

Fudging the funding on pay

an analysis of departmental spending plans
in the UK budget in relation to pay



Introduction: PCS pay campaign for a fully funded 5%

All public sector workers deserve a pay rise. Whether they are nurses, teachers, refuse workers or civil servants, government pay policy has held back their pay for too long now.

The case to end the 1% pay cap is inarguable. It is TUC policy that the public sector pay cap should be scrapped and that all public sector workers should receive a minimum of a 5% pay increase. This must be fully funded and not a trade-off against job cuts or any detrimental effect on terms and conditions. Some unions are reporting movement across public sector employers and in devolved government areas that the cap will be scrapped.

In the wake of the 2017 general election, even some Tory government ministers were arguing that the pay cap must end. Yet the one major employer of public sector workers that is making no attempt to scrap the cap is the UK civil service. The Public and Commercial Services Union (PCS) commissioned the Centre for Labour and Social Studies (CLASS) to analyse the departmental spending plans contained in the Chancellor's Budget in November 2017 to consider how funding has been allocated to UK departments in order to end the pay cap.

The findings are somewhat shocking. The Chancellor's 2017 Budget shows that departments will continue to suffer real-term pay cuts up to 2020.

Civil service pay is set within the Treasury Pay Remit Guidance, but the actual bargaining is delegated to each government department. However, PCS believes that delegated pay bargaining is a sham, and seeks a return to national pay bargaining. This report exposes just how ridiculous the notion of any real delegated pay decisions are in practice.

The CLASS analysis shows that not only have the government not sought to fund a breaking of the pay cap, in some of the major departments, the resource departmental expenditure limits show significant shortfalls in resources to even meet the 1% pay cap. It is therefore clear that the government is intent on continuing to hold down the pay of its own workforce.

This is completely unacceptable to PCS members. In a record turnout national ballot of PCS civil service members, 98.9% agreed that the pay cap should be scrapped; and that funds should be made available for an above-inflation pay rise. And, 79.2% said they were prepared to take industrial action if the government refuse to scrap the pay cap.

PCS has submitted a national pay claim to the government for a fully funded 5% pay increase as a minimum for all civil and public servants. We are seeking national talks with the government in advance of the Treasury Pay Remit Guidance. We hope the government will enter meaningful negotiations. In the event that the government refuses to scrap the cap we will continue to make sure that our members in every workplace are ballot ready should we require to proceed to a national statutory ballot for industrial action to demonstrate the strength of our opposition.

Top Lines

- The public sector pay cap was introduced in 2010. From 2010–2012 public sector pay was frozen, apart for those earning below £21k. In 2013 the cap was relaxed to allow for annual nominal pay increases of 1%, falling short of the average annual rate of inflation for the period. In September 2017 it was announced that the police would receive a 1% pay increase with a 1% bonus and prison officers would receive a 1.7% increase, still below the rate of inflation.
- There was an expectation that the 2017 Autumn Budget would contain further announcements on the pay cap being lifted for other public sector workers, with details of how pay increases would be funded. However, this detail failed to materialise.
- Any increases in public sector pay would have to come out of Resource Departmental Expenditure Limits (RDELs), departments' budgets for current spending.
- Our analysis shows that departments as a whole will continue to suffer real term cuts to their RDELs up to 2020. In the departments of interest covered by our analysis, only the Ministry of Defence will see an increase in this area of its budget.
- This falls way short of what is needed for a 5% nominal pay rise in each year, and also fails to accommodate annual pay rises of 1% (Table 2).
- Given current projections of departmental expenditure limits, we conclude that any pay rise for public sector workers across listed departments would have to come from cuts to jobs or to public services.

Table 1: Real terms change in resource departmental expenditure limits (RDELs)¹

Department	Real change from 2012/3 to 2017/18 (from PESA 2017)	Real change 2017/18 to 19/20 (from Budget 2017)
DWP	-20.13%	-15.29%
HMRC	-1.98%	-13.55%
MoJ	-26.69%	-11.58%
Home	-11.84%	-1.82%
Defence	0.20%	2.56%
Transport	-56.71%	-17.33%
All Departments (including Education, Health etc.)	-8.35%	-1.09%

Table 2: Projected percentage shortfall between RDELs in 2019/20 and the RDEL needed for a payrise

Department	Increase needed for 1%	Increase needed for 5%
DWP	15.9%	20.1%
HMRC	14%	20.5%
MoJ	11%	14.8%
Home Office	Met	0.4%
Defence	Met	Met
Department for Transport	18.5%	22.2%

¹The Department for Transport has seen a large increase in its annually managed expenditure (AME) budgets, complicating the analysis and making a like-for-like comparison with other departments misleading. Still, public sector pay must come out of RDEL totals.

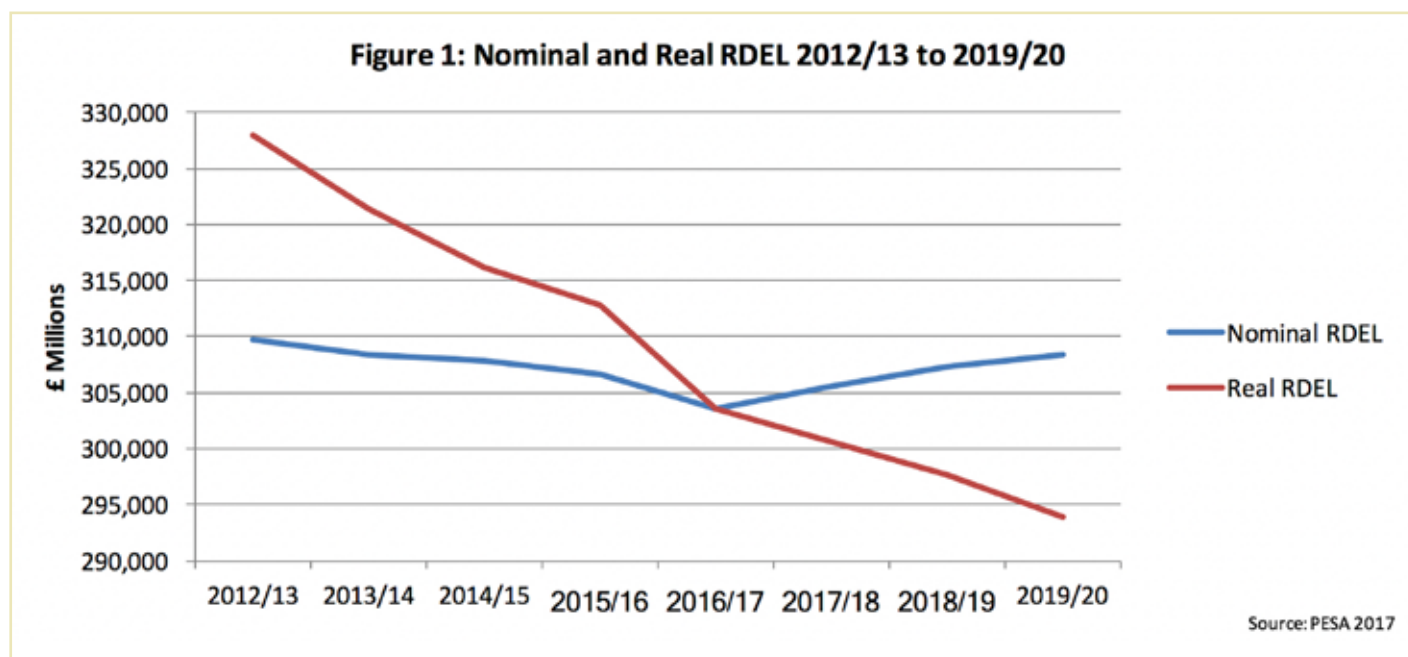
1. Background on public spending

Departmental expenditure limits (DELs) are allocated to departments years in advance at Spending Reviews, and are intended as hard limits on expenditure, though in practice they are often revised. They are composed of **resource DELs** (RDELs) and **capital DELs** (CDELs); the former is the departmental budget for current spending, the latter for investment. **Public sector pay is allocated from within RDELs** and, as such, RDEL spending constitutes the focus of this brief.

Outside of these limits, departments have annually managed expenditure (AME) totals for spending that must be managed on a year-by-year basis, e.g. social security payments. Sometimes money is moved from one pot to the other – Scotland and Wales, for example, face a fall in their RDEL budget but an increase in their AME budget as part of the devolution process. An analysis of their budgets based purely on RDEL totals would thus be misleading. Nevertheless, for the most part we can focus on RDELs as “the Treasury’s primary control total within resource budgets”.²

Recent trends

The Public Service Expenditure Analysis (PESA)³ published in July 2017 allows us to view recent trends in RDEL allocations. Figure 1 below shows total RDEL expenditure for all departments spanning from 2012/13 to 19/20. Real figures are based on 2016/17 values.



It is important to note that these figures were produced before the 2017 Budget announcements this month (November). Table 3 below compares historical data on real terms change in RDELs from PESA 2017 with updated forecasts from the 2017 Budget up to 2020.

²Budget 2016, p. 91

³gov.uk/government/uploads/system/uploads/attachment_data/file/630570/60243_PESA_Accessible.pdf

Table 3: Real terms change in resource departmental expenditure limits (RDELs)⁴

Department	Real change from 2012/3 to 2017/18 (from PESA 2017)	Real change 2017/18 to 19/20 (from Budget 2017)
DWP	-20.13%	-15.29%
HMRC	-1.98%	-13.55%
MoJ	-26.69%	-11.58%
Home	-11.84%	-1.82%
Defence	0.20%	2.56%
Transport	-56.71%	-17.33%
All Departments	-8.35%	-1.09%

The table above is useful for understanding the pressures placed on departments as a result of austerity. With specific focus on the push for a 5% nominal pay increase for public sector workers and the departments related to the PCS campaign, Table 4 shows the projected increase in nominal RDELs from 2017/18 to 2019/2020 from the 2017 Budget.

Table 4: Nominal RDEL funding and yearly change 2017/18 to 2019/20 (£millions)

Department	2017/18	2018/19	2019/20
DWP	£6,200	£6,000	£5,400
Annual Change		-£200	-£600
HMRC	£3,600	£3,400	£3,200
Annual Change		-£200	-£200
MoJ	£6,600	£6,200	£6,000
Annual Change		-£400	-£200
Home	£10,600	£10,700	£10,700
Annual Change		+£100	+£0
Defence	£27,500	£28,200	£29,000
Annual Change		+£700	+800
Transport	£2,000	£2,100	£1,700
Annual Change		+£100	-£400

⁴The Department for Transport has seen a large increase in its annually managed expenditure (AME) budgets, complicating the analysis and making a like-for-like comparison with other departments misleading. Still, public sector pay must come out of RDEL totals.

2. Public sector pay

While exceptions were made in September for prison and police officers, the Chancellor refused to lift the public sector pay cap more generally.⁵

To quantify the amount needed to lift the public sector pay cap for various departments, data was compiled from monthly Workforce Management Information freely available on government websites. Table 5 below details the total payroll salary (excluding allowances, pensions, NI contributions etc. ...) for the most recent calendar year for each department and the associated cost of a one-time 1%, 3% and 5% pay rise.⁶

Table 5: Annual public sector payroll and cost of increase by department (£millions)

Department	Annual Payroll Salary	1% Rise	3% Rise	5% Rise
DWP	£2,017	£20.2	£60.5	£100.9
HMRC	£1,830	£18.3	£54.9	£91.5
MoJ	£1,939	£19.3	£58.2	£97
Home	£862	£8.6	£25.9	£43.1
Defence	£1,676	£16.7	£50.3	£83.8
Transport	£490	£4.9	£14.7	£24.5

It is important to note Workforce Management Information (WMI) data only cover staff working directly for departmental bodies, and not public sector workers more generally. The WMI data from the Department for Education, for example, doesn't include teacher pay.

Furthermore, the figures above are only representative of payroll staff and thus should be seen as the bare minimum required. This is especially the case given, as research from PCS⁷ and others have demonstrated⁸, the structure of civil service employment is changing. Our preliminary analysis has shown a higher proportion of costs going to non-payroll staff over the past year for the majority of departments. To account for this, table 6 shows the total staff costs to include allowances, pensions etc. as well as non-payroll staff.

Table 6: Annual public sector payroll and cost of increase by department (£millions)

Department	Total Staff Costs	1% Rise	3% Rise	5% Rise
DWP	£2,775	£27.8	£83.2	£138.8
HMRC	£2,482	£24.9	£74.5	£124.1
MoJ	£2,827	£28.3	£84.8	£141.4
Home	£1,337	£13.4	£40.1	£66.9
Defence	£2,450	£24.5	£73.5	£122.5
Transport	£747	£7.5	£22.4	£37.3

⁵gov.uk/government/uploads/system/uploads/attachment_data/file/661439/Public_sector_pay.pdf

⁶Please see methodology section for further clarification on individual departmental spends.

⁷pcs.org.uk/campaigns/pcs-pay-campaign/pay-research-report

⁸instituteforgovernment.org.uk/explainers/grade-structures-civil-service

3. How much would a pay rise cost?

This Budget was the first opportunity for the Chancellor to allocate additional funding to departments to lift the public sector pay cap in light of his concessions to police officers and prison workers. The table below shows the shortfall between the Autumn Budget's RDEL projections and the increases that would be needed to lift the pay cap and give public sector workers a 5% pay rise every year.

Table 7: Difference between autumn budget RDEL and a 5% Pay-Rise RDEL (£millions)

Department	2017/18	2018/19	2019/20
DWP projected RDEL spend	£6,200	£6,000	£5,400
Spend needed for Pay Rise	£6,200	£6,339	£6,485
Difference		-£339	-£1,085
HMRC projected RDEL spend	£3,600	£3,400	£3,200
Spend needed for Pay Rise	£3,600	£3,724	£3,854
Difference		-£324	-£654
Moj projected RDEL spend	£6,600	£6,200	£6,000
Spend needed for Pay Rise	£6,600	£6,741	£6,890
Difference		-£541	-£890
Home projected RDEL spend	£10,600	£10,700	£10,700
Spend needed for Pay Rise	£10,600	£10,667	£10,737
Difference		£33	-£37
Defence projected RDEL spend	£27,500	£28,200	£29,000
Spend needed for Pay Rise	£27,500	£27,623	£27,751
Difference		£577	£1,249
Transport projected RDEL spend	£2,000	£2,100	£1,700
Spend needed for Pay Rise	£2,000	£2,037	£2,077
Difference		£62	-£377

It is important to note that public sector pay is just one claim on departments' RDEL budgets; staff costs accounts for just over a third of RDEL spending across departments. In the table above, we show how departments would fall short of a 5% pay rise for public sector workers given the Government's budget projections **without taking into account** additional pressures on government departments. For example, we assume that the £100m increase to the Home Office RDEL budget would be used exclusively to increase public sector pay, but in reality much of this money would have to be spent in other areas to maintain the same standard of services in the face of population growth.

These figures should thus be treated with some caution. The numbers in red will under-represent the shortfall between the 2017 Budget RDEL projections and what would be needed for a pay rise, and the numbers in green will overstate the government's ability to meet that aim without sacrificing the number of employees or quality of public sector services.

Using figures from Table 7, we can compare the government's Budget 2017 RDEL projections with the 'Pay-Rise RDEL' – the RDEL needed to give public sector workers a pay rise without nominal cuts to other areas of RDEL spend. We estimate that by 2019/2020, the RDELs for:

- The DWP would need to be **20.1% bigger** than projected to accommodate a 5% pay rise per annum.
- HMRC would need to be **20.5% bigger** than projected to accommodate a 5% pay rise per annum.

- The MoJ would need to be **14.8% bigger** than projected to accommodate a 5% pay rise per annum.
- The Home Office would need to be **0.4% bigger** than projected to accommodate a 5% pay rise per annum.
- The Department for Transport would need to be **22.2% bigger** to accommodate a 5% pay rise per annum.

In fact, if the government gives workers even their promised 1% pay rise (which when accounting for inflation would actually mean a real terms cut) without cutting other areas of RDEL spend, these departments would still fall short. Our analysis shows that RDELs for:

- The DWP would need to be **15.9% bigger** than projected to accommodate a 1% pay rise per annum.
- HMRC would need to be **14% bigger** than projected to accommodate a 1% pay rise per annum.
- The MoJ would need to be **11% bigger** than projected to accommodate a 1% pay rise per annum.
- The Department for Transport would need to be **18.5% bigger** than projected to accommodate a 1% pay rise per annum.

The similarity between the '5%' and '1%' figures is explained by the nominal cuts to RDEL figures over the period - the 'Pay-Rise RDEL' figure we calculate includes both a public sector pay rise and a stop to cuts to other areas of RDEL spend, as we believe that neither should come at the expense of the other. The table below compiles the above figures.

Table 8: Shortfall between projected 2019/20 RDEL spend and spend required for 1% and 5% pay rises (as a percentage of projected spend)

Department	Increase needed for 1%	Increase needed for 5%
DWP	15.9%	20.1%
HMRC	14%	20.5%
MoJ	11%	14.8%
Home Office	N/A	0.4%
Department for Transport	18.5%	22.2%

Methodology

All data used in this brief is freely available from various government outlets. Our headline figures for Resource Departmental Expenditure Limits exclude depreciation, in line with the government documents cited. Estimates of Resource Departmental Expenditure Limits (RDELs) in both nominal and real terms for years 2012–13 to 2019–20 were taken from the Government's July 2017 Public Expenditure Statistical Analysis (PESA). The Autumn Budget 2017 provides updated forecasts of nominal RDELs for 2017–18 to 2019–20. The analogous real terms figures were calculated using the Treasury's own estimates of the GDP deflator from the same document for 2018 and 2019. In both years, the Treasury estimates a 1.4% increase in the index – a slightly lower forecast than in PESA 2017.

Individual department payroll figures have been sourced from the Workforce Management Information for departments from the most recent 12 calendar months available. These costs are calculated monthly by departments and have been used as the basis for our annual payroll in Table 3.1 and 3.2. With regards to the Ministry of Justice, official statistics were missing for January and February 2017 for which we have had to extrapolate yearly costs based on the other 10 months available. The 1% and 5% pay rise figures were calculated as a percentage of total staff costs in Table 3.2 with figures in 2019/20 representing compound annual growth from the 2017/18 RDEL.

Figures may not sum perfectly due to rounding.

Appendix A

Table A: Difference between autumn budget RDEL and a 1% pay-rise RDEL (£millions)

Department	2017/18	2018/19	2019/20
DWP RDEL	£6,200	£6,000	£5,400
DWP Pay Rise	£6,200	£6,228	£6,256
Difference		-£228	-£856
HMRC RDEL	£3,600	£3,400	£3,200
HMRC Pay Rise	£3,600	£3,625	£3,650
Difference		-£225	-£450
Moj RDEL	£6,600	£6,200	£6,000
Moj Pay Rise	£6,600	£6,628	£6,657
Difference		-£428	-£657
Home RDEL	£10,600	£10,700	£10,700
Home Pay Rise	£10,600	£10,613	£10,627
Difference		£87	£73
Defence	£27,500	£28,200	£29,000
Defence Pay Rise	£27,500	£27,525	£27,549
Difference		£675	£1,451
Transport	£2,000	£2,100	£1,700
Transport Pay Rise	£2,000	£2,007	£2,015
Difference		£923	-£315

Table B: Projected real and nominal RDEL spend from 2017 budget and % annual change in real terms

Department	2017/18	2018/19	2019/20
DWP Nominal RDEL	£6,200	£6,000	£5,400
DWP Real RDEL	£6,200	£5,920	£5,250
Real Terms Change		-4.56%	-11.24%
HMRC Nominal RDEL	£3,600	£3,400	£3,200
HMRC Real RDEL	£3,600	£3,350	£3,110
Difference		-6.86%	-7.18%
Moj Nominal RDEL	£6,600	£6,200	£6,000
Moj Real RDEL	£6,600	£6,110	£5,840
Real Terms Change		-7.36%	-4.56%
Home Nominal RDEL	£10,600	£10,700	£10,700
Home Real RDEL	£10,600	£10,550	£10,410
Real Terms Change		-0.45%	-1.38%
Defence Nominal RDEL	£27,500	£28,200	£29,000
Defence Real RDEL	£27,500	£27,810	£28,200
Real Terms Change		1.13%	1.42%
Transport Nominal RDEL	£2,000	£2,100	£1,700
Transport Real RDEL	£2,000	£2,070	£1,650
Real Terms Change		3.55%	-20.17%

