The RCN is concerned that the Government has asked the NHS Pay Review Body to look into making pay more ‘market facing’ in local areas and move away from the national pay system Agenda for Change (AfC).

This briefing outlines the RCN's position on local and regional pay, details the negative impact it would have not only in England but across the UK and makes the case for keeping the status quo.

Introduction

Currently, the NHS operates a national pay system Agenda for Change (AfC), which provides benefits for both staff and employers, including good industrial relations, reduction in any duplication of negotiating efforts, and support recruiting and retaining staff. The RCN is concerned that the Government has asked the NHS Pay Review Body to look into making pay more market facing in local areas and move away from national pay structures. We believe that any move towards local and regional pay would lead to damaging competition between Trusts for staff and entrench low pay in already deprived areas. Modelling public sector pay on private sector structures would also be difficult, costly and inefficient, as well as leading to the replication of the inequalities found in the private sector. In addition, its introduction would have a knock-on impact on the private sector, damaging spending power and therefore slowing down economic recovery.

It is generally accepted¹ that the level and quality of service provision is closely linked to employee wellbeing and motivation, and additional changes to pay structures will only serve to damage this link. Any move to local and regional pay structures will further damage staff morale as it would compound attacks on staff pay, terms and conditions which have included an increase in pension contributions, a two year pay freeze, as well as the Autumn Statement's announcement that pay will be frozen at one per cent for a further two years.

To maintain a consistent level of service, the NHS needs to be able to attract a workforce of the same quality in different parts of the country. This is best achieved by a national system for pay and reward within the current flexibilities already contained in AfC. The RCN is urging the NHS Pay Review Body to reject outright any calls for the introduction of a market facing remit for NHS pay.

Background

Following the Autumn Statement, in November 2011 the NHS Pay Review Body was asked by the Chancellor of the Exchequer to consider how to make pay more ‘market facing’ in local areas for NHS AfC staff in England. The NHS Pay Review Body has until 17th July 2012 to submit its findings to the Government. On 15th March 2012, the RCN, alongside other NHS trade unions, submitted evidence² to the NHS Pay Review Body to clearly state our intention to fight this change and to defend national pay determination.

On 12th April 2012, the Department of Health (DH) published its evidence³ to the NHS Pay Review Body. Although it backs the principle outlined by the Chancellor, its submission also argues that “We would need to consider carefully the wider system reform in the NHS and the resulting organisational changes for the workforce which are still taking place ... Pace-of-change decisions would need careful consideration to

³http://www.rcn.org.uk/support/pay_and_conditions/prb_review_on_market-facing_pay

The RCN represents nurses and nursing, promotes excellence in practice and shapes health policies.
balance a faster realisation of the benefits of market-facing pay against the potential risks around affordability and recruitment and retention and so on.” The DH is clearly aware that rapid moves to a local pay system would be likely to destabilise the workforce with potential knock-on effects on the quality of care.

At present, the AfC national pay system applies in full to all staff across the UK who are employed directly by NHS organisations, except very senior managers and medical staff. The system is designed to deliver fair pay for non-medical staff based on the principle of ‘equal pay for work of equal value’. It also seeks to provide better links between pay and career progression using the Knowledge and Skills Framework and to harmonise terms and conditions of service, such as annual leave, hours and sick pay. We believe that AfC helps to promote equality across the UK, which in turn helps the NHS support the recruitment and retention of a motivated workforce.

**RCN position**

**Impact on the wider economy**

The Governor of the Bank of England, Mervyn King, recently gave a speech⁴ which made a clear link between falling real wages and consumer spending to the UK’s current weak economic growth. Any reductions in pay levels in the public sector are bound to have a knock-on effect on the private sector, further damaging spending power and slowing down recovery. Weakening the spending power of the largest workforce in the UK will, in turn, weaken the national and regional economies. The Trade Union Congress submission⁵ to the Office of Manpower Economics consultation on local pay highlighted that reducing public sector wages by one per cent would hit local economies by at least £1.7 billion a year. For example, the submission estimates that it would take nearly £200 million out of the North West economy.

A move towards local and regional pay will also disproportionately affect a highly female workforce, both in the NHS and wider public sector. In the NHS, women account for around 80 per cent of staff covered by AfC. Women have been, and will continue to be, disproportionately hit by falling living standards as well as the withdrawal of financial support through tax credits. Lower pay levels in the public sector will impact on a large percentage of the total female workforce.

It is clear that the private sector needs support to enable the UK economy to return to growth, however there is a lack of evidence to show that reducing public sector pay will help to achieve this. Incomes Data Services⁶ believes that the Government’s proposal is based on a number of “myths or misunderstandings” about local pay determination in the public and private sectors. They argue that “In part this is because some of the economic theory behind many of the assertions is ignorant of actual practice and thus the development of rational arguments is made more difficult”.

**Preventing unequal pay issues**

We believe that strong recruitment and retention are best secured through national pay determination, which is underpinned by a robust job evaluation scheme. AfC ensures that NHS staff are paid and developed in a transparent, equitable and efficient manner. Any moves to a market facing remit on pay in local areas would undermine the whole infrastructure, leading to damaging competition between Trusts and organisations for staff and unequal pay issues.

The work of nursing staff does not differ depending on which region they are in and it is therefore not right that nurses should be paid different rates for their core work in different parts of the country. The national structure of AfC prevents damaging competition whereby staff move around the NHS in search of higher pay rates and has largely eradicated equal pay challenges. AfC also protects employers from the risk of ‘ratchet bargaining’ where pay rates are bargained up on a region by region basis for some grades of jobs. For these reasons, we believe that private sector labour markets do not provide an appropriate framework on which to map NHS pay.

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⁴[http://www.bankofengland.co.uk/publications/Documents/speeches/2012/speech541.pdf](http://www.bankofengland.co.uk/publications/Documents/speeches/2012/speech541.pdf)

⁵[www.tuc.org.uk/RegionalPaySubmission/](http://www.tuc.org.uk/RegionalPaySubmission/)

Modelling NHS pay on private sector pay outcomes would replicate the private sector’s market failures, distortions and inequalities. For example, income inequality among working age people has risen faster in the UK than in any other rich nation since the mid-1970s and is a particular feature of the private sector. The differential between highest and lowest earners is larger in the private sector than the public sector. In addition, the gender pay gap is smaller in the public than the private sector, which is due to several different factors, including greater transparency in pay setting in the public sector. Income inequality has also grown between London the rest of the country over the last decade. Reducing NHS pay rates in low income areas will widen this gap as the private sector competes for staff in a labour market with a reduced ‘going rate’.

**National pay bargaining reduces costs**

AfC minimises transactional costs involved in pay determination and removes pay as a source of industrial relations conflict at an organisational or local level. It enables employers to concentrate on their core business activity of delivering high-quality health care to their population. Any move to local pay determination would significantly increase transaction costs related to setting up and administering local systems and structures. It would reduce career mobility and dissuade health workers from moving to lower cost areas, which in the long term would affect local budgets as local managers are required to pay ever higher wages to attract staff.

If there is localised pay, negotiations will take place on a more local level and this will require more time from managers and union representatives, as well any increase in unfair pay disputes. The NHS is not equipped to manage local pay negotiations and does not have enough staff skilled to do this. It would therefore be extremely difficult for NHS managers and employers to manage this change, particularly at a time when the NHS reforms outlined in the Health and Social Care Act 2012 are underway. The importance of considering the context of the NHS organisational change is highlighted by the DH itself in its submission to the NHS Pay Review Body.

The experience of local pay in the NHS has shown that although employers call for it, they often do not use this power when they are awarded it. In the mid 1990s, the NHS Pay Review Body allowed NHS employers to develop local pay (after many years of the employers requesting to be allowed to do so). When they were given the opportunity they chose not to do so resulting in the Pay Review Body having to re-intervene to bring wages back up to a reasonable level. We do not believe that there is now an appetite on the part of the majority of employers to enter into negotiations on local pay.

It is worth noting that despite Foundation Trusts already having had the opportunity to introduce local pay and conditions, only Southend University Hospital NHS Foundation Trust has gone down this route. NHS Employers’ evidence to the NHS Pay Review Body highlighted that consultation with employers showed there is “limited appetite from employers for full local pay bargaining and moving away from AfC...Such a move would raise issues of local capacity, increase administration costs and risk pay inflation as employers compete directly for staff on pay”.

The Government’s proposal holds the implicit assumption that the labour market for all NHS staff groups will react in the same way to changes in pay determination. While some NHS groups operate within clearly national labour markets, others are more locally focused. On a practical level, this means that local labour costs will be difficult to predict and contain across many different occupational groups, but perhaps more importantly it is a direct contradiction of the Government’s aspiration for NHS staff costs to map local labour costs. While the NHS workforce is complex, with overlapping national and local labour markets, these are best governed by national pay determination underpinned by AfC, to prevent staff and skills shortages.

The introduction of market facing pay is only a logical step if local pay effectively and efficiently responds to local recruitment and retention issues. Following this process would result in the Government losing national control of the pay envelope. It would also lead to a reduced role for the NHS Pay Review Body limiting its ability to respond to recruitment retention issues in a controlled, sustainable manner.
Cross-border issues

We are particularly worried about the impact of this review on cross-border labour markets. This review only covers England, and governments in Wales, Scotland and Northern Ireland have been invited to take their own position. Recruitment and retention problems are particularly likely to emerge at England’s border regions with Scotland and Wales. For instance, the north of England displays one of the larger gaps between public and private sector pay and therefore if a market facing system imposes lower pay on large chunks of the north while Scotland continues to pay existing AFC rates, employment patterns are likely to respond accordingly. Cross-border concerns can also be extended to cross county and local authority borders. A large number of NHS staff in the south east currently travel long distances to work in order to benefit from High Cost Area Allowances (formerly London Weighting).

Flexibility in the current system

The current UK wide NHS pay system has proven itself as a robust, effective pay system that closely follows the realities of geographic variations in the UK labour market. It does this by setting a floor pay rate for the NHS but allowing for adjustments in high cost areas or local areas with particular recruitment difficulties. For example, one way in which the AFC pay structure addresses particular local labour market circumstances are through High Cost Area Supplements (HCASs). These are graded from Inner London to Outer London and the London Fringe (covering parts of Kent, Essex, Bedfordshire, Hertfordshire, Thames Valley, Surrey and Sussex). HCASs are also permissible in other parts of the UK where a sufficient case can be made.

Cost of Living Supplements have also been consolidated into long-term Recruitment and Retention Premia (RRPs) and short term RRPs can be established on both a national and local basis where the case can be made to justify them. RRPs are agreed pay supplements for individual jobs, or groups of jobs, where market pressures would make it difficult for NHS organisations to recruit or retain particular jobs, UK-wide, at the normal salary. Therefore, AFC adapts to both regional cost of living factors and occupational recruitment problems.

There has generally been a lack of adequate central data collection to establish the prevalence of these options within the NHS. However, a study conducted in 2009 examined the use of local RRPs, with 39 per cent of trusts in England reporting that they paid RRPs and 18 per cent stating that they were considering introducing them within the following 12 months. Furthermore, trusts paying local premia generally considered them to have been effective in tackling any recruitment and retention problems.

Department of Health proposals

In its response to the NHS Pay Review Body, the DH includes proposals that are based on greater use of HCASs. The RCN supports the use of existing flexibilities within the current AFC agreement, such as HCASs as a way of addressing recruitment and retention difficulties. However, the funding mechanism at the heart of the proposals would mean that basic awards would be constrained to generate headroom for greater pay differentiation through HCAS payments. This means a further period of pay restraint for substantial numbers of staff.

About the RCN

With a membership of more than 410,000 registered nurses, midwives, health visitors, nursing students, health care assistants and nurse cadets, the Royal College of Nursing (RCN) is the voice of nursing across the UK and the largest professional union of nursing staff in the world. RCN members work in a variety of hospital and community settings in the NHS and the independent sector. The RCN promotes patient and nursing interests on a wide range of issues by working closely with the Government, the UK parliaments and other national and European political institutions, trade unions, professional bodies and voluntary organisations.