The Scottish Budget: Bite Sized Briefing

Context

Ahead of the Scottish Budget the STUC called on the Scottish Government to take action and use the powers of the Parliament to begin to reverse the austerity politics of Westminster, investing in our public services, raising pay for public sector workers and stimulating the economy.

In our paper published in the run up to the Scottish Budget the STUC provided analysis of the Scottish Government's tax options paper, which highlighted that none of the options set out were sufficiently ambitious to protect public services or public workers' pay. It also noted that the debate on tax to date has been narrowly drawn around a concept of progressivity rather than redistribution. Much focus has been concentrated on preventing tax increases for the lowest earners, rather than considering how the lowest earners can see their overall income rise if tax is used to support public services and economic growth.

This paper stated:

"It should be noted that a tax plan which was twice as ambitious as that of the Scottish Government is likely to have modest impacts on the majority of households. For example, even if the most ambitious of the Government's tax plans was doubled those with a weekly wage of £2000 or more would pay £60 per week more in tax, while those on the medium income with a weekly wage of £470 would pay only £1 per week more. It should be remembered that the UK system is already progressive and due to protections built in through the benefits system those earning £420 or less would see no impact on their household income even if tax was raised.

Ultimately increasing public spending supports the economy and is a form of redistribution of wealth. A family of two adults on the median wage with two dependents could therefore pay £100 extra per year as a result of tax changes but could see £800 a year invested in their public services.

The STUC made clear that a focus on progressivity alone was not enough and that consideration should also be given to how tax is used to redistribute wealth. It is important, therefore, to not lose focus on the level of tax raised and the level of investment generated for public services.

The Scottish Budget's proposals on Tax

One of the biggest proposals announced within the Scottish Government's Budget was the changes to income tax. The Scottish Government have proposed creating 2 additional bands, meaning that there would now be 5 income tax bands in Scotland.

Table1 : Proposed Tax Bands

Categorisation	Salary bands (2017-18)	Tax Rate	Previous Rate
Personal Allowance (set by Westminster)	£11,850		
Scottish Starter Rate	£11,850 – £13,850	19%	20%
Scottish Basic Rate	£13,851 - £24,000	20%	
Scottish Intermediate Rate	£24,001 - £44, 273	21%	
Scottish Higher Rate	£44,274 - £150,000	41%	40%
Scottish Additional Rate	£150,000+	46%	45%

Under this proposal income tax will be reduced for all those earning less than £26,000 per year. The table below, as prepared by the Fraser of Allander Institute, shows how different incomes lose or gain in tax this year compared to if no action had been taken by the Scottish Government. They have, therefore, already taken into account changes made by the UK Government and consider only the impact of Scottish Government changes on the amount of tax paid in 2017/18.

Table 2: Impact of Income Tax Changes

Income	Amount better/ worse off (£)	Change in after tax income (%)
£15,000	£20	0.13%
£20,000	£20	0.10%
£25,000	£10	0.04%
£30,000	-£40	-0.13%

£40,000	-£140	-0.35%
£50,000	-£240	-0.48%
£75,000	-£490	-0.65%
£100,000	-£740	-0.74%
£150,000	-£1,359	-0.91%
£200,000	-£1,859	-0.93%

Source: Fraser of Allander Institute

This table shows that the level of savings made for the lowest earners from cuts in income tax are very modest. It should be remembered that all the figures cited above are per year figures. Equally there is little change in incomes for the highest earners. As the table clearly shows, even those earning more than £200,000 per year will lose less than 1 per cent of their take-home pay.

The modest impacts from the changes set out above feed through to the modest levels of tax raised by the proposals. The Scottish Fiscal Commission estimates that just £164m will be raised from income tax this year. This is extremely low as the STUC's pre-budget analysis considered that it was possible to raise somewhere in the region of £800m whilst seeing no tax increases for anyone earning below the median income, and still seeing modest and affordable impacts on those higher up the income spectrum.

The Scottish Fiscal Commission also produced the table below which highlights the revenue of the Government's policy proposals for tax and spending pledges around rates relief and social security. The table sets out that the revenue raised in income tax of £164m is off-set primarily by tax breaks that have been given out to business. The cumulative cost of the cut in business rates is around £96m, which when added to support for first time buyers and funding to raise the carers allowance, leaves only £28m in additional revenue that could be used for investment in public services.

Table 3: Measures Announced at Draft Budget 2018-19

£ million	2018-19	2019-20	2020-21	2021-22	2022-23
Income Tax					
Income Tax policy	164	170	178	188	199
Non-Domestic Rates					
Switch to CPI to uprate Poundage	-24	-23	-23	-24	-25
Business Growth Accelerator	-42	-51	-51	-51	-51
Continuation of transitional relief	-15				
Hydro relief	-6	-6	-6	-6	-6
Day nurseries	-6	-6	-6	-6	-6
Expansion of Fresh Start relief	-2	-2	-2	-2	-2
Delaying entry on the roll for unoccupied new builds	-1	-1	-2	-2	-2
LBTT					
Relief for first time buyers	-6	-7	-7	-7	-7
Social Security					
Carer's Allowance Supplement	-35	-30	-32	-33	-34
Overall impact of policy proposals	**28**	**44**	**51**	**57**	**64**

Source: Scottish Fiscal Commission. Figures may not sum to totals because of rounding.

The overall impact of these tax rises for investment in public services is marginal. The proposals therefore may look very progressive on paper, but they fail to contribute meaningfully to the redistribution of wealth. The STUC remains sceptical about the efficacy of rates relief to business as a method of stimulating the economy, and the loss of revenue to the Scottish Budget of these measures is considerable.

This position is echoed by the Scottish Fiscal Commission's own analysis of the policy impacts set out by the Scottish Government in the draft budget. These include the changes to income tax, non-domestic rates and LBTT and the public sector pay policy. The Commission states that:

"Apart from the change to public sector pay policy, the Commission's judgement is that these policies are not of a large enough magnitude to have a significant aggregate impact on the Scottish economy in particular with respect to our forecasts of earnings and employment. While they may have some impact on household consumption and business investment through their impact on taxes, this will be offset in part by changes to Scottish Government expenditure.

On the announced higher pay awards for the public sector, the Commission recognises that this could have some impact on the economy."[1]

The SFC therefore believes that the tax breaks for businesses included in this budget are unlikely to provide any tangible stimulus to the economy. By contrast, however, they recognise that the public sector pay award could support an improved economic outlook and provide some much needed positive effect on economic growth in Scotland.

This raises the question of why nearly £100m of additional revenue raised in Scotland has been used to provide tax cuts to businesses that provide little economic benefit, when the same resource directed into the pockets of workers could have a much greater and more positive economic effect.

The failure to use the Scottish Parliament's powers ambitiously is clear. The income tax proposals fail to raise sufficient revenue and the modest additional revenues raised primarily fund tax cuts for business. This suggests not just a worrying lack of commitment to properly resourcing public services, but a misunderstanding of the best way to support the economy by the Scottish Government.

Public Sector Pay

The headline commitment in the Scottish Budget on public sector pay was to lift the pay cap for public sector workers and provide:

- A guaranteed minimum increase of 3 per cent for public sector workers who earn £30,000 or less,
- Set a limit of up to 2 per cent for those earning above £30,000 and below £80,000,
- Limit the pay increase for those earning £80,000 or more to £1,600

Forecasting from the OBR for next year suggests that inflation will run at 3.3% when housing costs are taken into account. This means that while the pay cap of 1% has been lifted, no public sector worker can expect a pay increase greater than the rate of inflation. **This suggests that the Government simply has not grasped the magnitude of the situation or the need to address falling living standards in Scotland.**

[1] http://www.fiscalcommission.scot/media/1196/scotlands-economic-fiscal-forecasts-publication.pdf p76

It is also important to note that even these modest proposals do not cover all workers. The Scottish Government's pay policy only applies directly to its own staff and those in Non-Departmental Public Bodies. It should also be remembered that, without funding, a pay policy is only an aspiration.

The Cabinet Secretary for Finance has expressed a wish to ensure that this pay policy is followed, including making commitments with respect to other workers, such as those in the NHS.

But in many cases the Scottish Government has echoed the UK Government in encouraging pay rises without providing the funding for them. The Local Government budget, for example, is still receiving a real terms cut. It is difficult to see how councils can meet this pay aspiration while austerity continues unabated.

The STUC is also concerned about the differentiation in pay awards for public sector workers. It should be remembered that public sector workers have seen their pay rise by only 4.4% while costs have risen by 22%. By asking for above inflationary pay rises this year, unions are simply trying to prevent a further decline in the standard of living for workers, with much more to do to fully restore pay to its pre-recession levels.

In this context it is difficult to understand the justification for significant real terms cuts in pay for those earning over £30,000. This affects a large number of public sector workers. Only around 50% of public sector workers are likely to be covered by the Scottish Government's pay promise at all, and of those covered only around 50% will receive the 3% pledge.

This means that nearly 50% of NHS staff will receive a pay award capped at 2% and therefore significantly below inflation. 20% of nurses will find themselves in this category. The Government will also be hoping for Barnett consequentials from the Treasury's promise on pay to NHS workers in England in order to even meet these modest aims for NHS workers.

Council workers who may in theory by covered by the 3% pledge, including nursery nurses, refuse collectors, classroom assistants and support workers are in reality offered little in way of tangible support by the Scottish Government's promise on pay. The 3% maximum increase in the Council Tax would only pay for around a 1% increase in pay for Local Government workers.

The Scottish Government may claim to have lifted the pay cap, but this means little in practice if public services are not properly funded and the logic of austerity is likely to continue.

Other Spending Decisions

While funding increases have been announced for the NHS, it should be remembered that this now also covers social care, and with demographic changes and increasing demand the funding strains on the NHS are likely to continue.

Police, fire and community justice budgets are protected in real terms. The benefits of Westminster's concession on VAT will be passed on to fire and police and will be worth around £35m. It is important to note that investment here is a result of policy change from Westminster.

The continued cuts to Local Government are stark in the context of the current budget. The Scottish Government may have received a real terms cut from Westminster, but it still received a cash terms increase of £188m. Local Government, however, can expect worse treatment from the Scottish Government as their cash terms budget is frozen. For Local Government in Scotland there will once again be cuts in real terms over and above that which was handed down to Scotland.

The Scottish Government now has revenue raising powers, which have been used primarily to fund tax cuts for business, while austerity continues for Councils. **This political decision made in Scotland, once again raises questions around the commitment of the Scottish Government to supporting and investing in public services.**

Conclusion

While the income tax changes at first glance look positive the lack of ambition is quickly exposed when considering that only £164m is raised in tax. Pledges for tax cuts for business and other spending commitments for first time buyers and on social security quickly reduce the revenue raised to only £28m, far short of what is needed to reinvest in public services and rebuild our economy.

The commitment that the Government made on public sector pay is modest and fails to lift a single public worker's pay above the rate of inflation. For many, however, even these modest proposals prove to be smoke and mirrors and the reality of austerity and falling living standards is likely to remain.

The Scottish Government had the opportunity to chart a different course, to fund public services, raise pay for public workers and stimulate growth in the economy. Instead it is proposing funded tax breaks for businesses, and failing to mitigate austerity, particularly for councils, and only providing a small increase for the NHS. The STUC will be arguing for a range of budget amendments to ensure that this budget is not a missed opportunity for Scotland.