

Working tax credits and the local government workforce

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Introduction and findings

Working tax credit (WTC) is a benefit paid to workers with a low family income. This report calculates how much WTC can be attributed to the local government workforce, and how this compares with other parts of the public sector and the private sector.

Receipt of WTC is important as it shows the extent to which workers employed by government are reliant on financial support from the same government – raising issues of pay and hours. The local government sector in some ways resembles some of the lowest paying and most insecure parts of the private sector, namely retail and hospitality. This paper explores some of the similarities.

The definition of the local government workforce aims to get as close as possible to the National Joint Council for Local Government Services workforce as possible. This research is based on official survey data for 2011-12 and 2012-13. It follows on from NPI's first attempt to quantify working tax credit expenditure by industrial sector.¹ The main findings of this report are that:

- The proportion of local government workers receiving WTC at 11.2% is around two and a half times higher than the rest of the public sector. This suggests that some of the cost of low pay in local government is merely being displaced to WTC expenditure.
- In the public sector, the local government workforce accounts for 25% of workers but 50% of WTC expenditure. This highlights how poorly paid the local government workforce is compared to the rest of the public sector.
- Comparing the local government workforce to individual industrial sectors suggests that the proportion of workers receiving WTC is equivalent to retail and administrative and support activities.
- The local government workforce receives £380m a year in WTC. This is around the same as received by the manufacturing sector, and only slightly less than is received by administrative and support activities overall.

¹ Tinson, A., 2014. *Where does Working Tax Credit go?* London: New Policy Institute.

Background

About working tax credit

Working tax credit (WTC) is a benefit paid to workers with a low ‘family’ income. In this context, ‘family’ is to be understood as either a single worker or a worker and their partner. WTC can be paid to families with or without dependent children. In order to qualify for WTC, single adults and couples without children need to work at least 30 hours a week (thus meaning part-time earners on low incomes may not be eligible). Couples with children need to work 24 hours (with at least one working 16 hours), whilst lone parents, adults over 60, and those with disabilities need to work 16 hours to qualify.

WTC is paid to the family directly by HMRC. It is not paid by the employer. To be entitled to WTC, a family must work a minimum number of hours and have a low income. It is *family* income and hours, not the pay or hours of *the individual* worker, which determines WTC. Several factors affect the qualifying hours and the maximum amount of WTC that can be paid including whether the family has to pay for childcare. In 2012-13, WTC recipient families without dependent children received an average of £48.40 per week; those with dependent children received an average of £66.30.

Given that WTC is paid to families not individual employees, there are important points to bear in mind when interpreting the findings.

- Two workers on the same pay and hours working for the same employer can benefit from different amounts of WTC if their family circumstances (partner, childcare etc.) differ.
- Since WTC is assessed on family income, if two adults in a family work in different sectors, for the purposes of this analysis their WTC needs to be attributed between these sectors. This report makes the simplest assumption; that half of the WTC is attributed to each sector.
- In the case where there is only one working adult in a couple, half the WTC is left unattributed.

How does this work in practice? We can demonstrate using examples taken directly from the dataset. A couple with one adult working in the transport and storage sector and another not working receiving £78 per week in WTC credit would have £39 allocated to transport and £39 not allocated to any sector. In another example, with one adult in a couple working in the transport sector and the other working in education, half of the weekly £27 they receive in WTC is allocated to each sector.

Results

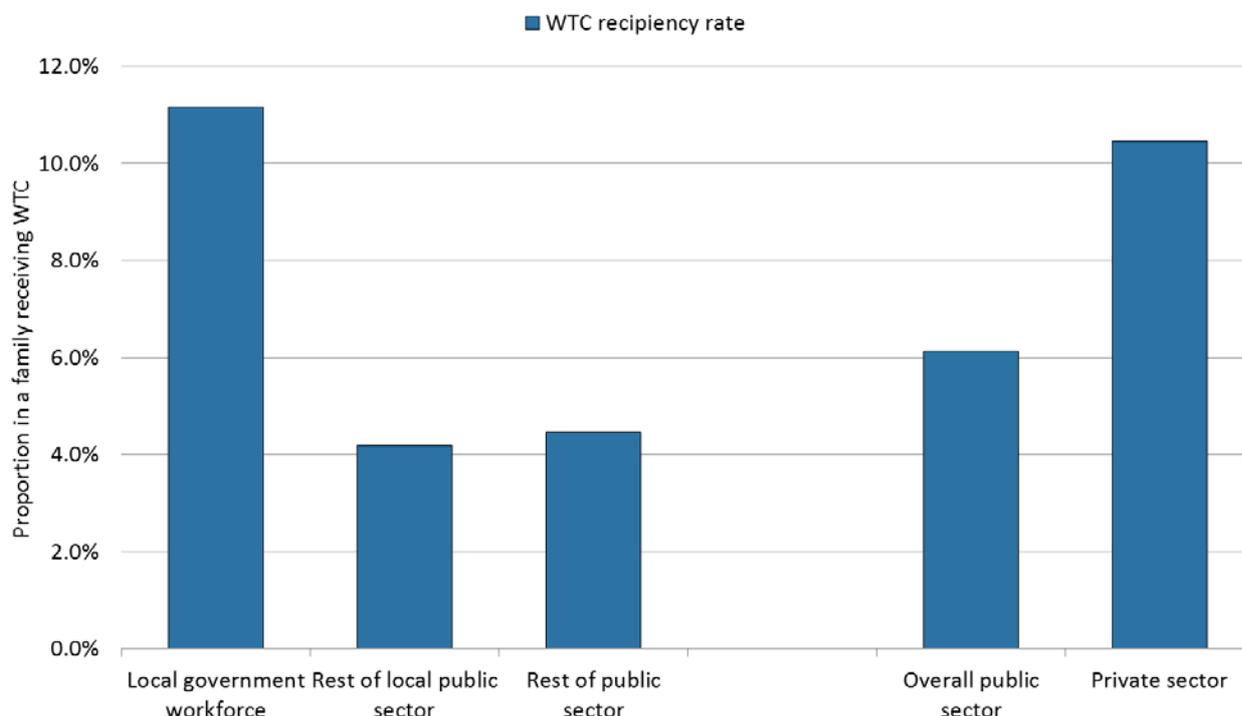
How does the local government workforce WTC receipt rate compare?

Figure 1 shows the proportion of workers receiving WTC in the local government workforce, the rest of the local public sector (primarily police officers, prison officers, and teachers), and the remainder of the public sector. The average for the public sector overall is presented alongside the private sector.

The local government workforce has a higher proportion receiving tax credits at 11.2% than the rest of the local public sector (4.2%) or the remainder of the public sector at 4.5%. It therefore pulls the overall public sector average up to 6.1% and more closely resembles the private sector in this regard, with its 10.5% claimant rate.

The explanation for the local government workforce having a much higher WTC reciprocity rate partly comes down to the lower prevailing pay rates in this sector – which tend to be lower than the overall public sector and the same as the private sector (except at the top, where it is lower than the private sector)².

Figure 1: Proportion of adults receiving working tax credit by selected sectors

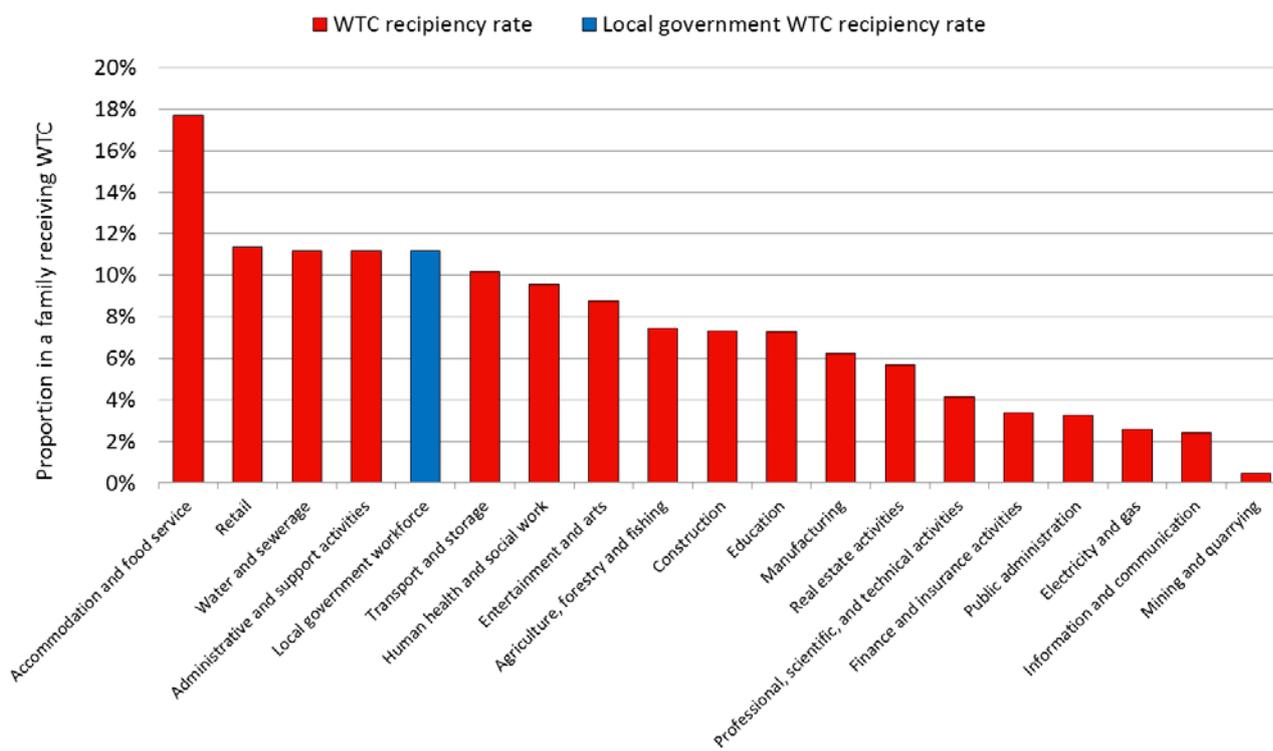


Source: Family Resources Survey. The data is an average for 2011-12 and 2012-13 and covers England and Wales.

² Kenway, P., Parekh, A., and Aldridge, H., 2011. *Living on the Edge: Pay in Local Government*. London: New Policy Institute.

While the local government workforce has a higher rate of WTC receipt than the private sector overall, there is a lot of variation within the private sector. Figure 2 offers an illustrative comparison with the private sector broken down by industrial sector. It is only illustrative as the local government workforce is defined using a different variable, meaning that there are overlaps between, for example, the local government workforce and public administration. This will be much smaller with some categories, such as retail.

Figure 2: Proportion of adults receiving working tax credits by industrial sector



Source: Family Resources Survey. The data is an average for 2011-12 and 2012-13 and covers England and Wales.

Figure 2 shows that local government has a receipt rate equivalent to retail, water and sewerage, and administrative and support activities. This rate is higher than most other sectors of the economy, although still substantially below accommodation and food services. In other words, the local government workforce has a WTC receipt rate that is equivalent to some of the highest rates in the private sector.

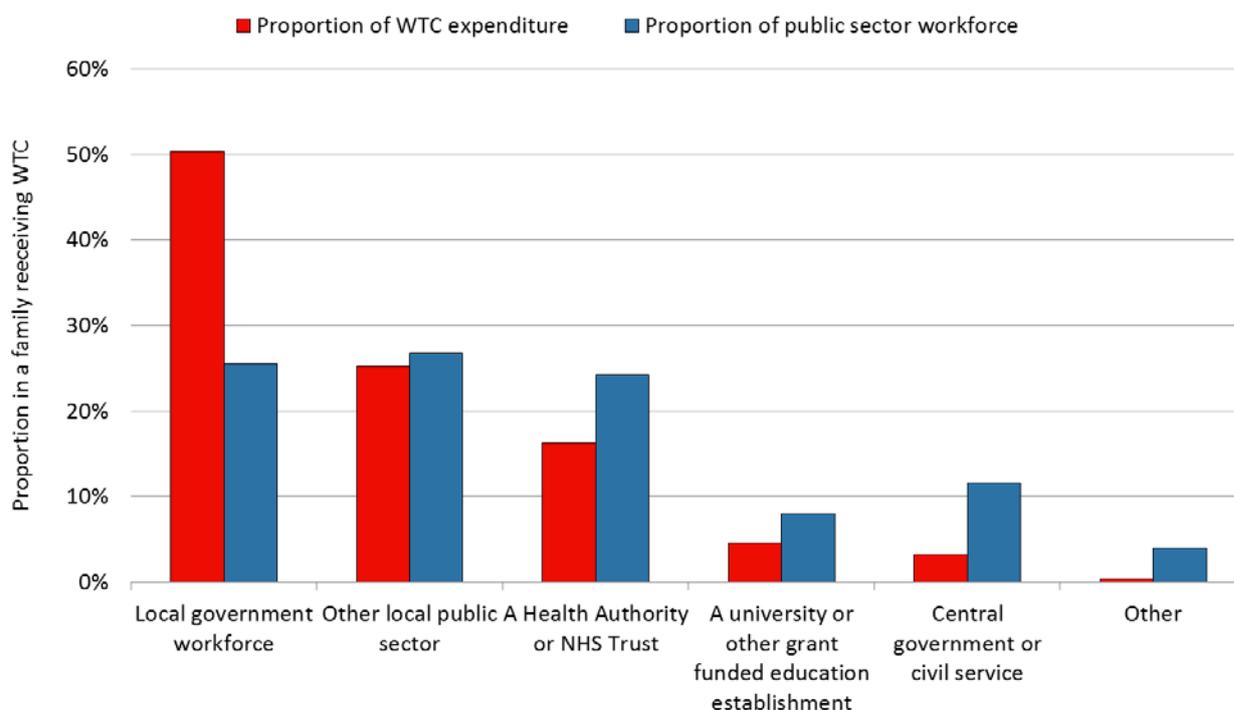
Looking at expenditure on WTC across local government and the industrial sectors, expenditure on WTC in local government is approximately equivalent to that in manufacturing, and slightly below that in administrative and support activities. Although the proportion of workers in local government receiving WTC is high relative to most industrial sectors, the size of the sector at 1.6 million workers is relatively low. For example, retail also has around 11% receiving WTC, but as a sector has 4.7 million workers.

The sectors with the highest WTC expenditure attributed to them are retail at £1.1bn and human health and social work at £940m. Sectors with the lowest proportion of total WTC expenditure tend to have either high average pay rates such as professional, scientific and technical activities, or small workforces such as water and sewerage.

Comparing expenditure on working tax credits in local government

On average between 2011-12 and 2012-13, local government workers received around £380m in WTC. Figure 3 compares this expenditure with the rest of the public sector, as well as each sector's share of the workforce.

Figure 3: Government sector share of working tax credit expenditure and workforce



Source: Family Resources Survey. The data is an average for 2011-12 and 2012-13 and covers England and Wales.

The local government workforce accounts for half of public sector WTC expenditure, despite it making up only a quarter of the public sector workforce. Local government workers receive a disproportionate share of WTC. The rest of the local public sector (including police officers, teachers, and prison officers) receives a share of WTC expenditure almost in line with their workforce share, with 27% of the total workforce receiving 25% of the total expenditure. The rest of the public sector receives a proportionally much smaller share of WTC expenditure than might be implied by their

share of the workforce. This is particularly the case for central government and the civil service, which is 12% of the public sector workforce, but takes only 3% of public sector WTC expenditure.

Commentary

The high incidence of WTC receipt in the local government workforce is another indication of the difference between local government and the rest of the public sector in terms of pay. Looking at WTC receipt, the local government workforce is much more like the lowest paying sectors in the private sector. Given that WTC requires a certain number of hours to be worked, receipt of this tax credit may understate the problem of low pay in the predominantly part-time local government workforce (58% part-time in this analysis).

WTC is just one of the ways in which social security picks up the tab for low pay in the local government workforce. Previous NPI analysis has suggested that typical local government workers could be eligible for other in-work benefits such as housing benefit and council tax support.³ This is also manifested in that central government would recoup £130m in lower benefits spending from a £1.4bn increase in local government pay.⁴

There is justifiably a lot of concern over low pay and employment practice in sectors such as retail and hospitality. These sectors may come under indirect pressure from government to reform. Local government represents a sector with similar problems but is subject to direct political control. The possibility of reform is clearly greater.

³ Tinson, A., Kenway, P., and Aldridge, H., 2013. *The Impact of Welfare Reform on Low Paid Local Government Workers*. London: New Policy Institute.

⁴ Kenway, P. and Tinson, A., 2013. *The Overall Impact on Public Finances of Meeting the Local Government Trade Unions' 2014-15 Pay Claim*. London: New Policy Institute.

Data and methodology appendix

The dataset used for this analysis is the Family Resources Survey (FRS) for 2011-12 and 2012-13. The analysis requires certain assumptions to be made, primarily as a result of WTC being a family benefit (i.e. takes the income of both adults into account) whilst organisation types and the standard industrial classification are at the level of the individual. The sector variable for local government is also broader than that used for the NJC, requiring it to be altered. The assumptions are as follows.

1. Allocation of WTC between working partners. In a family receiving WTC with two adults in employment, with one working in (for example) the civil service and the other in a private limited company, the tax credit amount has been divided into two. Thus half their WTC amount will be recorded for the civil service and the other half for private limited companies. There are other ways to this (for instance, some ratio of their earnings), but this offers the greatest ease.
2. Allocation of WTC between working and non-working partners. In a family with one working and one non-working partner who are in receipt of WTC, this analysis allocates half the WTC to the sector the employed adults works in, and does not allocate the other half. Whether this is correct or not depends on whether conceptually this is a 'subsidy' to the unemployed partner who reduces household income or the employer who does not pay enough to allow family income to exceed WTC eligibility.
3. The FRS is known to understate benefit reciprocity compared with more reliable administrative data. This analysis uprates expenditure figures by sector and organisation types by an overall aggregate figure to reflect that the FRS figure is only around 63% of the administrative figure for 2011-13. The number of recipients is similarly uprated. This is similar to how the Institute for Fiscal Studies estimates the survey data to capture only 64% of the administrative data in 2011-12. (Institute for Fiscal Studies, *Living Standards, Poverty, and Inequality in the UK: 2013*. Appendix B, p.141.)
4. In order to narrow down the local government workforce given by the SECTRNP variable, the Standard Industrial and Standard Occupational Codes are cross-referenced in order to exclude the largest groups that do not belong to the NJC workforce, such as police officers, prison wardens, and teachers. This still provides an overestimate of the local government workforce, so it is scaled down accordingly.