Landman Economics

The impact on the public finances of meeting UNISON's 2020/21 pay claim for NJC local government workers

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Background

This paper provides an estimate of the overall impact on the public finances of the 2020/21 National Joint Council (NJC) pay claim for employees in local government covered by the NJC.

This paper has been commissioned by UNISON. The pay claim consists of two elements:

1) Raising the lowest-paid point on the NJC spine to £10 per hour. In annual salary terms, for full-time employees this is an increase from £17,364 to £19,293 – just over 11 per cent;
2) Raising all other salaries by 10 per cent.

Local government bears the cost of paying higher wages to its staff, as well as the higher employer national insurance contributions (NICs). Central government, on the other hand, benefits from higher wages through increased tax revenues and lower spending on means-tested benefits and tax credits. This paper reports estimates of both the cost to local government and the savings to central government of meeting UNISON's pay claim for 2020/21.

Method

This briefing note models income tax and employee and employer National Insurance Contributions (NICs) to a high degree of accuracy for workers on each spine point at current salary levels and at the new salary levels after UNISON's proposed increase. The marginal withdrawal rate for means-tested benefits, tax credits and/or Universal Credit is calculated using data from the Family Resources Survey (FRS) for 2017/18 on workers in the local government sector across the earnings distribution. The gross pay increase for each income band is then reduced by the combined tax and benefit reduction rate at that point in the income distribution.

The amount of indirect tax paid by local government workers is also included in the analysis, 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*.

Information on the number of full-time and part-time employees at each point on the NJC spine has been collated by UNISON through freedom of information requests.

Results

The cost of meeting UNISON's 2020/21 pay claim for NJC local government workers is £1,614m in total. This includes £1,418m in salary costs, plus an additional cost of £196m in higher employer NICs.

Central government receives the £196m in higher employer NICs. Central government also benefits from additional receipts of employee NICs (£161m) and income tax (£274m) as well as reduced benefit, tax credit and Universal Credit expenditure (£56m). In total, central government saves £686m.

The net cost to the public sector as a whole (both local and central government) would be £928m. If indirect taxation is then factored in, central government recoups a further £129m. In total, just over half (51%) of the cost to local government of meeting the pay claim accrues to central government.

Conclusion

This paper demonstrates the potential savings to government of increasing local government workers' pay. Increased tax contributions along with reduced benefit expenditure result in central government recovering over half of the cost borne by local government.

Table of results

	Cost/Saving
Gross cost to local government	£1,418m
+ Employer's National Insurance	£196m
= Total cost to local government	**£1,614m**
Employer's National Insurance (as above)	£196m
+ Employee's National Insurance	£161m
+ Income Tax	£274m
+ Reduced benefit/tax credit/Universal Credit expenditure	£56m
= Total central government savings	**£686m**
Net public sector cost:	
= £1,614m - £686m	**£928m**
+ Indirect taxes	£139m
Net public sector cost after indirect taxes:	
= £928m - £139m	**£789m**

Appendix: Detailed Methodology

Using the UNISON FOI request database to derive a dataset of annual salaries

UNISON provided Landman Economics with the results of FOI requests to all local authorities in England. UNISON requested data on:

1. the number of employees on each of the 43 NJC scale points, ranging from point 1 (full-time annual salary: £17,364) to point 43 (full-time annual salary: £45,591).
2. The number of employees on salaries which did not correspond to any of the scale points (in bands, as follows: £16,000-£17,000; £17,000-£18,000; £18,000-£19,000, and so on, up to £74,000-£75,000 and then a final band for any salaries greater than £75,000.

The data from the FOI requests was entered into a spreadsheet which was arranged into 43 NJC scale points and 60 'off-scale' points. The off-scale points are simply the mid-points of each band starting at £16,500 and then £17,500, £18,500, etc., up to £74,500. For salaries greater than £75,000, data from the spring 2019 Labour Force Survey was used to analyse median salaries for employees working in the local government sector[1]; a value of £93,000 was used for employees in this band.

The information on number of employees is broken down by sex (male/female) and number of hours (part-time/full-time). These are used to provide four different headcount numbers at each of the 103 pay points: male full-time, female full-time, male part-time and female part-time. Analysis of the number of hours worked by part-time workers in the local government sector in the LFS revealed that 22 hours per week was the most common hours point for this group, while full-time contracted hours of work are 37 hours in most cases. Therefore I assume that salaries for part-time workers on each scale point are equal to the full time salary multiplied by (22/37).

Modelling National Insurance Contributions and income tax payments

National Insurance Contributions (NICs) and income tax payments can be modelled almost exactly, because the NICs and income tax systems are mainly based on

[1] The median rather than the mean value for salaries above £75,000 because the mean could be disproportionately affected by a small number very high earners.

individual earnings. Therefore, I use an algorithm to model employer NICs, employee NICs and income tax payments based on the salary information as calculated above.

Modelling means-tested benefits, tax credits and Universal Credit

Because the salary dataset doesn't have information on single/couple status, number of children, housing costs and non-work income or benefit take-up in this dataset, it is not possible to model means-tested benefits, tax credits or Universal Credit directly. Therefore, data from the 2017-18 Family Resources Survey (FRS) is used to model the relationship between gross earnings and the amount of income from means-tested benefits, tax credits and/or Universal Credit using a regression approach. The specification is an OLS regression with "means-tested income" (total benefit unit income from means-tested benefits, tax credits and/or Universal Credit) as the dependent variable, and a fourth-order polynomial of gross earnings as the explanatory variables. The regression is run separately for men and women as women receive higher means-tested income on average than men at any particular level of salary, mainly because lone parents (90% of whom are women) are more likely to receive benefits and tax credits than any other working-age adults. The coefficients from these regressions are used to produce predictions of the level of means-tested income at each point on the distribution of income. Figure 1 below shows predicted income from means-tested benefits, tax credits and/or Universal Credit for employees in the local government sector at salaries between £15,000 and £50,000 (above £50,000, predicted income from these sources is zero for men and women). Note that this is an average across all male employees (in blue) and all female employees (in orange), including employees who aren't entitled to, or don't claim means-tested support as well as those who do, and including employees without children as well as those with children. This means that the average payment amounts are smaller than one might expect looking at actual benefit or tax credit payments for low income working families with children (for example).

Figure 1. Predicted income from means-tested sources across the earnings distribution of local government employees: men and women, FRS 2017/18

Modelling indirect taxes

A measure of disposable income at each salary point is calculated by the formula (gross earnings plus means-tested benefits, tax credits and Universal Credit minus (employee NICs + income tax payments)).

This disposable income measure is used to model indirect tax payments using information from the ONS publication *The effect of taxes and benefits on household income* on indirect tax payments as a proportion of disposable income by quintile of household net disposable income. Information from the 2017/18 FRS and the 2017/18 Households Below Average Income (HBAI) dataset is used to analyse the distribution of local government employees by income quintile, and the proportion of disposable income paid in indirect taxes is a weighted average across the income quintile groups.

Modelling the change in tax payments and benefit receipts

Tax payments and receipt of mean-tested incomes are modelled for each scale and offscale salary point under two scenarios:

a) The ‘baseline’ scenario (current salaries);
b) The ‘pay increase’ scenario (salaries increased to £10/hour, or by 10%, whichever is greater).

Subtracting (a) from (b), and summing across the distribution of scale and off-scale points, then produces the changes in gross salary, and the various components of tax and benefit payments, arising from meeting the UNISON local government pay claim, as shown in the table of results in the main report.