

The impact on public finances of meeting UNISON's 2016-17 pay claim for school and council workers covered by the National Joint Council for Local Government Services (NJC)

Adam Tinson, January 2016

Background

This paper provides an estimate of the overall impact on public finances of the 2016-17 NJC pay claim for employees in local government and schools covered by the National Joint Council (NJC). The paper has been commissioned by UNISON. The pay part of the claim involves the deletion of all scale points below either the UK or London Living Wage as appropriate, and an additional £1 per hour at each pay point above this.

Local government bears the cost of paying higher wages to its staff, and the associated higher employer national insurance contributions. Central government, however, is a beneficiary through higher tax revenues and lower benefit payments, plus additional benefits through consumption taxes when the extra earnings are spent. This paper reports estimates of both the cost to local government and the saving to central government of meeting UNISON's pay claim.

Method

This briefing note uses the Local Government Association's Earnings Survey for 2014-15 and the Family Resources Survey (FRS) for 2013-14 to estimate the average tax rates and benefit withdrawal rates faced by workers on the spinal column points. The marginal rate of income tax and national insurance contributions is calculated for each spinal column point and combined with data on housing benefit and tax credit receipt for broader income groups from the FRS. The gross pay increase for these income bands is then reduced by this combined tax and benefit reduction rate. Finally, a further estimate is made by applying the average proportion of disposable income spent on indirect taxes (from the ONS Effects of Taxes and Benefits publication) to the after tax wage increase. A small adjustment is made by applying a higher pay increase for workers in London to reflect the higher Living Wage there, with local government workers in London otherwise assumed to have the same characteristics as spinal column point workers overall.

Results

The cost of the gross wage increase to local government workers is £1,050m in 2016/17, with an additional cost of £132m in higher employer national insurance contributions. This gives a total additional cost of £1,182m.

On its side, central government receives the £132m in higher employer national insurance contributions. It also benefits from higher tax revenues of £295m and lower benefit and tax credit expenditure of £65m. The total amount of savings for central government is then £492m, giving the net cost to the public sector as a whole, i.e. both local and central government, of £690m. Central government also receives revenue through indirect taxes when the additional earnings are spent. This would increase central government revenue by a further £141m.

Conclusion

Local government has been hit hardest by the last few years of spending cuts, and much of this has been borne by local government workers. The government has stated its commitment to creating a 'high pay, low welfare' society. If it is serious about the first component of this, it should consider how its potential savings from higher local government pay could be used to fund the increase.

Table of results

	Cost/saving
Gross wage cost to local government	£1,050m
+ Employer's National Insurance	£132m
= Total cost to local government	£1,182m
Employer's National Insurance (as above)	£132m
+ Increase tax revenues	£295m
+ Reduced benefit expenditure	£65m
= Total central government savings	£492m
Net public sector cost : £1,182m- £492m= £690m	£690m
+ Indirect taxes	£141m
Net public sector cost after indirect taxes:£690m- £141m =	£549m