



IFS Scottish
Election event
26/04/2021

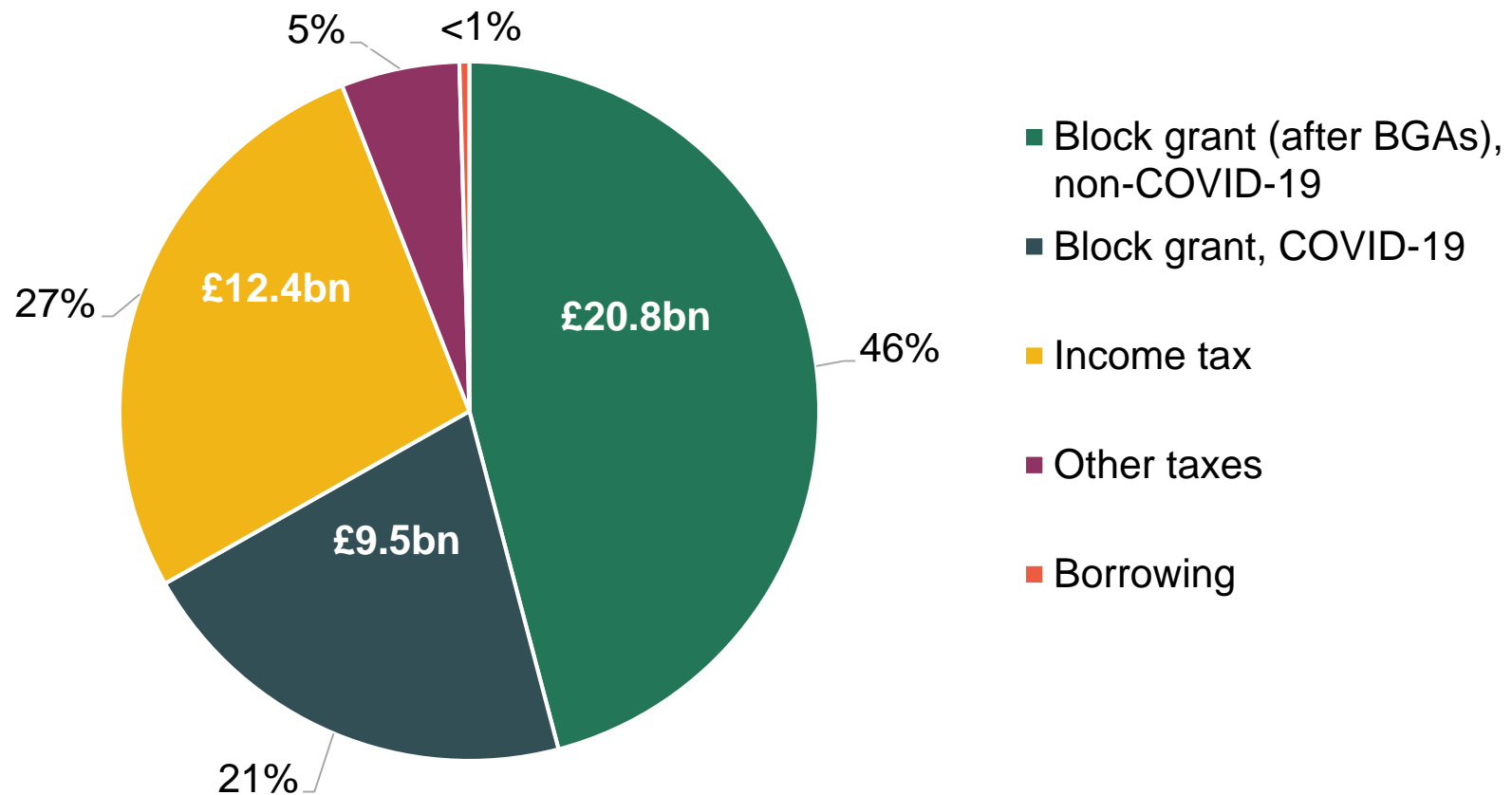
Funding and public spending: trends & the parties' plans

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David Phillips

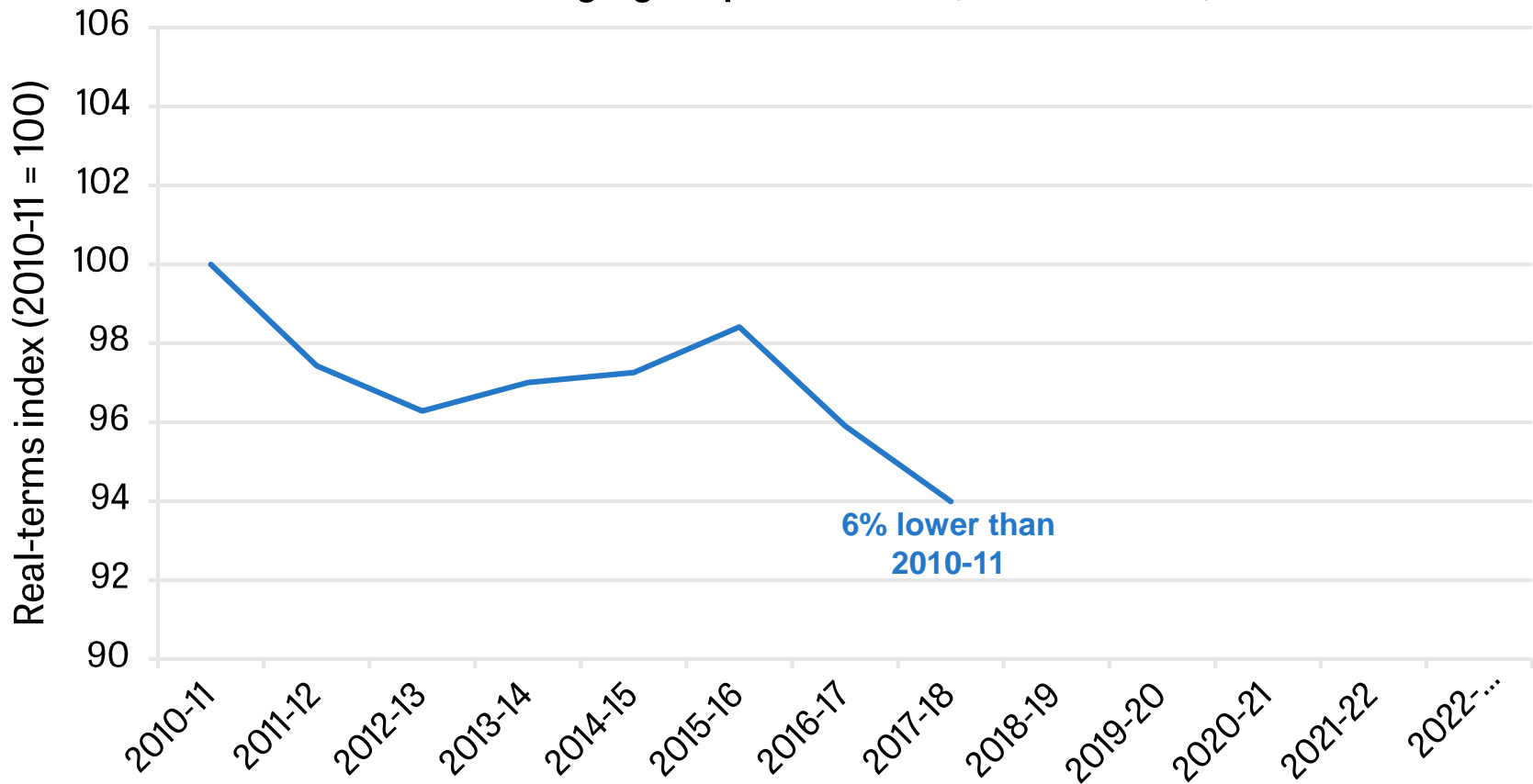
Scottish government funding

Funding for resource spending was £45.3bn in 2020-21



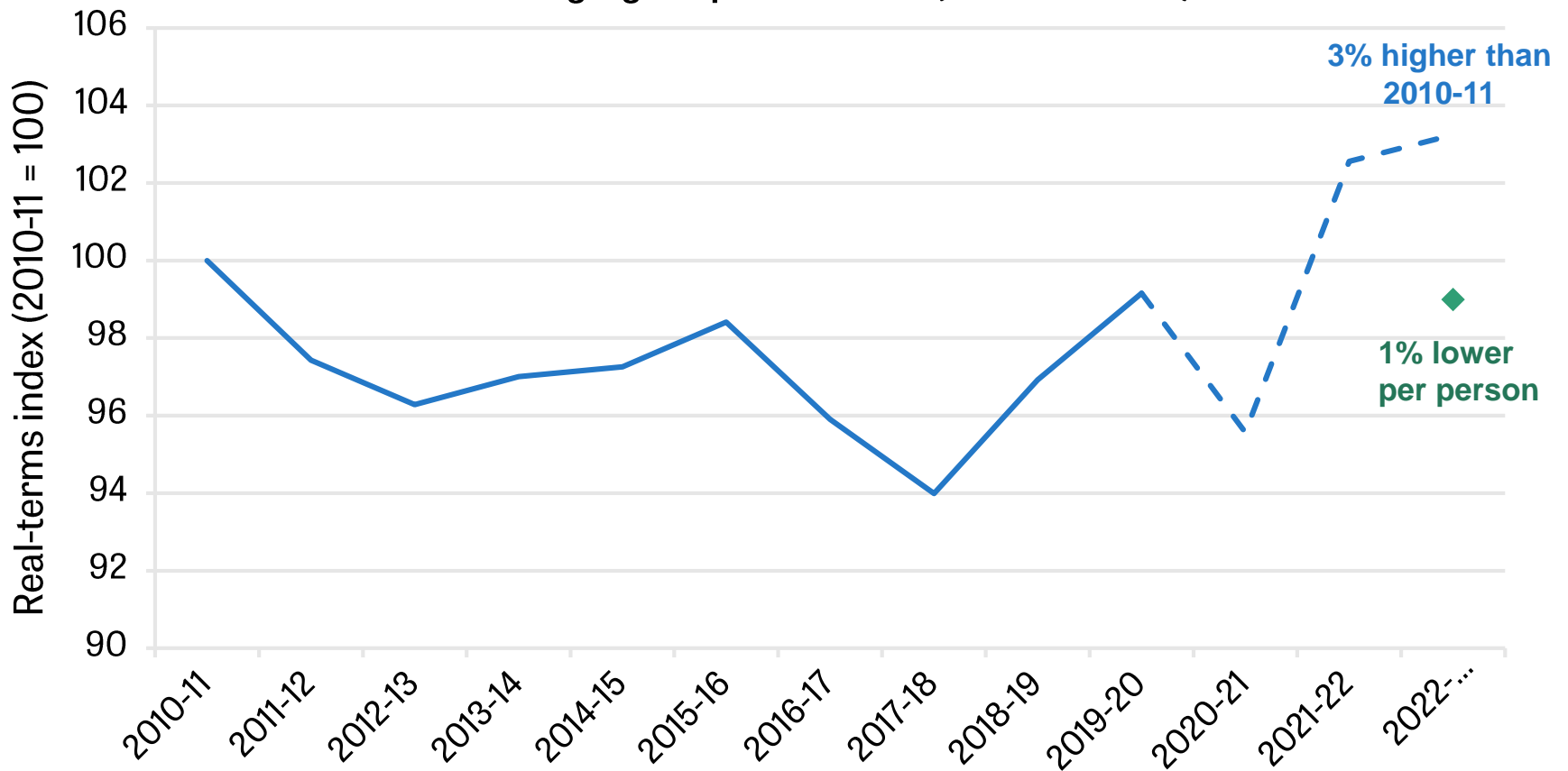
Changes in UK govt. funding drive trends in overall funding...

Scottish Government non-COVID resource funding, adjusted for changing responsibilities (2010-11 = 100)



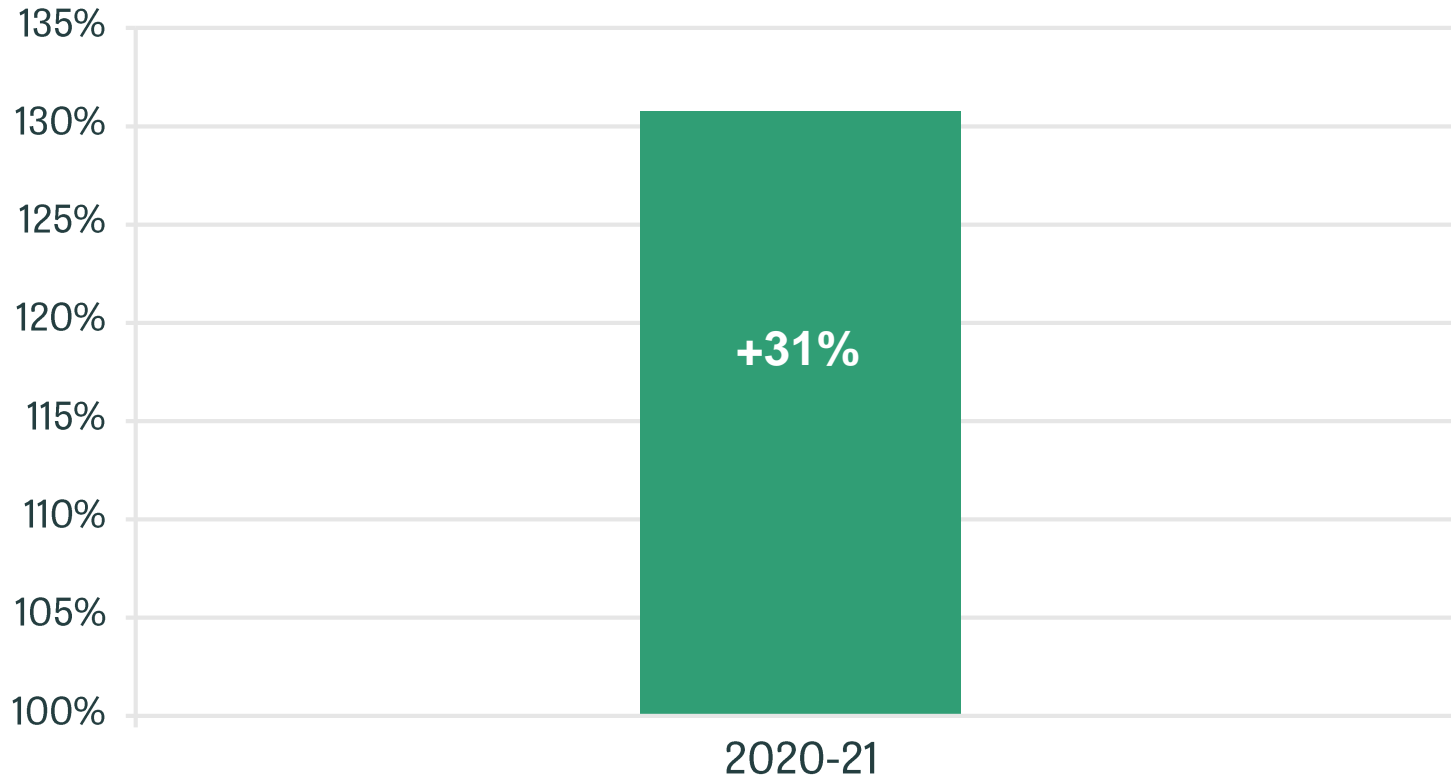
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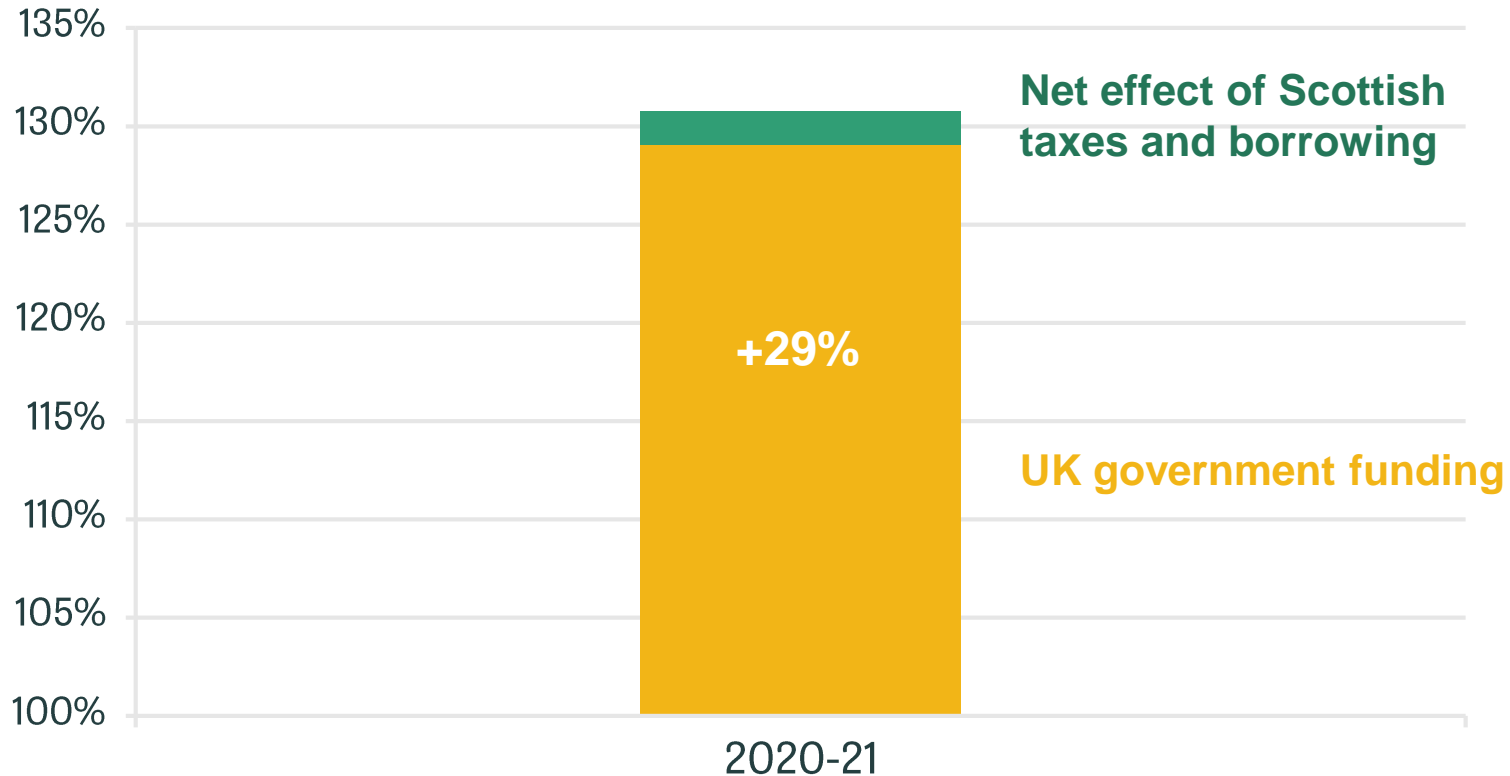
... and higher funding levels

Scottish Government funding per person, percentage of comparable funding for England, 2020-21



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Scottish Government funding per person, percentage of comparable funding for England, 2020-21

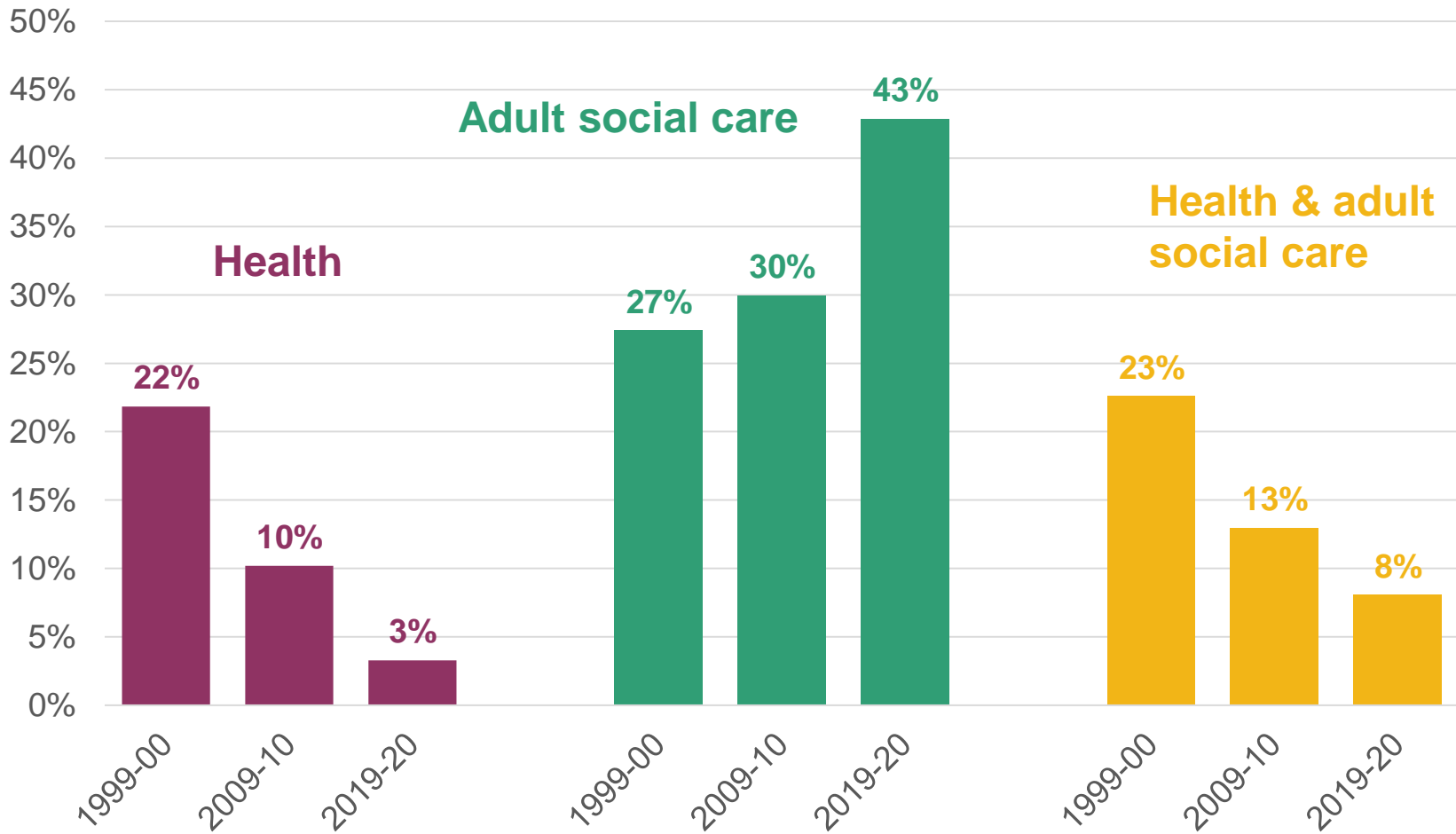


How is this funding spent?

- Capital investment is particularly high
 - 30% higher than UK average over last 20 years
 - 51% higher than England outside London
- Education has been a notable spending priority, but outcomes lag
 - More spent on early years, schools, FE and HE
 - Spending per pupil aged 3-19 is over £1000 more than England
 - But relative PISA test scores fallen & HE participation up less
- Much more is spent on a range of smaller service areas, including
 - Housing and community development: 91% more in 2019-20
 - Recreation, culture & religion: 76% more in 2019-20
 - Environmental protection: 54% more in 2019-20
 - Transport: 39% more in 2019-20

Health and adult social care

Difference between spending per person in Scotland and England, %



A tight funding outlook

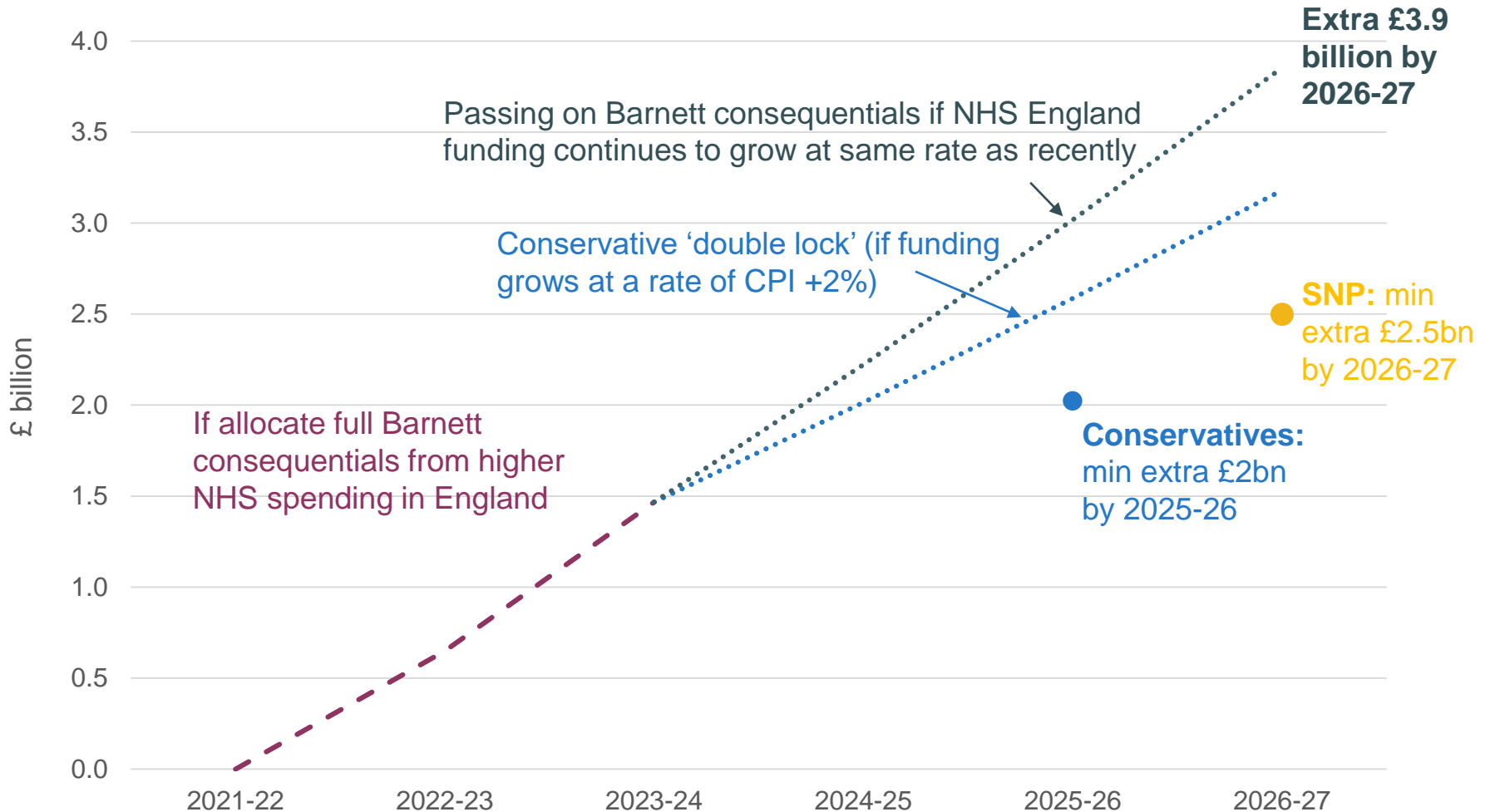
- Provisional UK govt spending plans are very tight in 2022-23
 - Unprotected departmental budgets 8% lower than planned pre-COVID
 - ➔ Scottish Govt's core non-COVID resource budget could increase by only around 1% in cash & real-terms compared to this year
- Current govt. is funding a range of permanent measures from temporary COVID cash this year
 - e.g. free school meals, buses, council tax freeze
- Without extra UK govt funding or tax rises, cuts to some areas likely next year – even before thinking about paying for parties' manifesto commitments



What about the parties plans?

NHS spending plans

Increase in frontline NHS resource budget from 2021-22



Social care & local government



- **SNP** and **Labour** plan a National Care Service
 - **Conservatives** in favour of councils remaining in control
- All three support national employment conditions for care workers
 - **Labour** would introduce minimum care worker wage of £12ph immediately, rising to £15ph by 2026
- **SNP** pledge a 25% (£800m) increase in social care funding by 2026-27 and ending of all non-residential charges
- **Labour** pledge £667m immediate increase in funding for wages and even bigger expansion in care offer, but provide no longer term figures
- **Conservatives'** social care funding presumably covered by council funding guarantee
 - This policy is ill-thought-out and effectively promises part of NHS Barnett consequentials twice

- Each party has promised new childcare entitlements, but scale and age groups vary tremendously
- **SNP** plans to extend 1,140 hours a year of free childcare to parents of disadvantaged 1- and 2-year-olds
 - Plus subsidised wrap-around childcare for school-aged children
- **Labour** is primarily focused on pre-school children
 - This parliament: start with extending 1,140 hours to all 2yos and disadvantaged 1yos; then increase the entitlement
 - Longer term: increase entitlements to 2,600 hours for all pre-school aged children → virtually all childcare in this group will be funded
- **Conservatives'** offer is targeted on school-aged children
 - 5 hours a week of free wrap-around childcare

Education and schools

- Promises on teacher recruitment, the curriculum and free school meals look remarkably similar across the three largest parties
- COVID recovery plans differ in detail and scale:
 - The **SNP** plan funded catch-up support, including summer clubs, but little detail on approach or cost
 - **Conservatives** would spend ~£160m over two years, mostly on a catch-up premium and tutoring
 - **Labour** proposes to spend almost £290m this year, with individualised catch-up plans and more ambitious summer clubs
 - Potentially more may be required given loss of learning during lockdown

Job guarantees & training

- **SNP** would guarantee 16-24yos a place in university/college, an apprenticeship, or a job; £500m extra over the parliament for training
- **Labour** would guarantee 6 months' public sector employment this year for all out-of-work under-25s and disabled or long-term unemployed older adults
 - Should not under-estimate the challenge of rapidly creating tens of thousands of meaningful jobs
- **Labour** also propose £500 training grants for those on Universal Credit, with £750 income top-up too
- **Conservatives** propose £500 a year to be spent on training for all Scottish adults
- Important to ensure training is high quality, and take action to avoid fraud (which occurred with England's Lifelong Learner Accounts)

Promising too much with too little?



- Scottish Government's MTFS projects resource funding could increase by £4.9 billion between 2021-22 and 2025-26
 - We estimate that current UK govt plans imply less than this
- Increases in NHS and social care funding could absorb 75% of this cash-terms increase, even before considering increases in the generosity of provision
- Difficult to see how the parties' billions of pounds of additional commitments and ambitions could be paid for without tax increases, cuts to other services – or a substantial increase in UK govt. funding
 - Some increase should be expected in the upcoming Spending Review, but probably not on the scale needed to fund these manifestos



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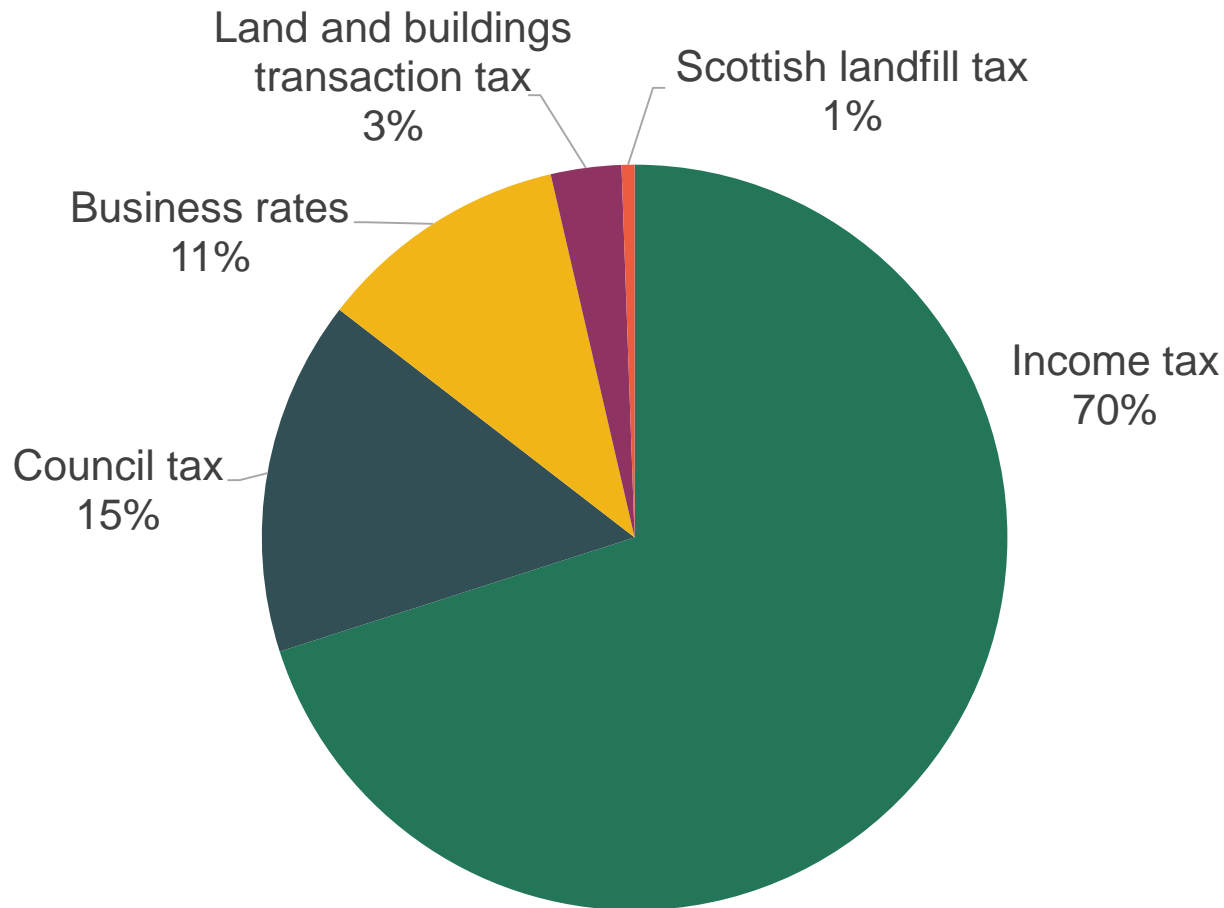
Taxes and benefits: trends & the parties' plans

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Stuart Adam

Devolved taxes, 2020–21

Devolved taxes account for 30% of revenue raised in Scotland



Devolved benefits

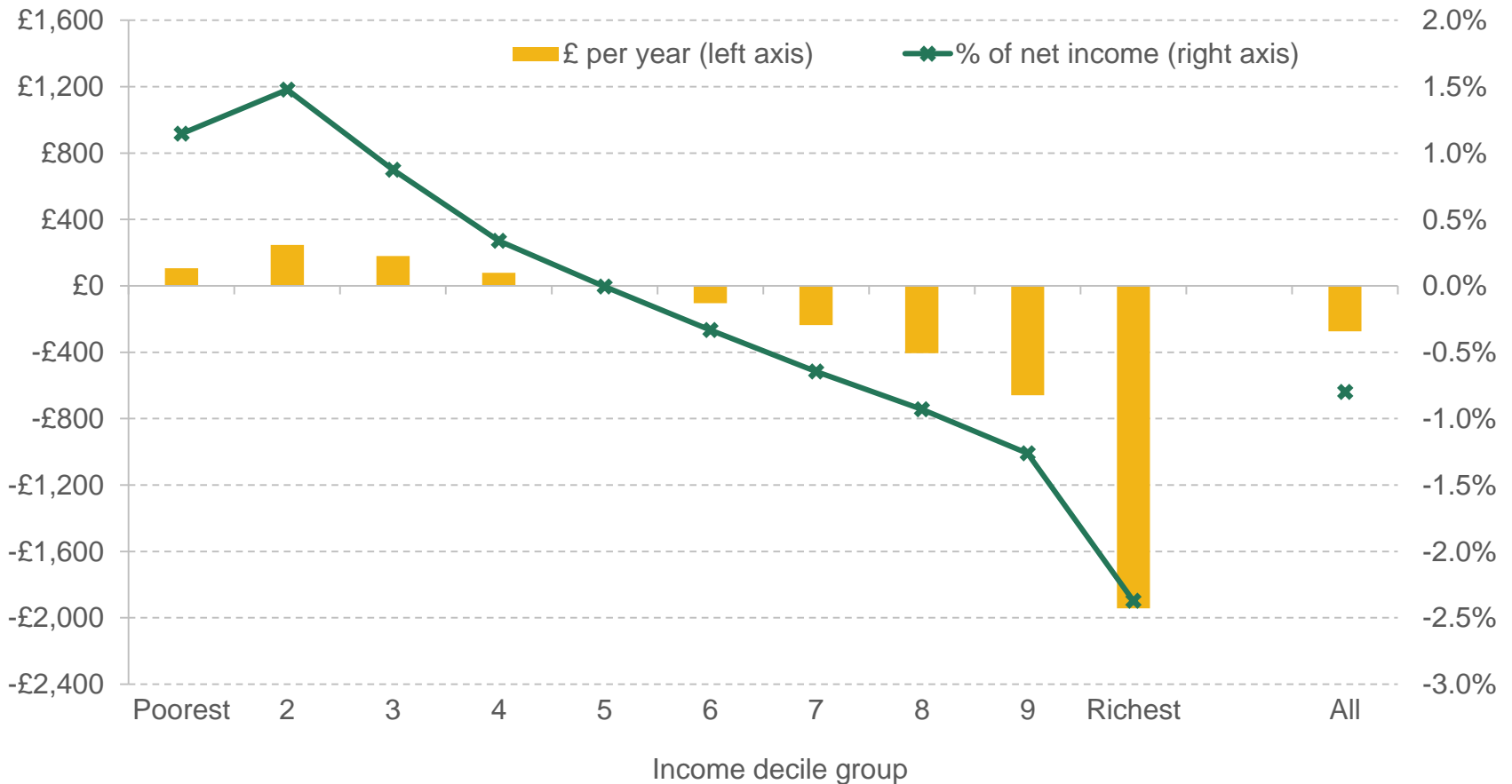
20% of benefit spending in Scotland is devolved

- Most disability benefits
 - Not employment and support allowance or disability elements of universal credit
- Carer's allowance
- Occasional payments (winter fuel payments, maternity grants, etc.)
- Top-ups and discretionary schemes
- Some aspects of universal credit
 - Payment arrangements & housing element, not core entitlements

Scottish Government's record

- Consistent theme: making the system more progressive
 - Both over time and relative to rUK
 - Income tax, council tax, business rates, LBTT and benefits all contributed

Changes in devolved tax & benefit arrangements since 2016

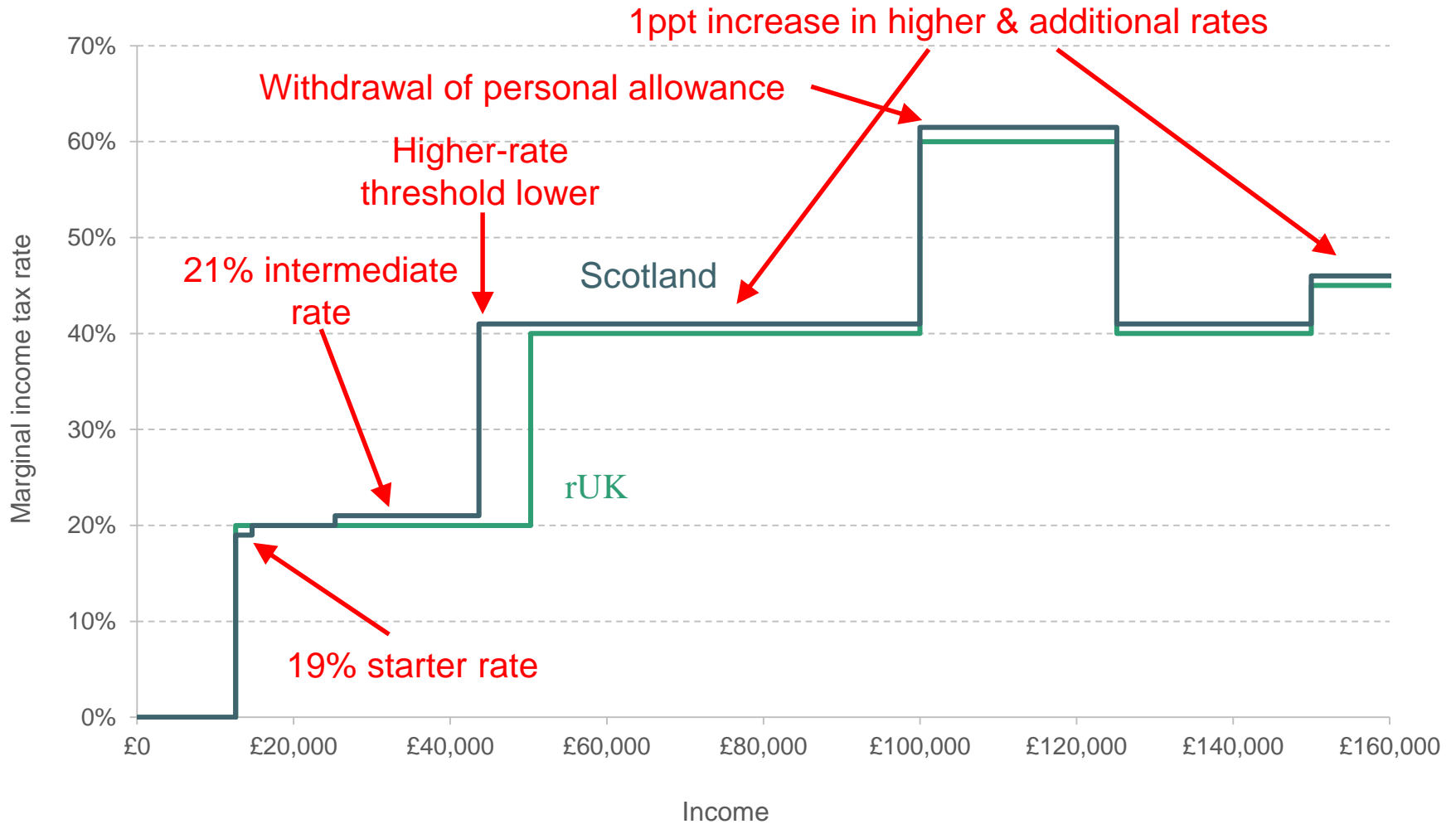


Note: Shows devolved vs UK income tax and most benefits, and real-term changes to council tax. See Figure 1 of Adam & Phillips (2021).

Scottish Government's record

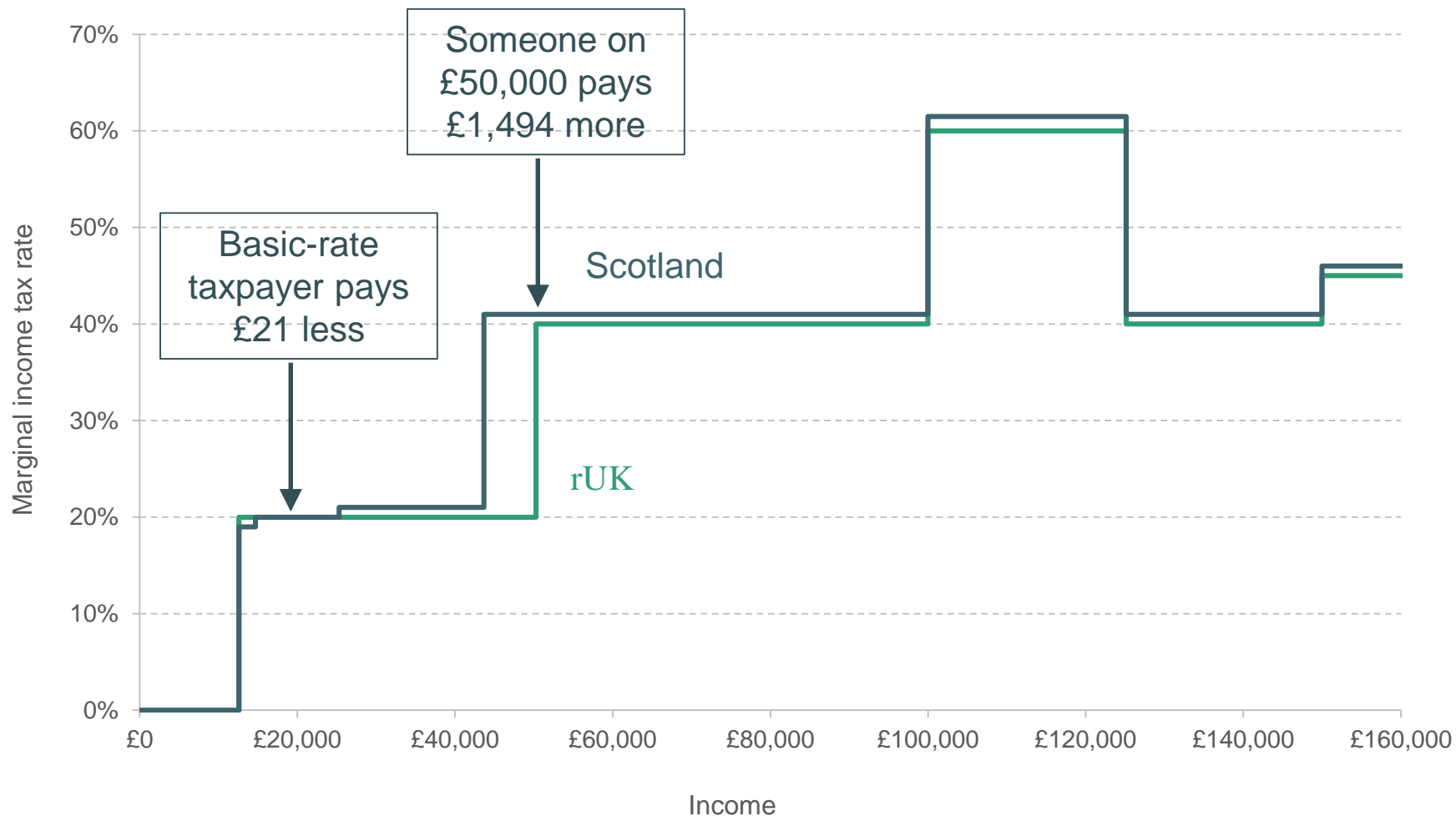
- Consistent theme: making the system more progressive
 - Both over time and relative to rUK
 - Income tax, council tax, business rates, LBTT and benefits all contributed
- Benefit changes make life easier for claimants
- Tax changes make system more complicated
 - Income tax unnecessarily so

Income tax schedules, 2021-22



Note: Applies to non-savings, non-dividend income.

Income tax schedules, 2021-22



Note: Applies to non-savings, non-dividend income.

- ❖ Parties' plans all leave some room for manoeuvre

SNP

- 'Aim' to freeze rates and increase thresholds by no more than inflation

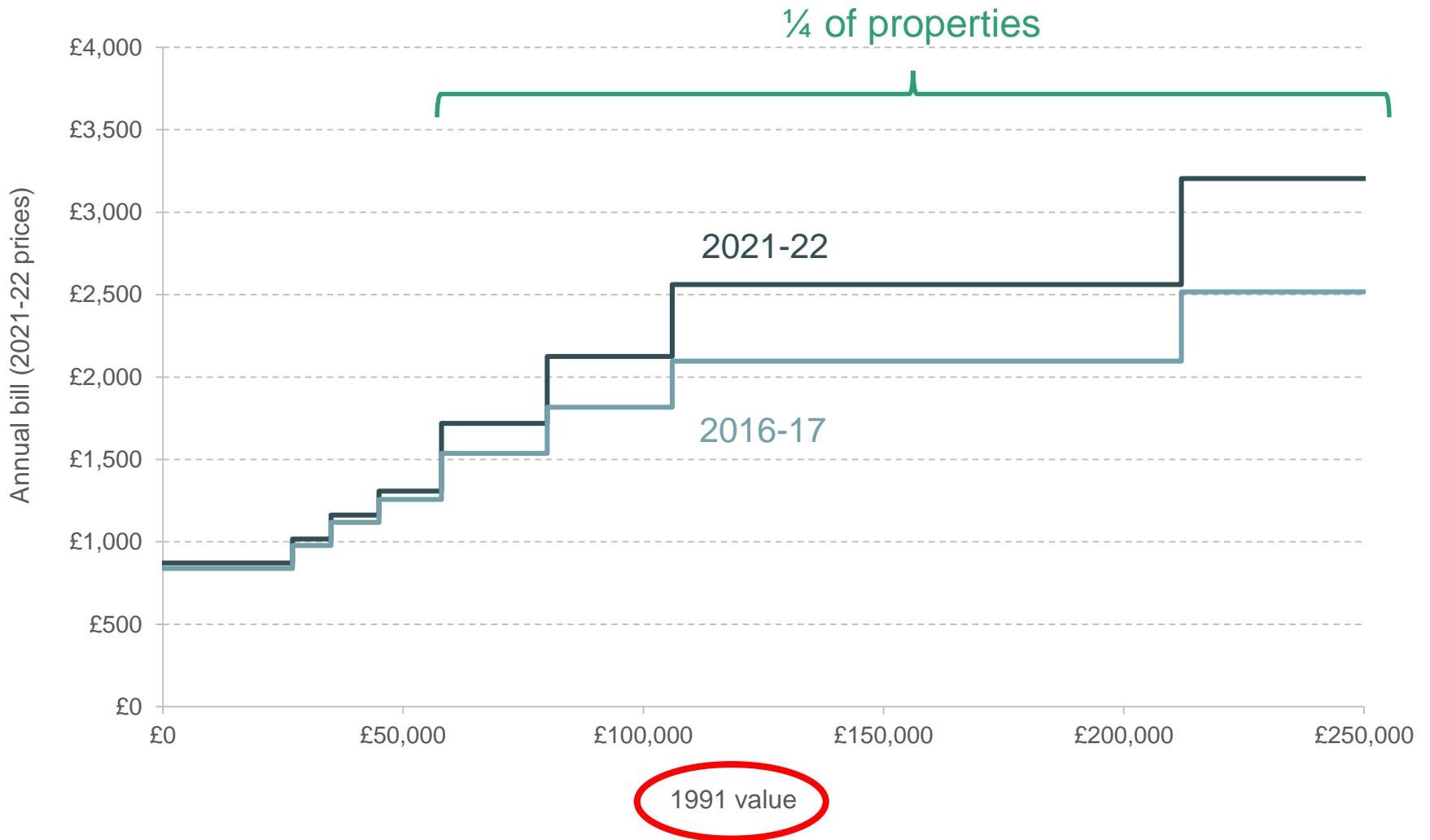
Conservatives

- 'Seek to' keep 19% starter rate but align rates & thresholds above that with rUK 'by the end of the parliament' – 'when we can afford to do so'
- Undoing Scottish Government's tax rises for higher-income half of taxpayers – leaving income tax slightly lower than rUK for all taxpayers
- Would need to find around £400m

Labour

- 'Seek to' avoid increasing income tax 'at this time'
- Increase for those >£100,000 'if there is a need'

Council tax in LA with average rate



Council tax

SNP

- Exempt under-22s
- Reform to 'make it fairer'

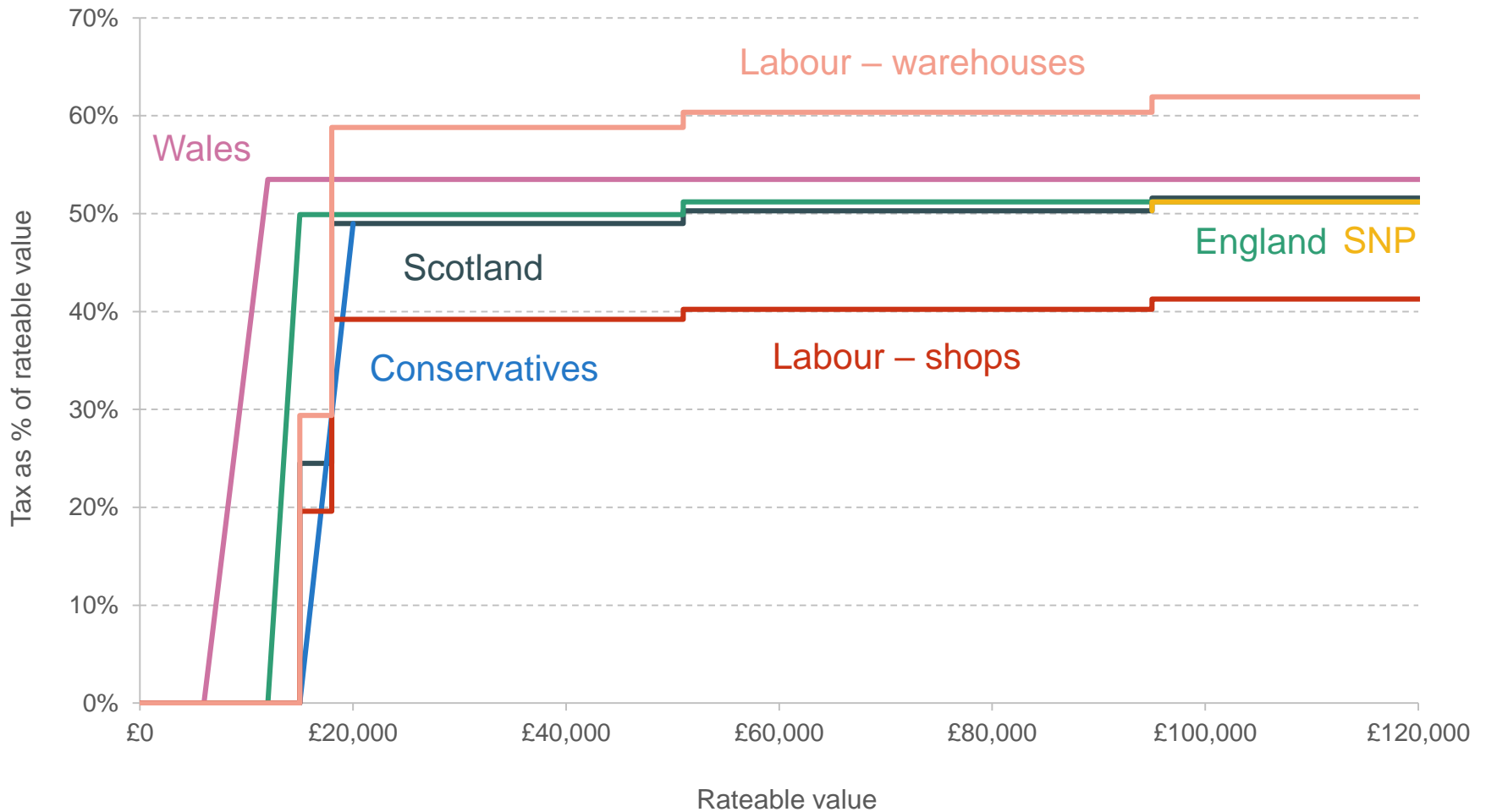
Labour

- Replace with 'fairer alternative based on property values and ability to pay'

Conservatives

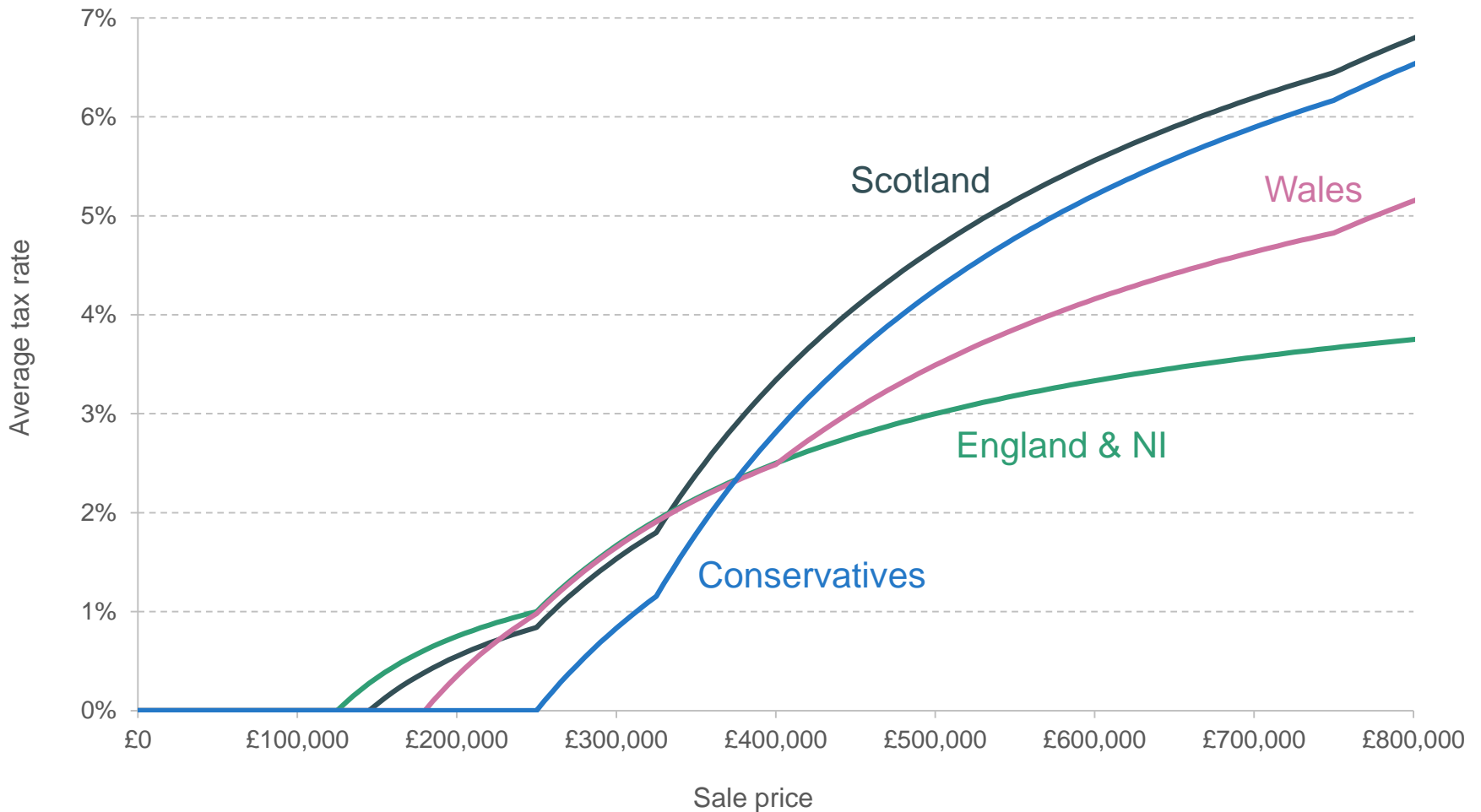
- No revaluation or overhaul in current parliament
- Reach cross-party consensus and put it to voters at next election

Business rate schedules



Note: Actual 2021-22 schedules ignore temporary reliefs. England excludes London. Party proposals as if in place in 2021-22.

Tax on housing transactions



Note: Excludes temporary Covid-related reliefs. Assumes not a first-time buyer and no other residential property.

Possible new taxes

SNP

- Digital sales tax

Labour

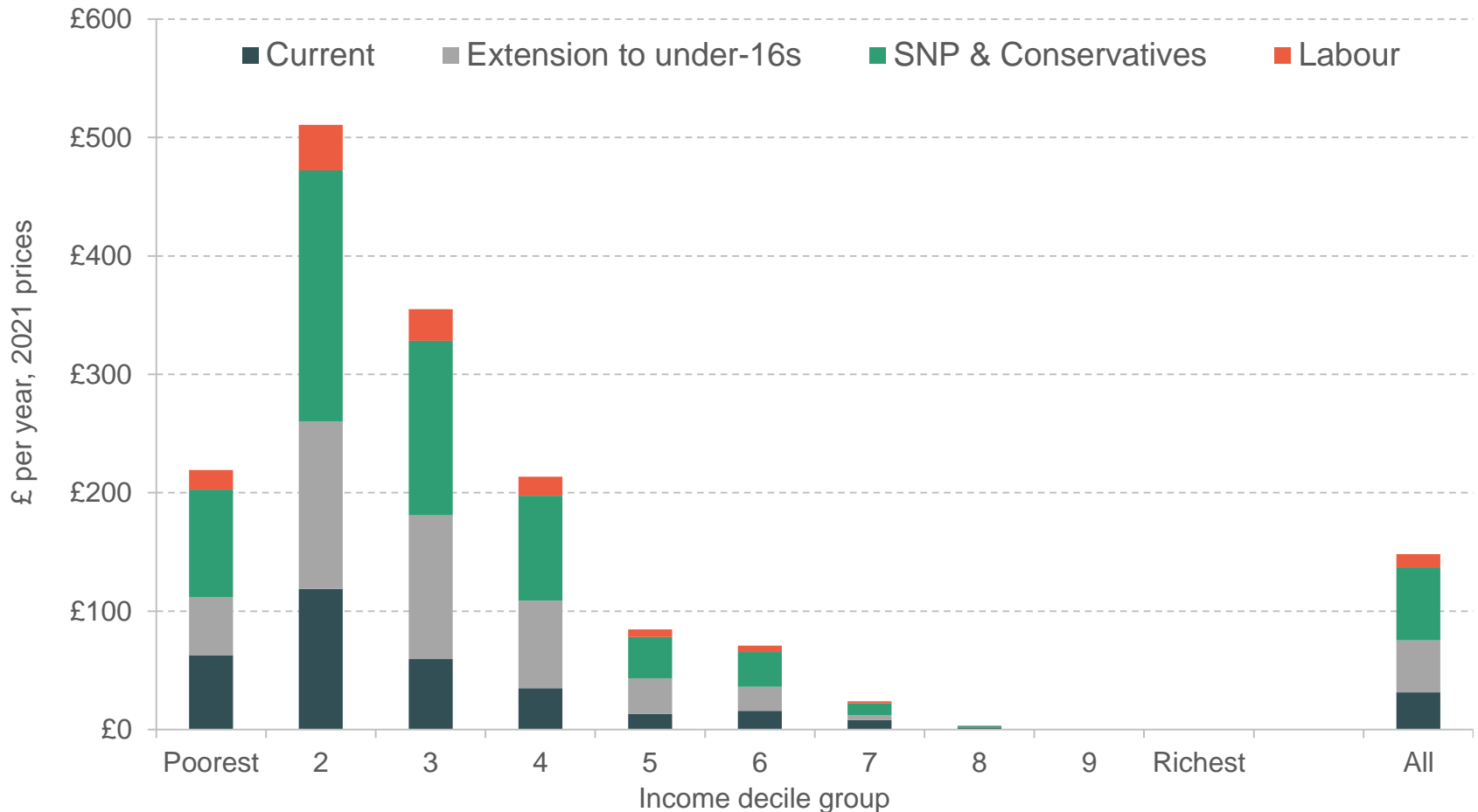
- Additional alcohol tax
- Land value tax
- Environmental taxes
- ‘A portfolio of optional additional levies’ for councils, e.g. tourist tax

Benefit changes since 2016



- More flexibility for universal credit claimants in how benefit paid
- Forthcoming changes to the way eligibility for disability benefits assessed
- Several new means-tested benefits and top-ups, including:
 - Eliminating under-occupation penalty ('bedroom tax')
 - Supplement to carer's allowance
 - Best Start grants & food cards
 - Scottish child payments

Gains from Scottish child payments



Benefits: the parties' plans

- All would increase Scottish child payment from £10 to £20
- All would expand carer's allowance, in slightly different ways
- **SNP**: steps towards a minimum income guarantee
 - Ideally want universal basic income (UBI), but don't have power
- **Labour**: long list of proposed benefit increases
 - Introduce minimum income guarantee (& continue trials of UBI)
 - Eliminate benefit cap and 2-child limit on means-tested benefits
 - Make Covid-related £20-a-week universal credit uplift permanent
 - Additional payments to students & to unemployed doing training
 - Increase Scottish child payment by further £5 for disabled children

Summary: parties' proposals

Some commonalities

- Double Scottish child payments; expand carer's allowance
- Ambitions for income tax leave room for manoeuvre

SNP have few other major commitments for the coming parliament

- But potentially radical longer-term changes
 - Council tax reform; digital sales tax; minimum income guarantee, universal basic income

Conservatives want lower taxes

- Certainly LBTT; aim for income tax by end of the parliament

Labour propose significantly higher benefits & net cut to business rates

- Replace council tax and explore possible new taxes
- Higher income tax above £100,000 'if needed'



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Key themes and issues on tax and spending

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David Phillips

Scottish policy trends

- Scottish model of the welfare state
 - Progressive tax and benefit policy to raise more from the top and give more to lower income households
 - Wide range of universal services, free to all – less progressive
- This model is largely funded by relatively high levels of UK government funding – *not* Scottish taxes
- Growing policy divergence with England, but policy in England is still a major reference point in Scottish debates...
 - Income tax policy
 - NHS consequential
- ... and like England, tricky but necessary reform has been ducked
 - Most notably on council tax

Commonalities in manifestos

- Consensus on a range of social policy issues
 - Child payments, free school meals, childcare, carer's allowance
 - Although **SNP** and **Labour** pledge more spending than **Conservatives**
- Capital investment priorities
 - Social housing, energy efficiency, digital infrastructure
- Hiding from fiscal reality
 - Delivering specific pledges likely to mean tax rises or cuts elsewhere, unless UK government significantly loosens its purse strings
 - Downplay likely increases in NHS spending to flatter amount available for other proposals

Visions different in longer-term

- **SNP** and **Labour** envisage a bigger welfare state
 - National care service & free non-residential care
 - A range of other new entitlements (e.g. **free bus travel**, **digital devices**, **dentistry**, **bikes**, etc.)
 - Jobs/education/training guarantees
 - Minimum income guarantees, and hints at universal basic income
- **Conservatives** service and benefits offer less expansive, and aim at modest reductions in tax
 - Commit to small cut in LBTT
 - Aim to reduce income tax to (slightly) below rUK levels
- Delivering these visions in the context of COVID recovery and demographic change will mean difficult decisions on other tax/spending
 - Scotland's politicians are failing to level with voters



Questions?

Go to <https://app.sli.do/event/bro83iem>

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And see our full our analysis at
www.ifs.org.uk/scottish-election