

Press Release

Spending on public services higher in Scotland, but may face greater cuts under independence

Total public spending was around 11% higher per person in Scotland than in the UK as a whole in 2011–12, the latest year for which official statistics are available. Within this, spending on benefits and tax credits was only a little higher in Scotland, but spending per person on public services was almost 17% above the UK average.

Like the UK government, the government of a Scotland independent from 2016 would face difficult choices about how much to spend on public services. If it had to deliver a fiscal tightening equivalent to that planned by the UK government, spending cuts or tax rises of about £2.5 billion in today's terms would be required during its first two years.

However, estimates by the Office for Budget Responsibility (OBR) suggest that oil revenues, on which a future independent Scotland would be dependent for a sizeable chunk of its revenue, will decline over the next few years. On its central estimate this could increase the Scottish budget deficit by a further £3.4 billion in today's terms.

The Scottish National Party's (SNP's) plans for cuts to defence spending would fill part of this hole. Their plans for defence and overseas aid would still leave Scotland spending substantially more on these areas than the average for small rich countries

These are among the main conclusions of new IFS research, funded by the Economic and Social Research Council (ESRC) and being launched at a conference near Edinburgh today, that looks at spending on public services and taxation in the context of 2014 Scottish independence referendum.

Other findings of the report include:

The level and composition of public service spending

- In today's prices, spending on public services in 2011–12 was £7,932 per person in Scotland, 17% (£1,128) higher than the £6,803 spent on average across the UK.
- The pattern of public service spending in Scotland is very different from that in the UK as whole. Across the UK, spending on health, education, public order, defence and international services made up 70% of all public service spending. However, in Scotland, these items made up only 62% of spending. Spending on these five areas was only 3.2% higher per person in Scotland than in the UK as a whole.
- Spending on other services was 49% higher in Scotland than in the UK as a whole. Spending on enterprise and development is well over three times as high per person as for the UK as a whole, and spending on agriculture, forestry and fisheries, and housing and community amenities, around double that for the UK as a whole.
- Spending per person on social services in Scotland is 26% higher than in the UK as a whole, reflecting higher amounts spent on children and families and on older people. Higher spending on older people reflects the Scottish government's policy of free personal care for the elderly, the cost of which has risen by 77% in real terms since 2003–04.

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Recent changes in public service spending

- These differences in spending patterns in large part reflect differences in the spending increases given to different public service areas in Scotland, compared with the UK as a whole, since 2002–03: spending patterns were more similar 10 years ago.
- Since 2002–03 spending on health and education has been increased by substantially less per person in Scotland than across the UK as a whole, while Scotland has enjoyed much larger increases for many other devolved services.
- Since 2010–11 the Scottish government has chose to cut spending in a similar way to England, protecting health spending from cuts and reducing most other areas substantially.

Issues for public service spending and taxation in an independent Scotland

- The SNP plans imply cuts to defence spending and an increase in aid spending. Overall this would reduce spending by £500 million per year, but would still leave Scotland spending a greater fraction of national income than most small advanced economies on defence, and make it one of the largest aid donors relative to national income in the world.
- With health and education spending fairly close to the UK average, a Scottish government looking for further spending cuts might decide to look to those other services – such as transport, economic development, housing and community development, and social services – where spending is substantially above the UK average.
- If an independent Scotland wanted to deliver the same cuts to public service spending as implied by the UK Government over the two years from April 2016 this would imply a cut of £2.5 billion, or 6% on average. If OBR projections of North Sea oil revenues turn out to be correct then an independent Scotland might need to implement a further £3.4 billion of tax rises or spending cuts.
- Such a £5.9 billion total fiscal consolidation (£2.5 billion plus £3.4 billion) would amount to a cut of around 15%, based on 2011–12 levels of public service spending. Cutting defence and ODA spending by more, and/or raising taxes or cutting benefits, could significantly reduce the scale of cuts to other public services required.
- Even if North Sea revenues turn out to be substantially stronger than the OBR forecasts, the Scottish government might be ill-advised to cut spending or increase taxes by less than if it remained part of the UK. It will need to build a strong fiscal position in order to gain credibility in the financial markets and it will need its public finances to be robust to volatile and declining North Sea revenues.

David Phillips, a senior research economist at the Institute for Fiscal Studies and an author of the report said: “Spending on public services is substantially higher per person in Scotland than in the UK as a whole. This is driven by higher spending on many areas like transport, housing, economic development and social services. The Scottish government has used the existing powers under devolution to set different priorities for spending in Scotland,”

“Looking ahead, independence would give Scotland the power to set spending on those areas that are currently the responsibility of the UK government like defence and foreign aid. These are areas on which the UK is a relatively high spender and there could be scope for Scotland to make substantial cuts to these areas. However, it is unlikely that cuts here would allow Scotland to

avoid cuts elsewhere, unless it were to increase taxes substantially. Indeed, given the OBR's forecasts for declining North Sea revenues, even with cuts to defence and aid spending, an independent Scotland may need to cut spending on other services or raise taxes by more than if it remained part of the UK."

ENDS

Notes to Editors:

1. For embargoed copies of the report on public service, or other queries, contact: Bonnie Brimstone at IFS: 020 7291 4800 / 07730 667013, bonnie_b@ifs.org.uk
2. This is the third major publication from a new IFS research programme which aims to clarify some of the fiscal choices that might face Scotland were it to become independent. Outputs associated with this project are being produced by under the auspices of the Centre for Microeconomic Analysis of Public Policy, an ESRC research centre hosted by the IFS.

This project forms part of a wider ESRC programme of work addressing issues around the future of the UK and Scotland. Further papers examining public service spending, taxation, and long term public finance projections for Scotland will be published by IFS during Autumn 2013.

More information on the IFS website: <http://www.ifs.org.uk/projects/408>

3. ESRC programme of work "The future of the UK and Scotland": The ESRC is supporting a programme of work addressing issues around the future of Scotland. The work will provide robust independent research based evidence. It will aim to both inform the debate in the run-up to the referendum and assist in planning across a wide range of areas which will be affected by the outcome of the vote, whether for independence or the Union. These include voting, culture and identity, business intelligence, fiscal and monetary policy, policy development, building of new constitutional arrangements, and defence and administrative practice - particularly in public service delivery. <http://www.futureukandscotland.ac.uk/>
4. A conference to launch this and other work from the programme is taking place on 19 September in Edinburgh. More details at: <http://www.futureukandscotland.ac.uk/events/international-conference-economics-constitutional-change>