

The Impact on Public Finances of meeting UNISON's 2018/19 pay claim for NJC local government workers

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Background

This paper provides an estimate of the overall impact on public finances of the 2018-19 National Joint Council (NJC) pay claim for employees in local government covered by the NJC. Although the NJC also covers the majority of school support staff, they are not included in this analysis. This is because funding for any pay increase for them will come from the Department for Education, not councils. The staffing numbers in this analysis are therefore lower than those used in previous exercises to calculate the cost of the NJC pay rise.

This paper has been commissioned by UNISON. All pay points below the voluntary UK Living Wage (as calculated by the Living Wage Foundation based on the cost of living; currently £8.75 per hour) have been raised to meet the rate, and each subsequent pay point has been increased by 5%.

Local government bears the cost of paying higher wages to its staff, as well as the higher employer national insurance contributions. Central government, on the other hand, benefits from higher wages through increased tax revenues and lower benefit spending. This paper reports estimates of both the cost to local government and the savings to central government of meeting UNISON's pay claim for 2018/19.

Method

This briefing note uses the Family Resources Survey (FRS) and the Household Below Average Income (HBAI) statistics for 2015/16 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.

Information on each spinal column point's workers and earnings has been collated by UNISON through freedom of information requests. This provides more accurate information on the nature of NJC workforce than previous estimates.

Results

The cost of the gross wage increase to local government workers is £551m in 2018/19, with an additional cost of £71m in higher employer national insurance contributions. In total the cost would be £623m.

Central government receives the £71m in higher employer national insurance contributions. Central government also benefits from higher tax revenues of £128m in addition to lower benefit and tax credit expenditure of £43m. In total, central government would save £242m.

The net cost to the public sector as a whole (both local and central government) would be £381m. If indirect taxation is then factored in, using ONS estimates for the proportion of disposable income spent on indirect taxes from the publication, *The effects of taxes and benefits on household income*, then a further £68m is recouped by central government. In total, around half the cost to local government of meeting the pay claim accrues to central government. This figure is slightly lower than in previous reports, due to the lower earnings profile of local government workers, which reduces the proportion returned as tax to central government. However, it is still broadly consistent with previous estimates.

The total figure is lower than previous estimates of the net public sector cost. This is for a combination of factors, including the reduction in the size of the NJC-covered workforce, and a reassessment of the average earnings profile of this workforce downwards.

Conclusion

This paper demonstrates the potential savings to government of increasing workers' pay. Increased tax contributions along with reduced benefit expenditure result in central government recovering part of the cost borne by local government. Many of these workers would be considered 'just-about managing' by the government. Considering how these savings might be used to fund an increase in earnings for local government workers is one way the government can meet their objective of helping this group.

Table of Results

| | Cost/Saving |
|---|--------------|
| Gross cost to local government | £551m |
| + Employer's national insurance | £71m |
| =Total cost to local government | £623m |
| Employer's national insurance (as above) | £71m |
| + Increased tax revenues | £128m |
| + Reduced benefit expenditure | £43m |
| = Total central government savings | £242m |
| Net public sector cost: | |
| £623m- £242m | £381m |
| + Indirect taxes | £68m |
| Net public sector cost after indirect taxes: | |
| £381m - £68m | £313m |