

# Teacher pay policy: One size fits all? <sup>†</sup>

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**In its simplest form, wages are determined by the demand for, and supply of, labour. Specifically, jobs that fewer people are able and willing to do generally offer higher salaries.**

This helps explain why jobs that are dangerous or remote, such as offshore oil platform workers, or require a lot of training or a specific set of skills, such as anaesthesiologists, offer relatively high salaries. The difference in pay required to attract someone to a less desirable job, relative to other jobs they could do, is called a “compensating differential”.

Compensating differentials exist both across occupations and within occupations due to differences in geographical desirability. Due to a variety of differences including the cost of living, local amenities, alternative employment opportunities, and the weather, some regions tend to be more appealing to live in than others. These differences help explain why people with similar personal characteristics (age and sex) working similar jobs (occupation, industry and working hours) earn different amounts depending on where they work and live.

The amount of regional variation in wages across England differs by occupation. Consequently, some occupations are relatively more attractive in some parts of the country than others. This is most notable in the public sector where wages tend to be centrally determined.

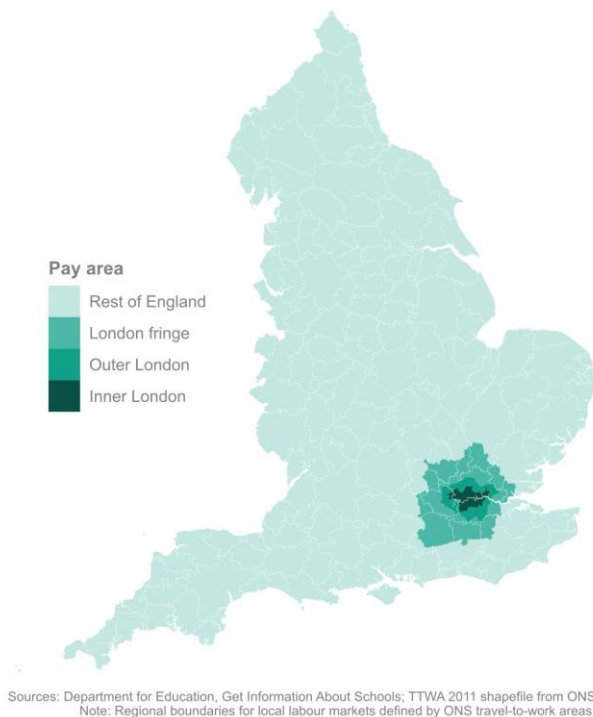
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Teachers' pay has historically been highly structured but does differ across four pay regions in England. These pay regions are Inner London, Outer London, the London fringe, and the rest of England. Differentiating teachers' pay across these regions was, and still is, intended to recognise broad labour market differences between these regions. However, these differentiated pay regions around London only account for a small proportion of the country and the 'rest of England' region collects a range of diverse labour markets into a single pay region.

**Map of teacher pay regions in England**

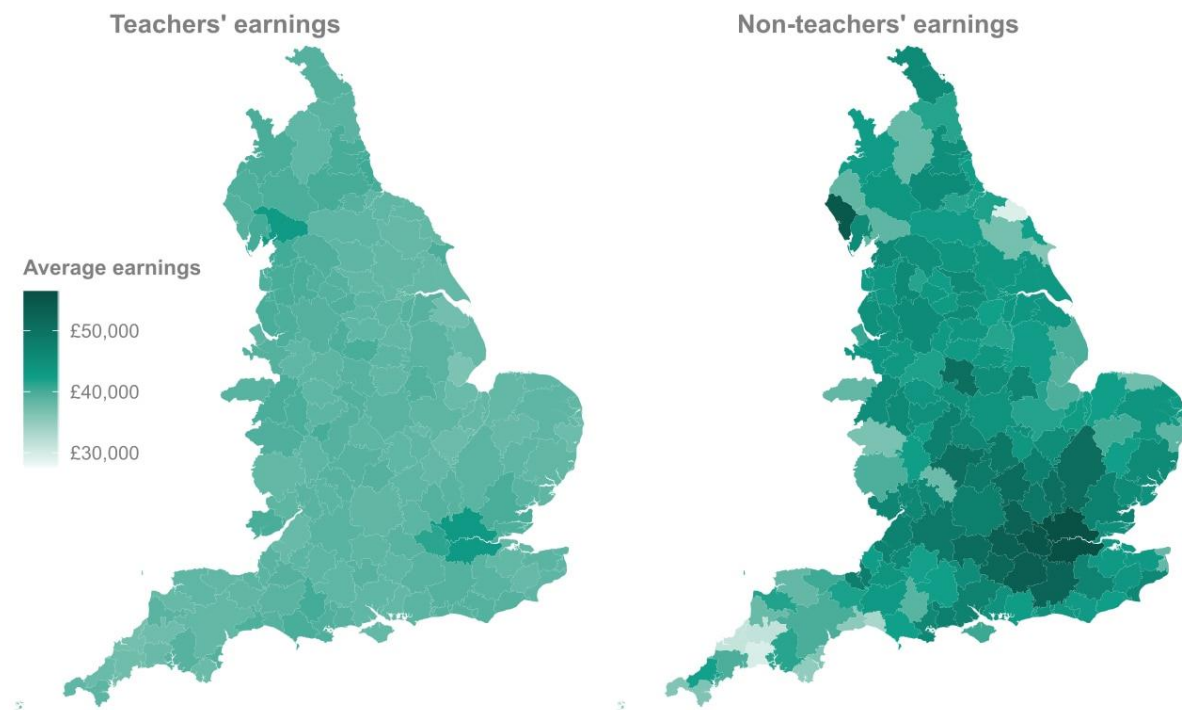


Failing to account for the differences in local labour market conditions outside of London means that teaching is systematically more appealing in some areas than others. The consequence of this is that areas where teachers' salaries are less competitive, compared to their local labour market, face more difficulties with teacher recruitment and retention. Taken together, these local supply problems have in turn contributed to some of the severe teacher shortages seen in England.

Acknowledging these difficulties, teacher pay policies have undergone significant changes over the last decade, moving away from a centralised system, to one that gives headteachers more freedom in determining pay. Since September 2014 headteachers, in all maintained schools, have had complete autonomy in determining teachers' pay and pay progression as long as it is linked to performance.

Despite these freedoms there is little difference in teachers' pay outside of London. Any variation that does exist is dwarfed by the much larger differences in non-teaching professionals' pay. Some of the most striking differences are outside of London where teachers tend to earn about £5,400 less, each year, than non-teaching professionals and the south-west where teachers earn over £9,000 more per year in Penzance and Falmouth.

## Map of earnings across local labour markets



Source: EPI calculations using ONS ASHE 2012-2019; Department for Education, School Workforce in England 2019

While policymakers have given headteachers the freedom to set pay as they see fit, they have not been given the ability, in practice, to do this due to funding constraints. In England, the national funding formula does include an area cost adjustment (ACA), but the teachers' pay component of the ACA is based on the four teachers' pay regions. Treating all school outside London the same does not give headteachers the necessary funds to be able to compete in their local labour market to ensure that their school is adequately staffed.

To make sure that headteachers can recruit and retain the teachers their school needs, pay policies and funding adjustments should be reviewed together, neither can effectively support recruitment and retention on its own.

However, any adjustments need to be carefully considered as they may have wider consequences on broader education objectives. For example, adjusting the pay regions and the ACA to better support the recruitment and retention of schools in higher cost regions would improve recruitment and retention in these areas.

But such an adjustment would also mean that school funds are redistributed to more affluent parts of the country – areas that already tend to have the highest levels of academic attainment.

This leaves the government with an incredibly difficult policy conundrum. But it is one that it must eventually consider and look to address, as the NHS and police pay review bodies have, if it wishes to put the national supply of teachers on a more sustainable footing in the coming years.

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