

# Second submission by the ICTU Public Services Committee

TO THE PUBLIC SERVICE PAY COMMISSION

## **Introduction**

The purpose of this paper is to address the terms of reference of the initial work programme of the Public Service Pay Commission. This includes comparisons of salaries and commentary on the public finances. Particular emphasis is placed on the evolution of pay trends in the public and private sectors based on published data and international rates and comparisons. Both of these criteria are addressed in a working paper on the public-private sector pay debate in Europe from the European Trade Union Institute published in August 2015.<sup>1</sup>

## **Public finances**

Ireland has one of the fastest improving debt ratios in the Eurozone. Eurostat reported on 23 January 2017 that Ireland recorded the largest decrease (-8.5 %) in its debt to GDP ratio of any Eurozone country in the year to the third quarter of 2016. The EU Commission estimates that Eurozone debt will be 89.4 % of GDP; the Irish Government estimates that Irish debt will be 72.7 % of GDP by 2018. Between 2015 and 2018, Eurozone debt is estimated to fall by 3.4 %; in Ireland debt is estimated to fall at more than twice that rate: 8.5 %. The impact of pay restoration on our debt/GDP ratio would be fractional. Full pay restoration at a cost of €1.4 billion would increase the debt ratio by 0.2 %. It is difficult to argue that pay restoration would undermine compliance with the requirements of the Stability and Growth Pact.

Fiscal capacity is determined by a mix of factors and a range of policy choices is available to Government. It is a choice of Government rather than a necessity to exceed what is required of Ireland under fiscal rules. For example the Government projects a structural surplus in 2021 of 1.1 %; the rules only require a deficit of 0.5 %. This is a policy choice that could result in nearly €2 billion in reduced expenditure over and above what is required under the fiscal rules.

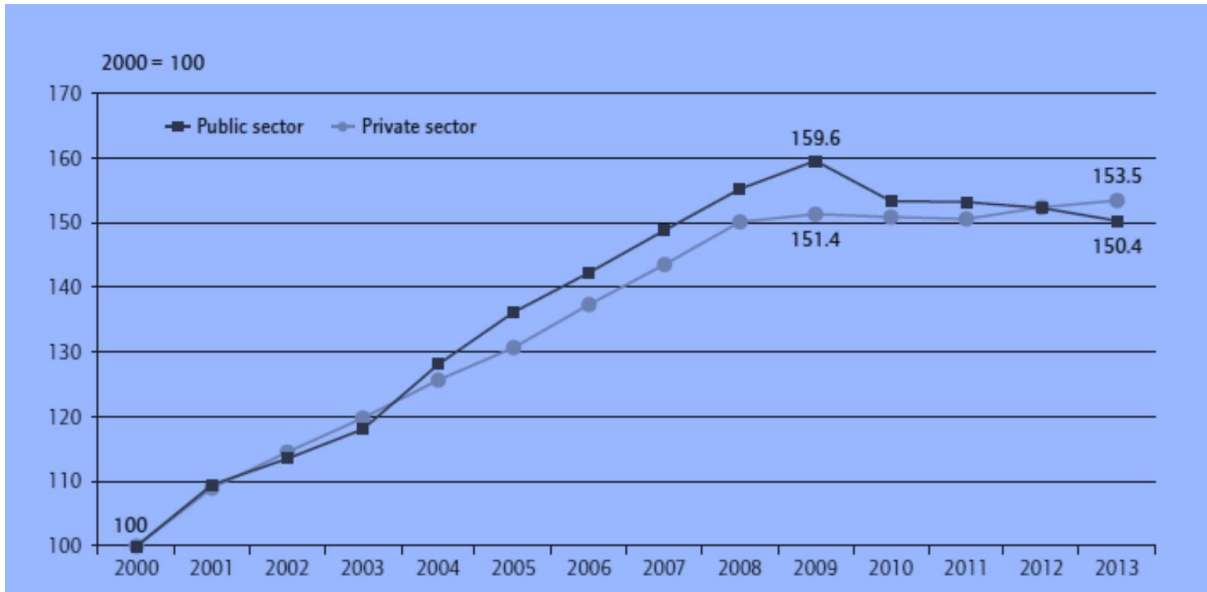
While it is clear that it is not the function of the Public Service Pay Commission to offer commentary on fiscal policy, the terms of reference do require the commission to take account of the state of the national finances. The choices outlined above, confirm that there is capacity in the public finances to address the issue of public service pay in accordance with the terms of reference of the initial work programme of the commission.

## **Irish pay trends**

The first set of data, sourced from Eurostat, tracks the growth of Irish public and private wages using a baseline of 100 in the year 2000. Between 2001 and 2009, public sector wage growth was slightly above the private sector. This was mainly due to a very strong increase in the years 2004 and 2005. After a relatively strong decrease in 2010, public sector wages continued on a downward trend while, in contrast, private sector wage growth remained slightly positive. It is understood that these figures do not include the effects of the pension levy which reduced the net pay of public servants without altering their gross amounts.

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<sup>1</sup> The public-private sector pay debate in Europe, Torsten Müller and Thorsten Schulten, ETUI working paper 2015.08.



This data only covers the period to 2013 and data from the SIPTU databank of collective bargaining outcomes confirm that the trend of growth in private sector wages has continued since then. The SIPTU data indicates wage growth from 2010 in the traded sector averaging 2-3% per annum with the higher amounts emerging in the later years. The SIPTU data covers a wide range of private sector employment and is being submitted on a confidential basis as a supplement to this paper.

Pay increases have returned to the financial sector since 2013 and it should be recalled that, unlike the public service, there had been no salary cuts in that sector. In AIB, the IBOA (later renamed FSU) negotiated a 4% lump sum in 2013. In 2015 a 2% increase was negotiated for staff earning less than €100,000 and in 2016 the FSU negotiated increases based on a performance matrix of 2.2% for those with middle ratings and 3% for top ratings. At the time of writing a WRC proposal for a 5.5% increases in two phases over 2017 and 2018 was recommended for acceptance by negotiators for the bank and FSU. In Bank of Ireland, increases of 1.75% were agreed as part of new salary ranges along with a 5% lump sum. In 2015 a 2% increase was agreed and in 2016 a new matrix was agreed with a 2.2% increase for the vast majority of staff. In Ulster bank, a €700 lump sum was agreed in 2014. In 2015 a new matrix was agreed with a €250 'underpin' and additional increases were negotiated within ranges for 2016 with an 'underpin' of €350.

Pay movements supplied by the Mandate union for the large retail sector are outlined in the following table;

Employer	Pay Increases	
<b>Boots</b>	2012/13	2%
	2013/14	2%
	2015/16	2%
	2016/18	3%
<b>Arcadia</b>	2015/16	1.5%
<b>Tesco *</b>	2013/14	2%
	2014/15	2%
	2015/16	2%

	2016/17	2%
<b>M&amp;S</b>	2012	2.5%
<b>PTSB</b>	2010	2.5%
	2016	2%
<b>Brown Thomas</b>	2013	2%
	2014	2%
	2015	1%
	2015/16	4%
<b>Supervalu (Ex Superquinn)*</b>	2014	2%
	2016	2%
<b>Heatons *</b>	2012	3% (reduction)
	2014	3% (restored)
	2015	2%
	2016	2.5%
	2017	2%
<b>Debenhams*</b>	2013/14	2%
	2015/16	2%
	Business entered Examinership in 2016 however all core rates of pay were protected on exiting the Examinership process	
<b>Dunnes</b>	2013	3%
	2014	3%
	2015	3%
	2016	3%
<b>Penneys*</b>	2013	3%
	2014	2%
	2015	2%
	2016	3.5%

\* Headline pay increases are applied along with improvements to weekly hours in order to achieve maximum improvement to earnings

It is worth highlighting the developments regarding pay in the contract cleaning and security sectors from 2009 to the current period.

In the security sector, pay was determined under an employment regulation order. From 1<sup>st</sup> January, 2009, starting pay was €10.01 per hour increasing after 3 year's verifiable service in the industry to €10.75. The ERO system collapsed in July 2011. Following a successful campaign by trade unions the system was re-established and a 2015 ERO established a new rate from 1<sup>st</sup> October, 2015 of €10.75.

A proposed new ERO provides the following;

From 1<sup>st</sup> April, 2017 - €11.05, from 1<sup>st</sup> April, 2018 - €11.35 and from 1<sup>st</sup> April, 2019 - €11.65, which is 16.4% above the 2009 rate.

In contract cleaning, an ERO provided for an hourly rate of €9.50 from 1<sup>st</sup> June, 2008. The ERO collapsed in July 2011 but a new ERO established a rate of €9.75 from 1<sup>st</sup> October, 2015. A further ERO provides for the following;

From 26<sup>th</sup> December, 2016 - €10.05, from 1<sup>st</sup> December, 2017 - €10.40 and from 1<sup>st</sup> December, 2018 - €10.80, which is 13.7% above the 2008 rate.

At the time of writing it is reported that the Construction Industry Federation has applied for a Sectoral Employment Order based on the rates that were in place at the time the previous system of registered employment agreements collapsed.

It should be noted that the increases quoted for the private sector are adjustments to the salary scales or ranges applicable in the relevant companies and sectors. Service related advancement for individuals are not factored into the data. A correct like for like comparison between the public service and the private sector should recognise the distinction between increases in the rates, scales or ranges and individual movement based on service and other criteria.

## **Differentials**

There have been ongoing debates over the differential between public and private sector pay. The most recent study is the CSO's '*Specific Analysis of the Public/Private Sector Pay Differential for National Employment Survey 2009 & 2010 Data*'. While this is dated, and it does not include the effects of the pension levy on public servants, it provides a robust comparison that is useful, including factors such as work experience, age, gender, organisational size, etc.

There are significant differences in the differentials depending on the CSO's model specifications. The differential ranges from -3.9 % to 6.3 % for males and for females, from 2.2 % to 12.9 % for females. The differences depend on whether the data is weighted and whether organisational size is taken into account. One specification shows that public sector workers earn less than their private sector counterparts while another shows a public service premium. In the case of females, the premium may reflect a better gender equality pay regime in the public sector as opposed to the private sector. This would be due to stronger career protection and work-life balance options.

## **European public service pay trends**

DPER has used a benchmark that is intended to show that Irish public sector pay is the highest in the EU, bar Denmark. This is done by comparing public sector pay as a %age of total government expenditure. However, this omits two factors.

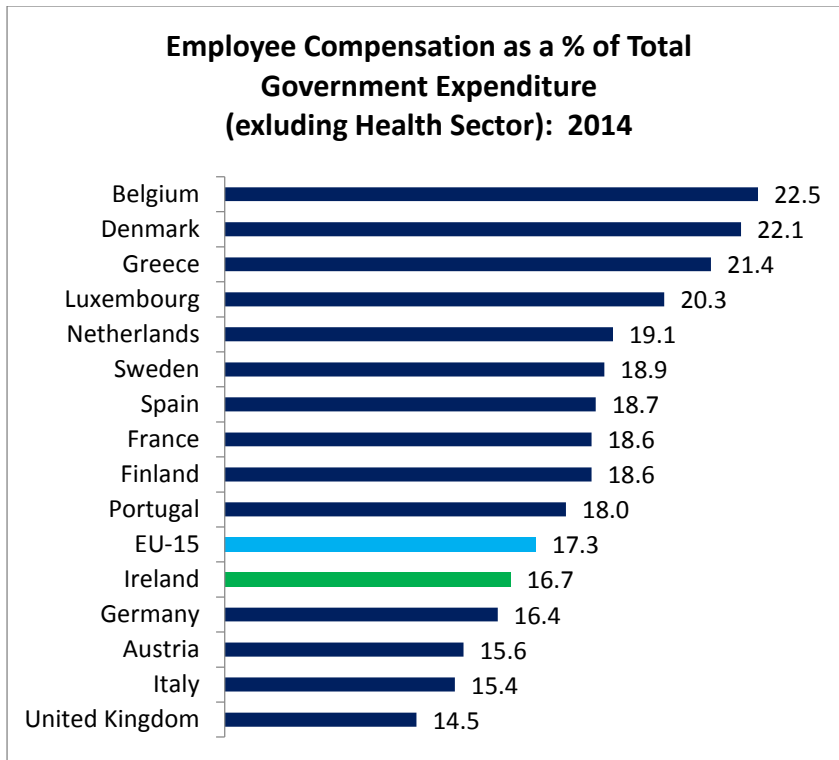
First, Ireland is a 'low-spender' by EU standards. Public sector pay will be relatively higher if expenditure on public services, social protection and investment is relatively lower than other EU countries. Failure to adjust for a lower 'denominator' (i.e. total government expenditure) can skewer the result.

Second, and more fatally, employee compensation comparisons do not take into account particular countries' accounting methods. For instance, countries with Bismarkian social insurance systems (Germany, Belgium, and Luxembourg) or mandatory private systems (Netherlands) have very low, almost non-existent levels of employee compensation in the health sector. This is because, according to the Eurostat accounting method, most public health service employees in these countries are not counted as general government employees. They are considered employees of quasi-corporations which are off-balance sheet, even though they fulfil the same role as public health employees in other countries.

For instance, employee compensation in the Belgian health sector makes up 4 % of total health spending; in Germany, 6.2 %; in Luxembourg, 5.6 %, and in the Dutch mandatory

private system, 3.4 %. Other countries may have partial penetration of quasi-corporation accounting in the health sectors.

The following table shows employee compensation, excluding the health service;



Irish employee compensation is in the lower half of the EU-15 table, trailing the EU-15 average.

Another perspective, though only partial, is to examine the level of public administration employee compensation. This has the advantage of avoiding the issues arising from Eurostat classification rules.

## Expenditure on Public Administration Employee Compensation: 2014

Compensation as a % of Government Expenditure	Total	Compensation Expenditure per capita (€)	
Greece	12.8	Luxembourg	3,426
Belgium	11.7	Belgium	2,321
Spain	10.1	Netherlands	1,806
Germany	10.0	France	1,752
Netherlands	9.9	Denmark	1,669
Portugal	9.8	Germany	1,598
France	9.5	Finland	1,426
Luxembourg	9.2	Austria	1,420
<b>EU-15</b>	<b>9.0</b>	<b>EU-15</b>	<b>1,392</b>
Italy	8.1	Sweden	1,284
<b>Ireland</b>	<b>8.0</b>	<b>Ireland</b>	<b>1,257</b>
United Kingdom	7.6	United Kingdom	1,163
Austria	7.0	Italy	1,099
Finland	6.5	Greece	1,038
Denmark	6.5	Spain	1,006
Sweden	5.6	Portugal	846

As seen, Ireland ranks below the EU-15 average on two measurements: compensation as a %age of total government spending and compensation per capita. If we compare Ireland to its peer group (Northern and Central European Economies – excluding the poorer Mediterranean countries), Irish public administration compensation is 19.2 % below average. Public administration employee compensation for Northern and Central European economies is €1,557 per capita compared to Ireland's €1,257.

The above suggests that we should use caution with simple headline comparisons and be sure that we are comparing like-with-like.

### European Comparisons: employee approach

If comparing employee compensation at an economic level has complications, it can be even more difficult when comparing specific employee wages at sectoral or occupation/grade level. This is not only because there is no consistent definition of a 'public sector employee' (see above), different pay scales within countries where local and regional governments bargain separately with their employees, different activities and responsibilities in employee contracts and compositional effects.

The difficulties can be seen in the relatively straight-forward NACE comparison of public administration workers. There is a number of measurements and sources that can be used.

(a) *National Accounts*

<b>Public Administration Employee Compensation per Hour: 2014 (€)</b>			
<b>Nominal</b>		<b>Real *</b>	
Luxembourg	55.69	Luxembourg	44.59
Denmark	42.56	Netherlands	40.05
Netherlands	41.17	Germany	39.35
Belgium	37.57	Belgium	37.64
Germany	36.79	Italy	36.86
Italy	33.91	France	33.73
France	33.36	Denmark	33.62
<b>EU-15</b>	<b>31.84</b>	<b>EU-15</b>	<b>31.84</b>
Austria	30.36	Austria	30.30
United Kingdom	29.83	United Kingdom	26.05
Sweden	29.50	Finland	24.90
<b>Ireland</b>	<b>28.04</b>	<b>Ireland</b>	<b>24.66</b>
Finland	27.84	Sweden	24.26
Spain	20.17	Spain	23.73
Portugal	16.47	Portugal	22.35
Greece	15.24	Greece	19.77
* Purchasing Power Parity			

In nominal terms, Irish public administration hourly compensation is -11.9 % below the EU-15 average. When compared to the average of Northern and Central European economies, this figure falls to -20.7 % below average. Owing to higher living costs, Irish real compensation falls 22 % below the EU-15 average.

Using National Accounts data, Irish public administration hourly compensation is well below European averages.

(b) *European Labour Force Survey*

Another source for comparative compensation is the EU's Labour Force Survey. This is a survey of enterprises with more than 10 employees though unfortunately not all countries report for the public administration NACE sector.



per hour)			
Nominal		Real	
Netherlands	43.09	Netherlands	41.91
Denmark	41.33	Germany	39.98
Germany	37.38	Finland	33.18
Finland	37.10	Denmark	32.65
<b>Ireland</b>	<b>33.41</b>	Italy	32.32
<b>EU-15</b>	<b>32.30</b>	<b>EU-15</b>	<b>32.30</b>
United Kingdom	30.50	<b>Ireland</b>	<b>29.38</b>
Italy	29.73	Spain	28.59
Spain	24.31	United Kingdom	24.44
Portugal	14.67	Portugal	19.90

Here we find Irish public administration compensation is slightly above the EU-15 average, but falls below when prices are factored in. There is a difference between the National Accounts and the European Labour Force Survey. This will arise from different methodologies (the former is a macro-economic measurement, the latter a survey of enterprises excluding small workplaces). We can compare these two results with the CSO data.

Public Administration Hourly Compensation: 2015 (€)		
CSO	National Accounts	European Labour Force Survey
27.68	28.04	33.41

The National Accounts data is closer to the CSO. This, again, is not to favour one dataset over another. However, in comparison of compensation, it is important to piece together a picture from the different and, sometimes, varied sources.

(c) *Government at a Glance*

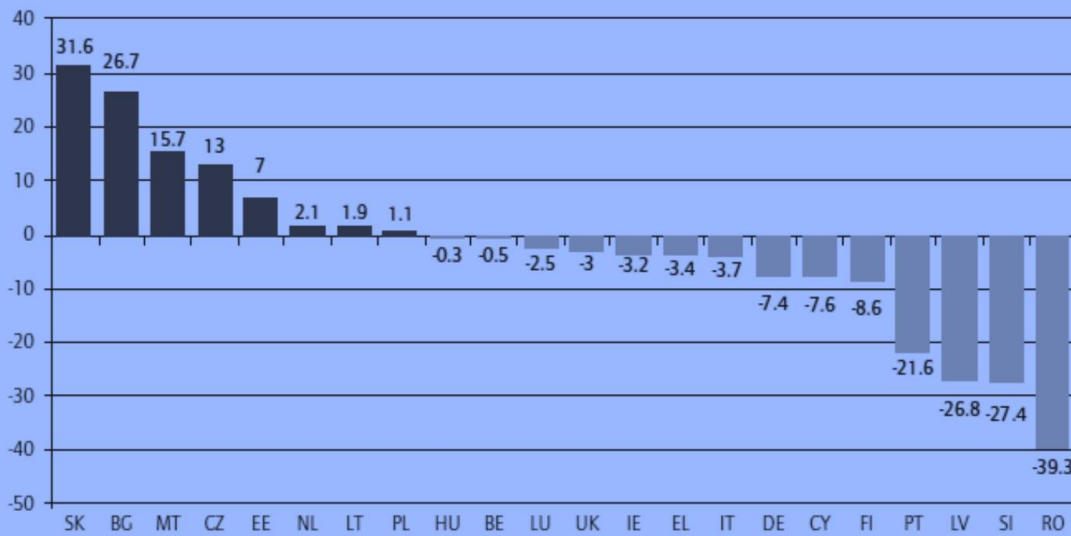
The OECD has published pay comparisons for different grades within the public administration sector. Unfortunately, the latest data we have that includes Ireland is 2010. The Department of Public Expenditure and Reform has not provided data for subsequent years. However, given that the 2010 figures do not include the effects of the 2009 cuts in the form of the pension levy which amounted to an average of 7% and noting that there has been a freeze in subsequent years, this data is still informative. This data, presented as annual compensation in US\$ purchasing power, is corrected for working time.

OECD Annual Compensation: 2010 (\$ PPP)									
<b>Clerical / Secretarial</b>									
NLD	BEL	FIN	ESP	<b>Average</b>	DNK	SWE	<b>Ireland</b>	UK	
70,720	67,298	60,089	57,746	<b>56,222</b>	56,394	53,556	<b>44,184</b>	39,791	
<b>Executive Secretary / Clerical</b>									
NLD	FIN	BEL	DNK	<b>Average</b>	ITA	<b>Ireland</b>	ESP	SWE	UK
81,807	75,511	73,415	67,235	<b>65,523</b>	60,532	<b>59,994</b>	59,916	59,124	52,169
<b>Professionals / Policy Analysts</b>									
BEL	NLD	ESP	<b>Average</b>	DNK	<b>Ireland</b>	SWE	DNK	ITA	UK
134,696	134,220	125,839	<b>97,914</b>	93,706	<b>92,164</b>	80,237	78,926	73,961	67,481
<b>Statisticians</b>									
ESP	<b>Ireland</b>	NLD	<b>Average</b>	BEL	FIN	SWE			
126,162	<b>114,559</b>	108,867	<b>102,160</b>	93,988	88,867	80,518			
<b>Lower Middle Management</b>									
NLD	BEL	UK	<b>Average</b>	<b>Ireland</b>	FIN	DNK	ESP	SWE	
157,706	150,952	131,420	<b>120,622</b>	<b>116,918</b>	108,029	106,652	101,637	91,660	
<b>Upper Middle Management</b>									
ITA	UK	NLD	BEL	<b>Average</b>	<b>Ireland</b>	DNK	ESP	FIN	SWE
197,538	192,927	184,148	176,464	<b>157,458</b>	<b>155,319</b>	137,938	135,145	119,621	115,881

The OECD shows that Irish compensation is below the mean average of the countries reporting, with the exception of one small category of employees. It should be further noted that the gap is largest in the lowest paid category of clerical/secretarial. While this data may include the effects of the 2010 pay cuts, it does not include the 2009 cuts in the form of the pension levy or the subsequent years in which wages were frozen. It is reasonable to assume that the gap between Irish compensation and the average of other countries has widened further.

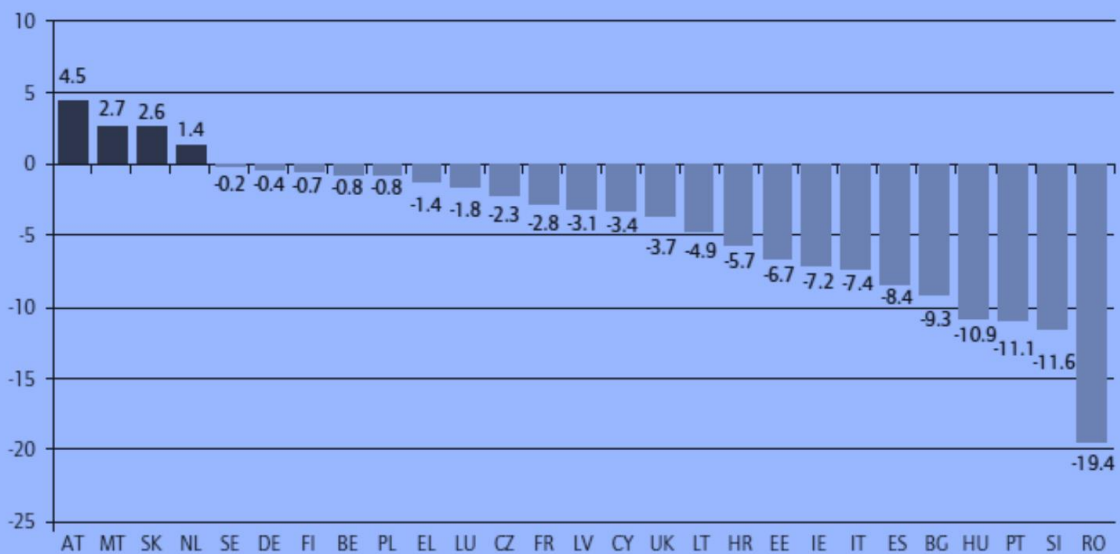
The ETUI data further assists our understanding of international comparisons, indicating that public sector wage growth in Ireland lagged behind the private sector over the period 2001 to 2013 by 3.2%. This arose particularly due to the 7.2% negative variation in the period 2010 to 2013. The SIPTU data indicates that this trend of collectively bargained private sector wage growth has continued to the end of 2016.

Figure 2 Differences in public and private sector wage growth, 2001-2013 (in percentage points)



Private Sector: NACE Code B-N (Business economy)  
 Public Sector: NACE Code O-S (Public administration and defence; compulsory social security; education; human health and social work activities; arts, entertainment and recreation)  
 Source: Eurostat, calculations by the authors

Figure 3 Differences in public and private sector wage growth, 2010-2013 (in percentage points)



Private Sector: NACE Code B-N (Business economy)  
 Public Sector: NACE Code O-S (Public administration and defence; compulsory social security; education; human health and social work activities; arts, entertainment and recreation)  
 Source: Eurostat, calculations by the authors

Additional data from the European Public Services Union (EPSU) indicates continuing public service wage growth in northern European countries. The data is contained in a report titled 'Trends in collective bargaining in the EU in the public and private sectors: 2003 to 2013'. The report for EPSU by the Labour Research Department in September 2014 was produced with the financial support of the European Commission.

By way of example, pay movements in the public sector in a sample of northern European countries are outlined below.

The following table details pay movements in the two main German bargaining groups in the public sector (federal and local government and regional government) with average annual increases in collectively negotiated monthly pay across the whole economy.

<b>Negotiated pay increases by Year</b>	<b>Federal and local government</b>	<b>and Regional government</b>	<b>Whole economy</b>	<b>Inflation</b>
2010	1.2%	1.2%	1.8%	1.1%
2011	1.1% (0.6% plus 0.5%) plus one-off payment of €240	1.5%	2.0%	2.1%
2012	3.5%	2.55%	2.7%	2.0%
2013	2.8% (1.4% plus 1.4%)	2.65%	2.7%	1.5%
2014	3.0% (min €90 monthly)	2.95%		
2015	2.4%			

In a sign of continuing wage growth in Germany, in April 2016 the German union Verdi reached agreement with federal and local government on increases of 2.4% in March 2016 and another 2.35% in February 2017.

In Finland, annual salary increases were recorded in the index of wage and salary increases in central government as follows;

2010	3.3
2011	3.5
2012	3.9
2013	2.0
2014	1.9
2015	1.8

The index for local government increased as follows;

2010	3.5
2011	3.0
2012	3.7
2013	1.7
2014	0.7
2015	0.8

In Finland, there has been little difference between the private sector and local government – the largest part of the public sector. However, central government pay has grown more rapidly, increasing by more than private sector pay in every year from 2008 to 2012.

The Netherlands central statistical office provides information on employment broken down between three sectors: private companies, subsidised corporations and government. Jobs in the government sector includes public administration and education. The majority of health and social work employees are included in the subsidised corporations sector. The figures show that over the 10 years to 2013 wages in private companies have grown most – by

18.9%. Wages in the subsidised sector have almost kept pace, increasing by 18.2% between 2003 and 2013. Wages in government have lagged behind, growing by only 16.4% over the same period. Until 2010 government pay more than kept up with pay in private companies but a gap emerged since 2010. Over the period 2010 to 2013 pay in private companies increased by 4.3%, and pay in the subsidised sector by 4.1%. However, in government, pay has virtually stagnated, increasing by only 0.9% over the three year period. This reflects the pay freeze that was imposed on central government employees in 2011, although, in 2012, local government employers agreed a 2% increase in two stages.

In Denmark, annual increases over the period 2010 – 2016 in communal and regional organisations averaged 1.4%. The following applied in each year;

2010	1.7
2011	1.9
2012	0.6
2013	1.2
2014	1.1
2015	2.2

Annual average increases of 1.1% applied in the central state sector with the outcome for each year as follows;

2010	2.0
2011	0.3
2012	1.9
2013	0.9
2014	0.4
2015	1.2

In Norway there has been continuing wage growth throughout this period. Public service pay is determined at the level of and within central government, municipal and state companies which includes hospitals. There can be marginal but not significant differences in the outcomes between these sectors. Over the period 2010 to 2015 average annual salary increases for public administration was 3.6% and governmental employees received 3.7%. The total for municipal employees was 3.7% based on 3.5% for teaching staff and 3.8% for other employees. Health organisation employees received 3.5%. Amounts in the individual years varied from 4.6% to 2.3%.

The EPSU report identifies seven countries where public sector pay has risen faster than private sector pay over the 10 years 2003 to 2013: Denmark, Estonia, Finland, Poland, Slovakia, Sweden and the UK.

In Sweden the largest parts of the public sector, counties and local government, increased by more than the private sector (non-manual figures).

In Denmark public sector pay has grown slightly more rapidly than private sector pay over 10 years. (There is almost no difference between central government and local and regional government.) However, there have been variations over the period, with private sector pay growing less rapidly than pay in the public sector in 2009, while the public sector slowed down a year later in 2010.

Country	Central government	Local government	Private sector
Denmark	31.90%	32.50%	29.60%
Estonia	121.90%	115.20%	114.00%
Finland	47.60%	41.90%	38.80%
Sweden	34.90%	39.50%	35.40%

In the UK, the earnings figures show that public sector pay increased more rapidly than private sector pay in most of the 10 years from 2003 to 2013. However there have been changes in the composition of both sectors with the outsourcing of parts of the public sector populated by lower paid workers into the private sector.

Country	Public sector	Private sector
Poland	74.90%	69.00%
Slovakia	100.20%	70.90%
UK	33.00%	24.90%

## Conclusion

The ICTU Public Services Committee believes that the information contained in this paper supports the proposal by the ICTU Public Services Committee that the Public Service Pay Commission should recommend that the parties should negotiate of a pay round for the public service. This is in line with relevant international developments and trends in the Irish private sector. It should be noted that there were no pay cuts in any of the international cases cited and there has been continuous increases in pay in the relevant public service employments over the period from 2010 to the present. This stands in marked contrast with the situation in Ireland where the pension levy was introduced in 2009 averaging 7%, pay was reduced in 2010 averaging 7% and additional pay cuts were applied to those earning over €65,000 in 2013.

It has been established by the CSO that the narrative of widespread pay cuts in the Irish private sector was greatly exaggerated. In the early years of the crisis, wages were generally frozen and the data cited clearly shows that private sector pay movement has developed on a widespread basis. The five year %age change from Q3 2011 to Q3 2016 is detailed in the following table;

	5 Year % Change
Information and communication	7.5
Professional activities	7.3
Industry	6.8
Administrative activities	6.6
Arts & entertainment	6.5
Wholesale & retail	5.7
Transportation	2.8
Financial activities	2.6
All sectors	1.2
Construction	0.1
Accommodation & food	-0.3
Public admin & defence	-1.9
Health & social work	-4.6
Education	-10.8

We consider that, in addition to the need to address the unwinding of the FEMPI reductions, there is significant 'headroom' to be made up with regard to Irish collectively bargained private sector wage growth from 2010 to the end of 2016.

This paper establishes that the Government has the capacity, within the constraints of the fiscal compact rules, to address the issue of public service pay. This is justified by comparison with pay developments in the private sector and by reference to the situation in other comparable European countries.