

## THE OVERALL IMPACT ON PUBLIC FINANCES OF MEETING THE LOCAL GOVERNMENT TRADE UNIONS' 2014-15 PAY CLAIM

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### Background

Unison has asked the New Policy Institute to estimate the overall impact on public finances of the Trade Union Side's 2014-15 pay claim for all employees in local government covered by the National Joint Council (NJC). The claim is for an extra £1 an hour at each point on the pay scale. The results shown here also include a variant of an extra £1.20 an hour, this being the sum now required to bring the lowest NJC pay point up to the Living Wage of £7.65 an hour.

The cost of higher pay falls on the local government employers. But as pay goes up, the taxes paid to central government, both by employees and employers, go up too. Higher pay also means that in-work benefits, notably tax credits, go down. Central government then receives additional revenue from indirect taxes on consumption. While local government bears a cost, central government enjoys a saving. This analysis is directed at estimating these two numbers (the gross cost and the saving) which between them give the net cost to the public sector as a whole.

### Results<sup>1</sup>

The cost of meeting the unions' pay claim for an increase of £1 an hour (£1.20) for each spinal column point is estimated at £1.42bn (£1.7bn) extra a year for local government employers. This cost is comprised of a £1.26bn (£1.51bn) increased wage bill plus a £160m (£190m) increase in employer National Insurance contributions. No allowance is made here for higher employer contributions to the pension scheme.

Central government benefits to the tune of: £340m (£410m) from higher tax payments; £130m (£160m) from lower benefit spending; and £160m (£190m) from higher employer National Insurance contributions.

The net cost to the public sector as a whole is therefore £790m (£950m) a year.

In addition, central government also benefits from the indirect taxes on expenditure arising from the higher net earnings. These are estimated to be worth £145m (£175m) in a year. Including these tax revenues, the net cost to the public sector as whole falls to £645m (£775m) a year.

The results are set out in a table overleaf.

### Conclusion

When the additional indirect taxes are included, the net cost to the public sector is just 45% of the gross cost of the claim. Put another way, central government ends up with 55% of the gross cost of the pay increase for local government employers. This poses the question: why should not this money be returned to local government to help fund the pay increase?

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<sup>1</sup> The main data sources for this analysis are the Local Government Services spinal column point headcount distribution for 2012-13 (some 1.6 million employees) and the Family Resources Survey for 2010-11. Adjustments have been made to the FRS to reflect relevant changes to welfare that would affect the analysis.

Table of results

Cost	£1 increase	£1.20 increase
Wage cost	1,260m	1,510m
+ Employer National Insurance	160m	190m
= Total local government cost	1,420m	1,700m
Employer National Insurance (above)	160m	190m
+ Increased tax take	<b>340m</b>	<b>410m</b>
+ Reduced benefit expenditure	<b>130m</b>	<b>160m*</b>
= Total central government saving	630m	750m
Net public sector cost	790m	950m
<i>Less indirect taxes</i>	<i>145m</i>	<i>175m</i>
<i>Net public sector cost after indirect taxes</i>	<i>645m</i>	<i>775m</i>

\*Does not sum due to rounding