Report Title:	Public sector pay versus private sector pay increases over time		
Report No:	**2024-0088**		
Date:	**15 March 2024**		
To:	**Hon Nicola Willis, Minister for the Public Service**		
Action Sought:	Agree to the recommended actions	**Due Date**	18 March 2024
Contact Person:	**Sarah Borrell, Chief Adviser, Employment Relations**		
Contact No:	9(2)(a) privacy		
Encl:	No	**Priority:**	Medium
Security Level:	**UNCLASSIFIED**		

Executive Summary

1. This report provides an outline of public sector pay versus private sector pay increases over time.

2. It provides a high level summary, followed by a more detailed analysis and the presentation of the data utilised. It has been written with The Treasury.

Recommended Action

We recommend that you:

a **note** that:

a. the data does not show that public sector pay has increased more than private sector pay overall in the past six years

b. we have limited information on the impact of pay on productivity, but from the data available, there is a trend of lower productivity growth in the health and education sectors, below that of economy-wide productivity and private service industries

c. the average salaries of lower paid workforces in the public service have tended to increase at a faster rate than those of higher paid workforces

d. the highest average wage growth in the public service since 2017 can be seen in the social, health and education workers, followed by information professionals. The lowest average growth was observed in the management occupation

b **agree** that Te Kawa Mataaho Public Service Commission (the Commission) release this briefing in full once it has been considered by you.

Agree/disagree.

Hon Nicola Willis
Minister for the Public Service

Purpose of Report

3. You have asked to see a summary of public sector pay versus private sector pay increases over time and advice on:

    a. whether public sector pay has increased more than private sector pay;

    b. the impact of pay on productivity; and

    c. the distribution of pay increases.

4. This report provides a one-page summary (para 5-8) followed by more detailed analysis.

Key points about recent public sector pay versus private sector pay increases:

5. Any trend analysis that compares salary growth is significantly affected by the time series used. In this case, we have focused on the past six years which aligns to the maximum length of two collective agreement terms. It also takes us through COVID. However, even over this time span the data is still quite sensitive to the timing of payments made for the very large workforces such as teachers or nurses, including pay equity settlements.

6. The data does not indicate that public sector pay has increased more than private sector pay overall in the past six years.

    a. We cannot identify any significant difference between the six years of cumulative wage growth in the public service and the private sector. While there appears to be a higher cumulative growth in wages in the public sector (compared to both the public service and the private sector), much of that is driven by the health sector and would appear to be linked to the significant pay equity settlements.

    b. A notable feature is that the average annual wage growth in those six years has been higher in the private sector than the public sector. We suspect this reflects the impact of minimum wage lifts on a comparatively lower paid private sector.

    c. In addition, comparing wage growth in the public and private sectors against an adjusted Labour Cost Index (LCI) measure suggests that only the health sector has exceeded inflation over this time period.

7. We have limited information on the impact of pay on productivity.

    a. Treasury advises that there is limited data collected on this point. There is no measure for the wider public sector, and none for the public service.

    b. From the data that is collected by Statistics New Zealand (Stats NZ), they can observe a trend of lower productivity growth in the health and education sectors, below that of economy-wide productivity and private service industries (selected for comparison because public services are largely service industries).

8. We can use the Commission's workforce data to identify some distribution trends in the Public Service (only). Looking at the distribution of pay increases we can observe that:

    a. The average salaries of lower paid workforces in the Public Service have tended to increase at a faster rate than those of higher paid workforces.

    b. The highest average wage growth in the Public Service since 2017 can be seen in the Social, Health and Education Workers, followed by information professionals. The lowest average growth was observed in the Management occupation.

Analysis:

9. This report contains material provided by the Commission and the Treasury.

Has public sector pay increased more than private sector pay over time?

10. Wage growth as measured by the adjusted LCI (which measures changes in the cost of labour, holding quality and quantity of labour constant) suggests that only wage growth in the health sector has exceeded inflation in recent years, caused in large part by pay equity settlements. Note, public sector wage growth (which includes health sector wage growth) has outgrown the private sector and the Public Service.

11. On the other hand, growth in the average salary[1] across the last six years has been a little higher in the private sector than the public sector, and wage growth across the Public Service, public sector, and private sector, have all exceeded average inflation over the same period. These measures include impacts on wages from the quality of labour, as well as the composition of the workforce.

12. Tables 1 and 2 below contrast annual wage growth and inflation, and cumulative wage growth and inflation, over recent years for select sectors[2], using Stats NZ LCI, and Consumer Price Index (CPI) data.

13. Table 1 shows annual adjusted wage growth from 2018 to 2023. Annual wage growth and inflation is shown. Cells are highlighted where annual wage growth for that index exceeds inflation.

14. Wage growth should also be considered alongside wage rates; we might expect higher wage growth in the private sector, for example, because a higher proportion of staff in the private sector are paid at, or just above, the minimum wage, than in the public sector. Stats NZ data[3] shows average hourly earnings for the public sector and private sector, in December 2023 were:

    a. Public Sector: $48.66

    b. Private Sector: $38.88

[1] As measured by the Commission annual workforce data for Public Service, and the Stats NZ Quarterly Employment Survey for public sector and private sector wage growth measures.

[2] The all economy or all sectors measure is comprised of the "Public Sector" and "Private Sector". The public sector is comprised of central government, and local government. Central government is comprised of the "Public Service", "Health Sector", "Education Sector", and "Other Central Government".

[3] Quarterly Employment Survey December 2023 data for Total (ordinary hours + overtime) hourly, public sector, and private sector.

Table 1: December quarter annual wage growth, select sectors, and inflation

	Adjusted annual wage growth (LCI) for select sectors, and CPI Inflation			
	Public Service	Public Sector	Private sector	Inflation (CPI)
Dec-18	1.7%	1.7%	2.0%	1.9%
Dec-19	3.7%	3.3%	2.4%	1.9%
Dec-20	1.8%	2.0%	1.5%	1.4%
Dec-21	2.4%	2.3%	2.8%	5.9%
Dec-22	2.1%	3.6%	4.3%	7.2%
Dec-23	4.7%	5.7%	3.9%	4.7%

15. Table 2 shows cumulative adjusted wage growth, and inflation, to **December 2023** since March 2018. The highlighted cells show where cumulative wage growth exceeds cumulative inflation for the same period.

Table 2: Adjusted, cumulative wage growth and inflation (March 2018 to December 2023)

	Measure
	Cumulative LCI - **Adjusted**
Public Service	17.2%
Public sector	19.7%
Private sector	17.6%
Education	17.3%
Health	29.1%
Inflation	24.5%

16. Note that choosing a different period may not result in the same results; for example, in the last two years inflation has generally exceeded wage growth in any sub sector.

17. Table 3 below shows average (compound) wage growth for the Public Service for the 2017/18 financial year to 2022/23 financial year using Commission data. Also presented for comparison are similar measures for the public sector and private sector, using Stats NZ Quarterly Employment Survey data, and compound annual inflation for the period using the CPI.

Table 3: Average earnings growth – select sectors – 2018 - 2023

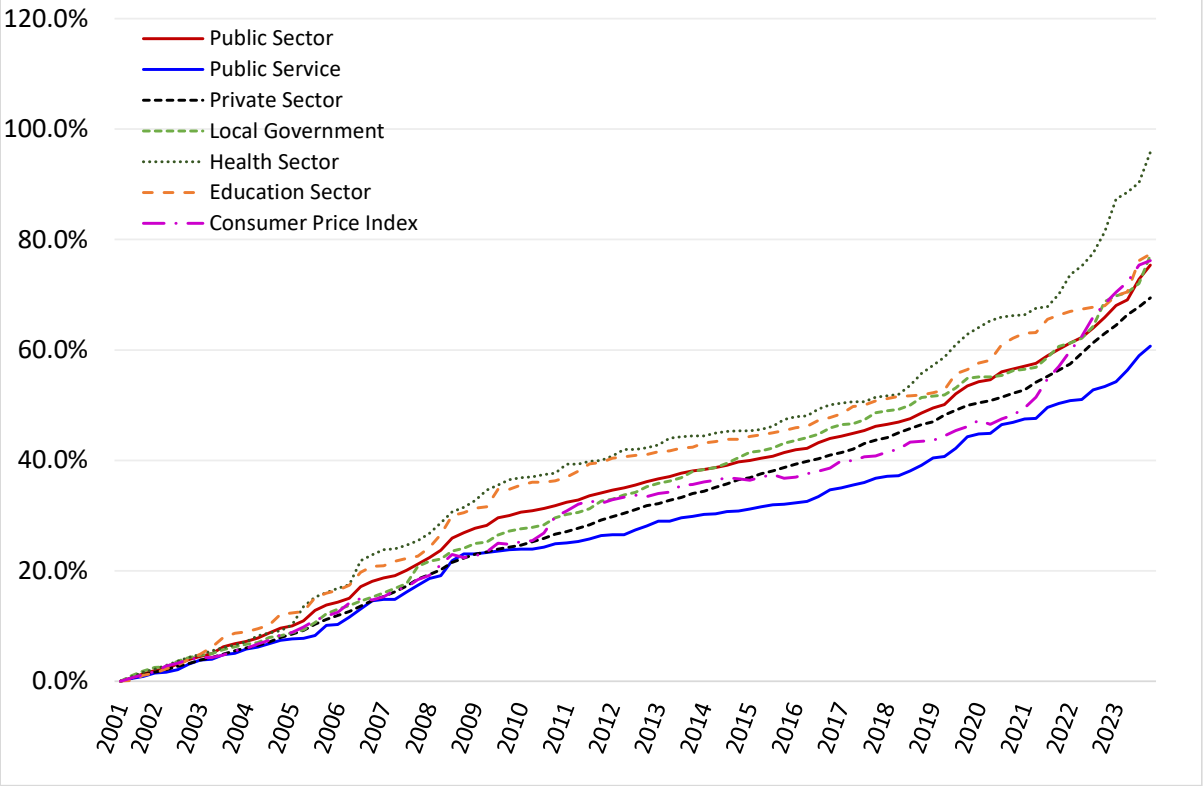
Public Service	Public sector	Private sector	Inflation
4.3%[4]	4.1%	4.8%	3.6%

18. Growth in average hourly earnings (average salary for the Public Service) across the selected indices exceeds inflation for the period. These sectors have been selected due to the availability of data; we do not have equivalent measures for health and education sectors.

[4] Note: The Public Service calculation uses annual salaries as at 30 June 2023. This means the Public Sector Pay Adjustment has had some impact on this value. Public sector, private sector, and inflation measures include latest data to December 2023

19. Figure 1 was provided in report 2024-0024 and shows trends in cumulative wage growth for select sectors over a longer time span.

Figure 1: Labour Cost Index – wage movements by sector and CPI (cumulative percentage change since March 2001)

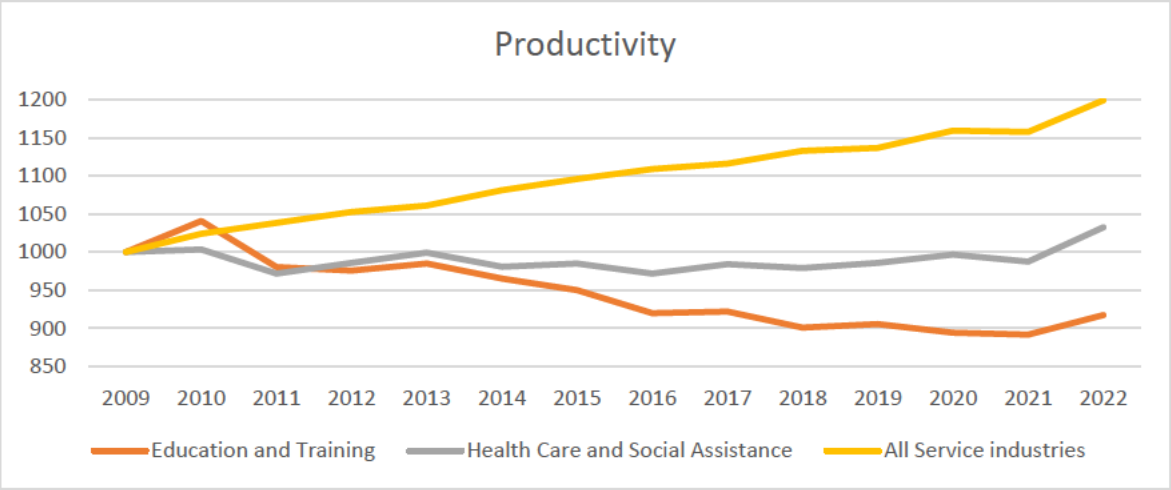


20. For further information on this material, please refer to 2024-0024.

The impact of pay on productivity (from Treasury)

21. Figure 2 shows there is a trend of lower productivity growth in the health and educations sectors, below that of economy-wide productivity and private service industries (selected for comparison because public services are largely service industries). There is no measure for the wider public sector, and none for the public service.

Figure 2: Productivity in sectors of predominantly government employment



22. We would caution associating poor productivity growth with poor outcomes. There are several factors that could explain the poorer productivity growth in the health and education sectors:

    a. The Baumol effect – the rise in wages in low productivity service industry jobs to compete with jobs with high productivity growth. For private sector jobs, this results in increased prices, which for some industries is met by the market (reflecting consumer surplus) while others will decline. For public services, the increase in relative expense is generally offset by the national income benefits of increased productivity or income across the economy. Given education and health inputs are largely measured by wage costs, increased wages put downwards pressure on measured productivity.

    b. Effectiveness of the measurement – measuring the productivity of public services is difficult and requires more complementary quantitative evaluation and judgement. Productivity is a good measure of efficiency, but not the full story on effectiveness. A common critique of these measurements is they tend to understate productivity by not adequately quantifying outcomes. E.g. a reduced student:teacher ratio would see a decline in that teacher's productivity – in theory this would be offset with a quality adjustment for test scores but this may still not fully capture the longer term social and educational effectiveness.

    c. A lack of incentive to innovate or adopt technological change in the public sector.

23. Despite relatively poor productivity growth in New Zealand generally, wages have improved due to improved terms of trade. Public sector workforces have also benefitted from this improvement.

Trends in the distribution of pay and whether some areas increasing faster.

24. Table 4 shows average wage growth from July 2017 to June 2023 at an occupation group level within the Public Service (departments and departmental agencies only). This uses the same methodology as for the Public Service measure shown in Table 3 (also shown, for reference).

Table 4: Average Public Service wage growth, by occupation group, 2018 to 2023

Occupation Group	2017 Average Salary	2023 Average Salary	Average Growth
Managers	$131,852	$155,975	2.8%
Policy Analyst	$96,838	$115,414	3.0%
ICT Professionals and Technicians	$92,108	$111,215	3.2%
Legal, HR and Finance Professionals	$88,595	$107,037	3.2%
Clerical and Administrative Workers	$58,272	$72,879	3.8%
Contact Centre Workers	$50,681	$63,419	3.8%
Inspectors and Regulatory Officers	$59,660	$74,809	3.8%
Information Professionals	$82,701	$105,027	4.1%
Public Service	***$75,416***	***$97,169***	***4.3%***
Social, Health and Education Workers	$63,255	$85,885	5.2%

25. The average salaries of lower paid workforces has tended to increase at a faster rate than those of higher paid workforces. Note that compositional changes across workforces also affect average salaries, for example, employing a cohort of new highly paid staff will increase the average salary without any existing staff receiving a pay increase.

26. In 2023, our annual workforce data shows wage growth continued to proportionally benefit those towards the lower end and middle of the salary distribution. For example, salary growth near the bottom (at the 5th percentile) was 10.4 percent, while salary growth near the top (at the 95th percentile) was 6.2 percent. The salary of staff at the 95th percentile, approximately $170,500 is now less than three times the salary of staff at the 5th percentile, approximately $58,700, for the first time in over 20 years. This demonstrated a lifting of salaries for lower paid staff relative to higher paid staff over time, in line with the expectations of the previous Government.