



Public spending in Scotland: current patterns and future issues

David Phillips



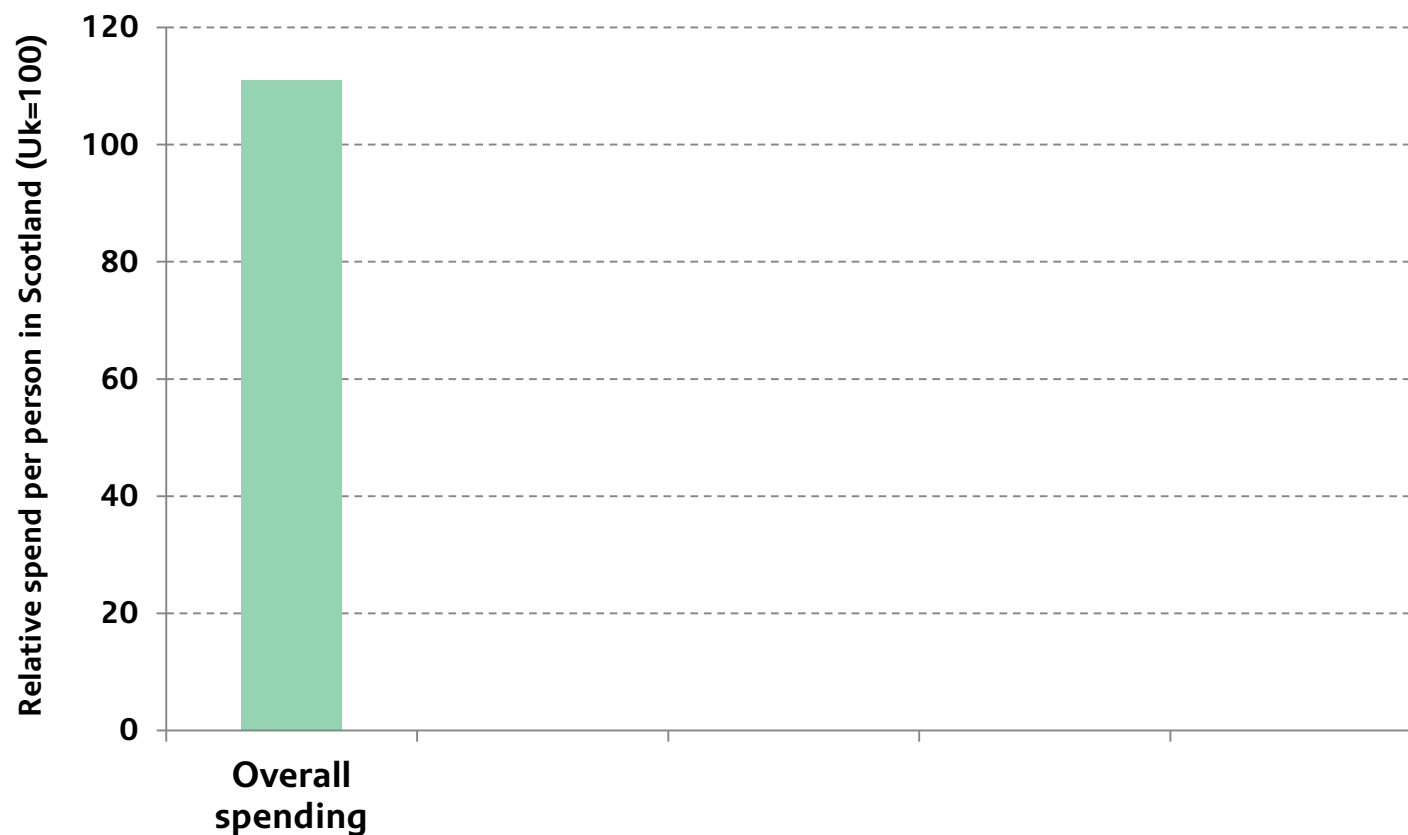
Introduction

- 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)

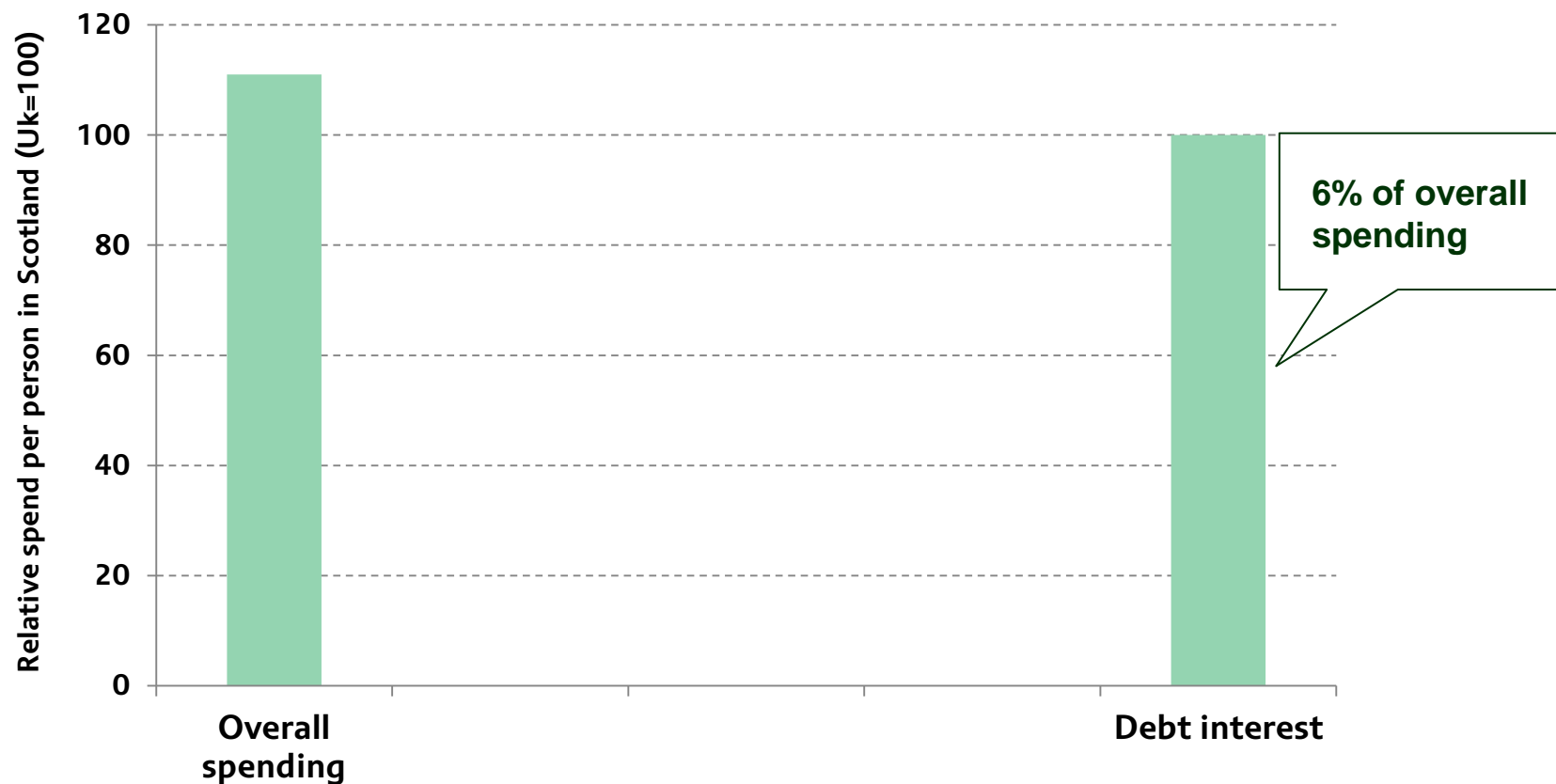
Overall public spending 11% higher per person



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

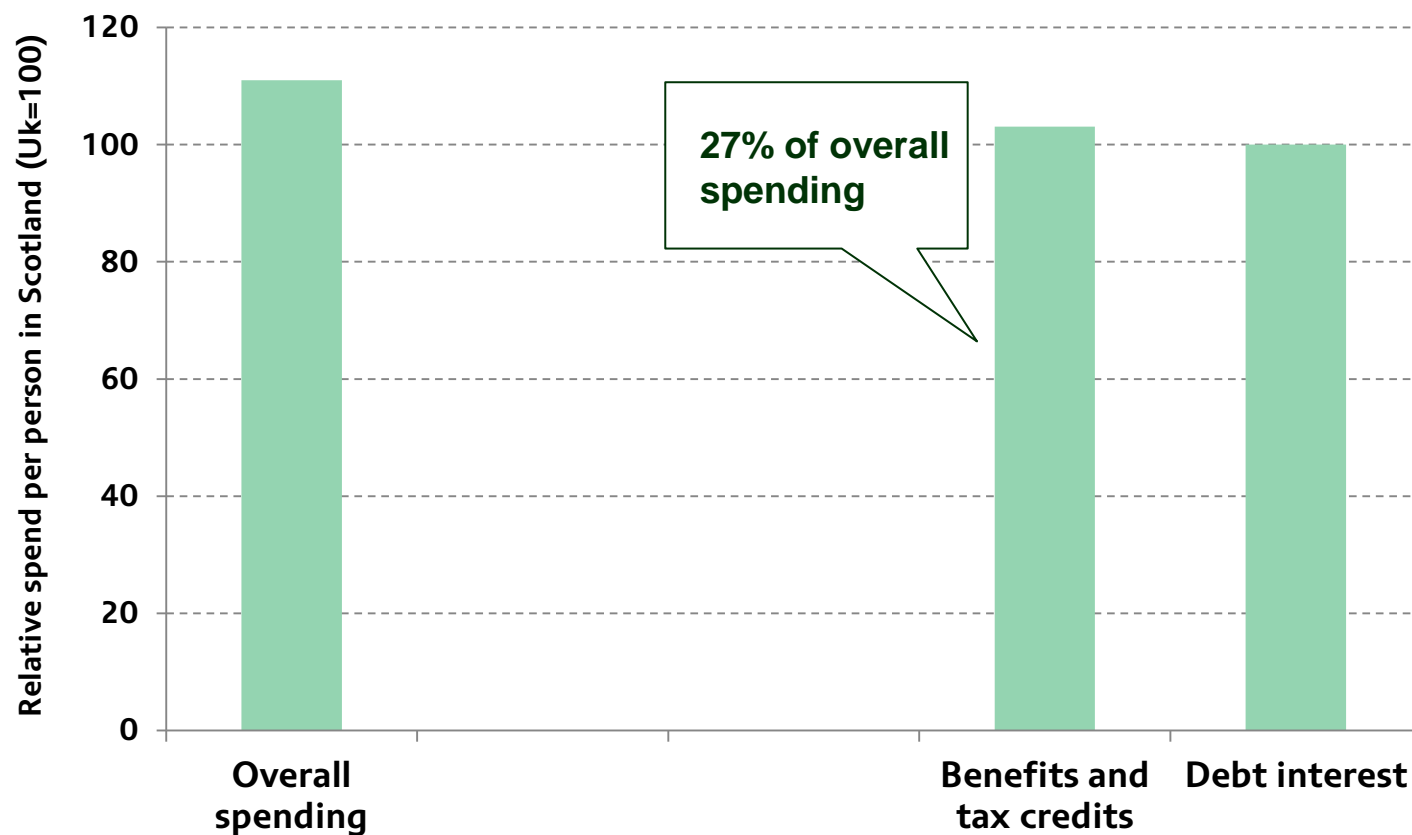
Debt interest spending same (by assumption)



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

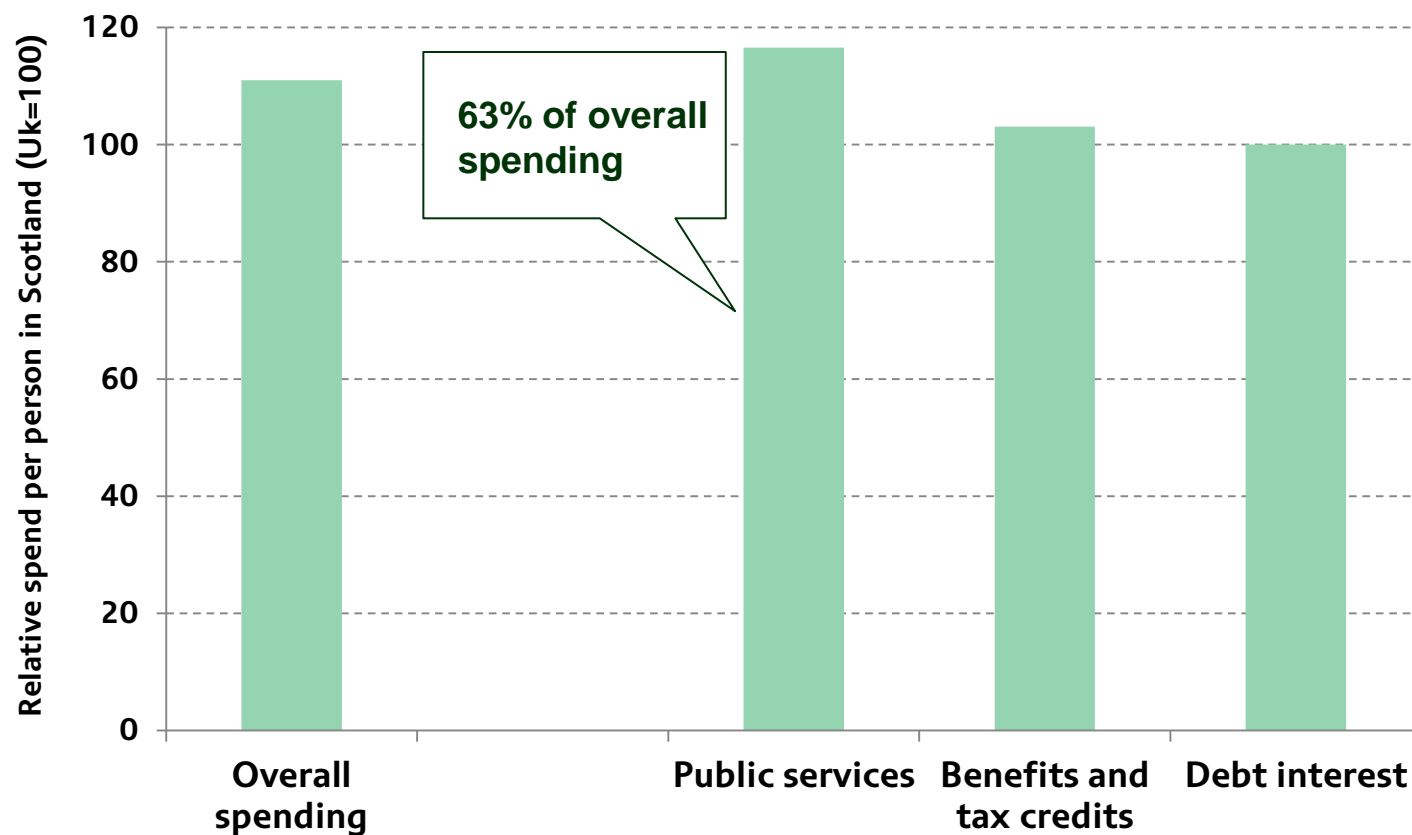
Benefits spending 2-3% higher per person



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



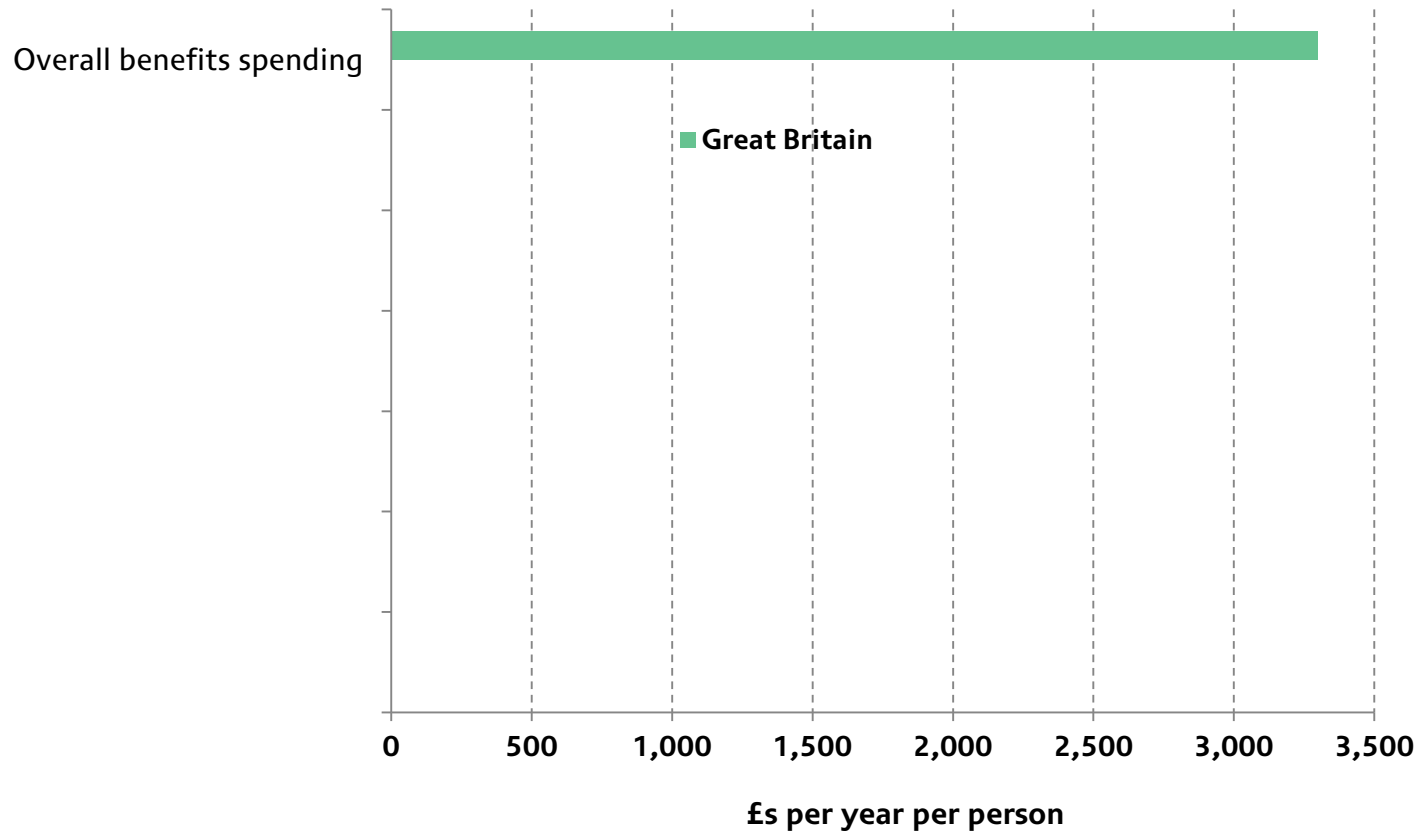
Source: GERS and authors' calculations, 2011-12 (2013-14 prices)

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

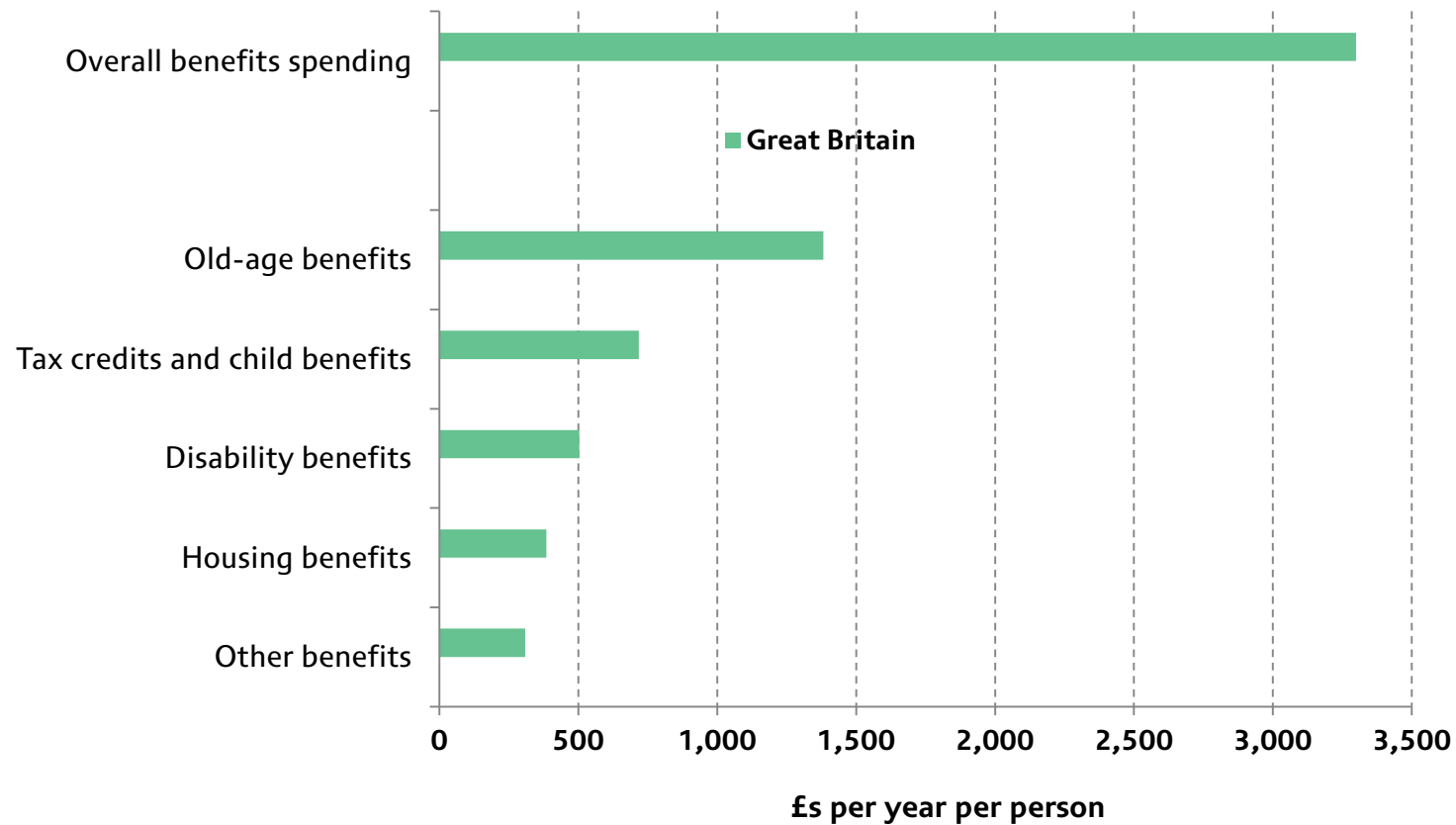
- £3,299 spent per person on benefits for Great Britain in 2011-12



Source: DWP and HMRC data and authors' calculations

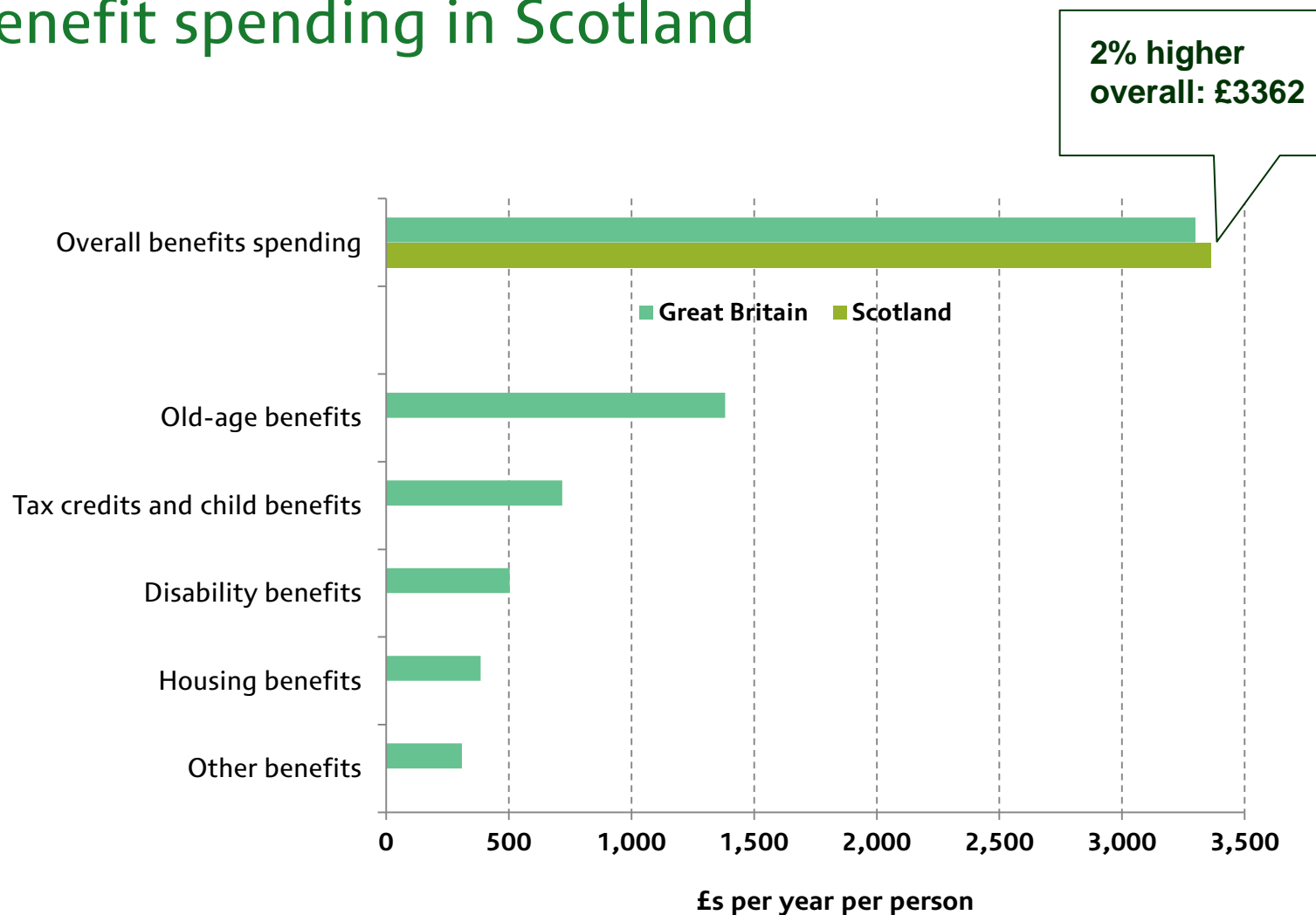
Benefit spending in Great Britain

- Which we divide benefits into 5 categories



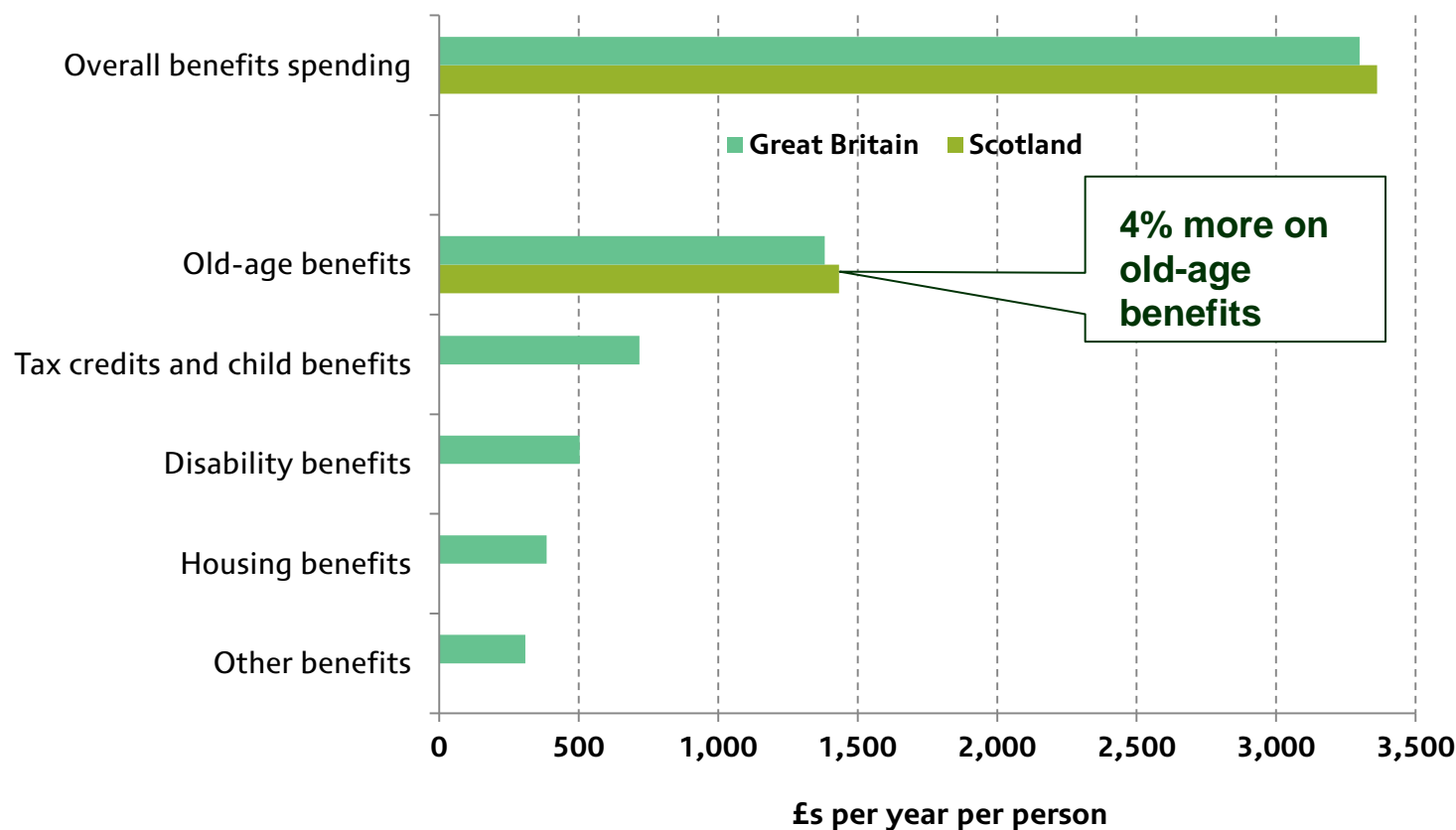
Source: DWP and HMRC data and authors' calculations

Benefit spending in Scotland



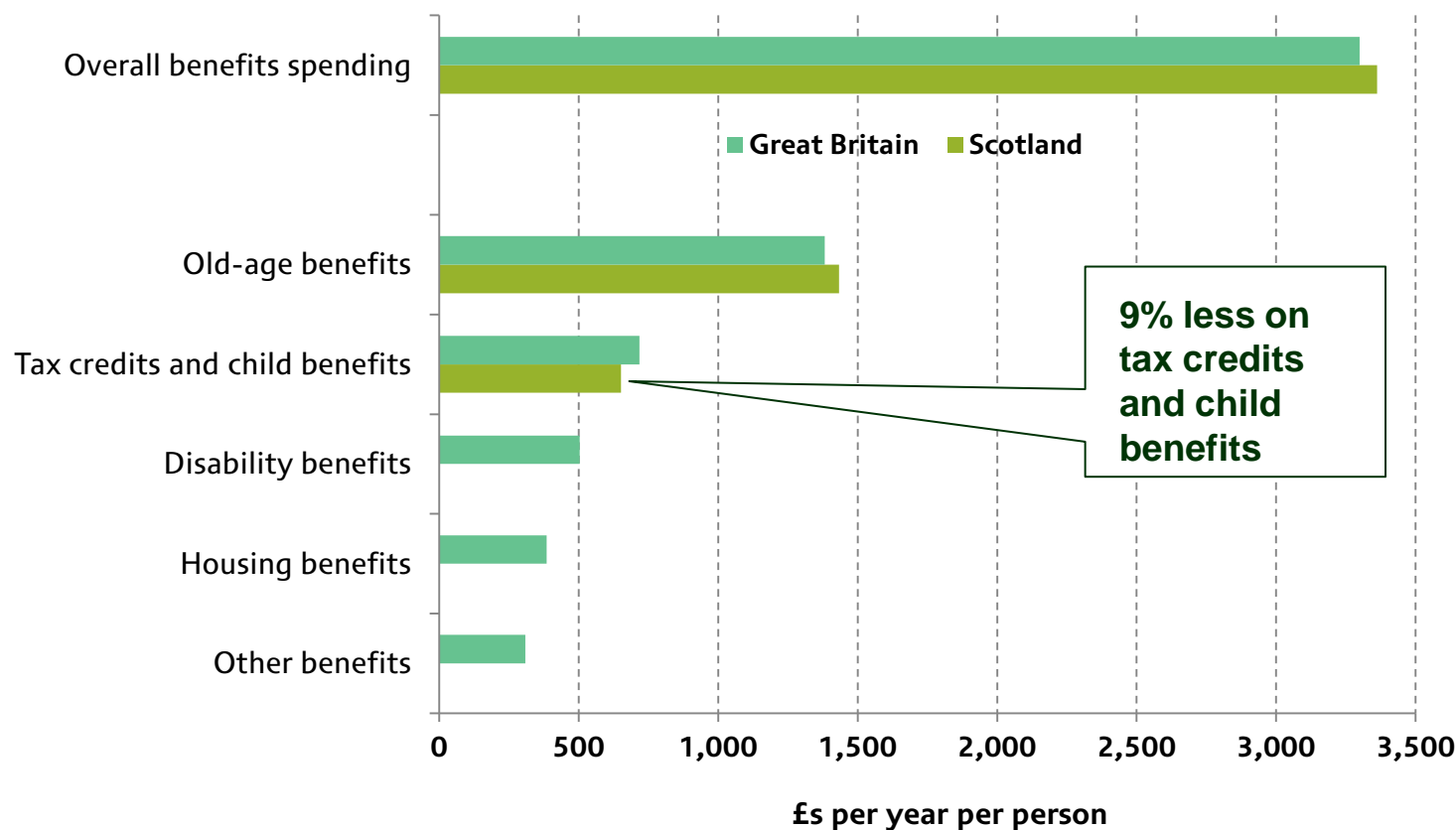
Source: DWP and HMRC data and authors' calculations

Benefit spending in Scotland



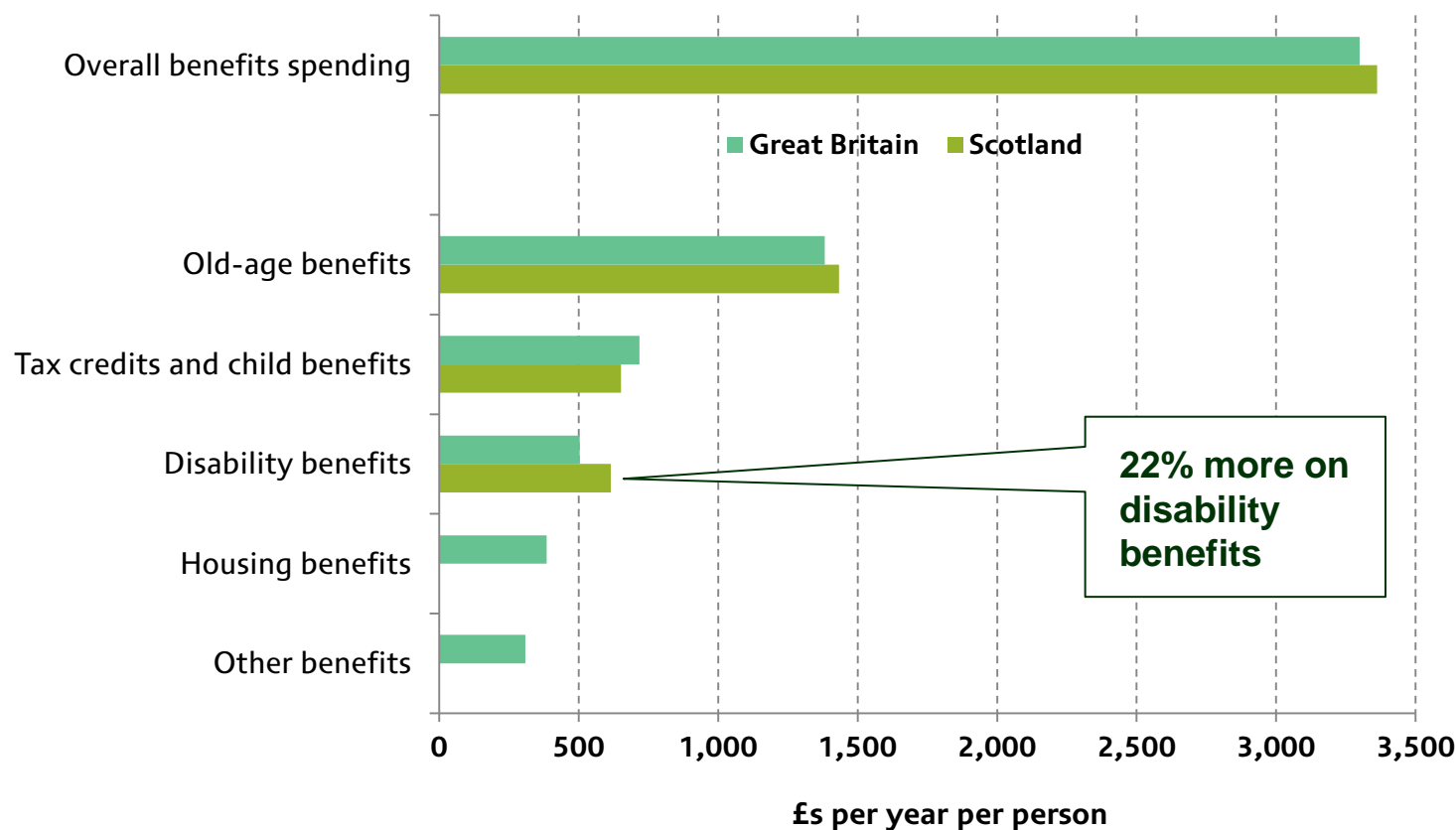
Source: DWP and HMRC data and authors' calculations

Benefit spending in Scotland



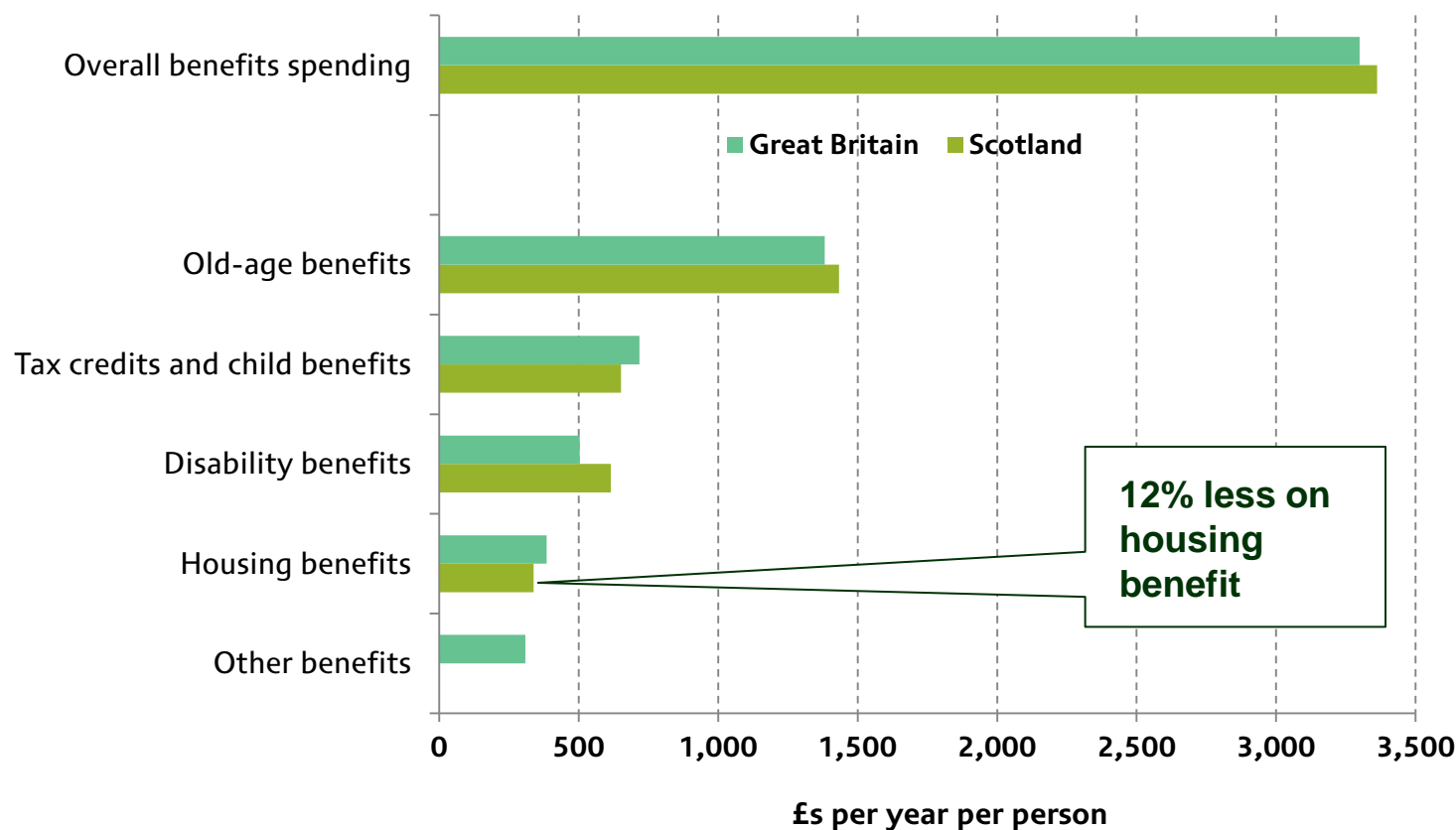
Source: DWP and HMRC data and authors' calculations

Benefit spending in Scotland



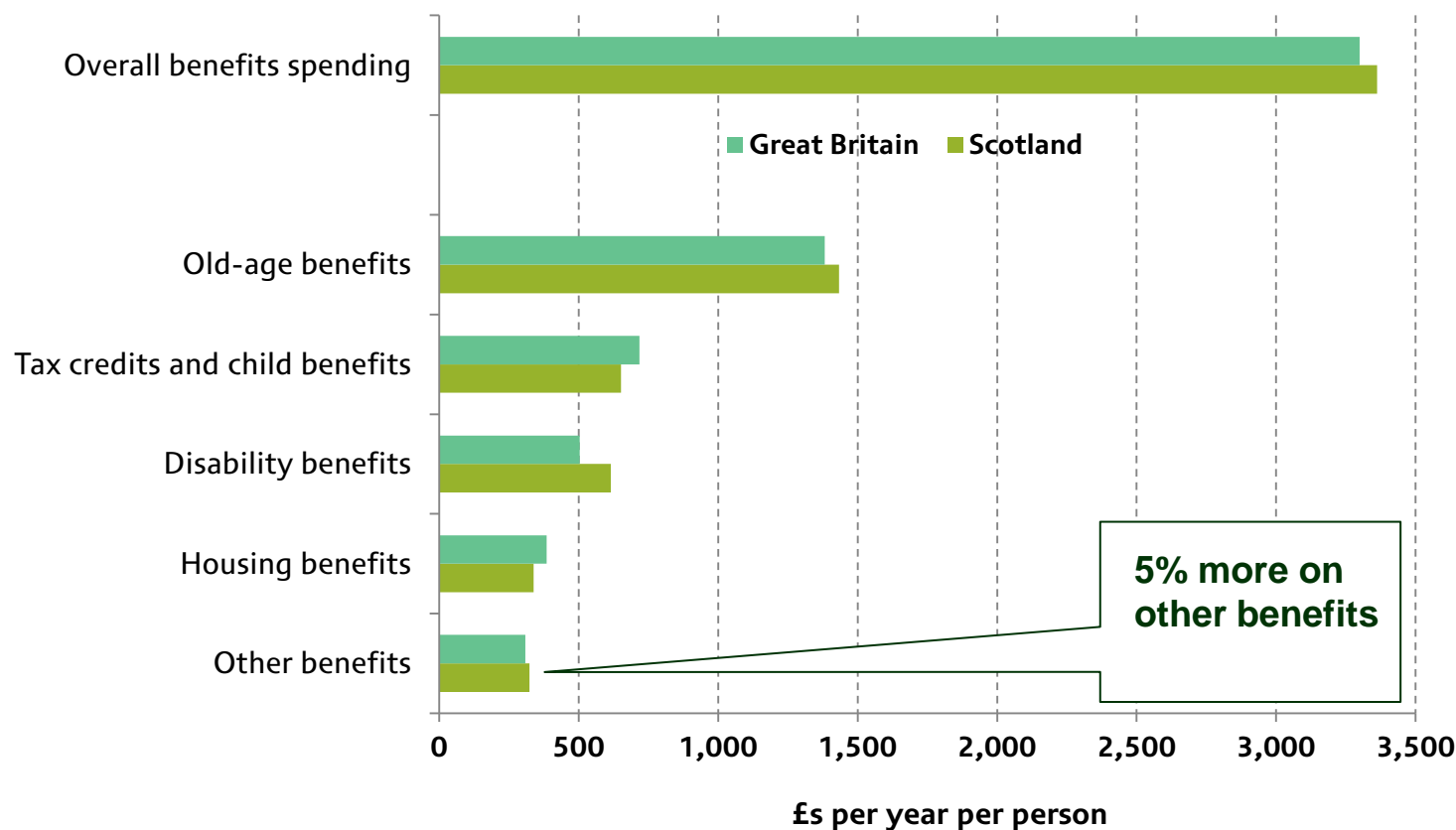
Source: DWP and HMRC data and authors' calculations

Benefit spending in Scotland



Source: DWP and HMRC data and authors' calculations

Benefit spending in Scotland



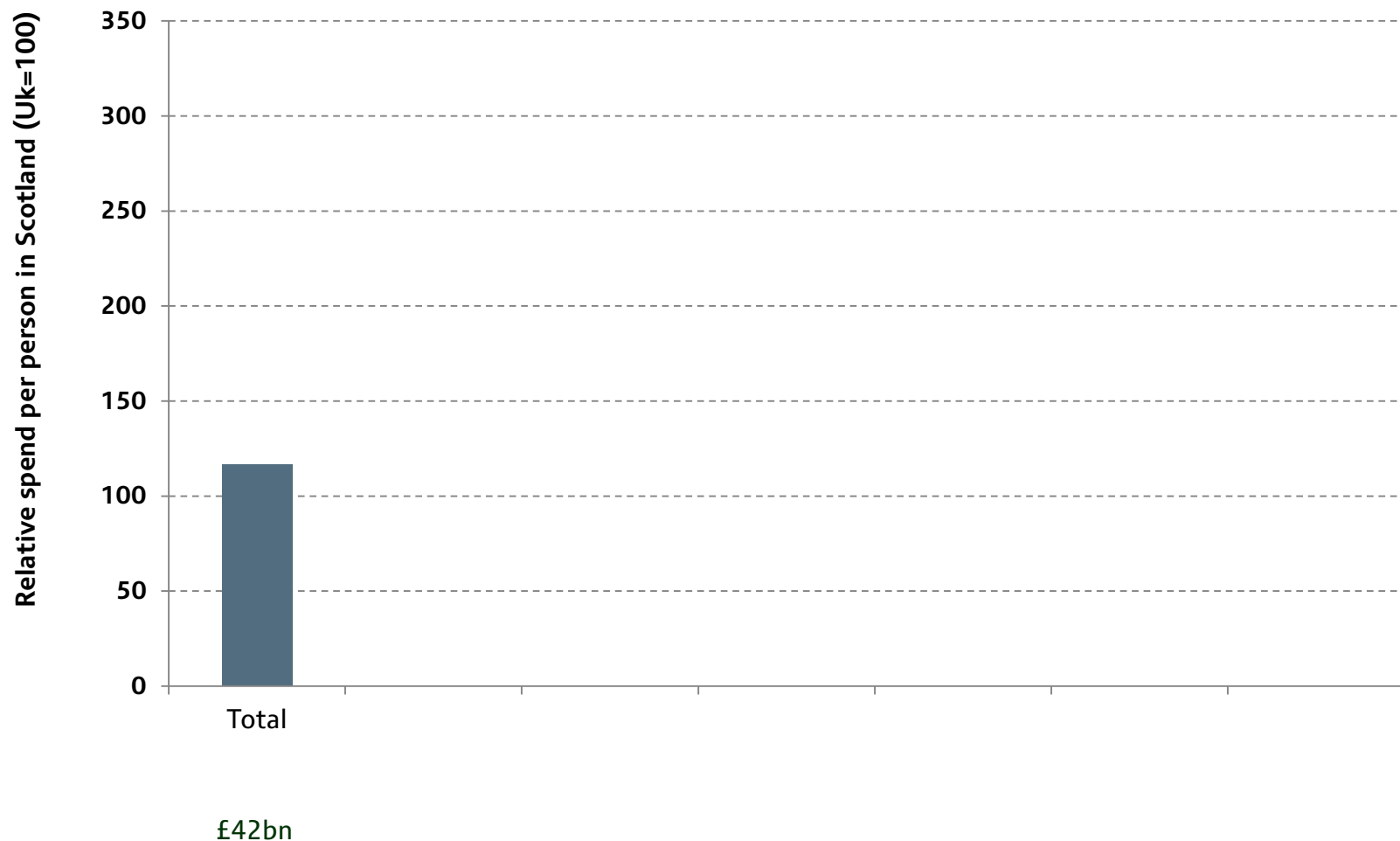
Source: DWP and HMRC data and authors' calculations

Changes in benefit spending over time

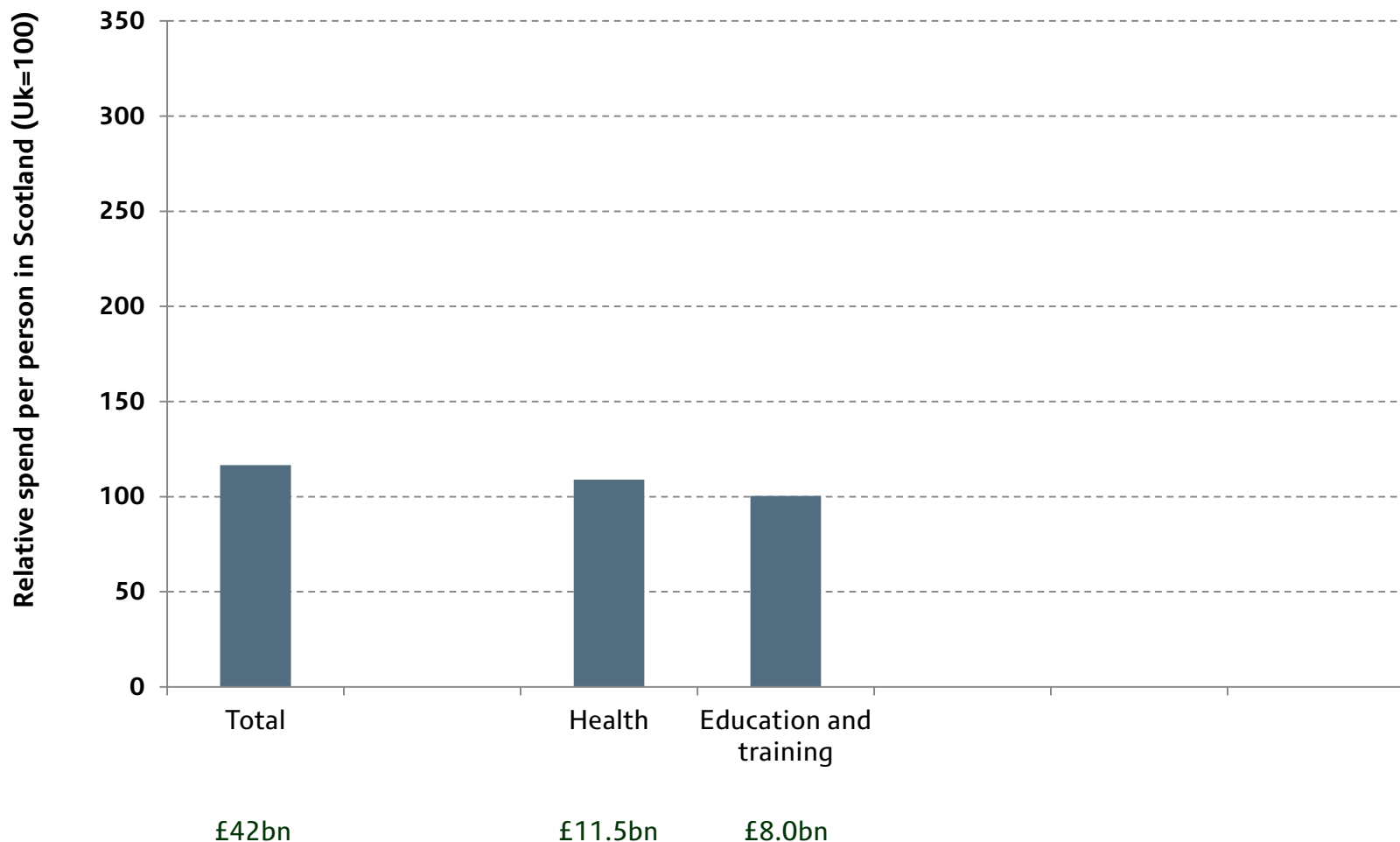
- The gap in spending per person has shrunk in recent years
 - Benefit spending per person 7% higher in Scotland than GB in 2005-06
 - Own estimates suggest 15% higher in some years in 80s and 90s
- Why this relative reduction in benefit spending?
 - Employment and incomes increased relative to GB-average
 - 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

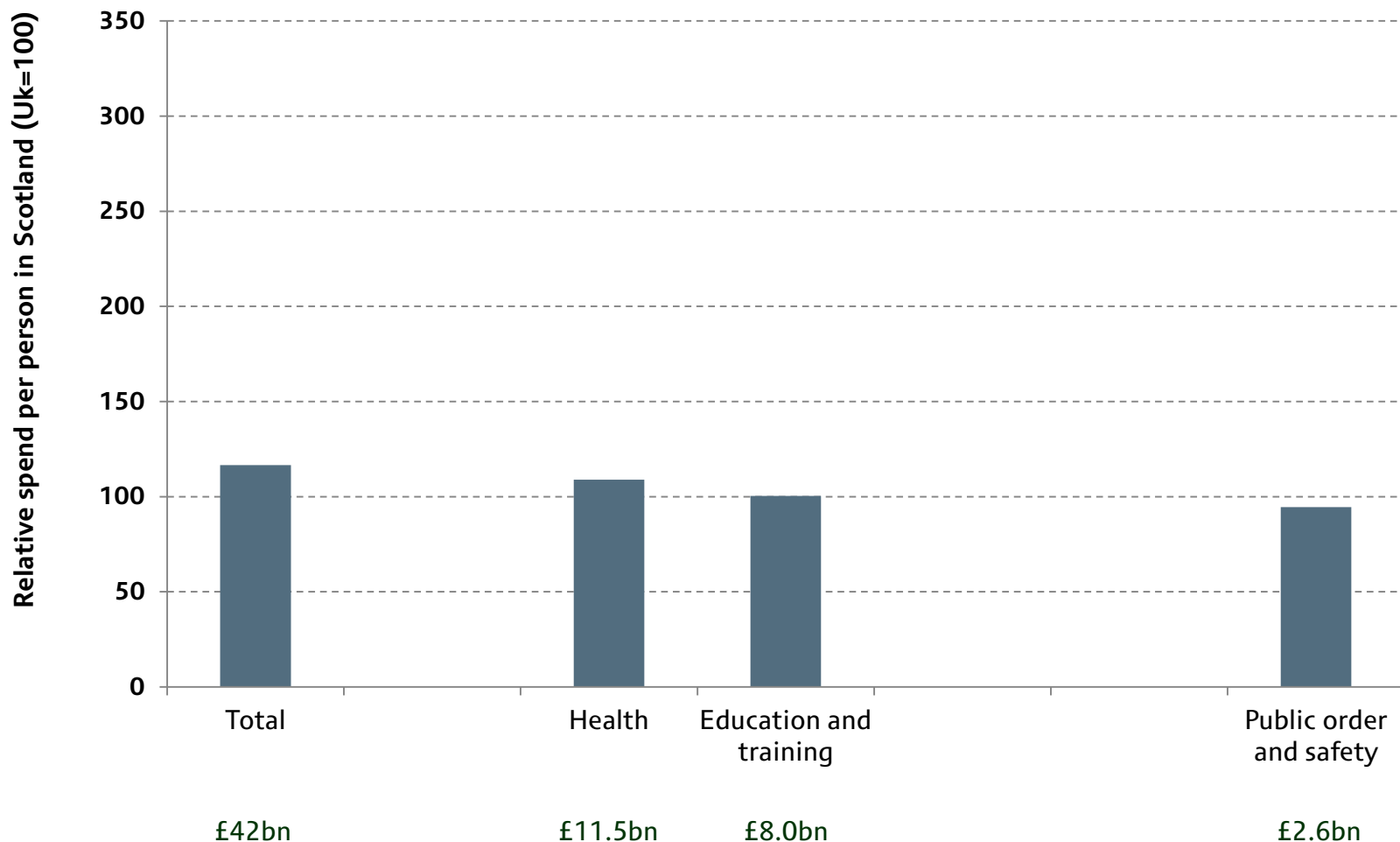
Higher spending not spread equally across services



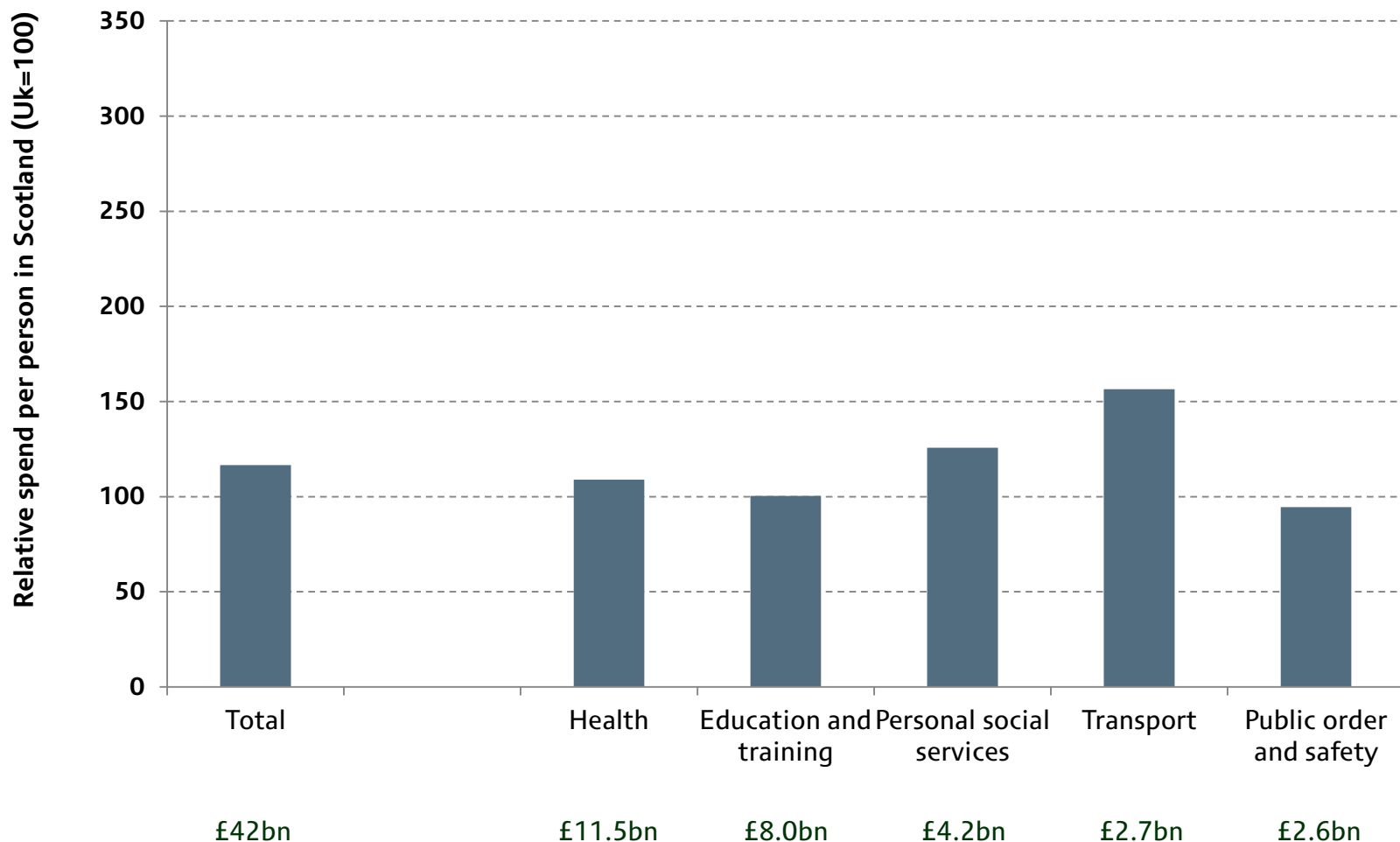
Higher spending not spread equally across services



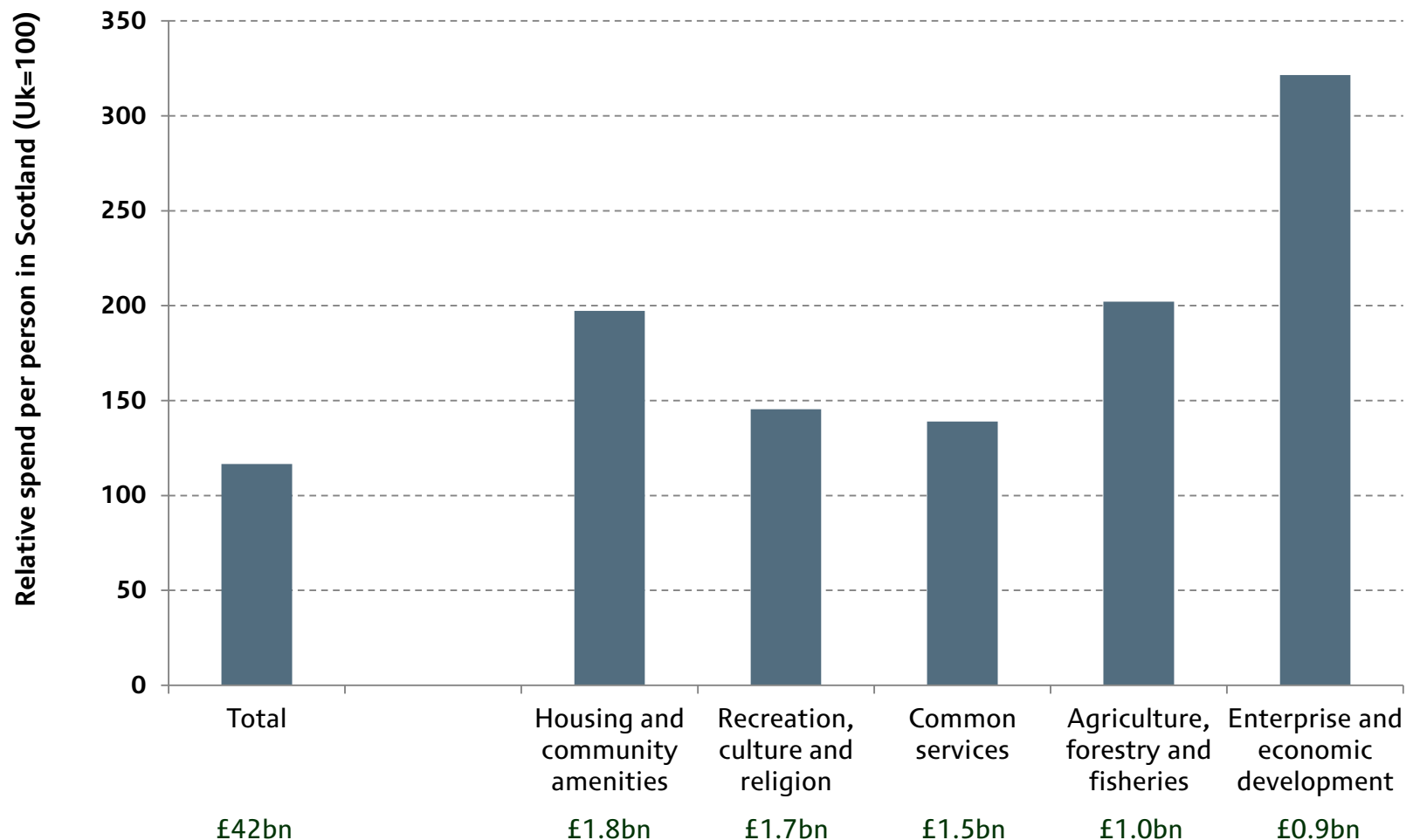
Higher spending not spread equally across services



Higher spending not spread equally across services



Biggest differences for smaller service areas



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