

Sunak's talk of a £28bn cost of public sector pay rise...

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I [posted this thread on Twitter](#) this morning:

Rishi Sunak has claimed that to pay a 10% pay rise to all public sector employees will cost each household in the UK £1,000. This is what I call CRAp - which stands for a 'completely rubbish approximation' to the truth. Let me explain...

There are so many things wrong with what Sunak has said that it is hard to know where to start, but first of all it ignores the fact that about 5 million people work for the public sector. This payment would not cost them £1,000 a year.

Then it assumes that all 28 million UK households make the same contribution in tax towards this cost, but that is also not true. Some households do not pay income tax, for example. And the amount of tax paid varies widely, thankfully, because the best off do pay more.

And Sunak assumes that this payment will come out of tax. It might not. It could be paid for with borrowing or money creation, which is commonly called quantitative easing. It looks like he does not even know how government spending is actually funded.

But worst of all, this claim assumes that if £28 billion in extra wages is paid out this money just disappears, never to be seen again, and this assumption is so stupid it is laughable - except very few politicians seem to understand this.

Let me explain. Let's start with the fact that if £28 billion is paid out then this will top up existing pay. It will all be taxable and subject to national insurance. Assume tax is 20%, employee NI 12% and employer NI is 13.8% and the full NI cost is included in the £28bn.

If you work the maths through the tax paid on that £28bn will be about 40.2% of the

total in that case, or £11.3bn. That comes straight back to the government in other words. So the actual cost is already down to £16.7bn. That's a lot less than £1,000 per household.

And when that £16.7bn gets into people's pockets they will spend it. This means more tax is paid. Not everything has VAT on it, but assuming this new money is the top part of people's incomes and they've already covered the basic costs of living much of it will.

So, let's assume there's an average of 15% VAT on what is bought with this money. Do the maths and that's another £2.2bn or so of tax paid. That means the cost is down to £13.5bn now: half has already come back.

Then those who get paid this money also pay tax on it. Some will be income tax, and some corporation tax. Some more will be national insurance. We don't know the mix. Let's be generous and say it's 30%. That's another £4bn of tax paid. Cost now, £9.5bn.

But those who get this money will also pay tax on it. And so will the person who gets it after that. In fact, everyone will pay tax on it until some person who is wealthy enough to save gets it and puts it in a deposit account and stops the money rolling.

How long down the line will that be? We can't know for sure. But that does not alter the fact that the real cost of a public sector pay rise is vastly less than what politicians clam because they ignore the tax paid on the additional pay, and when the net pay is spent.

In theory it is possible that the whole cost of a pay rise could eventually be recovered in tax. But, I stress we cannot be sure of that unless we take another factor into account. And that is the gain to productivity from making pay rises.

If you believed politicians (and private sector bosses) all pay rises are given to greedy employees who just pocket the money and do nothing for it. That's not true, especially in public services right now. Pay people more and they will stay in the NHS, teaching, and much more.

More than that though, those already employed in the service can concentrate on the job rather than having to worry about how to pay the bills at home. And maybe some of the vacancies will be filled - which could massively improve the effectiveness of the service.

In other words, paying people enough so that they can afford to do the jobs that need to be done makes sense because those jobs are done well, and right now there is so little goodwill left in the public services that is not necessarily the case.

The whole £28bn cost campaign is in fact part of that undermining of public services that destroys goodwill. Saying that we can't afford to pay for what people are doing at work is not just an attack on those left in economic distress as a result, it undermines

public services.

Do the opposite, and have a government (and Opposition) that says it values what people do and wants to pay them fairly for it then three things happen. Public sector employees are happier. Fewer leave. Productivity rises. We get better value for money as a result.

None of this should be rocket science to anyone who knows a) about economics b) about running organisations c) knows what it is like to be an employee d) has empathy, and yet it seems ministers are wholly unaware of these essential things.

My point is a simple one. Not only is the claim that £28bn of extra public sector pay will cost each household £1,000 straightforwardly grossly incorrect, because the cost is much smaller, it is also possible that the gain is bigger.

Why then can't politicians talk economic, management and straightforward human sense about these issues in that case? I really wish I knew. But I can offer a suggestion. Maybe they don't know what they're talking about. That's why they talk CRAP.