BRIEFING NO. 76 Date: April 2016

UNISON Scotland

BARGAINING BRIEFING

The real cost of a pay increase in Scotland

Introduction

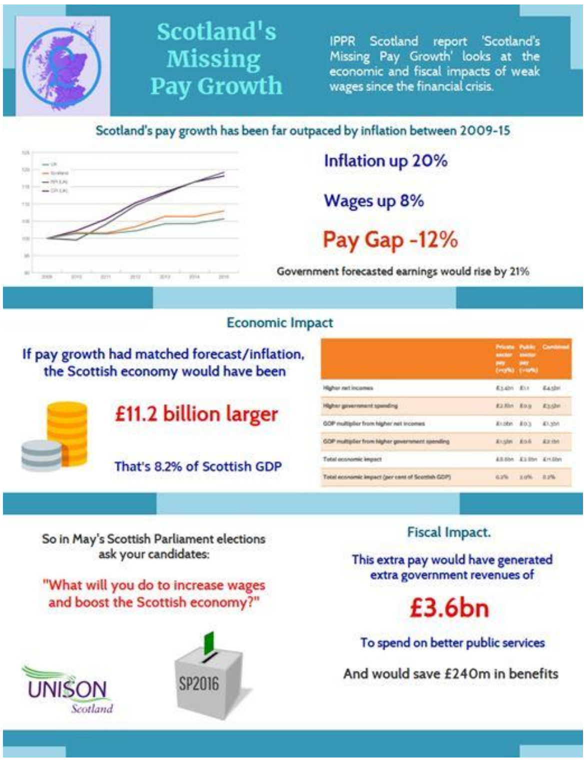
UNISON Scotland funded the respected think tank IPPR to take a look at pay growth in Scotland. Their report, '*Scotland's Missing Pay Growth'* highlights the impact low pay has had on Scotland. Using their pay and benefits economic model, the report also helps us understand that the real cost of pay increases is not as great as traditional approaches maintain.

Missing pay growth

The IPPR report confirms UNISON's view that falling real terms pay has had a considerable negative effect on the economy. It shows that, pay in Scotland has fallen in real-terms by 12%, and had pay risen in line with expectations, the Scottish economy would be £11.6bn larger than it is today

The analysis – which compares official Office for Budget Responsibility (OBR) 2011 predictions with today's reality – shows that while average pay for Scottish workers rose by 8 per cent between 2009 and 2015, this is offset by an increase in inflation of 20 per cent over the same period. This means real pay packets in Scotland are 12 per cent lower today than they were in 2009.

Scotland's record over this time is better than the wage growth in the rest of the UK, due to factors including higher productivity and trade union membership. However, IPPR Scotland's analysis shows private sector workers' wages have dropped 13 per cent, and public sector workers' pay has dropped 10 per cent, compared to inflation.



With greater powers coming to the Scottish Parliament, including significant devolution over income tax on earnings, boosting wage growth in Scotland will be one of the key factors in determining the size of Scotland's budget in the years to come. This is because had pay risen as anticipated it would have generated an extra £3.6bn in government revenues and saved £240m in benefits.

KEY POINTS:

- **Pay in Scotland has fallen 12% in real terms since 2011**
- **If it has risen in line with OBR forecast Scotland's economy would be £11.6bn larger.**
- **That would have generated £3.6bn in extra government revenues.**
- **It would have saved £240m in benefits.**
- **Public sector pay has fallen by 10%, but much further behind inflation.**
- **IPPR model shows that the real cost of public sector pay is only half the headline figure.**
- **This should be reflected in pay bargaining and government pay policy.**

bargaining & campaigns team

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Public sector pay

The figures above take into account all earnings including increments etc. However, for most members it's pay rises that are their sole increase in annual income. Public sector pay constraint has kept pay well below inflation as this table shows.

	Public sector pay limits Scotland	RPI	CPI
2010/11	1%	5.0%	3.5%
2011/12	0%	4.8%	4.3%
2012/13	0%	3.1%	2.6%
2013/14	1%	2.9%	2.3%
2014/15	1%	2.0%	1.0%
2015/16	1%	1.2%	0.2%
2016/17	1%	2.3%	1.3%
Cumulative	5.1%	23.3%	16.2%

Sources: Scottish Government 2016 and OBR 2015

While all pay increases generate economic growth and government revenues, public sector pay comes at a cost to the public purse. The traditional approach of all governments is to focus on the gross revenue consequences.

Table 4.2

The fiscal impact (£m, 2015/16) of a

	Size of effect
Gross cost	£1,880m
Income tax	£600m
Employee NICs	£160m
Means-tested benefits*	£60m
Expenditure taxes	£25m
Additional multiplier taxes	£80m
Net cost	£950m

The IPPR model shows us that this isn't the whole picture. They calculate that under the traditional approach a 10% pay rise would cost £1.880m. However, when tax, benefits and other multipliers are taken into account that cost almost halves to £950m. This table shows how this is calculated.

The IPPR report goes on to model the gross and net fiscal costs of a 1,2 and 3% pay increase in Scotland.

Table 4.3

Gross and net fiscal costs (£m, 2015/16 prices) of public sector pay increases in Scotland, by size of increase

	1 per cent	2 per cent	3 per cent
Gross public cost	£190m	£380m	£560m
Net cost (after initial taxes and benefits)	£110m	£210m	£320m
Net cost (after multiplier taxes and benefits)	£100m	£190m	£290m

Source: IPPR calculations using IPPR Scotland tax–benefit model

This approach takes a Scotland wide approach and it also has to be recognised that some the savings would go to the UK government, although that comes back to Scotland through the block grant.

Employers at the sector or local level may not be willing to recognise the wider benefits unless this is reflected in their own budgets. That is why we also need to make this case at government level, in the context of UNISON's proposed national workforce framework.

It also helps make the case for sectoral bargaining in areas where government is providing most of the funding. Social care is the best example of this. Sectoral bargaining has been recognised as important in the recently published framework by the Fair Work Convention.

Conclusion

Scotland's missing pay growth could have delivered a huge boost to the Scottish economy and government revenues. This applies to the private and public sector. This report also shows that the cost of public sector pay is almost half of the headline cost and that should be reflected in government pay policy.

Further information

UNISON Scotland response to IPPR report

http://www.unison-scotland.org/2016/03/23/unison-welcome-ippr-scotland-report-scotland-pay-packets-down-12-in-real-terms-since-2009/

IPPR Report. Scotland's missing pay growth

http://www.ippr.org/publications/scotlands-missing-pay-growth

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