



A Budget for Communities: STUC Briefing on Scottish Budget, November 2024

The UK Budget has delivered a measure of immediate relief on Scottish public spending. Necessary tax rises to protect public services will provide estimated Barnett consequential of £1.5 billion for the current financial year and £3.4 billion for 2025-2026. On the assumption that most, or all, of the devolved public sector's additional National Insurance contributions will be funded by the Treasury, the Scottish Government has the opportunity to invest in our services and make good on some of the promises it said it was forced to reverse earlier this year.

In September this year, the Finance Secretary announced a range of cuts totalling £500 million citing, amongst other things, the cost of public sector pay. The First Minister is on record as stating that the "increase in funding for this financial year largely accords with our expectations in our internal planning and is necessary to meet the costs of increased pay settlements and the effect of inflation".¹ The Cabinet Secretary for Finance must provide in-depth information to support this contention when she delivers the 2025-2026 budget on 4 December.

It is clear from the Scottish Government's reaction to the budget, that the settlement exceeds its expectation, particularly if, as we predict, the cost of public sector NI contributions are covered separately.

Meaningful funding for increases in health and social care, education and local government provides the opportunity to begin to rebuild community health and wealth. Previous promises on Free School Meals and the too hasty abandonment of the Peak Rail Fares pilot can now be addressed.

This notwithstanding our communities are crying out for long term sustainable investment which goes beyond that which the block grant can finance.

The Scottish Government must resist pressure from the business community to splash money on short-term tax reliefs which will not build sustainable economic growth. Instead, it should prioritise investment in productive industries, supporting transitions and jobs in sites like Grangemouth and building sustainable transport and supply chain infrastructure.

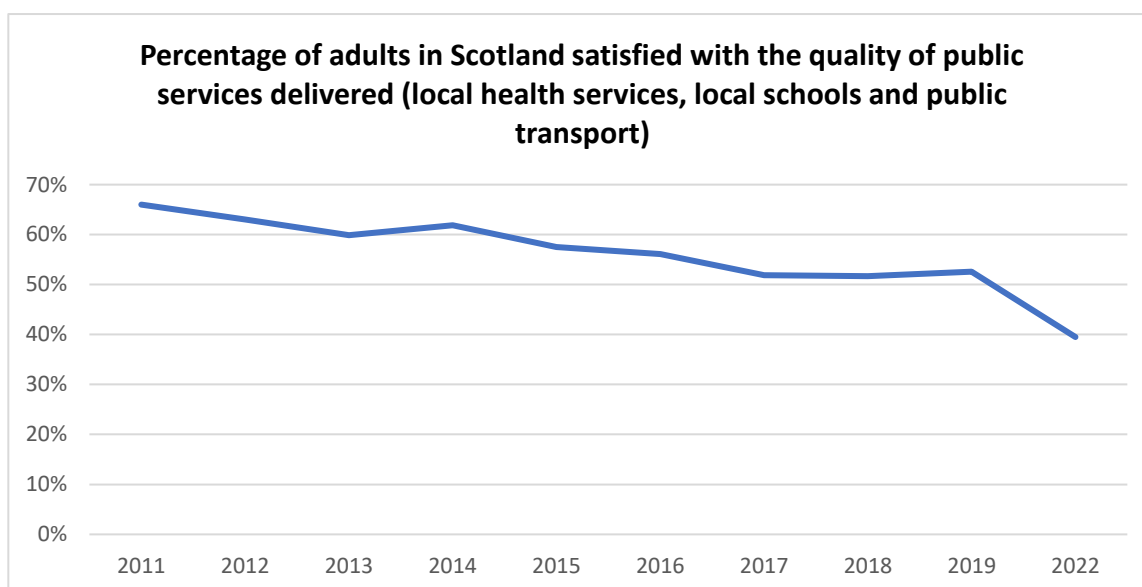
Whilst progressive income related tax rises can raise important funds, the STUC's proposals for increasing taxes on property and wealth, including replacing the council tax are vital if Scotland is to rebuild community wealth.

Invest in local services

Living standards are lower than they were three years ago,² while Scotland's public services are in crisis.

Scotland's councils are facing a gap in the money needed to deliver local services and the money they have available. Together, councils have a gap of £585 million, estimated to increase to £780 million by 2026/27.³

The impact of underfunding is clear – 9,000 people waiting for a social care assessment,⁴ declining teacher numbers,⁵ recurring pay disputes, and satisfaction with public services falling from 65% in 2010 to 40% in 2022.⁶



Source: STUC Analysis of Scottish Household Survey⁷

Alongside public services, this Budget should prioritise free school meals, ending peak fares, halting local rail office closures, funding municipal bus services, boosting social care workers pay and investing in the arts. As well as being supported by Scotland's workers and trade union movement, these policies would deliver on the Scottish Government's priorities to eradicate child poverty, grow the economy, and tackle the climate emergency.

Raise tax

The UK Budget provides a much-needed boost to the Scottish Government Budget. However, with an ageing population and rising delivery costs, the additional funding is insufficient to alleviate pressure on the public purse. The Scottish Fiscal Commission estimate that Scottish Government spending is currently projected to exceed revenue by £1.5 billion a year.⁸ Tax rises are needed to put services on a sustainable footing.

STUC research shows that £3.7 billion a year could be raised through:

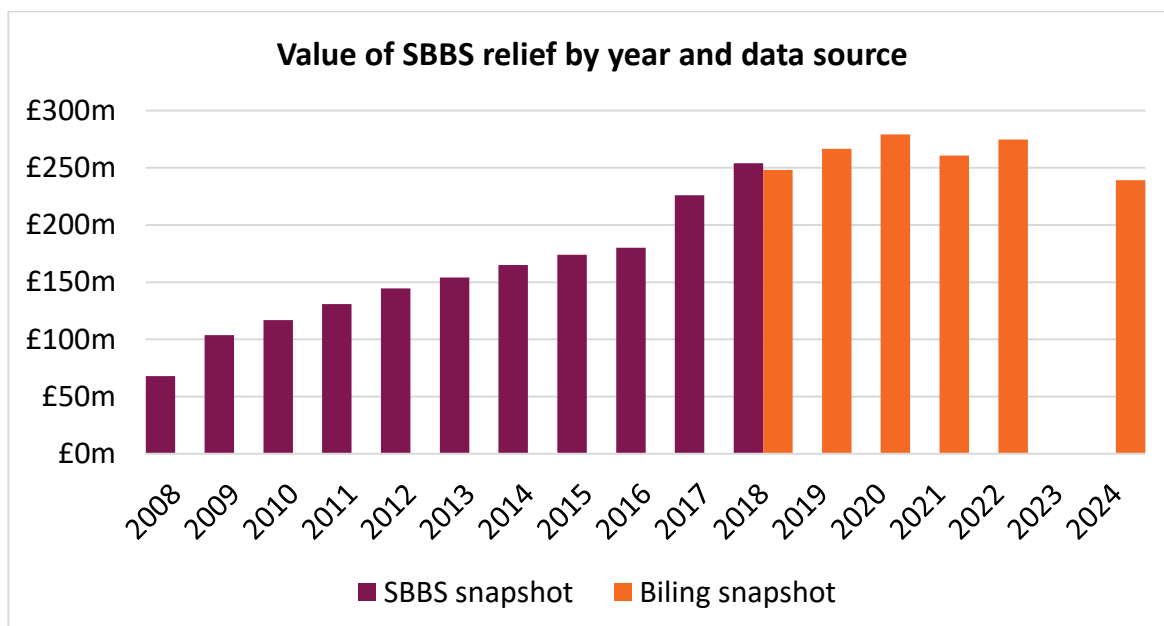
- £1,416 million from a wealth tax.
- £783 million by replacing Council Tax with a Proportional Property Tax.
- £779 million from a series of income tax reforms.

- £200 million from scrapping the Small Business Bonus Scheme and replacing it with a targeted scheme of relief for Fair Work employers.
- £100 million from the introduction of a Land Value Tax for commercial land.
- £25 million from a super tax on private jets.

The package is progressive whether measured by household wealth or household income. Taken together, £3.7 billion could fund 82,000 public sector workers in Scotland.⁹

Scrap the small business bonus scheme

The Small Business Bonus Scheme (SBBS) offers business rates relief to non-domestic properties under a certain rateable value. The tax break is applied irrespective of company turnover, or Fair Work practices. As shown in the table below, the cost of the SBBS to the Scottish Government has increased significantly since introduced in 2008.



Source: *Non-domestic rates relief statistics (2024)*, Scottish Government¹⁰

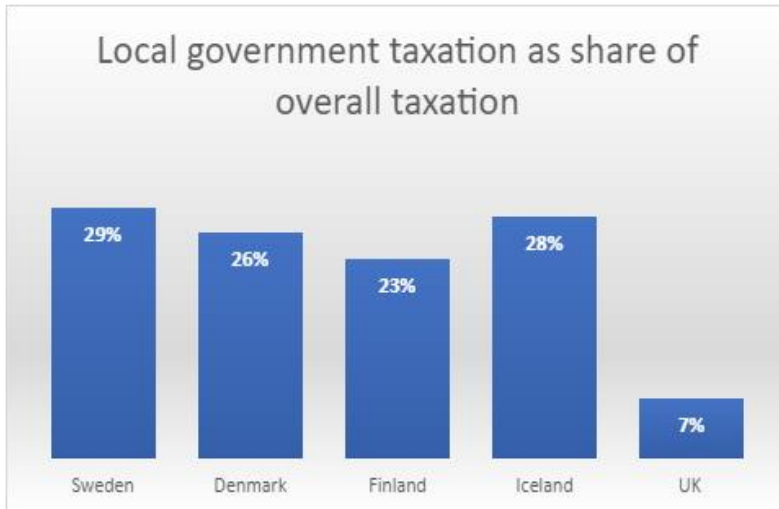
Despite the cumulative cost to the Scottish Government totalling more than £3 billion since it was introduced, an independent evaluation into the policy found “no empirical evidence that identifies the SBBS as supporting enhanced business outcomes.”¹¹ If the Scottish Government is serious about evidence-based policy, it is simply incredulous to continue supporting such a costly policy, with no evidence of positive impact.

Replace council tax with a property tax

The council tax is unfair, inadequate, and outdated. In Inverclyde, the average Council Tax bill for 2023/24 is £1,158 which is 0.87% of the average house price in mid-2023. By comparison, in the City of Edinburgh the average Council tax bill of £1,484 is 0.44% of the average house price – only half as much as in Inverclyde. Bandings are based on valuations from 1991 – more than three decades out of date. Meanwhile, Scottish Government policy to hold down council tax bills since 2007/08, has led to a ‘council tax gap’ of more than £800 million with the rest of the UK.

There is a fundamental need for local tax reform if we are to tackle inequality and raise revenue to put our public services on a sustainable footing. Put simply, you cannot have Scandinavian levels of public services with Scottish levels of local taxation.

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. But this reform, or any other, can only proceed following a revaluation of property across the country.



Author's analysis of Eurostat and IFS data¹²

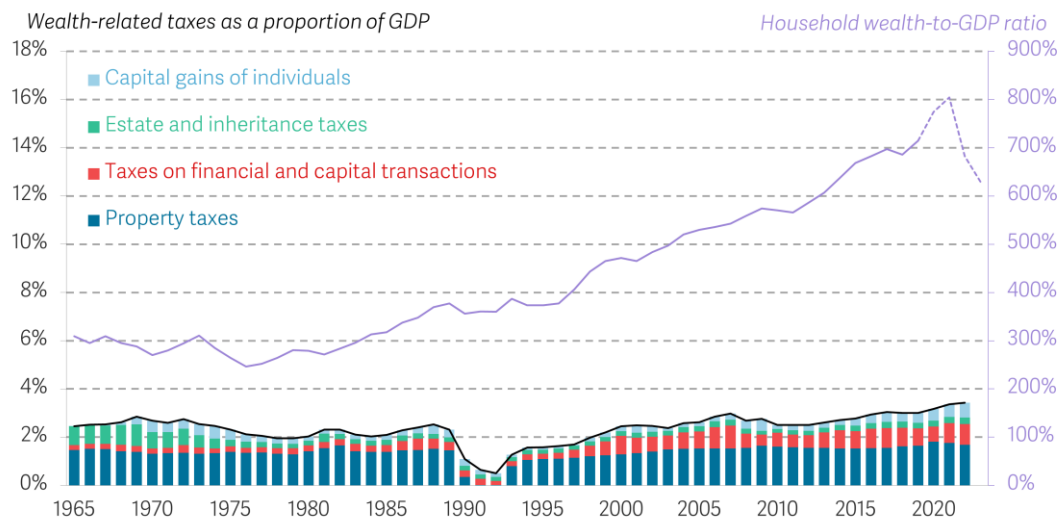
Tax wealth

UK household wealth is now more than 600% of GDP, up from 300% four decades ago. But while wealth has rocketed, wealth taxes, as a proportion of GDP, have barely moved.

Total household wealth and wealth-related taxes as a proportion of GDP: UK

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Notes: Total household wealth from 2020 to 2023 is estimated.

Source: Source: RF analysis of D Blake & J Orszag, 'Annual estimates of personal wealth holdings in the United Kingdom since 1948', Applied Financial Economics 9, 1999; ONS, UK National Accounts, ONS, Total Wealth, Wealth in Great Britain, ONS Gross Domestic Product at market prices; Current price: Seasonally adjusted £m; OECD, Details of Tax Revenue.

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Labour and SNP conferences both voted in favour of a wealth tax, recognising that wealth relative to income is increasingly important to the Scottish and UK economy. Ordinary party members know what is needed – and it is time party leaders follow suit.

The Scottish Government has the power to introduce a tax on wealth, provided it is implemented as part of the local tax system rather than a national tax. This may require HMRC support, but if the Scottish Government were to call on the UK Government to enable this, it would have the full support of the Scottish trade union movement.

Conclusion: A budget for communities

The Scottish Government has a chance to turn the clock back on 14 years of austerity and rebuild community wealth. But to do so it must invest in local services, end peak fares, deliver free school meals, scrap the small business bonus scheme, and raise revenue from property and wealth taxes.

For further information contact:

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¹ <https://www.parliament.scot/chamber-and-committees/official-report/search-what-was-said-in-parliament/meeting-of-parliament-31-10-2024?meeting=16063&iob=137185>

² <https://www.jrf.org.uk/cost-of-living/the-real-inheritance-uk-living-standards-crisis-at-october-budget>

³ https://audit.scot/uploads/2024-06/briefing_240514_councils_budgets.pdf

⁴ <https://publichealthscotland.scot/publications/people-requiring-a-social-care-assessment-and-care-at-home-services/people-requiring-a-social-care-assessment-and-care-at-home-services-24-september-2024/>

⁵ <https://www.eis.org.uk/latest-news/decline-in-teachers-2023>

⁶ <https://www.gov.scot/publications/scottish-household-survey-2022-key-findings/pages/8/>

⁷ <https://www.gov.scot/publications/scottish-household-survey-2022-key-findings/pages/8/>

⁸ <https://fiscalcommission.scot/fiscal-sustainability-report-shows-tough-decisions-for-scottish-government/>

⁹ <https://www.stuc.org.uk/resources/scottish-tax-options.pdf>

¹⁰ The 2023 figure is not presented due to issues with the Billing System Snapshot system
<https://www.gov.scot/publications/non-domestic-rates-relief-statistics-2024/pages/small-business-bonus-scheme-relief/>

¹¹ <https://www.gov.scot/publications/evaluation-small-business-bonus-scheme/>

¹² https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Tax_revenue_statistics and
<https://ifs.org.uk/taxlab/taxlab-key-questions/where-does-government-get-its-money>