UNISON
the public service union

UNISON's Budget - Investing in the future: jobs, public services and growth

Introduction

The UK deserves the best public services, but it doesn't appear the Coalition Government agrees.

The UK government needs to afford a greater priority to policies which aid UK economic growth and boost living standards. This can be funded through the system of taxation on property, goods and the income of citizens and corporations. Fair taxation is the basis for decent public services and is the key to achieving other objectives such as ending child and pensioner poverty, ending low pay and saving our natural resources and environment.

UNISON believes we need a modern taxation system for modern public services, if we are to achieve the high standards of public services and infrastructure that are fit for the 21st century. It is especially important to tackle the unacceptable levels of tax evasion and avoidance that some individuals and companies in the UK practice.

In order to provide a positive economic outlook for the country the Government must change its policy towards public spending and investment. Austerity should be ditched in favour of a pro-growth strategy involving job creation and a package of early investment in the infrastructure and services our economy needs. By embarking upon a planned, long-term programme of investment in the housing, infrastructure and green energy production our nation needs we can address the tough fiscal future the UK faces and provide the necessary shot in the arm for British industry. Only by direct government intervention will we earn our way to a better future and secure both the increase in productivity we need whilst securing decent jobs, communities and futures for everyone.

UNISON recognises that long-term plans such as these will take time to implement, so the government should call a halt to policies which damage prospects for growth and employment by putting those that deliver public services out of work. An instant boost to the spending power of millions of UK taxpayers could be achieved with a reversal in the Government's public service pay policy. The tax and benefit changes that reduce the incomes of those on low to middle incomes should also scrapped to address the huge decline in living standards we have witnessed as a result of the Coalition Government's policies.

The impact of austerity

Assessed against their own terms the Coalition's five year programme of austerity hasn't delivered what it promised.

Whilst UNISON welcomes the recently small falls in unemployment and small increases in economic growth, things are a long way off where the Chancellor said they would be when he announced his austerity programme:

- The Chancellor's plans have seen the economy grow by around half the amount predicted back in June 2010 by the Office for Budget Responsibility (OBR)[i]
- We have experienced the longest period of decline in average wages since 1964 with the Office for National Statistics (ONS) saying average wages have dropped consistently since 2010.[ii] (The OBR originally predicted that the austerity-based economic plan would see average earnings increase every year - including a huge 4.3 per cent increase in 2014[iii])
- Whilst recently unemployment may have fallen slightly below its 2010 levels we have seen a trebling in the number of people on zero-hours contracts[iv] that fail to offer the safety of a guaranteed income, an extra half a million part-time workers who would rather be working full-time but can't because there aren't enough full-time jobs[v], and about half of the one million jobs created since 2008 have been in self-employed roles with more casual and insecure working arrangements[vi]
- Meanwhile, the Coalition's reliance on short-term fixes is born out in its continuing failure to tackle long-term unemployment, which remains above the levels the Coalition inherited in 2010[vii]
- When it comes to the key target of eliminating the deficit the Business Secretary, Vince Cable MP, acknowledges that the Coalition is on target to do this by 2017/18 – as proposed by the former Chancellor of the Exchequer Alistair Darling MP in his plan to use growth and wiser public spending to rescue the economy.[viii]
- Meanwhile the Coalition is borrowing more in five years than the last Labour government did in thirteen years.[ix]

Whilst the 2008 financial crisis created the economic world in which we now find ourselves, it has been the Coalition's decision to dramatically cut public spending too quickly and by too much that has failed to get the economy working again. The Chancellor's has admitted that his economic failure means that if the Coalition partners remain in government after the 2015 General Election their programme of austerity will last until 2018[x], whilst the Institute for Fiscal Studies (IFS)[xi] and the Financial Times[xii] have both warned that spending cuts are likely to continue until 2020. This extended austerity will have a significant impact on the rest of the economy as recent research into the fiscal multiplier has found that for every £1 of public spending that is cut, £1.60 of private sector economic activity is also lost.[xiii]

The economy may be beginning to show signs of some sort of recovery, but the claim that austerity "has worked" seems a little overgenerous and some economists have recently suggested it is possible that the economic recovery has been weaker with austerity than without it.[xiv] Just last year the OBR confirmed that the Government's cuts agenda was holding back economic growth when it wrote to the Prime Minister to clarify that "we believe that fiscal consolidation measures have reduced economic growth over the past couple of years".[xv] More recent figures show that of the G-7 economies only Italy is experiencing a slower recovery than the United Kingdom (where UK GDP remains 1.3% below its pre-recession peak). Whilst in the United States, which chose stimulus instead of austerity, GDP is 6.5% ahead of its pre-recession peak.[xvi]

A balanced economic recovery?

UNISON has consistently opposed the Government's decisions to slash public spending, force swathes of job cuts across the public sector and to lower taxes for the rich whilst penalising the poor. Whilst the Government would have you believe that these measures were necessary and that the economy has finally turned a corner, the reality for UNISON members is far from that.

> **Alison from Birmingham says:**
>
> *"For years the cost of basics like heating, food etc have increased, not just a little and on a regular basis while my pay remains frozen. My earnings can only stretch to a certain point to cover this, what happens when no matter what I do they just won't cover it? I'm scared."*

Coalition policies have resulted in working people losing huge amounts of money since 2010, while the inequalities between top and bottom are more pronounced than ever. The number of workers earning less than a living wage has rocketed in recent years to more than five million.[xvii] Across the UK one million employees are now on zero-hours contracts, many of whom suffer uncertainty and exploitation as a result.[xviii]

Public sector pay was frozen for three years and has been followed by an ongoing pay cap allowing for only a measly 1% increase – although some staff, such as English and Welsh health workers, are not even getting the 1% this year.[xix] Many companies and charities providing public services have mirrored these policies. Dan Corry, Chief Executive of third sector think-tank New Philanthropy Capital, has outlined that this race to the bottom in public sector pay can only lead us back towards the 1990's:

> "There had been a strong fall in the relative pay of the public sector and it led to acute staffing problems, as recruitment and retention were both under pressure. This was the period of a shortage of teachers and of nurses. It meant patients waiting on trolleys or schools classes cancelled, and the quality of recruits - and of services provided - naturally diminished"[xx]

Wages have failed miserably to keep pace with inflation, with rising prices cutting the value of pay packets in every single month since the government took office. Public service workers are laden with mounting levels of debt as they struggle to make ends meet[xxi] and the impact of the pay squeeze falls particularly hard on women, a greater proportion of who work in public services than men. Four years after embarking on this cruel attack on public sector pay - and whilst the financial sector is paying out record bonuses to bankers again[xxii] - the Chancellor is continuing to punish public service workers across the country by promising a further squeeze on their pay.[xxiii] It appears that the Government continues to have two different ideas of rewarding its employees.

As a result of these policies more working households are living in poverty than non-working ones for the first time ever.[xxiv] The Joseph Rowntree Foundation (JRF) says that over half of the 13 million people in poverty in the UK are from working families. Meanwhile, the Trussell Trust says demand for food banks has tripled since 2012 and a third of all councils are subsidising food banks.[xxv]

Elsewhere, for other public service workers, the threat of redundancy continually hangs over their head when the Chancellor announced in last year's Spending Review that a further 144,000 public service jobs would be cut by 2015.[xxvi] This is on top of the 642,000 jobs already cut from the public sector since the 2010 General Election.[xxvii] The IFS has said that the planned reductions would hit the poorest parts of the country the hardest[xxviii] whilst the JRF has warned that "if there were no reductions to the education and NHS workforces... the

OBR's forecasts could only be borne out if the rest of the general government workforce were to shrink by 40%".[xxix]

Even members of the Government admit that cuts in public spending have worsened conditions across the country, with Work and Pensions Secretary Iain Duncan Smith saying his controversial plans for social security reform are at risk because of "extremely challenging" demands for efficiency savings.[xxx]

Immediate steps the Government should take

A moratorium on job cuts in the public sector

Cutting public service jobs are a false economy – the redundancy costs and knock-on effects on employment, growth and tax revenue and consumer confidence only make the situation worse.

- on average every redundancy creates £29,400 in additional costs to the public sector as well as undermining morale and productivity[xxxi]
- most of the cost of employing a public service worker is recouped by the state through increased tax revenues and reduced benefit payments[xxxii]
- economic research shows that for every pound spent on local public services, 64 pence is re-spent in local economies, supporting jobs and businesses[xxxiii]

UNISON is calling for **a moratorium on job cuts in public services**. We estimate that it will cost approximately £3billion in 2014/15 to pay for the average wages and contributions of the predicted 100,000 public service workers that are at risk of redundancy before the 2015 General Election.[xxxiv] However this will also result in £660million in revenues for the government in the form of income tax and national insurance payments in 2014/15[xxxv], avoids the redundancy costs outlined above and the potential additional cost for the social security bill and will aid the economic recovery by generating £1billion of extra spending in local economies that through indirect taxation will potentially add a further £150million to the exchequer.[xxxvi]

UNISON believes **the £2.34billion for a moratorium on job cuts in public services in 2014/15 can be funded by introducing a permanent tax of 50% on bankers' bonuses** above £25,000 which raised £3.5billion in 2010.[xxxvii] In 2013/14 both Barclays Bank paid £2.4billion and RBS £576m in bonuses.[xxxviii]

End the public sector pay cap

Years of pay freezes and pay restraint in the public sector have left public service workers as the biggest losers from the squeeze on incomes[xxxix] – a squeeze set to continue in the public sector with a 1% cap until 2016.[xl] Millions of workers have received below inflation increases that have left them out of pocket as the cost of living has rocketed. This is despite more money in the pockets of the nation's employees meaning more money being spent on the high street.

There are around half a million public sector workers – including one-quarter of all local government employees – whose earnings are too low to live on.[xli] This figure rises to one million when you count all of those who are outsourced. The Government's policy of keeping public sector wages low is directly contributing to the problems of low pay in the UK. Whilst it cannot directly control the wages in private companies, **it can end the pay freezes and pay caps in the public sector**. International Monetary Fund research suggests that the impact of public spending on the rest of the economy, including through the pay-bill for public service workers, is stronger than previously thought.[xlii]

With a public sector pay bill of approximately £167billion in 2012/13[xliii], **making provision for a wage increase that keeps pace with inflation would require around £3.173billion** – whilst increasing public sector pay at the rate recommended by the Low Pay Commission for the Minimum Wage[xliv] would cost just over £5billion. UNISON believes **this could be raised by reversing the Government's cut in corporation tax for big businesses** to levels lower than the US or any other G7 economy generating £4.35billion[xlv]

Help for the least well off

At a time when the cost of living is increasing the Government has targeted cuts in spending at the poorest by reducing social security payments whilst offering cuts in tax rates for the most wealthy. This is clearly immoral and goes against the concept of a redistributive tax system that is fair to everyone. UNISON believes the Government should use the **£2billion from a "mansion tax" on the most expensive homes**[xlvi] to:

- **Reverse the 10% (£475million) cut to council tax benefit** funding[xlvii]
- **Reverse the £500million cut to housing benefit** resulting from the Government's "bedroom tax"[xlviii]
- **Reverse the decision to limit increases in Child Benefit to 1% in 2014/15 and increase by 5% instead** (£880million)[xlix]

The Government should also raise **£1billion** through a sugary drinks duty to cover the cost of **free school meals for primary school children** as proposed by Sustain and 60 other organisations[l]

<u>Introduce a living wage</u>

UNISON notes the recommendation made by the Low Pay Commission for a 3% increase in the national minimum wage (NMW) rate – the first time in five years an increase above the rate of inflation has been proposed.[li] UNISON also notes the Government's commitment to introducing the increase in line with the Commission's recommendation and further notes that there are public service workers who will benefit from this, many of whom work for third sector bodies and private companies delivering public service contracts.

However, UNISON believes that this does not go anywhere near restoring the real value of the NMW to its pre-recession level. As such UNISON believes that in October 2014 the NMW should be increased substantially to reflect the increased cost of living. After 2014 the NMW should move in stages towards a Living Wage for all workers, (currently £8.55 an hour in London). In recognition of the fact that the real value of the National Minimum Wage has fallen in real terms (relative to the Retail Price Index) the increase should at least restore the value lost during the recent period of below inflation increases.

A recent report by the New Economics Foundation (NEF) for UNISON outlined the impact of low pay on the economy.[lii] This report shows that one million people working across our public services are paid below the living wage and that one in four in local government are low paid, earning less than 60% of the median. It also demonstrates that since 2010 a combination of pay freezes and pay caps have resulted in the average worker in the public services now being £2000 worse off a year in real terms than in 2010.

A living wage is in everyone's interests. It is good for business, for individuals and for society as a whole. As with addressing the public sector pay freeze/cap, raising the earnings floor from the level of the minimum wage to that of the living wage will create money in the pocket of employees that they will spend on the high street, increasing consumer confidence and helping the economy. This will also increase revenues for the Government through taxation and national insurance and reduce the reliance on other forms of social security support including tax credits.

Councils, charities and some prominent businesses, including financial firms Deloitte, KPMG and PwC, are already accredited living wage employers and recognise the benefits to their organisations that increasing the incomes of their lower paid employees can bring, such as higher productivity, reduced absenteeism, and lower staff turnover.[liii] Most importantly, for the employee, a living wage can provide workers and their families with a basic, but acceptable, standard of living.

This notion of a wage-led economy is missing from the current debate over pay and wages. Research published by the International Labour Organisation outlines how lower pay results in lower economic growth.[liv] As such, the UK economy would fare better with a co-ordinated policy aimed at allowing pay to rise – as opposed to the Government's race to the bottom.

The IFS calculate that the direct cost to the government of paying the higher wages and National Insurance contributions resulting from **a living wage in the public sector would amount to approximately £3.4billion.**[lv] However, the Resolution Foundation and IPPR estimate that the introduction of a living wage across all employees in the UK would result in higher income tax receipts and national insurance contributions, and savings from spending less on means-tested social security payments and tax credits, generating **savings of £3.6billion for HM Treasury**.[lvi] In the same report it is estimated that this would be **reduced to a saving of £2.2billion once the £1.3billion cost resulting in higher wages for public sector employees was deducted**. UNISON acknowledges that even with the higher IFS figure for the cost of implementing the living wage across the public sector, this would still be offset by the savings generated by introducing it across all employees in the UK. **UNISON believes the minimum wage should be moved to a living wage for all workers.**

Plan for the future

Funding for Building, to solve the housing crisis and put people back to work

The number of new homes being built is not keeping pace with household formation. This is placing huge pressure on family life and holding back our economy. Meanwhile the mortgage market is not delivering for those on modest incomes, nearly two million families are on waiting lists for social housing in the UK and rents in the private rented sector are running way ahead of pay. The number of in-work housing benefit claimants has doubled in three years to 903,000.

The Confederation of British Industry agree that a large and determined programme aimed at building affordable housing would help boost our bottomed-out economy by creating tens of thousands of jobs, stimulating economic activity and providing the homes the country so desperately needs.[lvii]

The National Housing Federation believes that investment to deliver 10,000 homes would also deliver 75,000 jobs and a contribution of £4billion to the wider economy.[lviii] In addition to jobs created in construction, the economy would be helped by multipliers in the supply chain, as for every £1 invested in construction £2.60 is generated elsewhere.[lix] This could also save £290million from the social security bill by reducing housing benefit and Jobseeker's Allowance claims.[lx]

UNISON believes the Government should introduce an annual £5billion "Funding for Building" scheme that will pay for the construction of 100,000 new homes and could create up to 750,000 jobs, contributing £40billion to the wider economy. Financing the "Funding for Building" scheme is outlined below, however it would allow for the reallocation of spending on the New Homes Bonus (£2.2billion since 2011) to mainstream funding allocations to local authorities.

Funding for Infrastructure, to get the country moving and support growth

UNISON believes we must end the Chancellor's laissez-faire approach to the economy and turn to state intervention to grow the economy. The funding of large scale infrastructure projects are key to future economic growth, however they are well beyond what can be currently financed from the public purse. For example, the first stage of High Speed 2 will cost around £21billion (in 2011 prices)[lxi], whilst constructing the 188 turbine Atlantic Array offshore wind farm would have cost over £3billion.[lxii] **UNISON believes the Government should immediately introduce a "Funding for Infrastructure" plan alongside the "Funding for Building" scheme outlined above.**

Funding new capital investment

These two programmes would be administered at arm's-length from political control by Ministers via a state investment bank. The bank would be run by an independent board, with all stakeholders represented (including the business community and trade unions) and with an explicit remit to generate long-term return based upon investment in businesses in strategic industrial sectors or, for example, investing in national transport projects and green power generation that will generate profit for the state through user charging.

This state investment bank would be funded by a programme of Strategic Quantitative Easing (SQE)[lxiii] that would see the electronic creation of new "debt free" money put in place by the Bank of England. A similar version of this has been advocated by the former Chairman of the Financial Services Authority, Lord Turner.[lxiv]

Both the previous Labour government and the current Coalition have supported the existing £375billion programme of QE undertaken by the Bank of England to stimulate GDP and rebalance the economy. However QE has only served to socialise the mistakes by the financial sector and recently the Chief Executive of Legal & General spoke about how QE had actually helped the rich at the expense of the less well off, saying that ""The less well off haven't done so well with QE, we've got to fix that by investing more, creating real jobs with real wage growth here in the UK."[lxv]

Under UNISON's proposal the Bank of England would create new electronic central bank reserves. These new reserves would be used to finance UK infrastructure either through a Bank of England Public Asset Purchase Facility or through providing finance to the state investment bank with the specific remit of investing in UK infrastructure development. Using SQE to target more strategic intervention directly will ultimately help create jobs, provide a boost to companies through the supply chain and provide a legacy for the nation.

Freeing up spending elsewhere

The introduction of a programme of SQE to fund capital investment in infrastructure projects will create spare capacity within the UK Budget by transferring responsibility for funding such projects from central government to a state investment bank supported by the Bank of England. Currently the Coalition Government is committed to £100billion of capital spending across the life of the next Parliament.[lxvi] By creating a minimum of £100billion via the SQE model this would amount to £20billion a year of spending that can be reallocated elsewhere to non-capital budgets in health, education, policing and local government.

This combining of fiscal and monetary policy has previously occurred under the Coalition Government when, in 2012/13, the Chancellor made the decision to use the profits of the existing Asset Purchase Facility (made from the interest paid by the Government on the bonds the APF had purchased) to reduce the deficit.[lxvii] Furthermore, the Funding for Lending Scheme involved the Bank of England utilising its powers to target a specific sector where there was a specific market failure that required intervention, with the taxpayer ultimately bearing the risk.[lxviii]

Properly funded local public services

UNISON is concerned by the Prime Ministers recent comments that public spending could be reduced in order to fund tax cuts.[lxix] The UK needs properly funded public services and tax cuts for the wealthiest that are funded by reductions in public spending will simply ensure everyone else is worse off. Such a move would only exacerbate the problems caused by the shortfall in public spending that this Government has created.

Local government services in particular will face crisis by 2020. The Local Government Association (LGA) has modelled the funding for councils and believes there is a multi-billion pound shortfall between the demand for services and the ability of councils to fund them.[lxx] By 2019-20 the LGA calculates this shortfall could be £16.5billion a year. This is partly a result of the increasing cost of social care, which it is estimated will account for almost half of all spending by councils by 2020. Most startling is that the LGA predicts it is councils in the poorest areas who will be worst hit, with the 50 most deprived councils in England dealing with potential funding gaps of up to 48%.[lxxi]

UNISON believes a fundamental review of local government finance should take place. This should explore the long-term options for either replacing or improving the Council Tax and Business Rates system and the re-distribution of existing local government resources on the basis of need. However, UNISON also recognises that it will not be possible to introduce any changes to those aspects of local government finance in enough time to address the crisis in local government funding and believes further short and medium term solutions are needed, possibly including:

- Generating additional funding specifically for social care by **removing the VAT exemption from private health care treatments to raise £2billion**[lxxii] and freeing up **an additional £1billion in savings from requiring the use of the most cost effective medicines in the NHS**[lxxiii]
- Levy an **Empty Property Tax** on long-term empty dwellings which could raise **£2.22billion**[lxxiv]
- The introduction of **derelict property and brownfield land taxes** as proposed by in the Lyons Inquiry into Local Government[lxxv]

- Powers for local authorities to introduce other **small local taxes, such as a tourism tax or environmental taxation,** in line with the recommendations within the London Finance Commission[lxxvi]
- The introduction of **locally set fees and charges to allow councils to fully recover the costs of services they provide**, such as planning applications, land searches and licensing fees

Make tax fair

UNISON recognises that boosting spending on public services, assisting businesses with the introduction of a living wage and ensuring a decent pay award in the public sector will require additional public spending at a time when it is sensible to seek to minimise the deficit and address high levels of national debt. UNISON believes that much of the additional financial burden can be found by making tax fair and tackling the large scale avoidance that has been identified over the last 12 months.

It is clear that there is a problem with international taxation systems, the use of tax havens and loopholes within our own domestic system that result in many corporations and extremely wealthy individuals cheating the system whilst the rest of us burden the cost of their mistakes. For example:

- HMRC have estimated that the UK tax gap (the amount of tax that goes uncollected) has widened to **£32billion**[lxxvii]
- Tax Justice Network estimate that around **£90billion** further could be raised each year by tackling tax evasion by individuals, companies and other organisations[lxxviii]
- Whilst last year, the Ernst & Young Item Club estimated **£23billion** could be raised every year by introducing a Major Financial Transactions Tax (or "Robin Hood Tax") on UK financial institutions[lxxix]

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