



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

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Jerry Cope

Following my recent announcements at the Autumn Statement, I am writing to set out the Government's view on the critical role of the NHS Pay Review Body in the years ahead.

The Government continues to value the independent and expert view that the Review Bodies provide – and I appreciate that you are currently engaged in taking evidence in relation to pay awards for 2012-13.

You will be aware that, at the Autumn Statement, I announced that the public sector pay freeze will end after 2012-13 – but that in order to support fiscal consolidation, for each of the following two years the Government will seek public sector pay awards that average at 1 per cent. The Secretary of State will write to you in advance of the 2013-14 pay round, in line with normal process.

However, when it comes to setting pay policy after the freeze, the Government is concerned not only with the appropriate annual uplift, but also ensuring that overall public sector pay systems are the most appropriate for the modern labour market.

In particular, as Review Bodies have noted in the past, there is substantial evidence that the differential between public and private sector wages varies considerably between local labour markets. This has the potential to hurt private sector businesses that need to compete with higher public sector wages; lead to unfair variations in public sector service quality; and reduce the number of jobs that the public sector can support for any given level of expenditure.

The Government believes that there is a clear case for seeking to correct these problems, ensuring that public sector pay does not distort local markets. Therefore – following my

announcement in the Autumn Statement, I am now writing to ask that you consider how to make pay more market-facing in local areas for NHS Agenda for Change staff.

In taking forward this analysis, you should take into account:

- the need to recruit, retain and motivate suitably able and qualified staff across the UK;
- the difference in total reward between the NHS workforce and those of similar skills working in the private sector by location – and the impact of these differences on local labour markets;
- how private sector employers determine wages for staff in different areas of the country;
- what the most appropriate areas or zones by which to differentiate pay levels should be;
- the affordability of any proposals in light of the fiscal position – these should not lead to any increase in paybill in the short or long-term;
- the need to ensure that proposals are consistent with law on equal pay;
- whether and how the new approach could be delivered within national frameworks; and
- whether proposals should apply to existing staff, or just to new entrants.

The Secretary of State will follow this letter with a detailed remit in relation to the NHS workforce, which may also raise other pay reform issues.

I would be grateful if you could submit initial findings by 17 July 2012. It will then be possible to feed these findings into the evidence provided by Government and other parties, to the 2013-14 pay round.

I am copying this letter to the Chief Secretary to the Treasury, the Secretary of State for Health and the Minister for the Cabinet Office.



GEORGE OSBORNE