

# Finance and Public Administration Committee

22<sup>nd</sup> Meeting 2023 (Session 6), Tuesday 12  
September 2023

## Inquiry into the Scottish Government's Public Service Reform Programme

### Purpose

1. The Committee is invited to take evidence from Dave Moxham, Deputy General Secretary of the Scottish Trades Union Congress (STUC) in relation to its inquiry into the Scottish Government's Public Service Reform Programme. This is also an opportunity for the Committee to ask any questions regarding the STUC's submission to its pre-budget 2024-25 scrutiny inquiry on the Sustainability of Scotland's Public Finances.
2. This paper sets out background information in relation to the Committee's inquiry and highlights key issues raised in the evidence received to date. It also notes some of the points included in the STUC's written submissions, which are reproduced in full at Annexe A. [A summary of evidence received has also been produced by SPICe.](#)

### Committee remit

3. Public service reform was included in the Committee's remit when it was established at the start of Session 6, in June 2021.
4. That year, the Committee held two exploratory evidence sessions to establish what progress had been made in relation to delivering public service reform in line with the Christie Commission's principles, and the barriers to advancing this agenda. At the first session, held on [9 November 2021](#), the Committee heard from: the Auditor General for Scotland, Professor James Mitchell from the University of Edinburgh (and Commission Member), and Professor Graeme Roy of the University of Glasgow. Witnesses recognised that the Christie Commission principles remain relevant, but that limited, or "sporadic", progress has been made. The Committee heard that, for reform to be successful, it requires time, effort, cultural change, a longer-term focus, proper accountability mechanisms, collaboration, and innovation.
5. These points were explored with the then Deputy First Minister and Cabinet Secretary for Covid Recovery at an evidence session on [21 November 2021](#). He told the Committee that "the Government's commitment to Christie's vision and public services reform remains strong but making Christie a reality requires a collective national endeavour", adding "I am committed to making that happen in the years to come". He also provided examples of areas where reform had

taken place in recent years, including structural reform of the police and fire and rescue service, and policy reforms such as the expansion of early learning and childcare provision. He also recognised that some areas may present more challenges in putting reforms into practice.

## Background to the Inquiry

6. [The Scottish Government's 'Investing in Scotland's Future' Resource Spending Review](#) (RSR) published on 31 May 2022 set out its high-level spending plans up until 2026-27 to deliver its ambitions. The RSR stated that “the more efficient and effective we can become in the delivery of public services, the more able we will be to achieve key priorities and direct support towards those who need it most”. The RSR identified five areas of focus for reform over the lifetime of this Parliament:
  - digitalisation
  - maximising revenue through public sector innovation
  - reform of the public sector estates
  - reform of the public body landscape, and
  - improving public procurement.
7. The Scottish Government also indicated in the RSR that it wanted to develop—
 

“a pathway to return the overall size of the public sector workforce broadly to pre-Covid-19 pandemic levels, while supporting expansion in key areas of service delivery, helping to hold total pay bill costs – as opposed to pay levels – at 2022-23 levels”.
8. Further details of the Scottish Government’s plans for reform and workforce levels were expected to be published with the Scottish Budget 2023-24 on 15 December 2022 but did not materialise.
9. The Committee’s [Budget Report 2023-24](#) therefore sought to establish further details of how the Scottish Government plans to achieve each of the five priorities for reform (included in the RSR and set out at paragraph 3 above). The Committee also asked for information on the milestones for delivering these priorities, the costs, efficiencies, and savings it anticipates as a result, and how it is supporting public bodies to deliver each element.
10. Some further details on the Scottish Government’s plans were included in the then Deputy First Minister’s [response of 3 February](#) to the Committee’s Budget Report, including confirmation that public bodies’ plans are expected later this year for inclusion in the Scottish Budget 2024-25. [In further correspondence dated 20 March](#), the then Deputy First Minister appeared to indicate that the original plans regarding the public sector pay bill had been revisited, stating that “following further analysis and engagement, our proposal on how we achieve sustainable public bodies developed. ... it is for individual public bodies to determine locally the target operating model for their workforces and to ensure

workforce plans and projections are affordable in 2023-24 and in the medium term”.

11. The Deputy First Minister, in evidence to the Committee on the Scottish Government’s Medium-Term Financial Strategy on [13 June](#) suggested that, if the Scottish Government “were to take a policy of returning to pre-Covid levels across the whole public sector, that would be a bit of a blunt tool”. She confirmed that the position had now changed and “we are really looking for public bodies to ensure that their workforce numbers and models are within their financial envelopes”.

## Inquiry

12. On 6 March 2023, the Committee launched an inquiry into the Scottish Government’s plans for public service reform, with the following remit:
  - to develop a greater understanding of the Scottish Government’s public service reform programme,
  - to bring greater transparency to the aims of the programme and measures put in place by the Scottish Government to support public bodies to achieve these aims,
  - to track progress in delivering public service reform by the Scottish Government and public bodies over the remainder of this parliamentary session until 2026, and
  - to examine the outcomes of the public service reform programme, including effectiveness, efficiency, and impact on public service delivery. *This element will be explored towards the end of the parliamentary session.*
13. The Committee’s [call for views](#), which opened on 6 March 2023, sought written submissions from Scottish public bodies on their plans for reform in their sectors, and others with views on how the reform programme is working in practice and how it is delivering effective and efficient services. The evidence gathered through the [written submissions received](#) and a series of evidence sessions to take place during May/June 2023 will inform the Committee’s pre-budget scrutiny starting in September. Its findings from this work will be included in its Pre-Budget 2024-25 Report, given the links between reform and the sustainability of Scotland’s public finances.
14. [SPICe has produced a summary of evidence received](#) in response to the call for views.
15. In a [letter dated 20 April, the Committee sought clarification from the new Deputy First Minister and Cabinet Secretary for Finance](#) in relation to the frequency of updates to be provided on public service reform. The Committee also, at the request of the former Deputy First Minister, reflected on the nature of these updates and asked that “they should include details of all public bodies reform activity, rather than just narrowly focusing on the five areas of reform identified in the RSR”.

## Other developments

16. In the [Scottish Government's 'Equality, Opportunity and Communities' Prospectus](#) published in April 2023, the Deputy First Minister states that by 2026, she will have progressed a 10-year programme of public bodies and public service reform; strengthened the resilience of public services and communities, and “targeted both short-term efficiencies and wider, deeper, and longer-term reform”.
17. The [Scottish Government's Scotland's Fiscal Outlook: Medium-Term Financial Strategy](#) (MTFS) published on 25 May, provides an update on its reform programme and notes that, while reforms will take time to implement and to deliver benefits, it is critical that progress is effectively quantified and tracked [and] this will include providing regular updates to this Committee on the following four workstreams. These appear to have evolved since publication of the Resource Spending Review in May 2022:
  - Public bodies and public service reform: The MTFS states that public bodies are best placed to assess both the opportunities and action that must be taken to ensure fiscal sustainability, with budgetary allocations providing parameters for this. It goes on to say that “the aim, as set out in the 2023-24 Scottish Budget, is to achieve fiscally sustainable person-centred public services, which over time both improve outcomes and reduce inequalities of outcome across communities in Scotland”.
  - Efficiency levers: digital, shared services, public sector estates, procurement, and grant management, each of which are being progressed by individual public bodies and by the Scottish Government. In relation to public sector estates, the MTFS states that a Single Scottish Estate programme of work is underway that “supports this commitment to enable a more efficient approach to public sector property management to deliver value for money, save public funds, reduce the public sector property footprint and support progress towards net zero estate targets”.
  - Revenue-raising: Discussions between the Scottish Government and public bodies have led to development of “guidance and a robust decision-making process ... to support public bodies in considering, developing and implementing new revenue-raising ideas”. The MTFS states that “the outputs from this ... work are intended to support the funding position for the 2024-25 Scottish Budget and subsequent budget allocations”.
  - Pay sustainability: The MTFS restates that “it is for individual public bodies ... to determine the target operating model for their workforces and to ensure workforce plans and projections are affordable in 2023-24 and over the medium term.
  - Major reform programmes: The MTFS also provides a number of specific larger-scale reform programmes underway as “an integral part of a wider 10-year public service reform programme”, such as the

Education Reform Programme, National Strategy for Economic Transformation, and a National Care Service.

18. The [Programme for Government 2023-24](#), published on 5 September 2023, also highlights the new Single Scottish Estate programme, the start of a Four Day Working Week public sector pilot by the end of this calendar year, progressive procurement policy and practice, a framework for digital service transformation, and work with island authorities with an ambition to develop alternative governance arrangements, including single authority type models.
19. [An update from the Permanent Secretary](#) to the Scottish Government to the Public Audit Committee dated 19 June 2023 provides further information on the Scottish Government's public service reform programme, public sector pay, and headcount.

## Previous FPAC evidence sessions

20. The Committee held a 'setting the scene' evidence session on [23 May 2023](#), hearing from Audit Scotland, Reform Scotland, and Professor John Connolly from Glasgow Caledonian University. Issues explored at that session included:
  - The need for the Scottish Government to provide oversight and direction on its reform programme, as well as a sense of purpose and clarity on the intended outcomes. A "more worked up plan" with measures of success is needed, with issues such as "a lack of strategic grip" and lack of capacity within the Scottish Government identified as barriers to achieve this.
  - Public bodies should also be empowered to participate and deliver reforms that best suit their organisations. The Scottish Government should build capacity across the public sector to encourage collaboration, leadership, and evaluation in relation to reform. Audit Scotland has seen "a strong appetite" amongst most public bodies to collaborate.
  - Achieving efficiencies as part of managing budgets is not genuine reform.
  - Electoral cycles and policy distraction were cited as wider barriers to reform, including preventative and early intervention measures. The Christie Commission principles had been "overlayed on to existing models of delivery" and therefore "operate in the background" rather than being the lead principles and drivers for reform.
  - Lessons can be learned from how the Scottish Government and public bodies operated during the Covid-19 pandemic, such as collaboration, speedy decision-making and focus on delivering support to those in need. Witnesses have seen signs that the public sector is reverting to previous ways of working and that the appetite for risk is waning.
  - The Scottish Government should seek meaningful feedback from the public through an "honest conversation" about the financial challenges being faced, what the public would like to see from their public services, which reforms are required to deliver this, and be led by whom.

- Progress is now urgent, and the Scottish Government should be trying new things, undertaking pilots and, importantly, learning lessons.
21. The Committee held a round-table evidence session on [30 May](#) to explore with a range of public bodies from different sectors, sizes and types, their varying approaches taken to reform, along with challenges, barriers, and examples of good practice. Issues discussed at the session included:
- There has to be an incentive to collaborate otherwise people “tend to pick off the bits round the side that do not threaten their own jobs”. To achieve significant cost savings in public sector reform and improve services, there has to be a ‘mandate’ to get people to want to do it. Public bodies should learn from Police Scotland’s experience of structural reform, “but do it under a mandate to deliver cost savings and improved services”. Witnesses pressed that, “without a mandate, it will not happen”.
  - There were however some examples of good practice, such as bodies co-funding posts to achieve certain outcomes or to share a particular skillset. Food Standards Scotland and Marine Scotland are for example collaborating on co-funding a digital strategist who can take oversight of the implementation of digital and data strategies across both organisations.
  - There are skills shortages in the ‘digital data space’ in the public service where “we are all fishing in the same pool for the same capability”. It was therefore suggested that pooling this kind of resource for digitalisation and use of technology could help further transform public services.
  - Organisations that are “not large scale” are at a “massive disadvantage in negotiating with private sector suppliers because those suppliers will box them into a corner and draft the process out which costs a fortune”.
  - An example of digital services reform was provided where “Police Scotland secures the evidence that we digitally captured and then pass through the entire system to court”. This will have “a hugely positive effect on the justice sector in Scotland”.
  - One organisation had achieved reforms through “radical prioritisation”, pushing joint-partnership working as much as possible and continuing to review processes each year. Another body said it had moved from a ‘platinum’ standard down to a ‘gold’ or ‘silver’ standard to meet required efficiencies.
  - “Cultural friction” can occur when organisations are brought together into one structure and can require effort and engagement with staff and stakeholders to ‘bring people along’ with the new body. Police Scotland highlighted that “imposing national metrics ... created a false change in behaviour” in the early days of police reform.
  - In order to “collaborate really powerfully, we need to be able to share data across public services, we need systems that talk to each other across public services [and] there is also opportunity around automation of processes and bringing in artificial intelligence to deliver efficiency and improve quality”.
  - Savings that are achieved by an organisation or organisations should be ploughed back into continuing to improve services they deliver.

- While the Scottish Delivery Bodies Group recently undertook a feasibility study identifying some key areas for shared services around digital, procurement and human resources, the staff involved did not have the capacity and time to drive this forward. Therefore, “if there was an opportunity to ring fence a group of experts from the organisations who could come together and have that work as their primary focus, we would see some really positive movement”.
  - Public service reform requires underpinning investment in infrastructure and data, a clear and shared vision to drive reform, and strong leadership. It was argued that the Scottish Government needs to be an enabler of reform.
  - Progress with reform should be measured through corporate reporting. Organisations should be asked to include an indicator within their reporting mechanisms to show how they are making progress against reform objectives.
  - Without any updated figures, the Scottish Government’s Resource Spending Review figures continue to be used by public bodies to plan budgets through that period.
  - The number of public bodies was questioned. Transport Scotland suggested that the “landscape is quite cluttered”, while Revenue Scotland highlighted that its founding legislation had enabled it to delegate some functions to other bodies, such as Registers of Scotland, to avoid duplication. This could be a positive model to use in the future.
22. On [6 June](#), the Committee heard from Claire Burden, Chief Executive of NHS Ayrshire and Arran<sup>1</sup>, who highlighted that a wider national steer and subsidy leverage was needed to ensure robust infrastructure, including digital, for equity across all 14 territorial health boards. NHS Ayrshire and Arran are “working to quite a low baseline” in terms of digital and sees that as “an area in which getting us all into the same ballpark, at the national and regional level, would make a significant difference in terms of public reform”. One example highlighted was software that would allow the Board to manage bed capacity across two acute hospitals, which would help “manage risk, improve safety and reduce avoidable waste throughout the building and, as a result, change the landscape of emergency medicine in the body of the hospital”. Currently bed management is carried out through manual checks. She also indicated that “the nature of emergency and urgent care in this post-pandemic era is such that we are not quite as focused on prevention as we would like to be”, adding “in an ideal world we would put so much more into primary and community care because that is the right thing to do, but at the moment the hospitals are spinning like tops, as they become our focal points”. She went on to suggest that there needs to be a debate with the public about the benefits of having local and specialist care. For example, for specialisms such as vascular and cardiology, patients might need to travel a little further, but there they would see a specialist who can treat them effectively in a shorter period.
23. On [20 June](#), the Committee heard from COSLA and SOLACE, who noted the “tremendous pressure on local government” and indicated that, if no additional

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<sup>1</sup> The Committee received apologies from Argyll and Bute Integration Joint Board due to illness.

funding is provided, discussions will be needed on what services would need to be stopped. They are however hopeful that the local government fiscal framework would enable these robust discussions to take place, noting that the reset of the relationship between local authorities and the Scottish Government is welcome. They also suggested that the forthcoming Partnership Agreement between the Scottish Government and local authorities perhaps sets the platform for a shared agenda, and they are also keen to “get more pace” into the local governance review. Concerns were raised regarding the potential overlap between the reforms being taken by local authorities and the Scottish Government’s public service reform programme, with more focus needed on complementary reform and collaboration rather than working in silos. It was stressed that the focus should be on deciding what services need to be delivered and moving funding around to best deliver them. Greater progress was needed on data sharing and securing a more sustainable funding model. Further concerns were raised regarding the potential for greater sharing of services across councils within what they argued was a complex structure.

24. On [27 June](#), the Committee heard from officials at Comhairle nan Eilean Siar, Dundee City Council, and East Ayrshire Council. The need for indicative multi-year funding figures and a gradual restoration of funding levels was discussed. The Committee heard that progress in creating a single islands authority is needed, to avoid the risk that single authorities become less effective, the capacity for community leadership and delivery is lost, and the quality of services is diminished. Collaboration is taking place between neighbouring authorities on sharing services, systems and teams, and streamlining processes. It was suggested that radical reform requires strong leadership, a direction, and a focus on outcomes. Witnesses also highlighted the potential to have single national functions for all local authorities, such as in relation to the collection of rates in Scotland, and a public analyst function (which currently sits with Dundee City Council), with national agencies with outreach offices taking advantage of virtual working. Discussions are ongoing on how artificial intelligence might be best deployed across local authorities, including in gathering data to inform better decision-making, and the role of COSLA in this work given the limited AI skills pool.

## STUC submissions

25. The [Scottish Trades Union Congress \(STUC\) highlights in its submission to the Committee’s public service reform inquiry](#) (Annexe A), that public sector pay is not keeping up with inflation or with the private sector and argues that the 3.5% pay risk suggested in the Public Sector Pay Strategy 2023-24 “is not remotely sustainable”. Neither, it argues, are plans to reduce the public sector workforce, which it concludes would result in cuts to public services. The STUC suggests that “rather than cutting public services the Scottish Government should be raising revenue, including through new income and wealth taxes, to sustain public services”, adding its research shows that the Scottish Government could raise more than £3 billion through a package of short and long-term tax measures. The STUC stresses that it is not opposed to “genuine reform” with



the aim of strengthening public services, rather than trying to “do more with less”.

26. The [STUC’s submission to the Committee’s pre-budget 2024-25 scrutiny inquiry](#) (Annexe A), repeats the arguments made in its previous submissions to the Committee that the Scottish Government could raise more than £3 billion through taxes, adding “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 public services and investing in measures to tackle climate change”. It argues against blanket tax reliefs such as the Small Business Bonus Scheme, which, in STUC’s view, “should be scrapped or repurposed to support employers that provide Fair Work” and cautions against cutting services or programmes which are not contributing to the Scottish Government’s stated missions.
27. The STUC argues that capital investment should be prioritised to address the cost-of-living crisis and climate crisis, while “enhancing democratic control over the economy”, such as through investment in public transport, energy efficiency and energy systems. Examples given include funding for local authorities to establish municipal bus companies and municipal retrofitting programmes, as well as establishing a publicly owned energy company, following the Welsh model. Its submission states that investment in the civil service and improvement to social partnership structures would improve decision making. It further highlights analysis it had commissioned showing that a £13 billion green stimulus package could create 150,000 jobs in Scotland and suggests that there is a pressing need for the Scottish Government to maximise the impact of its spending programmes.
28. In a [news release dated 4 September 2023](#), ahead of publication of the Scottish Government’s Programme for Government 2023-24 on 5 September, the STUC called on the First Minister “to show bold leadership and increase the rate of taxation on higher earners, including redistributing wealth throughout Scotland through a combination of land and wealth taxes”. The STUC highlights its own analysis that “workers in Scotland have suffered a more than £1400 pay cut over the past two years as a result of inflation outstripping pay”.

## Next steps

29. The evidence gathered from the Committee’s public service reform inquiry will inform its pre-budget 2024-25 scrutiny, including questions to the Deputy First Minister on 3 October and the findings and recommendations in its pre-budget report.

Committee Clerking Team  
September 2023

## STUC submission to Finance Committee's Inquiry into the Scottish Government's Public Service Reform programme

**Please tell us how you think the Scottish Government's public service reform programme is working in practice and how its aims of delivering effective and efficient public services are being met.**

The STUC is deeply concerned that in order to 'reset' the public sector to pre-pandemic levels, the Scottish Government's 2022 Spending Review proposed cutting 30,000 public sector workers. Our analysis suggests that the 30,000 public sector workers recruited during the pandemic was made up of: 13,300 NHS workers, 8,000 local government workers, 5,000 railway workers, and 3,700 civil servants (mainly delivering newly devolved social security powers).<sup>i</sup>

After more than a decade of UK Government spending cuts, cutting public services further will have catastrophic consequences for Scotland's communities.

To highlight the unsustainable nature of the proposed cuts to public sector employment, we need only look at the size of the Scottish public sector workforce since devolution, highlighted by the table below. Cutting the workforce to 'pre-pandemic levels' would pin the size of the public sector workforce to historically low levels.

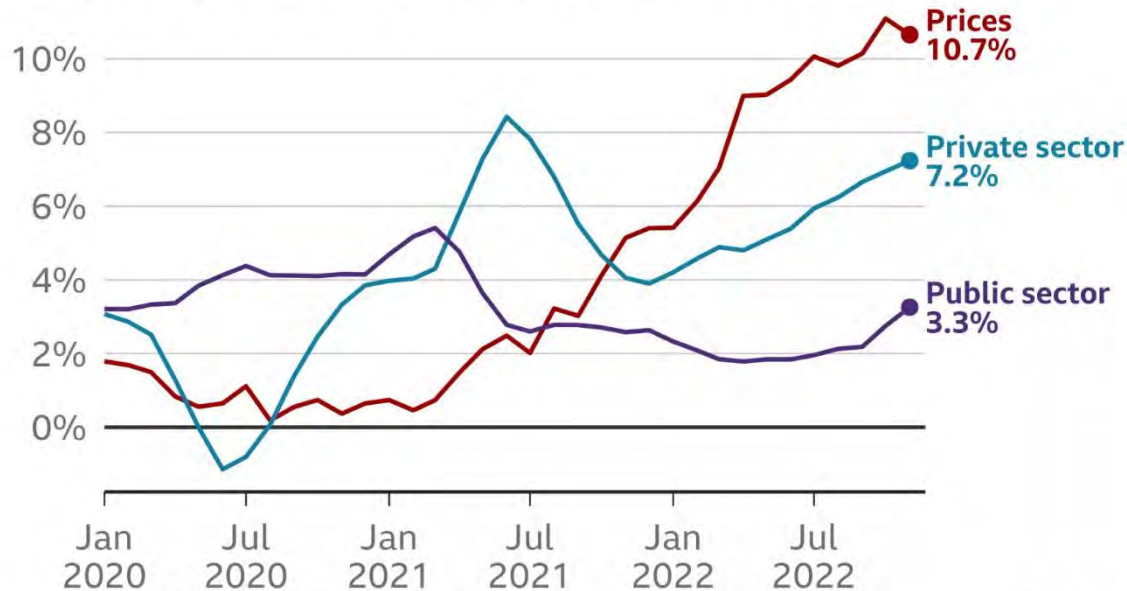


*STUC analysis based on Scottish Government Public Sector Employment statistics*

In addition, public sector pay growth is not only falling behind inflation, but also falling behind private sector pay growth.

## Pay is not keeping up with inflation

Annual wage and price growth, Jan 2020 to Nov 2022



Source: Office for National Statistics



As well as impacting on the cost of living, this is leading to serious recruitment issues in crucial public services. In this context, the Scottish Government's Public Sector Pay Strategy, which proposes a 3.5% pay rise, is not remotely sustainable.

These cuts to the workforce and to pay, are not inevitable, they are a political choice.

Rather than cutting public services the Scottish Government should be raising revenue, including through new income and wealth taxes, to sustain public services. STUC research shows that the Scottish Government could raise more than £3 billion through a package of short and long-term tax measures.<sup>ii</sup>

**The Committee would also be interested to hear about any examples of good practice where public service reform programmes have worked well in other countries and any lessons that can be learned.**

By international standards Scotland and the UK have relatively small public sector workforces. This is particularly true compared to Scandinavian countries which have significantly larger public sector workforces, and fare better on a range of social, economic and environmental metrics. It is also worth noting that Scotland and the UK have relatively small local government workforces, again in contrast with Scandinavian countries.

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 which is often code for cuts, is best undertaken

in conjunction with workers and their trade unions alongside increased investment in both overall size and the remuneration of the frontline workforce.

The STUC would also highlight principles of worker empowerment and subsidiarity, rather than the somewhat concerning statement contained in the Spending Review:

“This spending review invites all public sector leaders to consider the scope for innovation that embraces entrepreneurship, improves value for money, offers opportunities for commercialisation, better manages assets and brings benefit to the public purse.”

Statements such as this are particularly concerning given that in the same document, the Spending Review states: “continued growth of the public sector away from frontline services is not sustainable”. Encouraging public sector leaders to embrace entrepreneurship and opportunities for commercialisation is actively encouraging growth away from frontline services.

We would also note concern that reform of reform of the public sector estate may run in contradiction to the Scottish Government’s community wealth building aspirations which are about maximising existing assets of anchor institutions, including through insourcing, rather than outsourcing assets to multinational companies.

**For further information contact:**

Francis Stuart, STUC Senior Policy Officer, STUC

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<sup>i</sup> STUC analysis based on Scottish Government ‘Public Sector Employment in Scotland’ statistics  
<https://www.gov.scot/collections/public-sector-employment-statistics/>

<sup>ii</sup>  
[https://stuc.org.uk/files/Reports/Scotland Demands Better Fairer Taxes for a Fairer %20Future.pdf](https://stuc.org.uk/files/Reports/Scotland%20Demands%20Better%20Fairer%20Taxes%20for%20a%20Fairer%20Future.pdf)

## **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.<sup>1</sup>

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'.

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<sup>1</sup> [https://stuc.org.uk/files/Reports/Scotland\\_Demands\\_Better\\_Fairer\\_Taxes\\_for\\_a\\_Fairer\\_%20Future.pdf](https://stuc.org.uk/files/Reports/Scotland_Demands_Better_Fairer_Taxes_for_a_Fairer_%20Future.pdf)

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 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.<sup>2</sup> 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.

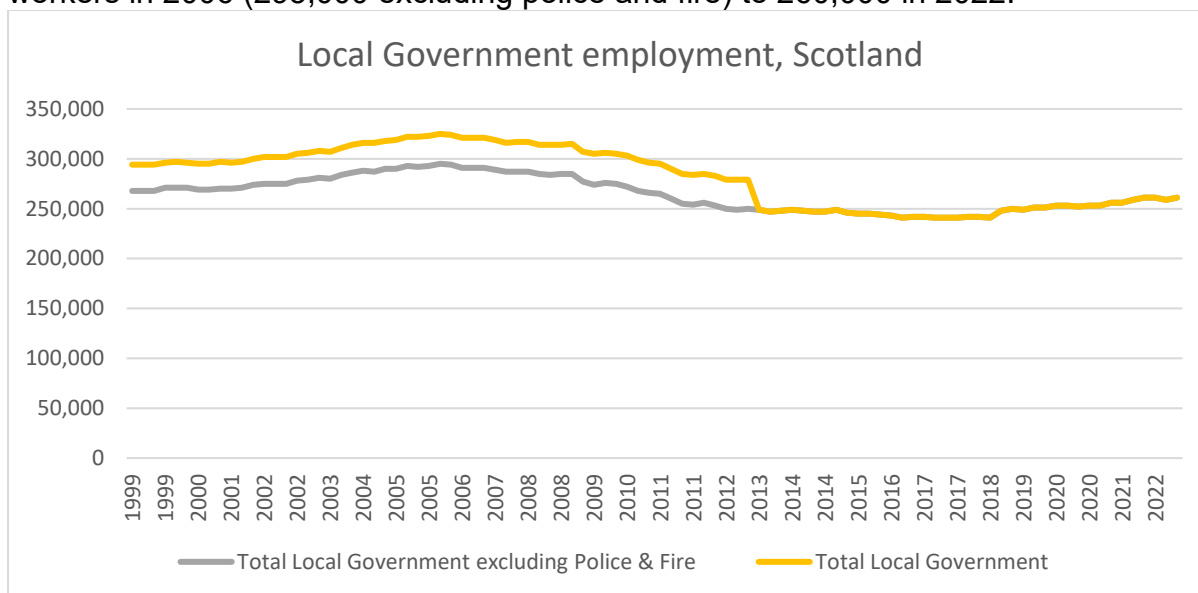
### **5. The Scottish Government's spending plans for resource (day-to-day spending needed to run public services) and capital (investment in**

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<sup>2</sup> [https://stuc.org.uk/files/Scotland\\_Report.pdf](https://stuc.org.uk/files/Scotland_Report.pdf)

**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.**

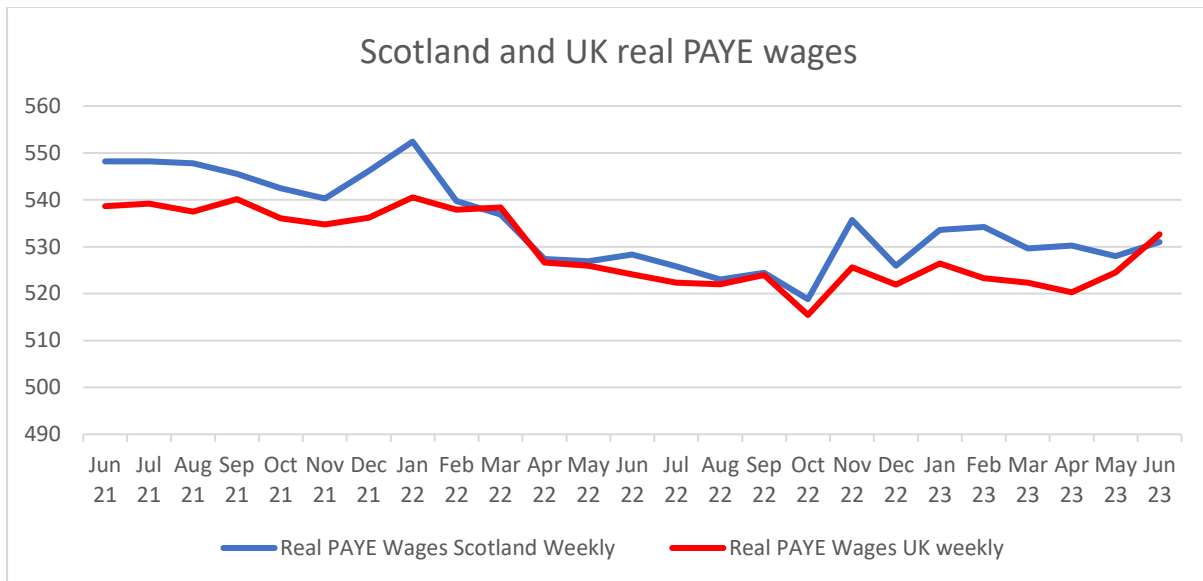
Public services in Scotland are at breaking point. The Scottish Government must protect and prioritise spending in frontline public services and in public sector pay. It must invest in local government which has seen employment fall from 325,000 workers in 2006 (295,000 excluding police and fire) to 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.<sup>3</sup> This is higher than the average across the UK – which is £995.

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



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 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.<sup>4</sup>

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 remuneration 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.

### **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.

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<sup>4</sup> [https://stuc.org.uk/files/Reports/Scotland\\_Demands\\_Better\\_Fairer\\_Taxes\\_for\\_a\\_Fairer\\_%20Future.pdf](https://stuc.org.uk/files/Reports/Scotland_Demands_Better_Fairer_Taxes_for_a_Fairer_%20Future.pdf)

**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:**

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