



UK Budget 2023

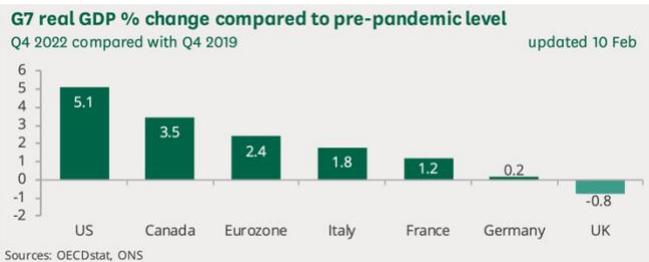
Introduction

On 15 March, Chancellor of the Exchequer, Jeremy Hunt will deliver the Spring UK Budget, accompanied by a full fiscal statement from the OBR. While many of the specific measures will not apply to Scotland due to devolved powers, they will impact the Scottish economy and the financing of public services through the fiscal framework.

In this briefing, we look at some of the key issues for Scotland.

Economy

The budget comes at a time when the UK economy is facing a prolonged recession. While headline growth figures are not 100% comparable, the UK is struggling compared to other G7 countries.



Workers are taking industrial action in response to many years of falling real pay. Over 100,000 civil servants will be on strike on Budget Day. Workers are expected by the Treasury and the Bank of England to take further real terms pay cuts of -3.8% (CPI) and -6.3% (RPI), while dividends and executive pay have soared.



The Governor of the Bank of England and the Prime Minister have argued that public sector pay rises in line with inflation will increase inflation. However, many economists disagree with this analysis because consumers do not pay for public services directly, so they do not affect the inflation statistics¹. The wage-price spiral theory fails even in the private sector because price rises are driven by supply shortages rather than pay. Public sector pay increases do not translate into higher inflation.

The key question in the Spring Budget should be, who pays? As Unite the Union's Sharon Graham puts it, *'During the pandemic, it was ordinary working people such as NHS workers, bus drivers, refuse collectors and supermarket workers who were sent out to keep the country going. Now the same working people are being made to pay the price.'*

Unite's research shows that profiteering is rife across many sectors, including energy companies, banks, agribusiness giants, shipping lines and supermarkets². Profit margins for the whole FTSE 350 have jumped by 89% since the pandemic. We need a budget that demands a fair share for the public sector.

Public Services

Strong and resilient public services are the backbone of a robust economy. Cutting public sector pay has led to a recruitment crisis across public services. Higher pay awards have partially mitigated this in Scotland, but sectors like the NHS and social care still suffer from 16% vacancy rates. Workers are voting with their feet in search of better-paid jobs to feed their families. The focus of the UK Spring Budget should be investing in public services and the workforce that delivers them.

The Chancellor has already hidden forthcoming cuts to departmental budgets of £28bn a year (2022/23 prices) by 2027/28. This is because he is relying on an optimistic OBR forecast that inflation will fall well below 2%. Despite the Bank of England's duty to maintain inflation at 2%.

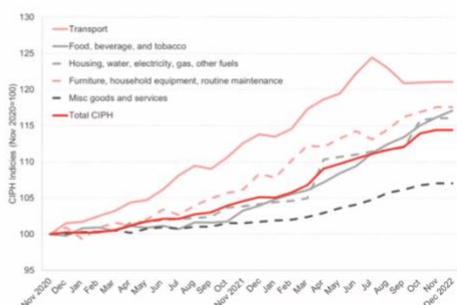
¹ Whiteley, Paul, *Does public sector pay drive inflation?* (LSE, Feb.23) <https://blogs.lse.ac.uk/politicsandpolicy/does-public-sector-pay-drive-inflation/>

² Graham, Sharon, *Government choices have left workers paying the price as company profits soar* (Feb.23) <https://labourlist.org/2023/02/government-choices-have-left-workers-paying-the-price-as-company-profits-soar/>

This slide from the Fraser of Allander Institute's assessment is a more realistic picture of inflation.

Inflation continues to dominate

- › Inflation dominating all economic and fiscal discussions
- › Expectations are for inflation to go down to 3-4% by the end of 2023
- › This doesn't mean prices will fall!



After adjusting for population growth and a more realistic inflation forecast, NEF analysis shows that total spending on services in 2027/28 would be 14% lower compared with 2009/10 in real terms.³ A budget based on a more realistic inflation assumption would deliver around £2.6bn a year in extra funding to the Scottish Government's budget.

The IMF has also suggested that funding boosts for public services can have multiplier effects that increase GDP by £1.30 for every £1. Higher public spending and taxes are essential to improve productivity; they are not holding it back. After a decade of austerity, further cuts will mean stagnant growth, and a further deterioration in healthy life expectancy.

Energy Bills

A key reserved element of the UK Budget will be support for energy bills. The UK Government may pull back from its planned increase in the price cap to £3,000 for a few months, while ending the £400 winter discount. Even without an increase in the cap, energy bills will account for up to 13% of the average Scot's take home pay. Low-income households are being hit hardest, with a full-time minimum wage worker facing bills worth 16% of their monthly salary.

Businesses in Scotland could face charges of 70-80% more for energy from next month, according to an analysis by Cornwall Insight. They said such increases could have a "catastrophic" effect on many smaller businesses. Scottish households, particularly in rural areas, face a larger increase than the UK average. Lower wholesale gas and electricity prices are unlikely to feed through until late summer. This could drive around 1million Scottish households into fuel poverty.

³ NEF, (27 Feb.23) [Austerity by Stealth](#).

⁴ Trussell Trust & JRF (27 Feb.23)

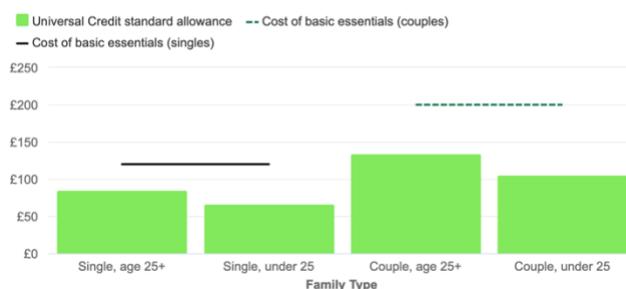
<https://www.irf.org.uk/report/guarantee-our-essentials?>

In response, the Chancellor should impose a larger windfall tax on oil and gas suppliers and other sectors profiting from exceptional international circumstances. And, as UNISON has argued, start insulating homes properly and boosting the energy efficiency of every household in the land. A reform of the energy market and the decoupling of gas and electricity prices should accompany this as suggested by the Just Transition Commission and the STUC.

Universal Credit

Despite welcome increases in devolved benefits, Universal Credit (UC) remains the key support for low-paid workers. However, as the Trussell Trust and others have highlighted, it's not providing enough to cover the cost of life's essentials, such as food, utilities and vital household goods. Nine out of ten low-income households receiving UC are going without. They argue for an 'Essentials Guarantee' of at least £120 a week for a single adult and £200 for a couple⁴.

Chart 1: Universal Credit's standard allowance compared to our indicative Essentials Guarantee level (£ per week in 2023/24)



Conclusion

The UK Budget is vital for workers in Scotland and across the UK. The Chancellor needs to focus on boosting pay across the economy and building strong public services funded through fair taxation. The budget should also protect low-income households from hardship by cancelling the energy bill hike and increasing social security. As the TUC argues⁵, a Budget that builds for fair growth and decent jobs - rewarding the workers who keep the country running is the best way to ensure that growth benefits everyone.

Jimmy Reid Foundation

The Jimmy Reid Foundation is a think tank which brings together different voices from across Scotland to make the case for economic, environmental, political and social equity and justice in Scotland and further afield.

<https://reidfoundation.scot>

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⁵ TUC, Spring Budget submission,

<https://www.tuc.org.uk/research-analysis/reports/spring-budget-2023>