

stuc

Briefing: 2018/19 Scottish Budget

A decade of cuts and austerity has left a lasting impact on our economy. Despite high rates of employment, the quality of work is declining and in-work poverty is increasing. Cuts in the public sector are putting an ever-greater strain on the public sector workforce, even within protected departments. Stress, staff shortages, and underfunding are repeatedly highlighted as issues in every public sector workplace.

The STUC strongly believes that austerity must come to an end and focus must now turn to rebuilding and properly resourcing public services in Scotland. Local Government must be a particular priority in this respect, and properly resourcing Local Government is key to supporting local communities, the foundational economy and achieving inclusive growth.

We are currently in uncertain times, with many economic challenges on the horizon, including Brexit, demographic change and increasing automation. The focus therefore must be on ensuring resilience within our economy. A focus on place based economic development along with resourcing and rebuilding public services, restoring public sector pay and supporting the real economy where most people work is vital.

STUC Priorities

- An end to austerity and a focus on the proper resourcing of public services, including funding to support Fair Work commitments.

- Restorative pay increases for public sector workers.
- Action to address equal pay issues across the public sector, particularly in Local Government.
- A focus on support for the foundational economy, with a review of the effectiveness of small business bonus scheme, the use of locally targeted procurement and effective use of public subsidy to support communities including through a Fair Work First approach.
- A focus on effectively using all tax powers available, including by expanding the tax base with new and creative taxes particularly at a local level.
- A commitment not to provide tax cuts to high earners or untargeted tax cuts for businesses.

At the time of last year's budget the STUC called for the Government to consider not simply issues of progressivity within the tax system but redistribution and the contribution that properly targeted support through well-resourced public services can make to living standards. The STUC believes that greater focus must be placed on supporting and extending the tax base and is currently supporting research by IPPR Scotland to develop costings around changes to the higher rate threshold and tangible proposals on the revenue raising power of a range of local taxes.

Raising the Revenue

The Scottish Government's resource block grant from Westminster will increase marginally in real terms in 2019/20 compared to 2018/19. And the block grant will be slightly higher in 2019/20 than it was at the end of the last parliament, in 2016/17. The increase in funding for the NHS is expected to generate Barnett consequential for the Scottish budget of around £600m in 19/20¹. This, including a range of other increases in spend at a UK level, means that in total, the Scottish Government is estimated to get an extra £950 million more than previously predicted over the next three years.

While we do not underestimate the challenges facing the Scottish Government, it is clear that the Scottish



Government will have some additional resource to put into public services. However, we also recognise that despite claims to the contrary austerity is still a feature of the UK economy and we have a long way to go to restore public services and undo the damage done over the last decade.

It is therefore vital that the Scottish Budget focuses on raising revenue and that this is then used in targeted interventions that support good quality jobs, raise living standards and build a resilient economy.

As was the case last year, the Scottish Government are still not utilising tax options ambitiously enough to protect public services or restore public sector workers' pay. It is important that the Scottish Government looks at the range of tax options available and does not narrowly focus on income tax alone.

Ultimately increasing public spending supports the whole economy and is a form of redistribution of wealth. The Chancellor's increase in the personal allowance to £12,500 will apply in Scotland and represents a tax cut of around £70 per year for people in Scotland earning an average wage². But ultimately this is a regressive policy and the Scottish Government should use other levers to restore the balance and ensure higher earners do not, on balance, receive a tax cut.

The STUC categorically rejects any argument in favour of raising the Higher Rate Threshold in line with changes in England. Analysis from IPPR Scotland suggests that providing a tax cut of this nature to the highest earners would take £280 million out of the Scottish budget. Given the need to reduce poverty, raise living standards and undo the effects of austerity, a cut of this nature cannot be justified.

Public sector pay

As is evident from the increased levels of industrial action and balloting in the public sector, there is growing scepticism amongst workers about the willingness of politicians at national and local level to deliver a budget which adequately funds services and values workers.

The Scottish Government must end austerity in Local Government and must support COSLA to offer a restorative pay settlement to Local Government workers.

Workers across the public sector work hard to deliver public services and it falls on them to protect their future. The STUC urges the Scottish Government to prioritise the delivery of restorative pay offers in order to avert the need for strike action and to properly value the contribution and commitment of workers across the public sector in Scotland.

A focus on the Foundational or Real Economy

The public sector also has a crucial role in supporting the local economy, and is, in itself, a driver of the local economy. With high streets under real pressure there is a need for publicly supported, local, economic development.

A way to do this is by supporting the foundational economy built from the activities which provide the essential goods and services for everyday life, including infrastructure; utilities; food processing; retail and distribution; and health, education and welfare.

However, nearly £100 million of additional revenue raised in last year's budget were 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.

In addition, £226 million was awarded to 104,000 recipients in Scotland in 2017-18 via the Small Business Bonus Scheme, which was an increase of £46 million from £180 million in 2016-17³. The Barclay Review has noted that this relief is not necessarily effective and called for a review.

The STUC is not against support for business. But it is necessary to ensure that this money is spent well and supports economic development, business growth and employment. Too little scrutiny is placed on the effectiveness of these packages, particularly given the wider context of tight budgets and austerity.

Investing money in the foundational economy supports the local economy in such a way that investing in large or multinational companies does not. With Brexit on the horizon there has never been a greater need to focus on communities and retain the value of spend locally. A focus on the foundational or real economy offers greater rewards for the money spent.



Pay in women's pockets decreases the gender pay gap

There is a specific legal duty on Scottish Ministers, derived from Section 57 of the Scotland Act and Article 7 of the International Covenant on Economic Social and Cultural Rights, to ensure that public authorities in Scotland meet their duty to eliminate pay discrimination between women and men.

The Accounts Commission reported 70,000 equal pay claims between 2005-16, with 27,000 live claims as at September 2017⁴. There were also 4,000 new claims in Glasgow City Council in 2017/18. Despite the ongoing or escalating nature of the problem, the Accounts Commission elected to make no plan for follow-up action.

The existence of enduring pay inequality in Local Government is well known. Three parliamentary inquiries addressed these issues – however the findings were generally ignored. There is, therefore, still a need for

a wider independent analysis of the systemic failure of relevant public bodies to meet their Human Rights obligations. However, the STUC believes that the Accounts Commission report of 2017 provides sufficient basis for the Cabinet Secretary to meet his legal obligations and have due regard to the financial assistance required by Local Government to address pay inequality.



The Scottish Government must consider how it can support the elimination of pay inequalities, meeting its own Human Rights obligations and ensuring that thousands of pounds are put in the pockets of Scotland's low paid women workers.

It is untenable to continue with an austerity agenda. Public services are crucial for the promotion of equality and wellbeing for people and communities. The STUC would also question the rationale of pursuing tax cuts for small businesses while subjecting Local Government to high levels of funding cuts. Supporting Local Government, raising the wages of public sector workers, and promoting locally led, economic development within the foundational economy could more effectively encourage inclusive growth in communities, than poorly targeted rates relief programmes.

We are currently in uncertain times, with many economic challenges on the horizon the STUC therefore recommends a focus on resourcing public services, restoring public sector pay and supporting the real economy while considering ways to extend the tax base to support revenue raising and redistribution. The Scottish Government must also meet its Human Rights obligations and must take steps to address equal pay issues. These issues should be given priority in the 2019/20 Scottish Budget.

<https://fraserofallander.org/scottish-economy/fiscal-policy/uk-budget-2018-additional-spending-but-tax-dilemmas-for-the-scottish-government/>

<https://www.sbs.strath.ac.uk/economics/fraser/20181108/Scotlands-Budget-2018.pdf>

<https://news.gov.scot/news/record-number-of-small-businesses-accessing-relief>

'Equal Pay in Scotland's Councils', September 2017, <http://www.audit-scotland.gov.uk/report/equal-pay-in-scottish-councils>