TUC

Changing the world of work for good

Time for Change – the end of austerity

Introduction

A decade of austerity has taken its toll. Public services are at breaking point. Our public service workforce is facing a crisis of morale, recruitment and retention. Cuts to public services are impacting hardest on our most vulnerable communities and intensifying inequality. And our economy continues to lag behind our competitors, with low levels of investment and prolonged weakness in aggregate demand exacerbated by public spending cuts.

Persistent low growth since 2010 has provided lower than expected tax receipts leading to a significantly lower pace of deficit reduction than the government planned for and no reduction in the public debt ratio.

And while the cyclically adjusted current budget deficit is expected to move into surplus, this does not mean the concerns regarding public finances are resolved. Public service cuts are currently expected to continue until 2022-23, and this is likely to further harm the economy not least given the likelihood of rate rises and the approach of Brexit.

Starting with the Spring Statement in 2018 and looking ahead at the next Spending Review period, the government must signal a change of direction. If the UK is to equip itself to meet the challenges and opportunities of Brexit and a new role in the global economy, we need the government to invest in our economy, our communities and our public services.

This report sets out the case for a change of direction. We make the case for investing in our public services to address the growing crisis affecting those services and the workers that provide them. We set out how that investment in public services is good for our economy. And we argue that through growing the economy and making different fiscal choices, we can afford this investment.

Executive Summary

Public services have been subjected to cuts for almost a decade. This policy has stifled growth and caused serious harm to the services and those who rely upon them. From hospital waiting times, to police and fire and rescue services, care provision and school budgets the public sector has been stretched to breaking point by government cutbacks.

In response we are calling for a radical rethink in the way the government conceives of and funds our public services – they are long-term investments in our society and our economy not a drain on the balance sheet.

The UK government spends a low amount per capita compared to similar economies. The only countries within the EU15 with a lower per capita spend than us are Portugal, Italy, Greece and Spain. The UK has also made sharper reductions to public spending than most of our competitors.

If we compare average per capita expenditure from 2000 to 2008 with average expenditure between 2008 and 2016 we can see that the UK cut its spending by a greater amount than even Italy. The UK cut its average annual spending growth by 5.4 percentage points, Italy reduced its spend by 4.6ppts. Meanwhile Germany actively increased its spending by 1.9ppts.

Public sector workers have lost thousands of pounds from the real value of their wages since 2010. Many struggle to manage household expenses on their current wage. This has caused particular damage to different parts of the country where public sector pay restrictions have taken significant spending power out of local economies, exacerbating the economic impact on regions that that were also damaged by public sector job losses. By 2016 public sector pay caps had removed £1.8bn of spending power from the North East economy, £3bn each from West and East Midlands, and £9.1bn from London. At the same time, this has not stemmed the loss of public sector jobs across the UK, with over 400k job losses since 2010. These losses have not been evenly distributed, between 2010 and 2016 they were concentrated largely in the north and midlands.

Public sector employment change by region 2010 - 2016[1]

Region	Public sector jobs 2010 (000s)	Public sector jobs 2016 (000s)	Loss of jobs 2010 - 2016 (000s)	Negative growth (%)
North East	316	243	73	23
North West	757	643	114	15
Yorks and Humber	595	489	106	18
East Midlands	362	303	59	16
West Midlands	562	441	121	22
East	464	461	3	1
London	848	756	92	11
South East	705	617	88	12
South West	508	420	88	17

[1] TUC *Public sector pay restraint in England,* January 2017

Increasing investment in public services can stimulate growth, increase tax revenue, reduce in work benefits and, as such, help to pay for itself. This will increase demand by putting more spending power in the economy. Previous estimates of the impact of raising public spending on the economy were distorted by an unrealistically small estimate of the multiplier effect. We believe the multiplier on government spending is likely closer to 1.5 or above.

We believe investment in public services would improve productivity. Spending on health and education have both been shown to support a more productive economy.

Public procurement provides a powerful tool for directing investment in to local communities in a way that promotes economic growth. The Preston model provides clear example of this.

The Women's Budget Group examined the costs and benefits of providing 40 hours a week of childcare to pre-school aged children. They found that though the upfront costs are high, the scheme is largely self-funding and would provide significant economic benefits.

The government needs to change direction. Public services need a new financial settlement, with real terms per capita increases in funding across the public sector. We need a new approach, with funding based on a proper assessment of need and public service performance.

This can be afforded through growing our economy, taking advantage of the existing headroom in the current fiscal envelope and making different fiscal choices such as cancelling unproductive tax cuts.

Recommendations

The Government should invest in our public services and our economy, reversing cuts and improving public sector pay.

Reverse cuts

We need a new financial settlement for our public services. We need to see real terms increases across the public sector that enables providers to meet on-going demand, deliver world class services and address the significant cuts to resources since 2010. In the medium term, UK spending on public services per capita should be in line with our competitors in Europe, like France, Germany.

We are calling for a new financial settlement to be put in place. We need to see real terms increases across the public sector that enable providers to meet on-going demand and address the significant cuts to resources experienced since 2010.

Provide fair pay for public sector workers

The TUC is clear that the public sector pay cap must end now. We have set out five key tests that the government would need to meet to ensure fair pay for public service workers:

- Scrap the pay cap for all public service workers.
- Provide the freedom for employers and unions to determine appropriate pay awards for each sector either through collective bargaining or genuinely independent pay review bodies.
- Provide the new money to fund pay awards, without adding pressure to existing over-stretched budgets.
- Ensure new pay awards provide an element of catch up, recognising the loss of earnings over the last seven years.
- Eradicate poverty pay by ensuring that no public service worker earns less than the real Living Wage.

Review spending decisions

In line with recommendations from the Institute for Government, the government should develop a comprehensive performance tracker to monitor public services – setting out its assumptions on demand, efficiency and quality. Levels of funding should be set according to actual need identified in this process.

This tracker and the assumptions that derive from this process should be made available to public and parliamentary scrutiny on a regular basis.

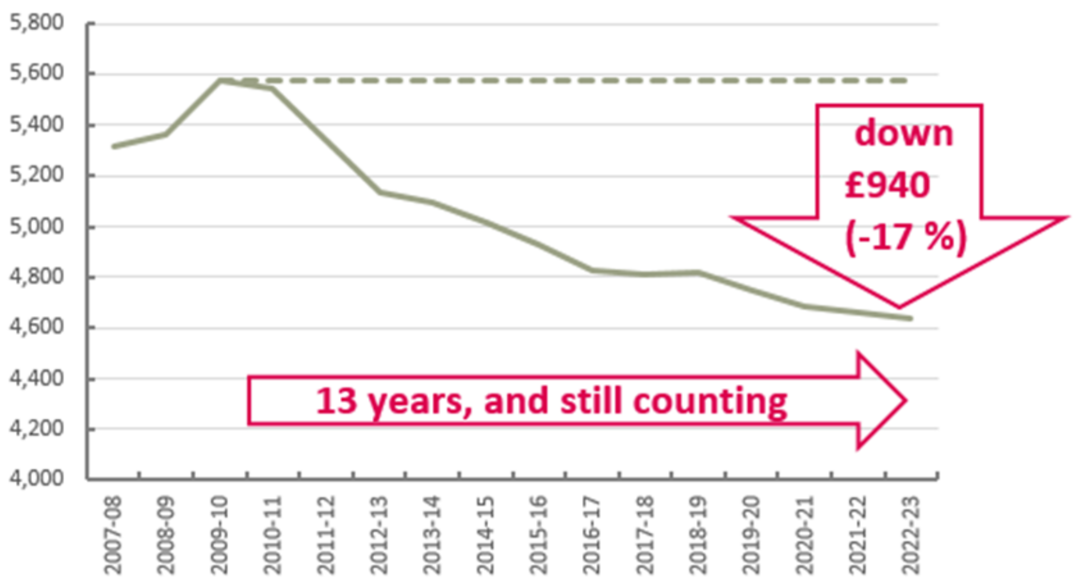
All assumptions underlying public spending decisions should be subjected to independent scrutiny.

What has happened to public spending since 2010?

Since 2010 Conservative-led governments have consistently reduced spending on public services. In the first year of the crash, as GDP fell spending as a proportion of national income rose significantly, however in subsequent years, even as GDP growth remained depressed the proportion of national income spent on public services continued to decline.

New analysis of public spending per capita (the measure of government spending on public sector workers pay, goods and services, excluding transfers such as pensions and benefit payments) indicates that by 2022/23 departmental spending per capita has reduced by approximately 17 per cent (or £940 per capita) compared to 2010.

Departmental spending per capita, real terms (16-17 prices)



Source: OBR, ONS and TUC calculations

There is nothing inevitable about this process. Comparing the UK's record on public spending with other similar economies illustrates this point, as we contrast the UK record with countries with similar economies in the EU15.

The same measure used above can be used for an international comparison. It provides further evidence that the UK lags behind many of our competitors in the EU15.

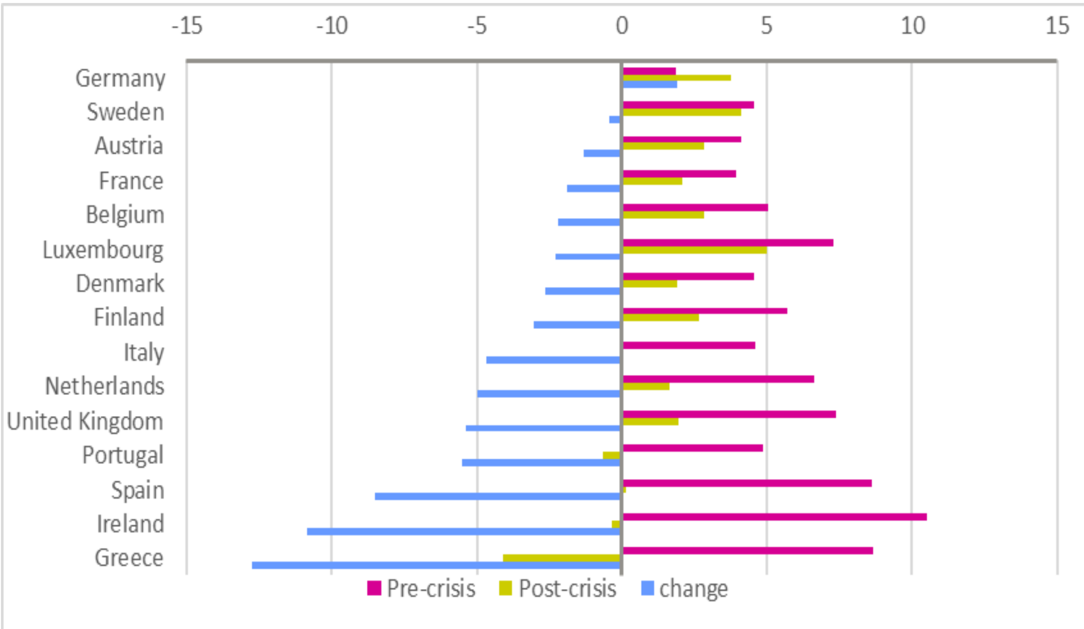
The average spend across the EU 15 was £6220 per capita. Countries to which we would normally compare ourselves like France or Germany spent £7090 per capita and £6760 respectively, while Sweden spent £9050 per capita in 2016. Of advanced European economies only Portugal (£3850), Italy (£5150), Greece (£3670) and Spain (£4810) ranked below the UK among the EU 15. [2] All of these countries were forced to carry out severe fiscal retrenchment at the hands of the International Monetary Fund (IMF) European

[2] Measure based on OECD Government General Final Consumption by total population, using Purchase Power Parity (PPP) converted to Sterling

Commission and European Central Bank. The UK's austerity policies were intended to protect us from such severity, but in practice we inflicted similar cuts voluntarily.

The same figures cannot easily be used for comparisons over time, which are best done using spending totals in cash terms rather than per head figures. If we compare average growth from 2000 to 2008 with average expenditure between 2008 and 2016 we can see that the UK cut its spending by a greater amount than even Italy. The UK cut its average annual spending growth by 5.4 percentage points, Italy reduced its spend by 4.6ppts. Meanwhile Germany actively increased its spending by 1.9ppts.[3]

EU 15 General government final consumption expenditure growth, pre-crisis and post crisis averages (%) and change (ppts)



[3] Measure based on comparison OECD Government General Final Consumption average spend 2000 – 2008, 2008 – 2016 and change between two.

The impact of austerity

Public servants have now suffered almost a decade of pay restraint, and there is a clear impact on public sector recruitment, retention and morale. The loss of public sector earnings also exacerbates regional inequalities. For example, the loss of public sector earnings between 2010 and 2016 represents 3.6 per cent of GVA in the North East, compared to just 1.2 per cent in the South East.[4]

But public services more generally are also under pressure. The impact of austerity across the health, education, social care and prison sectors is increasingly clear, with services failing to deliver key targets or to meet need.

Without action, these pressures are likely to intensify, leaving the country with struggling public services, at a time when workers are already feeling under economic pressure.

The public sector pay cap must be scrapped across the board. But public services need wider investment too.

In this section, we look at the impact that austerity has had on public service workers, the services they provide, the wider economy and the impact on public finances.

The impact on public service workers

In 2011/12, the government imposed a two year pay freeze which was followed by a 1 per cent pay cap on the public sector pay bill until 2015/16. The one per cent cap was renewed for a further four years in the 2015 Spending Review.

Almost a decade of pay restraint has had a significant impact on the standard of living of public sector workers. The table below shows real terms loss of earnings for a variety of public sector occupations. Mapping pay growth at the top of the relevant pay band for each of the occupations against both CPI and RPI inflation, we are able to show how much less each occupation is earning in 2017 compared to 2010 – using today's prices. Public sector workers across a wide range of occupations have seen their real levels of pay cut by thousands of pounds.

[4] TUC analysis.

Real terms pay cuts by public sector worker, 2010-2017[5]

Occupation	Pay in 2017 (£)	Pay in 2010 at CPI in 2016 prices (£)	Nominal real terms pay cut at CPI (£)	Pay in 2010 at RPI in 2016 prices (£)	Nominal real terms pay cut at RPI (£)
NHS Paramedic	35,577	39,435	3,858	41,717	6,140
Teacher	33,160	35,574	2,414	37,633	4,473
Prison Officer	29,219	33,038	3,819	34,930	5,731
Lifeguard	22,658	24,821	2,163	26,257	3,599
NHS Specialist Dietician	35,577	39,435	3,858	41,717	6,140
Firefighter	29,638	32,526	2,888	34,408	4,770
Nuclear Maintenance Engineer	33,633	36,224	2,591	38,320	4,687
Crown Prosecutor	58,679	63,083	4,404	66,735	8,056

This is leading to a considerable squeeze on the living standards of public service workers and a decline in workforce morale as a result.

A significant majority of respondents to union member surveys are feeling the pinch. In the NHS, 63 per cent of UNISON members and 79 per cent of Unite members that responded, said they felt worse off than they did 12 months ago.[6] Many of the 21,000 health service members responding to a UNISON pay survey of October 2016 stated that increased food, transport, utility and housing costs were having a serious impact on their cost of living.

Alarmingly, two thirds of staff had used financial products or made a major change to their standards of living over the last year. Seventy-three per cent of those had asked for financial assistance from family or friends; 20 per cent had used a money advice service, 17 per cent had pawned items, 16 per cent had used payday loans and just over 200 respondents had used a food bank in the last year.[7]

Discussions of public sector pay often suggest that public servants can afford to take a pay cut, because at times their pay has increased faster than in the private sector. However, analysis by the TUC shows that real terms pay growth in the public sector is set to decline significantly against real wage growth in the wider economy, according to OBR forecasts at the time of the 2016 Autumn Statement. The chart below shows that public sector pay will have declined by 15 per cent from its pre-crisis peak, lagging behind growth in the wider economy from 2016 onwards.

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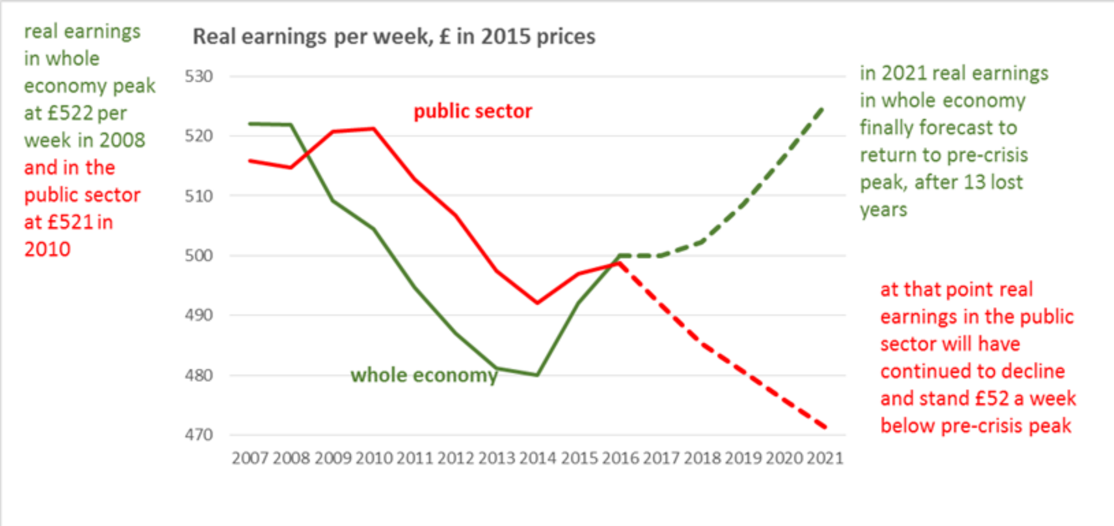
[5] TUC analysis, July 2017
[6] Staff side submission to NHS Pay Review Body 2017/18
[7] Annual survey of health staff, UNISON, October 2016

Public sector v whole economy real earnings growth 2007 – 2021[8]



In their analysis of public sector pay in September 2017, the IFS argue that:

> continuing to increase public sector pay scales by only 1 per cent per year in 2018–19 and 2019–20 would likely lead to growth in public pay falling significantly behind growth in private sector pay, exacerbating the emerging recruitment, retention and motivation problems in the public sector. Increasing public sector pay in line with prices or private sector earnings would likely mitigate these problems.[9]

The impact on public services

Public service providers from government departments to schools, local authorities, NHS trusts and prisons are finding it increasingly hard to deliver effective, safe and sustainable services. As funding fails to keep pace with demand, a snap shot of different public service sectors shows a consistent picture of service cuts and rationing, cash-driven closures and reconfigurations, plummeting staff morale, increasing recruitment and retention problems and a growing funding gap.

Funding is being used to plug gaps in budgets rather than invest in the transformative change we need to deliver integrated, joined up public services that are able to meet the demographic and technological challenges we face.

Below we look briefly at evidence of pressures in local government, social care, the NHS, education, prisons, and the civil service.

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[8] TUC analysis of ONS and OBR Average Weekly Earnings estimates
[9] Public sector pay: still time for restraint?, IFS, September 2017

Local government

Local authorities have been particularly hard hit by spending cuts, with English local authority spending reduced by 26 per cent since 2009/10.[10] Local authority funding has fallen by 49 per cent in real terms since 2010/11, some 11 per cent of single tier and county councils would exhaust their reserves in less than three years if they continued to use them at the rate they did in 2016/17.[11]

Current spending by UK local government is now below the previous post-1979 low point. By 2020 current and capital spending combined as a proportion of GDP will be lower than at any time since 1948.[12]

This burden has much been greater on more grant-dependent authorities, those tending to serve more deprived communities, with average cuts of 33 per cent for the tenth most grant-reliant councils compared to just 9 per cent for the tenth least reliant. [13]

Not all local authority services have been cut equally. Spending on planning and development, housing, and culture and related services has been cut by more than 40 per cent, on average, while spending on social services has been cut by around 10 per cent, on average, in England.[14]

This has led to considerable cuts to 'neighbourhood services', defined by the Association of Public Service Excellence (APSE) as highways and transport, cultural services, environmental services and regulatory and planning services. These are the services that collectively enhance neighbourhoods, building well-being and cohesion and positive environmental outcomes, the key components of resilient communities that can attract investment and support economic growth.

Yet these neighbourhood services have seen spending cuts of up to 40 per cent, with severe outcomes in the most deprived authorities. APSE report that in the most deprived fifth of local authorities support for bus services is down by two thirds, spending on crime reduction, safety and CCTV down by a half, road safety and school crossings down by a third and food and water safety down by a quarter. These cuts are clearly being felt by the general public. Polling by Survation found that 42 per cent of the public perceived a decline in local services in their area, compared to just 16 per cent who said that services had improved.[15]

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[10] British local government finance in the 2010s, IFS, October 2016 – the figure excludes specific education grants. The 26 per cent figure is the net cut, taking into account locally raised revenue through council tax, business rate retention and other charges. Cuts to central government funding of local authorities has been 38 per cent in this period.
[11] Financial sustainability of local authorities 2018, NAO, March 2018
[12] Sustainable local government finance and liveable local areas, APSE, March 2016
[13] Ibid
[14] British local government finance in the 2010s, IFS, October 2016
[15] Neighbourhood Services Poll, Survation, November 2016

Social care

While social care has seen less severe cuts than other local government services, the funding gap continues to grow as spending fails to keep pace with demand. Despite the £2bn additional funding provided by the budget in March 2017 and the increased care precept on council tax, the Local Government Association points to a £2.3bn funding gap in adult social care by 2019/20.[16]

As such, the Association of Directors of Adult Social Services (ADASS) reports that in 2017/18 English local authorities will making savings of a further £824m in adult care budgets, meaning that they will be spending £6bn less per year than in 2010. Funding is failing to keep pace with 2.8 per cent growth in demand per year and increasing costs. Councils are reporting care providers handing back contracts and two thirds appear to be using funding set aside to specifically ease discharge pressures in NHS trusts to plug funding gaps.[17]

This is having a profound effect on older people and their families, with the proportion of over 65s receiving state funded care falling from 15.3 per cent in 2005/06 to just 9.2 per cent in 2013/14.[18]

Moreover, as Age UK report and the table below shows, "services that have experienced particularly deep cuts are those most associated with prevention, support for independent living and support for informal carers"[19], exactly the sort of areas that require the most support if the health and social care system is to transform itself in line with the stated aims of the government and NHS England's Five Year Forward View.

The impact that this is having on older people in our communities is a national scandal. Age UK's analysis shows that there are now nearly 1.2 million people over 65 who don't receive the help they need with essential activities. This represents a 48 per cent increase since 2010. Nearly 1 in 8 older people now live with some level of unmet need with vital everyday tasks.[20]

The picture is also stark for children in need. As child poverty reaches its highest level since 2010 – with around 30 per cent of children in relative poverty[21] – demands on children's services are increasing. The Association of Directors of Children's Services (ADCS) report that initial contacts to children's social care have increased 53 per cent since 2007/08, child protection plans have increased by 78 per cent and the number of children taken into care has risen by over a third.[22]

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[16] Local government finance and arrangements beyond 2020, LGA, July 2017 – the £2.3bn adult social care gap includes £1.3bn estimated to be required to stabilise the adult social care provider market
[17] Social care cuts to continue in spite of £1bn boost English councils say, The Guardian, 28 June 2017
[18] Health and care of older people in England 2017, Age UK, February 2017
[19] Ibid
[20] Health and care of older people in England 2017, Age UK, February 2017
[21] Households below average income, DWP, March 2017
[22] Safeguarding pressures, ADCS, December 2016

The LGA report a funding gap of £2bn in children's services by 2019/20[23] and a survey by MPs found that 89 per cent of directors of children's services were finding it increasingly difficult to fulfil their statutory duties towards vulnerable children.[24]

In July 2017 the Local Government Association warned that by 2020 child services will face a funding gap of £2bn.[25] Demand for access to child and adolescent mental health services (CAMHS) has accelerated since 2010. The number of hospital admissions of people aged 17 and under for self-harm increased by more than 50 per cent between 2009/10 and 2014/15. At the same time funding for early intervention and CAMHS has seen sustained pressure. The value of the 'early intervention' allocation received by local authorities fell from £3.2 billion per year in 2010/11 to £1.4 billion in 2015/16, a reduction of 55 per cent.[26]

National Health Service

In their manifesto for the 2017 general election, the Conservative Party committed to increase spending by a minimum of £8bn in real terms over the next five years, delivering an increase in real funding per capita of population every year of the parliament.

While this was a necessary change of direction from existing plans set out in the 2015 spending review, which TUC research showed resulted in a real terms reduction in funding per capita from 2018 to 2020[27] , the revised spending plans still leave a funding gap of £21bn by the end the end of this parliament.

Analysis by the Health Foundation compares government spending plans set out in the manifesto with spending pressures of 4 per cent per year estimated by the Office for Budget Responsibility.[28] The following table demonstrates the funding gap that results.

Year	Conservative spending plans (2017/18 prices)	OBR estimated spending pressures (2017/18 prices)	Funding gap
2017/18	£124bn	£124bn	-
2020/21	£128bn	£141bn	£13bn
2022/23	£132bn	£153bn	£21bn

This represents a diminishing proportion of the nation's wealth being spent on health care over the next five years[29], despite increasing demand from a growing and ageing

[23] Local government finance and arrangements beyond 2020, LGA, July 2017
[24] MPs slam funding crisis and 'postcode lottery' of children's services, The Guardian, March 2017
[25] LGA, Local government finance and arrangements beyond 2020, July 2017
[26] IPPR https://www.ippr.org/files/publications/pdf/education-education-mental-health_summary_May2016.pdf
[27] Real NHS spending to fall per person, Daily Mirror, 5 March 2017
[28] General Election 2017: what the manifestos might mean for health care funding, Health Foundation, May 2017
[29] General Election 2017: what the manifestos might mean for health care funding, Health Foundation, May 2017

population with increasing, complex needs and NHS funding featuring as one of the most important issues identified by voters in the general election.

The Department for Health and NHS England continue to expect this funding gap to be made up through efficiency savings delivered through integration and new models of care set out in Sustainability and Transformation Partnerships. But few share that optimism. While there is much to welcome in the objectives and intentions of STPs, the plans remain opaque and overshadowed by the need to find heroic financial savings in the context of the longest squeeze in funding in the history of the NHS.

Chris Hopson, Chief Executive of NHS Providers says that

> *"trusts will work more efficiently and continue to reduce unwarranted variation in what they do. But even if they manage an ambitious 2 per cent efficiency gain there will still be a yawning gap just to keep services ticking over as they are."* [30]

These pressures will impact even further on safety and standards of care.

Feedback from those working in the service suggests that this is a uniquely difficult time for both health and social care. In November 2016, a joint TUC and NHS Support Federation report NHS Safety: Warnings from All Sides[31] found that throughout the last 12 months there had been an unprecedented wave of organisations flagging up significant concerns about the growing crisis in the NHS. Fifteen different groups issued reports in 2016 sounding the alarm, including Royal Colleges, trade unions, NHS providers, health experts and the government's own Mental Health Taskforce.

The report carried findings from a YouGov poll of 1,000 NHS workers, commissioned by the TUC, which found that:

- 7 in 10 (69 per cent) NHS workers said that reductions in staffing and resources are putting patient care at risk.
- 9 in 10 (88 per cent) NHS staff believe the health service is under more pressure now than at any time in their working lives.
- Three-quarters (77 per cent) of NHS workers think resources and staffing in the NHS have gone down in the past five years.
- Two-thirds (60 per cent) of NHS staff say their employer has cut patient services to make financial savings.

In their November 2017 Quarterly Monitoring Report, the Kings Fund confirms the deteriorating performance of NHS trusts across a range of performance metrics. They report that:

- 51 per cent of finance directors and 59 per cent of CCG finance leads felt that patient care has worsened in their local area in the past year.

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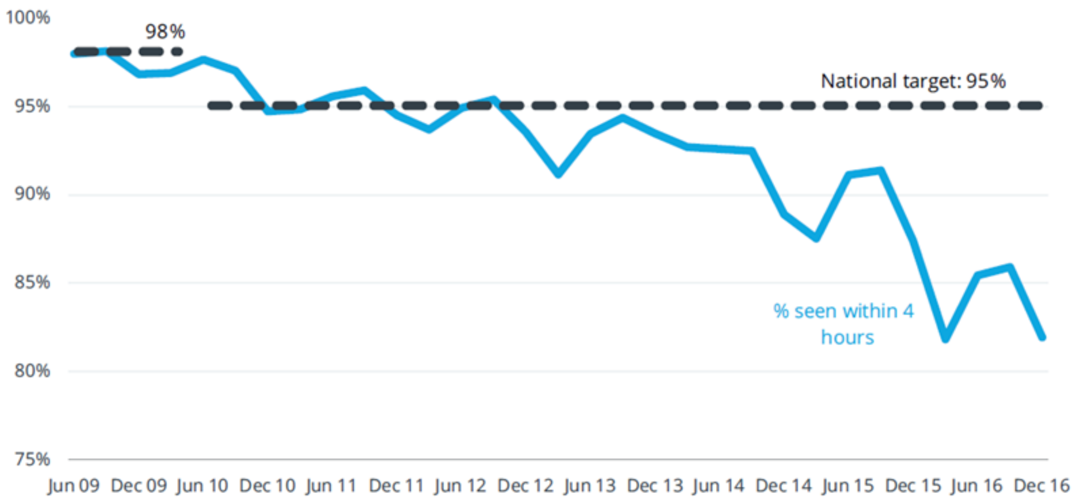
[30] Mission impossible: the NHS can't deliver in 2017/18, NHS Providers, March 2017
[31] NHS Safety: Warning from all sides, TUC and NHS Support Federation, November 2016

- In the first half of 2017/18, the proportion of patients waiting more than four hours from arrival to discharge, admission or transfer in all A&E departments was almost 10 per cent – the target of treating 95 per cent of patients within four hours has not been met for three years.
- Ambulance call out targets have been missed for 26 consecutive months.
- The proportion of patients waiting more than 18 weeks to begin their treatment rose to more than 10 per cent, a target has been breached for 18 months now.
- In August 2017, 5,809 patients were delayed in hospitals – an increase of almost 50 per cent since 2011.[32]

Percentage of emergency admissions seen, transferred or discharged within four hours, 2009–2016[33]



Education

Despite the government's claims of record funding levels for schools, since 2015 funding has failed to keep pace with inflation, pupil numbers and additional cost pressures facing schools. This has resulted in large gaps in school budgets that have forced schools to increase class sizes, restrict curriculum choice, cut back on essential resources, support for vulnerable and high needs pupils and lose teaching and support staff.

Under spending plans set out in the 2015 spending review, per pupil funding was set to decline by 8 per cent between 2015 and 2020. In July 2017, the Secretary of State announced further funding of £1.3bn for schools, to be taken from other parts of the existing Department for Education budget.

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[32] Quarterly Monitoring Report 24, Kings Fund, November 2017
[33] Performance Tracker, Institute for Government, Spring 2017

While this had the effect of freezing per pupil funding from 2017 to 2019, the Institute for Fiscal Studies points out that this will still entail a real terms reduction of 4.6 per cent in school funding from 2015 to 2020 due to inflation and rising pupil numbers.[34] This means that plans to provide a fairer and more transparent funding system through the National Funding Formula, announced in September, will not be able to provide sufficient funding to plug the funding gap in the overall school's budget. Nor will it make up for real terms funding cuts of over £2bn inflicted on schools since 2015.

In addition to real terms reductions in schools funding we are also seeing up to £800m cut from the Education Services Grant, which funds school improvement, management of school buildings and tackling non-attendance, between 2015 and 2020. Over a third was cut from capital spending on schools and colleges since 2010/11, and a further eight per cent real terms reduction in 16-19 funding from 2015/16 to 2019/20.[35]

These funding pressures are having very real consequences for children's education.

In March 2017 the NUT and ATL surveyed their members on funding cuts in their schools, as already experienced and expected. The findings showed:

- 76 per cent of respondents said their school had already experienced a budget cut for 2016-17. Only 4 per cent were able to say that their school's budget had increased - in almost all cases due to rising pupil numbers.
- Half of all respondents reported that class sizes had risen since last year.
- Half reported that teaching posts had already been cut and almost two thirds reported that classroom support staff posts had been cut – with further staffing cuts expected next year.
- Almost three quarters reported cuts in spending on books and equipment.
- Almost half reported cuts in special educational needs provision.
- One in six reported that their school had been driven to ask parents for financial contributions to help with funding.

Research from February 2018 shows that staff numbers in secondary schools have fallen by 15,000 between 2014/15 and 2016/17 despite having 4,500 more pupils to teach. This equates to an average loss of 5.5 staff members in each school since 2015; in practical terms this means 2.4 fewer classroom teachers, 1.6 fewer teaching assistants and 1.5 fewer support staff.[36]

In 2017, a survey of school catering staff found that more than four in ten respondents complained that they don't have enough time to complete their work within their contracted hours. A fifth of respondents said they earn the national minimum wage, and the same proportion of kitchen staff have a second job to make ends meet. Just over forty

[34] Greening's funding pledge amounts to 'real-terms cut over four years', TES, 18 July 2017
[35] https://www.teachers.org.uk/edufacts/education-funding
[36] School workforce cuts, National Education Union, February 2018

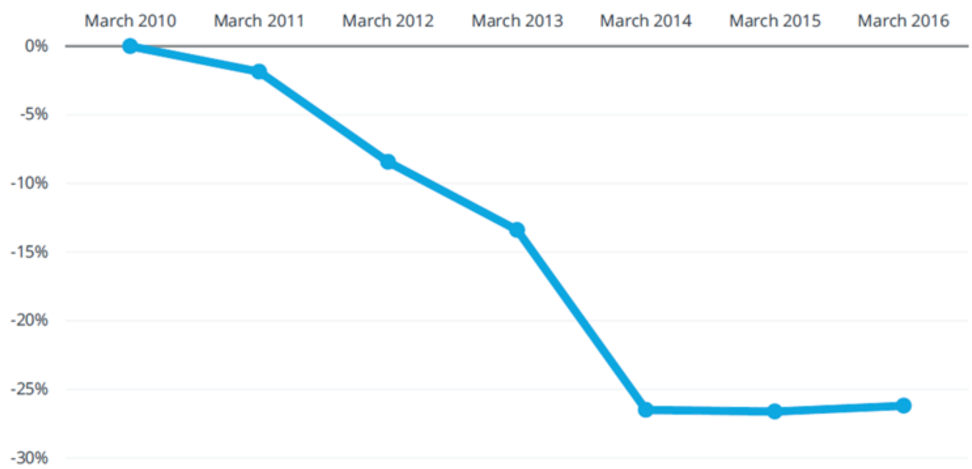
per cent of kitchen staff are in debt (excluding mortgages), whilst twenty-one per cent have had to borrow from friends or family over the past two years.[37]

Prisons

The prison service has seen spending cuts of 21 per cent from 2009/10 to 2015/16. While the prison population has remained fairly static - remaining between 106 and 109 per cent of its capacity or 'certified normal accommodation' in that period – there has been a mix of more serious groups of offenders being housed together, while the number of prison officers has been drastically reduced.[38]

Between 2010 and 2014, the total number of core operational staff in public sector prisons – band 3 prison officers, band 4 officer specialists and supervising officers, and band 5 custodial managers – decreased by 27 per cent.[39]

Percentage change in the total number of core operational staff 2010 – 2016[40]



During this period, prison violence has escalated at an alarming rate. The Institute for Government paints a disturbing picture:

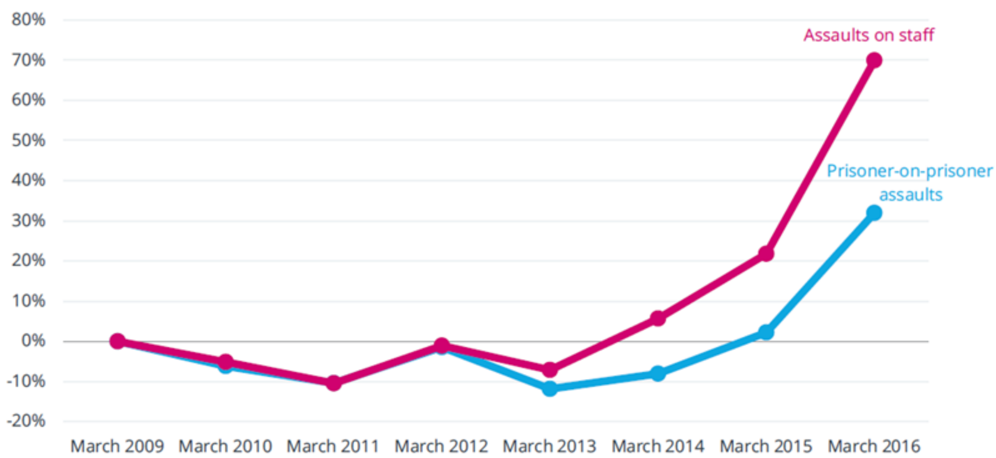
> *"In the 12 months to March 2016, there were 22,195 assaults in prisons – an increase of 40.7 per cent since 2009. During this period, the number of prisoner-on-prisoner assaults rose by nearly one-third from 12,674 to 16,724. However, the sharpest rise was seen in the number of prisoners assaulting staff, which increased by around 70 per cent from 3,191 to 5,423. Of these, assaults designated 'serious' more than doubled, from 282 to 646, with some managers having been taken hostage in their own prisons.*

[37] Unison, *Schools catering staff survey 2017*, https://www.unison.org.uk/content/uploads/2018/01/Schools-Catering-staff-report.pdf
[38] Performance Tracker, Institute for Government, Spring 2017
[39] Performance Tracker, Institute for Government, Spring 2017
[40] Ibid

In extreme cases, order has completely broken down – as the riots at HMP Bedford and HMP Moorland in November 2016 demonstrate."41

In 2017 the prison service recorded the highest level of self-harm ever recorded (41,103 incidents). Rates of self-inflicted death in the prison service have more than doubled in nine years to 2017. At the same time assaults on staff increased 143 per cent in four years.[42]

Percentage change in the number of prison assaults, from year ending 31 March 2009[43]



Despite an emergency intervention by the Chancellor in the 2016 Autumn Statement to provide funding for an additional 2,500 prison officers by 2018, this still represents only half the loss of officers in the preceding 5 years and the situation is likely to take some time to turn around.

Probation

Cuts of over 40 per cent to the Ministry of Justice budget between 2010/11 and 2019/20 are taking their toll across the criminal justice system. Probation staff are facing a toxic combination of cuts to budgets and a failed outsourcing of offender rehabilitation. There is a growing recruitment and retention crisis in both the National Probation Service and within many Community Rehabilitation Companies that is leading to staff shortages, excessive and unmanageable workloads and increased workplace stress. Staff are reporting an inability to carry out tasks effectively and the quality of services is suffering as a result.[44]

[41] Ibid

[42] Prison Reform Trust, *Bromley Briefings Prison Factfile, Autumn 2017,* January 2018

[43] Performance Tracker, Institute for Government, Spring 2017

[44] Employment conditions and working relations in probation, Kirton and Guillame, September 2015

Police

Cuts to the police force have been a subject of heated discussion since they became a key issue in the 2017 snap election. Home office figures reveal sharp drops in staffing, and surveys of police staff indicate that these cuts are beginning to seriously impact on the forces' ability to carry out its duties. In March 2010 there were 244,497 full time equivalent (FTE) policing staff in England and Wales. That included 143,734 police officers. In 2017 there were 198,684 FTE police staff including only 124,066 police officers.[45] In 2017, the Police Federation reported that 39 per cent of officers reported high job stress; 78 per cent reported that there were insufficient officers to do the job properly, 84 per cent reported unpaid overtime and 67 per cent reported an inability to meet conflicting demands on their time.[46]

Fire and Rescue

The Fire and Rescue service in the UK has suffered similarly stark reductions in staffing capacity. In March 2010 there were 43,143 firefighters (wholetime, and retained control) in England, by 2017 this had dropped to 34,097, a reduction of 20 per cent.[47]

Civil Service

There were 384,950 civil servants in September 2016 – a reduction of 18.5 per cent since 2010. The Institute for Government contends that the civil service continues to perform "reasonably well" with departments functioning, ministers continuing to receive policy advice, legislation passed, and information requests answered. "The business of Whitehall" they state, "continues even after reductions to staff numbers, reductions to budgets and – in some cases – major changes to departments and how they do it".[48]

While this is testament to the professionalism and dedication of civil service staff, it has come at a price as fewer civil servants are left with greater workloads. The FDA's Working Hours Survey showed that 91 per cent of members work over their contracted hours a week - with over a quarter working a full day's unpaid overtime each week – more than two thirds of members had worked while on sick or annual leave and half of those surveyed were unable to take their full annual leave entitlement in the past 12 months.[49]

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[45] Home Office bulletin https://www.gov.uk/government/collections/police-workforce-england-and-wales).
[46] Police Federation http://www.polfed.org/documents/PFEW%20Inferential%20Results%20Report-27-12-17-V1.0%20(002).pdf
[47] Home Office, FIRE1101: Staff in post employed by fire and rescue authorities by headcount and full time equivalent by role and fire and rescue authority https://www.gov.uk/government/statistical-data-sets/fire-statistics-data-tables#workforce-and-workforce-diversity
[48] Ibid
[49] Working Hours Survey, FDA, 2017

This over-stretched workforce is now expected to deliver the hugely complex and resource-intensive task of Brexit. The Public Accounts and Constitutional Affairs Committee has pressed the government:

> *"to ensure that the civil service is appropriately skilled, resourced and focused to meet the significant challenges that it faces both over the course of the negotiations and following the UK's exit from the European Union."*[50]

Others have called for a significant increase in civil service staffing of up to 30,000 additional staff.[51]

But the civil service cuts go beyond Whitehall – with major impacts on capacity and access for the public as offices are closed down across the country. The National Audit Office has criticised HMRC's plans to move from 170 offices to 13 regional centres as unrealistic and posing too great a risk to its service delivery.[52] MPs and unions have condemned plans to close 1 in 10 job centres by 2018[53] , as well as the closure of over 80 courts across the country.

Overall public sector employment

Using data from the Labour Force Survey we can calculate the rate at which public sector employment has declined since the coalition government took power in 2010. On April 1 2010 total public sector employment stood at 5.64 million. By September 2017 it was down to 5.28 million. Over the period, total public sector employment fell by 416,000, taking account of reclassifications such as the privatisation of royal mail and further education colleges.[54]

Including civilian staff, there were a total 45,000 jobs lost from policing since March 2010, accounting for 15 per cent of total employment in that sector. As we face unprecedented logistical and legislative challenges in the wake of the result of the vote for Brexit, it is sobering to reflect that by 2017, 99,000 civil services jobs were lost, accounting for almost 20 per cent of civil service employment. In education 153,000 jobs were lost, or nine per cent of the total.[55] The latest data from the government indicates that an average of 5.5 staff members have been lost from every secondary school in the country since 2015.[56]

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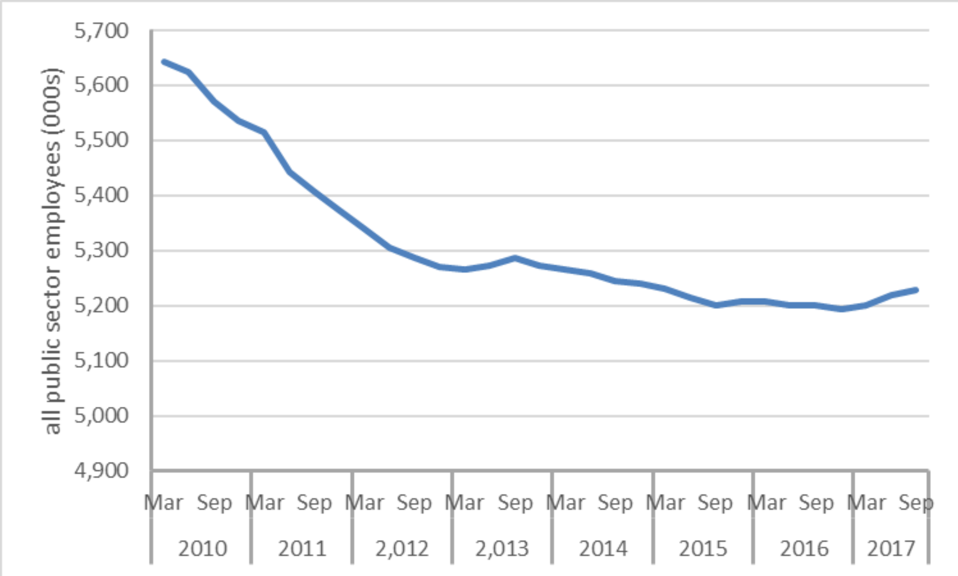
[50] The work of the civil service, key themes and preliminary findings, PCAC, April 2017
[51] Brexit: former civil service head Lord Kerslake calls for independent review of civil service capacity, Civil Service World, November 2016
[52] Managing the HMRC Estate, NAO, January 2017
[53] MPs: jobcentre closures are attack on vulnerable, PCS, January 2017
[54] ONS Public Sector Employment, UK: September 2017
[55] Ibid
[56] NEU *Schools forced to cut teachers and teaching assistant posts to make ends meet,* https://neu.org.uk/latest/schools-forced-cut-teachers-and-teaching-assistants-posts-make-ends-meet, February 2018

Total public sector employment (excluding reclassification)[57]



Source: ONS

A strategic approach to spending

The Institute for Government is right to point to a growing disconnect between Treasury spending decisions and public service performance. As it points out, at the time of the 2015 Spending Review "significant demand and quality pressures – particularly in hospitals, adult social care and prisons – were already clearly evident … but there is little sign that the settlements handed to departments were fundamentally driven by an assessment of how services had fared after 2010."[58]

Austerity is pushing services to breaking point and, in the case of some areas of social care and prisons, beyond. Savings have largely been achieved through the unsustainable false economies of pay restraint and job cuts which have led to recruitment and retention problems and expensive agency spend to fill gaps. In the NHS, social care and prisons, the government has had to resort to emergency bail outs to cope with emerging crises.

And the wider public service reform agenda of integration, technological change and new models of delivery has failed as resources and investment has been diverted to short term fixes. The use of the NHS Sustainability and Transformation fund as a bail out mechanism for in-year provider deficits is a case in point.

We think there is some merit in exploring further the Institute for Government's three recommendations for more effective decision making through:

- Greater matching of spending in public services to an assessment of demand, scope and quality.

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[57] ONS, Public Sector Employment, September 2017
[58] Performance Tracker, Institute for Government, Spring 2017

- The publication of Treasury assumptions underpinning spending decisions - available for Parliamentary scrutiny.
- Subjecting those assumptions to independent review.

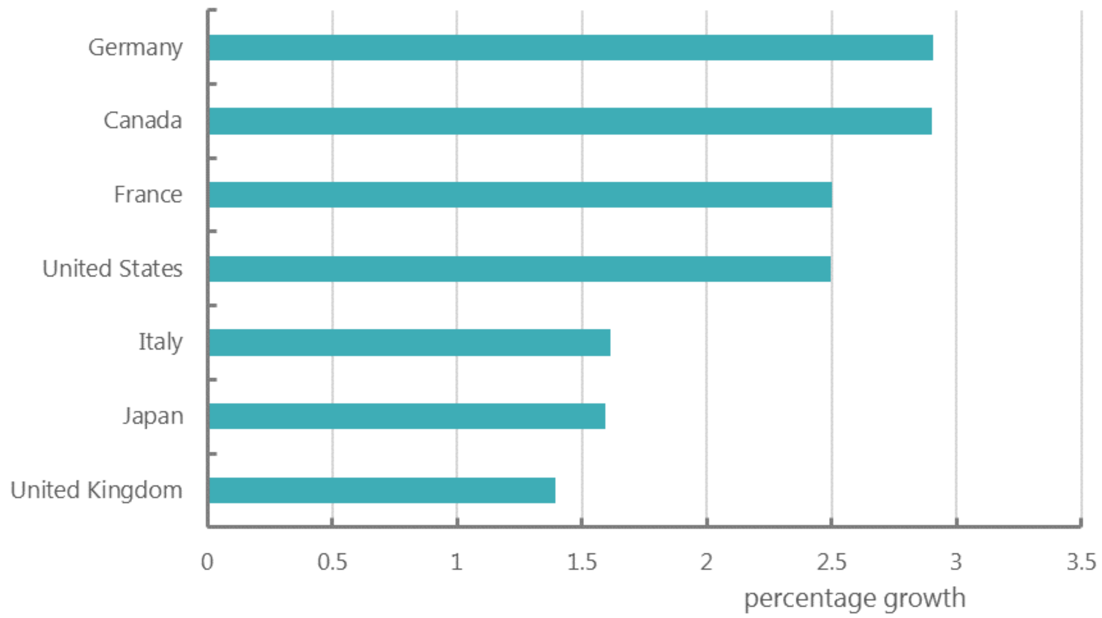
Fundamentally, however, there needs to be a new financial settlement in place. We need to see real terms increases across the public sector that enable providers to meet on-going demand and address the significant cuts to resources experienced since 2010.

The impact on the economy

The cost of underinvestment in the public sector has not only been paid by those who work in the services, and those who rely upon them. There has also been an economic cost which has taken the form of weak and highly uneven growth.

The latest figures show growth in the second half of the year was a little stronger than in the first half of the year. But four-quarter growth of 1.4 per cent is the lowest for five years, and, as the chart below shows, the lowest of all leading (G7) economies.

GDP growth, year to 2017 quarter four



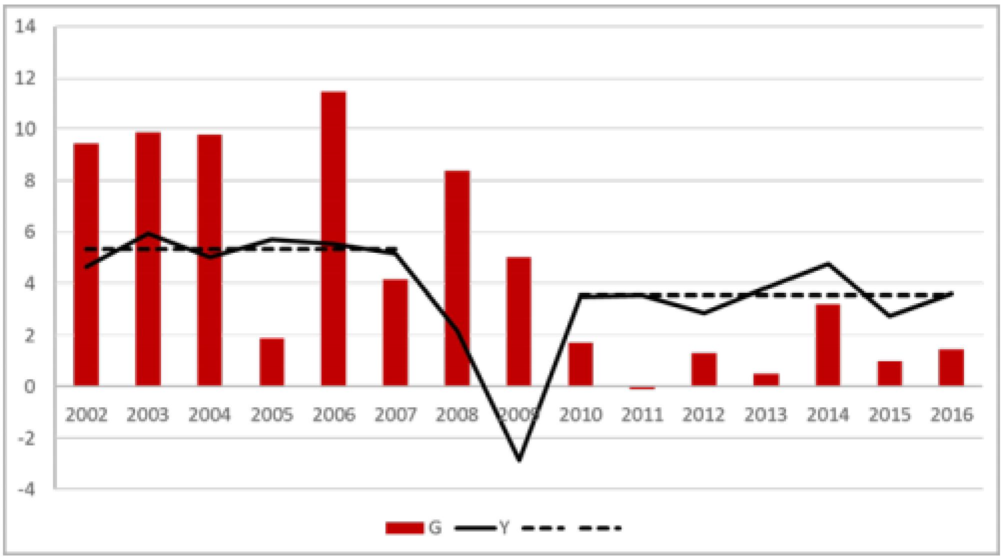
Government spending cuts and enforced wage restraint have drained spending power from the economy. We estimate that over £4.3bn has been cut from NHS staff salaries in England alone between 2010 and 2016.[59]

There is considerable evidence that cuts in public spending have damaged rather than enhanced GDP growth. The chart below illustrates how nominal figures for GDP growth (Y) have slowed alongside government spending growth (G). While annual movements don't

[59] TUC *Lift the Cap a fair deal for public service workers*, 2017

match exactly, it seems clear that in the years after 2010 reductions in government spending have coincided with weak GDP growth, meaning it never returned to the level we saw before the 2008 crisis

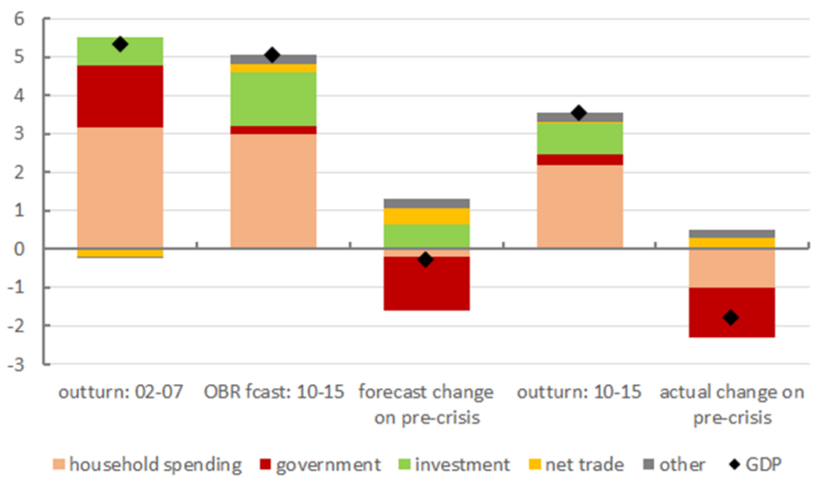
Government spending (G) compared to GDP, % nominal growth



Source: ONS

The fuller story follows from comparing the contributions of different types of spending to GDP growth over the period of the coalition government with the years before the crisis.[60]

Contributions to GDP growth, annual averages in percentage points[61]



[60] See TUC (2015), 'The Price of Austerity', https://www.tuc.org.uk/sites/default/files/ThePriceofAusterity.pdf
[61] TUC calculations on OBR and ONS figures

Comparing pre-crisis and post-crisis outcomes, (nominal) GDP growth slowed by 1.8 percentage points a year (from 5.4 to 3.6 per cent a year). The contribution of government expenditure was down 1.3 percentage points. The OBR expected the reduction in public spending to be almost entirely offset by a revival in private expenditure, i.e. investment and net trade. And they base these judgements on as assumption that the 'multiplier' effect of cutting public spending is no more than one. But the chart above suggests that cuts to public spending were more damaging (column 5). The actual reduction in GDP growth of 1.8 percentage points a year in growth was very close to what might have been expected if the multiplier was around 1.5.[62]

The impact on public finances

The 'cyclically adjusted current budget deficit' was expected by the OBR to move into balance at 0.0 per cent of GDP in 2018-19, following a small deficit of 0.3 per cent of GDP in 2017-18.[63] Improvements in the economy relative to the OBR November forecast may mean the measure moves into surplus a little sooner. But this does not mean the public finances are resolved.

Public service cuts are currently expected to continue until 2022-23, and this is likely to further harm the economy, not least given the threat of rate rises and the approach of Brexit.

As the TUC has long argued, austerity policies are counterproductive: the Office of Budget Responsibility and the Treasury have underestimated the impact of spending cuts on economic growth, and this is the root cause of the failure to meet targets for the public finances. The cuts to public services and infrastructure and the attacks on the pay and conditions of public sector workers are not only unjust and harmful from a social point of view, but unsound from an economic point of view. The best way to protect the economy and to ensure rapid improvements to the public finances is to reverse future cuts, begin to invest in the UK infrastructure and public services and deliver pay rises across the board.

Depressed GDP growth has meant that public sector borrowing has remained stubbornly high. Though fixing public sector finances was the initial justification for austerity, the evidence indicates that it has actively impeded this task.

While the policy of austerity has succeeded in reducing the deficit – the gap between what the government takes in and what it spends – it has made no progress on tackling the national debt. In fact, six years of public spending cuts have left the country with increased debt levels.

Public sector net borrowing is much higher than it was projected in 2010 and is even higher than it was before austerity was adopted as government policy.

Public finances have been hit by lower than expected cash receipts resulting from weak GDP growth since 2010. This has led to a significantly slower pace of deficit reduction than

[62] Geoff Tily (2017), 'Why multipliers matter', ToUChstone blog. http://touchstoneblog.org.uk/2017/07/why-multipliers-matter/

[63] Any achievements here have been facilitated by the Bank of England returning to the Treasury £13.7 billion in 2017-18 of its interest payments on government debt.

government planned for, and the public debt ratio has not been reduced. The coalition government inherited plans from Labour that had the debt ratio peaking at 74 per cent of GDP. Under the coalition's initial (2010) plans, debt was set to peak sooner (2013/14) and at a lower 70 per cent of GDP. Now the debt ratio is predicted to peak in 2017/18 at 86.5 per cent of GDP.

The case for investment in public services

Supporting a more cohesive society

Public services ensure that there is minimum standard of quality of life below which no member of society should fall. Those with lower incomes are more reliant on public services to provide these. Therefore, cuts to public spending can be regressive as they disproportionately impact on those with fewer financial resources. Investing in public services helps build our communities, tackle inequality, support social mobility and develop a more cohesive society.

In 2016 the TUC published analysis of the distributional impact of cuts to spending which had been recently outlined by the then Chancellor, George Osborne.

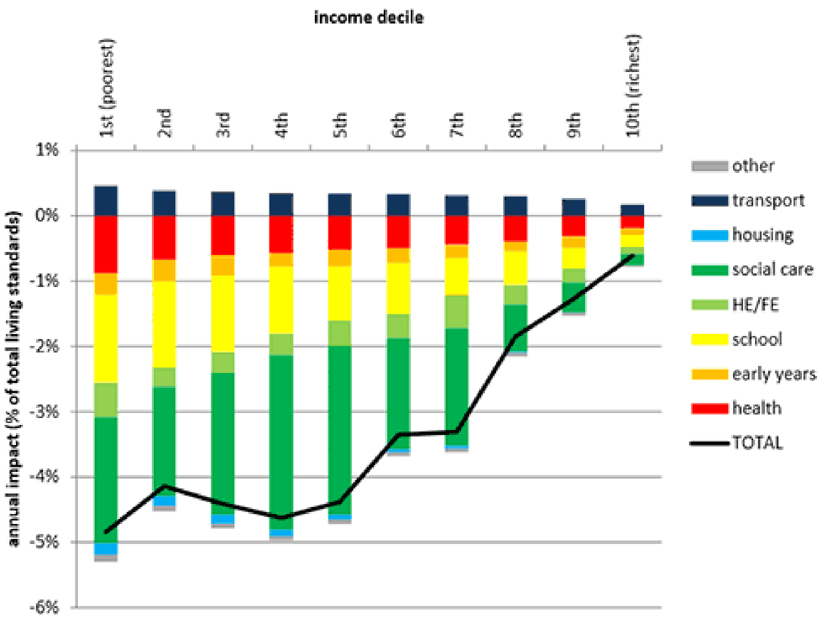
The Landman Economics public spending model combines departmental spending plans announced in the November 2015 Spending Review with a range of UK household-level datasets on the use of public services by individuals and families. By combining these two sources of data we can estimate the amount being spent on services delivered to households with different levels of income and therefore measure the impact on the living standards of those households.

It showed that households in the lower to middle section of the income distribution are disproportionately affected by cuts to public spending. Cuts to social care spending have the largest effect, and this is felt most keenly by households in the 3rd to the 7th decile. On average, these groups lose out on £1500 a year.[64] The impact on living standards is similarly regressive:

> *"...the lowest income decile experiences an average reduction in living standards of around 5 percent, while the 2nd, 3rd 4th and 5th deciles experience reductions of around 4.5 percent. Meanwhile, average losses for the top decile are less than 1 percent of living standards*".[65]

[64] Reed, H *The impact of planned cuts to public spending over the 2015-2020 Parliament*, https://www.tuc.org.uk/sites/default/files/Spending-cuts-Report.pdf, 2016
[65] Ibid, p6

Distributional impacts of cuts to spending on public services (excluding social security) over the 2015-20 Parliament: as percentage of net income plus value of services received, by household income decile



The report also found that the impact of public sector spending cuts was nearly negated for higher income houses because of changes to tax thresholds and allowances.

This point is also illustrated by a recent analysis that shows the link between spending cuts, service quality and deprivation. Analysis of Ofsted results for children's services by local authority found a clear correlation that showed that children in areas of high deprivation, where councils suffered proportionately larger funding cuts, were more likely to encounter services rated as 'inadequate' or 'requiring improvement'.

Children's services in areas of high deprivation are half as likely to be judged "good" or "outstanding". Conversely, 77 per cent of children's services in high deprivation local authorities were judged "inadequate" or "needs improving" compared to only 53 per cent of children in low deprivation areas. In order to confirm that public sector spending was the determinate factor, the researchers also looked at local authority spend per child relative to the level of need. They concluded that spend per child made little difference in areas of low deprivation, and therefore of low need. However, in areas of high deprivation increased spend per child had a significant impact. High deprivation local authorities that got a 'good' or 'outstanding' rating were spending around 20 per cent more per child on average, in the year before the latest inspection round started, than those awarded 'inadequate' or 'requires improvement' [66]. It seems clear that policies that redirect resources towards areas of high deprivation will have a disproportionately beneficial impact on those with low incomes. Investing in public services has a strong positive impact on improving social mobility and life chances within our most vulnerable and deprived communities.

Supporting a more productive economy

Public spending on essential services like education and health care produces a return, in the form of economic growth and productivity. This is seen in the fields of health, education and childcare. Investment either supports individuals to become more productive or prevents costly or counter-productive problems from developing later in life.

Health

The OECD lists a range of population health benefits that have accrued to OECD countries in recent decades, citing a 50 per cent drop in premature mortality since 1970, a ten-year increase in life expectancy at birth since 1960 and large reductions in child mortality.

Over a shorter timescale, the OECD point to significant improvements since the mid-90s in breast cancer survival rates, improvements in cardio-vascular health and increased survival and lower disability rates following strokes.

The OECD states that there are a range of factors that have contributed to these successes but attributes much of this to investment in healthcare, stating that "up to 40 per cent of the increase in life expectancy since the early 1990s could be due to more and better health spending". Furthermore, their report points to increased access to health care services, with OECD countries achieving "universal or near universal coverage for a range of core services".

Finally, the OECD also states that "the health system contributes to economic performance. It is a major employer – it accounts for nearly one in every ten jobs in OECD countries; health spending helps stabilise the economy in times of crisis, and it is a contributor to the productive capacity of OECD economies".[67]

The role that health care spending plays in supporting health, well-being and an individual's productive capacity has knock-on effects for other parts of government spending. The Work Foundation report found that "in 2009, in the region of 11,000 people in England and Wales were enabled to return to work by hip replacement surgery, saving the UK welfare system £37.4m each year of their working lives".[68]

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[66] Bywaters, P and Webb, C *There is clear evidence that links deprivation, expenditure and quality in children's services,* Community Care http://www.communitycare.co.uk/2018/02/07/clear-evidence-links-deprivation-expenditure-quality-childrens-services/, February 2018

[67] *Health system priorities when money is tight*, OECD, October 2010

[68] *Adding value: the societal and economic benefits of medical technology*, The Work Foundation, November 2011

One study found that for every 10 per cent increase in life expectancy at birth equates to a 0.3 – 0.4 per cent increase in economic growth per year.[69] Analysis conducted by the British Medical Journal found that median return on investment (ROI) on public health interventions was over 14:1. The report's authors concluded that "cuts to public health budgets represent a false economy, and are likely to generate billions of pounds of additional costs to health services and the wider economy".[70]

According to the King's Fund, health spending can have significant wider economic impacts. Evidence suggests that the average multiplier effect of public health care spending across a range of countries has been about 3.6 – larger than almost all other categories of spending.[71] While there are no NHS-specific figures, the King's Fund report estimates the NHS spending multiplier to be in the range of two to four.[72]

Education and childcare

Economic success strongly correlates to educational investment. For instance, comparison of the international Trends in International Mathematics and Science Study found that student outcomes explained some 75 per cent of economic development. The study's author concluded "empirical research has shown that education is indeed one – if not the most – important determinant of economic growth in the long run".[73]

This finding was supported by other studies that indicate that there is a positive correlation between government spending on education and GDP growth. One study of World Bank data found that an increase of 1 percentage point of GDP on education produced 0.9 per cent increase in GDP. Other studies have found a more modest, though still positive correlation.[74]

While there is considerable debate among economists about impacts on total economic growth, Jonathan Temple of the University of Bristol says that the latest attempts to quantify this tend to conclude that it is at least as significant as that measured for individual gains.[75]

This is suggested by Lawrence Katz and Claudia Goldin, of Harvard University, who studied the effect of increases in educational attainment in the US labour force from 1915 to 1999.

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[69] OECD Observer Health and economy: a vital relationship, http://oecdobserver.org/news/archivestory.php/aid/1241/Health_and_the_economy:_A_vital_relationship_.html, May 2004

[70] Masters, R; Anwar,E; Collins, B; Cookson, R & Capewell,S *Return on investment of public health interventions: a systematic review,* BMJ, March 2017

[71] *Does investment in the health sector promote or inhibit economic growth*, Reeves et al, Globalization and Health, 2013

[72] *Tackling poverty; making more of the NHS in England*, King's Fund, November 2014

[73] Woesmann, L, *The economic case for education*
2015

[74] Carmignani, F *Does government spending on education promote economic growth,* The Conversation, June 2016

[75] ibid

They estimate that those gains directly resulted in at least 23 per cent of the overall growth in productivity, or around 10 per cent of the growth in GDP.[76]

In a paper to the European Commission, London Economics looked at the rate of return on investment in education across EU member states, calculating the private return to individuals and the social rate of return.

The social rate of return is defined as "the return to education that includes both private and public costs and benefits". For example, looking at gross earnings, it is also including public benefits from higher income tax revenues paid by people who earn more because of their education.[77]

Their study concluded that "estimates of social rates of return show that, on average, one additional year of education yields a global average rate of return of around 10 per cent".[78] On a European level, research shows an average social rate that is between 7.8 per cent and 9.7 per cent.[79]

In the UK context, the rate of return by level of education varies as follows:[80]

Level	% rate of return (UK)	% rate of return (EU Average)
Primary	8.6	7.9
Secondary	7.5	8.5
Tertiary	6.5	7.2

Another way of looking at broad economic benefits, particularly in a knowledge-intensive economy such as the UK, is to look at the expansion of high-level skills and the effect on employability.

The OECD points out that, on the back of sustained investment of an average of 6 per cent (about a seventh of total public expenditure), university graduation rates virtually doubled from 20 per cent in 1995 to 39 per cent in 2007 across OECD countries.[81]

Considering what this means for employability and pay, the OECD states:

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76 ibid
77 "The returns to various types of education and training", London Economics, December 2005
78 ibid
79 Ibid
80 ibid
81 "Education at a Glance" OECD 2009

For a long time, we have been asking ourselves how long can this continue without leading to an "inflation" of qualifications in the labour-market? Will one day everybody have a PhD and work for the minimum wage? Well, one of the interesting findings is that, despite the significant rise in educational levels, most countries are still seeing rising earnings advantages for university graduates. This suggests that knowledge still conveys an important advantage in labour markets. Conversely, the less-well qualified are facing deteriorating job prospects. Across OECD countries, 42 per cent of those without an upper secondary qualification are not employed. Young people with lower qualifications who become unemployed are also more likely to spend a long time out of work: in most countries, over half of low-qualified, unemployed 25-34 year-olds are long-term unemployed.[82]

The evidence base on individual gains is more robust. Alan B. Krueger, an economics professor at Princeton, says the evidence suggests that, up to a point, an additional year of schooling is likely to raise an individual's earnings about 10 per cent.[83]

Finally, data from the OECD indicates that in every country studied 15-year olds who had received Early Childhood Education and Care outperformed those who did not.[84]

Supporting economic growth

As well as promoting future productivity, government spending can have a more direct and immediate impact on economic growth. Government spending in the economy drives further activity and creates further economic returns. Current government estimates for the size of this multiplier effect range from 0.3 for changes to tax allowance and national insurance contributions (NICs) and 1 for Resource Departmental Expenditure Limits.

We believe the true size of the multiplier is much higher across all types of spending interventions. If government increases spending, then this money either goes into wages or into employment increasing labour income. we estimate the multiplier to be 1.5.[85] Therefore, if the government spends £10bn there will be a resultant £15bn increase in GDP. This figure corresponds with that from the Council of Economic Advisers in 2010 and to recent National Bureau of Economic Research estimates.[86] One nuance to this calculation is that those on higher incomes have a lower marginal propensity to consume, and a higher propensity to save. Therefore, government spending interventions that primarily benefit those on higher incomes, such as raising tax allowances, are likely to have a less beneficial impact.

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[82] ibid

[83] NY Times – "What is the return on education" NY Times, 11 December 2005

[84] OECD, *Improve early education and care to help more children get ahead and boost social mobility,* http://www.oecd.org/newsroom/improve-early-education-and-care-to-help-more-children-get-ahead-and-boost-social-mobility.htm, June 2017

[85] Tily,G *Why the multiplier matters,* ToUCHstone Blog, http://touchstoneblog.org.uk/2017/07/why-multipliers-matter/ July 2017

[86] Chodorow-Reich, G *Geographic Cross-Sectional Fiscal Spending Multipliers: What Have We Learned?* http://www.nber.org/papers/w23577, July 2017

Increasing wage-led demand

Shifting from a national to a regional picture we can see the counterpoint to the multiplier effect. We have evidence that public sector pay policy has drawn significant spending power away from regional economies.

Government pay policy has driven public sector pay down by 15 per cent below since 2010. Public sector pay now lags behind both average pay rates and private sector pay. By 2021, we predict public sector pay will have fallen £52 a week below its pre-crisis peak, on current trajectory.[87]

Between 2010 and 2016, pay restraint in the public sector has taken disposable income out of local economies. Over that period some public sector workers lost over £2,000 from the real value of their wages. In the North East for instance, £1.8bn of spending capacity was removed from the economy through public sector pay restraint. There was a loss of £3bn from both the East and West Midlands, £9bn was lost from London alone.[88] At the same time, this has not stemmed the loss of public sector jobs across the UK, with over 400k job losses since 2010, concentrated largely in the north and midlands.

Total loss of disposable income in regional economies 2010–2016 through public sector pay restraint[89]

Region	Real terms pay gap in 2016 per worker (£)	Cumulative loss of real terms earnings 2010–2016 per worker (£)	Total public sector FTE jobs in 2016 (000s)	Total loss of disposable income 2010–2016 (£bn)
North East	689	7,666	243	1.8
North West	584	5,740	643	3.7
Yorkshire & the Humber	819	6,101	489	3.0
East Midlands	1,805	9,974	303	3.0
West Midlands	828	6,825	441	3.0
East	1,140	4,533	461	2.1
London	2,202	11,997	756	9.1
South East	680	5,109	617	3.1
South West	1,220	7,464	420	3.1

[87] TUC *Lift the Cap, a fair deal for public sector workers,* March 2017
[88] Ibid
[89] ibid

Funding an increase in public sector pay would therefore restore spending power in local economies, as well as returning direct costs back to the Treasury in the form of higher tax revenue and lower in work benefits.

Analysis by the IPPR[90] shows that the headline cost of increasing public sector pay in line with CPI is £5.8 billion in 2019/20 while the cost of a 'catch-up' scenario (a 1 per cent increase above average private sector) is £12.7 billion. However, a significant portion of these costs would be returned to the Treasury almost immediately in the form of higher taxes and lower spending on means-tested benefits. After taking these receipts and savings into account, the immediate net cost of increasing public sector pay in line with CPI falls to £3.55 billion, while the cost of the 'catch-up' scenario is £7.75 billion.

But the public spending multiplier also takes effect as increased spending power feeds through into the economy. The IPPR model shows the economic impact of increasing public sector pay on Gross Domestic Product (GDP). They find that increasing public sector pay in line with CPI would, at a conservative estimate based on OBR assumptions, generate additional economic growth of £800million by 2019/20, of which £250 million would be additional taxes. Under the 'catch-up' scenario, GDP would be at least £1.75 billion, with additional taxes worth £550 million.

It should be noted, however, that OBR multipliers are currently lower than those estimated by other economists. For example, the International Monetary Fund (IMF) estimates average multipliers of between 0.54 and 1.02 on a comparable basis to the OBR estimate of 0.3 for income tax.

The IPPR analysis shows that in the CPI scenario, these estimates would imply additional growth in GDP of between £1.4 billion and £2.7 billion – compared with or more conservative, core estimate of £0.8 billion using OBR estimates – including additional tax receipts worth between £400 and £750 million.

The upper bound estimate would suggest that as much as £4 billion could be returned to the exchequer of the original £5.8 billion cost of lifting public sector pay scales with CPI.

Investing in local economies

Another way that public spending can boost economic growth is through investing in the 'foundational economy'.

The foundational economy is a way of conceptualising the economy that focusses on basic and essential services. The foundational economy includes the goods and services which are the social and material infrastructure of civilized life because they provide daily essentials for all households. These include key public services such as primary and secondary education, health and care for children and adults as well as income maintenance.

[90] IPPR, *Uncapped potential – the fiscal and economic effects of lifting the public sector pay cap*, November 2017

These services are required everywhere and so investment in them will generate returns wherever it is carried out. In addition, whereas large-scale infrastructure projects have extended supply chains that mean financial investment leaks quickly out of the country.[91]

Foundational goods and services are purchased out of household income or provided free at point of use out of tax revenues. The state often figures as direct provider or as funder.

Examples from some local authorities such as Preston, have shown how investment in services can be directed into local economic growth. The Preston model offers the chance for the public sector to increase the economic resources and encourage growth even in an environment where local government funding is tightly (and harmfully) constrained. The model uses the procurement powers of key organisations (the local constabulary, a prominent FE college and a local secondary school, Preston and Lancashire council) to drive investment into socially beneficial regionally based organisations.[92]

These institutions then proceeded to increase the level of procurement sourced from within the county or the city. Preston City Council increased the proportion of procurement from organisations based or with a branch in Preston from 14 per cent to 28 per cent between 2012/13 to 2014/15.[93]

To take one example, when the Lancashire Constabulary examined their procurement commitments they realised there was capacity to use local suppliers and businesses to a much greater degree. In response they committed to use a series of measures to monitor how they were progressing. For instance, for every £1m committed in a contract: 31 per cent should be spent within 10 miles of the site, and 75 per cent of the total value of a construction contract should go through Small and Medium Enterprises (SMEs). The process identified £37m of investment in the local economy that could be generated by these organisations alone.[94]

Case Study: Fully funded childcare

In 2016 the Women's Budget Group (WBG) investigated the potential cost of funding 40 hours of childcare for all pre-school aged children.[95] Their scheme would be between 71 and 84 per cent self-funding. The majority of the costs would be recouped through increased tax revenue, and reduced benefit liabilities. Firstly, because many parents who don't currently work or only work part-time could get jobs or increase their employment. Secondly, the caring workforce would see an increase in their pay. They could be eligible for training and qualifications that would improve productivity.[96] Finally, as discussed above,

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[91] Bowman A, Froud J, Sukhdev J, Williams K, *The foundational economy, rethinking industrial policy*, https://www.scribd.com/document/122563517/The-foundational-economy-rethinking-industrial-policy-Andrew-Bowman-Julie-Froud-Sukhdev-Johal-and-Karel-Williams, 2012
[92] CLES *Community wealth building through anchor institutions,* February 2017
[93] Ibid
[94] The Next System, *The Preston model*, https://thenextsystem.org/the-preston-model, September 2016
[95] Women's Budget Group *Costing and funding free childcare at high quality*, https://wbg.org.uk/wp-content/uploads/2016/11/De_Henau_WBG_childcare_briefing3_2017_02_20-1.pdf, Nov 2016
[96] Ibid

children who receive professional childcare are more likely to achieve better educational outcomes.[97] Widening the pool of children who can access this service would likely have long-term economic benefits.

Two models of employment are presented. In one, childcare workers would be treated as equivalent to primary school teachers and paid accordingly. In the second, they remain on current rates of pay by qualification. The first option would account for approximately three per cent of GDP, the other 1.8 per cent. However, much of these costs would be returned though increases in employment and the multiplier effect.

WBG estimate that the net cost of this would be between £4.4bn and £14.3bn a year, depending on the pay and conditions offered to carers. These figures are far from insignificant. But they are analogous to costs for other spending decisions from coalition and Conservative governments since 2010. For instance, they estimate successive increases in personal tax allowances have cost £13bn a year, while freezes to fuel and alcohol duties cost £7bn in 2016 prices.[98]

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[97] OECD, *Improve early education and care to help more children get ahead and boost social mobility*
[98] Women's Budget Group, *Costing fully-funding childcare*

How do we afford this?

While it may seem reasonable to ask that any organisation calling for a significant increase in public spending should be able to explain how the country can afford it. We believe the real question is can we afford not to do this? We believe the investment discussed above is a vital tool for driving growth and restoring public finances. However, even if we do not believe this is true then there are a range of ways that this investment could be funded.

i) Investing in public services will stimulate growth

As we have outlined above, we believe investing in public services would spur economic growth, as cutting them has impeded it. The extent of this effect can be debated but given our estimate of the size of the multiplier we believe it could be substantial. As a first step towards reassessing the impact of public spending we would expect the Treasury and OBR to re-evaluate their approach to the multiplier effect – as other leading organisations such as the IMF have already done.[96] If the evidence indicates, as we believe it does, that there is a multiplier effect of public spending in the region of 1.5, this has serious implications for fiscal policy.

A higher multiplier opens the possibility that the correct way to improve the public finances is to increase rather than reduce spending. It is perfectly possible that expanding public sector activity will lead to stronger private sector activity. In the meantime, erroneously operating with a too low multiplier means that the economy is being badly damaged for no sound economic reason at all.

ii) There is room within current spending plans

In their latest figures the OBR estimate that public sector borrowing is currently £7.2bn lower than expected for 2017/18.[99] This would give the chancellor significant fiscal headroom without deviating from current plans.

But there is a broader point to be made that if the government claim that the cyclically adjusted deficit is now moving into surplus, there seems little reason for a continuation of further spending cuts. On the eve of the 2018 Spring Statement, the Financial Times is calling for the Chancellor to use the opportunity of better than forecast public finances to reverse the damaging cuts to public services, arguing that "Britain has leeway to spend and the Chancellor should use it"[100]. The TUC would echo that call.

iii) Change fiscal priorities

The level of fiscal headroom available would be increased if the Chancellor chose different fiscal priorities, such as cancelling expensive and unproductive tax cuts like corporation tax. It is increasingly clear that corporation tax cuts have little impact on business investment, yet the government plans to reduce it still further to 18 per cent, down from 28 per cent in 2010. In light of the dire need for greater investment elsewhere this expenditure seems hard to justify. On the same basis, raising personal allowances for those on high incomes

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[99] OBR *Monthly public finances release,* February 2018

[100] Britain has leeway to spend and the Chancellor should use it, Financial Times, 6 March 2018

will be similarly ineffective as it shifts resources towards those with a lower propensity to consume.

Conclusion

Far from addressing the UK's debt, austerity has hobbled the nation's economic revival while at the same time causing significant damage to public services and those that rely upon them.

The time has come to accept that austerity cannot deliver economic or social progress and instead to adopt a different approach. Our public services should be viewed as key assets. As such we should recognise the vital role they play, but also the economic returns they can deliver. Instead of seeking to cut them to the smallest amount we can, we should establish the level of funding needed for them to deliver a decent service and commit to providing that funding.

In doing so, we will not only create a suite of services that truly provide a civilised quality of life for everyone who lives in the UK, we will generate the level of growth that has escaped us until know, and that our economy needs.