STUC Budget Submission 2016

Executive Summary

Despite the Scottish economy now having recorded 12 quarters of consecutive growth, the STUC has serious concerns over the prospects for rising and broadly shared prosperity in Scotland through 2016 and beyond: the crisis in the offshore sector shows few signs of abating, manufacturing output is now lower than in the 3rd quarter of 2010 and UK imposed austerity will restrict GDP and jobs growth till at least the end of the decade. It is looking probable that the Chancellor may introduce further spending cuts at the forthcoming Budget and the Government's decision to hold a referendum on the UK's EU membership will increase uncertainty and dampen investment. The troubling domestic outlook is hardly assisted by a global environment where even low or negative interest rates and huge falls in commodity prices have failed to stimulate investment.

Therefore the recommendations in the STUC's 2016 Budget Submission include:

- With the Chancellor acknowledging that the economy is facing significant internal and external challenges, there should no consideration of further spending cuts. Rather, fiscal consolidation should be 1) postponed until the economy is able to withstand contractionary effects, and 2) shifted from spending cuts towards tax increases for those best able to shoulder the impact.
- Budget 2016 to stimulate job creation by providing additional public investment of 2% of GDP in each year across the forecast.
- the Chancellor should drop his mandate for fiscal policy which has no support in the economics community. Any replacement must enable the Government to take advantage of historically low rates on interest by increasing investment spending.
- Every possible assistance to be provided to the crisis hit oil and gas industry including: support for workers losing or at risk of losing their job; loan guarantees for struggling firms in the supply chain; fiscal measures to incentivise collaboration and innovation; incentives for increasing exploration, infrastructure access and making it easier for new entrants to take over late life assets; reducing headline corporation tax to the standard rate (to be revisited should profits begin to rise significantly). The submission also reiterates general priorities for (non-Budget) Government action;
- The carbon capture and storage competition should be reintroduced forthwith and sufficiently funded;
- There is a very strong case for increasing the top rate of income tax. There should be no contemplation of lowering further – a move which will lose revenue and increase inequality. Like previous cuts in inheritance tax, to do so would be thoroughly inconsistent with the stated priority of fiscal consolidation; and,
- The Chancellor should immediately cease sales of public assets.

Introduction

The Chancellor will announce his 2016 Budget in a climate of massive global economic uncertainty: global growth is weak and forecasts have been revised down by the global economic institutions; stock markets have been particularly volatile in the early part of the year and growth has slowed across emerging markets. Falling commodity prices have failed to generate the scale of stimulus anticipated this time last year and investment remains low despite historically low interest rates. Even the negative interest rate policies now being pursued by the European Central Bank, Bank of Japan and Switzerland, Denmark and Sweden only appear to be delivering further instability in the banking system.

Scotland only just managed to avoid a recession through the middle quarters of 2015. The crisis in the offshore sector (not directly reflected in Scottish GDP) provoked by the low oil price is having a devastating impact on the supply chain. Manufacturing, suffering from the relative strength of sterling, weakness in export markets and from the oil and gas collapse, contracted in each of the first three quarters of 2015 and is in technical recession. GDP per capita in Scotland has yet to return to its pre-recession level. The announcement of the EU referendum has introduced a new layer of uncertainty which is likely to undermine growth and jobs in the first half of 2016 at least and possibly thereafter.

Real wage growth, having recovered reasonably strongly through late 2014 and early 2015, is again slowing; nominal wage growth is weak and only very low inflation is supporting the increase in real wages. Despite the optimistic views expressed by both the UK and Scottish Governments, there is significant cause for concern over the state of the labour market. Fiscal consolidation at UK level continues to exert a contractionary effect on the Scottish economy whilst forcing society's most vulnerable citizens to shoulder the pain of adjustment.

The six years the Chancellor has been in charge at the Treasury have witnessed a historically weak recovery and an unprecedented collapse in real wages. What passes for an economic strategy isn't working and, worse than that, is actually undermining sustainable long term growth. The last thing the UK needs is corporation tax cuts, further deregulation and, most importantly, policies which deliberately seek to inflate another housing bubble.

The much vaunted economic 'rebalancing' - from finance to manufacturing; from domestic consumption to net exports; from London and the South East to the nations and regions of the UK- has been an abject failure. Indeed, it looks to all intents and purposes as if the Coalition has ceased to be remotely serious about this agenda. Similarly, efforts to deal with the source of the original crisis in the banking sector have been embarrassingly weak.

In this context, the Chancellor's boast about the UK's very recent economic performance as measured only by GDP growth ring very hollow. The opportunity presented by historically low interest rates to help fill the UK's longstanding investment deficit is in danger of being squandered.

The Autumn Statement and Spending Review

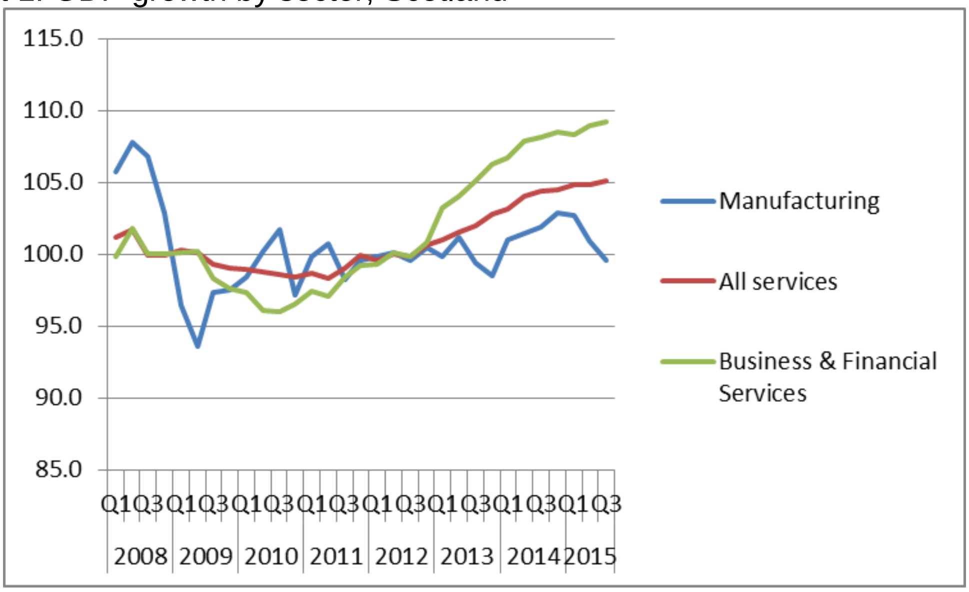
The Chancellor's presentation of the current state and future prospects for the UK economy as he announced his Spending Review and Autumn Statement on 25 November was unreasonably optimistic. The OBR's Economic and Fiscal Outlook published simultaneously did not support the Chancellor's account:

- The Chancellor's highly selective choice of statistics designed to support his 'highest growth in the G7" position can't hide the fact that this has been the slowest recovery in modern times;
- The recent uptick in wages and household incomes has not yet come close to compensating for lost income during the 2009-2014 period and in any case, wage growth is slowing again;
- 2010 targets on growth and fiscal consolidation have been missed;
- No significant rebalancing has been achieved; and,
- The OBR's analysis, whilst not as stark as this time last year, still suggests that the UK economy is returning to pre-2008 levels of private debt. The forecast is that net trade will make no positive contribution to growth over the forecast period.

The Scottish economy

Unlike for the UK as a whole, GDP per capita in Scotland has yet to return to its 2008 peak. The recovery is weaker than for the UK as a whole and more unbalanced:

Chart 1: GDP growth by sector, Scotland



Through 2015 it became apparent that the Scottish economy faces new challenges: the fall in the global price of oil has led to falling investment and heavy job losses in the North Sea, a number of large manufacturing workplaces have closed or remain under significant threat (Tata, Young's Seafood, Tullis Russell) and the UK Government is intent of pursuing austerity for the course of the current Parliament. The Spending Review confirmed a 5% cumulative real terms cut in the Scottish Budget. The 'additional' £1.9bn won't be sufficient to return the capital budget to 2010 levels.

The STUC believes that current forecasts for Scottish economic growth of around 2% in 2016 are likely to prove optimistic.

Labour Market

A separate labour market report is published alongside this submission. It builds on recent STUC analysis to dig below headline indicators to provide a comprehensive overview of the current state of the Scottish labour market stressing:

- unemployment level is still 55,000 or 51% higher than its pre-recession trough;
- full-time jobs, despite increasing over the year, are still down since 2008; part-time jobs and self-employment have risen significantly – these trends are looking increasingly like significant structural changes within the labour market rather than the short-term cyclical fluctuations that usually accompany recessions;
- youth unemployment has fallen but attributable more to rising inactivity as to employment growth – young workers are also bearing the brunt of falling real wages and rising insecurity (they form a disproportionate number of all workers on zero-hour contracts);
- the median Scottish worker is earning over £1170 less than if gross wages had kept with inflation since 2009. The distribution of wage growth over the recent period has been massively unequal with workers in the top deciles of the highest earning sectors benefitting from rapid real wage growth whilst workers in the bottom decile of the lowest earning sectors have suffered falls in *nominal* wages; and,
- Scotland's ***full time employment deficit*** is at 15.2% (the unemployment rate is 5.8%) demonstrating that there is significant slack in the labour market and that tens of thousands of Scottish workers are unable to find the jobs and working hours they require to make ends meet.

Public finances

Austerity has failed on its own terms as the STUC always argued it would: the deficit in 2015/16 is much higher than anticipated in 2010 and almost certainly higher than forecast in Budget 2015. The stock of debt has risen much faster and will peak later than forecast in 2010. Austerity has had to be extended and the Chancellor is already signalling that further cuts might have to be implemented in Budget 2016. His rationale – that the economy is weakening – makes no economic sense. *If the economic is weakening, and we believe this analysis is correct, this is precisely the time for fiscal loosening, not tightening*. The Chancellor seems determined not to learn from the prolonged period of stagnation that followed his initial austerity budgets.

Tax revenues continue to under-perform against forecast and the OBR is poor at explaining why it thinks revenues will now recover strongly (although it expects rising real wages to be a key contributory factor). Indeed, revenues were low even before the crisis. The Government has failed to address this crisis in revenue collection.

The forecasts for growth and tax revenues on which the Chancellor based his autumn statement are already looking optimistic: the Bank of England has cut its forecast for real wage growth by 1% since November suggesting that income tax and NI receipts may fall by as much as £5bn. The fall in equity prices could lead to a £2bn shortfall in capital receipts.

Fiscal mandate

The Government's capacity to react sensibly to the negative trends noted above is now severely constrained by the fiscal mandate ("In normal times, once a headline surplus has been achieved, the Treasury's mandate for fiscal policy is *a target for a surplus on public sector net borrowing in each subsequent year")*. The STUC acknowledges that the mandate is more transparent than previous fiscal rules but is seriously concerned that it makes running sensible fiscal policy very difficult. Indeed, we are unable to identify a single prominent and independent economist who supports the mandate.

The many problems with the mandate have been noted by the IFS and others: the sharp threshold at 1% growth is suboptimal, the threshold will politicise the OBR's forecasts (pressure will be assumed to have been applied should the forecast come in close to but under 1%), fiscal policy will have to be tighter than simply running a surplus and sharp in-year adjustments in policy are almost inevitable. The STUC is particularly dismayed that the requirement to run a surplus prevents the Government responding to low interest rates by increasing investment spending; previous measures sensibly allowed additional borrowing for investment.

Recommendations

- With the Chancellor acknowledging that the economy is facing significant internal and external challenges, there should no consideration of further spending cuts. Rather, fiscal consolidation should be 1) postponed until the economy is able to withstand contractionary effects, and 2) shifted from spending cuts towards tax increases for those best able to shoulder the impact.

- the Chancellor should drop his mandate for fiscal policy which has no support in the economics community. Any replacement must enable the Government to take advantage of historically low rates on interest by increasing investment spending.

Oil and gas

The STUC believes that the scale of what is happening in the North Sea isn't yet fully appreciated by policymakers and media. The fall in the global price of oil since summer 2014 has been driven by a range of cyclical *and structural* factors and it is now widely expected that the oil price won't return to $60 till the end of the decade at the earliest. Some prominent commentators are forecasting that the price could remain under $50 till at least 2024. It is difficult to identify which any economic or geopolitical factors that might soon affect demand or supply to the extent necessary to shift the price significantly upwards. While most now accept that the price will stay 'lower for longer' this often masks a refusal to face up to the structural changes – particularly the impact of US shale - which have forced down the price with no sign of a quick rebound.

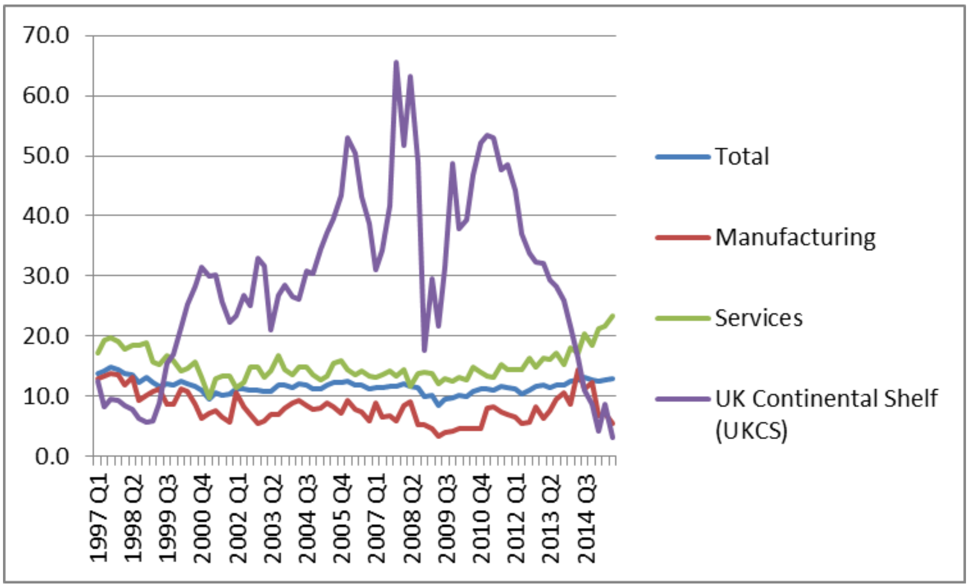
Tax

There are currently loud calls, by the Scottish Government and others, to reduce the tax levied on profits accruing from North Sea operations. This risks suggesting that the tax regime is in some way to blame for the industry's current state of crisis.

The STUC believes this is simply erroneous: the tax regime may be imperfect and too often subject to arbitrary change in the past, but it isn't the cause of the industry's current crisis nor will tax cuts provide a smooth route back to profitability and growth. *It is also vital to stress that any industry which benefits from the exploitation of a finite natural resource should in normal circumstances expect to pay a supplement on the standard rate of corporation tax*.

In the current environment it is unreasonable to argue that tax cuts alone can provide a significant boost to the industry. Taxes (Petroleum Revenue Tax charged at 35% on profits from fields given approval before March 1993; Corporation tax charged at 30% of profits net of any petroleum revenue tax payments and the Supplementary Charge of 20%) are levied on profits, and profitability in the UKCS is at currently at historically low levels. The net rate of return for UKCS companies (those involved in the exploration for, and extraction of, oil and natural gas from the UKCS) was only 3.2% in the third quarter 2015. Given the near halving of the oil price since, it is reasonable to expect profitability to have declined again in the last quarter of 2015 and the first of this year. Indeed, as the chart below shows, due to falling production and higher costs, it can be argued that profitability was in secular decline prior to the collapse in price from summer 2014.

Chart 2: UK, net rates of return of UK private non-financial companies



Recommendations

However, recognising the pressing need to utilise any mechanism which might help to sustain jobs and skills in the North Sea and achieve the Government's objective of maximising economic recovery, the STUC is recommending significant changes to the current regime. These can be broken into three parts:

a) the most pressing requirement for the oil and gas sector is to rapidly improve its performance on collaboration, innovation and employment standards. *HMT must quickly work with the industry to develop and introduce effective tax incentives to drive better performance in each area*.

b) The STUC has previously supported specific measures aimed at increasing exploration, infrastructure access and making it easier for new entrants to take over late life assets. We therefore support OGUK's calls to help unlock the late-life asset market by addressing the remaining fiscal barriers:

- Enabling the decommissioning tax relief to transfer with the sale of an asset;
- Ensuring tax relief can be accessed by the vendor if they retain the decommissioning liability;
- Encouraging exploration by permanently removing the special taxes from all discoveries made over the next five years;
- Making the Investment Allowance more effective by e.g. increasing the rate to the same as that onshore (75 per cent) and extending it to cover all enhanced oil recovery projects (consumables as well as fixed equipment) and infrastructure.

c) Notwithstanding the comments above, the STUC supports an immediate and significant reduction in the headline tax rates for old and new assets. While we are under no illusions as to the scale of the immediate benefits to the industry, there is the potential that tax cuts might swing decisions on some investment projects at the margin. However, should economic and geopolitical factors lead to a surge in the oil price and an associated rebound in profitability, HMT should quickly reassess the tax regime. Given the maturity of the UKCS and the structural factors currently weighing on the global price, it may be unlikely that marginal tax rates will return to current levels (67.5% for fields paying PRT; 50% for other fields) but an appropriate social return is a necessary condition for ongoing public support for the industry.

The STUC would also strongly encourage HMT and DECC to urgently consider support mechanisms for firms in the supply chain. If loan guarantees were appropriate for banks at the height of the financial crisis, a similar mechanism is certainly appropriate for firms in the oil and gas supply chain.

A future worth fighting for

The STUC strongly supports the approach set out by the offshore unions at the launch of the Offshore Co-ordinating Group in February.

The offshore unions are convinced *there is a future worth fighting for*. But building a sustainable future demands that the industry's response to current challenges must be based on collaboration, innovation and common high standards and a mature assessment of why costs in the UKCS continue to be higher than similar jurisdictions. Action which helps achieve these objectives is significantly more important than tax cuts. The economic benefits of the industry will not be maximised by undermining safety and job security or allowing the pool of skilled labour to evaporate. Thorough and substantive dialogue between unions, employers and Government will be central in determining a positive future for the industry as well as dealing with current issues.

Recommendations

Therefore the STUC encourages HMT and DECC to urgently consider how Budget 2016 might support the following priorities as the minimum required to provide a secure future for North Sea workers and maximise economic recovery:

- In order to halt and ultimately reverse the rapid race to the bottom in employment standards, *employers must continue to abide by national collective agreements.*

- *Workers' health and safety must remain paramount* – it is essential that operators, contractors and regulatory agencies work with unions to ensure reporting systems are operating fairly and efficiently and that workers are empowered to raise concerns and not disadvantaged by doing so.

- *Employment of foreign nationals on exploitative sub-national minimum wage contracts in shipping must end as must the flagging out of helicopter transport* – the Oil and Gas Authority (OGA) should have the power to set and police minimum standards.

- *A coherent plan for maximising economic benefit from the North Sea must be developed*. This should address opportunities for standardisation and simplification, and for diversification (e.g. renewables and Carbon Capture and Storage) as well as developing an approach to decommissioning which seeks to maximise UK employment opportunities over an appropriate timescale.

- *Workers who have been made redundant or at imminent risk of redundancy must be supported to find skilled employment at similar rates of pay*; this should involve properly resourced, targeted retraining opportunities.

- *The oil and gas companies should cease demanding cuts from contractors that have a direct and detrimental impact on jobs and safety* - the OGA should be given powers to intervene to prevent such damaging abuses of market power.

Manufacturing/industrial policy

As chart 1 above shows, the recovery in Scotland has been largely driven by services with manufacturing effectively flat-lining since the end of 2010. As a consequence of the relative strength of sterling (at least until the EU referendum was announced), weakness in export markets and the knock on effect of the collapsing oil price, manufacturing contracted in the first three quarters of 2015 (Q4 data will not be published till April). Manufacturing is in technical recession and there are few signs that a durable recovery is on the way.

Although the Chancellor has reiterated support for active industrial strategy this is really confined to the automotive and aerospace sectors. It appears that the ‘march of the makers’ rhetoric and commitment to sectoral ‘rebalancing’ are being quietly dropped. Although it wasn’t announced in the Chancellor’s statement or associated papers, the Government confirmed that it would no longer support the Manufacturing Advisory Service). This and other cuts to BIS funding render a serious approach to industrial strategy difficult if not impossible.

Particularly damaging will be the decision to withdraw funding from the UK Commission for Employment and Skills (UKCES) which has performed essential functions in providing support on employment and skills issues. UKCES also provided high quality labour market data and analysis to facilitate better policymaking. As things stand this important labour market intelligence will be lost, together with the analysis and insight provided by the Commission’s unique social partnership. It is hugely disappointing that the UK Government seems determined to destroy the last vestiges of European ‘social partnership’ by abolishing or fatally undermining the few UK institutions in which employers, unions and Government work together to improve economic and labour market conditions.

Following a year which has witnessed the near collapse of the UK Steel industry, it is vital that the UK Government takes a much more robust approach to negotiating and defending trade agreements and enforcing WTO rules. The dumping of Chinese steel, the result of massive over capacity, produced by heavily subsidised state owned enterprises and sold below cost, has had profoundly detrimental consequences for the European steel sector although other member states have, as usual, been more creative in supporting their industries.

The STUC has long proposed an approach to manufacturing policy which prioritises access to patient, committed capital, skills, procurement, image and profile, export assistance, and action on ownership and control. The following recommendations, if implemented, would provide a much needed boost to UK manufacturing.

Recommendations

- Experience from other countries tell us that political leadership is vital: ***ministerial support for manufacturing must be visible and unrelenting***; Politicians and the media must do more to celebrate manufacturing success stories;
- The UK Government must ensure that WTO rules are properly enforced to return globally traded sectors to something like a level playing field. The dumping of Chinese steel must be urgently addressed;
- The decisions to axe the Manufacturing Advisory Service and withdraw funding from the UKCES should be reversed in Budget 2016;
- The UK Government must finally ***establish a properly resourced industrial development bank to provide patient, committed capital to manufacturing firms*** often discriminated against by the short-termist UK financial sector. It is essential that the bank does not simply replicate failed private sector structures; there is a clear social dimension here. Policy guidelines for the Bank should be set by a management board that reflects the diversity of the economy and recognises that sustainable economic development should aim to make the UK a better place in which to live and work as well as a better place in which to do business.
- General tax breaks and subsidies to all small firms should be ended and targeted instead at growing, job generating firms willing to invest in people, exports and innovation;
- Ministers to promote the positive benefits of indigenous ownership of industry and to defend ownership interests when necessary;
- HMT must build on work already underway to ensure that procurement policy supports indigenous manufacturing as far as is practicable under EU law and develop sectoral procurement strategies;

Energy

Over the past year, it has been confirmed that Longannet will close and there are no advanced plans to build new, large scale baseload/balancing lectricity generating capacity in Scotland. Scotland is in imminent danger of losing its longstanding position as a net exporter of energy. Despite a longstanding consensus that energy policy should focus on meeting the imperatives of climate change, security of supply and affordability, almost no progress has been made.

The decision to scrap the £1bn funding for a competition to build the UK's first carbon capture and storage facility – a 2015 Conservative Party manifesto commitment - wasn't communicated in the Chancellor's Autumn Statement speech or even detailed in the lengthy accompanying documents. Officials called industry players as the nation's media started to digest the Budget's detail; a cowardly method of communicating a very bad decision.

Unless significant numbers of the world's top engineers and geologists, the Intergovernmental Panel on Climate Change, the Scottish Government and the UK Government's own Committee on Climate Change (the list could go on) are wrong, CCS is both technically feasible and very necessary. The UK has a number of advantages that led many to assume it could and should pioneer this important new technology: accessible storage opportunities, a mature offshore sector, world leading academics and UK (based if not always owned – an important distinction) companies with relevant engineering experience. Yet the Treasury now decrees that if CCS is eventually deployed here in the UK, it will be with technology owned and developed in other countries. The bulk of the associated economic benefit will accrue to the nations accepting this challenge.

It may be entirely consistent with the Treasury's longstanding approach to industrial development but nevertheless the lack of ambition reflected in pulling the CCS competition is depressing. For over a decade successive administrations have excitedly promoted the potential of CCS while singularly failing to provide the necessary support. Industry has suffered a number of false starts and broken promises. This is anti-industrial policy. Sufficient private funds will never be forthcoming for expensive, nascent technologies which can only promise uncertain returns over indefinite time frames. Public sector support is necessary to de-risk the investment. If the UK system cannot provide such support to an emerging industry with massive employment, industrial and export potential then the UK economy will forever be smaller, less diverse and less resilient.

Recommendations

- The CCS competition should be reintroduced forthwith and sufficiently funded; and,

- The transmission charging regime across the UK must be urgently overhauled to support new, large scale investment in Scotland.

Tax

The STUC has been highlighting issues of tax reform in its Budget Submissions for over a decade. Recent submissions have stressed the need for robust action to tackle evasion, avoidance and non-payment. The fact that these issues are now firmly on the political agenda represents genuine progress but action taken to date has been wholly insufficient. Despite encouraging rhetoric, the Government has singularly failed to introduce robust measures. Worse, they've introduced tax 'reforms' which actually enable further evasion and avoidance

The STUC believes that revenues are currently insufficient to fund required levels of investment in public services and to meet the great investment challenge precipitated by climate change. The system as a whole is insufficiently progressive and the wider benefits of a higher top rate of income tax are often completely overlooked: there is very strong evidence that cutting the top rate of tax increases the incentive for mangers/executives to bargain in their own interests and postpone or cancel job creating investments. A far richer debate on the structure of the UK tax system is urgently required.

As the Resolution Foundation has recently argued, it is also vital tax expenditures, which currently cost around £100bn are subject to much more scrutiny. While some of the tax reliefs intended to promote 'economic and social objectives' might be good value for money (e.g. R&D tax breaks), others provide poor value whilst being highly regressive (e.g. capital gains and entrepreneur's tax reliefs).

Recommendations

- Changes to be focused on boosting the incomes of the lowest income households i.e. further increases in the personal allowance will be expensive and very poorly targeted in this respect;
- A major investment in HMRC resources in order that effective action might finally be taken against evasion, avoidance and non-payment; and;
- There is a very strong case for increasing the top rate of income tax. There should be no contemplation of lowering further – a move which will lose revenue and increase inequality. Like previous cuts in inheritance tax, to do so would be thoroughly inconsistent with the stated priority of fiscal consolidation; and,
- A major review of the value of all tax expenditures including a commitment to publish an annual review of tax expenditures especially the most regressive.

Welfare Reform

The STUC believes that the withdrawal of tax credit cuts, a major announcement in the Autumn Statement, is essentially meaningless in the longer term as the cuts to Universal Credit have been confirmed. A range of authorities have also confirmed that rising employment and wages are insufficient to compensate for the cuts to in-work benefits.

The range of issues concerning welfare reform and the forcing of society's most vulnerable citizens to shoulder the burden of austerity cannot be adequately addressed in this submission. The current approach to welfare reform will have significantly adverse impacts through the course of this Parliament as revealed in the recent joint IFS/Joseph Rowntree Foundation[1] findings:

- *there will be no growth at all in real incomes at the bottom of the distribution over that period on average, partly as a result of planned cuts to benefits. As a consequence, absolute poverty across the population as a whole will be unchanged, despite the real growth in average income. However, projected trends in absolute poverty diverge significantly between different groups.*

- *absolute child poverty is projected to increase from 15.1% in 2015–16 to 18.3% in 2020–21. This increase is driven entirely by a sharp rise in poverty among families with three or more children, which is itself the result of planned tax and benefit reforms.*

- *incomes towards the bottom of the distribution will fail to keep pace with median income over this parliament, relative poverty is projected to increase. Again, there are sharp differences across family types: relative pensioner poverty is projected to be roughly unchanged, while relative child poverty is projected to rise from 17.8% in 2015–16 to 25.7% in 2020–21, undoing most of the falls since 1997–98.*

- *Household income inequality is expected to increase between 2015–16 and 2020–21.*

- *Although the 'National Living Wage' will significantly increase the incomes of some low earners, it is projected to have very little impact on official measures of poverty or household income inequality in 2020–21.*

[1] http://www.ifs.org.uk/uploads/publications/comms/R114.pdf

Budget 2016 should seek to reverse these trends. Tax and benefit changes should be focused on boosting the incomes of those in the bottom of the household income distribution.

Privatisations

The Spending Review confirmed a number of privatisations; indeed the Chancellor boasted about the range and scale of sell-offs confirmed in his announcement. Some (e.g. remaining stake in NATS – air traffic control service) have an obvious industrial impact. Others (e.g. sale of Green Investment Bank) will influence the shape of economic development. The sell-offs are in some instances immediately and obviously represent a financial detriment to the Exchequer (e.g. sale of Eurostar stake).

The Government's approach to privatisation has been driven by ideology and a perceived need to flatter the public finances. It has failed to provide a mature assessment of why it thinks the economy will benefit in each instance. Even the IFS argues:

"*A strategy of selling off physical assets or long-term financial assets would reduce the measure of debt that the UK government typically focuses on (i.e. public sector net debt) but might not deliver the best set of outcomes for society because it would not necessarily be driven by consideration of whether public or private ownership of the assets was more desirable*".

The privatisation of the Green Investment Bank risks undermining the very purpose of the Bank as the commitment to invest in green projects is diluted or removed. There are parallels with the privatisation of the Industrial and Commercial Finance Corporation (ICFC), an error from which UK industry has never recovered. The repositioning of its activities contributed significantly to the switch in UK venture capital from early stage in the mid-1980s to management buy-outs and buy-ins by the end of the 1990s. The UK had once again returned to being a country in which there was little serious long-term funding of SMEs and limited venture capital to finance seed-corn, start-ups and early stage ventures. The risk is that the same process is repeated with the GIB which is now much more likely to focus on projects which promise higher returns over shorter timescales. The public interest will be lost.

Recommendations

- The Chancellor should consider an immediate cessation of sell-offs of public assets.

Public investment

The single most important measure the Chancellor could introduce in Budget 2016 would be to significantly increase public investment in infrastructure to create quality jobs across the country and boost the economy's capacity to grow sustainably in the longer-term. There is now a very wide consensus – including the OECD and IMF – arguing strongly that now is the time to take the opportunity offered by historically low interest rates to invest in the UK's infrastructure which, by any reasonable assessment, compares badly to other countries. Priorities should be projects with high social returns which will help support future growth (e.g. public transport, flood prevention, education and health infrastructure).

As low or negative interest rates across the developed world fail to stimulate new investment, it is difficult to see current levels of employment being sustained without a significant program of public investment. The STUC cannot ascertain any reason why additional investment of around 2% of GDP could not be sustained; indeed the markets are likely to react positively to new investment in job creating and growth supporting infrastructure.

Recommendation

- Budget 2016 to provide an additional public investment of 2% of GDP in each year across the forecast.

STUC
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