



Home Office

HOME OFFICE EVIDENCE TO THE POLICE REMUNERATION REVIEW BODY

2017-18 PAY ROUND

Contents

	Page
I. Executive Summary	3
Summary pay proposals.....	4
II. Context.....	5
Police pay bill and funding.....	5
Police workforce reform.....	5
Specialist capabilities	9
Other developments	9
<i>Capability dismissal</i>	<i>9</i>
<i>Children & Families Act 2014.....</i>	<i>9</i>
<i>Gender pay gap reporting.....</i>	<i>9</i>
III. Data provision	10
IV. Pay proposals	10
Pay uplift for 2017-18	10
Short term measures to address specific recruitment and retention issues.....	11
London Weighting.....	12
Dog Handlers' Allowance	12
Annex A - Evidence from HM Treasury.....	13

I. Executive Summary

1. The Government's manifesto committed to finishing the job of police reform and workforce reform remains a critical part of this. Policing in the 21st century, by its unique nature, should be one of the most exciting and attractive careers available to the most talented and skilled recruits.
2. Workforce reform is improving the attractiveness of policing as a profession: improving access and developing talented staff; ensuring that officer pay reflects the competence, skills and professional development of officers in a way that is fair and sustainable; and giving chief constables and police and crime commissioners (PCCs) the flexibility they need to lead their forces and manage their resources more efficiently.
3. The Government recognises that there is further to go to ensure every community and all victims receive a professional service, regardless of the crime and location. Ministers have been very clear that the pace of change must not slow and that next stage of police reform must be police-led.
4. There is a continued need for wider public sector pay restraint, as set out in the [Chief Secretary to the Treasury's letter to pay review body chairs](#), and in the economic evidence submitted by HM Treasury, which is attached at Annex A.
5. Overall, the state of the police workforce remains healthy. The proportion of frontline officers remains high, workforce diversity continues to increase and, although there are anecdotal reports emerging of internal recruitment difficulties for some groups of specialist officers, there are no emerging concerns at a national level around entry-level recruitment, or retention. Policing remains an attractive career choice, with a strong field of applicants whenever a force advertises for new recruits. Officers continue to be well paid, compared to other public servants and emergency service workers, and have pensions that are among the best available, which allow them to retire earlier than most.
6. As set out in the Home Secretary's remit letter, you have been asked to consider the following for the 2017-18 pay round:
 - how to apply the pay award for 2017-18, in accordance with the Chief Secretary's letter, including how best to apply short-term, targeted measures to address recruitment and retention pressures; and
 - to provide observations on proposals to introduce police officer apprenticeships in 2018, in relation to setting pay at an appropriate level.
7. Finally, the remit letter asked that these matters for recommendation should be considered in the broader context of the radical and far-reaching programme of workforce reforms currently being undertaken by chief constables and the College of Policing. This programme, which is essential to meet the challenges of modern policing, includes: the implementation of a new five-level organisational structure to empower officers and flatten structures; a new Police Professional Framework setting out the standards required for 21st century policing; and a Policing Education Qualifications Framework to accredit skills, introduce new entry routes and embed a culture of continuous professional development across forces. This sector-led work will form the bedrock for a longer term pay strategy including a more flexible and sustainable reward structure linked to role, competence and skills, to be implemented from September 2018.

8. In addition to providing the main body of evidence supporting this year's pay proposals, partners have committed to provide further detail about planned workforce reforms later in the round, before the oral evidence sessions, with a view to providing detailed proposals, including transition plans, for the 2018-19 round.

Summary pay proposals

9. In this context, and taking into account the evidence presented in this document, the Police Remuneration Review Body (PRRB) is asked to consider the following proposals for 2017-18:
 - **a 1% consolidated increase in basic pay at all pay points and for all ranks, including London Weighting;**
 - **to consider evidence and proposals from chief constables to give forces more flexibility to address specific, evidenced short term recruitment and retention pressures within an average uplift of 1% in line with the Government's public sector pay policy. Proposals should take into account PRRB's previous advice, be mindful of future direction in relation to pay reform and be strictly time-limited. Consideration should also be given to a cap to ensure affordability; and**
 - **to consider evidence from partners on the future direction of pay arrangements for apprenticeships in light of progress made by the College of Policing to design a scheme for policing.**
10. This is consistent with proposals included in evidence to the Senior Salaries Review Body (SSRB) and with the economic evidence submitted by HM Treasury. The context and rationale for these proposals is set out below.

II. Context

Police pay bill and funding

11. In the Summer 2015 budget the government set a four year pay policy from 2016-17 onwards to allow workforces to plan ahead. This comprises an average annual pay increase of 1%, to be targeted in a way that best supports recruitment and retention.
12. Public sector pay restraint continues to play a key role in fiscal consolidation. It helped save approximately £8bn in the last Parliament and is expected to save another £5bn in this Parliament. We understand that continued pay restraint will present some challenges for police leaders, but this must be balanced against the fact that most officers receive incremental pay of between 2% and 7%, depending on rank and experience (with an associated rise in employer pension contributions and National Insurance payments), in addition to any annual pay award. In addition, police salaries remain competitive, officers continue to receive a generous pension and can retire earlier than most other workers. We continue to support partners in working towards wider reform of pay structures, to ensure that police pay and conditions support the longer term vision for a professional police service.
13. The police officer pay bill for the financial year 2016-17 is around £6.65 billion¹. This includes employer pension contributions which represent 21.3% of salary costs. The single tier pension was introduced on the 6 April 2016 and increased NI costs from around 8% to around 11% of salary costs. Overtime accounts for an additional c.£200m of police spending.
14. In addition to the 2015 Spending Review settlement, which represented a fair deal for the police, the Government allocated additional transformation funding to provide PCCs with a once in a generation opportunity to transform policing and invest in digitalisation, a diverse and flexible workforce, and new and more efficient capabilities to respond to changing crimes and threats. Successful bids contain strong proposals to support efficiency and reform and to help transition to new funding arrangements in future and deliver a benefit to all 43 forces across England and Wales, although they may be submitted by a lead force. The funding is available for the next two years. To help partners maintain the pace of workforce reform, transformation funding has been granted to the College of Policing to accelerate development of the Police Professional Framework and to chief constables to design new pay structures aligned to new organisational levels and standards. The innovative Police Now programme has also receiving funding for a wider rollout.
15. The Home Office proposals outlined in this document comply with the wider conditions on public sector pay and, if implemented, will be affordable for Government and for police forces within wider public sector pay policy.

Police workforce reform

16. Further, deeper reform is necessary to create a more flexible, skilled and increasingly professional workforce to deal with changing crime demands. The Government wants to see police ranks opened up, with flexible entry and exit paths, diversity of experience and backgrounds amongst police leaders encouraged and a culture of challenge developed, particularly in the senior ranks. The 2015 Spending Review settlement is providing the

¹ This includes allowances as well as pension and national insurance contributions but excludes overtime.

opportunity for PCCs and Chief Constables to drive forward transformational reforms at an even greater pace while redoubling efforts to drive out efficiencies so that resources can be targeted for greatest impact.

17. We have moved away from the notion that Government intervention can tackle all the issues, but the Home Office has a role in helping policing to reform itself: we are bringing forward legislation to free up police time, enable greater collaboration, reduce non-crime demand on forces and provide better outcomes for people with mental health problems who come into contact with the police. The Policing and Crime Bill includes a number of significant reforms to policing, including delivering on manifesto commitments to develop the role of police and crime commissioners (enabling them to take on the governance of fire and rescue services), overhaul the police complaints system and enable chief officers, subject to key safeguards, to designate a wider range of powers onto civilian staff and police volunteers. At the time of writing, the Bill is nearing its final stages in the House of Lords, and Royal Assent is expected early in the New Year.
18. The Home Office has set the strategic direction for police workforce reform and continues to support reforms being taken forward by partners, through legislation and through targeted funding for significant transformation projects. In this way, the Home Office is providing a suite of tools for the police to transform and create a more flexible workforce, but how they are used is a matter for chief officers in collaboration with their PCCs. We have been very clear that the next stage of reform must be designed and led by the police themselves.
19. The 2015 College of Policing Leadership Review made 10 recommendations to improve police leadership. These include implementing a culture of challenge at the top of forces, introducing career flexibility, embedding the Code of Ethics in selection processes and reviewing police powers in some roles so that police staff appointments are not blocked.
20. In addition to work following the Leadership Review, the College and chief constables are taking forward a number of other strands of work. Together, these form an ambitious and far reaching programme of workforce reform which will finally give policing the professional status it deserves. In doing so, all partners recognise that improvements to line management and leadership, at all ranks, are key to ensuring policing learns from the serious failings of the past and sustains an open, transparent and progressive culture.
21. In terms of pay reform, we aim to introduce measures to enable the implementation of a new pay and reward structure suited to a modern professional workforce by 2019-20. The new pay and reward structure will need to be strongly aligned to roles, competence and skills instead of one rooted in time-served progression. The following pieces of work have started to lay the foundations for this:
 - i. Following the Leadership Review recommendation for a review of ranks, grades and hierarchies, chief constables have given their support for a national organisational design programme to further develop a **five-level organisational model**. This model, together with various pieces of work being taken forward by the College, will provide the basis for **a new reward framework based on competence and skills**, designed by the police, for the police, to be implemented from September 2018.
 - ii. Following a consultation earlier in the year, the College is developing a **Policing Education Qualifications Framework (PEQF)** which will recognise the high level at which the existing workforce operates and enable them to achieve nationally accredited formal qualifications.

- iii. **The Police Professional Framework (PPF)** will articulate the skills and professional standards, competencies and behaviours required for policing at all levels across forces. The College has recently been awarded police transformation funding to take ownership of this framework from Skills for Justice. This will ensure the framework is fit for purpose, sharpen the focus on good management and accelerate the pace of change across all forces.
 - iv. The first stage of the College of Policing's **Assessing and Recognising Competence (ARC)** project was implemented in September. Since the last pay round, the College has issued final guidance to forces to implement the Foundation threshold assessment for constables at pay point 3. Pay linkage will apply from January 2017 and the Home Office is currently finalising amendments to secondary legislation to implement this. Together with the introduction of performance assessment standards, the new pay threshold will make the first strong link between pay and competence and will drive increased professionalism through the inclusion of Continuous Professional Development elements in the assessment criteria. This will pave the way for further threshold points in future, aligned to new qualifications and competence frameworks and organisational design work.
 - v. Since May 2016, the remaining elements of legislation on **pay progression linked to PDRs** have come into effect. Pay progression for all officers below the rank of deputy chief constable is now conditional on achieving a satisfactory annual performance appraisal. Implementation has not been without its challenges and there is still more to do to ensure that this approach becomes embedded in policing. We fully recognise the importance of the work being done by the College to improve line management and assessment skills alongside its work to develop the Police Professional Framework and to implement ARC.
22. It is anticipated that future changes to pay and conditions will require amendments to existing legislation relating to the way in which police pay and conditions are set. Following sector-led proposals, this will include consideration of what elements need to be set nationally and which need local flexibility within a national framework. PRRB's collective experience and expertise will be especially helpful in determining how this should work in future.
23. There are several other important pieces of work being taken forward which are integral to the workforce reform agenda and will need to be taken into account in PRRB's work over the next few years:
- i. At the time of writing, the College of Policing and the Government continue to work at pace on **police apprenticeships** to ensure policing can benefit from the new apprenticeship levy when it comes into force in April 2017. We expect to receive proposals from partners in due course on the most appropriate pay mechanism for apprentices in the short and longer term.
 - ii. The Home Office will work with the College to accredit certain key roles, effectively establishing a system in which officers would need a **licence to practise** in certain critical areas. This will ensure the highest standards are consistently applied to those leading on the protection of the vulnerable as they already are in other critical areas, like firearms and public order. This has the potential to be transformational in improving the policing response to vulnerability and other critical areas. The College will set the national standards expected and ensure all forces and all professionals have access to the right knowledge, training and professional development.

- iii. The College will be launching a pilot of **Advanced Practitioners** in Spring 2017. This will be aimed at developing experts in priority areas who will have access to national networks and will focus on growing the evidence base for their areas and sharing best practice among colleagues.
 - iv. The three **direct entry schemes** offer the opportunity to widen the talent pool from which we attract police officers and will bring in people from a diverse range of backgrounds. The direct entry inspector (active as of this year) and superintendent scheme is aimed at those who have the potential to reach the highest ranks in the police. On the superintendent direct entry scheme, supply has outstripped demand for the first time with 16 people passing the Superintendent assessment centre, posting eight of them in forces. The College has currently recruited 17 inspectors across seven forces and they began their training programme in November.
 - v. Having recruited to seven additional forces in its first year outside the Metropolitan Police Service (MPS), the **Police Now** graduate entry scheme will expand to 19 forces in its third year, supported by £5m of Home Office transformation funding. The scheme continues to increase the number of black and minority ethnic recruits to the police, furthering the aim of building police forces which reflect the communities they serve. The scheme models workforce flexibility, with high calibre graduates committing to two years in frontline policing, before moving on, or choosing to stay and progress.
 - vi. The College **review of initial police recruitment has been published**, making seven recommendations for improvement. The development of a pilot for a new police recruit assessment process, led by the MPS is well underway and is expected to go live by April 2017. The MPS pilot is being supported by the College and the evaluation will inform new national standards.
 - vii. The **review of the use of targets in policing** (December 2015), led by Irene Curtis, included a section on leadership and culture, addressing issues around management behaviour, morale and well-being, PDRs, the need for professional development and more appropriate recognition mechanisms. We welcome NPCC's commitment to developing a set of guiding principles around effective performance management and a framework that will show forces how officers and staff at all levels can be held to account for effective delivery without the use of targets. This is due to be piloted following a consultation period over the next few months.
 - viii. The College of Policing is delivering a major programme of work, [BME Progression 2018](#), which includes the development of an evidence base of successful approaches to the **recruitment, retention and progression of BME officers and officers from other under-represented groups**. This includes the publication of advice on the use of lawful positive action for forces seeking to increase the recruitment, retention and progression of officers from under-represented groups.
 - ix. The College is also progressing **work to develop greater career flexibility and opportunity for those already in policing**, including: enabling exit and re-entry; a secondments programme; and recognition through the qualifications framework.
24. In addition to delivering the majority of these key programmes of work, the College of Policing is providing leadership by taking an increasingly prominent public and media role and by supporting PCCs to develop competition for chief officer roles and chief officers to plan for improvement through peer reviews.
25. In last year's evidence, we signalled the importance of getting existing measures right in order to be able to implement more radical changes in future. This remains the case and we

expect a renewed drive from forces to ensure that the principles behind PDR linkage to pay are embedded and ARC is implemented promptly. We would also reiterate the prime importance of ensuring that officers at all levels are engaged with these reforms.

Specialist capabilities

26. The Home Office continues to work with police partners, including chief constables, the College of Policing and the National Police Coordination Centre to ensure operational leaders and PCCs have adequate oversight of key capabilities which may require specialist skills now and in future – in particular, those needed to tackle the national threats identified in the Strategic Policing Requirement (SPR) such as terrorism, serious and organised crime, cyber, public order, and civil emergencies. The NPCC has established a programme of work to examine the potential of greater force-to-force collaboration across specialist policing capabilities. The aim of the work is to provide forces with a sound evidence base to inform decisions on future collaboration partnerships. This is intended to drive further efficiencies and, crucially, to improve operational effectiveness.
27. The National Police Coordination Centre is undertaking a quarterly data collection exercise which identifies the number of officers in specialist roles. This work gives policing leaders a collective understanding of the gaps in capabilities at local, regional and national levels while enabling them to make well informed decisions regarding the provision of specialist units and where gaps exist. Alongside this, national leads are now working to develop a process for baselining key capabilities to ensure the SPR can be met. This work should be completed by April 2017.

Other developments

Capability dismissal

28. Following a decision made by Ministers in March 2015, we are currently in the process of drafting new regulations to allow the dismissal of officers who are medically unfit for officer roles, but who do not meet the strict permanent disablement criteria for ill health retirement.

Children & Families Act 2014

29. In line with wider labour market reforms, the Government remains committed to reflecting provisions of the Children and Families Act 2014 for police officers, in particular those sections relating to arrangements for parental leave and adoption leave. Chief constables have recommended a way forward since the last pay round and we are in the process of determining what legislative changes are required. We hope to consult partners on amendments to Police Regulations and determinations over the next few months.

Gender pay gap reporting

30. In October 2015, the then Prime Minister and Women and Equalities Minister announced that the Government will extend its plans for gender pay gap reporting beyond private and voluntary sector employers to include the public sector, including the police workforce. The Government Equalities Office has consulted police partners on draft regulations and we will provide further information to the police pay review bodies as it becomes available.

III. Data provision

31. Published police workforce data is available [here](#).
32. The number of police officers at each pay point by rank as well as the numbers receiving allowances and overtime as at the end of March 2016 have been provided to the pay review body secretariat separately through the annual Police Workforce Census. We have brought the census up to date this year and will be doing more over the coming year to ensure that the process is streamlined as far as possible for forces and that the census provides a good baseline for monitoring future changes to pay.
33. The Home Office has engaged police practitioners through the delivery of workshops earlier this year with the aim of driving up the quality of data returns. Every force has provided a census return this year and we are grateful to payroll and HR staff in forces for their contribution to this process.
34. We continue to work with partners to improve the quality of workforce data and to ensure that the right data is being collected at a national level. We have published a number of additional data sets in our July Workforce Statistics update, including information on assaults, joiners and leavers, sickness and officers on recuperative and adjusted duties. We are also working with forces to identify how the quality of existing workforce collections can be improved and to make all partners aware of the importance of having national data on wellbeing and engagement, including exit data.
35. We welcome the work being done by chief constables to increase the number of forces participating in the staff engagement survey run in partnership with Durham University Business School. Further evidence will be submitted by chief constables on progress, as well as force level data on recruitment, applications and promotions.
36. The Home Office have published updated [force-by-force diversity profiles](#) on the number of BME and female officers in all 43 police forces on police.uk. These diversity profiles allow the public to directly compare the diversity of their police force with the population it serves.

IV. Pay proposals

37. Our recommendations for the 2017-18 pay round take into consideration the timing of the forthcoming reforms which we expect will be the focus of future pay rounds. The Government is therefore keen for this pay award to focus on immediate measures to be dealt with in 2017-18 and avoid any conflict with plans for wider pay structure reforms from September 2018 which may include the piloting of some measures.

Pay uplift for 2017-18

38. Recognising the continued policy of public sector pay restraint and the strong steer in the Chief Secretary to the Treasury's letter to the pay review bodies this year, we have carefully considered all possible options for targeting pay to better reflect those whose skills are most in demand and support the delivery of public services.
39. To date, we have seen no further evidence of any widespread recruitment or retention issues for the police at a national level. Although there continues to be anecdotal evidence about officer shortages and increased attrition rates in some locations and in some specialist

areas, we have seen no evidence at the time of writing about the nature of the problem and are therefore unable to say whether a variable pay award would be an appropriate response. It is for chief constables and PCCs to provide this, along with their assessment of any additional evidence about workloads and deployment.

40. Overall, entry level recruitment remains strong and there are no concerns about the quality of applicants. Wastage rates continue to vary significantly between forces but overall remain low at 5.5%. Voluntary resignations still account for less than 2% of the workforce despite the increase in take up of voluntary severance schemes. The rate of retirements remains stable and most officers continue to retire shortly after completing 30 years' service. At the time of writing, we have seen no further evidence to indicate that particular sets of skills and experience are being lost at unexpected career points or at an excessive rate.
41. The development of frameworks, standards and management skills which would allow variation between different groups are still being developed and embedded in forces. To accelerate the pace of this work, the College is using transformation funding to improve assessor and line manager skills alongside the development of the new PPF and the implementation of ARC.
42. In the absence of new evidence to the contrary, we must conclude that the potential for variable pay to be used to address recruitment and retention issues or skills gaps in the police remains limited at this stage in the reform process.
43. **Taking into account these factors and all available workforce evidence, we therefore propose a 1% consolidated increase to all pay points, at all ranks for 2017-18. Alongside this, we would expect a continued emphasis on driving forward radical workforce reform in forces, including ensuring that ongoing changes are fully embedded.**
44. This would represent an overall estimated increase to the police pay bill of £63m² over the 2017-18 police pay year and an overall estimated increase of around £188m³ by FY 2019-20. We believe that this is affordable for forces, given the additional investment in policing through the 2015 SR settlement.

Short term measures to address specific recruitment and retention issues

45. Earlier this year, the Government endorsed the PRRB's recommendation to increase flexibility for South East forces to set local allowances according to need. This will ensure that forces in the South East have the tools they need to deal with any emerging recruitment or retention issues by providing a welcome degree of local flexibility for those forces who wish to exercise that discretion.
46. Chief constables have indicated that they may put forward further proposals in their evidence for short term use of non-consolidated payments to deal with emerging recruitment and retention pressures. These would be discretionary, time limited and capped and costs would be met from existing pay budgets.
47. Although further anecdotal evidence has been put forward by partners about recruitment and retention issues in some specialist areas, we have not yet seen robust evidence about the extent or the nature of the problem at a national or local level. This has meant that we have

² Including employer pension contributions and National Insurance payments.

³ Including employer pension contributions and National Insurance payments.

been unable to consider any proposals to deal with emerging issues through pay legislation either as part of or outside of the pay review body cycle.

48. The Government is mindful of the pay review bodies' comments in their last reports which clearly set out the type of evidence that would be required in order to be able to consider such a proposal in future, including consideration of non-pay options. We would also repeat the caveat that any proposals should be consistent with the existing national framework and with planned future arrangements. It is also our strong view that proposals must support improved workforce planning in forces rather than act as a substitute for it.
49. The Government would therefore be willing to consider enabling wider national measures through legislation if PRRB consider that these conditions have been met.
50. **We support chief constables' proposals for PRRB to review and make recommendations on further short term measures on the condition that any changes do not increase the pay bill and that there is a clear and detailed proposal for allocating such payments in a proportionate, fair and transparent way.**
51. **In the event that a compelling business case, supported by robust evidence, is provided for short term measures to deal with local or national recruitment and retention issues, we ask that you carefully consider it and make recommendations.**
52. **This will be on the condition that any such short term measures must:**
- **be balanced with other recommendations - the totality of recommended measures must not increase the pay bill by more than 1% overall;**
 - **be strictly time-limited and capped to keep them within affordable limits; and**
 - **have standard objective criteria.**

London Weighting

53. Pending the outcome of the police-led review of local and national pay structures, there is little evidence for or against an increase in London Weighting. In this case, we would wish to stay in line with other public sector organisations, particularly the NCA. **We therefore propose that London Weighting is increased by 1% in 2017-18.**

Dog Handlers' Allowance

54. This allowance has been raised historically in line with the pay award. In the absence of role comparisons and while inflation remains low, we have seen no evidence so far to suggest that this needs to be increased in 2017-18. **We ask PRRB to consider evidence put forward by partners on whether there is a case for increasing this again in 2017-18 or leaving it at a flat rate.**

Annex A - Evidence from HM Treasury

Evidence on the general economic outlook

Introduction

Following the outcome of the EU referendum, the UK economy is entering a new phase which will pose new challenges to the public finances. Public debt stands at its highest share of GDP since the late 1960s, and the deficit remains among the highest in advanced economies. It is vital that the Government continues with its intention to reduce the budget deficit over an appropriate timeframe.

Public sector pay restraint continues to play a key role in fiscal consolidation. It helped save approximately £8bn in the last Parliament and is expected to save another £5bn in this Parliament.

At Summer Budget 2015 the Government announced that it would fund public sector workforces for pay awards of 1 per cent for four years from 2016-17 to 2019-20. The OBR forecast estimated that this policy will protect 200,000 jobs by 2019-20. The Government made clear that it expects pay awards to be targeted to support the delivery of public services.

At a time when the UK faces a period of uncertainty following the vote to leave the EU, the 1 per cent public sector pay policy will continue to play an important role in delivering the Government's objective of reducing the budget deficit over an appropriate timeframe, protecting jobs and maintaining public services.

The vote to leave the EU has created a period of uncertainty, which will be followed by an adjustment as the shape of the UK's new relationship with the EU becomes clear and the economy responds. The strength of the economy means the UK is well-placed to deal with any short-term volatility and the longer-term adjustment.

The economy is in a far stronger position than in 2010, with the budget deficit cut by almost two thirds from its 2009-10 post-war peak, employment at a record high of 31.7 million, unemployment at 4.9 per cent, the lowest level since 2005, and the highest number of businesses on record, almost 1 million more than in 2010. The World Bank has ranked the UK the sixth best place for doing business, and the World Economic Forum placed it as the tenth most competitive country in the world in their latest survey.

The UK's economic performance has been strong in recent years. The UK economy has grown by 13.8 per cent since Q1 2010, and is 7.7 per cent bigger than at its pre-crisis peak. It was the fastest growing major advanced economy in 2014, at 3.1 per cent, and the second fastest in 2015, at 2.2 per cent, behind only the US. The UK economy grew 0.6 per cent in Q2 2016, following 0.4 per cent growth in Q1 2016.

Inflation was close to zero throughout 2015, predominantly as a result of falling fuel and food prices, and in recent months has begun to edge higher as past falls in fuel prices drop out of the annual comparison.

The Government, the Bank of England and the Financial Conduct Authority have worked together to maintain financial stability following the referendum result. The independent Monetary Policy Committee (MPC) and Financial Policy Committee (FPC) have taken

steps to support the economy through this period of adjustment, with the MPC announcing a package of measures designed to provide additional support to growth and to achieve a sustainable return of inflation to the 2 per cent target. Along with the actions the Bank of England has taken, the Government is prepared to take any necessary steps to support the UK economy and promote confidence.

Affordability and Fiscal Strategy

1. The UK's public finances are in a stronger position today than in 2010 due to determined government action. However, at 4% of GDP and 84% of GDP respectively, the deficit and debt both remain too high. The outlook for the public finances has deteriorated since Budget 2016, with disappointing tax revenues over the first half of this year, a weaker economic outlook weighing on receipts from income taxes, and higher spending by local authorities, public corporations, and on welfare benefits.
2. Continuing to reduce the deficit is vital to delivering a strong and stable economy. Given the weaker growth outlook, and the period of uncertainty that is likely while the UK negotiates a new relationship with the EU, the government will no longer seek to reach a fiscal surplus in this Parliament. However, the government remains committed ensuring that the UK lives within its means and as such to returning the public finances to balance.
3. The government's objective is to return the public finances to balance at the earliest possible date in the next Parliament. To ensure this objective is achieved, the government published a new Charter for Budget Responsibility at Autumn Statement 2016. This commits to reducing the structural deficit to below 2% of GDP and to having debt falling as a percentage of GDP by the end of this Parliament. The new fiscal framework ensures the public finances continue on the path to sustainability, while providing the flexibility needed to support the economy in the near term.
4. Due to the pressure on the public finances, the government is focussing discretionary support on highly-targeted investments to boost the productive capacity of the economy. This will, over the medium and long term, be the most important factor for continuing to raise living standards across the UK and secure our provision of public services. The government is sticking to its overall spending plans set out in Spending Review 2015 and has reinforced its controls on welfare spending. This approach will continue to reduce the deficit and return the public finances to balance over an appropriate timeframe.

Labour market

5. The labour market has performed strongly in recent years in terms of job creation. While there is still uncertainty about the future of the labour market, the latest data (Jul-Sep 2016) show continued strength in the headline figures, with employment up by 461,000 over the year, to a close to record level of 31.8m. At 74.5 per cent the employment rate is the highest on record. The quality of employment has been strong, with the majority of employment growth over the year being among full-time workers (76 per cent) and among high and medium-skilled occupations (80 per cent).
6. Unemployment fell by 146,000 over the year to a level of 1.6m, with the rate falling to an 11 year low of 4.8 per cent. Over half (56%) of the fall in unemployment over the

year came from the decrease in long-term unemployment (unemployment of 12 months or more), which was down by 82,000 over the year.

7. Youth unemployment (16-24) was down by 60,000 over the year to Jul-Sep 2016, to a level of 591,000. The youth unemployment rate stood at 13.1 per cent, down 0.9 percentage points on the year to an 11 year low. Excluding people in full-time education, there were 397,000 unemployed 16-24 year-olds, with a corresponding unemployment rate of 11.7 per cent.
8. The claimant count in October rose by 9,800 over the month and by 9,900 over the year, however the claimant count rate remained flat at 2.3 per cent.
9. The number of vacancies in the three months to October stood at 757,000, up by 12,000 on the quarter and by 18,000 on the year.
10. Wage growth has been stable at a level that is low by historical standards. In Jul-Sep 2016 total pay was up 2.3 per cent on the year in nominal terms and by 1.7 per cent in real terms. Figure 1 summarises these statistics:

Figure 1: Labour market statistics summary (Levels in 000s, rates in %)*

	2011	2012	2013	2014	2015	Jul-Sep 2016
Employment level, 000s (All aged 16 and over)	29,376	29,696	30,044	30,757	31,296	31,799
Employment rate % (All aged 16-64)	70.3	71	71.5	72.9	73.7	74.5
Unemployment level, 000s (All aged 16 and over)	2,593	2,572	2,474	2,026	1,781	1,604
Unemployment rate % (All aged 16 and over)	8.1	8.0	7.6	6.2	5.4	4.8
Youth unemployment level, 000s (All aged 16-24)	996	1007	967	782	685	591
Youth unemployment rate % (All aged 16-24)	21.4	21.4	20.9	17.1	14.9	13.1
Claimant Count	1,534.4	1,585.6	1,421.8	1,037.1	799.0	803.3**

Source: UK Labour Market: November 2016, ONS

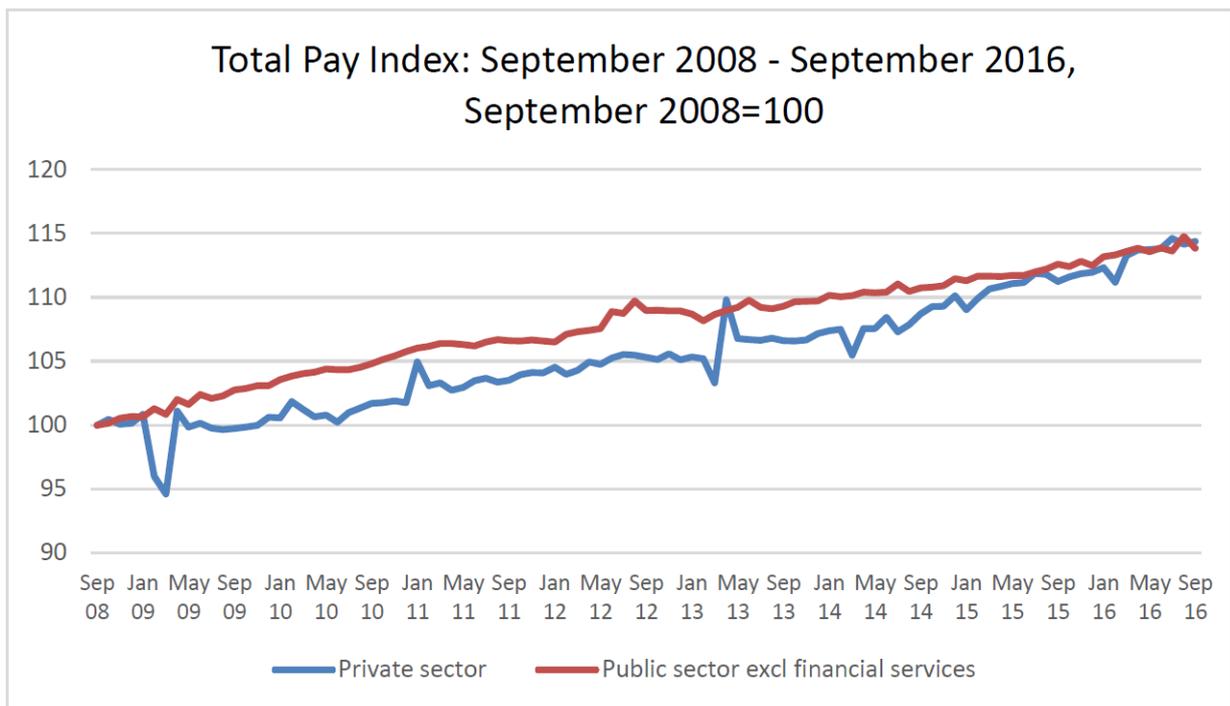
*The latest public and private sector employment figures available are for the second quarter of 2016. These show that private sector employment rose by 186,000 on the quarter and was up by 579,000 over the year. This more than offset the fall in public sector employment which was down by 13,000 on the quarter and by 20,000 over the year. Since Q2 2010, 7 private sector jobs have been created for every public sector job lost. These series exclude the effects of major reclassifications where large bodies employing large number of people have moved between the public and private sectors.

** Monthly data used (October 2016)

Public sector pay and pensions

11. IFS and ONS analysis has shown, on average, pay growth in the public sector is broadly comparable when compared to workers with similar characteristics in the private sector. While the public-private pay differential is narrowing, the overall remuneration of public sector employees when taking employer pension provision into account continues to be above that of the market.
12. In the three months to September 2016, private sector total pay growth (including bonuses) stood at 2.5 per cent, while private sector regular pay growth (excluding bonuses) stood at 2.7 per cent. Although low inflation has helped boost real wages, nominal private sector wage growth remains below rates seen before the recession (about 4-5 per cent per annum).
13. Public sector total pay growth (including bonuses) was 1.5 per cent in the three months to September 2016. Regular earnings (excluding bonuses) grew by 1.5 per cent over the same period. These rates stood above the rate of inflation in this period (0.9 per cent) but still below the pre-recession average growth rate, as in the private sector.
14. Historically, public sector wages tend to fall and recover at a slower pace during economic cycles than private sector wages – there can be a delay between a recession occurring and public sector wage adjustment. Since July 2014, private sector earnings growth has been faster than growth in public sector wages, but this follows on from sustained public sector wage growth in the years immediately following the recession. From the three months to September 2008 to the three months to September 2016, total average public sector earnings increased by 14.2 per cent, while those in the private sector have increased by 14.6 per cent. The overall level of public sector average weekly wage remains broadly comparable to that of the private sector, as shown in Figure 2 which compares the growth in average public and private sector weekly earnings since 2008.

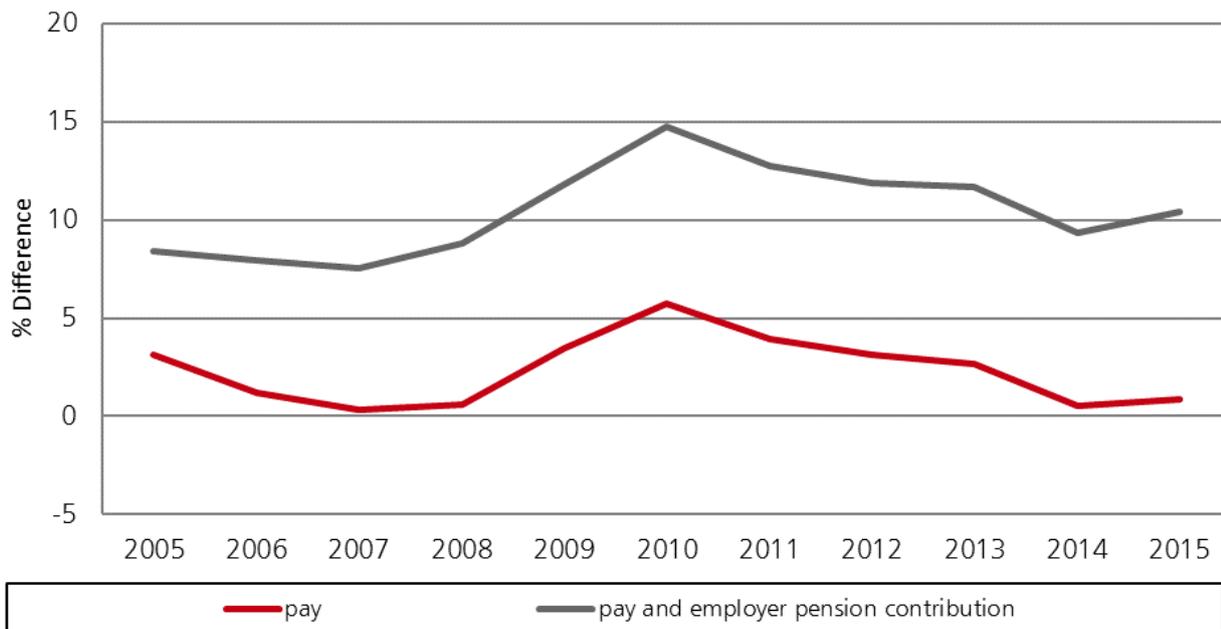
Figure 2: Total pay comparison



Source: Average Weekly Earnings, ONS Labour Market Statistics, June 2016

15. When considering changes to remuneration, it is important to consider other elements of the total reward package. Including employer pension contributions to pay and bonus, recent HMT analysis finds that on average public sector workers benefit from a 10.4 per cent premium compared with their private sector counterparts as can be seen in Figure 3. This is supported by the IFS (October 2014 paper), who found that a 4.6 per cent pay premium continues to exist in favour of public sector workers and that the premium increases significantly if one incorporates pension payments in the analysis. This premium is driven by a number of factors including higher pay for women, and protection for the low paid in the public sector. Figure 3 shows the comparison of average hourly earnings for public and private sector workers with similar characteristics across time.

Figure 3: Estimated public-private hourly pay differential



16. This Government wants to build an economy that works for everyone, and wants to do this in a fair way by ensuring that low wage workers take a greater share of the gains from growth. An essential part of this is the introduction of a new National Living Wage (NLW).

17. In April 2016, the NLW was introduced at £7.20 for workers aged 25 and over, marking an increase in pay for over a million workers across the UK. Estimates indicate that approximately 200,000 public sector workers have directly benefitted from the policy.

Pension reforms

18. One major factor in the overall reward package is pension provision. The design and scope of private sector occupational schemes has changed significantly in the last 25 years. Participation in private sector schemes fell from 6.5m active members in 1991 to 2.8m in 2013, whereas participation in the public sector increased over the same period. Private sector participation rates are now increasing, following the phased introduction of mandatory workplace pension savings, but this growth is in defined contribution schemes where the employee rather than the employer bears the investment risk. The average employer contribution to private sector pensions was around 7 per cent of pay in 2014, compared to average employer costs of around 14 per cent of pay in the reformed public service pension schemes.

19. Where private sector defined benefit provision exists, the employer contribution towards the costs is broadly similar to the cost of providing the reformed public

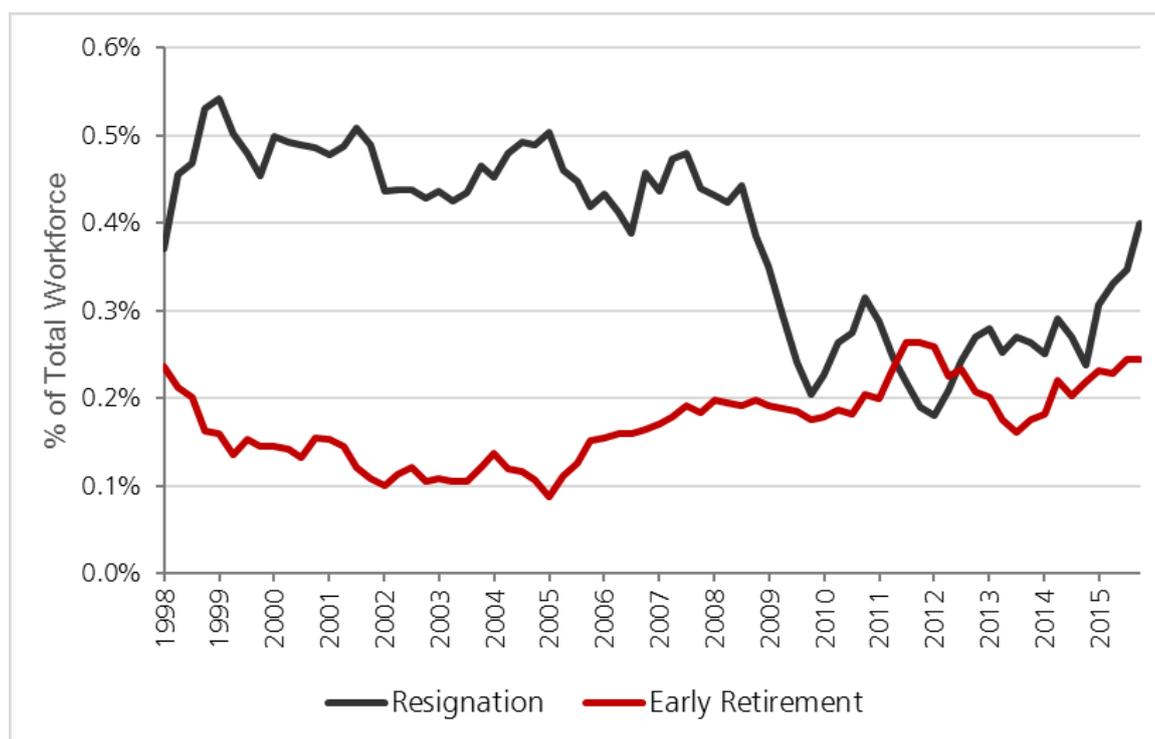
sector schemes, however fewer private sector employees have access to such arrangements. The average employer contribution to private sector career average schemes was 12.7 per cent of pay in 2014. There were 1.6m active members of defined benefit schemes in the private sector in 2014.

- 20. Public service pension schemes continue to be amongst the best available and significantly above the average value of pension provision in the private sector.

Recruitment and Retention

- 21. Across the whole economy there is evidence that the labour market is performing strongly with strong growth in employment. However, there is limited evidence of widespread recruitment and retention issues within the public sector.
- 22. Figure 4 shows recent resignation and early retirement rates in the public sector. Resignation rates over the last year have increased but still remain below pre-recession levels. Within the public sector, the resignation rate was relatively constant prior to the recession, in the region of 0.4 – 0.5 per cent. From the middle of 2008 this rate fell sharply to 0.2 – 0.3 per cent, potentially relating to opportunities outside the public sector becoming scarcer. The early retirement rate figures have fluctuated since 2010.

Figure 4: Resignation and Early Retirement Rates (up to Q4 2015)



Source: Labour Force Survey Microdata, ONS and HM Treasury analysis

- 23. The CIPD Labour Market Outlook, Autumn 2016, indicates that amongst all private sector firms, where pay has increased by 2 per cent or more, 35 per cent of those cases were set at that level to address recruitment and retention issues.