



Dadansoddi
Cyllid Cymru
Wales Fiscal
Analysis

The Public Sector in Wales

An analysis of recent trends in the public sector
workforce and pay bill

GUTO IFAN & CIAN SIÓN

Dadansoddi Cyllid Cymru
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Preface

Declaration of funding

Wales Fiscal Analysis is hosted by the Wales Governance Centre and the School of Law and Politics at Cardiff University, and funded through a partnership between Cardiff University, the Welsh Treasury, the Welsh Local Government Association and Solace Wales. The programme continues the work of Wales Public Services 2025 hosted by Cardiff Business School, up to August 2018

About us

Wales Fiscal Analysis (WFA) is a new research body within Cardiff University's Wales Governance Centre that undertakes authoritative and independent research into the public finances, taxation and public expenditures of Wales.

The WFA programme adds public value by commenting on the implications of fiscal events such as UK and Welsh budgets, monitoring and reporting on government expenditure and tax revenues in Wales, and publishing academic research and policy papers that investigate matters of importance to Welsh public finance, including the impact of Brexit on the Welsh budget and local services, options for tax policy, and the economics and future sustainability of health and social care services in Wales.

Working with partners in Scotland, Northern Ireland, the UK and other European countries, we also contribute to the wider UK and international debate on the fiscal dimension of devolution and decentralisation of government.

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Summary

- In 2018, **20.0% of the Welsh workforce were employed in the public sector**, down from a peak of 27.4% in 2009.
- Public sector workers account for a relatively larger segment of the Income Tax base in Wales compared to the UK, both because they comprise a larger share of the workforce and because their earnings tend to be higher than their counterparts in the private sector. Consequently, **the Welsh tax base is relatively more sensitive to public sector pay policy decisions**.
- In 2017-18, the Welsh Government and local authority pay bill amounted to **£7.8 billion**.
- The two largest components of the Welsh public sector pay bill in 2017-18 were NHS Wales at **£3.63 billion (46.3%)** and local authorities at **£3.55 billion (45.4%)**. In 2016-17, the NHS overtook local government as the largest component of the pay bill.
- **Between 2009-10 and 2017-18, the combined workforce of NHS Wales Trusts and Local Health Boards increased by 5,935 (8.0%)**. Over the same period, employee costs increased by **£371.7 million (11.2%)**.
- Between 2005-06 and 2017-18, the number of full-time equivalent teachers fell by **2,493 (9.5%)**, while the number of teaching assistants has increased by **9,336 (193.6%)**. **Women are 28 times more likely to be employed as a teaching assistant in the primary sector than men**.
- **Pay awards have only been one driver of pay bill increases**. The introduction of automatic pension enrolment has had a discernible impact on employee costs for NHS Wales and the Welsh civil service. Looking into the future, pension contributions are set to continue being a source of pressure on the public sector pay bill.



1

Introduction – the public sector in Wales

The public sector refers to the part of the economy that is owned, funded or run by central or local government. It encompasses all levels of government administration, publicly-funded health and social care, social security, education, defence and policing.¹ While legislative control over some of these areas is reserved to the UK government, the Welsh Government has responsibility over its own civil servants, NHS Wales and funding for local authorities. Collectively, staffing costs for these services form the bulk of the Welsh Government and local authorities' public sector pay bill.

Historically, Wales has had a relatively large share of its workforce in public sector employment. As traditional industries declined throughout the 20th Century, the NHS and local government became increasingly important employers. This was accompanied by the relocation of several large UK government agencies to Wales, including the DVLA to Swansea, ONS to Newport and Companies House to Cardiff — one of the reasons why Wales has a higher ratio of civil servants per member of population than London at 105 in every 10,000.²

Although the share of the Welsh workforce employed in the public sector has been consistently higher than the UK level for several decades, both figures are currently at an historic low (Figure 1.1). Despite this, the share of the workforce employed in the public sector in Wales remains more than three percentage points higher than the UK-wide figure. If the share of the workforce in public sector employment in Wales were to match that of the UK, there would be around 78,000 fewer people employed in the sector (ap Gwilym and Holtham 2018).

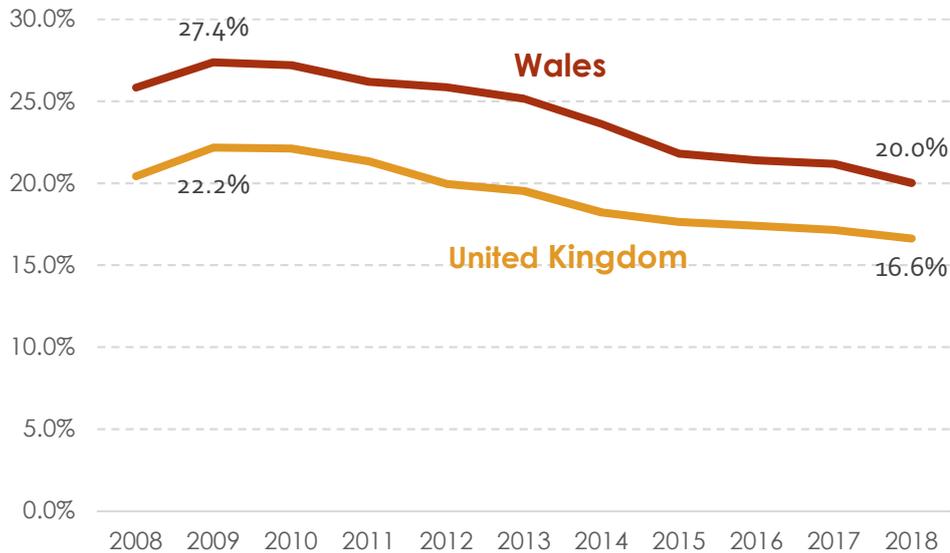
In 2018, 20.0% of the Welsh workforce was employed in the public sector, down from a peak of 27.4% in 2009. This recent decline can be partly attributed to public sector job cuts since the start of austerity. Previous research published by this Centre found that 37,000 public sector jobs were lost in Welsh local government alone between 2009 and 2018 (Ifan and Siôn 2019: 36).

¹ This definition is not uncontested, for instance, the NACE activity classification used by Eurostat adopts a narrower concept of the public sector that excludes health services and education (Glassner 2010: 7).

² Civil service employment data is sourced from the *Civil Service Statistics* tables published by the ONS: <https://www.ons.gov.uk/releases/civilservicestatistics2018>; population data is based on ONS (2017) mid-year estimates.

Figure 1.1

Public sector employment as a share of total employment in Wales and the United Kingdom, 2008 to 2018



Source: ONS (2018 and previous) *Public sector employment, UK statistical bulletins* and ONS (2018 and previous) *Annual Population Survey*.

In the aftermath of the 2007-08 financial crisis, many countries adopted policies directly aimed at reducing the size of the public sector workforce, or imposed tighter controls over pay increases (Christofides & Michael 2013). Wales was no exception as both the UK government and the Welsh Government imposed pay freezes and caps for public sector workers. From 2011 to 2013, the UK government implemented a two-year freeze on pay increases (excluding those earning £21,000 or less), and pay awards were limited to an average of 1% per year from 2013 to 2017.

The planned devolution of further powers to the Welsh Government, including responsibility for teachers' pay and conditions and the introduction of a Welsh rate of Income Tax from April 2019 onwards, means that the public sector pay bill, the Welsh workforce and, by extension, the Welsh tax base have become increasingly salient topics in recent years.³

³ See the following article for further context around the devolution of teachers' pay and conditions: <https://seneddresearch.blog/2018/03/26/what-does-the-devolution-of-teachers-pay-and-conditions-mean-for-the-welsh-education-system/>

As part of Wales Fiscal Analysis' ongoing project to examine Welsh public expenditure, this short report analyses trends in public sector employment and pay in Wales.

The rest of the report is structured as follows:

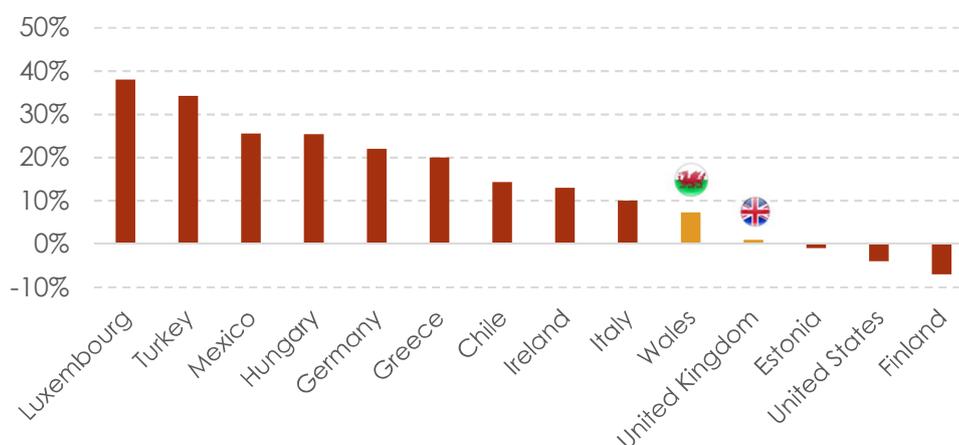
- **Chapter 2** looks at recent trends in annual earnings across the public and private sector in Wales and the UK as a whole;
- **Chapter 3** estimates the Welsh Government and local authorities' public sector pay bill, derived by aggregating the employee costs of the largest public employers in Wales;
- **Chapter 4** identifies thematic trends in the composition of the workforce and components of the pay bill across the NHS, local government, the Welsh Civil Service and the UK Civil Service in Wales;
- **Chapter 5** summarises and identifies some of the pressures that are likely to impact the public sector pay bill over the next five years.

2 Trends in annual earnings

On the basis of international comparisons, it has frequently been noted that public sector workers enjoy a pay premium over their private sector counterparts (Bozio and Disney 2011). If we simply compare headline figures for mean earnings across the two sectors, this is true. However, some of the differences between public and private sector pay reflect differences in hours and workers' characteristics. For instance, public sector workers tend to have higher levels of education, are older and are more likely to be female (Cribb et al. 2014: 3). The term, *public/private pay differential* is used when referring to the difference in pay between the public and the private sector *after* accounting for the different characteristics of the respective workforces.

In a recent study, the average public sector pay differential in Wales was estimated at 6.6% for men and 8.0% for women, significantly higher than for other UK countries and regions (Blackaby et al. 2018: 483). Nevertheless, as Figure 2.1 shows, the size of Wales' public sector pay premium is by no means inconsistent with estimates for other OECD countries, even if not all the studies used the same methodology.

Figure 2.1
Average public sector wage premium in selected OECD countries (estimates since 2000)



Source: World Bank (2000 - 2016) Worldwide Bureaucracy Indicators

While the public / private pay differential allows us to make like-for-like pay comparisons between the two sectors, in this chapter we explore trends in mean and median earnings, unadjusted for workers' characteristics.⁴

Mean annual earnings are higher in the public sector than in the private sector in Wales, a pattern that is reversed when looking at the picture across the UK. In 2017-18 in Wales, mean annual earnings were £3,413 (13.5%) higher in the public sector whereas on a UK-wide basis, mean annual earnings were £2,252 (7.7%) higher in the private sector.

Since the start of austerity measures from 2010, the UK and Welsh governments have implemented pay caps for public sector employees. From 2011 to 2013, the UK government implemented a two-year freeze on pay increases (excluding those earning £21,000 or less), and pay awards were limited to an average of 1% per year from 2013 to 2017. This period coincided with large cuts to most government departmental budgets – restraint of public sector pay meant these cuts could be achieved with smaller reductions in government employment and other non-pay bill spending than would otherwise have been needed (Crawford and Zaranko 2018: 144).

Having adjusted for inflation, mean annual earnings in the public sector in Wales fell by £1,035 (3.6%) between 2010-11 and 2017-18. This is smaller than the £1,495 (4.9%) reduction in annual public sector earnings when analysing the UK as a whole. During the same period, annual earnings in the private sector in Wales grew by £486 (2.1%) to £24,036, having fallen to a low of £23,106 in 2012-13. However, both public and private sector earnings in Wales dipped in 2017-18.

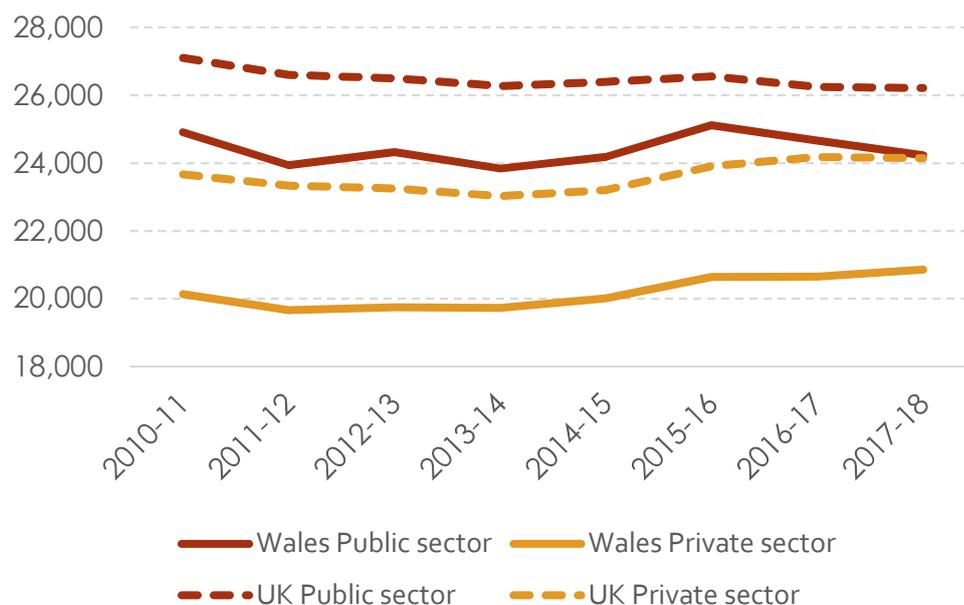
The fall in mean public sector earnings and the growth in mean private sector earnings has meant that there has been a slight convergence between the figures in Wales. In 2017-18, there was a £3,413 difference in mean earnings between the two sectors compared to £4,935 in 2010-11. Conversely, this gap has widened on a UK level.

Data on mean annual earnings is susceptible to changes in the pay of a small percentage of high-earning individuals. Figure 2.2 plots the median annual earnings in the public and private sector. In this case, earnings are comfortably higher in the public sector on a Wales and UK-wide level. This reflects the fact that the top-earners in the private sector tend to make significantly more than their

⁴ All earnings figures cited in this section have been weighted using the CPIH index of inflation. The CPIH gives a more comprehensive account of changes in the price of consumer goods than the more familiar CPI index since it also accounts for changes in owner-occupiers' housing costs

counterparts in the public sector, putting upward pressure on the mean earnings of all private sector employees.

Figure 2.2
Median annual earnings (adjusted for CPIH) by employment sector, in Wales and the UK, 2010-11 to 2017-18

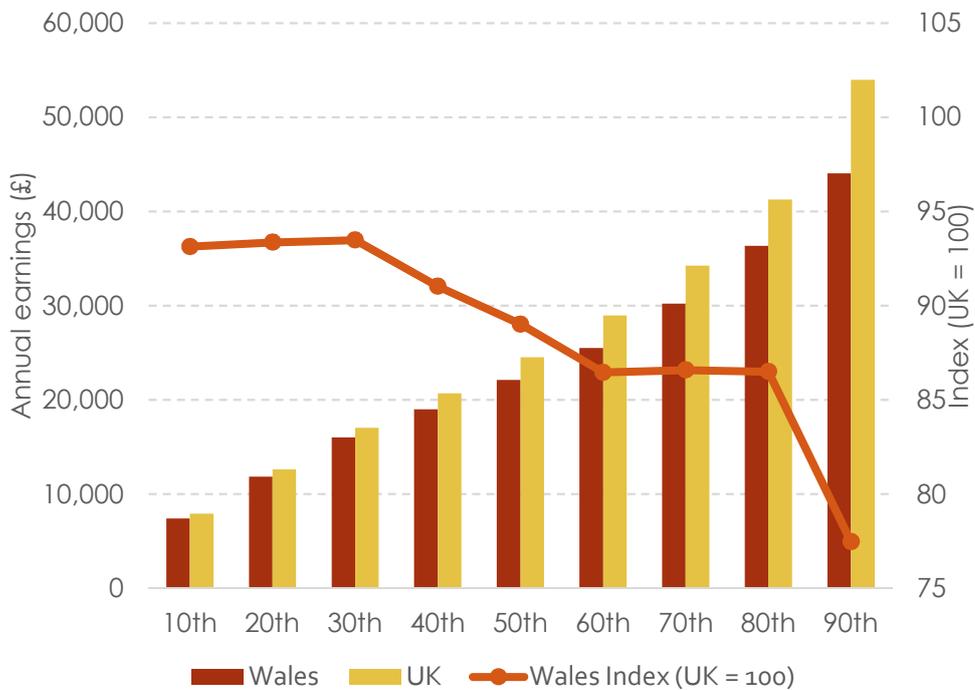


Source: ONS (2017-18 and previous) Annual Survey of Hours and Earnings

There is significantly less variance in public sector median earnings in Wales and the UK. This is in line with findings from international studies which have found that there tends to be less regional variation in public sector pay compared to private sector pay (Krueger 1988). The prevalence of standardised national pay scales used by large public sector employers mean that, outside of London, there is often little to no adjustment made to wages to account for local costs of living. An IFS report by Cribb et al. (2014) noted that regional variation in pay could lead to unintended variation in the quality of local services between regions; it could imply that regions with relatively lower costs of living are paying more than they need to for workers of a given calibre. Wales' relatively low costs of living compared to the rest of the UK could be cited as evidence that remuneration packages are relatively more generous on this side of the border. Although there is evidence that wages in the public sector fail to account for local variations in living costs, any attempt to introduce regional pay awards would need to balance considerations such as who bears any additional costs and what economic indicators should be used to decide on appropriate pay band for each region.

Figure 2.3

Annual earnings (adjusted for CPIH) by percentile for all sectors, in Wales and the UK, 2017-18



Source: ONS (2017-18 and previous) Annual Survey of Hours and Earnings

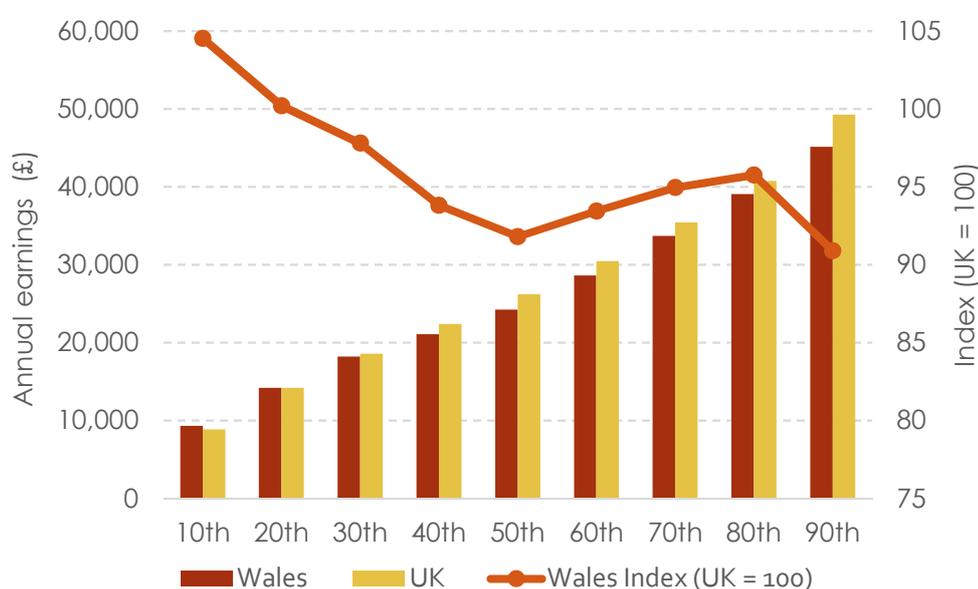
Figure 2.3 shows annual earnings by percentile for all sectors in Wales and the UK in 2017-18. Annual earnings are lower in Wales at each percentile when compared to the UK. The yellow line plots the Welsh index where (UK = 100) at each percentile. The further the index drops below 100, the greater the difference between annual earnings at each decile between Wales and the UK.

This index increases slightly up to the 30th percentile, drops sharply between the 30th and 60th percentile and again, drops very sharply above the 80th percentile. At the 90th percentile, annual earnings in Wales stand at £44,041 compared to £53,963 for the rest of the UK. This is largely because the UK has a longer upper tail-end to the earnings distribution. This is driven by the high salaries of senior managers working for large multinationals and financial institutions in London and other major cities.

Figure 2.4 disaggregates the data displayed in Figure 2.3 for the public sector (excluding the private sector). Although public sector earnings in Wales are higher

than the UK level at the lowest two deciles, the gap then widens, with a slight closing of the gap between the 50th and the 80th percentile. At the 90th percentile, annual earnings in the public sector in Wales stands at £45,145 compared to £49,254 for the UK, or 90.9% of the UK level. The difference in earnings at the 90th percentile is much greater in the private sector, where earnings are £14,650 higher when the UK is analysed as a unit compared to the Wales-only figure.

Figure 2.4
Annual public sector earnings (adjusted for CPIH) by percentile, in Wales and the UK, 2017-18



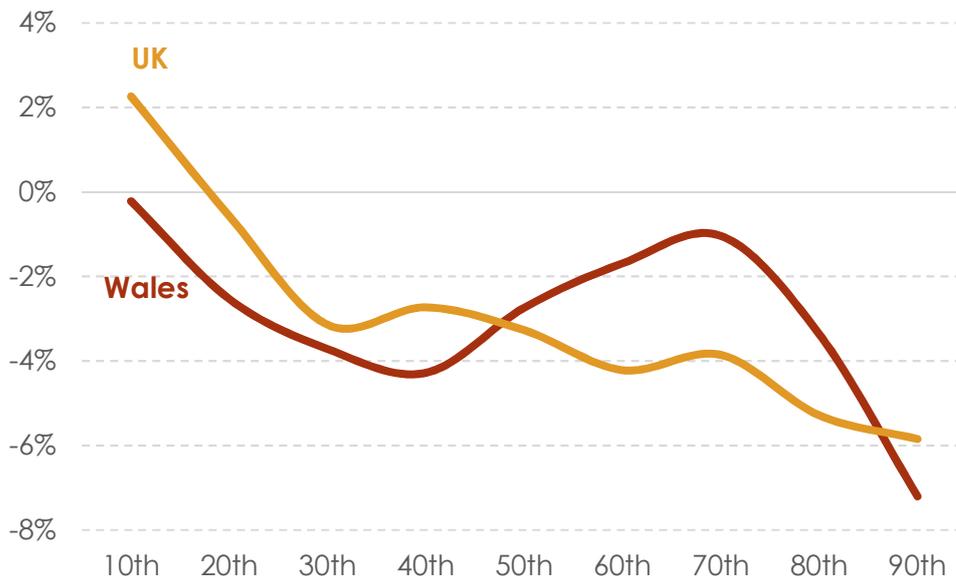
Source: ONS (2017-18 and previous) Annual Survey of Hours and Earnings

Public sector earnings have fallen in real terms across all deciles of Welsh earners since 2010-11. Figure 2.5 shows the percentage change in annual public sector earnings by percentile in Wales and the UK.

Those in the bottom half of all earners have seen a larger fall in their earnings in Wales compared to the rest of the UK. This effect is most notable at the 10th percentile where public sector workers in the UK have seen a 2.3% increase in their annual earnings compared to a 0.2% reduction in Wales. Between the 50th and the 80th percentile, public sector workers in Wales have seen a smaller reduction in their earnings compared to the UK as a whole. At the 90th percentile, public sector earnings have fallen more sharply in Wales (7.2%) than the UK (5.8%).

Figure 2.5

Percentage change in annual public sector earnings (adjusted for CPIH) by percentile, in Wales and the UK, 2010-11 to 2017-18



Source: ONS (2017-18 and previous) Annual Survey of Hours and Earnings

It is notable that when analysing the UK as a unit, public sector earnings have fallen more sharply for the top-earners, whereas this has not been the case in Wales where the effects have been more regressive. Here, public sector workers with annual earnings in the third quartile (above the median) have seen a smaller reduction in their earnings compared to those in the second quartile, with earnings below the median.

Public sector workers account for a relatively larger segment of the Income Tax base in Wales compared to the UK, both because they comprise a larger share of the workforce and because their earnings tend to be higher than their counterparts in the private sector. Consequently, the Welsh tax base is relatively more sensitive to public sector pay policy decisions.

Greater reliance on public sector employees to bolster the tax base can prove to be a double-edged sword. In times of public spending growth, it is generally recognised that positions in the public sector tend to offer greater job security than in the private sector, yielding a steady stream of Income Tax payable to the Treasury. However, in times of austerity, the tendency to impose policies directly aimed at reducing the public sector workforce size or capping pay can have a disproportionate effect on the Welsh tax base. This appears to have been the case

in the aftermath of the 2008-09 global financial crisis. Between 2009-10 and 2015-16, Income Tax revenue raised in Wales grew by 2.1%, significantly less than the UK average of 16.3%.⁵ Although some of this can be attributed to the relative effects of increases to the personal allowance, it is likely that restraints on public sector pay contributed to the slower growth in Welsh Income Tax revenue during this period.

Following the partial devolution of Income Tax powers in April 2019, relative growth in Welsh earnings will have a direct impact on funds available to the Welsh Government. To avoid a shortfall in funding, average Welsh earnings will need to at least keep pace with the UK average over coming years. Public sector pay policies will from now on have an amplified effect on earnings trends in Wales and directly impact on revenues for the Welsh budget (Poole and Ifan 2018:20).

In September 2017, the government announced that the 1% cap on public sector pay rises would be lifted, and in July 2018, announced higher pay settlements for several public sector employees. The Office for Budget Responsibility (OBR) now forecasts earnings growth in the public sector will rise so that it broadly matches private sector average earnings growth next year. This uplift in public sector pay growth relative to previous years may have a bearing on the relative performance of the Welsh tax base.

⁵ Data on Income Tax receipts, by country, is published by HMRC here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/746146/Disaggregated_tax_and_NICs_receipts_-_information_and_analysis.pdf

3 The Welsh Government and local authorities' pay bill

We can approximate the Welsh Government and local authorities' public sector pay bill by aggregating employee costs across the NHS, local authorities, fire and rescue services, national parks, the Welsh Civil Service, Welsh Government sponsored bodies (WGSBs), scrutiny bodies and Commissioners.⁶ Note that this is not an exhaustive list of public sector bodies funded by the Welsh Government. It excludes smaller subsidiaries, advisory arms-length bodies and devolved tribunals although these organisations' budgets are relatively negligible in size.

The picture is further complicated by areas such as policing. Police officers' pay is partly funded by police precept revenue raised by Council Tax levied in Wales. However, since policing is a reserved area, police officers' pay will not be included as part of our main estimate.⁷ Additionally, further education colleges are fully funded by the Welsh Government, however, since they are no longer classified as public sector workplaces in the national accounts, they have also been excluded from our analysis.

When calculating the pay bill, where possible, we have used data for total staff costs which includes salaries and wages, costs of hiring agency staff, social security costs, pension costs and less any recoveries from secondments. Full details on the sources consulted can be found in Annex 1.

Bearing these caveats in mind, we estimate that in 2017-18, the Welsh Government and local authorities' public sector pay bill amounted to £7.8 billion. The Welsh Government resource DEL was £14.1 billion and the total amount of Council Tax paid to local authorities was £1.4 billion in the same year, meaning that employee costs accounted for roughly 50.3% of this total.

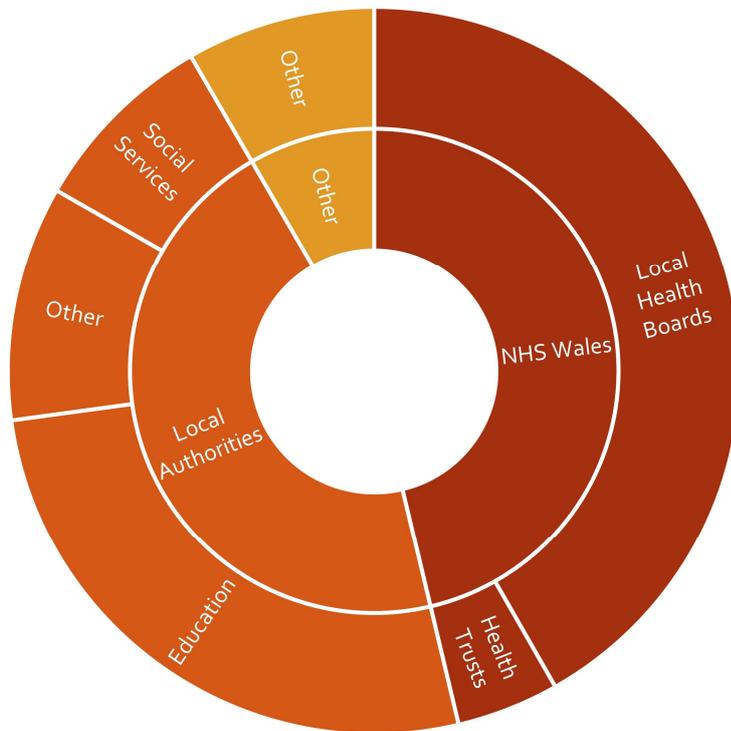
As shown in Figure 3.1, by far the two largest components of employee costs in 2017-18 were the NHS at £3.63 billion (46.3%) and local authorities at £3.55 billion (45.4%). Teachers and other school staff are included on local authorities' pay roll. Collectively they account for 58.5% of local authorities' employee costs or 26.5% of the total public sector wage bill. Education-related employee costs have fallen by £69.4 million (3.2%) in real-terms since 2009-10 whereas other local authority employee costs have fallen by £134.9 million (8.2%).

⁶ Local authorities' employee costs are partly funded by Council Tax revenue raised in that authority.

⁷ Figure 3.4 outlines the employee costs and funding sources for the four police forces in Wales.

Figure 3.1

Breakdown of the estimated Welsh Government's public sector pay bill, 2017-18



Source: See Annex 1

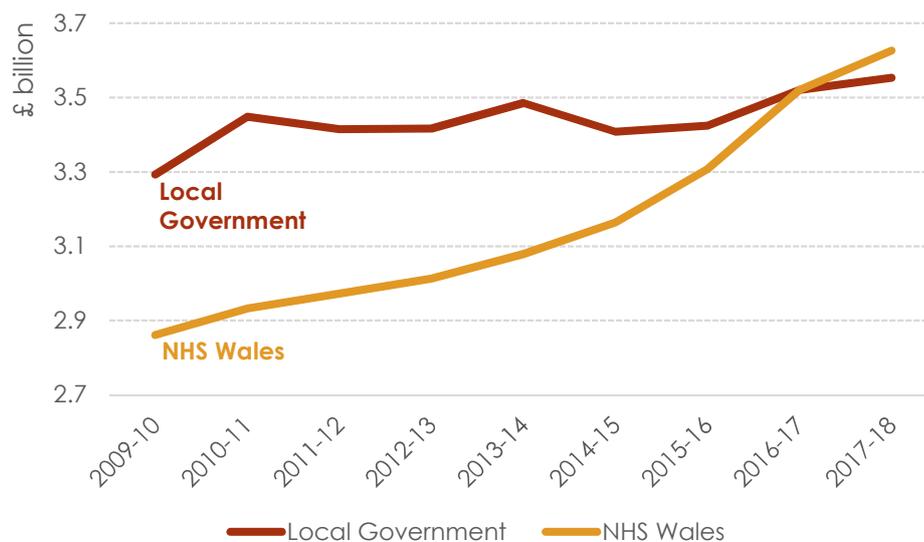
Historically, local authorities have accounted for the largest share of the public sector pay bill in Wales. Indeed Figure 3.2 confirms that in 2009-10, local authorities' employee costs were £430 million higher than in the NHS. However, cuts in central government support to local authorities and real-terms increases to the NHS budget since 2013-14 meant that in 2016-17, the NHS overtook local government as the largest component of the pay bill.

Despite this, local government remains the largest public sector employer in Wales, employing 152,000 workers as of September 2017.⁸ In the same year, the total number of staff working for Local Health Board and Trusts in Wales was

⁸ Total Local Government workforce is based on a headcount of staff on LA payrolls (including teachers, social care workers and administrative staff). Dataset was produced by the *Office for National Statistics* on request and is available here: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/publicsectorpersonnel/adhoc/s/009408employmentinlocalgovernmentbyukregionmarch2009toseptember2018>

79,916.⁹ The higher staff costs for the NHS reflects the fact that the workforce tends to be more highly-skilled and that a larger proportion of workers included in local authorities' headcount are part-time employees.

Figure 3.2
Local authorities and NHS pay bill, 2009-10 to 2017-18 (nominal terms)



Source: See Annex 1

Figure 3.3 offers a breakdown of staff costs by spending area / department / agency for 2017-18 and the previous year. Between 2016-17 and 2017-18, the Welsh Government's public sector pay bill increased by £162.4 million (2.1%) in nominal terms. This increase broadly matched the growth in the Welsh Government's resource Departmental Expenditure Limit (RDEL – including non-domestic rates revenues) for that year.

In addition to NHS Wales and local authorities, the public sector pay bill includes the employee costs of Welsh Government staff and large subsidiaries (£313.9 million), executive ASPBs (£140.1 million), three fire and rescue services (£116.5 million), three national parks (£12.3 million) and various other scrutiny bodies and Commissioners including the education inspectorate Estyn, the Wales Audit Office and the Public Services Ombudsman for Wales.

⁹ Figure based on a headcount of NHS employees sourced from summarised accounts tables.

Figure 3.3

Estimate of the Welsh Government and local authorities' public sector pay bill, 2017-18 and 2016-17 (nominal terms)

	2017-18		2016-17
	£'000s	%	£000's
NHS Wales	3,626,530	46.29%	3,520,454
of which: Local Health Boards	3,272,083	41.77%	3,181,285
of which: Health Trusts	354,447	4.52%	339,169
Betsi Cadwaladr UHB	706,790	9.02%	683,742
Abertawe Bro Morgannwg UHB	635,290	8.11%	633,347
Cardiff and Vale UHB	591,445	7.55%	576,632
Aneurin Bevan UHB	516,291	6.59%	495,561
Hywel Dda UHB	398,964	5.09%	397,315
Cwm Taf UHB	349,301	4.46%	337,812
Velindre NHS Trust	151,150	1.93%	147,352
Welsh Ambulance Service NHS Trust	126,206	1.61%	119,560
NHS Shared Services Partnership	77,091	0.98%	72,257
Powys Teaching Health Board	74,002	0.94%	66,876
Local authorities	3,553,133	45.35%	3,520,284
Education (teacher costs)	1,323,295	16.89%	1,320,599
Education (other employee costs)	755,676	9.65%	771,884
Social services	654,388	8.35%	611,098
Council tax benefit and administration *	275,380	3.52%	271,219
Local environmental services	164,238	2.10%	164,657
Libraries, culture, heritage, sport and recreation	143,418	1.83%	148,608
Roads and transport	112,308	1.43%	110,898
Planning and economic development	80,878	1.03%	78,750
Council fund housing and housing benefits	43,552	0.56%	42,572
Welsh Government and large subsidiaries	337,892	4.01%	326,499
Welsh Government	284,000	3.63%	272,000
Welsh Government large subsidiaries †	29,917	0.38%	32,715
Welsh Government sponsored bodies	140,336	1.79%	132,868
Natural Resources Wales	89,592	1.14%	81,166
National Museums and Galleries of Wales	20,098	0.26%	22,777
National Library of Wales	9,471	0.12%	8,590
Sports Wales	5,407	0.07%	5,414
Social Care Wales	4,554	0.06%	4,025
Qualifications Wales	4,348	0.06%	3,995
Arts Council of Wales	2,839	0.04%	3,117
Higher Education Funding Council for Wales	2,054	0.03%	2,097
Commission on Ancient and Historic Monuments	1,370	0.02%	1,181
Local Democracy and Boundary Commission	603	0.01%	506
Fire and rescue services	116,542	1.49%	112,581
South Wales	54,174	0.69%	52,676
Mid & West Wales	38,007	0.49%	36,679
North Wales	24,361	0.31%	23,226

Scrutiny bodies and Commissioners	71,333	0.91%	26,372
<i>Assembly Commission</i>	23,975	0.31%	21,784
<i>Wales Audit Office</i>	14,909	0.19%	15,204
<i>Care Inspectorate Wales ‡</i>	12,988	0.17%	12,988
<i>Estyn</i>	8,182	0.10%	8,241
<i>Healthcare Inspectorate Wales</i>	3,062	0.04%	2,997
<i>Public Services Ombudsman</i>	2,898	0.04%	2,927
<i>Welsh Language Commissioner</i>	2,169	0.03%	2,112
<i>Older People's Commissioner</i>	1,076	0.01%	981
<i>Future Generations Commissioner</i>	1,070	0.01%	809
<i>Children's Commissioner</i>	1,004	0.01%	990
National Parks	12,289	0.16%	11,547
<i>Snowdonia National Park</i>	4,940	0.06%	4,195
<i>Brecon Beacons National Park</i>	3,690	0.05%	3,715
<i>Pembrokeshire Coast National Park</i>	3,659	0.05%	3,637
Total	7,834,081	100.00%	7,671,483

* This figure likely includes costs for other corporate support and central services staff e.g. HR finance.

† Welsh Government large subsidiaries include Finance Wales, Regeneration Investment Fund for Wales LLP, WG Holdco Ltd and Careers Choices.

‡ 2016-17 data could not be sourced for Care Inspectorate Wales, so 2017-18 data was used.

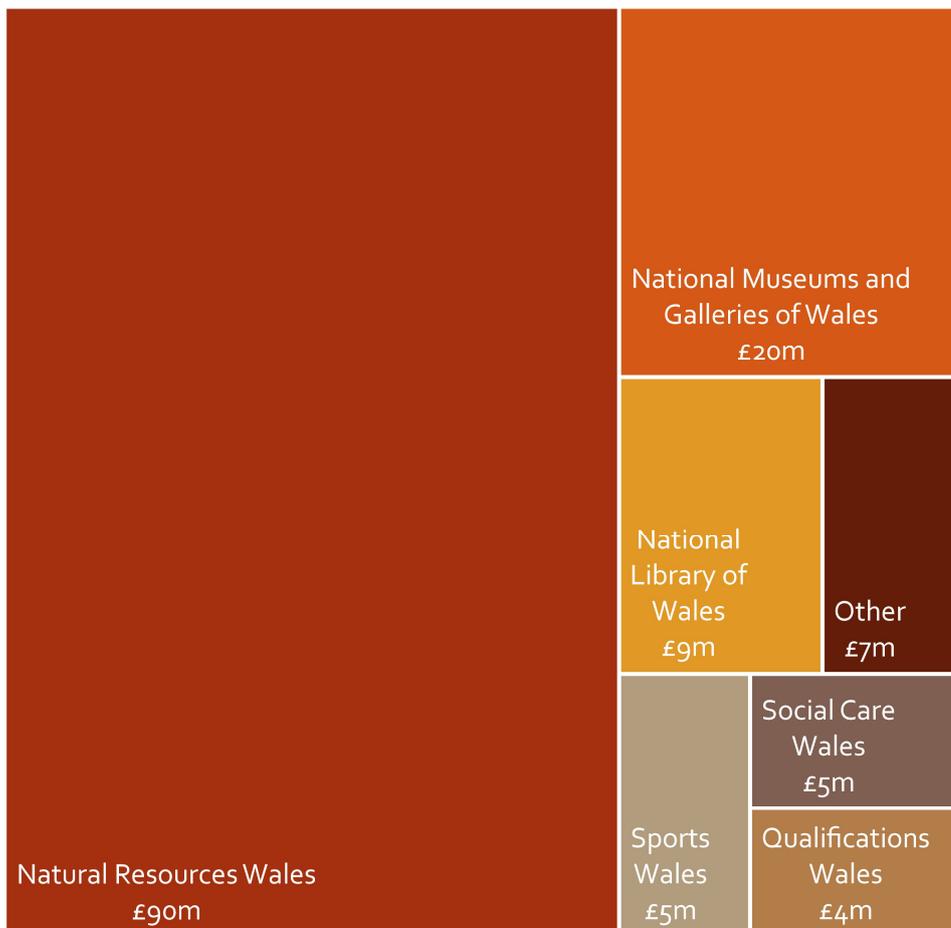
Totals may not sum due to rounding.

See Annex 3 for a breakdown of employee costs by police force in Wales.

Source: See Annex 1

Welsh Government sponsored bodies (WGSBs) account for £140.1 million (1.81%) of the total wage bill. These are the Welsh Government’s non-departmental public bodies, colloquially known as quangos. They have executive, administrative, commercial or regulatory functions and each has varying degrees of operational independence. There are currently 10 WGSBs operating in Wales, down from 15 at the start of devolution. As shown in Figure 3.4, by far the biggest of these, accounting for £89.6 million (1.15%) of the total pay bill is Natural Resources Wales (NRW). NRW was formed in 2013 following the amalgamation of three ASPBs: the Countryside Council for Wales, Environment Agency Wales and the Forestry Commission Wales. In March 2018, the organisation employed 1,927 full-time equivalent members of staff.

Figure 3.4
Breakdown of the Welsh Government’s pay bill by WGSB, 2017-18



Source: See Annex 1

It is difficult to identify precise historical trends in the composition of the public sector pay bill because WGSBs have often been replaced or had their responsibilities merged into departmental remits. Nevertheless, we can still gauge how the pay bill and workforce has changed within the main spending areas: NHS Wales, local government and the civil service. This is the focus of the next chapter.

4 Trends in the pay bill and workforce

4.1 NHS Wales Local Health Boards and Trusts

There are seven local health boards in Wales responsible for planning and delivering healthcare services in their respective regions.¹⁰ In addition to this, three NHS trusts operate across the country: the Welsh Ambulance Service, Velindre NHS Trust, which offers specialist services in cancer care, and Public Health Wales, which is the national public health agency.

In 2017-18, the combined workforce of NHS Wales' local health boards and trusts was 79,916, an increase of 5,935 (8.0%) since 2009-10. The number of agency staff on the payroll peaked in 2016-17 at 1,976, or 2.5% of the total workforce. By 2017-18, agency staff accounted for 1,419 or 1.8% of all employees, mostly performing the roles of midwives and nurses.

Figure 4.1
Headcount of Local Health Board employees in Wales, 2009-10 to 2017-18



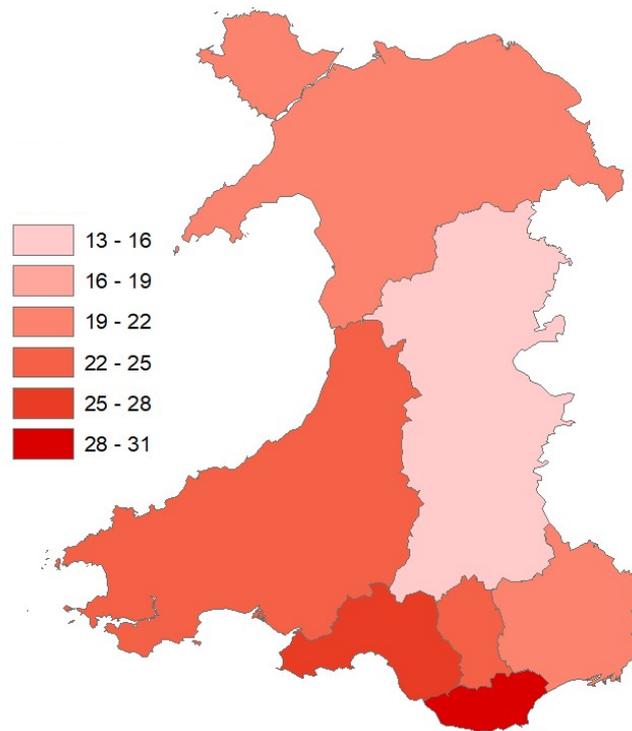
Source: NHS Local Health Boards and Trusts Summarised Accounts (2017-18 and previous)

¹⁰ The seven Local Health Boards in Wales are: Abertawe Bro Morgannwg University Health Board, Aneurin Bevan University Health Board, Betsi Cadwaladr University Health Board, Cardiff & Vale University Health Board, Cwm Taf University Health Board, Hywel Dda University Health Board and Powys Teaching Health Board.

Staff numbers have increased more sharply in NHS trusts (3,021 or 56.0%) than local health boards (2,914 or 4.2%) between 2009-10 and 2017-18. In fact, Local Health Boards saw a reduction in the size of their workforce size during the early years of austerity, although numbers have since recovered and surpassed their 2009-10 level (Figure 4.1).

The decline in the number of local health board employees between 2009-10 and 2012-13 coincides with a period when day-to-day spending on the NHS in Wales fell in real-terms. Since 2012-13, the Welsh Government has increased day-to-day spending on the NHS by an average of 2.2% each year in real terms. This is reflected in the increasing size of local health boards' workforce.

Figure 4.2
Number of Local Health Board employees per 10,000 of population, 2017-18



Source: NHS Local Health Boards Annual Accounts (2017-18)

The ratio of NHS trust and local health board employees per 10,000 members of the population has increased from 24.34 to 25.57 between 2009-10 and 2017-18. In

comparison, the ratio of NHS staff to population in England is significantly less than this at 21.35. However, the picture varies considerably across Wales. Figure 4.2 maps the ratio of Local Health Board employees per 10,000 members of the population. The ratio is highest in the two most densely populated health boards: Cardiff and Vale University Health Board (30.17) and Abertawe Bro Morgannwg University Health Board (26.99). The relatively low number for Powys (13.35) reflects the fact that there are no hospitals offering acute care services within the boundaries of the health board. Residents rely on neighbouring health boards and NHS Trusts in England for these services.

As shown in Figure 4.3, since 2009-10, the combined employee costs of local health boards and NHS trusts has increased by £371.7 million (11.2%). By 2017-18, this had reached £3.69 billion in real terms. However, as the graph shows, employee costs remained relatively flat between 2009-10 and 2013-14 and have only started to increase in more recent years.

Figure 4.3
Total employee costs (NHS Wales health boards and trusts), 2018-19 prices



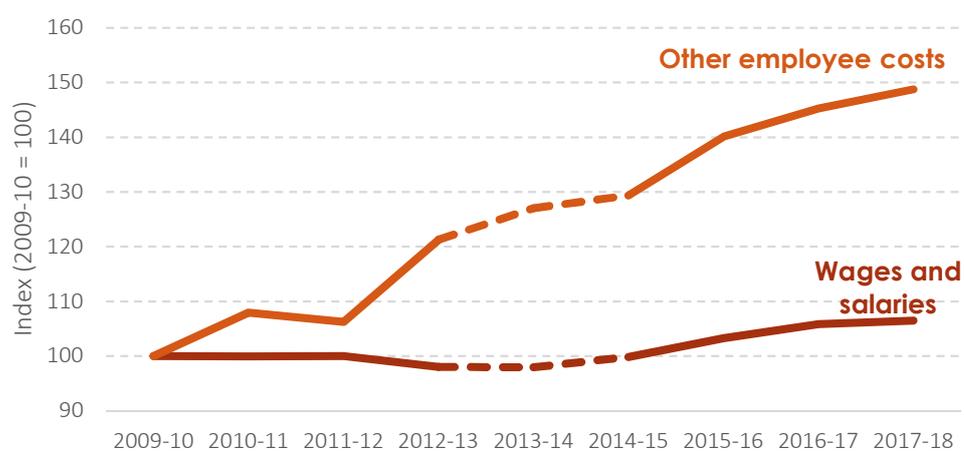
Source: NHS Local Health Boards and Trusts Summarised Accounts (2017-18 and previous)

Between 2009-10 and 2015-16, increases in the sum of wages and salaries closely tracked increases in other employee costs, which mostly comprises of employee pension and National Insurance contributions. The uptick in employer pension contributions from 2016-17 onwards, shown in Figure 3.4 coincides with the transition to automatic pension scheme enrolment. Prior to this, employees would

opt-in to their workplace pension scheme whereas the introduction of new legislation meant that workers joined the scheme by default. Other employee costs have grown at nearly twice the rate as wages and salaries following this transition, putting upward pressure on the total amount spent on employee costs.

Figure 4.4

Real-terms change in wages and salaries and other employee costs for NHS Wales health boards and trusts, 2009-10 to 2017-18 (2009-10 = 100)¹¹



Source: NHS Local Health Boards and Trusts Summarised Accounts (2017-18 and previous)

Another thematic trend is that spending on agency staff has nearly doubled since 2009-10 (although this has declined in recent years). In 2017-18, £107.4m was spent on agency staff across NHS Wales and NHS Trusts, 4.3% of total employee costs, up from 2.0% in 2009-10, despite only making up 1.8% of the total workforce. At its height in 2016-17, spending on agency staff amounted to £162.1m (2018-19 prices).

4.2 Local government

Approximately 1 in 10 members of the Welsh workforce are employed in local government.¹² Local government workers include teachers, social service workers, road maintenance crew and those working at council-owned leisure and cultural facilities such as sport centres and libraries. Increased pressure to tighten their purse strings has led to a significant reduction in the size of the local government

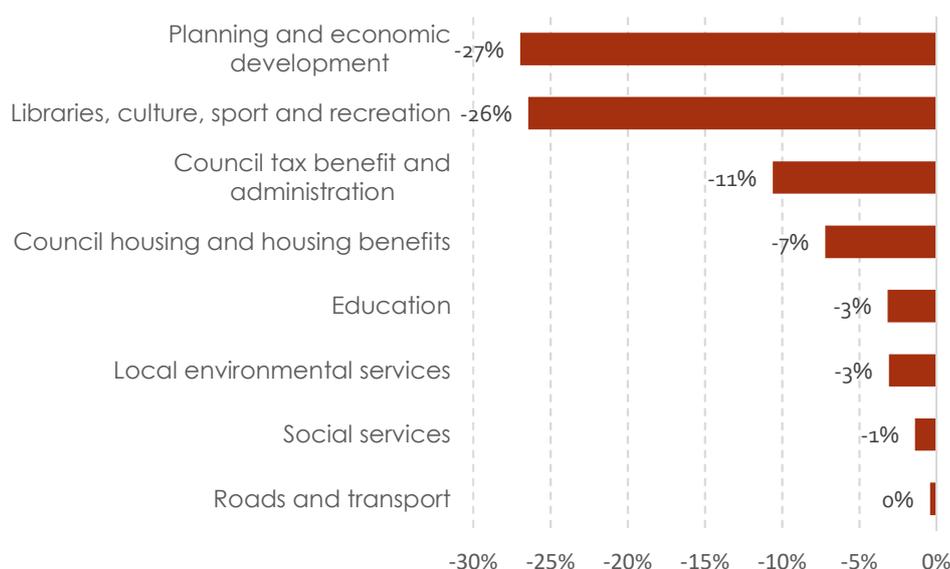
¹¹ Data is not available for 2013-14.

¹² <https://www.wlga.wales/SharedFiles/Download.aspx?pageid=62&mid=665&fileid=1754>

workforce. Data compiled by the Office for National Statistics suggests that 37,000 jobs were lost between December 2009 and September 2018, or 19.9% of the workforce size.¹³

Figure 4.5 shows the change in expenditure on local government employee costs between 2009-10 and 2017-18. The reduction has been steepest in areas related to planning and economic development (27.0%) and culture, heritage and libraries (26.4%).¹⁴

Figure 4.5
Percentage change in employee costs by local authority expenditure category between 2009-10 and 2017-18 (2018-19 prices)



Source: StatsWales (2017-18 and previous) Local Government Revenue Outturn Data:
<https://statswales.gov.wales/Catalogue/Local-Government/Finance/Revenue/Outturn>

¹³ Dataset was produced by the Office for National Statistics on request and is available here: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/publicsectorpersonnel/adhoc/s/009408employmentinlocalgovernmentbyukregionmarch2009toseptember2018>

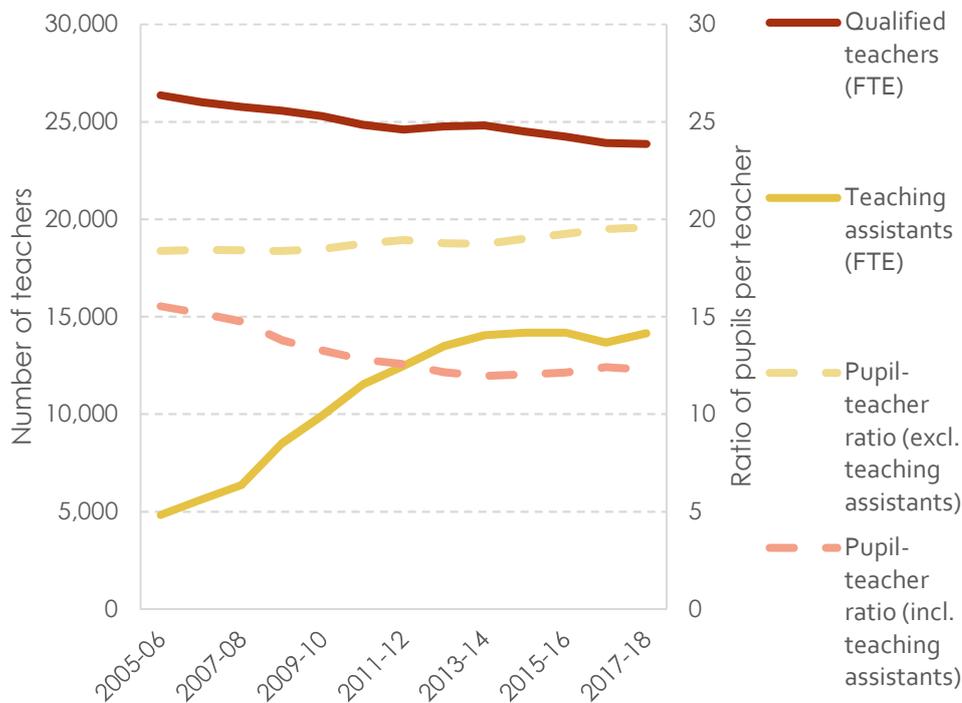
¹⁴ Employee costs include National Insurance and pension contributions by the employer, the latter of which has inflated significantly in recent years. It is thus fair to assume that the amount spent on basic pay has fallen by a larger margin than the figures suggest. A more detailed discussion about changes to the local government workforce can be found in section 3.3 of the report, *Cut to the bone? An analysis of local government finance in Wales, 2009-10 to 2017-18 and the outlook to 2023-24*: http://sites.cardiff.ac.uk/wgc/files/2019/02/local_government_finance_report_Feb19_final.pdf

Local government workers account for approximately 46.5% of the Welsh Government's public sector pay bill. The majority (58.5%) of the associated salary cost relates to staff in the education sector.

As shown in Figure 4.6, the number of qualified teachers on local authorities' payroll (red line) has been falling relatively consistently, from a high of 26,364 in 2005-06 to 23,871 in 2017-18.¹⁵ At the same time, the number of full-time equivalent teaching assistants (yellow line) has increased by 9,336 (193.6%).

Figure 4.6

Number of qualified teachers, teaching assistants (FTE) and the ratio of pupils per teacher in Wales, 2005-06 to 2017-18



Source: StatsWales (2017-18 and previous) Schools Census Data

The increase in the number of teaching assistants since 2005-06 has been most pronounced in the primary sector, a direct consequence of the new statutory curriculum for 3 to 7-year-olds introduced by the Welsh Government around this time.

¹⁵ Figures refer to the number of full-time equivalent qualified teachers in Wales.

From 2004, the Welsh Government started rolling out the *Foundation Phase*, a new education framework aimed at encouraging learning through first-hand experiential activities. The framework was fully implemented in 2011. The Welsh Government has recognised the more extensive role that teaching assistants have to play in delivering the new curriculum.¹⁶ The data confirms that the rollout of Foundation Phase has had a significant impact on the make-up of the teaching workforce and highlights that teaching assistants now occupy a much more prominent position in classrooms. When teaching assistants are included, the pupil / teacher ratio has decreased from 15.54 in 2005-06 to 12.28 in 2017-18 (dashed pink line).

Women are 28 times more likely to be employed as teaching assistants in the primary sector as men. Indeed, in 2017-18, men made up only 3.6% of this subsection of teaching staff. Given the rise in the numbers of teaching assistants, especially in the primary sector, this has affected the overall gender balance of the teaching workforce. While the education sector (excluding higher and further education) has historically had a higher share of female employees, this gap has widened significantly over the last 12 years. The share of male qualified teachers and teaching assistants has fallen from 25.0% in 2005-06 to 18.8% in 2017-18.

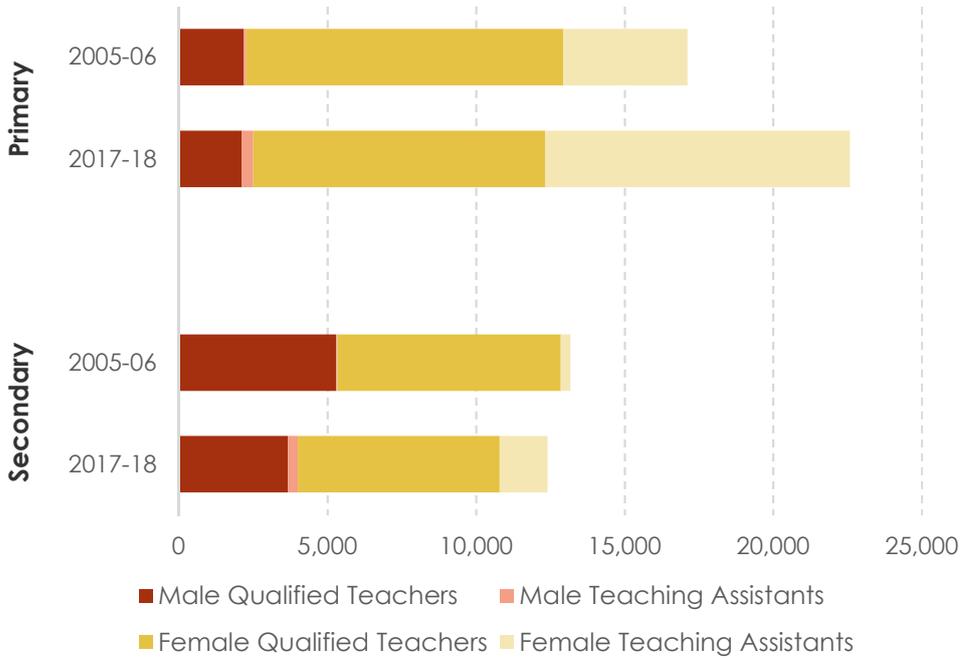
Figure 4.7 shows the number of qualified teachers broken down by sector and gender. The gender imbalance is less pronounced in the secondary sector. Nevertheless, female teaching assistants vastly outnumber their male counterparts across both sectors. Moreover, there are more female teaching assistants working in primary education than there are male teachers and teaching assistants working in the primary and secondary sector combined.

The graph also highlights that the primary teaching workforce since 2005-06 and is now nearly double the size of that in the secondary sector. This is largely a consequence of demographic trends in Wales. Secondary pupil numbers have been in decline in recent years whereas there has been growth in the size of the primary-aged population. As the current primary cohort transition to secondary education, the size of the secondary teaching workforce will likely need to grow to meet demand.

¹⁶ <https://beta.gov.wales/sites/default/files/publications/2018-03/foundation-phase-action-plan.pdf>
p.6

Figure 4.7

Number of qualified teachers and teaching assistants (FTE) by gender and sector, 2005-06 and 2017-18¹⁷



Source: StatsWales (2017-18 and previous) Schools Census Data

4.3 The Welsh Civil Service

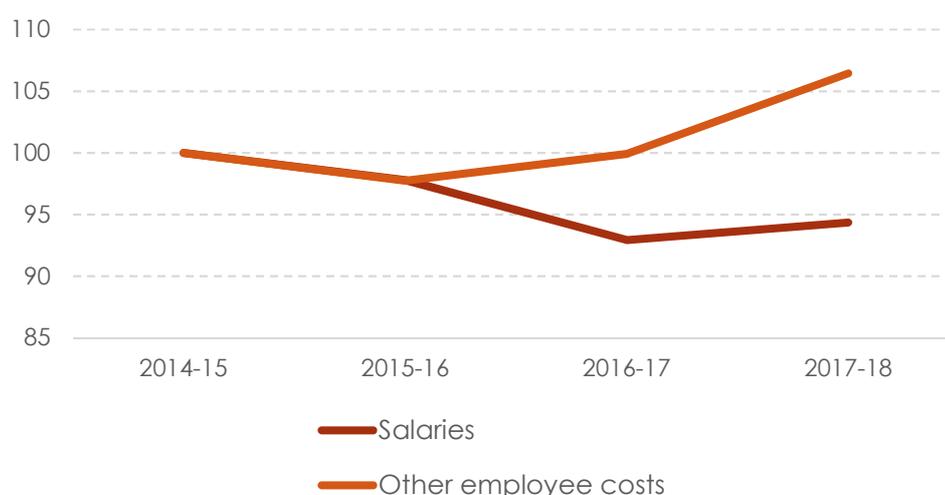
Between 2014-15 and 2017-18 (the most recent year for which data is available), the number of Welsh Government employees has fallen by 534 (9.6%).¹⁸ Despite this, spending on employee costs has remained relatively flat in real terms, falling by only £281,000 (0.1%) over the past four years. The reason why this decrease has not been more pronounced is because of the rising costs of other employer contributions. While spending on salaries and wages has fallen by 6%, other employee costs, including employer National Insurance and pension contributions have increased by 6% (Figure 4.8). Again, one of the factors that might explain

¹⁷ Data only shown for the primary and secondary sector and does not include those working in nurseries, middle schools and SEN schools.

¹⁸ The employee numbers are based on full-time equivalents and sourced from the Welsh Government's consolidated accounts. The employment figures exclude Welsh Government subsidiaries and agencies.

these increases in costs is the transition to automatic pension scheme enrolment, which means that employees are enrolled into the workplace pension scheme by default as opposed to having to opt-in. Spending on salaries as a share of employee costs has fallen from 75.7% to 73.4% between 2014-15 and 2017-18.

Figure 4.8
Change in cost of salaries and other employee costs, 2014-15 to 2017-18
 (2014-15 = 100)



Source: Welsh Government (2017-18 and previous) Consolidated Accounts

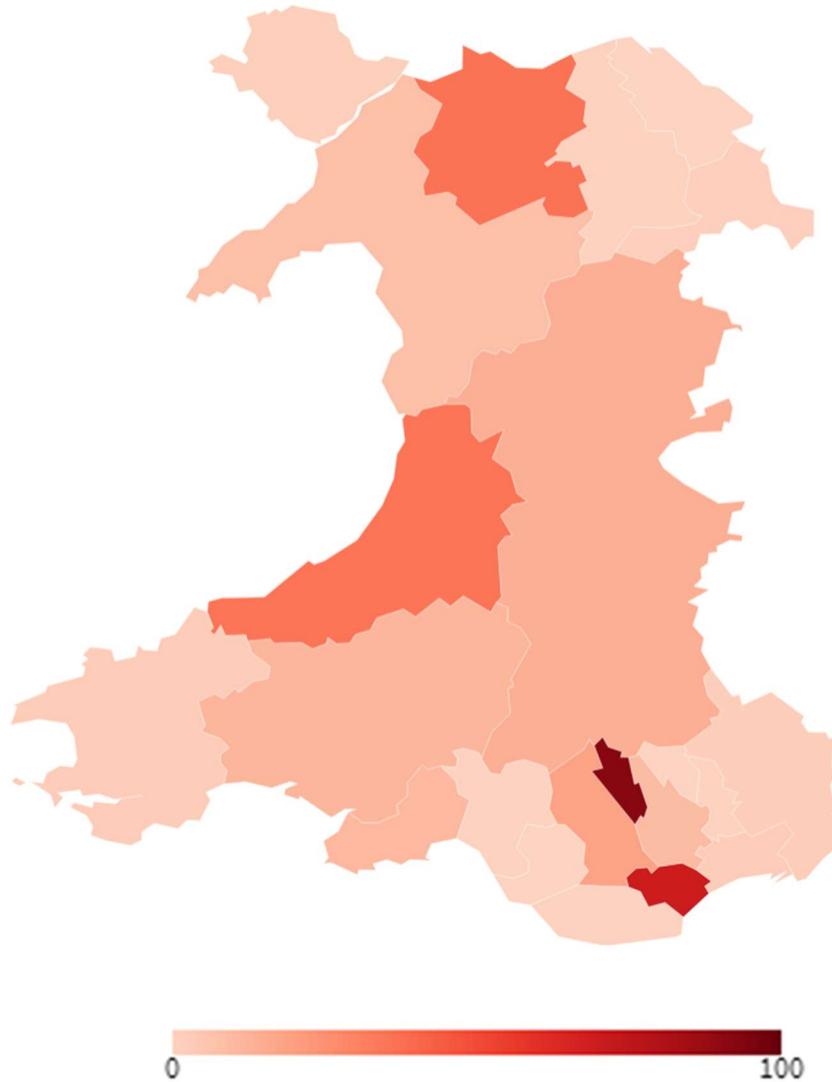
One of the other major trends in the make-up of the Welsh Government workforce is that office locations have become less centralised. As a result, Merthyr Tydfil has overtaken Cardiff as the local authority with the highest number of Welsh Civil Servants per 10,000 members of the population at 91.7.¹⁹ As shown in Figure 4.9, Conwy and Ceredigion also score highly on this measure (35.9 and 35.6 respectively) due to the opening of large government offices and relocation of some posts to Llandudno Junction and Aberystwyth. This relocation and decentralisation reflects a commitment made by the Welsh Government in the Location Strategy report published in 2002 to decentralise services from Cardiff and bring them closer to the people of Wales.²⁰ This programme was formally ended in December 2011.

¹⁹ When making regional comparisons, employee data used is based on the ONS Annual Civil Service Employment Survey with figures rounded to the nearest 10.

²⁰ See the following report published by an Audit Wales evaluating the success of the location strategy:

Figure 4.9

Ratio of Welsh Government servants per 10,000 members of population, by local authority (2018)



Source: ONS (2018) Annual Civil Service Employment Survey. Population data based on ONS (2017) mid-year population estimates, by Welsh local authorities

The number of employees based in Cardiff fell by 700 (21.6%) between 2008-09 and 2017-18. However, while in 2008-09, all 22 local authorities had some Welsh

https://www.audit.wales/system/files/publications/WAO_Welsh_Government_Location_Strategy_Report_English_2014.pdf

civil service employees based there, by 2017-18 three local authorities did not have any. Although jobs have become less centralised nationally, there is evidence of centralisation within regions.

In general, earnings for staff working in the Welsh Government civil service are higher than for the UK civil service as a whole (Figure 4.10). In particular, the Welsh Government has significantly fewer employees earning less than £20,000 compared to other UK government departments. This may reflect the difference in the types of functions that have been devolved to the Welsh Government — the Department for Work and Pensions and the Ministry of Justice remain centralised at a UK level.

Figure 4.10 also breaks down the earnings data by gender. There is still evidence that men are disproportionately represented in higher paid positions in the Welsh and UK civil service.

Figure 4.10
Distribution of earnings in Wales and UK Civil Service, by gender, 2017-18



Source: ONS (2018) Annual Civil Service Employment Survey

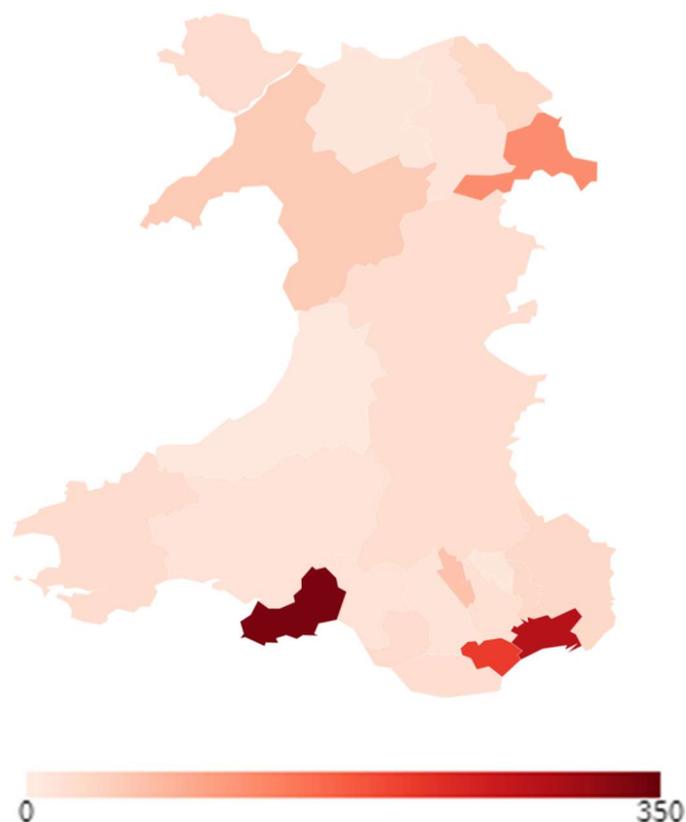
4.4 The UK Civil Service in Wales

In addition to the Welsh Government's own civil service workforce, in 2018, there were 27,540 people employed as civil servants by the UK government in Wales. Figure 4.11 shows the ratio of civil service employees (excluding Welsh Government civil servants) per 10,000 of the population, by local authority.

The majority of UK civil service employees in Wales are based in Swansea, Newport and Cardiff. The DVLA, UK Statistics Authority, Intellectual Property Office and Companies House and HMRC have headquarters in these cities. Gwynedd and Wrexham also have a relatively high ratio of UK civil service staff to population. In Gwynedd, most of these staff are employed by the Department for Work and Pensions; whereas in Wrexham, many are employed by the Ministry of Justice at HMP Berwyn.

Figure 4.11

Ratio of UK Civil Servants (excl. Welsh Government departments) per 10,000 members of population, by local authority (2018)

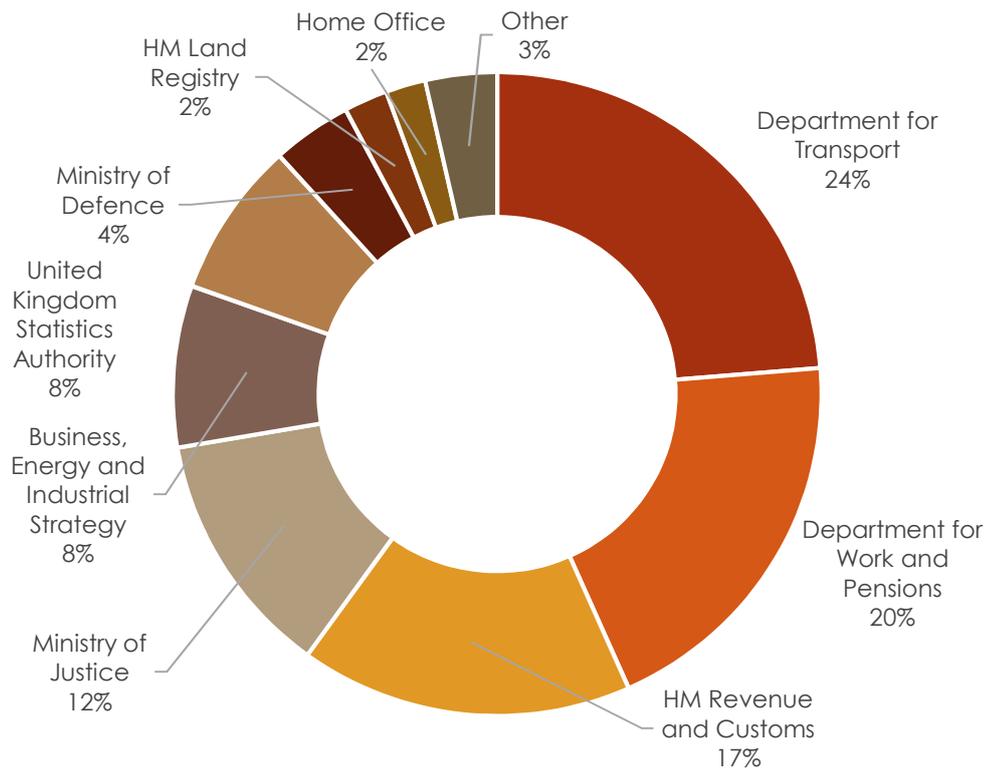


Source: ONS (2018) Annual Civil Service Employment Survey

Figure 4.12 breaks down Wales-based UK civil service staff by government department. The Department for Transport, Department for Work and Pensions and HM Revenue and Customs employ well over half of the UK government civil servants based in Wales.

Figure 4.12

Wales-based UK Civil Service staff, by government department, 2018



Source: ONS (2018) Annual Civil Service Employment Survey

5 Conclusion

The public sector employment rate in Wales currently stands at a historic low (20.0%), however, this is still significantly higher than the UK rate (16.6%). Data from the Quarterly Public Sector Employment Survey suggests that 292,000 people were employed in the public sector in Wales in 2018.²¹

Public sector workers account for a relatively larger segment of the Income Tax base in Wales compared to the UK, both because they comprise a larger share of the workforce and because their earnings tend to be higher than their counterparts in the private sector. Following the partial devolution of Income Tax powers, future public sector pay policy decisions and trends in earnings will have a direct impact on the amount of revenue available to the Welsh Government.

The Welsh Government and local authorities' public sector pay bill amounted to £7.8 billion in 2017-18 (roughly 55.3% of day-to-day spending), a marginal real-terms increase on the previous year. By far, the two largest components in 2017-18 were NHS Wales at £3.63 billion (46.3%) and local authorities at £3.55 billion (45.4%). In recent years, NHS Wales employee costs have been accounting for a larger share of this bill. Indeed, in 2016-17, the NHS overtook local government as the largest component of the pay bill.

Having fallen in the early years of austerity, the combined workforce of NHS Trusts and Local Health Boards has since recovered and surpassed its 2009-10 level. In 2017-18, there were 79,916 people working for NHS Trusts and Local Health Boards in Wales. Between 2009-10 and 2017-18, employee costs increased by £371.7 million (11.2%). The transition to automatic pension enrolment has had a discernible impact on this figure, pushing up other employee costs from 2016-17 onwards.

Local government employee costs have fallen significantly since 2009 and the reduction has been steepest in areas related to planning and economic development (27.0%) and culture, heritage and libraries (26.4%). One untold story is that there has been a dramatic shift in the make-up of the teaching workforce in recent years. The introduction of the Foundation Phase curriculum has meant that teaching assistants now play a much more important roles in classrooms, especially in the primary sector. Between 2005-06 and 2017-18, the number of teaching assistants increased by 9,336 (193.6%). Women are 28 times more likely to be employed as a teaching assistant in the primary sector than men. This means

²¹<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/publicsectorpersonnel/datasets/publicsectoremploymentreferencetable>

that there has been a change to the overall gender balance of the teaching workforce. The share of male teaching staff in the primary and secondary sector has fallen from 25.0% to 18.8% during this period.

Looking into the future, pension contributions are set to continue being a source of pressure on the public sector pay bill. Following a decision by the UK government, employer contributions to the public service pension schemes have increased from 2019. The Welsh Government recently announced a package of additional funding for local authorities to meet pension contribution costs for teachers, firefighters and other public sector employees in 2019-20.²² However, in the medium to long-term, these pressures are unlikely to go away.

After nearly a decade of austerity, public sector employment and pay look set to recover slightly over coming years, following the decisions of the UK government to increase departmental spending and lift the 1% pay cap. The OBR now forecasts public sector employee costs to rise in line with the private sector (averaging 3.1% in nominal terms) and general government employment across the UK to rise by 1.3% from 2018-19 to 2023-24.

An increasing Welsh budget over coming years will broadly enable the Welsh Government to meet the increased costs associated with the end of public sector pay cap. The UK government's indicative spending plans suggest the resource DEL will increase by around 3.3% a year (in nominal terms) to 2023-24. However, as we explored in Chapter 4, the employee cost pressures are likely to be more acute for some public services (likely outside of NHS spending). The challenge may be reduced if higher pay influences the quality and productivity of the workforce, which would mean fewer workers and non-labour inputs required to deliver public services.

The devolution of further powers to the Welsh Government, including responsibility for teachers' pay and conditions and the introduction of a Welsh rate of Income Tax from April 2019 onwards mean that the public sector pay bill, the Welsh workforce and, by extension, the Welsh tax base have become increasingly salient topics in recent years. Ultimately, trends in Welsh public sector earnings will have a direct impact on cost pressures on the Welsh budget and the relative performance of the devolved tax base. This makes it more important than ever to look at trends in the public sector workforce in Wales.

²² <https://www.wlga.wales/wlga-welcomes-welsh-government-funding-to-help-meet-pension-costs>

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See Annex 1 for list of sources consulted when estimating the public sector pay bill

Annex 1: Calculating the public sector pay bill

When calculating the pay bill, where possible, we have used data for total staff costs which includes salaries and wages, costs of hiring agency staff, social security costs, pension costs and less any recoveries from secondments.

The sources consulted when calculating the 2017-18 pay bill are listed below. Any errors or omissions are the responsibility of the authors.

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<https://statswales.gov.wales/Catalogue/Local-Government/Finance/Revenue/Financing/financingofgrossrevenueexpenditure-by-authority>

StatsWales (2017-18) Local Government Revenue Outturn Expenditure

<https://statswales.gov.wales/Catalogue/Local-Government/Finance/Revenue/Outturn>

Welsh Audit Office (2017-18) Annual Report and Accounts

<http://www.audit.wales/system/files/publications/annual-report-2018-english.pdf>

Welsh Government (2017-18) Consolidated Accounts

<http://www.assembly.wales/laid%20documents/agr-ld11760/agr-ld11760-e.pdf>

Welsh Language Commissioner (2017-18) Annual Report

<http://www.assembly.wales/laid%20documents/agr-ld11675/agr-ld11675-e.pdf>

Annex 2: Breakdown of the Welsh pay bill by pay determining bodies

	Pay determining bodies for key staff groups	Key staff groups	£ million (2017-18)	% of pay bill (2017-18)
Devolved	Welsh Government But to date, has generally followed UK review body recommendations, of which:			
	Doctors' and Dentists' Review Body	Employed hospital doctors; general medical practitioners; general dental practitioners	3,627	46%
	NHS Pay Review Body	Agenda for Change – nurses; allied health professionals; clerical and administrative staff		
	Independent Welsh Pay Review Body (Devolved since September 2018)	Teachers and associated professionals	1,323	17%
	Welsh Government (WGSBs are required to publish their own pay policy statements in accordance with a framework agreement agreed with the Welsh Government)	Executive and support staff in Welsh civil service (excl. SCS); WGSBs; NHS senior managers	436 †	6%
Reserved	UK government (Senior Salaries Review Body)	Senior Civil Service (SCS)	18 ‡	0%
	National Joint Council for Local Government Services (An England and Wales body, on which, the Welsh Local Government Association is represented)	Local authority staff (including national park workers, excluding teachers, police and fire)	2,230	28%
	National Joint Council for Local Authority Fire and Rescue Services (A UK-wide body, on which, the Welsh Local Government Association is represented)	Fire and rescue staff	117	1%

† Total excludes salary of NHS senior managers

‡ Estimated by multiplying the number of Senior Civil Servants working for the Welsh Government in 2018 (160) by a mean salary of £80,000. Then, this figure was increased by 36% (reflecting the average proportion of wages spent on social security and pension costs of Welsh Government staff in 2017-18).

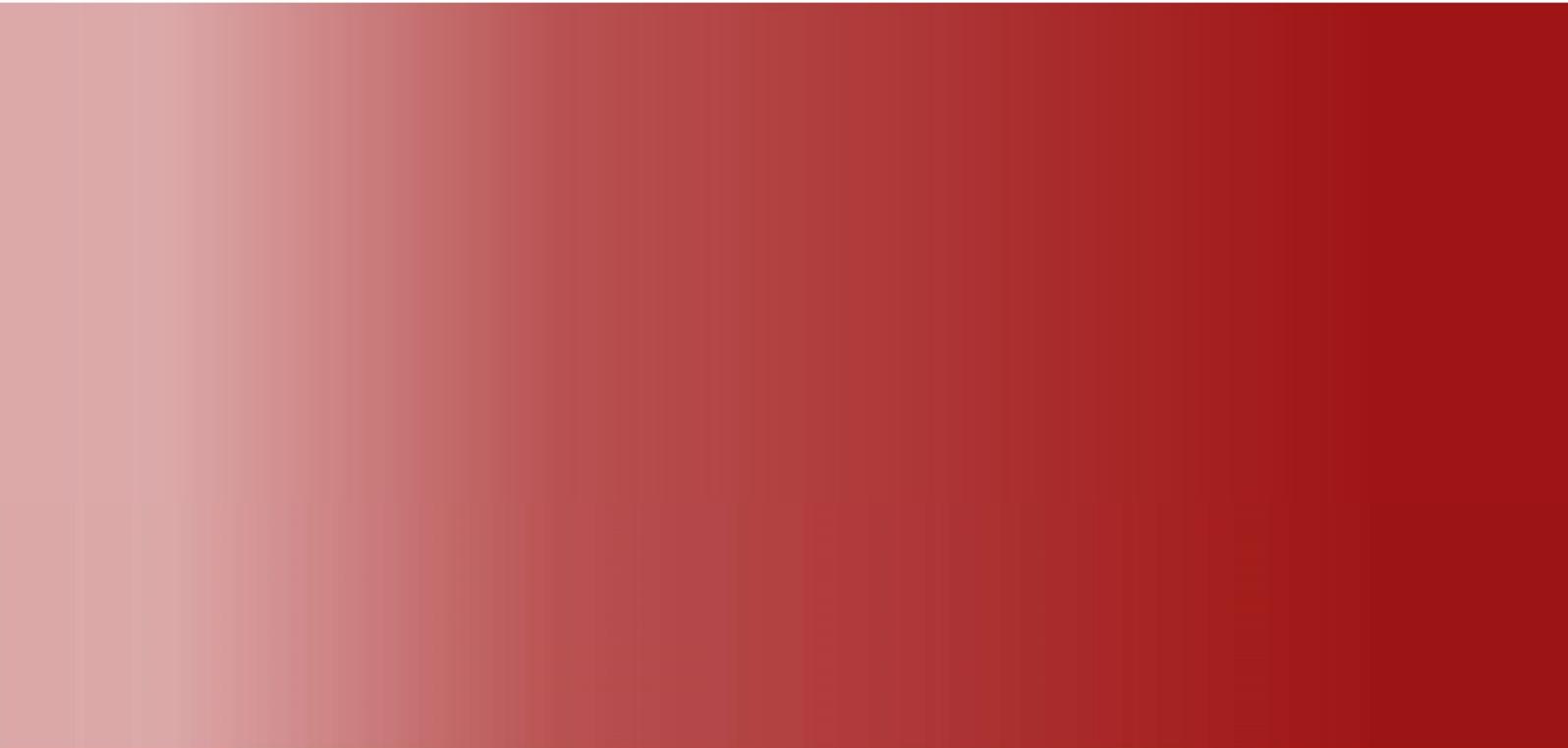
Annex 3: Income and employee costs of Welsh police forces, 2017-18 and 2016-17

Figure A1

Sources of income and employee costs for Welsh police forces, 2017-18 and 2016-17 (not included in Figure 3.3 estimate)

	2017-18		2016-17
	£'000s	%	£000's
INCOME	681,483	100.00%	663,688
<i>Council Tax Police Precept</i>	273,630	40.15%	257,969
<i>Police Grant (UK government)</i>	211,234	31.00%	218,140
<i>Revenue Support Grant (Welsh Government)</i>	85,750	12.58%	87,907
<i>Specific Grants (Welsh and UK governments)</i>	57,919	8.50%	50,822
<i>Share of non-domestic rates collected in Wales</i>	52,950	7.77%	48,850
EMPLOYEE COSTS	524,044	100.00%	499,985
<i>South Wales Police</i>	195,600	37.33%	191,500
<i>North Wales Police</i>	123,571	23.58%	118,198
<i>Gwent Police</i>	106,324	20.29%	98,152
<i>Dyfed-Powys Police</i>	98,549	18.81%	92,135

Source: StatsWales (2017-18 and 2016-17) Financing of gross revenue expenditure, by authority and police groups' statement of accounts (listed under Annex 1)



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