STUC submission to Finance and Public Administration Committee's call for views on the sustainability of Scotland's finances

1. **How should the Scottish Government's Budget 2024-25 and its future budgets respond to these challenges?**

The STUC recognise the budgetary challenges facing the Scottish Government. Alongside demographic pressures, the UK Government's wrong-headed approach to public finances is creating problems not of the Scottish Government's making, while the lack of significant borrowing powers limits Scottish Government powers to chart a different path.

However, the Scottish Government can and should do more to raise tax in order to reduce inequality, invest in our public services and tackle climate change. STUC research from last year shows that the Scottish Government could raise more than £3 billion through a package of short and long-term tax measures.[1]

In the short-term, this includes:

- a series of income tax reforms – including increasing the top rate and an additional bands for those earning between £75,000-125,000
- increases to Council Tax for high-value properties
- increases to Land and Buildings Transactions Tax
- increases to the Additional Dwellings Supplement
- increases to Scottish landfill tax

In the longer run, this includes:

- a wealth tax
- replacing Council Tax with a Proportional Property Tax
- scrapping or reforming the Small Business Bonus Scheme
- the introduction of a Land Value Tax for commercial land
- a carbon emissions land tax
- increasing the Scottish Aggregates Levy

Scotland is not short of wealth. Exploring every avenue to increase tax on those who can afford to pay is the fairest and surest way in which the Scottish Government can tackle the financial challenges it faces while reducing inequality, protecting our public services and investing in measures to tackle climate change.

2. **Does the Scottish Government's 'three pillars' strategic approach to managing the public finances adequately address the scale of financial pressures expected in the Scottish Budget 2024-25 and in the medium-term? Should the Scottish Government follow a different approach instead, and if so, why would that be more effective?**

The STUC welcomes the Medium Term Financial Strategy (MTFS) focus on tax. Given the pressures on public services, the cost-of-living crisis, and the fall in real wages in Scotland (which has impacted those in the public sector worst), there is a pressing need to raise revenue, particularly from those with 'the broadest shoulders'.

On spending, we recognise Government should always consider how public spending is meeting its priorities. However, the STUC would caution against cutting funding from public

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1 https://stuc.org.uk/files/Reports/Scotland_Demands_Better_Fairer_Taxes_for_a_Fairer_%20Future.pdf

services or programmes which deliver crucially important outcomes, but which, for political and budgetary considerations, are deemed to not be meeting the Scottish Government's 'missions'. All possible levers to raise funding must be explored before cuts to public services are considered.

On economic growth, we recognise the need for economic development that creates well-paid, good, unionised jobs, and creates tax revenues. However, the way in which this is done is crucial. Investment in infrastructure – whether that be childcare or public transport – plays a critical role in supporting positive economic development. Blanket tax reliefs to companies, whether they provide Fair Work or not (such as the Small Business Bonus Scheme), does not.

3. **Given the pressures on the capital budget, how should the Scottish Government prioritise its capital spend in the Scottish Budget 2024-25 and over the medium-term?**

Capital spending should prioritise investment which addresses the cost-of-living crisis and the climate crisis simultaneously, while enhancing democratic control over the economy. This means investment in public transport, the energy efficiency of homes, and transforming our energy system in a way takes back control from profiteering multinational energy companies. This could include funding for Local Authorities to establish municipal bus companies and municipal retrofitting programmes as well as capital funding to establish a publicly owned energy company, like the Welsh Government have done.

4. **What are the implications of a declining capital budget, including on the productive capacity of the Scottish economy?**

Reducing capital expenditure will further deepen and entrench the UK's low investment model, with the state and businesses failing to invest in research and development or productivity enhancing measures. It will also weaken public sector net worth - the most comprehensive measure of what governments own and owe.

At the same time, we face unparalleled challenges in meeting climate targets requiring billions of pounds of public investment. Decarbonising our buildings alone is estimated to cost £40 billion – much of which will need to come from public investment.

STUC commissioned analysis shows that a £13 billion green stimulus package could create 150,000 jobs in Scotland.[2] In the context of a UK Government and Bank of England strategy to suck demand out of our economy, there is a clear need for greater capital borrowing powers for the Scottish Government.

5. **The Scottish Government's spending plans for resource (day-to-day spending needed to run public services) and capital (investment in assets and infrastructure) for 2024-25 until 2026-27 are to be updated and published alongside the Scottish Budget 2024-25 later this year. Where should the Scottish Government protect or prioritise spending in these multi-year plans? Please also indicate how these funds can be found, such as increased taxes or reallocation of money from another portfolio.**

Public services in Scotland are at breaking point. The Scottish Government must protect and prioritise spending in frontline public services and in public sector pay. It must invest in local

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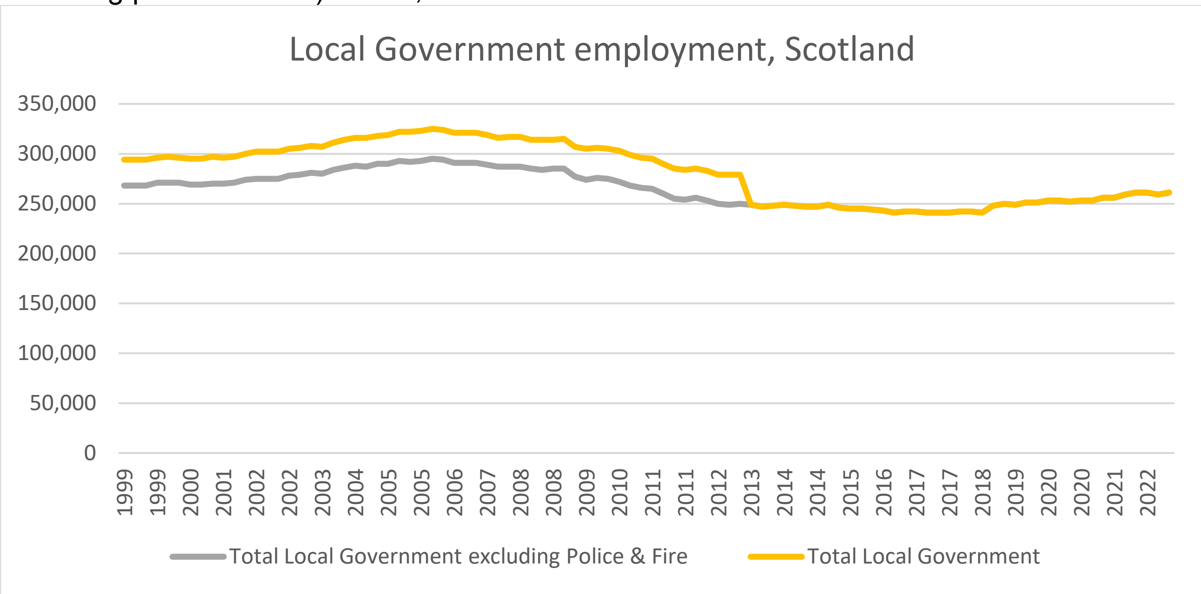
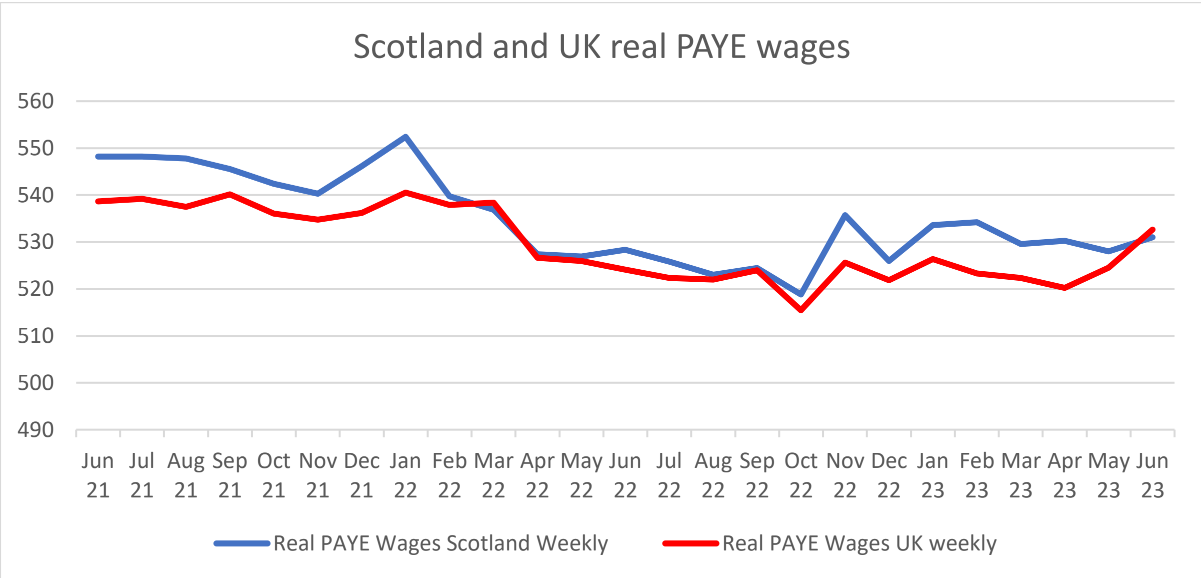
[2] https://stuc.org.uk/files/Scotland_Report.pdf

government which has seen employment fall from 325,000 workers in 2006 (295,000 excluding police and fire) to 260,000 in 2022.



Source: STUC analysis based on public sector employment statistics

The Scottish Government must also invest in public sector pay. STUC analysis shows that in the two years to June 2023, the average employee in Scotland has lost £1,448 in wages as a result of pay not keeping up with inflation.[3] This is higher than the average across the UK – which is £995.



Source: STUC analysis based on real time PAYE wages and CPI inflation

Given Scotland's relatively large public sector workforce, and the recent pay offers made by the UK Government, the Scottish Government must reconsider its public sector pay strategy of 3.5%. If they do not, real wages in Scotland are likely to fall further behind the UK.

Investment in public sector services and in pay should be paid for through tax increases, as outlined in the STUC's tax report (see response to question 1). In addition, expenditure on

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[3] https://stuc.org.uk/files/STUC%20-%20Analysis%20of%20real%20wages%20using%20Scottish%20PAYE%20data.pdf

the Small Business Bonus Scheme (SBBS), which grew from £93 million in 2008 to £279 million in 2020 (in real terms at 2020 prices), should be scrapped or repurposed to support employers that provide Fair Work.

6. **The Scottish Government plans to address the budgetary implications of the expected long-term fall in population through growing the economy and tax base, public service reform, and an upcoming 'Addressing Depopulation Action Plan'. Are these the right priorities to address the implications of this fall in the population and, if not, how could the Scottish Government be more effective in this area?**

While growing the Scottish population and the tax base is crucial – and the STUC support additional powers on migration for the Scottish Parliament to enable this – there is also a need to increase wages, including public sector wages.

Research for the STUC suggests that a 10% increase in public sector pay could increase employment in Scotland by up to 9,000 additional jobs, improve the public finances, increase income tax receipts by around £750 million and increase receipts of National Insurance Contributions (NICs) by just under £550 million. These are just the first-round effects; there would be additional increases in income tax and NICs receipts arising from multiplier effects. In addition to this, the increase in public sector pay would give rise to increased receipts of VAT and other indirect taxes due to increased consumer spending on goods and services subject to VAT and excise duties.[4]

While the STUC is not opposed to reform to improve public services, reform should have an aim of strengthening public services rather than trying to 'do more with less'. Genuine reform, rather than reform as code for cuts, is best undertaken in conjunction with workers and their trade unions alongside increased investment in both overall size and the renumeration of the frontline workforce.

7. **How should the Scottish Government start to address the forecast funding gap of 1.7% each year up until 2072-73?**

Scotland's demographic challenge requires significantly increased tax revenues. While in the short-term this means progressively increasing income and other taxes, in the longer term this means increasing taxes on property and wealth and introducing new taxes – as outlined in the STUC's tax report. The first step towards this must be a revaluation of land and property values.

8. **How should the Scottish Government balance its short and long-term financial planning and where can improvements in this area be made?**

While recognising the difficult position of the Scottish Government, which is highly dependent on UK Government spending announcements, we would encourage the Scottish Government to consider longer-term funding settlements for departments and agencies. In sectors such as Scotland's creative industries, this could provide certainty and reduce the time organisations spend applying for funding. It could also allow a more proactive approach to ensuring organisations are adhering to Fair Work practices – an issue that remains problematic due to a lack of clarity from Creative Scotland and the Scottish Government about who is responsible for ensuring adherence to Fair Work First criteria.

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4 https://stuc.org.uk/files/Reports/Scotland_Demands_Better_Fairer_Taxes_for_a_Fairer_%20Future.pdf

9. **How will long-term financial pressures impact on the delivery of national outcomes and climate change targets and what steps can the Scottish Government take to alleviate these impacts?**

A number of Scotland's national outcomes are showing performance declining, while Scotland has missed its climate change targets eight times in the last 12 years. Clearly financial pressures, caused in large part by the UK Government, will only make this situation worse.

As well as increasing taxes, and investing in public services there is a pressing need to ensure that the Scottish Government maximises the impact of its spending programmes – ensuring that the billions of pounds spend on public procurement, grants and funding programmes delivers Fair Work and important social outcomes. Despite positive initiatives in this area, too often this is not the case.

10. **In follow-up to the Committee's inquiry on effective decision making, how can transparency be improved around how the Scottish Government takes budgetary decisions?**

While not purporting to provide an exhaustive list, Scotland's decision making could be improved through investment in the civil service, improvement to social partnership structures, and devolution of financial power and responsibility to levels of government responsible for making decisions.

The current dispute in local government – where school janitors, catering staff and cleansing workers represented by Unison, GMB and Unite – are all preparing to take strike action, is a case in point. It is essentially the same dispute that happened last year which, after months of obfuscation and procrastination resulted in a significant victory for the workers. That we are in the same position a year later highlights the issues with Scotland's decision-making processes: a lack of clarity on accountability structures; Governments' which pass responsibility to others – from the UK Government, to the Scottish Government to Local Government – and an unwillingness to engage in timely and meaningful discussions with workers through their trade unions.

Resolving the current local government dispute will require real investment and a willingness from all parties – including COSLA and the Scottish Government – to engage in meaningful discussions exploring all avenues to seek a resolution. Ensuring that local government was responsible for raising more of the funds that it spends would also help increase transparency and accountability.

For further information contact:
Francis Stuart, STUC Senior Policy Officer, STUC, fstuart@stuc.org.uk, 07972847536