



STUC submission to the Scottish Parliament's Finance and Public Administration Committee Pre-Budget Scrutiny Call for Views on Responding to Long-Term Fiscal Pressures

1. What actions should the Scottish Government be taking now to start to address these 'Scottish specific fiscal sustainability challenges'?

Scotland needs more workers. While migration is a reserved matter, the Scottish Government should be engaging with the UK Government – pushing for the devolution of powers relating to migration and employment law and for Scottish Government involvement in important cross-border institutions and decision-making bodies to ensure Scotland's specific population challenges are heard at a UK level.

Scotland also needs more tax revenue. Taxes are increasing across almost all developed countries. After a decade of low-growth, stagnant productivity, and increased global volatility, we need to recognise that taxes are going to have to rise. This is necessary if the Scottish Government are to meet its priorities around child poverty, public services, climate change and economic growth.

2. To what extent does the Scottish Government's 2025 MTFS and its FSDP demonstrate effective medium- and longer-term financial planning? Can any improvements be made in future years?

The MTFS recognises that there is a resource fiscal gap of £2.6 billion by 2029-30. However, the plan that it sets out to close this gap is not credible or effective. A workforce reduction target of an average 0.5 per cent reduction per annum over five years is simply salami slicing and will lead to the loss of 12,000 jobs. Wider 'public sector efficiency' targets are not credible either. We know from the early 2010s, what happens when central Government imposes efficiency targets. Austerity budgets

are passed down from government, ministers issue edicts to local authorities, and Chief Executives look at headcount and cut from there.

In the last fifteen years, Scotland's public sector workforce has fallen from 24% of the economy to less than 22%. The idea that we have a bloated public sector that can be easily cut is simply not credible.

While the STUC are not against public service reform, this should be done in partnership with Scotland's workers and trade unions who know where improvements can be made. Reform should also be accompanied with upfront investment to enable change to happen, with associated savings achieved further down the line. Unfortunately, this is the opposite of what the Scottish Government propose.

3. How adequately does the MTFs and the FSDP address the Scottish-specific fiscal sustainability challenges?

The MTFs and the FSDP fail to adequately address two crucial factors behind Scotland's specific fiscal sustainability challenges.

Firstly, as the Scottish Fiscal Commission have consistently highlighted, and the MTFs and FSDP acknowledge, if not address, the Scottish Government have chosen to invest in social security over and above the funding received from the UK Government through the Block Grant Adjustment. While this investment is welcome, and significantly reduces poverty, unless this is accompanied by additional tax revenue, funding will have to come from public services. This is not sustainable.

Secondly, Scotland's aging population is likely to require greater investment in services delivered by people, not machines. It will still be social care workers that look after our elderly people, not machines or AI. This is likely to push up health and social care costs more than envisaged in the FSDP.

For these reasons, and many others (including falling satisfaction with public services), the Scottish Government should look to raise tax revenue rather than cut the public sector workforce.

- 4. To what extent does the 2025 framework document for the Scottish Spending Review meet the BPRG's recommendations on content and timescales?**
- 5. What should the next Scottish Spending Review prioritise?**

The next spending review should prioritise how to meet the Scottish Government's priorities around child poverty, public services, climate change and economic growth. But meeting these priorities will require significantly increased spending on public services, social security and infrastructure.

In this context there is a need not simply for a spending review but for a tax review alongside the spending review, particularly given that the Scottish Government's tax strategy, in the words of the IFS "is not a strategy for tax policy."¹

A tax review would consider:

- Taxing wealth - in the short-term via a focus on particular categories of wealth, whilst exploring options to tax net wealth.
- Making polluters pay for their climate damages, such as introducing a private jet tax.²
- Scrapping or re-designing tax reliefs and other schemes, such as the Small Business Bonus.
- Replacing the Council Tax with a Proportional Property Tax. Analysis for the STUC shows that a proportional property tax of 0.7% could raise £783 million more for local authorities whilst also giving the most hard-pressed households a rebate.³ As a matter of urgency the Scottish Government must immediately launch a revaluation of properties across Scotland.
- Broad-based income tax increases, beyond the progressive measures the Scottish Government have taken to date. As the Nordic countries demonstrate, broad-based, higher income taxes are highly progressive when the benefits of spending on high quality public services are considered.

6. Faced with an ageing population, what actions should the Scottish Government take to increase labour market participation, with a view to growing the tax base?

While there is still a high degree of uncertainty about Scottish labour market data,⁴ there is evidence to suggest that the pandemic has driven up long term sickness and economic inactivity. The Scottish Government should therefore invest in health spending and employment support to support those with ill-health re-enter the labour.

It should also invest in driving up pay and conditions, particularly in low-paid sectors such as health and social care – where trade unions have

been campaigning for £15 an hour, and yet where pay has been outstripped by inflation, the minimum wage, average earnings, and residential care worker pay in the UK in the last five years.⁵

There is also a need to improve working conditions by using Scottish Government levers to promote trade unions and collective bargaining mechanisms. For example, non-domestic rates reliefs such as the Small Business Bonus scheme could be made conditional on employers paying the real living wage and recognising trade unions and/or Fair Work agreements.

Ensuring the labour market provides decent working condition is a crucial element of any plan to drive up economic participation.

7. Given the stagnation experienced in Scotland and the UK since the 2007/08 financial crisis, what lessons can be learned from countries that have experienced recent productivity growth?

There is clear evidence to show that Scotland's economy is being held back by a chronic problem of underinvestment. For the past two decades, investment in Scotland and across the UK has consistently been among the lowest in the OECD.⁶ Addressing this challenge will require increased public investment – particularly in green infrastructure. It will also require a more strategic approach to economic development and public funding to the private sector. Rather than providing untargeted relief for business, such as the small business bonus scheme (which an evaluation found to have 'no empirical evidence of supporting enhanced business outcomes')⁷ we need to ensure that economic development funding is supporting good, productive jobs and Fair Work.

If the aim is to increase productivity, there is a specific need to support manufacturing, given that it is a sector that is most open to the use of machines and processes which raise productivity. It is also where most research and development, which generates new technologies, is done.

Yet manufacturing jobs in Scotland have declined by 130,000 since the advent of the Scottish Parliament. Given recent job losses at Grangemouth refinery and proposed redundancies at Alexander Dennis there is a need to consider how time-limited furlough schemes could be introduced to support and maintain employment in high value manufacturing sectors. This is common in other countries, for example through Germany's Kurzarbeit scheme in which private-sector

employees agree to or are forced to accept a reduction in working hours and pay, with public subsidies making up for all or part of the lost wages. This is crucial in the Scottish context where worker's confidence in the concept of a Just Transition is increasingly precarious.

8. In which areas should the Scottish Government prioritise its capital spend to best support economic growth?

Given the ongoing cost-of-living crisis, and the huge investment required to decarbonise our economy, it makes sense to prioritise capital spending on tackling climate change which brings down the cost of living. This means investment in public transport, retrofitting homes, and transforming our energy system in a way that takes back control from profiteering multinational energy companies.

Capital funding should be made available for Local Authorities to undertake retrofitting and energy programmes. South Lanarkshire Council is investing in solar energy on its building stock with pay-back periods of around 4 years.⁸ There is no reason this couldn't be scaled up and rolled out across Scotland but it requires funding from central Government.

Funding should also be made available to establish municipal bus companies – taking back control of our bus network and investing in green buses.⁹

Investment in social housing, including council housing, is also crucial if we are to address the housing crisis. Capital investment in these areas will deliver growth within the foundational economy, lowering the cost of living, tackling climate change and creating jobs across the country.

9. To what extent does the Scottish Government's PSR Strategy demonstrate the vision and leadership required to drive progress? How well does it enable progress to be tracked, and outcomes measured?

While the Scottish Government's emphasis on the Christie principles are welcome, the PSR strategy is based on centrally imposed arbitrary savings targets which will mean that chief executives of Local Authorities and public agencies base decisions on reducing headcount rather than reforming services.

There is a need for a PSR strategy, but it should be backed by funding, not cuts, and it should support worker-led reform from the bottom up, not the top down.

For further information contact:

Francis Stuart, Senior Policy Officer, STUC, fstuart@stuc.org.uk

¹ <https://ifs.org.uk/publications/assessing-scottish-tax-strategy-and-policy#:~:text=Chapter%201%20of%20the%20Tax,climate%20emergency%2C%20and%20ensuring%20high>

² https://taxjustice.scot/wp-content/uploads/2025/07/Council-Tax-Reform_Tax-Justice-Scotland_August-2025.pdf

³ <https://www.stuc.org.uk/resources/scottish-tax-options.pdf>

⁴ <https://scothealthequity.org/a-new-model-for-economic-inactivity/>

⁵ <https://www.stuc.org.uk/resources/stuc-report-on-residential-care-workers-pay.pdf>

⁶ <https://www.futureeconomy.scot/posts/42-what-is-the-role-of-investment-in-delivering-a-just-transition> and <https://www.ippr.org/articles/rock-bottom>

⁷ <https://www.gov.scot/publications/evaluation-small-business-bonus-scheme/>

⁸ <https://www.stuc.org.uk/news/news/new-public-power-league-reveals-local-authorities-leading-the-charge-on-energy-/>

⁹ <https://www.stuc.org.uk/resources/the-next-stop-stuc-bus-research.pdf>