



Budget Submission 2006



STUC Budget Submission 2006 - Executive Summary

The STUC does not underestimate the long-term challenges facing the Scottish economy or the current factors, such as the decline in manufacturing and persistently high levels of economic inactivity, that restrict our economic performance. However, this submission seeks to be realistic about Scotland's current performance which, in terms of jobs and growth, is generally positive.

The STUC believes Budget 2006 must:

- Focus on the high road to success. Ministers have a pivotal role in setting the agenda which must focus on innovation and quality rather than the deregulatory route to competing on low costs and flexible labour;
- Address the challenges that continue to confront Scottish manufacturing industry particularly rising energy costs;
- Explicitly acknowledge the fundamental role the public sector plays in economic development;
- Address the areas where the Scottish Labour Market continues to under perform: the persistently high levels of economic inactivity in general and amongst the BME and NEET client groups in particular;
- Dispense with the unnecessary and ill-conceived focus on regulation. This is a diversion from the task of creating the high performance workplaces and high wage, high skills economy that both trade unions and Government aspire to;
- Commit resources to actively promote fair employment practices with the aim of assisting the UK to compete with the productivity leaders in Northern and Western Europe;
- Promote a new positive approach to procurement designed to drive up standards and increase employer involvement in training;
- Concentrate resources on those among the economically inactive who are willing and, with support, able to return to work; and cease the programme of staff cuts in the Department of Works and Pensions;
- Recognise that a state pension based on a retirement age of 65 is sustainable if the Government achieves its target of 80% of those of working age in paid employment;
- Introduce compulsory pension contributions, provide adequate funds for the Financial Assistance Scheme (FSA) and end the emerging two-tier pensions structure in the public sector.



STUC Budget Submission 2006

Introduction

The STUC represents some six hundred and thirty thousand workers across Scotland, the members of our affiliated trade unions.

We speak for trade union members and their families in and out of work, in the community and in the workplace. Our affiliated trade unions have interests in all sectors of the economy.

The following submission sets out our current assessment of the Scottish economy, our comments on aspects of the Pre-Budget Report (PBR) and some of our key priorities for the 2006 Budget and for Government action generally.

The Scottish Economy

The STUC does not underestimate the long-term challenges facing the Scottish economy or the current factors, such as the decline in manufacturing and persistently high levels of economic inactivity, that restrict our economic performance. However, this submission seeks to be realistic about Scotland's current performance which, in terms of jobs and growth, is generally positive. Recent reports reflect this situation:

- Royal Bank of Scotland's Purchasing Managers' Index for January concluded that the 'strengthening of the Scottish economy recorded in December was maintained at the start of 2006. Encouragingly, the positive trend seen in recent months has not been confined solely to the service sector, with manufacturers also reporting sharper rises in output and new orders'. Scotland ranked joint fourth with the West Midlands out of 12 regions in the UK;
- Bank of Scotland's Index of Leading Economic Indicators, February 2006, concluded that growth in the Scottish economy will slow during 2006 as weakening business and consumer confidence offset the positive effects of strong housing activity, rising share prices and lower interest rates. However, the survey assesses that 'there are still signs that Scotland is fairing better than the UK as a whole, with pessimism

among businesses less widespread and new order levels rising. These factors, along with continued gains in the housing market and lower interest rates point to a soft landing for the Scottish economy with economic growth expected to stabilise towards the end of 2006'.

- Bank of Scotland Monthly Labour Market Survey, January 2006, reported that 'Permanent staff placements grew at a survey record in December, highlighting the Scottish labour market in 2005 finishing on a firm footing. Higher demand for staff also led pay rates to rise during the month. Encouragingly, Scotland also saw stronger jobs growth in its market than the UK average'.

Of course, the performance of the UK economy is critical to the Scottish economy. The trend in growth in the UK economy, despite being revised down in the PBR, remains robust compared to the historical average. The STUC congratulates the Government for its ongoing sound management of the economy: inflation is low and stable; employment is high and interest rates remain low by historical standards.

The Scottish Labour market

Overall, the Scottish labour market continues to perform well with employment at historically high levels. The latest labour market statistics¹ reveal that the trend in the employment rate is close to flat but not significantly different to a year ago. The trend in the unemployment rate is decreasing but the rate in the latest period is not significantly different to a year ago.

The data for the three months to December 2005 records the employment rate as 75.4% up 0.3 percentage points on a year ago. The seasonally adjusted unemployment rate was 5.2%, down 0.5 percentage points on a year ago.

Whilst employment levels are high, some regions, such as Dundee City, Ayrshire, Glasgow City and surrounding areas, experienced levels of unemployment of over 4% for claimant count unemployment as a percentage of the working age population. This compares to 2.7% for Scotland and 2.2% for the UK as a whole.

¹ National Statistics First Release, Labour Market Statistics, February 2006: Scotland

The annual Scottish Labour Force Survey 2005/06² was published in July 2005. It found that the employment rate for Scotland was 74.8% between March 2004 and February 2005. The number of working age people in employment was 2.339 million with a further 75,000 people over working age in employment. The following were key findings:

- Employment rate for males was 78.0% compared to 71.6% for females;
- Working age employment rate:
 - for disabled people was 44.5%, up from 42.9% on the previous year. However, the range is huge - from 32% in Glasgow to 60.3% in East Dunbartonshire;
 - for the minority ethnic community was 55.2%, a decrease of 2.7% on the year;
 - for lone parents was 54.9%, an increase of 5.3 percentage points on the year;
 - for people aged over 50 was 68.8% (55.6% in Glasgow City, 58.9% in East Ayrshire & 58.2% in North Lanarkshire);
- The number of 16 to 19 year olds not in employment, education or training (NEET) in Scotland was estimated to be 35,000 between March 2003 and February 2004. That was 13.5% of all 16 to 19 year olds in Scotland - a small drop from 13.7% the previous year. 23% of all 16 to 19 year olds in Glasgow were NEET, 17.4% in Inverclyde, 16% in Stirling and 18.5% in South Ayrshire. Worryingly, these areas have shown a substantial rise over the year.

Therefore, major challenges continue to face the Scottish labour market. The progress in relation to the employment of disabled people and lone parents is negated by the fall in BME employment and the apparent inability of Government and agencies to seriously tackle economic inactivity in general and the NEET client group in particular.

The persistently high levels of economic inactivity remain a major challenge. In October to December 2005 there were 647,000 working age people economically inactive, 193,000 of whom want to work. This is a resource that Scotland cannot continue to waste in the face of demographic change.

STUC Budget Priorities

The following sections have been written to reflect the chapters of the Pre-Budget Report (PBR).

Meeting the Productivity Challenge

Regulation

The STUC welcomes the emphasis on increasing productivity in the PBR but is concerned that Budget announcements are becoming predictable in their unnecessary and ill-conceived focus on regulation. When is the last time we heard the Chancellor, DTI Minister, Scottish Executive Minister or European Commissioner make the positive case for regulation? Simply put, regulation is the means by which we make Scotland a better place to live and work in as well as a better place in which to do business.

The debate tends to be focused on 'better' regulation aimed at reducing 'burdens' (to use the tiresomely pejorative phrase beloved of employer organisations) on business. However, the STUC is clear that the policy impetus at European, UK and Scottish levels is towards de-regulation; a process that can only result in less protection in the workplace. It is also a diversion from the task of creating the high performance workplaces and high wage, high skills economy that both trade unions and Government aspire to.

Let us be clear, the STUC:

- Will always support measures aimed at assisting employers to comply with clear and efficient regulation;
- Recognises that regulation cannot remain static in a modern economy - it must develop to remain relevant.

However, effective regulation is unavoidable if we truly aspire to:

- Modern high performance workplaces which maximise employment opportunities through support for working parents;
- Healthy and safe workplaces;
- Fair and equal pay; and,
- Sustainable economic development.

²National Statistics Annual Scottish Labour Force Survey 2004/05

The PBR included a particularly abject deregulatory concession. The decision to scrap plans to force listed companies to produce an Operating and Financial Review (OFR) was billed as a pro-business move, cutting another 'burden', slashing more red-tape and so on. OFRs would have contained a statement of the company's position, prospects and assessment of the risks it might face. Therefore, most investors believe OFRs would have added substantially to their understanding of companies there by improving the quality of investment decisions. The Association of British Insurers, the National Association of Pension Funds and the Financial Reporting Council were signed up to the introduction. This is an unwelcome example of progressive policy being sacrificed in pursuit of cheap soundbites designed to appease the more extreme elements of the employer lobby.

Similarly, the EU Public Sector and Utilities Procurement Directives were not given full force in UK and Scottish law largely because Government was reluctant to create 'burdens'. This ill-advised pandering to the employer lobby helps feed short-termism whilst contributing precisely nothing to addressing key long-term challenges.

Interestingly, in a letter to the Observer on 5 February 2006, Des Browne Chief Secretary to the Treasury argued that 'people want to live, work and invest in the UK' and cited a World Bank report ranking the UK as 'the most preferred country in Europe in which to conduct business'. Quite so. Consider the following evidence:

- The World Bank's 'ease of doing business rankings' rates the UK 9th in a league table of 155³ countries; and,
- The OECD rates the UK first in the G7, and second in the OECD, for liberal product market regulation.⁴

The Treasury does not usually shy from international comparisons that demonstrate 'good' performance, witness the PBR's chapter Maintaining Macroeconomic Stability. So why is it so reticent in emphasising the extent of its deregulatory activities? Perhaps such an acknowledgement would bring into question the focus on deregulation and suggest some difficult questions for business over the failure to catch up with competitors on productivity and R&D?

The Budget must:

- focus less on deregulatory hyperbole and more on measures to assist companies invest in their people to create the high performance workplaces necessary for the UK to compete with the productivity leaders in Northern and Western Europe.

High Performance workplaces

Budget 2006 should also recognise that too often the causes of low productivity are often to be found in low pay and low valuation of a disposable workforce.

It is interesting to note in this context that OECD 2005 survey points to skills and lack of investment as the major reason for the persistent productivity gap between the UK and our main competitors.

The STUC believes the UK government through the promotion of high performance workplaces, where partnership and fair employment are the norm, has an active role to play in enhancing Scottish productivity.

Recognising that, despite the rhetoric of the CBI and Conservative Party, effective employment regulation does not have to come at the price of high unemployment, Budget 2006;

- must commit resources to actively promote fair employment practices and the creation of high performance workplaces.

Skills

The STUC welcomes the PBR's focus on skills whilst acknowledging that this is an issue devolved to the Scottish Parliament. Therefore, in the context of this submission, it is appropriate to include a consideration of skill levels and some general thoughts on the way ahead.

The Annual Scottish Labour Force Survey⁵ reported on the three Lifelong Learning indicators in Scotland:

- 1 Reduce the proportion of working age adults whose highest qualification is below SCQF level 5 - between March 2004 and February 2005 this was estimated to be 18.5%, a decrease of 1.6% on 2003;
- 2 Reduce the proportion of 18-29 year olds whose highest qualification is below SCQF level 6 - between March 2004 and February 2005, this was estimated to be 30.9%, a decrease of 0.4% on 2003;

³World Bank 'ease of doing business' rankings <http://www.doingbusiness.org/EconomyRankings/>

⁴OECD website http://www.oecd.org/document/43/0,2340,en_2649_34111_35456619_1_1_1_1,00.html

⁵ National Statistics Annual Scottish Labour Force Survey 2004/05

3 Increase graduates as a proportion of the workforce - this was estimated to be 21.8% between March 2004 and February 2005, an increase of 1.5% on 2003.

It also reported that the proportion of working age people in employment who received job-related training in the last 3 months was estimated to be 30.9% between March 2004 and February 2005, a similar proportion to 2003.

Those working in Edinburgh City are most likely to have received training in the last 3 months at 34.3% whereas only 24.3% of those working in East Ayrshire received job related training in the last 3 months.

The recent report⁶ on progress on Smart, Successful Scotland indicators concludes that:

- Scotland is in the top quartile of EU economies for education and training for its employees, but is only a little better than average in the UK context;
- Scotland is towards the bottom of the UK regional league table for current and recent participation in learning among the working age population.

There is therefore considerable scope for improving Scotland's position on workforce skills. The STUC, building on the work of our Lifelong learning Unit, will be working to:

- Emphasise the importance of improving the skills of those stuck in the low pay, low skills continuum;
- Encourage the enterprise networks to take workforce development seriously; and,
- Examine the merits of an employer training levy, recognising the failure of large sectors of industry to sign up to a high skills agenda.

Research and Development

The STUC has consistently highlighted its disappointment with Scotland's continuing low levels of R&D investment which unfortunately reflect the short-termism endemic in the economy. The STUC awaits with interest the Scottish Executive's cut in the business rate poundage. The employer lobby argued long and hard (but very unconvincingly from the STUC's perspective) that the marginal difference with the rate in England was

a barrier to investment. We expect the realignment to be rigorously evaluated to discern the impact on investment. Unfortunately, we expect it to have little impact.

In 2003 Business Enterprise Research and Development (BERD) was equivalent to 0.58% of GDP in Scotland and 1.23% of GDP in the UK⁷. Business research and development as a percentage of GDP is lower in Scotland than in most important competitor countries. In 2003 EU expenditure as a percentage of GDP was twice as high than in Scotland, as was the OECD figure of 1.51%. The leading country in the comparison was Sweden, where business R&D spend was 5 times higher as a percentage of GDP.

International Comparisons 1997 to 2003: BERD as a Percentage of GDP

Country	1997 (%)	1999 (%)	2001 (%)	2002 (%)	2003 (%)
Scotland	0.42	0.53	0.65	0.77	0.58
UK	1.18	1.25	1.24	1.26	1.24
Germany	1.54	1.70	1.75	1.75	1.78
France	1.39	1.38	1.41	1.43	1.36
Italy	0.52	0.51	0.55	0.56	0.55
Japan	2.04	2.10	2.26	2.32	2.36
Canada	1.01	1.08	1.27	1.09	1.03
USA	1.91	1.98	1.99	1.87	1.79
Ireland	0.91	0.88	0.78	0.77	0.8
Finland	1.79	2.20	2.42	2.41	2.46
Sweden	2.65	2.74	3.31	3.31	2.95
EU25	-	1.13	1.17	1.17	1.17
OECD	1.48	1.52	1.57	1.53	1.51

Source: OECD Main Science and Technology Indicators and Regional Trends

The STUC does recognise that performance is improving: R&D expenditure in Scotland has increased by 54% in real terms in the 6 years between 1997 and 2003, compared to a real terms increase of 24% in the UK. However, there is still some distance to travel if Smart, Successful Scotland objectives are to be achieved.

The STUC recognises that the Government has actively tried to boost R&D investment through the tax credit regime but, recognising that companies have performed poorly to date,

- extending Government incentives is unavoidable;
- Ministers must focus on the high road to success. They have a pivotal role in setting the agenda which must focus on innovation and quality rather than the deregulatory route to competing on low costs and flexible labour.

Manufacturing

Scottish manufacturing industry continues to struggle relative to UK. Another 4,000 jobs were lost in Scottish manufacturing in the year to September 2004. However, employment does appear to be stabilising:

Forecasts of Scottish Employment and net Employment Change, 2005-2007

	2005	2006	2007
Total employment	2,285.3	2,313.3	2,349.4
(000s)	(26,700)	(28,400)	(35,600)
Manufacturing	246.3	246.7	248.1
	(-3,300)	(400)	(1,400)
Services	1,815.5	1,841.4	1,874.7
	(31,700)	(26,300)	(1,874.7)

Source: Fraser of Allander Institute, October 2005

However, the Treasury forecast for manufacturing for 2006 is for growth of manufacturing output of between 1 and 1.25%. As forecast productivity growth in manufacturing will exceed forecast output growth, the inevitable result must be less employment. It is scant consolation that we would expect the rate of job loss to moderate.

The STUC believes that there can be a viable future for manufacturing in Scotland and welcomes the Scottish Executive's launch of a Scottish Manufacturing Advisory Service this year. MAS is the one business support programme in England that has demonstrated real gains in productivity.

The UK Government has a major role to play in assisting Scottish manufacturing and the Budget 2006 should address:

- the ongoing concern over the level interest rates on manufacturing industry (STUC Congress 2004 called for the state of

manufacturing industry to be taken into account in the remit of the Bank of England Monetary Policy Committee when setting UK interest rates - and for the MPC to include people with understanding and experience of industry). There is no evidence feeding through that rising oil prices are leading to rising inflation or higher wages;

- the need to rebalance trade with emerging economies. Between 2000-2003 Germany increased its exports to China by 93%; the equivalent UK figure was 17%⁸;
- the serious threat posed by rising energy costs to Scottish manufacturing, particularly energy intensive sectors such as paper, chemicals, metals, glass and cement. The STUC will submit a comprehensive response to the Energy Review arguing that Scotland requires a balanced energy strategy that recognises the distinct position of Scotland within the UK and addresses security of supply whilst contributing to important social, employment and environmental objectives.

The STUC does not believe that protectionism is good for Scottish industry. We do, however, call on the UK Government and Scottish Executive to use the flexibilities deliberately included in EU law to support UK companies, through intelligent procurement and through the State Aid system. We note that the UK currently provides less support to manufacturing industry as a percentage of value added than any other pre-accession EU member state⁹ (no figures available for Scotland).

The STUC was concerned at the Government and Scottish Executive's minimal implementation of the EU Public Sector and Utilities Procurement Directives. This was an opportunity missed. We are currently working with the Scottish Executive to produce guidance that will help contracting authorities achieve value for money whilst helping to meet important social, employment and environmental challenges.

The STUC has two main aspirations for procurement policy:

- For procurement to play a pivotal role in securing the future of Scottish manufacturing. Trade unions recognise that public authorities must operate within

⁸EU Commission

⁹DG Competition -http://europa.eu.int/comm/competition/state_aid/scoreboard/key_i

tight EU competition rules but so far other countries have been far better at giving their manufacturers a slice of the public procurement cake; and,

- For procurement to be used to drive up standards across the economy. Contracts drawn up with suppliers and service providers can incorporate clauses on better employment standards, training provision, health and safety and environmental sustainability. There is great potential for procurement to help make Scotland a better place in which to live and work.

There is now a clear divergence between positive procurement agenda promoted by trade unions, progressive employers and some public sector bodies and local authorities which seeks to promote high standards and inclusiveness. The OGC, and by association the Scottish Executive, appears to be backing the discredited low-cost, low value agenda; an agenda that does not sit well with the Smart, Successful Scotland enterprise strategy.

Moreover, it is the positive agenda, that seeks to promote high skills and high value among procurers and suppliers and end discrimination that is the truly efficient one. Public sector bodies that do not promote skills, or do not take steps to fully utilise the contribution of women, disabled or black and ethnic minority employees, on the spurious basis that developing their talents is a short term 'cost', are taking the inefficient approach.

As part of a new positive approach to procurement, Budget 2006

- should actively look at how policy can be used to provoke better performance and drive up employer involvement in training, for example, by requiring employers engaged in government contracts to have a high quality apprenticeship system in place.

Offshoring

The STUC recognises that the global economy offers opportunities as well as threats and that the UK economy as a whole is reasonably well placed to absorb many of the jobs lost to low cost destinations.

However, the Government must recognise that regions will be disproportionately affected. Services are the dominant component of the Scottish economy, accounting for some 70% of GDP. We recognise that there are powerful forces working for and against the offshoring of these jobs but what is unarguable is that there is huge potential for substantial numbers of jobs to be lost over the next 2-5 years. Previous experience in manufacturing tells us that the Government should act now while the sector remains strong.

The STUC repeats its call for Budget 2006 to consider:

- An authoritative analysis of the potential impact region by region identifying the key areas and likely timescale;
- Focused industrial and regional policies with the early involvement of the devolved administrations and regional economic development agencies to help companies improve the efficiency, quality and diversity of UK operations and to encourage alternative sources of employment in the local economy;
- Additional support to encourage training and upskilling to allow staff to redeploy to high value added jobs, including support for Union Learning Representatives; and,
- DTI to help draw up and promote a code of best practice to encourage all firms to handle change through negotiation and consultation; and,
- Support for the trade union movement's efforts through international agreements and through the WTO to promote core labour standards and the international codes of best practice.

Increasing Employment Opportunity for All

Whilst acknowledging the UK Government's success in achieving record levels of employment, the damaging economic and labour market policies of the 1980s and 1990s mean that the UK continues to have one of the highest levels of inactivity among working age people in Europe.

There are currently 647,000 economically inactive people in Scotland of working age, 193,000 of whom want

to work. While the rate of inactivity in Scotland of 20.4% is similar to the UK as a whole, the situation in some areas of Scotland is much worse. Glasgow City measures 29.6% with some constituency areas approaching the 40% mark. Inverclyde, Dundee City, North Ayrshire and North Lanarkshire all measure over 25%.

The economic and social effects of high economic inactivity are likely to become increasingly severe in the context of Scotland's declining and ageing population. An ageing workforce is likely to bring lower GDP and productivity growth, increased public spending demand (particularly pensions and health) and labour market shortages. Improving the rate of economic activity is one effective way of addressing these issues.

In addressing high levels of Incapacity Benefit claimants, the approach that helps people into work will be more effective than cutting benefits through increasing the use of sanctions. Therefore, the STUC supports the Chancellor's commitment to extend outreach support for people who are neither in work nor on benefit.

There are lots of obstacles to employment for disabled people and Britain already spends much less on employment help for disabled people than any other European country.

The STUC will submit a comprehensive response to the Welfare Reform Green paper. Budget 2006 should:

- Increase the focus on assisting the economically inactive back into work. Success has been very limited so far, especially in the West of Scotland. The Budget must again look innovatively at this issue, which remains crucial in the context of the demographic situation;
- Increase support for the Access to Work programme which provides subsidies to help disabled workers and their employers meet any extra costs that might otherwise act as a barrier to employment. The programme is widely supported by trade unions and employers but a recent TUC survey found widespread employer ignorance of the scheme; and
- Recognise that the measures set out in the Government's Green Paper on Welfare Reform call for a reappraisal of the current programme of

cuts in DWP staff and a commitment to increase funding to facilitate the ambitious return to work targets therein.

Budget 2006 must examine whether there is specific action that can be taken at a UK level to assist Scotland's demographic problems. The Scottish Executive is working on a number of fronts to address these challenges but the UK Government also has an important role to play. Budget 2006 must:

- Recognise that asylum seekers and refugees can help provide the means of growing our economy rather than being a burden on it;
- Build on the welcome measures to allow students to remain in Scotland post study. A precedent has been set and further innovative measures that recognise the particular issues facing Scotland should be explored.

Building a Fairer Society

The STUC welcomes the PBR commitments in respect of tackling tax fraud, avoidance and tax-motivated incorporation.

Pensions

The STUC is opposed to any proposals for a compulsory rise in the retirement ages and believes the Government should consider a flexible decade of retirement. The STUC also supports the TUC's view that if the Government achieves its target of 80% of those of working age in paid employment, a state pension based on a retirement age of 65 is sustainable.

Thus, the STUC reiterates its support for initiatives aimed at those who are able and willing to work which constructively assist individuals to secure suitable employment for which they are properly trained and supported in the workplace.

The STUC welcomes many of the recommendations of the Turner Report, In particular we welcome recommendations; providing improved pension arrangements through proposals for a universal state pension; for an improved state second pension aimed at providing additional benefits for carers; and linking the state pension to earnings. The STUC supports the

restoration of the link to earnings as opposed to prices and believes that this is particularly important given the historical above inflation rises in Council Tax and fuel costs. The restoration of increasing in pensions in line with earnings is now Labour Party policy.

STUC believes that the Turner Report recommendations present a significant forward step in addressing the crisis in women's pension provision and reducing pensioner poverty and should be adopted.

Many trade union members are continuing to see their pensions disappear and the STUC believes that the Government backed Financial Assistance Scheme (FAS) is inadequately funded to meet growing claims. The commitment by the Government to fund the Financial Assistance Scheme to the extent of £400 million over 20 years clearly indicates an underestimation of the extent of the problem. The Government also failed the victims of collapsed schemes by delaying announcements of the full implications of the scheme and the levels of payout available to scheme members.

It is unacceptable that many workers still face losing their occupational pensions and those that receive payment will only receive 80% of their value, capped at £12000. Successive governments promoted occupational pension schemes and the STUC is disappointed that important information regarding FAS was not released at the launch. The Government needs to sanction a radical overhaul of the scheme now the full implications have been released. It is a matter of great injustice that many members will receive less under the FAS than if their funded schemes had remained open and paying full benefits to members.

The collapse of occupational schemes, the resultant broken pension promises and the drift towards less favourable and higher risk defined contribution schemes requires urgent action by the Government to introduce incentives to employers who continue to offer or open new final salary schemes. The Government through abolishing rebate of advanced corporation tax affected income to pension schemes by £5 billion per annum. Employers by taking contribution holidays and falling equity and bond markets have also contributed to the pension crisis. There is now a requirement for restorative action by both Government and employers. Our view on employer's compulsory contributions will be covered later but we believe the Government can

encourage employers to maintain final salary schemes through the introduction of tax incentives for companies operating the most favourable pension scheme arrangements.

The Government has also to consider a compensation scheme for members affected by pension fund collapses in respect of the loss they will incur as a result of their contracting out of the state system into a government approved occupational pension scheme. As a result workers will not therefore receive the Guaranteed Minimum Pension as defined by the state.

The STUC welcomes the commitment by the Government to protect the pension rights of civil servants in the agreement reached with civil service trade unions last year. However, we are deeply concerned that workers in Local Government have not had their pensions protected in this way and we appear to be witnessing the introduction of a two-tier pension structure for public sector workers. The Government are supporting the exploitation of local government workers, who deliver essential public services, by their employers through proposing unilateral and detrimental changes in their pension provision. We would urge the Government to encourage Local Government employers to reach settlements that protect existing terms and conditions.

The STUC also believes that the Government now has to introduce compulsory contributions as a matter of urgency. Suggestions from the CBI that employers should be "cajoled" into contributing are the latest example of repetitive rhetoric from the business community that merely demonstrates their lack of willingness to deliver meaningful occupational pensions to their workers in the past. Previously the Government allowed employers off the hook by refusing to introduce compulsion and, in the process, demoted the stakeholder pension to a tax efficient savings vehicle that will only benefit the spouses and children of the rich.

Compulsory savings into pension schemes have to go beyond the recommendations in the Turner Report of 5.4% and 1% by workers, employers and Government respectively.

The STUC is of the opinion that employers have to contribute more to their workers pension schemes and this investment would be repaid by reduced staff

turnover and increased employee loyalty. We suggest that compulsion should be introduced with the employee contributing at least 5% and the employer contributing 10% to be implemented over a prescribed period of time.

North Sea Oil Taxation

The STUC believes that the supplementary tax on North Sea oil companies is affordable and there is no sign that investment has been, or will be, withdrawn as a result. Moving forward, the Treasury should seek to support this crucial industrial sector through:

- A taxation regime that is transparent and aims to support the industry in the long-term; and,
- Creating incentives targeted at exploration drilling.

Delivering High Quality Public Services

The STUC is engaged in an ongoing discussion with the Scottish Executive about a strategic approach to public sector revitalisation based on partnership and investment in people and a commitment to value and support the public sector ethos.

The STUC believes that public services should be run on ethical lines based on the principles of selflessness, integrity, objectivity, openness, accountability, competence and equality. We continue to oppose PFI and PPPs and deplore the effects of such schemes on public services, in terms of the impact on public sector workers, the quality of public services and the value for money over the lifetime of each scheme.

The STUC continues to be frustrated by the current debate in the Scottish media around the 'crowding out' of the private sector by the public sector. During the course of the past year, this debate has reached embarrassing proportions, with the comedy supply-side elements in Scottish politics and media pursuing a relentless campaign based on ideology and prejudice without any recourse to the available evidence. It is worrying and extremely inappropriate that the Chairman of Scottish Enterprise decided to become embroiled in this debate in terms that suggest he is a stranger to the Smart, Successful Scotland agenda he is charged with delivering.

There is simply no reason to assume that a vigorous private sector cannot operate in a country with high levels of public spending. In fact, when considering OECD figures on international comparisons of tax and spend in 2004, it is difficult to discern any significant link between the share of public spending or tax in GDP and economic success. At the top end we find highly successful high-tax-high spend economies such as Sweden and Denmark while low-tax-low-spend Japan has been struggling for over a decade.

Scotland faces many serious economic and social challenges: a declining and ageing population, an appallingly low rate of R&D investment, retaining a manufacturing base in the face of global competition, upskilling and tackling the legacy of the disastrous labour market policies of the 80s and 90s that have left us with pockets of persistently high economic inactivity. It is high time the business community acknowledged the simple truth that a strong public sector is fundamental to meeting these challenges effectively.

- Budget 2006 must recognise the fundamental role that the public sector plays in economic development.

Protecting the Environment

The STUC will submit a comprehensive submission to the Energy review in due course.

Further information

Further information about the STUC, our activities and policies (including full version of STUC energy policy), as well as details about how to contact us, is available on our website: www.stuc.org.uk

STUC
March 2006