WELFARE SPENDING IN SCOTLAND

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- Social protection in Scotland cost £21.3bn in 2011/12. This was paid for by the Scottish Government (£470m), by Scottish Local Government (£4.95bn) and by DWP (£15.9bn).

- This covered support for housing, children, older people, benefits and state pensions and amounted to 17 per cent of Scottish GDP.

- To put this in perspective, Scottish receipts from its two largest sources of revenue - Income Tax (£10.8bn) and North Sea oil (geographical share - £10.6bn) totalled £21.4bn in 2011/12.

- Benefit spend per head in Scotland 2011/12 was £3972 compared with a UK spend per head of £3658. However, benefit spending is growing more slowly in Scotland.

- It is difficult to envisage a stable monetary policy for an independent Scotland that would permit it to follow an expansionary fiscal policy in the short to medium run. This would likely constrain the welfare budget, the largest component of government spending.

- If the welfare budget is not increasing, then significant reform would create political difficulties because there is no extra revenue available to compensate losers, who might use their political power to veto change.

- Scotland is a country where incomes are very unequally distributed. Though the UK tax and benefit system is fairly redistributive, after tax incomes are still very unequal. There is a tradeoff between increased redistribution through higher taxes and the negative effects that these taxes may have on incentives to supply labour. The benefits system has to find a balance between support for the disadvantaged and their children while keeping marginal effective tax rates as low as possible.

- Low income families still face relatively high effective rates of taxation. Figure 1 shows the “marginal effective tax rate that Scottish families face across the income distribution drawn from the Stirling microsimulation model. These rates are highest among the poor, because each extra pound earned can lead to a significant loss of benefits. Among those at the top of the income distribution, the highest effective tax rate for 2010/11 was 50 per cent-the so-called “additional” rate of income tax.
There are no clear principles or direction underlying the evolution of the UK benefits system. Though contributory benefits still dominate total benefits spending (see Figure 2), the link between National Insurance (NI) payments and benefits received has largely been lost. Nevertheless, the state pension is the most costly single benefit and it is classified as contributory. Politicians maintain the fiction that NI contributions are meaningful rather than an extension of income tax.
Benefits have also become increasingly focused on pensioners with spending on others, notably children, having declined.

Even though the composition has changed, the overall costs of benefits as a share of GDP is generally stable over the long-run, with marked cyclical variations (see Figure 4). However, the expectation is that population ageing will cause a significant increase in eligibility for benefits.
There are also overlaps between Department of Work and Pensions and Scottish Government responsibilities potentially lead to inefficiencies. Examples are:

1. **Personal care support for older people**

   DWP supports personal care for the over 65s through Attendance Allowance and Disability Living Allowance. Scottish Government supports free personal care through local authority provision of in-kind services. None of these benefits are means tested. Figure 5 shows recent trends in expenditure in these three benefits. Although free personal care is the favourite media exemplar of the unsustainability of care costs in the light of demographic change, DWP AA and DLA payments to pensioners **both** exceed SG free personal care costs and have been growing at almost the same rate.
2. **Skills development**

DWP and SG policy also overlap in the area of skills and employability. A trend towards benefit conditionality has increased the involvement of DWP with skills and employability, which is a major part of the work of Skills Development Scotland.

“The priorities of the Scottish Government differ in important respects from those of the UK government, and it is therefore a challenge to coordinate the services of bodies which have Scottish, GB and UK remits. “

“Skills Development Scotland will also need to develop more effective links with other guidance and support services, especially the DWP and Jobcentre Plus”\(^1\)

“In an independent Scotland, the development of a single agency approach - removing the institutional barriers between the job brokering service and employability programmes

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offered, in Scotland, by DWP and support provided through Skills Development Scotland - could facilitate better alignment of services and coordination of skills and training programmes to deliver a more streamlined and efficient system. This could particularly benefit those most in need of support.

This can be achieved through a variety of possible avenues including –

- improved alignment of services for the unemployed;
- a move to an early intervention model which seeks to reduce long-term unemployment;
- better opportunities for young people who are in the benefits system to build on progress already made within the post-16 education system;
- and delivery of a coherent pre-employment and workforce development service within the wider economic growth agenda. ”

2 Scottish Government (Nov 2013)

- Could responsibilities for long-term disability and skills development be transferred to Scotland even in the absence of constitutional change? It is difficult to see how such transfers would lead to increased economic inefficiency e.g. migration based on welfare provision. These are unlikely to offset the potential efficiency gains from local management of these areas.