has been fragmented to create competing providers, with resource allocation linked to market outcomes and accountability based on performance 'in the market place'.

These complex reforms and the pace at which they were introduced placed new demands on managers which could not always be met. For instance, in the NHS, general management was a prerequisite for the later development of more radical market-based reforms and then an internal market has been developed. By April 1994, all hospitals were expected to opt out of the district health authority control and to become NHS Trusts. With greater flexibility to manage their own affairs, they can devise their own terms and conditions of employment and alter bargaining and consultation arrangements. This internal market has created uncertainty for NHS managers because accurate data on costs, prices and the quality of service are not easily available. On top of that, the NHS funding, which determines effective demand in the market, is also very limited. The entire thing is governed by the political process over which the NHS managers have little influence. NHS Trusts have been encouraged to use the greater flexibility available in managing human and financial resources to respond to this uncertain financial context.

The character of the market environment differs in the NHS and education services. In education, the 1988 Education Reform Act signalled more fundamental reforms with the introduction of the local management of schools which delegated responsibility for financial and staff management to governing bodies and enhanced the managerial role of head teachers. Schools also have been encouraged to opt out of local authority control by seeking grant-maintained status. This policy fragments the delivery of education services as schools become separate employers, funded directly by the Department of Education and allowed to develop their own pay and grading systems. The management process has also become more complex and costly.

There are differences between the health and education services not only in the market environment but also in the management regime. In the NHS, general managers owe little allegiance to nurses, medical and other staff but head teachers are typically more sympathetic to the concerns of their own profession. NHS Trusts are not required to hold ballots to gain trust status, and generally lack accountability. In contrast, schools remain more directly accountable, as parental approval is required in a ballot before schools can opt out and each board of governors includes some parent and teacher members.

Despite these differences, a number of organisational constraints indicate that the development of internal markets and the associated management revolution remains incomplete. Besides the complexity of management reforms, managers also have faced difficulties introducing complex changes in a context of financial stringency and increasing consumer expectation. And according to Pollitt et al (1991) financial constraints in the NHS meant that it was difficult to implement change because management proposals became associated with 'government cuts' and because managers were preoccupied with short-term financial manoeuvring.

As a consequence, the implications fell not only on the adoption of private-sector management practice (Bach and Winchester, 1994), but also on the patterns of pay determination.

How the changes in the institutional framework of the public sector changed pay determination can be seen by the restructuring that has been done. With the abolition of the model employer, collective organisation is no longer viewed as the appropriate mechanism for protecting workers and achieving industrial stability. Rather, the government sees trade unions as an unjustifiable interference in the operation of the market, an obstacle to efficiency and incompatible with individual freedom. The withdrawal of official support for trade unionism has been accompanied by the undermining of collective bargaining institutions. The most striking example in this context relates to schoolteachers. Their long-standing collective bargaining machinery was abolished entirely in 1987 by The Teachers Pay and

Conditions Act, which gave the Secretary of State effective power to determine the whole range of teachers' terms and condition. This centralisation of power was used by the government to pursue its broader policies on pay flexibility. In particular, the 1990 award introduced a single spine for classroom teachers and an extension of the incentive allowance system.

This attempt to encourage pay flexibility linked to the local labour market conditions and individual performance came later for teachers than in many parts of the public sector and this led to few significant short-term changes. In general, however, a baseline of national standards has prevailed. Despite governmental exhortation, this may well remain the pattern for the future, albeit with greater scope for individual negotiation and assessment at local level.

Relatively, a new development in the public sector pay bargaining is the use of individual merit payments, sometimes as a replacement for collectively negotiated pay increases. Falling unemployment, higher economic growth and tighter labour markets in the mid and late 1980s have provided a further centrifugal factor in pay negotiations.

CONCLUSION

The developments in the public sector industrial relations have raised questions about unions, pay determination and conflict resolution. While different forms of pay determination may buy industrial peace, the price may be too high in the long run. A fresh demand for an increase in productivity and efficiency by the employer might trigger further demand for an increase in salary by the employees. Co-operation is also needed, but the dilution of the Whitley system of collective bargaining has the danger of bringing about the practice of individual bargaining or even worse still, the development of a single union deal. This development could certainly have an adverse impact upon pay flexibility measures. In theory, pay flexibility measures are designed to improve individual performance of employees at the front line of services, but in practice, it is the management who are better rewarded.

This had resulted mainly from the introduction of pay review bodies for nurses and midwives and the abolition of the teachers' negotiating machinery. There has also been an increasing emphasis on local productivity-related bonus schemes, and in general a move away from criteria such as comparability towards 'ability to pay' and performance. These developments and the recent pay plans seem to suggest a more fundamental change in the structure of pay determination but as yet a concern with financial control has limited the extent of change.

In conclusion, a number of over arching and related themes emerge. First, it has been apparent that attempts to radically alter the system of pay determination even on the back of major organisational change cannot ignore well-established traditions and practices. The government's more flexible approach to pay has been forced to confront a national and unified career civil service founded upon uniform and integrated terms and conditions. Moreover, the use of *fair* comparisons to determine pay has retained an important residual importance in terms of satisfying employee expectations.

Second, the pursuit of change has had to address the issue of central financial control. The concern to retain such control has been seen to frustrate unions' hope through downward pressure on pay increase. And finally, the redesign of payment systems has been a difficult process. The difficulties are most apparent in the attempts to introduce individual performance-related pay schemes. These schemes have emerged in a number of guises over the years: initially for the higher grades; and later for most civil servants under the new agreements.

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