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# PUBLIC SPENDING IN SCOTLAND: RELATIVITIES AND PRIORITIES

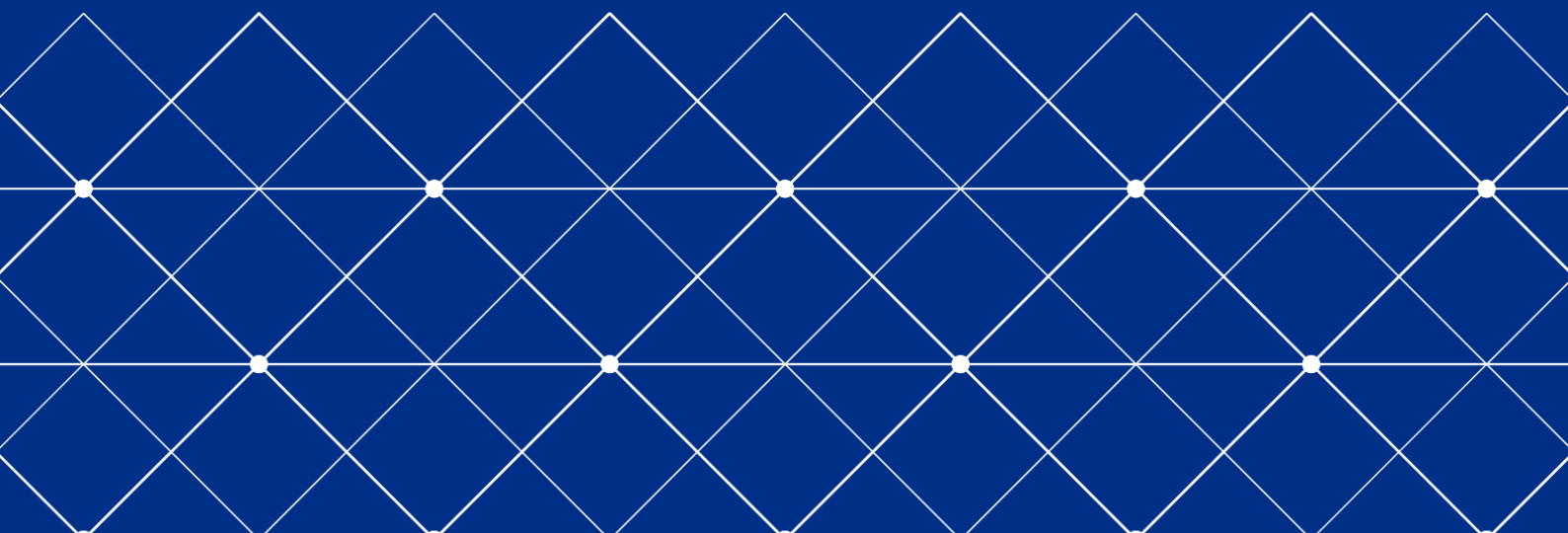
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**Public Spending in Scotland: Relativities and Priorities**  
***What the data tell us***

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High public spending in Scotland compared to England has often been the subject of controversy. Less attention has been given to where this money goes, the different public spending choices made in Scotland compared to England, and how the relativities have changed over time. This paper examines the data on public spending in Scotland to identify overall trends, and the relative priorities of devolved government in Scotland compared to England. (A similar analysis can be done for Wales and Northern Ireland.) The data confirm that overall spending relativities have not changed over time, contrary to what might have been expected from the operation of the Barnett formula, and that devolved government has demonstrated some different spending priorities, some explicitly announced and others detectable only by seeing where money has *not* been spent.

The data source is the Public Expenditure Statistical Analyses series, notably the Country and Regional Analysis within it (HM Treasury, 2017). These figures are of actual spending outturn, not budgets, and carry the kitemark of National Statistics; the help of the government professional statisticians involved in identifying relevant data sources is gratefully acknowledged. Also referred to is Government Expenditure and Revenues in Scotland (GERS) (Scottish Government, 2017a).

The geographical analysis of public spending in the UK proceeds on the basis that most expenditure is geographically "identifiable", incurred for the benefit of residents in a particular place. So spending on health and education for example is identifiable as it directly benefits people in a particular nation or region. 89% of spending on services is identifiable, and this paper deals with it only. Some expenditure however is not like that; this "non-identifiable" spending relates to things like defence and foreign affairs or debt interest which are held to benefit people in all parts of the country equally. In calculating fiscal balances for parts of the UK, as in GERS, non-identifiable spend is included, and allocated equally per head to arrive at an estimated overall spending total to compare with estimated overall income.<sup>1</sup> That is not the purpose of this paper, which looks only at relative spending. Part 1 examine the overall spending position, and part 2 at spending on devolved services. The analysis examines the data over last 10 years, during which the Scottish National Party have been in government in Edinburgh, and so a consistent series of priorities might be seen to emerge.

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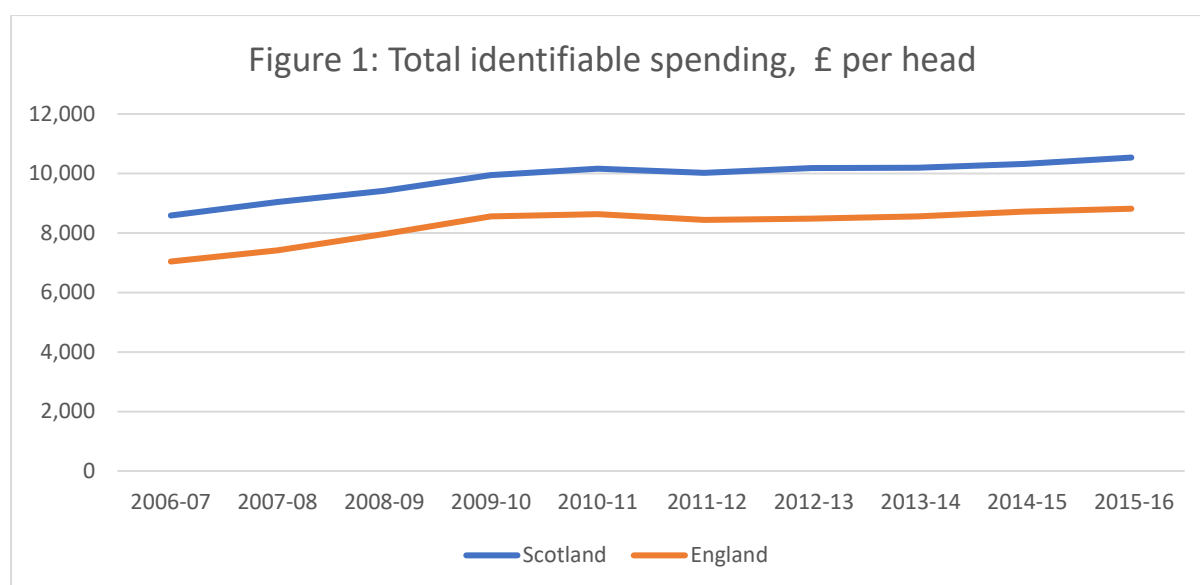
<sup>1</sup> The expenditure figures in GERS and PESA are essentially the same, and drawn from the same sources, but there are some slight differences. GERS includes 'accounting adjustments' that bridge the gap between HMTs 'expenditure on services' aggregate and 'total managed expenditure' as well as some timing and other differences. This paper uses PESA data only, as the differences are unlikely to be material to the broad conclusions reached.

## Part 1: Public spending relativities

It is well known that public spending in Scotland is proportionately higher than in most of the United Kingdom. This is a long-standing trend.

Table and graph one: total identifiable spending in Scotland and England (£ per head)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Scotland	8,588	9,045	9,424	9,945	10,165	10,020	10,187	10,196	10,327	10,536
England	7,042	7,414	7,962	8,553	8,634	8,440	8,484	8,563	8,716	8,816
Scotland / England	1.22	1.22	1.18	1.16	1.18	1.19	1.20	1.19	1.18	1.20



It is easily seen that the total level of spending in Scotland has been consistently higher than in England over the last decade, and that there has been little or no convergence between spending levels (which might have been predicted, as discussed below). The lead in total identifiable spending per head has remained consistently at around 20%<sup>2</sup>.

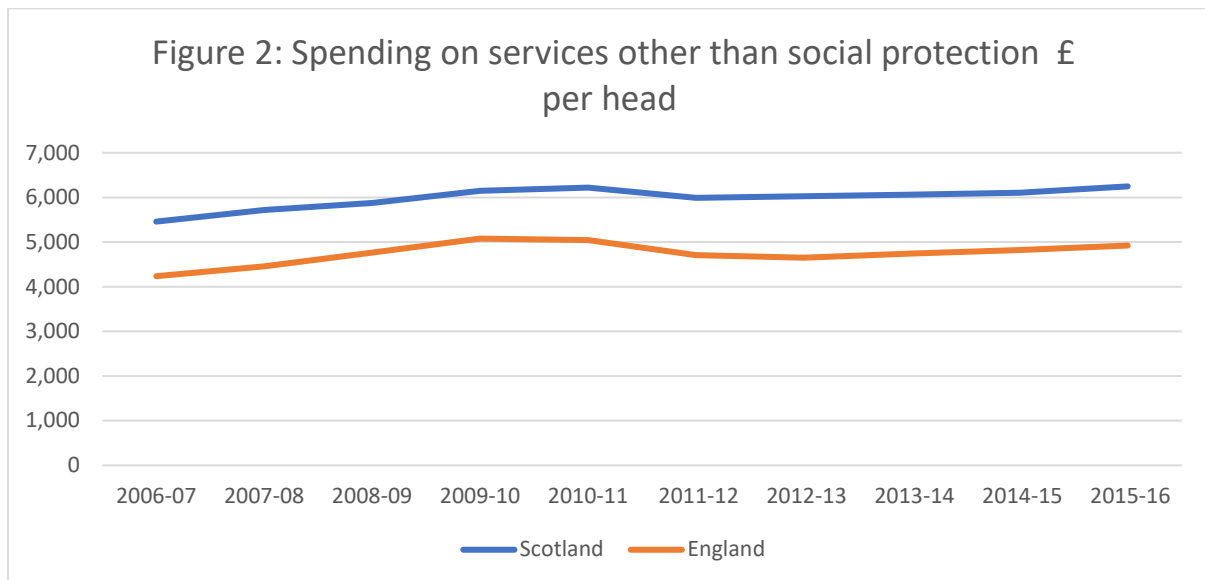
Where does extra money go? The largest single element of public spending is under the classification "social protection" and comprises mainly, but not entirely, transfer payments i.e. benefits and pensions; old-age pensions are the largest single element. Most pensions and benefits are uniform across the UK, and paid by the UK government through the Department of Work and Pensions. (The powers available to the Scottish government to vary or supplement pensions and benefits are recent and have not yet been used). As these are paid

<sup>2</sup> Over the period of 10 years, various relatively minor classification changes affect the spending data. Some housing bodies move in or out of the public sector, some schools in or out of local government, student loan impairments are treated differently etc. Wherever possible the most up to date data has been used to minimise the effect of this "noise". None is so large as to affect any of the overall conclusions drawn.

at the same level to individuals in the same circumstances, geographical variation in pensions and benefit spending will depend on the composition of the population and individual circumstances (employment, disability etc). In fact it turns out that spending on social protection in Scotland being around 10% per head higher than in England (though as we shall see below, this is not mostly on pensions and benefits). Spending on public services other than social protection in Scotland is much higher than in England, as table and graph 2 show. The extra money goes on public services, not transfer payments.

*Table 2 Identifiable spending other than social protection, Scotland and England, £ per head*

	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16
<b>Scotland</b>	5,458	5,720	5,873	6,151	6,218	5,993	6,027	6,059	6,104	6,247
<b>England</b>	4,236	4,455	4,766	5,078	5,047	4,705	4,649	4,742	4,823	4,923
<b>Scotland/England</b>	1.29	1.28	1.23	1.21	1.23	1.27	1.29	1.27	1.27	1.27



This shows very clearly, first, that the lead in public spending is concentrated in services: over 80% of the extra expenditure in Scotland compared to England. It also shows that this lead has not changed over time: consistently over the last decade this spending has been around 25% per head higher in Scotland than in England.

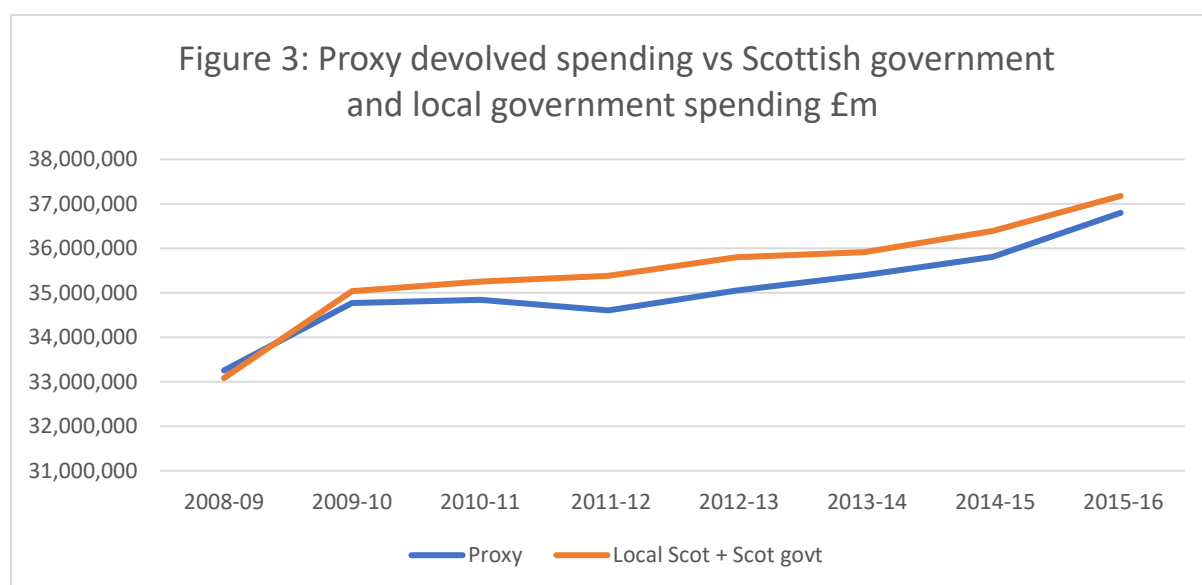
*Separating reserved and devolved spending: a proxy for devolved spending*

The additional spending in Scotland is concentrated on public services, and most public services in Scotland are devolved (the responsibility of the Scottish government). So it is obviously of interest to see more exactly how much of the additional spending is devolved, and whether that has changed over time. It is easy to identify exactly how much devolved spending there is in Scotland, but not immediately straightforward to identify the equivalent spending in England, as it is included in overall spending and not separately identified.

It is possible however to identify a rough proxy for devolved spending and compare it between Scotland and England. The simplest proxy would be the spending on services in table

2: i.e. to assume social protection expenditure is reserved, and that other identifiable expenditure devolved. This rough approximation is equivalent to about 90% of the total spending of the Scottish government and Scottish local authorities.

A more accurate proxy can be devised by observing that social protection includes devolved personal social services expenditure, notably social care for the elderly, as well as UK spending on pensions and benefits. This can be added to spending on services other than social protection, to get closer to total devolved spending. This “proxy devolved spending” equates to around 97% of devolved spending and quite closely tracks it over time. Figure 3 compares total spending by the Scottish government and local authorities with “proxy devolved spending”.



So a reasonable approximation to Scottish devolved spending north and south of the border is expenditure on services other than social protection plus the social services element of social protection<sup>3</sup>.

Table four: “proxy devolved spending” £ per head 2006-7 to 2015-16

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Scotland</b>	5,921	6,299	6,455	6,689	6,766	6,530	6,597	6,644	6,696	6,849
<b>England</b>	4,652	4,927	5,224	5,505	5,474	5,139	5,079	5,167	5,272	5,353
<b>Scotland/England</b>	1.27	1.28	1.24	1.22	1.24	1.27	1.30	1.29	1.27	1.28

<sup>3</sup> It is not precise. Identifiable spending includes some smaller reserved spending such as on research councils, nuclear decommissioning, or funded from the national lottery; contrariwise, some devolved public sector pension spending is in social protection.

It will be seen that around 90% of the gap in identifiable expenditure between Scotland and England is concentrated in these services, almost all devolved. Taken together all this data gives us a good estimate of the ratio of spending on services which are devolved in Scotland to the equivalent services in England, over a prolonged period.

Spending on devolved services in Scotland is and has consistently been for the last decade around a quarter per head higher than in England:

- *Virtually all the extra public spending enjoyed in Scotland is concentrated in the budget of the Scottish Parliament, which is more than 25% higher than spending on the equivalent services in England;*
- *This lead in devolved spending has, despite some noise in the data, changed little since 2006.*

In consequence,

- *Spending per head on most devolved services can be expected to be higher than in England, and the size of the lead will be a reflection of devolved choices; and*
- *any change over the last ten years in spending per head on individual services in Scotland compared to England is down to different decisions being taken on the allocation of spending, not any relative change in the overall budget.*

But before considering those, we examine the somewhat surprising conclusion that there has been no convergence between Scottish and English spending levels on these services.

#### *The Barnett formula, squeeze and convergence*

The absence of significant convergence in spending per head on devolved services between Scotland and England is on the face of it surprising. This is because the Barnett formula, which determines most of devolved spending, might be expected to have that result. Each year the devolved budget is increased by a per head share of the spending on the equivalent services in England and therefore, as time goes on, spending per head might be expected to converge to English levels, as, each year, the proportion of the budget which is the same per head as in England will increase. But this effect has not been seen in the data.

To understand why, it is necessary to examine two somewhat distinct effects of the Barnett formula:

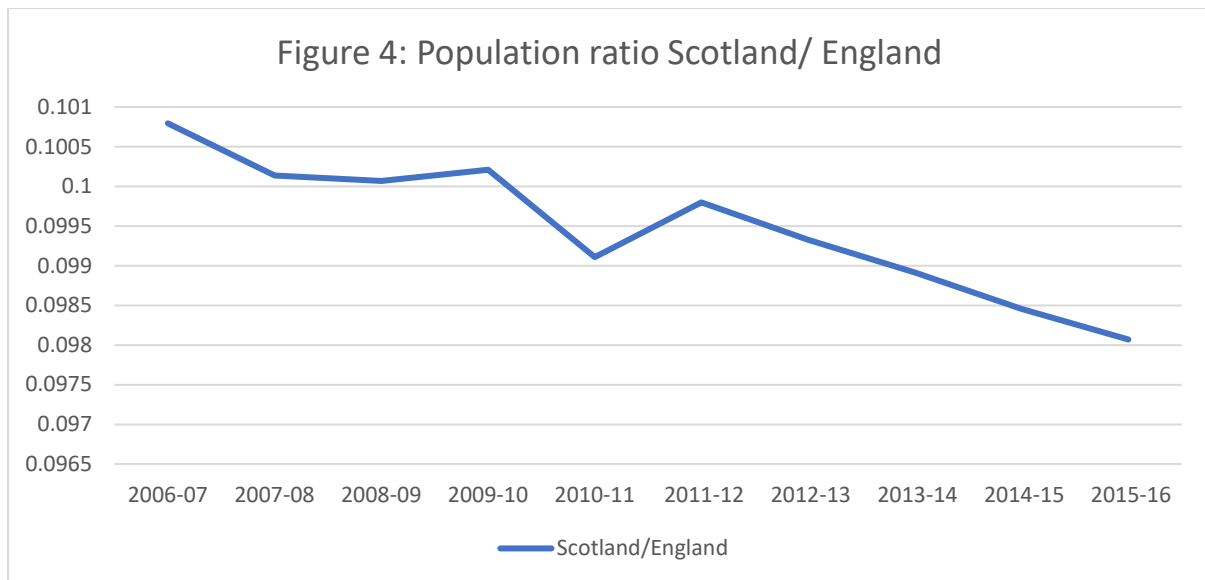
- "Barnett squeeze"
- "Barnett convergence"

"Barnett squeeze" is a way of saying that each year the percentage increase in the Scottish budget will be smaller than the percentage increase in the English budget for the equivalent services. This is because adding the same amount per head to an existing budget which is higher per head is inevitably a smaller proportionate addition. This effect can be seen to some

extent in our proxy for the devolved spending in Scotland and England. For the decade in question it increased in Scotland by between 10 and 11% of the increase in England, slightly higher than Scotland's population which averaged around 10% of England's over the period. The difference is likely be due to the inclusion of items not determined by Barnett, like agriculture spending, spending financed by local taxes and some public service pension payments.

"Barnett convergence", on the other hand, relates to spending *per head*, and here the decline in Scotland's population relative to England will have had a noticeable effect in keeping up spending per head in Scotland compared to England. England's population has grown more than Scotland's, which has fallen from being 10.1% of England's in 2006-07 to 9.8% in 2015-16.

*Graph 4: Scottish and English population.*



## ***Part 2: Scottish Devolved Spending Priorities***

Against the background that devolved spending is broadly speaking 25% higher than in England, and that this has shown no significant decline over the last decade, it is possible to look at the spending priorities of the devolved Scottish government relative to the UK government on the same services in England. The purpose of devolution, after all, was to enable different choices to be made.

Relative spending levels on different services vary very widely compared to the overall lead of 25%. Spending on what are described as general public services, for example, which includes the cost of running the Scottish Parliament and government itself are unsurprisingly much higher than in England, reflecting the cost of this additional overhead. Spending on economic development is also much higher, as is spending on housing, and on sport, culture and recreation.

To some extent, these reflect the inherited commitments of Scottish government, some dating back to before devolution. Examples include traditionally higher levels of spending on economic development since (indeed before) the creation of the Scottish Development Agency in the 1970s; markedly higher spending on housing, reflecting the greater proportion of public sector and social housing in Scotland; higher expenditure on transport, reflecting geography; and on agriculture (financed at present by the European Union through the common agricultural policy) because of the more significant role of this subsidised sector in the Scottish economy.

This can be clearly seen in the spending data. Scottish spending on economic development in 2006-7 was around twice English levels; in 2015-16 it was nearly 3 times as much. This change was mostly driven by a decline in spending in England; spending in Scotland held up and recently increased somewhat. On housing, comparisons are made difficult by classification changes in recent years affecting Housing Association spending in England, but broadly speaking Scottish Housing spend appears to have maintained its substantial lead (at least twice as much per head) over England.

Some changes in the spending lead over the last decade reflect the priority choices made by Scottish ministers over the period. As we will see, some can be readily linked to explicit policy priorities they adopted; others reflect priorities not announced but displayed in the spending choices which they have made. It is perhaps better to look at what governments do, rather than what they say, to identify their real priorities. Given that Scotland has had an administration of the same party throughout this period, these can fairly be said to reflect the priorities of the SNP. (It is no part of this paper to say these choices were right or wrong, merely to identify them.)

### *Spending on health*

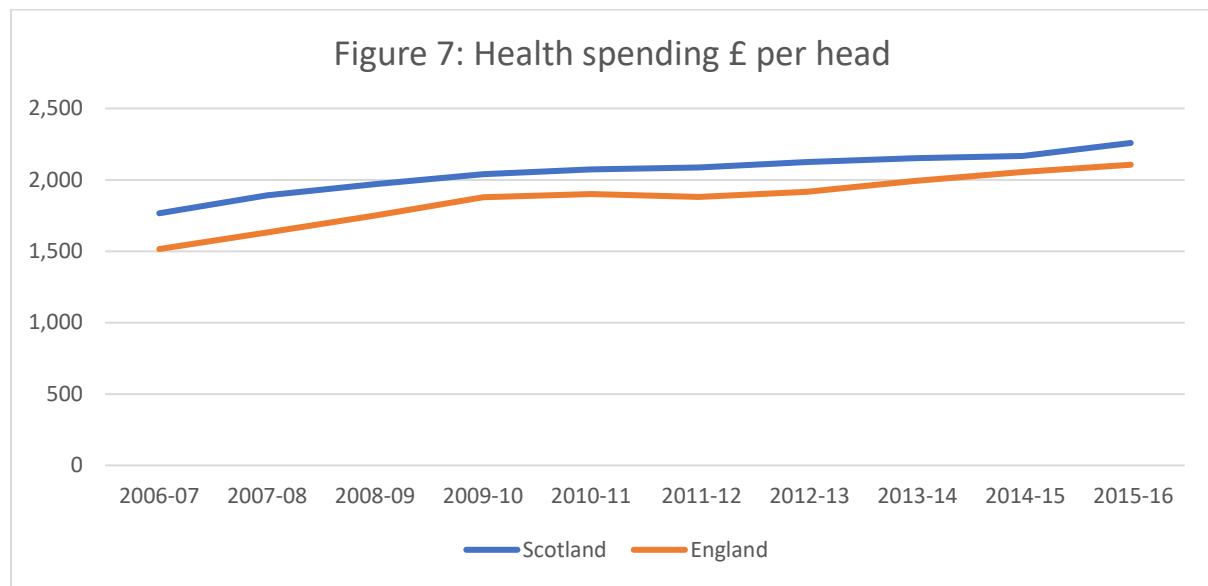
The largest single part (around one third) of the devolved budget is on health. Political debate on levels of public spending often concentrates on health, and the operational pressures on the NHS, said to be linked to spending growth, have been of high political salience in recent



years. It is therefore perhaps surprising that the spending data show health has been a lower priority than devolved spending overall, and increased distinctly more slowly than in England.

Table and graph 5: health spending, £ per head

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Scotland</b>	1,766	1,895	1,976	2,042	2,112	2,086	2,124	2,151	2,168	2,258
<b>England</b>	1,515	1,626	1,723	1,853	1,893	1,879	1,916	1,993	2,055	2,106
<b>Scotland/ England</b>	1.16	1.17	1.15	1.10	1.12	1.11	1.11	1.08	1.05	1.07



The Scottish lead in spending per head on health was never as high as the lead in total devolved spending. But in 2006 Scotland had a health lead of 16% over England, but by 2016 this lead had reduced to 7.5%. To repeat, this has not been caused by an overall squeeze on the Scottish budget, but by the priority choices of Scottish Ministers, who have given less of a priority to spending on health services than to their budget as a whole, and have therefore allowed English spending to catch up.

Scottish health spending remains higher than in England, but the contrast between health spending growth over this decade in England and Scotland is striking. Total health spending grew by around 50% in England; in Scotland by only 34%. Per head, spending in England grew by 39%, but by only 28% in Scotland. Had Scottish health spending per head kept pace with English (as overall devolved spending did), it would have been around £1bn a year higher in 2015-16.

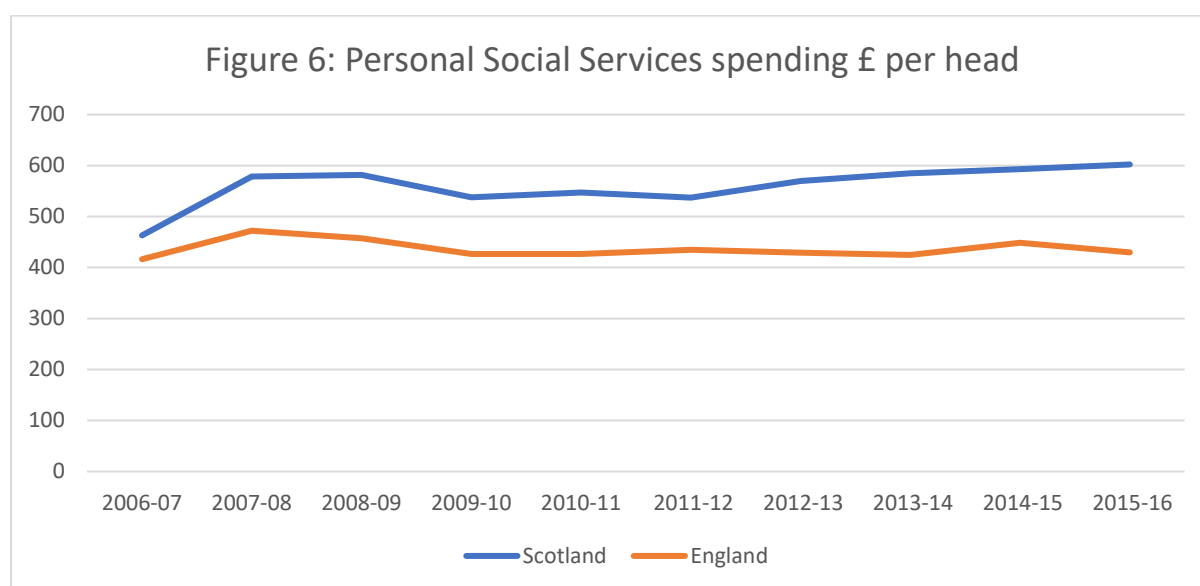
It has been suggested that the approach to budget allocation inside the Scottish government for the NHS was to "give health its consequentials" - in other words to allocate to the health budget those parts of the total increase in the Scottish budget which related to health spending changes in England. In fact, over the last decade, the overall effect of decisions on spending inside the Scottish block appears to have been to give health less than that. As we

noted above, the total increase in our proxy for devolved spending was slightly more than Scotland's population share of the equivalent increase in England. For health, this does not appear to be the case. The increase in the Scottish health budget over the last decade has been 8% of the increase in health spending in England, and had the NHS in Scotland been "given its consequentials" spending might have been around £750 million higher by 2015-16.

To some extent, this may reflect switching of resources into personal social services, which might be intended to reduce pressures on the NHS via such initiatives as service integration and joint budgeting to care for elderly people. Certainly, expenditure on personal social services has increased, markedly so relative to England, as table and graph 6 show.

*Table 6 Personal social services spending, £ per head.*

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Scotland</b>	463	579	582	538	547	537	570	585	593	602
<b>England</b>	416	472	458	427	427	435	429	425	449	430
<b>Scotland/England</b>	1.11	1.22	1.27	1.26	1.28	1.23	1.32	1.37	1.32	1.40



Even though not all social services spending is intended to relieve pressure on the NHS it may therefore be helpful to look at health and social services spending together, as in table and graph seven.

*Table 7 Health and personal social services spending, £ per head*

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Scotland</b>	2,229	2,474	2,557	2,580	2,659	2,624	2,694	2,736	2,761	2,860
<b>England</b>	1,932	2,098	2,180	2,279	2,319	2,314	2,345	2,418	2,504	2,535
<b>Scotland/England</b>	1.15	1.18	1.17	1.13	1.15	1.12	1.15	1.13	1.10	1.12

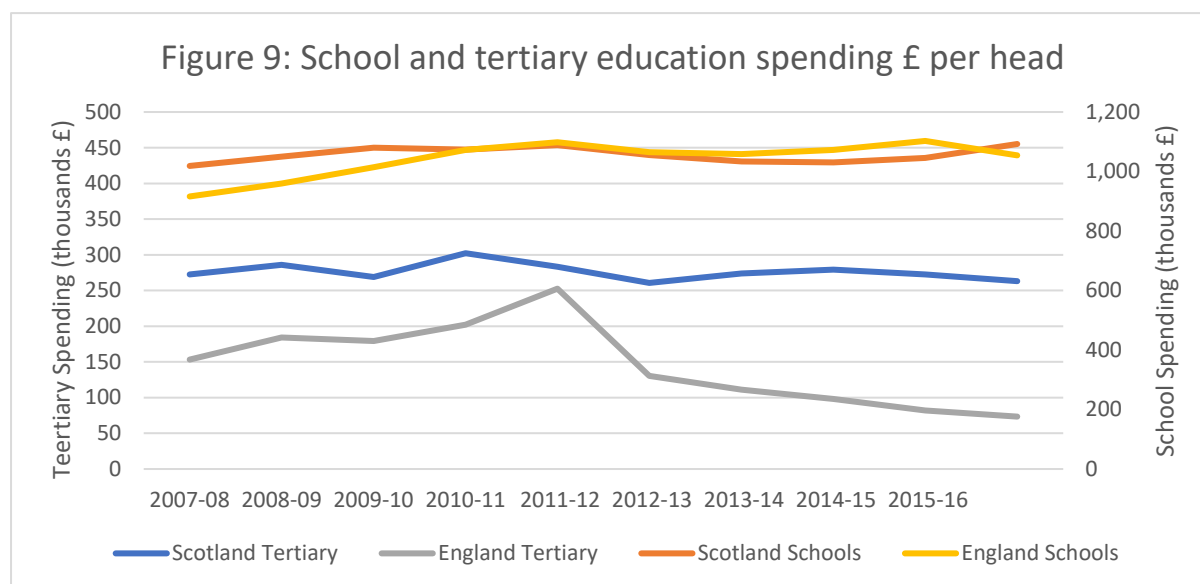
This data too shows a steady decline in the relative priority of these services, and when account is taken of the fact that expenditure on social services includes the increasing cost of free personal care for the elderly in their own homes (as opposed to the previous policy of making some charges) the gap will be somewhat greater than shown here. The growth in the cost of this policy over this period is estimated by the Scottish government at £150 million a year by 2015-6, around £30 per head (Scottish Government 2017b) so the Scottish lead is in substantial terms perhaps 1% a head less than in the table by in 2015-16.

### Spending on education

Education is the second largest devolved spending programme, and also attracts much public attention. Relative spending figures are given below. This is a somewhat noisy dataset, as the ratio between total Scottish and English spending varies from year to year, bedeviled by classification changes<sup>4</sup>, though over the period of a decade it averages out to a Scottish lead of about 10% extra per head of population for education spending as a whole. As the graph however illustrates, this differs markedly between the school and non-school sector.

Table and graph nine: education spending, £ per head

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Scotland</b>	1,397	1,435	1,462	1,486	1,492	1,423	1,416	1,419	1,424	1,470
<b>England</b>	1,179	1,265	1,336	1,421	1,477	1,353	1,309	1,315	1,315	1,266
<b>Scotland/England</b>	1.18	1.13	1.09	1.05	1.01	1.05	1.08	1.08	1.08	1.16



The most striking feature of this data is that school spending in Scotland is virtually the same per head as in England. If anything, English school spending has caught up since 2006-7. This is surprising given the political importance of schooling and the overall 25% lead in devolved

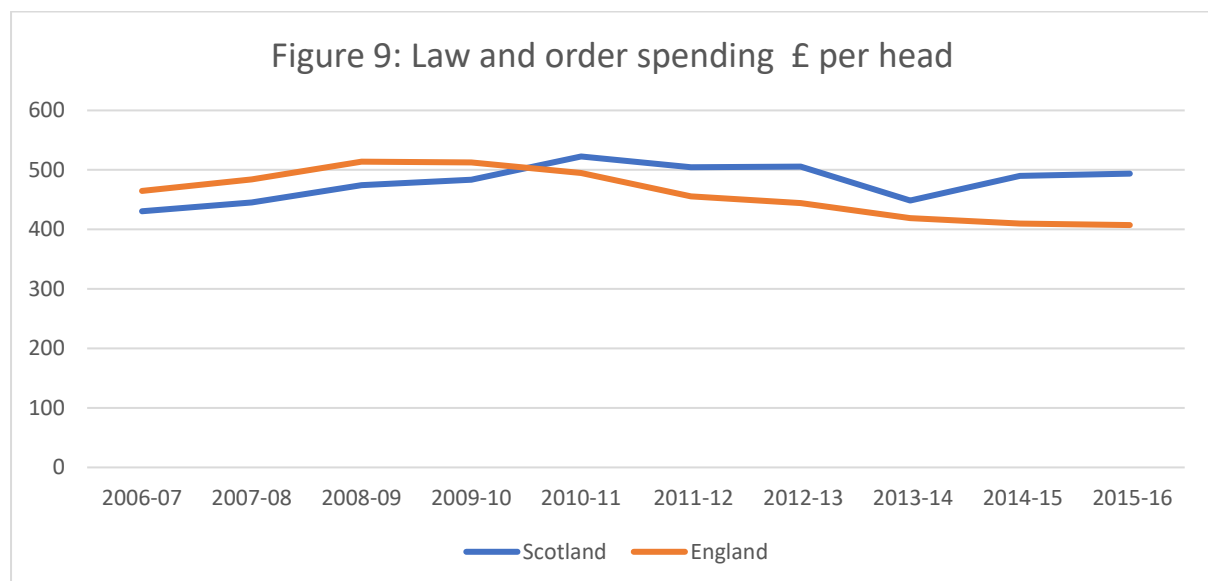
<sup>4</sup> Notably related to schools in England moving out of the local authority sector and perhaps also to the treatment of student loans in the UK.

spending. Tertiary education spending however is much higher, and that lead has been growing. Some of that lead will relate to factors such as the length of Scottish degree courses, and the higher number of universities in Scotland, but the recent growth in the gap is undoubtedly the direct result of Scottish ministers' policy decision not to follow the English lead and replace public spending on tertiary education by fee income – i.e. free tuition for Scottish and EU students.

### *Law and order spending*

Health and education are the two largest parts of the Scottish block, but in other policy areas explicit choices by the Scottish government are clearly seen in the spending numbers. One promise by the Scottish government in 2006 was to increase the number of police officers (to get Conservative party support for the formation of a government) and this can be seen in the spending on law and order. Once lagging behind England, spending per head on law and order in Scotland is now 20% higher. The Scottish law and order budget has grown by about £400m over the decade (more than the cost of 1000 extra officers), while English spending has actually shrunk.

*Graph 9 Law and order spending, £ per head*



## Conclusions

The wealth of data in the Treasury's public spending database enables some quite surprising conclusions to be drawn about public spending in Scotland:

- Overall public expenditure in Scotland remains markedly higher than in England, and shows little or no sign of converging towards English levels;
- virtually all this additional expenditure is on devolved services, and as a consequence spending within the Scottish Government's budget is around 25% per head higher than the equivalent in England;
- this is not converging towards English levels, as might have been expected from the operation of the Barnett formula; the principal reason for this appears to be the decline in Scotland's population relative to England's;
- many of the spending differences are of long standing, but others reflect choices made by the SNP administration of the last decade;
- some explicit policy commitments made by SNP ministers over that period can be seen in the spending figures – notably the relative increase in spending on tertiary education, connected with free tuition, and on law and order, including police numbers;
- other priorities of the administration can be deduced from spending allocations over the last decade, notably:
  - spending on schools has been no higher than spending on schools in England (which has if anything caught up with Scotland) despite the substantial lead in overall devolved spending;
  - increasing spending on health has been a lower priority than in England, and in consequence English health spending has caught up closer to Scottish levels;
  - if Scottish health spending had kept pace with overall devolved spending, it would by now be around £1bn a year higher;
  - alternatively, if health has been "given its consequential", Scottish health spending would now be around £750 million a year higher;
  - some, but not all, of that money has been redirected to social services spending.

It is not the purpose of this paper to say these priority choices were right or wrong, but they are the decisions the Scottish government actually made, not just what it said.

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