Public spending in Scotland: current patterns and future issues

David Phillips
Introduction

• Currently public spending for the benefit of Scotland is split between Scottish (and local) Government and UK government

• Most public services responsibility of Scottish Government
  – Exceptions include defence, foreign affairs, parts of economic policy

• Most benefits spending responsibility of UK government
  – Exceptions include support for council tax and ‘social fund’ benefits

• This presentation looks at patterns of spending and how things may change under independence, drawing on two IFS reports
  – “Government spending on benefits and state pensions in Scotland: current patterns and future issues”
  – “Public service spending in Scotland: current patterns and future issues”
  – Both available at: http://www.ifs.org.uk/projects/408
Before that.. some definitions

• Use data largely from Scottish Government’s GERS publication and UK government’s PESA publication
  – Compare Scotland to UK as a whole (or GB as a whole for benefits)
  – Analysis of benefits spending uses DWP and HMRC data

• GERS measures public spending for benefit of people in Scotland
  – Includes spending by the UK government

• Most spending can easily be identified and allocated to Scotland but some spending by the UK government cannot (e.g. defence or debt interest payments)
  – Scotland generally allocated a population-based share

• On this basis, total public spending was £66.9 billion in Scotland in 2011-12 (in 2013-14 prices)
Overall public spending 11% higher per person

Source: GERS and authors’ calculations, 2011-12 (2013-14 prices)

Note: Overall spending includes accounting adjustments so is not the sum of the three sub-categories
Debt interest spending same (by assumption)

Source: GERS and authors’ calculations, 2011-12 (2013-14 prices)

Note: Overall spending includes accounting adjustments so is not the sum of the three sub-categories
Benefits spending 2-3% higher per person

Source: GERS and authors’ calculations, 2011-12 (2013-14 prices)

Note: Overall spending includes accounting adjustments so is not the sum of the three sub-categories
But spending on public services 17% higher

Source: GERS and authors’ calculations, 2011-12 (2013-14 prices)

Note: Overall spending includes accounting adjustments so is not the sum of the three sub-categories
Spending on benefits, pensions and tax credits
Benefit spending in Great Britain

- £3,299 spent per person on benefits for Great Britain in 2011-12

Source: DWP and HMRC data and authors’ calculations
Benefit spending in Great Britain

- Which we divide benefits into 5 categories

- Overall benefits spending
- Old-age benefits
- Tax credits and child benefits
- Disability benefits
- Housing benefits
- Other benefits

£s per year per person

Source: DWP and HMRC data and authors’ calculations
Benefit spending in Scotland

Overall benefits spending

- Great Britain
- Scotland

Old-age benefits
Tax credits and child benefits
Disability benefits
Housing benefits
Other benefits

£s per year per person

Source: DWP and HMRC data and authors’ calculations

2% higher overall: £3362
Benefit spending in Scotland

Overall benefits spending

- Great Britain
- Scotland

Old-age benefits

Tax credits and child benefits

Disability benefits

Housing benefits

Other benefits

£s per year per person

Source: DWP and HMRC data and authors’ calculations

4% more on old-age benefits
Benefit spending in Scotland

Source: DWP and HMRC data and authors’ calculations

9% less on tax credits and child benefits
Benefit spending in Scotland

- **Overall benefits spending**
  - **Great Britain**
  - **Scotland**

- **Old-age benefits**
- **Tax credits and child benefits**
- **Disability benefits**
- **Housing benefits**
- **Other benefits**

Source: DWP and HMRC data and authors’ calculations

22% more on disability benefits
Benefit spending in Scotland

- Overall benefits spending
- Old-age benefits
- Tax credits and child benefits
- Disability benefits
- Housing benefits
- Other benefits

Source: DWP and HMRC data and authors’ calculations
Benefit spending in Scotland

Overall benefits spending

- Great Britain
- Scotland

Old-age benefits

Tax credits and child benefits

Disability benefits

Housing benefits

Other benefits

Source: DWP and HMRC data and authors’ calculations

5% more on other benefits
Changes in benefit spending over time

- The gap in spending per person has shrunk in recent years
  - Benefit spending per person 7% higher in Scotland than GB in 2005-06
  - Own estimates suggest 15% higher in some years in 80s and 90s

- Why this relative reduction in benefit spending?
  - Employment and incomes increased relative to GB-average
  - Number of children has fallen relative to GB-average
  - Gap in disability benefit entitlement has narrowed over time
  - Slower growth in housing benefit claims during recession

- It is not certain that this trend will continue
  - Longer term, gap may grow, if Scotland ages more rapidly as projected
Spending on public services
Higher spending not spread equally across services

£42bn
Higher spending not spread equally across services

<table>
<thead>
<tr>
<th>Service</th>
<th>Relative spend per person in Scotland (UK=100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>£42bn</td>
</tr>
<tr>
<td>Health</td>
<td>£11.5bn</td>
</tr>
<tr>
<td>Education and training</td>
<td>£8.0bn</td>
</tr>
</tbody>
</table>
Higher spending not spread equally across services

Relative spend per person in Scotland (UK=100)

- Total: £42bn
- Health: £11.5bn
- Education and training: £8.0bn
- Public order and safety: £2.6bn
Higher spending not spread equally across services

- Total: £42bn
- Health: £11.5bn
- Education and training: £8.0bn
- Personal social services: £4.2bn
- Transport: £2.7bn
- Public order and safety: £2.6bn
Biggest differences for smaller service areas

<table>
<thead>
<tr>
<th>Service Area</th>
<th>Relative spend per person in Scotland (Uk=100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>£42bn</td>
</tr>
<tr>
<td>Housing and community amenities</td>
<td>£1.8bn</td>
</tr>
<tr>
<td>Recreation, culture and religion</td>
<td>£1.7bn</td>
</tr>
<tr>
<td>Common services</td>
<td>£1.5bn</td>
</tr>
<tr>
<td>Agriculture, forestry and fisheries</td>
<td>£1.0bn</td>
</tr>
<tr>
<td>Enterprise and economic development</td>
<td>£0.9bn</td>
</tr>
</tbody>
</table>
The pattern of public service spending

• These differences in relative spending mean the pattern of public spending is quite different in Scotland to the UK as a whole

• Overall, health, education, law and order, defence and international services take up 71% of spending in the UK

• But only 63% in Scotland.
  – Spending on these averages only 3% more per person in Scotland
  – On other items, the difference is 49% on average

• Capital spending takes up a higher share of public service spending in Scotland
  – Spends more on capital-intensive areas like housing and development
  – Given allocation across services, higher fraction of individual service area budgets goes to capital spending
Changes in public service spending over time

- The difference in spending patterns has grown over time as the Scottish Government has prioritised areas differently
  - Spending on health and education grown less quickly than UK-average between 2002-03 and 2011-12 (but health still up a lot)
  - Spending on other areas has grown more rapidly than the UK-average

- But since 2010-11 type of cuts made have been fairly similar to those made by UK government for England
  - Health protected at the expense of other areas

- Scale of cuts being made in Scotland somewhat less than in England and Wales
  - At least in part due to inconsistencies in Barnett formula’s treatment of business rates revenues
Looking to the Future
What would independence in 2016 mean?

- Independence in 2016 would be two years before the planned end of the UK government’s fiscal consolidation
  - UK plans real-terms spending cuts equal to 1.6% of GDP in 2016-17 and 2017-18

- An independent Scotland would have more choice about how to deliver any fiscal consolidation that was needed
  - Tax rises, spending cuts or a mix of the two
  - 1.6% of GDP equal to £2.5 billion in today’s terms

- Could look for savings in areas of spending currently managed by UK government for the whole UK such as
  - Benefits, state pensions and tax credits
  - Defence and foreign aid
Benefits: Cuts or increases?

• Finding £2.5bn in savings from benefit cuts alone would mean:
  – Cuts equal to 14% of benefit spending in 2011-12
  – Cuts equal to 22% of benefit spending excluding the state pension

• The Scottish Government has announced plans that amount to increase in benefit spending
  – Restore full housing benefit for those deemed to be under-occupying social housing costing - £50 million a year
  – Keep the ‘triple lock’ for new flat-rate pensions until at least 2020

• The cost of triple lock plan is uncertain
  – Depends on path of earnings and inflation
  – Triple lock is a fundamentally undesirable policy
  – Expected cost grows over time, and could be 1% of GDP per year after 50 years according to OBR estimates (for UK as a whole)
Benefits: What else is possible?

• Could ‘fix’ problems with existing system and recent reforms
  – e.g. uprating housing benefit rates by CPI, changes to council tax benefit, treatment of savings and other financial capital
  – Discussion of these and more in our paper published back in July

• More radical reform also possible
  – New Working Group has been tasked with examining principles and priorities for an independent Scottish benefits system
  – Could consider whether to strengthen contributory principle, for instance

• But this, like any radical reform would likely mean
  – Either a substantial increase in spending or;
  – Significant numbers of often low-income losers
  – Does not mean cannot or should not reform – but difficult
Public services: defence and aid (I)

• SNP has set out its thinking on two new areas of responsibility under independence:
  – Defence
  – Foreign Aid

• UK is currently a relatively high spender in both these areas
  – SNP plans cuts in defence spending of about £0.9 billion (just over a quarter)
  – But has an aim of increasing spending on aid by about £0.4 billion a year, reducing net saving to £0.5 billion

• Remaining savings (£2.0 billion) equivalent to 5.6% of spending on other services in 2011-12
Public services: defence and aid (II)

- SNP’s plans would leave an independent Scotland...
  - Still spending more of its GDP on defence (1.6%) than most small rich countries (average is about 1.3%)
  - Among the highest spenders on aid relative to GNI (1% compared to average of 0.3%)

- If defence and foreign aid cut to average, net saving of £2.0 billion from these areas

- Remaining £0.5 billion equivalent to 1.3% of spending on other services in 2011-12
Public services: other services

• Other services already mainly responsibility of Scottish or local governments

• If independent Scotland wanted to cut, might expect it to look at areas where it currently spends relatively more
  – e.g. Transport, economic development, housing and social services

• May be upwards pressure on spending on Higher Education
  – Tuition fees must be same (i.e. 0) for those from other EU members
  – Currently up to £9,000 a year for English, Welsh & NI Students
  – Loss of income to universities could be £100 million

• Might expect some loss of scale-economies but these look to be relatively unimportant
Summary

- Government spending was 11% higher per person in Scotland than the UK average in 2011-12
  - Spending on benefits only a little higher
  - But spending on public services 17% higher per person

- Different benefit spending patterns reflect demographic and socio-economic factors

- Differences across public services reflect, in part, different prioritisation

- Independence would give Scotland control over all areas of government spending and scope for change
  - May need to reduce spending in first few years
  - Although taxes could also be used in a fiscal tightening