University of Strathclyde Business School

Looking back on the 2021 Scottish Election

June 2021

Contents

1. Introduction

As part of our coverage of the 2021 Scottish Parliament election we published a series of short briefing notes providing background on key policy areas. Although the notes covered a wide range of topics they all aimed to provide background on one aspect of the current policy environment and/or highlight important challenges or opportunities in the coming term.

The election has now passed, however the topics we covered will remain important policy areas for the Scottish Government. For that reason, we have compiled the notes in this article to make them easily accessible.

This article includes briefings on 9 topics:

- How the number of jobs supported by a capital investment is estimated;
- The adult social care system;
- Working age and disability benefits;
- Disability and carers benefits for children and pensioners;
- The employability landscape;
- Inequality in educational attainment;
- Household income;
- Universal basic income; and
- Modelled scenarios for income tax.

These are not the only topics we wrote on during the election campaign, nor are they exhaustive of *all* policy areas. However they broadly cover the main areas that have either seen substantial change in the most recent term, or that we think will feature in the policy debate over the next five years.

We provide a brief overview of each article in the next section, and then reproduce each in full in Sections 3-11.

2. An overview of the articles

Estimating the jobs supported by a capital investment

Some of the parties committed to infrastructure or capital programmes in their 2021 election manifestos. These are typically large scale investments which take place over multiple years. Often, though, these commitments will also be accompanied by estimates of the number of jobs “created” or “supported” by to these investments. But how do the parties come up with these numbers?

Economic Activity of all types generates what is called economic *multiplier effects*. In a simple example, an investment in building a new hospital will have direct effect on jobs, measured by the number of staff hired to build it. There will also be indirect, and induced effects, however, for example due to additional employment generated as a result of supply chains reacting to new spending and employees spending their wages across the economy. Together, these spill-over effects mean the direct effect on jobs is “multiplied”. These multiplier effects vary across industries and regions.

However, it is also important to take into account the timespan of these announcements and how they are funded. Spending £100m over five years does not have the same impact as spending £100m in a single year and funding one project may require removing funding from another project.

In this article, we aimed to provide some more detail on how, most commonly, these figures are calculated.

Adult Social Care

Roughly £3.8 billion is spent on social care annually in Scotland, supporting nearly 250,000 people each year. Social care support is provided to a variety of groups of individuals and for a variety of reasons. Similarly, the services that comprise social care are provided by a mixture of public, private and third sector.

Whilst those aged over 65 are the largest client group, the adult social care system is used by people of all ages for residential and home care. This includes support to help people with additional support needs to live as independently as possible.

In years to come, long-term demographic trends will place increasing demand on the social care system as the population ages and the prevalence of long-term health conditions rises. Because of this projected population ageing, at the same time there will be proportionately fewer working age adults to fund it.

In addition, Covid-19 has placed additional strain on the system. In the election, parties had an opportunity to set out a long-term vision for the future of social care in Scotland. The recent Independent Review attempted this and proposed a National Care Service, with accountability for social care moving from local government to government ministers.

In this election brief we explored the Review's recommendations in more detail.

Disability and carer benefits

During the last parliamentary term, elements of the social security system were devolved to the Scottish Parliament. Among the most notable devolved benefits were disability and ill health benefits, which will be fully transferred and administered by Social Security Scotland in the next term.

There are different benefits available based on the age of the claimant and these changes will carry over into the devolved system. We provided two briefs – one focussed on benefits for adults and children and another for those of working age - which looked at the system as it now operates in Scotland and what is expected to change.

For example, we cover the Personal Independence Payment (PI), its replacement of Disability Living Allowance (DLA) since 2013, and how it will now be replaced by the Adult Disability Payment from 2022. There are expected to be some changes made to assessments that determine eligibility for the new Adult Disability Payment, but, as yet, there is little sign that the amount paid will differ from what is available under PIP.

These are hugely important elements of social security. The Scottish Fiscal Commission has forecasted that in 2021-22, 305,000 people in Scotland will be on PIP and that this will cost the Scottish Government £1.6 billion.

In addition to our analysis of PIP, in this briefing we cover how Carer's Allowance/Carer's Assistance and Universal Credit currently work as well as any planned changes.

PIP is only available for working age claimants, with Attendance Allowance in place for those over state pension age. This will be replaced in Scotland by Pension Age Disability Payment. The Scottish Fiscal Commission forecast spend of £560m in Scotland in 2021-22.

Where a child has a disability, the family can currently claim Disability Living Allowance which is soon to be replaced by Child Disability Payment. The Scottish Fiscal Commission forecast expenditure of £260m in 2021-22.

With the rollout of new powers over disability benefits progressing in the next parliament, and a challenging long-term financial landscape with an ageing population, big decisions lie ahead. In the briefs we discussed the recent and planned changes to disability and carer benefits, as well as the decisions facing the Scottish Government in the next term.

The employability landscape in Scotland

One of the issues came up during the election campaign was the extent of employability support in Scotland and actions that might be taken in the wake of the pandemic and lockdown.

Post Smith-commission, the Scottish Parliament received additional responsibility for employment support previously provided by DWP. This became Fair Start Scotland – the main plank of employability provided by the SG for the long term unemployed and for disabled people.

But there is a proliferation of other schemes in operation funded by the Scottish Government, plus others at the local government level, and more still coming from the UK Government.

Given the scale of the challenge likely to be facing the labour market in the coming months, it may be a case of the more the merrier. But there are concerns over the complexity of what is on offer already for those trying to navigate the system.

This brief took a step back to review the employability landscape in Scotland.

Education

Education pays off in the labour market. This is why there is often political discussion around differences in attainment rates between the least and most economically disadvantaged children. This brief discussed historical attainments gaps in Scotland, and past policy to combat them.

However, far fewer children in Scotland's most deprived areas obtain expected literacy and numeracy rates across primary school ages compared to those in the least deprived areas. At the same time, those in the same group during high school are also far less likely to go on to obtain Higher or Advanced Higher qualifications. As a result, the proportion of children from the most deprived areas leaving high school for higher education was less than half than that among least deprived areas in 2018/19.

There has been progress over the past decade in closing these attainment gaps which has perhaps been facilitated by the establishment of the Attainment Scotland Fund in 2015. However they are still large. With the disruption caused to education and learning over the course of pandemic, we expect that attainment gaps and education will continue to be a priority in the current parliamentary term.

Household incomes

The election debate featured plenty of discussion of winners and losers from manifesto policies, with much of it being based on assumptions about their impact on household incomes.

Growth in household incomes was fairly sluggish for most of the last parliament, with the impact of the pandemic at the tail end yet to be fully determined, and Key indicators such as rates of poverty and the degree of income inequality remained fairly steady from 2016 to 2020.

Expectations are that the pandemic will have had an impact on those lower down the income distribution, although not necessarily those in the poorest households – many of these individuals will have been somewhat protected by the social security system.

There were many devolved policy levers debated that will directly impact household income. For example, we seen discussion around income tax, council tax, the Scottish Child Payment, and disability and carer benefits.

Universal basic income

Discussions of Universal Basic Income or a Minimum Income Guarantee were front and centre during the election campaign. Last year, the Fraser of Allander Institute, in collaboration with Manchester Metropolitan University and IPPR Scotland, looked at the impact of a fiscally neutral UBI scheme on the tax and benefit system and its impact on outcomes such as poverty, inequality, and wider economic activity.

We modelled two version of a CBI, one that tried to replicate the main means-tested standard allowances available in the current social security system and the second was a higher, much more generous payment, set at the JRF's Minimum Income Standard.

With the low-level CBI, we modelled that this would reduce the number of people in poverty by 280,000. The high-level CBI would have much larger impacts. These do imply that a basic income could be transformative, but they come with a hefty price tag attached. The same reductions in poverty could be achieved by more targeted policies that would be much cheaper. This is the basic trade-off between universal policy (simple, effective but expensive) versus targeted means-tested policy (lower reach, stigma attached, but much cheaper).

This brief discussed the efficiency and cost-benefit trade-off of these types of policies in more detail.

Modelled scenarios for income tax

During the election campaign, we published a brief with modelled scenarios for income tax policy over the next parliament.

We estimated that if income tax thresholds are frozen in line with policy in the rest of the UK, the number of Scottish higher and additional rate taxpayers will increase to over 550,000 by 2025/26. This is compared to only 484,000 under a 'standard inflationary uplifting policy'. It would also mean that around 130,000 Scottish taxpayers would be liable to a combined income tax and employee National Insurance Contribution marginal tax rate of 53%. These people are liable for both the higher Scottish rate of 41% and 12% NICs rate.

If Scottish income tax thresholds were increased in line with inflation, then the median Scottish income taxpayer would pay around £195 less in tax in 2025/26. But the Scottish budget would be worse off in 2025/26 by over £700m. Freezing bands and relying on 'fiscal drag' to pull people into higher tax brackets can make a significant difference to revenues.

This article provided detail on our modelling and the implications of certain potential changes (or freezes) to income tax policy.

This brief aimed to provide some background on some key aspects of household incomes, and their role in policy.

3. Estimating the jobs supported by a capital investment

Some of the parties have committed to infrastructure or capital programmes, which can have very large sums attached to them over multiple years. Often, though, there will also be estimates for the number of jobs “created” or “supported” due to these programmes. But how do the parties come up with these numbers?

Economic Multipliers

Economic Activity of all types will generate what is called economic multiplier effects. So, investment in building, say, a new hospital, will *directly* generate lots of activity in the construction sector. However, that contractor will also need to buy materials, and employ others to provide services, therefore generating a significant *indirect* economic effect in their supply chain. In addition, both the construction company, and all the companies in its supply chain, pay their workers’ wages which they will spend in the supermarket, in pubs and restaurants and so on. We call this last one the induced effect.

Figure X.1 - Direct, indirect & induced effects explained – Scottish construction sector example

***Source**: Fraser of Allander Institute*

So, these are the three types of effects we think about when thinking about the economic impact of spending. This generates output and gross value added in our economy: and of course supports jobs as well. However, the size of these multipliers varies hugely by sector.

Table X.1 - Direct, indirect & induced multipliers for selected Scottish industries

	GVA-Output Multipliers				**Employment-Output Multipliers**			
	Direct	*Indirect*	*Induced*	*Total**	*Direct*	*Indirect*	*Induced*	*Total**
Agriculture	0.49	0.22	0.18	0.88	10.41	4.14	2.66	17.21
Construction	0.43	0.25	0.30	0.97	8.69	4.76	4.48	17.93
Computer Services	0.76	0.08	0.35	1.19	9.38	1.92	5.26	16.56
R&D	0.57	0.21	0.38	1.16	7.70	4.44	5.75	17.88

***Note:** *totals may not sum due to rounding*
***Source:** Scottish Government 2017 Input-Output Tables; FAI calculations*

So, if there is investment of £1m into the Agriculture industry then this is estimated to support over 10 full-time equivalent (FTE) jobs directly, over 4 jobs indirectly and just under 3 jobs through the induced effect. Once all of these effects are accounted for, over 17 FTE jobs are estimated to be supported across the Scottish economy. In terms of GVA, for every £1m spent in Agriculture, an estimated £0.88m in Scottish GVA is supported.

A momentary geeky detour, but stay with me…

These multiplier numbers are derived from the Scottish Input-Output tables. These tables set out the structure of the Scottish economy, including all the supply chain linkages and how likely sectors are to import or export, which allows us to understand how economic activity ripples through the economy.

These tables, produced every year by the Scottish Government, are an amazing resource for economic modellers like ourselves to help us understand the impact of different sectors and spending programmes, whether that is the pharmaceutical sector, the aerospace sector, a housing building programme, or the spending carried out by a particular organisation.

We also regularly use the tables for the UK (produced by the ONS) and those for Northern Ireland (produced by NISRA).

Jobs estimates

So, we know now how broadly where multipliers come from. When we see numbers quoted in a press release or a report from any organisation, or indeed in a manifesto for the elections, we would run though the following questions to understand the numbers and put them in context:

- Which of the three types of estimates (discussed above) are these jobs linked to? Direct only, Direct+Indirect (sometimes described as Type 1) or Direct+Indirect+Induced (sometimes described as Type 2).
- Is the impact described on the Scottish economy or the UK economy?
- Is this spending over multiple years?
- How will the spending on this programme be funded?

Understanding the type

Generally, we would expect that it is either the Direct+Indirect or Direct+Indirect+Induced. Obviously, the latter is by definition the bigger number, so is often used. We can often get a clue that indirect and induced jobs are included when the description moves from being jobs “created” to jobs “supported”, given the extra steps removed these effects are from the actual investment.

There is no “right” set of numbers to use: the impact that wage spending can have in the economy is both significant and important to consider. But it is of a different nature to the direct and indirect effects: sometimes the interest is in, for example, supply chain effects.

Scotland or UK?

You might be wondering why this is important. The Scottish economy is of course included in the UK economy.

When considering the impact of an investment on the UK economy, we need to consider how much “leakage” there is from each sector: that is, how much of each sector in the supply chain is imported into the UK. If we know, for example, that around 22% of Fishing & Aquaculture is imported, then the economic impact of this leaks out of the UK economy.

If we are then examining the economic impact on Scotland, or Northern Ireland, or London, or any constituent part of the UK, we also need to consider an additional leakage: the imports that come from the rest of the UK. For Scotland, this is a significant flow, with imports from rUK equivalent to 12% of the Scottish economy.[1]

So because there is this additional leakage, the economic impact of a particular bit of spending will always be larger for the UK economy than the Scottish economy. Looking at this the other way, investment in Scotland will generate economic benefits not just for Scotland, but also for the economy in the rest of the UK.

So it is important for us to know which economy the parties are talking about to put the numbers in context.

Multiple year announcements

This is absolutely critical to understand the economic impact: many of the announcements are for over the period of the parliament (or in some cases longer).

So, for example, if there is an announcement that there will be £100m spent over 5 years on an infrastructure programme, which using the construction coefficients and multipliers should support 1,783 jobs type 2 (Direct+Indirect+Induced).

However, this means in effect there will be, on average, £20m spent in each year. Which means, on average, there will be around 350 jobs supported in each year. This is obviously a much smaller number, but is a more realistic description of the employment supported at any one time by this intervention.

Funding

Again, this is critical for us to understand the impact of any announcement. For example, if parties explicitly say that they are spending money on X rather than Y, then it is important to consider the differential impact between spending money in different ways.

Generally, the Scottish Government will be operating within a fixed budget, so spending on something necessitates *not* spending on something else.

A few other issues to consider

The final issue above is an important one when considering these types of announcements. Therefore, it is also reasonable to ask:

- Does the economic benefit outweigh the costs of the intervention?
- Is it the “best” way to spend the money? Are there other options that generate better impacts?

When policies are being considered, the Treasury Guidance in the Green Book sets this all out – including how to consider wider impacts than just economic, and, new in the latest edition, to consider whether there are interventions that benefit a particular place, in line with the UK Government’s Levelling up agenda.

Announcements like this also don’t normally consider issues around labour supply, so it is worth considering whether there is the capacity in our economy with the right skills, to provide people for all these roles.

Conclusion

Jobs numbers as part of Government or election announcements are not unusual, and they can be an important metric to assess the potential scale and impact of policies. The can be an eye catching part of policy announcements, and can often be more tangible to people than contributions to GDP.

However, given the issues discussed in this article, it is important to probe these figures to ensure we are comparing like with like.

In the manifestos, the source for some of the numbers have been set out clearly: others are more opaque. It is not always easy to tell how many years the numbers are referring to in the manifestos, which can make it difficult to put the impact claimed in context and compare them between parties.

Sometimes, the incentives can be to make the numbers as large as possible, for obvious reasons. So, the next time you see a jobs announcement like this, make sure you bear these questions in mind!

Article Endnotes

[1] It is worth saying that this flow is difficult to estimate given the way that economic data is collected in the UK. For a summary of the issues in the estimation of interregional trade, see the following paper published as part of our research for the Economic Statistics Centre of Excellence

4. Adult Social Care

All of us are likely to need care at some point in our lives. How this care is paid for, accessed and provided is a complex matter, as adult social care in Scotland is delivered by a network of organisations, and policy decisions lie at different levels of government. This briefing outlines how the system works overall, and considers potentially significant changes proposed ahead of this election.

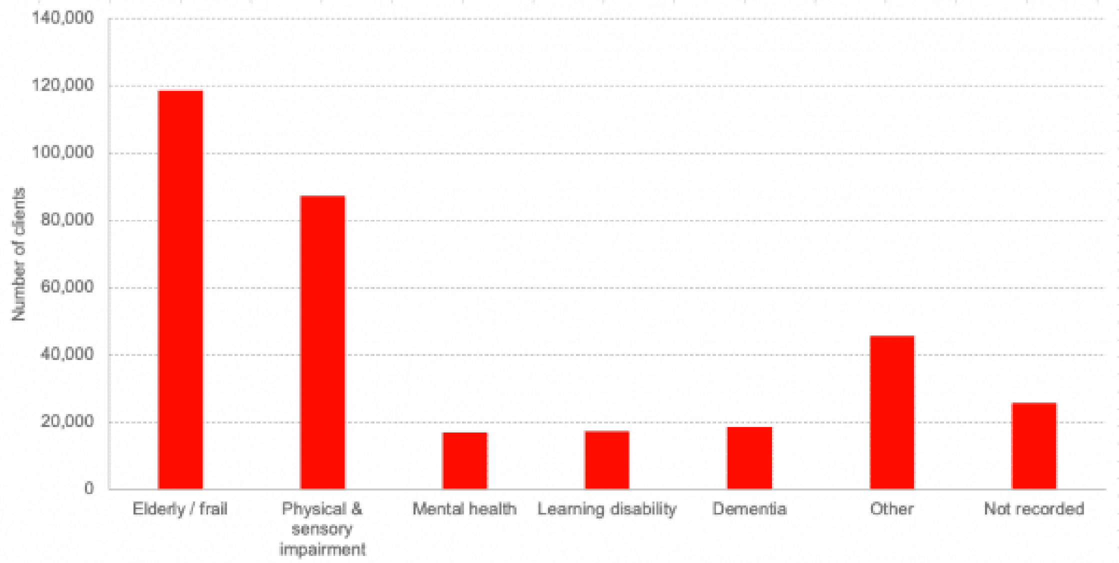
The impact of the Covid-19 pandemic has placed the system under enormous strain and is likely to create increased demand on some parts of the system in future. Furthermore, the pandemic has highlighted the contribution made by unpaid carers and low paid care workers. This, along with an ageing population with ever more complex care needs, means that social care reform might be one of the major policy issues for all parties to grapple with at the 2021 election and beyond.

What is adult social care?

Adult social care is often thought of as referring solely to elderly people living in care homes. In reality, the social care system delivers a wide range of support for a variety of reasons for adults of all ages. Support delivered by the social care system can include residential care placements, personal care at home or in a care home (for example, help washing, dressing and cooking), support managing finances and other help that enables people with a disability to live as independently as possible, contribute to society and maintain their human rights.

Around 246,000 people (1 in 20 of the population) received support from Scotland's social care system in 2018/19[1]. Eligibility for social care support is determined by a needs assessment and is not dependent on age or medical condition. Social care users fall into a variety of "client groups", as shown below (note that users can fall into more than one category).

Chart x.1 - Social care client groups in Scotland, 2018/19



Source: *Public Health Scotland [1]*

Whilst age is not a qualifying factor, the majority of social care users are over 65*[1]*. The number of people aged 75 and over in Scotland is projected to increase by around 70% over the 25 years from 2018 to 2043[2]. As the population ages, the prevalence of long-term health conditions is likely to increase, creating greater demand on the social care system with proportionately fewer working age adults to fund it. This is part of the reason why the future of social care is becoming an increasingly important policy issue.

One of the other key issues is around the funding of the system. In 2018/19, £3.8billion was spent on formal adult social care in Scotland[3]. But the adult social care in Scotland is funded by local authorities who have seen pressures on their budgets rise over the last decade or so. Whilst many aspects of adult social care are protected, there has been pressure on non-statutory services. In our work looking at the social care system for adults with learning disabilities, both people with learning disabilities and those working in Health and Social Care Partnerships reported clearly that (in some parts of Scotland at least) services that helped people participate actively in society, find work, and live independently have been cut back in recent years[4].

The current adult social care system

The policy landscape is devolved in Scotland, with legislation passed in the Scottish Parliament determining the frameworks and standards that apply nationally. However, responsibility for delivering the social care system sits at a local level. This has the advantage of local decision making when it comes to commissioning services but can result in inconsistencies in what is available between different areas of the country.

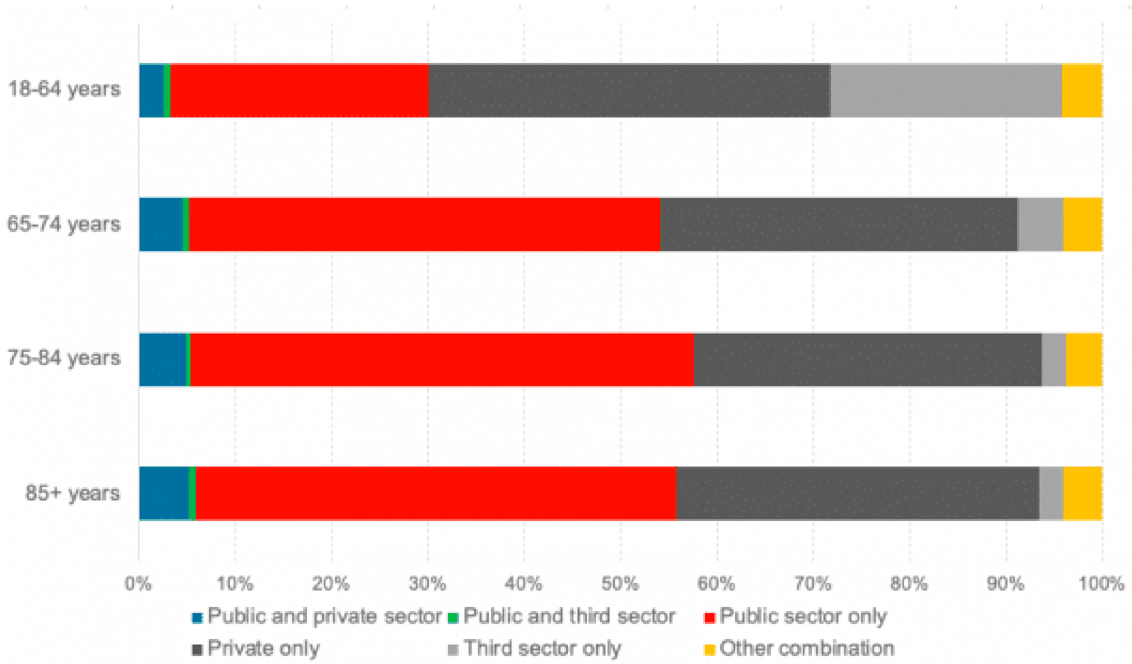
In 31 of Scotland's 32 local authority areas, health and social care services are commissioned by Integrated Joint Boards (IJBs) following the integration of health and social care (see below). Local Health and Social Care Partnerships (HSCPs) carry out the commissioning as the delivery arm of IJBs.

However, local authorities have retained responsibility for procuring and contracting care from providers, which is different from commissioning. This means that the procurement process is not necessarily distinct from those of other council services.

Adult social care services are delivered by a mixture of local authorities, private and third sector providers. Local authorities are procuring an increasing share of services from private and third sector providers, with 47% of home care clients (ie. services delivered in an individual's own home) receiving services run by public sector bodies, compared with 71% in 2008[5].

Chart 2 shows the combination of providers by age for home care, which covers services such as help washing, dressing or cooking delivered in a person's own home. The chart shows how differently the social care system operates for different users, as the private and, in particular, the third sector plays a far more significant role in providing home care services to those of working age.

Chart X.2 - Service providers of home care by age, 2018/19



Source: *Public Health Scotland[1]*

The contribution of unpaid carers is also significant. The exact number of unpaid carers in Scotland is not known but Scottish Government research in 2015[6] put the figure at around 790,000. Research in 2015 by Sheffield University[7] estimates that the care provided by unpaid carers in Scotland is worth £10.8billion per annum.

Adult social care is funded by a mixture of taxation and user charges, but in many circumstances, care is not provided by the state and is privately funded. In order to access the system, an individual must have a needs assessment completed by a professional, such as a social worker or occupational therapist. If a person's needs meet set eligibility criteria, the next consideration is their means.

Residential care must be paid for by individuals whose assets are valued above the Higher Capital Limit of £28,500, known as self-funders. The cost of community care, which covers services such as learning disability day centres and support that helps people with disabilities live more independently, can vary by region and an individual's circumstances.

Uniquely in the UK, the cost of personal care is free for over 65s across Scotland. This covers services like personal hygiene, food preparation and administering medical treatment, but not housework or ancillary services. Personal care can be delivered in an individual's own home or in a residential care home. Local authorities make a contribution to self-funders' residential care fees to cover the cost of personal care (£193.50 per week) and nursing care (£87.10 per week)[8].

How the policy landscape has changed

2 major changes in the way that adult social care is delivered have been passed by the Scottish Parliament in the last decade.

Integration of health and social care

Legislation passed in 2014[9] created 31 integration authorities across Scotland that are responsible for commissioning both health and social care services. The rationale behind this was to create joined up services with a greater emphasis on preventative care so that individual needs can be met by a single system.

However, whilst legislation has created an integrated authority at the top, our recent research found that there is still some way to go before health and social care teams are integrated on the ground.

A 2018 Audit Scotland report[10] also found that progress towards integration delivering the hoped-for benefits has some way to go. It concluded that integration had been held back by financial planning that is insufficiently long-term or outcomes focused, as well as several "significant barriers" such as a lack of collaborative leadership, high staff turnover in leadership teams and unwillingness to share data.

Self-directed support

The Scottish Parliament legislated for the nationwide roll-out of self-directed support (SDS) in 2013[11]. This gives social care users flexibility and choice over how to use their personal budget, with the aim of enabling service users to tailor their support and care in a way that meets their individual needs.

Social care users can choose between four options over how to spend their budget:

- Direct payment to the individual, who then arranges their support.
- The individual chooses and directs the support, which is then arranged by a provider or local authority.
- The local authority commissions and arranges support.
- A mixture of the above options for different types of support.

As with integration, the theoretical benefits of SDS are yet to be realised in full. A 2017 progress report by Audit Scotland[12] found *"examples of positive progress"* but *"no evidence that authorities have yet made the transformation required to fully implement the SDS strategy"*.

Perhaps further evidence of this is that of those who chose an SDS option, the vast majority (81%) chose option 3[1], which gives local authorities the responsibility of arranging an individual's services, rather than choosing an option that gives users more control over their care and support.

Social care reform and a National Care Service

Across the UK, reforming adult social care so that it meets the long-term challenges it is facing has been a longstanding and unresolved issue for governments to contend with. In Scotland, the recent Independent Review of Adult Social Care[3], chaired by Derek Feeley, proposed a National Care Service, with legal accountability for adult social care moving to Scottish Government ministers, rather than local authorities.

We await full details of how the parties will respond to this in the upcoming manifestos. But a National Care Service could mean many things, depending on the details of how it is established.

The Independent Review made the following recommendations.

A structural reorganisation of statutory responsibilities that gives accountability for the social care system to government ministers is the ‘headline’ change proposed. Some elements of the system might be organised on a national level, such as national collective pay settlements for care workers, national infrastructure on sharing best practice, and social care in prisons, or for those with complex or specialists needs.

Local IJBs would continue operation and receive a bolstered responsibility to commission and deliver services and contracts directly. The hoped-for benefit would be to speed up the integration of health and social care. Budgets would be set and distributed by the Scottish Government, rather than local authorities and NHS Boards.

The report makes clear that establishing a National Care Service is not the same as nationalisation. Rather than taking care providers into public ownership, the expectation is that independent and voluntary providers would continue to deliver services. The review does, however, suggest changes in procurement practices to place more responsibility on providers to meet ethical standards or reinvest profits into improving care quality, for example. A new approach to commissioning, in which services are developed by commissioners, providers and those with lived experience (such as Disabled Persons’ Organisations) working collaboratively, is also recommended.

The Independent Review also suggests some models of care that should be explored more widely. Shared Lives, which we covered in our recent research, Home Share and extra care housing are examples of care models that have had localised success which has not been replicated nationally. The review also highlights the need for more technology enabled care and early intervention.

Even if a National Care Service is established, the question of how to fund adult social care in the long-term still remains. The Independent Review estimates that its recommendations amount to an additional £660million (0.4% of Scottish GDP) per annum and the review does set out some options for policy makers to consider to raise additional revenue:

- Introduction of mandatory social insurance;
- Changes to existing devolved taxes to raise additional revenue;
- Introduction of a new local tax;
- Seeking devolved powers for a new national devolved tax in Scotland;
- Seeking devolution of existing reserved taxes to raise additional revenue.

Ultimately, the long-term trends that are driving increased demand for adult social care, combined with proportionately fewer adults of working age to fund it, create a challenge for society that will span more than one parliamentary term. The 2021 election offers parties a chance to set out ideas of how to meet that challenge.

Article Endnotes

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[9] Public Bodies (Joint Working) (Scotland) Act 2014
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[10] Health and social care integration progress report, Audit Scotland (2018)
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[11] Social Care (Self-directed Support) (Scotland) Act 2013
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[12] Self-directed support progress report, Audit Scotland (2017)
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5. Understanding Social Security in Scotland: Working age disability and carer benefits

A range of new social security powers have been devolved to the Scottish Parliament in the last few years relating to disability and carer benefits. The transfer of administrative responsibility to the Scottish Social Security Agency has been staggered in order to try to ensure it all works smoothly but, over the course of the next parliament, it is expected that that transfer will be complete. As well new names, it is expected that other changes in how they operate will be made although at the moment.

The 2021 election may see different parties talking about elements of these new benefits, and how they could be changed over the course of the next parliament.

In this briefing, we set out the main benefits in Scotland that have been devolved and are relevant for working age adults with a disability and those who care for them. These are Personal Independence Payment, due to be renamed as Adult Disability Payment, and Carer's Allowance which will be renamed Carer's Assistance. We also illustrate how Universal Credit works for people with a disability and their carers as, although a reserved benefit, top-up powers mean that the Scottish Government could increase payments if they chose to.

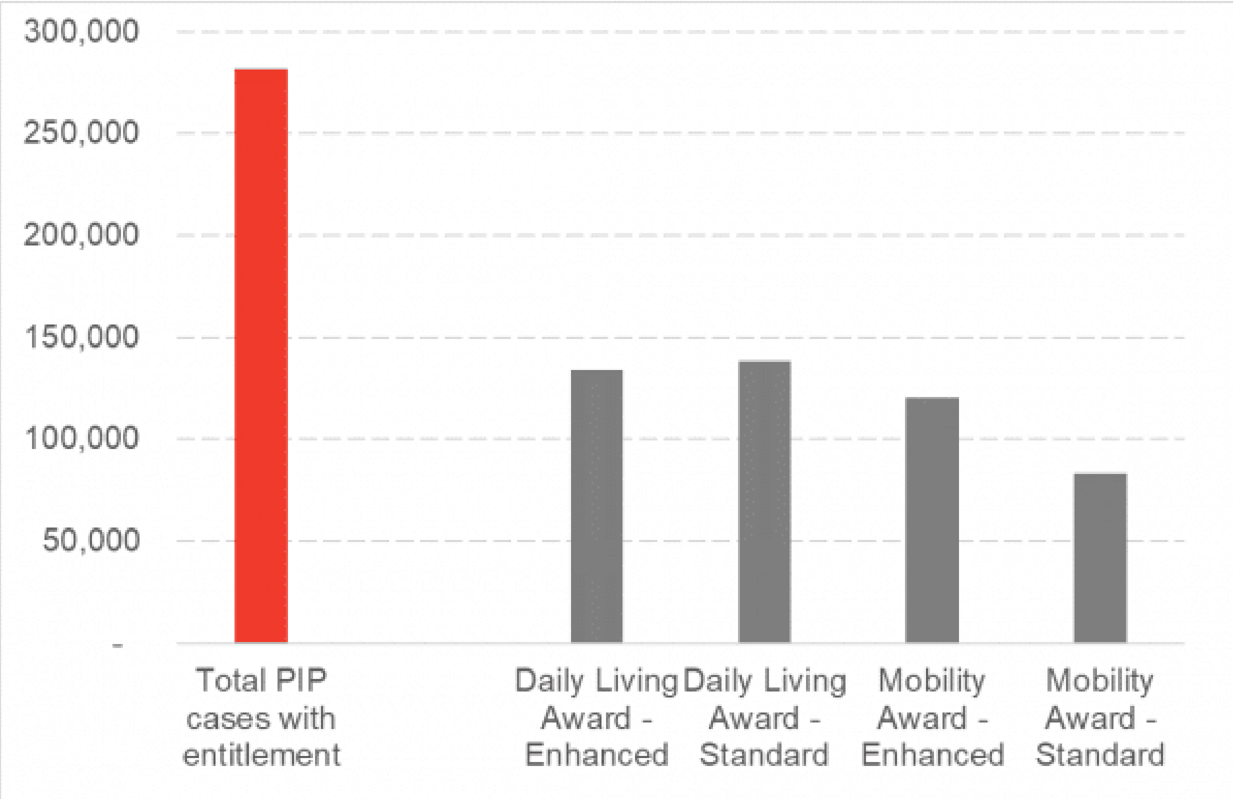
Here we take a look at the benefits themselves rather than the funding complexities and the interactions with the fiscal framework. See here for previous FAI briefing looking at this.

Personal Independence Payment/Disability Assistance for Adults

How it works at the moment

Personal Independence Payment (PIP) is paid to adults who have a disability and have difficulty in carrying out everyday living activities. There are currently around 280,000 people in Scotland who are entitled to PIP. It has two components – one for daily living and another for mobility, and it is possible to qualify for one or both components.

Chart x.1 - PIP cases with entitlement in Scotland (Jan 2021)



Source: DWP Stat Xplore

PIP itself is a fairly new benefit, which in 2013 started replacing the previous Disability Living Allowance (DLA) for working age people. Roll out is ongoing and the latest data from the DWP suggests there are still around 40,000 working age people on DLA who are yet to transfer over.

Eligibility is determined depending on points scored for different activities. There are ten daily living activities that are assessed. There are different ‘scores’ depending on whether or not it is possible to complete the activity unaided, and if not, what type of help is required. A score of 0 corresponds to being able to do so without any assistance, and 10 if the person requires someone else to complete the activity for them, with scores in between varying depending on the level of assistance required.

The daily tasks that are scored cover a range of activities including household tasks, being able to take care of health and hygiene and being able to communicate effectively with others. The mobility activities relate to planning and following journeys and moving around.

There are two rates available: the standard rate if you score eight points of more; or the enhanced rate if you score 12 points or more. These rates are applied for each component.

In 2020/21 the weekly rates were as follows:

- Daily living component standard rate: £59.70 and enhanced rate £89.15
- Mobility component standard rate; £23.60 and enhanced rate £62.25

PIP is not taxable, and is not considered in the calculation of other means tested benefits, nor does it count towards the benefit cap. However, it can mean that you are entitled additional elements in other benefits (for example Christmas bonus).

What is expected to change over the next Parliament?

PIP will be replaced in Scotland by Adult Disability Payment, administered by Social Security Scotland. The payment is due to be introduced from spring 2022, with all recipients transferred to the new benefit by 2025.

Adult Disability Payment will impact a large number of disabled people in Scotland. The Scottish Fiscal Commission has forecasted that in 2021-22, 305,000 people in Scotland will be on PIP, with the overall caseload for Adult Disability Payment likely to be higher due to the legacy DLA caseload. PIP is forecasted to cost the Scottish Government £1.6 billion in 2021-22[1].

In the last parliament, the Scottish Government signalled that it did not intend to change the rates away from those available under PIP but there are more likely to be changes around the assessment process.

Many disabled groups have argued that the process of assessing a person's entitlement for PIP causes undue stress and anxiety for disabled people. In 2017 the Scottish Commission for People with Learning Disabilities (SCLD) consulted about the future of social security in Scotland and found the PIP assessment process to be *"embarrassing and degrading"* and that assessments *"can make people feel vulnerable"*[2].

Social Security Scotland have stated their intention to change the assessment process to reduce face-to-face assessments as much as possible. However, consultation is still ongoing over how to determine the circumstances under which a face-to-face assessment is necessary.

Another change that might occur is around the accessibility of the process and communications to claimants, which is particularly relevant for people with learning disabilities. The SCLD report referenced above also found concern around a *"difficult and complex … application process"* and *"written communication which is complicated, difficult to understand and sometimes does not make sense"*. Social Security Scotland have committed to *"embed inclusive communication in everything we do, so that all materials are accessible"*.

Carer's Allowance/Carer's Assistance

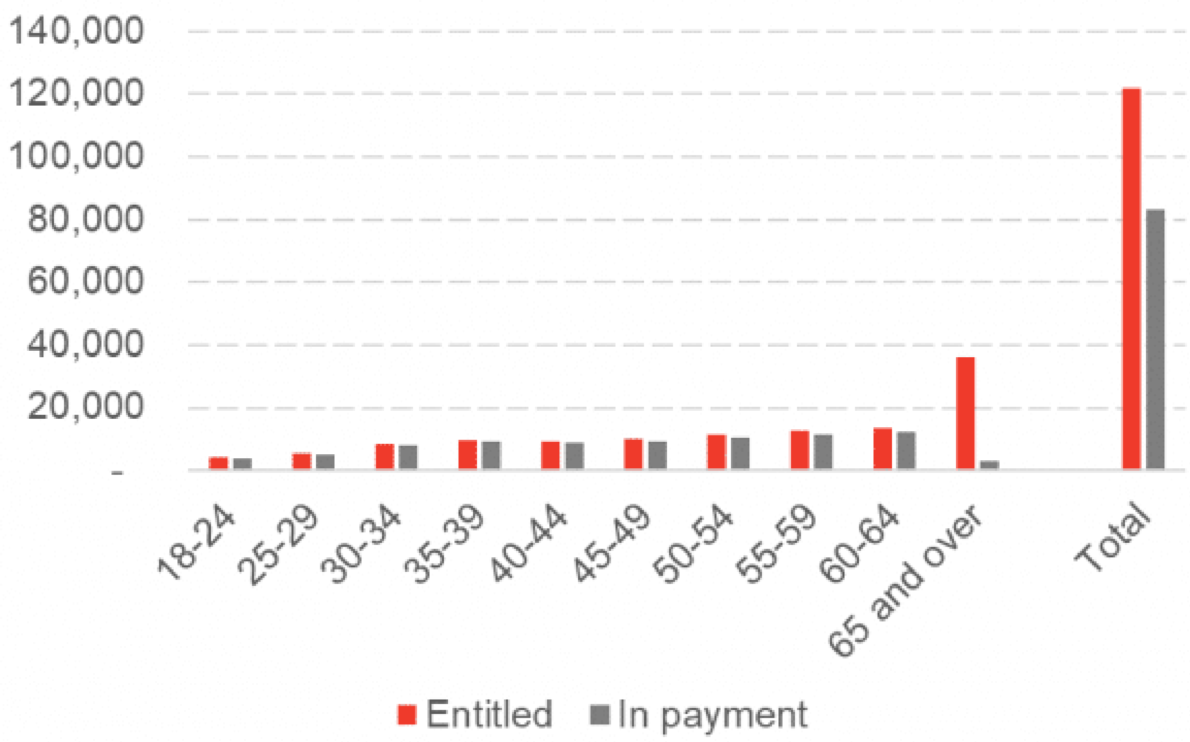
How it works at the moment

Carer’s allowance is paid to people who care for someone who is severely disabled (which is determined by eligibility for a range of other benefits including the daily living component of PIP).

Although it is non-means-tested (so not in theory dependent on income) you can’t earn more than £128 a week if you are claiming it and the expectation is that caring will be your full-time (unpaid) job. The maximum claim was £67.25 per week in 2020-21.

Eligibility for Carers Allowance does not mean payment. The existence of the ‘overlapping benefit rule’ means the same person cannot be paid more than one non means-tested benefit in full at the same time. If the overlapping benefit is less than Carer’s Allowance, then the payment can be topped up to the level of Carer’s Allowance. This is particularly true for pensioners who may be caring for working age adults. If you state pension is claimed, this will count against the amount of Carer’s Allowance that will be received.

Chart x.2 - Entitlement and Receipt of Carers Allowance in Scotland (August 2020)



Source: DWP Stat Xplore

Anyone who has an entitlement to Carer’s Allowance, but is in receipt of another means-tested benefit (for example, Income Support or Pension Credit could be entitled to an additional payment (£34.60 a week in 2020-21).

There is also an important interplay between Carer’s Allowance and other benefits. A person in receipt of a disability benefit may lose entitlement to the severe disability premium if their carer claims Carer’s Allowance. The premium is included in the disabled person’s ‘applicable amount’ for means-tested benefits, or the equivalent amount used in Pension Credit. As a result, it is not always advisable for a carer to claim Carer’s Allowance.

In 2021-22, the cost of Carer’s Allowance is forecasted to be £306m with an expected caseload of 90,000[1].

Changes made during the last Parliament

Carer’s Allowance is to be replaced in Scotland (see below) in 2022. During the interim period, the Scottish Government implemented the Carer’s Allowance Supplement in September 2018. This has been paid in the form of two lump sum payments throughout the year with a forecasted cost of £42 million in 2021-22 according to the Scottish Fiscal Commission [1]. Claimants receive this uplift if they are in receipt of Carer’s Allowance on specific dates (i.e. around the dates of the lump sum payments). Unlike Carer’s Allowance, Carer's Allowance Supplement is disregarded as income for means-tested benefits although it is taxable.

What is expected to change over the next Parliament?

Carer’s Allowance will be replaced in Scotland by Carer’s Assistance with the intention of paying it at the (higher) rate of Job Seeker’s Allowance. The current timeframe is for new applications for the devolved Carer’s Allowance in early 2022. As a temporary measure at the moment, as explained above, the Scottish Government pays a Carers Allowance Supplement which increases the amount to this JSA level via two lump sums each year.

A consultation has been planned for 2021 on the roll out of Carer’s Assistance. A key question will be over eligibility and whether further uplifts to rates will be applied.

Universal Credit

Universal credit is included here for completeness as it is a significant benefit paid out to people in Scotland. Although the benefit itself remains reserved, there are disability and carer components within this. Using top-up powers, the Scottish Government could in effect increase the amounts paid through Universal Credit to people in Scotland, in a similar way as is being done with the Scottish Child Payment (which is legislated as a top-up benefit to UC).

How it works at the moment

Universal Credit is a means tested benefit, meaning that you are only eligible for it if your household income is below a certain amount. UC is an income replacement benefit for people who are not in paid work and is a replacement for a range of legacy benefits (including Income Support and Employment and Support Allowance). There are a number of people who remain on those legacy benefits who are yet to transfer over to UC.

For people who cannot work (as opposed to being temporarily unemployed) a 'Limited Capability for Work Related Activity' assessment is made to determine eligibility for an additional element on top of the standard allowance. The standard allowance varies depending on age and whether you are a single or a joint claimant, but as an example, in 2020-21, the standard allowance for a single claimant aged 25 or over was £409.89 a month. There are additional elements for children as well as the elements covered below: limited capability for work related activity element and the carer element.

Limited capability for work related activity (LCWRA)

To qualify for the LCWRA component, usually an assessment is made. One or more of the qualifying 'descriptors' must be met in order to qualify for this element. These descriptors describe physical and cognitive disabilities which would make work, or the process of taking part in work related activity (such as training) extremely difficult or impossible.

The assessment is different to the assessment carried out for Personal Independence Payment and this was the case even before PIP was devolved. They are similar assessments, but reflect the different purposes of each benefit. PIP is paid to help cover the additional costs of being disabled. The additional element in UC is to determine whether or not your ability to carry out paid work is limited due to the disability you have.

For those who are assessed has having limited capability for work related activity (LCWRA): an additional element of £341.92 a month (in 2020/21) is included. Unlike the legacy benefits that UC replaced, UC has no severe disability premium included[iii].

Carer element

If you are a carer for a severely disabled person, you may be able to claim the carer element. The eligibility for this is linked to Carer's Allowance. If you are entitled to Carer's Allowance, or would be if your earnings were within allowed parameters, then you are entitled to the carer element. There are some limitations – for example, if the person you care for is entitled to a severe disability premium in guarantee Pension Credit (and some legacy benefits) then the carer element in UC is not available.

The carer element for someone caring for a severely disabled person was £162.92 a month for 2020/21.

Conclusion

As can be seen, there are a number of key benefits that make up social security support for people in Scotland who have a disability and for those who care for them. Some (PIP and Carer's Allowance) have been devolved and administrative responsibility will be transferred over the next parliament. The Scottish Government will be able to change eligibility and generosity of these benefits if they so choose, and some plans are already underway.

Universal Credit also has disability and carer elements, and this benefit will remain reserved. However, the Scottish Government does have top up powers that could increase the generosity of the payments currently made.

The election debate may well refer to possible future changes, which could affect up to around 400,000 working age disabled recipients and their carers, and potentially more if eligibility is widened or t0p-up benefits are considered. .

We will look at the benefits available for children and pensioners with a disability in an article coming soon.

Article endnotes

[1] https://www.fiscalcommission.scot/wp-content/uploads/2021/01/Scotlands-Economic-and-Fiscal-Forecasts-January-2021.pdf

[2] https://www.scld.org.uk/wp-content/uploads/2016/08/social-security-report-1.pdf

[3] https://disabilitybenefitsconsortium.files.wordpress.com/2019/10/mending-the-holes-restoring-lost-disability-elements-to-universal-credit.pdf

6. Disability and carer benefits for children and pensioners

During the last parliamentary term, elements of the social security system were devolved to the Scottish Parliament. Among the most notable benefits over which powers have been devolved are disability and ill health benefits, many of which will be fully transferred and administered by Social Security Scotland during the next parliamentary term.

Our recent policy briefing has already set out the current framework and expected changes to working age disability and ill health benefits that are devolved in Scotland. This briefing has a distinct focus on disability benefits that apply to children and those of pension age, for whom separate benefits apply.

The transition to Scottish administered disability benefits is ongoing, with plans to replace some existing benefits moving into a pilot stage shortly. However, the Scottish Government have already announced at least an overview of their intentions on how these new benefits will be administered.

With an outline already in place, this presents an opportunity for these benefits to feature as an area of more detailed policy debate at this election. In this briefing, we set out the key devolved disability and ill health benefits for children and pensioners in Scotland. Our focus is on how the benefits themselves work, rather than the funding complexities and the interactions with the fiscal framework. See here for a previous FAI briefing looking at this.

Attendance allowance / Pension age disability payment

How it works at the moment

Those above state pension age who require help or supervision with their personal care or to stay safe at home are currently eligible to claim Attendance Allowance. More than 125,000 people in Scotland benefit from Attendance Allowance.

Attendance Allowance is devolved and paid for by the Scottish Budget following a transfer of resources. The Scottish Fiscal Commission forecast spend of £560m in Scotland in 2021-22. The DWP are continuing to administer Attendance Allowance in Scotland on behalf of the Scottish Government over a transition period.

As well as being available to those with a physical disability, this benefit is also available to those with a mental health condition, learning disabilities or a sensory impairment, such as deafness or blindness. However, claimants must have needed care or supervision for at least six months to be eligible for Attendance Allowance.

Attendance Allowance is non-means tested and does not count against other benefits, such as the benefit cap. It is paid at two rates, which for 2021/22 will be:

- Higher rate: £89.60 per week
- Lower rate: £60.00 per week

This will represent a rise of 45p and 30p per week respectively compared with 2020/21 rates, or a 0.5% increase. The higher rate is paid to those who require help or supervision during the day *and* at night, whereas the lower rate is paid to those who require help or supervision during the day *or* at night.

Attendance Allowance does not include a mobility component as is the case with PIP for working age claimants.

A number of pensioners who receive disability assistance remain on Disability Living Allowance. It is now closed to new pensioner claimants, but those born before 8 April 1948 are still able to claim it[1].

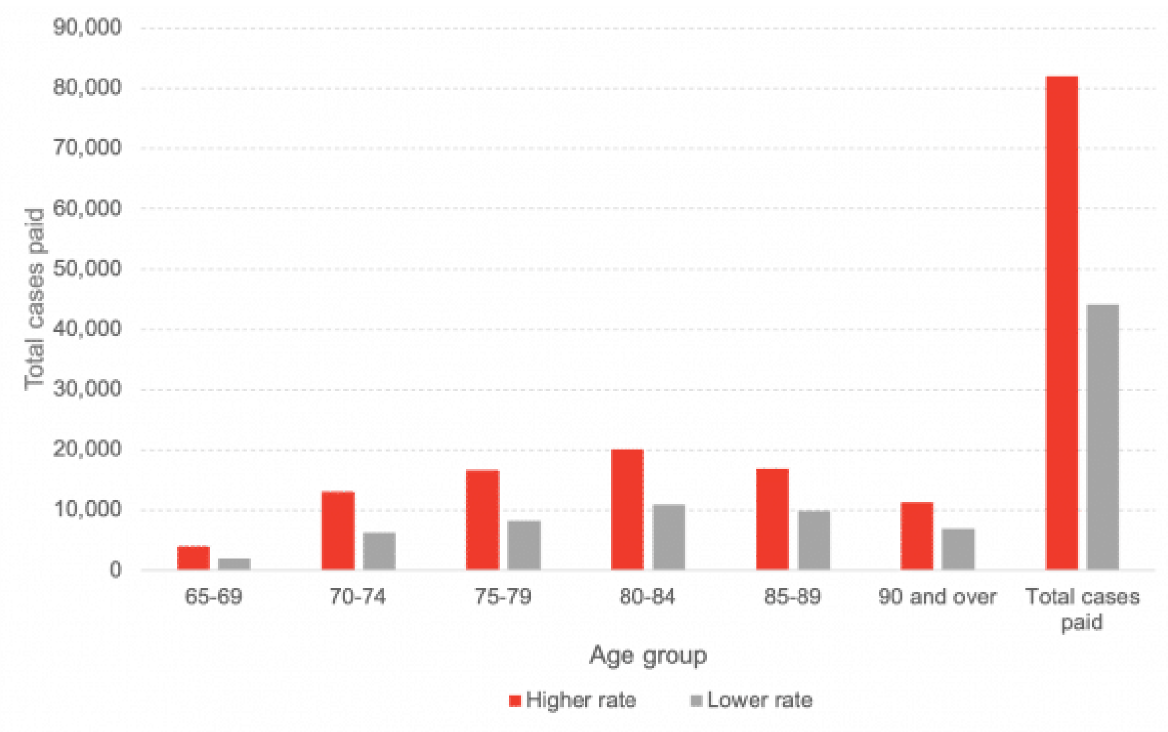
What is expected to change over the next Parliament?

The Scottish Government have announced plans to replace Attendance Allowance with Pension Age Disability Payment (before October 2020 this was known as Disability Assistance for Older People).

The new devolved benefit will attempt to reduce the level of face-to-face assessments. This is with the hope of easing the stress and anxiety felt by disabled people that can often accompany face-to-face assessments. Evidence to support a claim will primarily come from other sources, such as reports from medical practitioners.

The current plan is for Pension Age Disability Payment to pay the same rates as the existing Attendance Allowance and there are no plans to bring in an mobility component despite this being called for by respondents to the Government consultation on disability assistance in 2019[2].

Chart x.1 - Attendance Allowance cases paid in Scotland, August 2020



Source: *DWP Stat-Xplore*

Pension credit

Pension Credit is a reserved benefit paid to those above state pension age who live on low incomes. Additional Pension Credit is available to severely disabled people in receipt of Attendance Allowance, the middle or higher rate care component of Disability Living Allowance (see below), PIP or Armed Forces Independence Payment. In this case, additional payments of £66.95 per week are made.

Whilst Pension Credit is a reserved benefit, the Scottish Government has top up powers that could be used to change the payments made to disabled people above state pension age in a similar way to the Scottish Child Payment, which is legislated as a top up to UC.

Disability living allowance (child) / Child disability payment

How it works at the moment

Children under the age of 18 with a disability or ill health in Scotland are eligible for Disability Living Allowance (DLA) for children. As with Attendance Allowance, this has been devolved but is currently being administered in Scotland by DWP on behalf of the Scottish Government. The Scottish Fiscal Commission forecast expenditure of £260m in 2021-22.

Up until 2020, children had to move on to PIP when they turned 16, but from the 1st April 2020, this no longer applied in Scotland with children able to stay on DLA until they are 18[3].

A child is eligible if:

- they need more care or supervision than other children of the same age who aren't disabled; or
- they have mobility issues or difficulty walking outdoors in unfamiliar places compared with children of the same age who aren't disabled.

Around 45,000 cases of DLA (child) were paid in Scotland in August 2020, the latest month for which data is available.

Similar to Attendance Allowance, DLA (child) is not means tested. It is broken down into two components – the care component and the mobility component. The first relates to the care and supervision a child needs, the second relates to a child's ability to walk and access unfamiliar places.

Care component

The care component pays three rates:

- Higher rate: £89.60 per week
- Middle rate: £60.00 per week
- Lower rate: £23.70 per week

The higher rate applies to children who need frequent care and supervision throughout the day and night or have been diagnosed as terminally ill. The middle rate applies to children who require care and supervision throughout either the day or night. The lower rate applies to children who need care or supervision throughout some part of the day (at least an hour). The rates have increased by around 0.5% in cash terms on 2020/21.

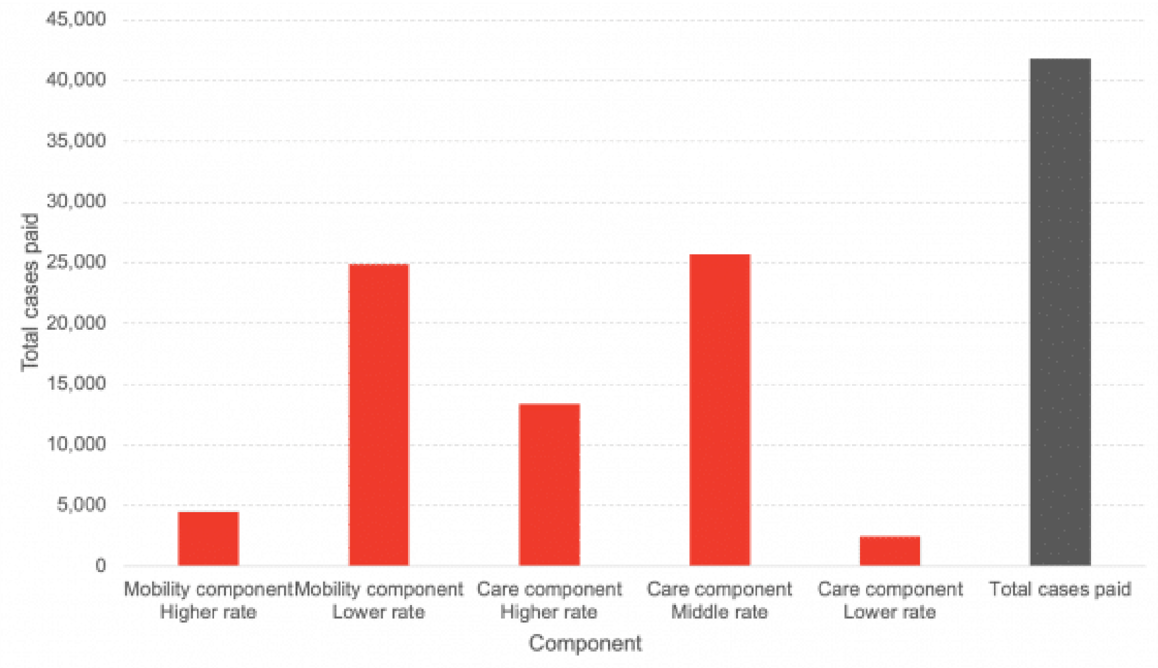
Mobility component

The mobility component pays two rates:

- Higher rate: £62.55 per week
- Lower rate: £23.70 per week

The higher rate is given to children who have severe physical difficulties that make it dangerous for them to walk alone. This could, for example, include children who can't walk, are deaf or blind, or have a severe learning disability. The lower rate is given to children who have difficulties walking around unfamiliar places.

Chart X.2 - DLA (child) cases paid in Scotland, August 2020



Source: *DWP Stat-Xplore*

Changes made during the last Parliament

As already mentioned, children who turn 16 are now able to stay on DLA until they are 18 and this will be the case with the replacement benefit.

A new Child Winter Heating Assistance has also been brought in. This is paid automatically to parents of children who receive the higher rate of DLA's care component. Payment is annual and equates to £200.

What is expected to change over the next Parliament?

Child disability payment will replace DLA (child) in Scotland, with pilots planned in Dundee City, Perth and Kinross and the Western Isles council area starting in July 2021 following roll out across Scotland for new claims from autumn 2021[4]. This will be the first application-based disability benefit to be rolled out by Social Security Scotland.

The application process will be different from the DWP system which requires a claim in writing. The Scottish Social Security Agency will give multi-channel options for applying and provision for more support to help parents and carers through the process[5].

The current plan is similar to the existing benefit, with no deviation from the rates set in the rest of the UK.

Universal credit

Universal credit (UC) remains a reserved benefit paid by the DWP. Unlike the other benefits set out in this briefing, UC is means tested. It comprises different elements, some of which are dependent on personal circumstances. This is why UC is relevant to this briefing, as there are two disabled child additions:

- The disabled child addition pays £128.89 per month for each child in receipt of DLA or PIP (see above).
- The severely disabled child addition pays £402.41 per month if the child receives the higher rate of DLA’s care component (see above), PIP’s enhanced rate for daily living, or is registered blind.

As stated above regarding Pension Credit, the Scottish Government has top up powers that could enable it to change the payments to parents of disabled children, despite Universal Credit as a whole being a reserved benefit.

Young carer grant

How the social security system supports carers is of course important too. In Scotland, one estimate puts the number of child or young adult carers at 93,000, although this is based on a small sample size (the Scottish Health Survey). The latest census put the figure at 37,000[6].

The Young Carer Grant is paid to 16, 17 or 18 year olds in Scotland who care for someone in receipt of disability benefits for an average of 16 hours per week over a 3 month period. Since its launch in October 2019, it has supported more than 2,900 eligible applications at a cost of close to £1m[7]. It pays an annual grant of £308.15.

Conclusion

All parties in the election will want to support people who are disabled or have ill health, especially children and pensioners. Disability often incurs additional costs of living and for parents of disabled children and disabled people above working age, the social security system is often a significant element of their income. For disabled children and pensioners, the generosity of the social security system tends to play a key role in determining their living standards.

With the roll out of new powers over disability benefits for children and pensioners progressing in the next parliament, and a challenging long term financial landscape with an ageing population, big decisions lie ahead. The election will be a chance for parties to set out their vision for the above benefits that have such a significant impact on many peoples' living standards.

Article Endnotes

[1] Social Security Scotland (2020) 'Summary statistics' https://www.socialsecurity.gov.scot/asset-storage/production/downloads/CAStoOct2020-AA2CCA2CDLA2CSDAtoaug-v4.pdf

[2] Scottish Government (2020) 'Disability Assistance for Older People: position paper https://www.gov.scot/publications/scottish-government-position-paper-mobility-component-disability-assistance-older-people-daop/

[3] Scottish Government news release (2020) https://www.gov.scot/news/16-year-olds-will-no-longer-need-to-apply-for-pip-in-scotland/

[4] Child Poverty Action Group (2021) 'Disability Assistance' https://cpag.org.uk/scotland/welfare-rights/scottish-benefits/disability-assistance

[5] Scottish Government (2020) 'Child Disability Payment: position paper' https://www.gov.scot/publications/scottish-government-position-paper-child-disability-payment/

[6] Young carers: review of research and data, Scottish Government (2017) https://www.gov.scot/publications/young-carers-review-research-data/pages/2/

[7] Social Security Scotland news release (2021) https://www.socialsecurity.gov.scot/news-events/news/young-carer-grant-pays-out-more-than-860k-since-launch

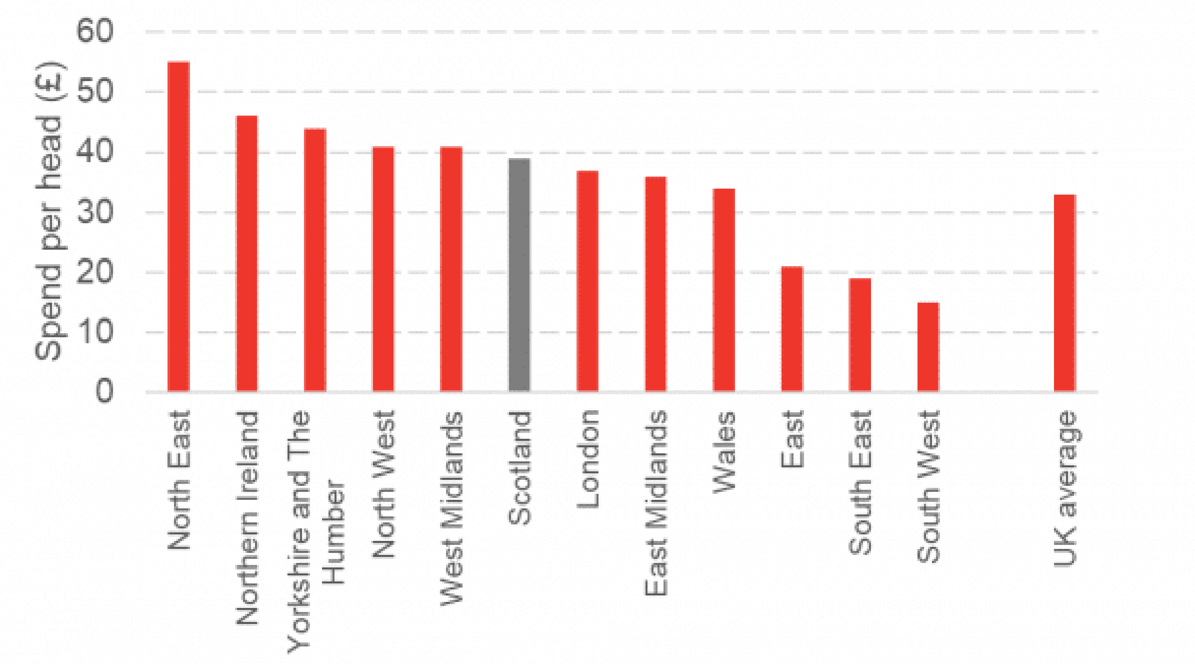
7. The employability landscape in Scotland

Employment support in Scotland is a relative patchwork of schemes with responsibility seemingly shared between the Scottish, UK and local government. Due to the Covid-19 pandemic, there will no doubt be more people needing support to find new employment and this is an issue that we expect to be talked about more and more as we move towards the Scottish election. Here is what we have pieced together in a bid to understand the current landscape.

According to UK Government Public Expenditure Statistical Analyses (PESA) country regional analysis, £215 million was spent in Scotland on employment support in 2019-20. This captures spending from all levels of government: UK, Scottish and local.

By UK country, on a per head basis, spending is higher in Scotland than the UK average but below Northern Ireland where the highest per-head spending is found. Chart 1 shows spending per head across UK countries and English regions.

Chart X.1 - Per head spending on 'employment policies' across the UK



Because spending is spread across various different parts of the public sector, and delivered by a range of public, private and third sector organisations, it can be quite difficult to keep track of the various programmes and to identify who is responsible for what. Given the 2021 Scottish Election just around the corner, this article focuses on the programmes and funds that are part of Scottish Government policy.

Pre and post Smith Commission

Pre-Smith commission, training for employment was a shared responsibility between the UK and Scottish Government, but ‘employment services’ (often referred to as employability) were reserved (although various schemes have existed at the local government level for many years).

The Smith Commission recommended devolution of “employment programmes currently contracted by DWP”. From the 1st April 2017, Scotland took responsibility for support previously provided by DWP for the long term unemployed (the work programme) and those with a disability (work choices).

This pre-devolution separation of ‘training for employment’ and ‘employment services’ seems to have carried over into the structures in the Scottish Government, with employability part of the Economy, Fair Work and Culture directorate and the Education directorate retaining responsibility for Skills Development Scotland and ‘employment and training intervention’.[1]

The rest of this brief first focuses on the main employability services that were devolved following the Smith Commission and then looks to the wider landscape.

Fair Start Scotland

Fair Start Scotland became the replacement for the previous DWP employment programmes. It is delivered in 9 areas across the country by third party (mainly private sector) organisations who bid for the contracts. People are either referred via the Jobcentre Plus, a third-party organisation involved with the service, or people can refer themselves.

The most recent figures for the first two years of operation shows that around 30,000 people have so far joined Fair Start Scotland with around 9,500 starting a job[2].

The necessity of provision of lengthy pre-employment support for some means that this is not a complete picture of impact (and Covid-19 may also affect the numbers who ultimately transition into work). However, there were concerns at the outset that those furthest away from the labour market would not do well in this system geared around ‘payment by results’ and that the specialist, third sector, providers of support for people with more complex support needs had not been able to compete for contracts[3].

It appears the Scottish Government originally considered moving employability support for disabled people over to Skills Development Scotland[4]. At some point, this position changed and their employability support became part of Fair Start Scotland. Whilst most people have be long term unemployed (for at least 2 years) to join Fair Start Scotland, this condition does not apply to people with a disability or long-term health condition. From April 2019 to March 2020, 44% of the Fair Start Scotland population were classified as having a disability or a long-term limiting health condition[5]. Outcomes for this group of people will be a key indicator of success of Fair Start Scotland and whether the concerns expressed at the outset were founded.

The contracts were originally to run to March 2021, but have since been extended for two years till March 2023 which appears to be in response to the pandemic[6].

The wider landscape and new Covid-19 schemes

There are a range of other employability programmes that the Scottish Government support. Some of the other schemes currently in existence include:

Our Future Now: Works with charities across Scotland to support young people into education, employment and training.

Employability Fund: A Skills Development Scotland fund that woks with local employability partners. Focused on addressing the needs of specific local areas.

Community Jobs Scotland: A scheme delivered by the Scottish Council for Voluntary organisations (SCVO) that works with voluntary sector employers to help young people who are most disadvantaged in the labour market (including care leavers, those with disabilities and those with convictions) into jobs.

Discovering Your Potential**:** Provides flexible and intensive support for young care leavers

Parental Employability Support Fund: Originally part of the Tackling Child Poverty Delivery Plan, this is designed to give support to parents both in and out of work to increase their income from paid employment.

Partnership Action for Continuing Employment (PACE): Long established service, led by Skills Development Scotland, to respond to redundancy situations. It is a national partnership, and includes Jobcentre Plus, local authorities, Citizens Advice and colleges and training providers. Delivered by local PACE teams.

Understanding how this patchwork of support fits together is not simple to understand – a view shared by the Scottish Government. In 2018, the Scottish Government published a plan to make the system more 'joined up and straightforward'[7].

Progress was ongoing as Covid-19 struck, which appears to have led to the decision to delay some of the changes envisaged although the commitment around alignment and integration remains[8].

New schemes have come onto the scene to respond to Covid-19. A new Scottish Government policy the Young Person's Guarantee seeks to provide job, placement, training of volunteering opportunities for every 16-24-year-old in Scotland. There is also the new UK Government Kickstart scheme that will operate across the UK. This scheme funds employers to provide six-month work placements for 16–24 year olds who are claiming Universal Credit. However, the UK Government's Restart scheme, which gives Universal Credit claimants enhanced support to find jobs in their local area won't apply in Scotland.

Where next?

Navigating all this is a complex business, and with this much going on, even in normal times it would be hard to be sure what is working well, what isn't, and why. With Covid-19, the employability services operating in Scotland will arguably face their biggest test. Integration across all levels of government in delivering support feels more crucial than ever.

We still do not know the implications of the Covid-19 pandemic on the labour market, and it will not be until much of the UK Government support schemes, such as furlough, are removed that we will get the full picture.

As we mentioned in our podcast last week, this makes policy development at this election difficult but discussion and debate around what might be needed is still valuable. However, this feels like one of the more cluttered policy landscapes in Scotland. New ideas are no doubt needed due to the scale of the challenge facing the labour market. Hopefully this can be done without making things too much more complicated for people who need support from the system.

Article Endnotes

[1] Scottish Parliament Information Centre (2015) 'The Smith Commission Report - overview' https://archive2021.parliament.scot/ResearchBriefingsAndFactsheets/S4/SB_15-03_The_Smith_Commission_Report-Overview.pdf

[2] Fair Start Scotland reporting: http://www.employabilityinscotland.com/find-support/about-fair-start-scotland/-fair-start-scotland-reporting/

[3] SCVO (2017) 'Fair Start Scotland: contracts, commissioning and the marginalisation of the third sector and those we support': https://scvo.scot/p/16239/2017/10/04/fair-start-scotland-contracts-commissioning-and-the-marginalisation-of-the-third-sector-and-those-we-support

[4] Scottish Government (2016) 'A new future for employability support in Scotland' https://www.gov.scot/binaries/content/documents/govscot/publications/corporate-report/2016/03/creating-fairer-scotland-new-future-employability-support-scotland/documents/00498123-pdf/00498123-pdf/govscot%3Adocument/00498123.pdf

[5] Scottish Government (2020) 'Fair Start Scotland Evaluation Report 3: Overview of year two' https://www.gov.scot/binaries/content/documents/govscot/publications/research-and-analysis/2020/11/fair-start-scotland-evaluation-report-3-overview-year-two/documents/fair-start-scotland-evaluation-report-3-overview-year-2-november-2020/fair-start-scotland-evaluation-report-3-overview-year-2-november-2020/govscot%3Adocument/fair-start-scotland-evaluation-report-3-overview-year-2-november-2020.pdf?forceDownload=true

[6] Notice of extension of Fair Start Scotland http://www.employabilityinscotland.com/find-support/about-fair-start-scotland/-extension-of-fss-services/

[7] Scottish Government (2018) 'No One Left Behind: next steps for employability support in Scotland' https://www.gov.scot/publications/one-left-behind-next-steps-integration-alignment-employability-support-scotland/pages/10/

[8] Scottish Government (2020) 'Not One Left Behind: delivery plan' https://www.gov.scot/publications/no-one-left-behind-delivery-plan/pages/7/

8. Inequality in Educational Attainment

Education is highly correlated with a range of socio-economic outcomes, not least earnings and employment. These types of correlations might reflect pre-existing relationships between socio-economic outcomes and family background – i.e. that wealthier, more well-connected children obtain education, skewing the relationship between education and earnings. However, there is now abundant evidence that education pays off across the socio-economic spectrum.

As a result, closing the distance between the levels of educational attainment of those in the richest and poorest households - "attainment gaps" - has been a central theme in the manifestos of all major parties' in past elections. We expect this election to be no different.

Policy in the last parliament

The existence of such gaps prompted the current Scottish Government to establish a £750 million Attainment Scotland Fund in 2015 which has been used to achieve the goals set out in the Scottish Attainment Challenge, National Performance Framework, and National Improvement Framework.

Since 2015, the Attainment Scotland Fund has been used for three main purposes:

1. establishing the Pupil Equity Fund providing direct financial support to schools which headteachers can use at their discretion to fund projects;
2. setting up the Challenge Authority and Schools Programme to provide additional funding and support for local authorities and schools experiencing the most severe levels of deprivation; and
3. providing additional support through the Care Experience Children and Young People initiative for children who have spent time social care.

These strands of funding have aimed both to provide resources to those working directly with children from deprived areas, as well as to establish processes through which long-term progress could be made. So far there have been three evaluations of the Fund (the latest published in October 2020), and although they have found its coverage has been wide and that many headteachers report positive impacts, there has not been a "consistent pattern of improvement" in quantitative measures of the attainment gap.[1]

An Audit Scotland report, published in late March, expressed similar findings in their evaluation of “*how effectively the Scottish Government, councils and their partners were improving outcomes for young people through school education*”. The report notes that although there has been progress in closing attainment gaps in the last decade, it has not been broad based across measures, or regions of Scotland.

What drives attainment gaps?

There are two general forces at play in determining attainment gaps. First, there is the education system and the role of its infrastructure. For example, the quality of school buildings, the core curriculum, and the training of teachers and staff. Education is a devolved policy area, and so can be directly influenced by the Scottish Government.

Second, there are wider socioeconomic forces that mean, even if these institutions were “perfect”, gaps in attainment would persist. For example, lower-income families might face tighter time and financial constraints that limit their ability to provide educational and recreational childcare. These forces are difficult to pin down, and as a result are more difficult to target through policy.

In this briefing we focus on *educational* attainment gaps in Scotland. These are broadly measured by taking the difference in the proportion of children from the least and most deprived areas reaching certain educational milestones or obtaining particular qualifications. The “least deprived” and “most deprived” areas are defined according to the Scottish Index of Multiple Deprivation (SIMD). The SIMD is typically used in analysis of national attainment gaps since it can act as an up-to-date, albeit imperfect, proxy for household income for the entire population of pupils in Scotland. Using SIMD as this type of proxy assumes socio-economic background is well approximated by geographical location. This is perhaps somewhat unrealistic since there is often substantial variability in measures like household income within regions, and is particularly problematic in rural areas where the size of data zones are large.

Although, the SIMD data zones are disaggregated to an extremely low-level, the data from which the statistics we analyse here are derived come from Schools, which often serve several of these low-level data zones. Using information on *actual* household income of children would provide a more detailed – and more likely than not more pessimistic - picture of the extent to which family background is correlated with attainment, however this information is not currently available at the required frequency and scale.

It is also important to note that it is not possible to separately identify the contribution of either the education system or wider socio-economic factors in generating attainment gaps by comparing attainment levels in this way. However, both almost surely play their part.

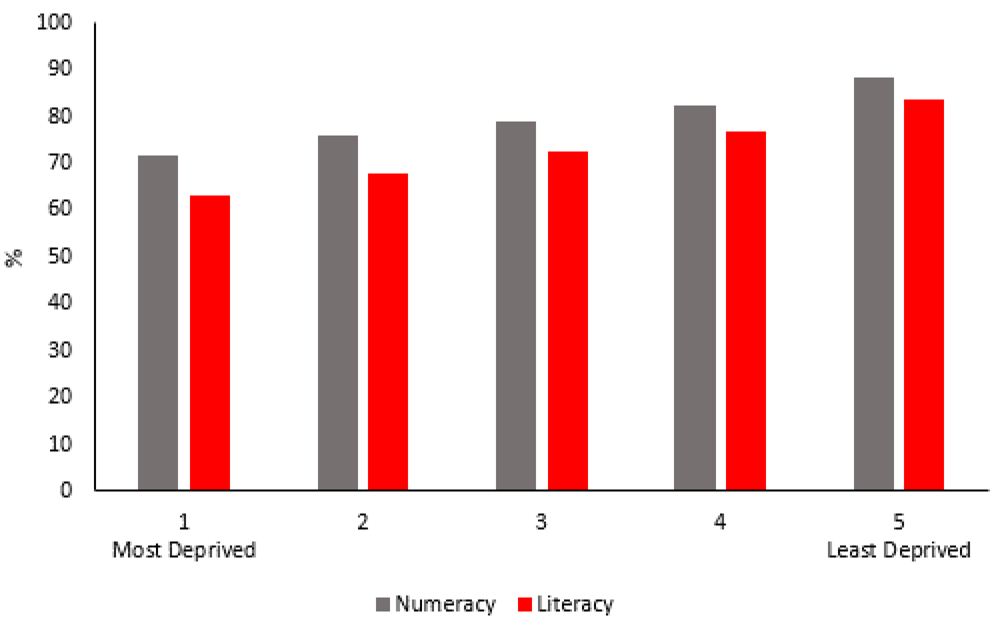
Attainment gaps over the last decade

In Scotland, children who live in the most affluent areas are considerably more likely to reach the expected levels of numeracy and literacy for their age across various years of primary school. Chart 1 shows that 88% and 84% respectively of those in the most affluent areas of Scotland achieve the expected level in numeracy and literacy across Primaries 1, 4, and 7. In contrast, the proportion of those in the least affluent areas who achieve the same is considerably lower (only 72% and 63% respectively).

These gaps have declined slightly over time, more so in the case of literacy, however not to the extent that there is anything close to parity between the groups. Levels of numeracy and literacy by the end of primary school determine how children engage with the senior Curriculum for Excellence (CfE) in the first two years of high school, and subsequently how they are assigned to classes as they begin their preparation for their National exams – the exams that determine whether or not they can advance to taking Higher and eventually Advanced Higher exams.

Later down the educational pipeline, fewer high school leavers from the most deprived areas obtain these qualifications – those which are necessary for continuation into higher education. Chart 2 shows the percentage point gap between the percent of high school leavers in the most and least deprived areas who obtain at least one SCQF level 6 (higher equivalent, red line) and SCQF level 7 (advanced higher equivalent, black line) qualifications over between 2009/10 and 2018/19.

Chart x.1 – Percent of children in primaries 1, 4, and 7 achieving the expected numeracy and literacy levels by SIMD quintile.



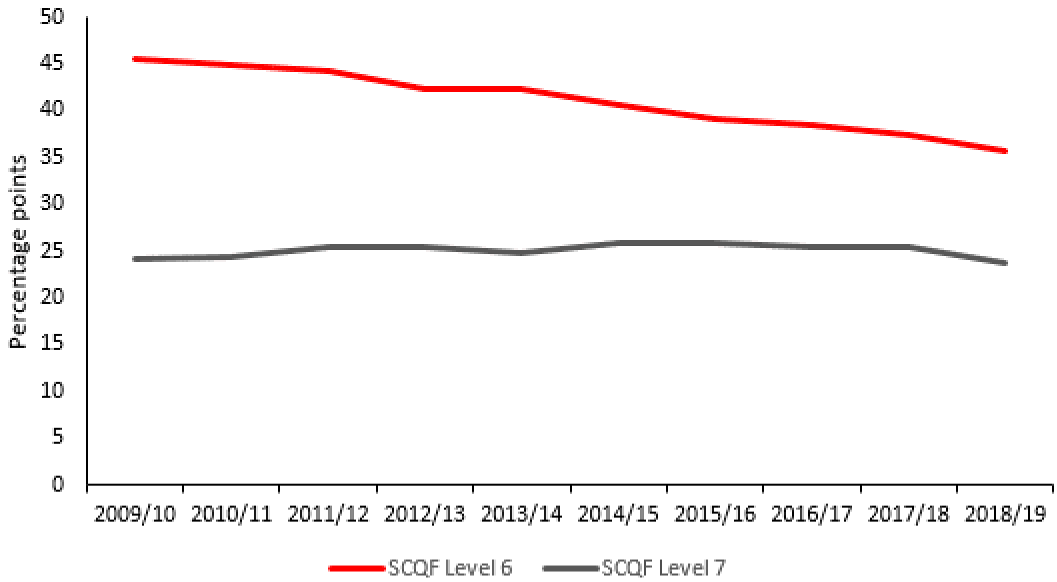
Source: Scottish Government

There has been some progress towards closing the gaps in high school attainment. The difference in the proportion of children achieving at least one SCQF level 6 qualification declined by almost 10 percentage points between 2009/10 and 2018/19. However, there was still a large difference in the proportion of the two groups achieving this level of attainment (35.8 percentage points). The gap in level 7 attainment has been stubbornly high over the same period, seeing next-to-no decline with the attainment rate among those in the least deprived areas being consistently between three and a half to four times as high as among those in the most deprived areas.

Again, it is these SCQF level 6 and 7 exams that determine whether or not young adults can apply to university. Typically, the threshold for doing so is obtaining at least passes in five Higher examinations, SCQF level 6 equivalents.

It is unsurprising then that a far higher proportion of school leavers from the most affluent areas enter higher education. Chart 3 shows the proportion from both the least and most affluent areas in Scotland who continued on to higher education from 2009/10 to 2018/19. The grey bars in Chart 3 show that proportion of those in the most deprived areas doing so has increased to roughly one-quarter over the period; again, a sign of progress in closing attainment gaps over the past decade.

Chart X.2 – percentage point attainment gap for SCQF level 6 and 7 qualifications between the top and bottom SIMD quintiles, 2009/10-2018/19



Source: Scottish Government

However, over the same period consistently around 60% of those in the highest SIMD quintile left high school and went on to higher education. As a result, in 2018/19 the proportion of students in the most deprived areas moving on to higher education (upon leaving high-school) was less than half the proportion of those in the least-deprived areas doing so.

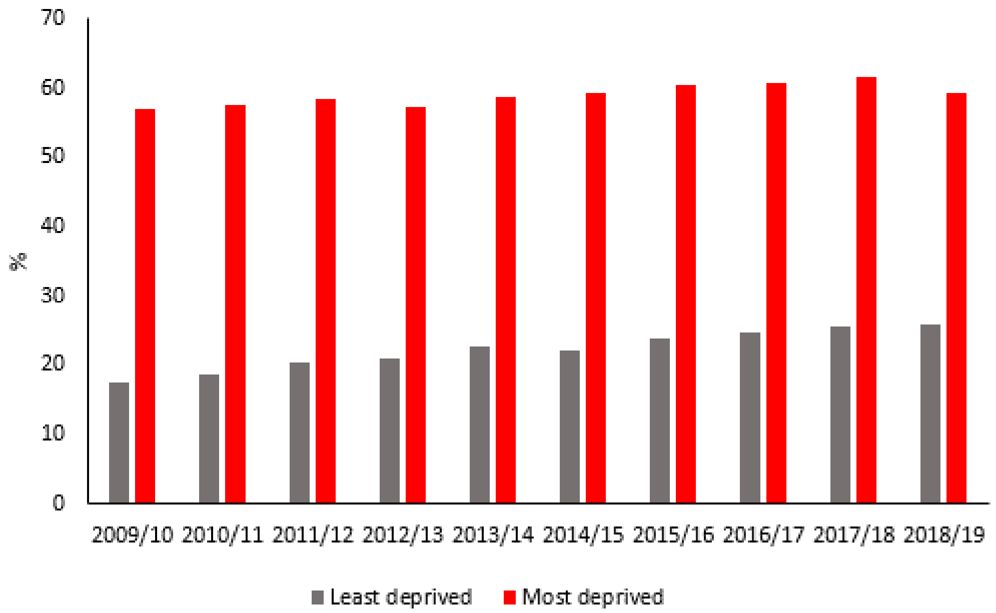
The latest attainment data and the potential effect of Covid-19

Although inequality in attainment is still apparent in Scotland Charts 1-3 show progress has been made over the past decade in closing some of Scotland's education disparities – a point noted in both the latest evaluation of the Attainment Fund and Audit Scotland's recent report. Given the mass-disruption to schooling in the last year, however, it remains to be seen whether there might be some backward steps in this regard in the years to come.

In February of this year, the Scottish Government released high school attainment statistics for the year 2019/20. They suggest that the pandemic has acted only marginally - for this cohort - affected the attainment gap in SCQF level 6 qualifications. There was a larger increase (4 percentage points) in the SCQF level 7 attainment gap relative 2018/19. Looking beyond this headline figure, however, the increase wasn't a story of attainment among those in the most deprived areas falling. In fact, the rate of attainment increased by almost half (from 8.7% to 11.7%). The gap only increased because of an uplift in this level of attainment among those in the least deprived areas that was over two and a half times as large – up 7.1 percentage points from 32.4% to 39.5%.

As this these large increases suggest, these statistics are have been affected by the large-scale shock to the education system that occurred during the second half of the school year they cover. As a result, we cannot draw any clear conclusions from them in terms of longer-term trends in the attainment gap, or the potential future effects of the pandemic. For this, we will have to track the achievement and attainment of future cohorts.

Chart X.3 – percent of Scottish high-school leavers going to higher education in the top and bottom SIMD quintiles over time



Note: includes leavers across s4, s5 and s6.
Source: Scottish Government

There is emerging evidence that children in low income families are less likely to get academic and emotional support than their high-income counterparts. For children in the latter years of high school, this could have and immediate knock-on effects on their attainment (in the form of exam results) in the coming year(s). In the wake of the release of last year's s4-s6 exam results it became clear that initially children from disadvantaged backgrounds were disproportionately "downgraded" as a result of the algorithm used to predict grades. Although only Higher exams will be taken this year, and the Scottish Government have committed to using teacher predications/evaluations as opposed to algorithms, the extent to which the loss of teaching time has had an unequal impact in this regard remains to be seen.

From a longer-term perspective, the loss in school time could also widen gaps in basic skills – for example in numeracy and literacy – among children in primary school. Whether these close of widen over time and have knock-on effects on attainment in years to come is also an open question.

As a result, it could well be the case that the pandemic and lockdown will have acted to reverse some of the trends of the past decade, even if only in the short-term.

Conclusion

There is both a current and historical socioeconomic gap in educational attainment in Scotland. In 2018/19 (the most recent data), the proportion of children in most affluent areas leaving school for higher education was 33.4 percentage points higher than among those in the least affluent areas. This is in spite of progress in reducing attainment gaps over the past decade.

These gaps have had a central position in political discussions of inequality over the same period. As a result, it is likely that the difference in educational outcomes across deprivation levels will garner attention in the upcoming election. Look out for policies both directly aimed at changes to the education system, as well as those wrapped in the terminology of “social mobility” or “equality of opportunity”.

This would most likely have been true even in the absence of the now year-long disruption to education that has resulted from the Covid-19 pandemic. Given the evidence that this might have acted to widen educational inequalities, it is likely that inequality in attainment and policies to offset the effect of the pandemic might be even more prominent in over the coming months.

Article endnotes

[1] See E9, E13, E17, and E18 of the Executive Summary in the latest evaluation report.

9. Household incomes and the 2021 election

Household income is a key determinant of a household’s standard of living. Government policies can have a range of direct and indirect impacts on the amount of money households have to spend on goods and services. Hence, it becomes a big deal at election time, with lots of debate about winners and losers and who should and shouldn't benefit.

Whilst some like to present a dichotomy between those who are net contributors to the public purse through taxation and those who are net beneficiaries from social security and use of public services, the reality is more complex, and most of us are likely to be both contributors and beneficiaries at various different points in our lives.

Changes in income due to government policy can be very noticeable, and have a significant impact on current household finances. Any proposed changes therefore garner a lot of interest.

Direct taxation and transfers are relatively easy to implement and the (direct) impact on household incomes largely predictable. More indirect policies, that seek to reduce barriers to paid employment for example, are less simple. There may be multiple barriers to overcome and for some people work just isn't a viable option, for example due to ill health. Ensuring that everyone has the means to meet their basic needs is generally agreed as the "right thing to do", although the parties may have different views on the best way to achieve that.

This briefing provides a guide to household incomes in Scotland to help navigate the debate.

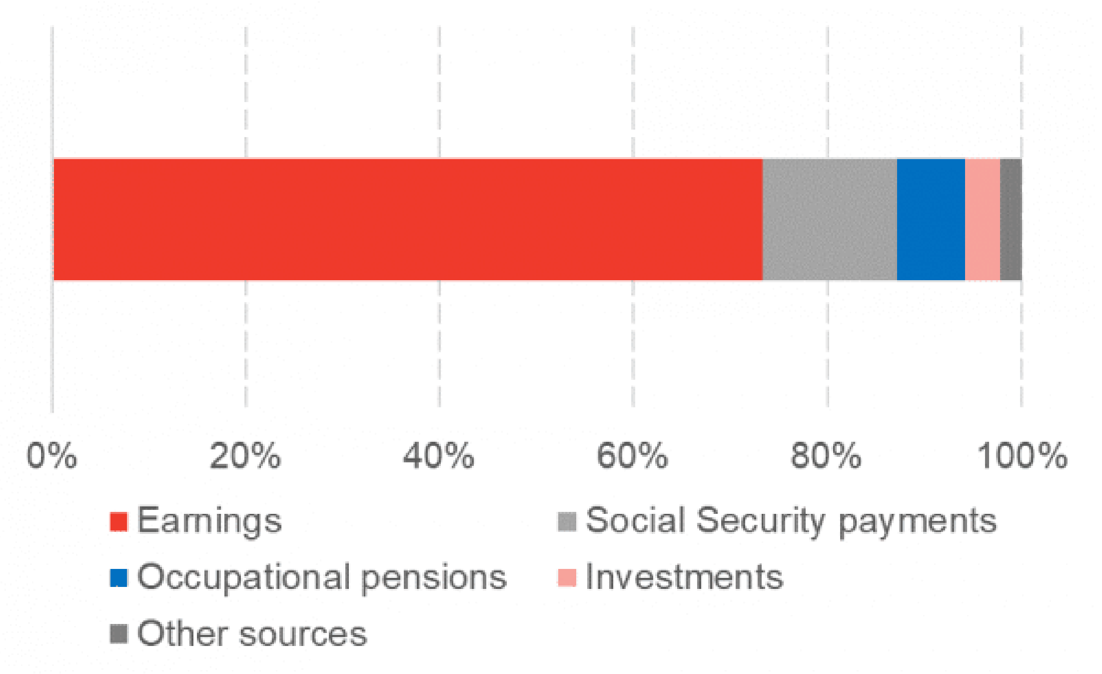
What is household income?

There are two main components of income:

1. **Earnings** from employment, including self-employment
2. **Social security** payments such as state pension, universal credit and child benefit.

Occupational pensions, investment income and other sources such as student loans or child maintenance make up the residual.

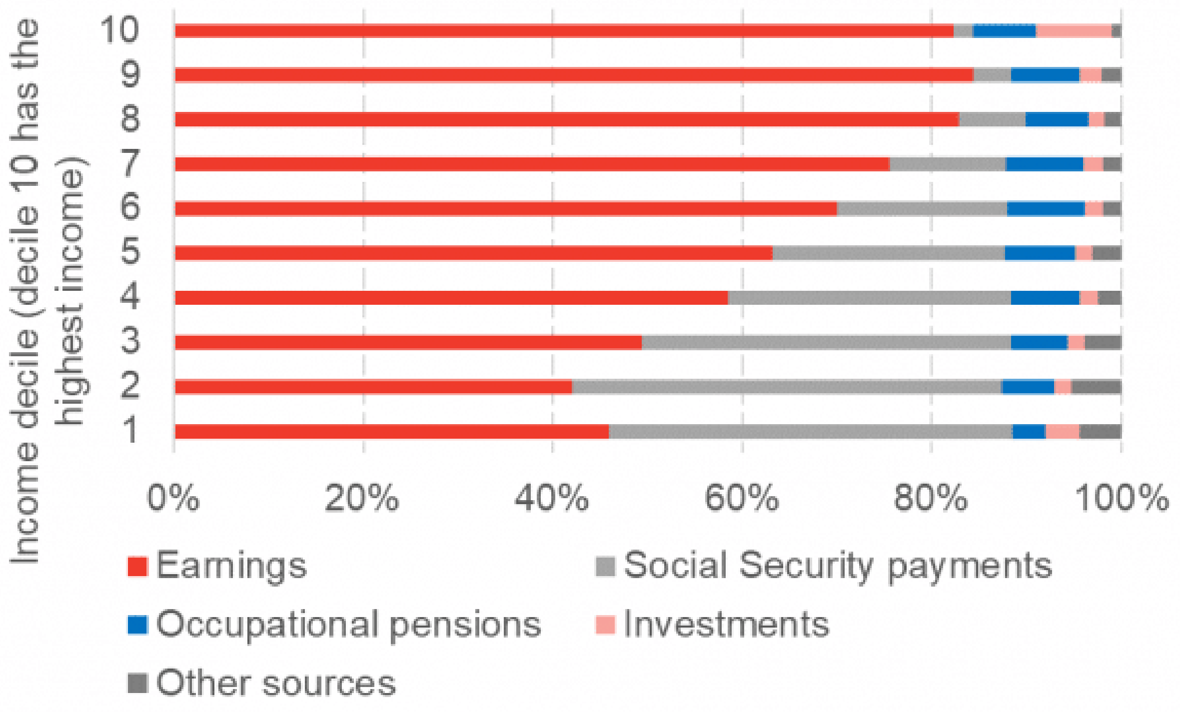
Chart x.1 - Components of average income (2017 – 2020)



Source: Scottish Government/Households Below Average Income dataset (DWP)

Income is net of income tax payments, national insurance contributions, pension scheme contributions, council tax and child maintenance payments.

Chart x.2 - Components of income by decile (2017 – 2020)



Source: Scottish Government/Households Below Average Income dataset (DWP)

The income distribution ranks households in Scotland by income and is used to show the differences in household income through Scotland.

Many social security payments are means tested, meaning they become available when earnings fall below a certain level. This is why social security payments make up a higher proportion of income at the lower end of the income distribution. However, social security also provides financial support to people on higher incomes through pensions and near-universal benefits such as child benefit.

Comparing households equally across Scotland

Incomes are adjusted to take account of the size of the household so that their livings standards can be compared on a roughly comparable basis (called equivalisation).

Weightings are used for different household types in order to make the households comparable, as shown in Table 1 alongside the monetary amounts apply to these different household types.

Table x.1 - Annual income thresholds for net household income for different family types (before housing costs) (2017-20)

	Single Adult Household	**Couple household**	**Single parent with 2 children (one over 14)**	**Couple with 2 children (one over 14)**
Weighting	0.67	1	1.2	1.53
Bottom 10%	< £9,000	> £13,500	< £16,200	< £20,600
Median	£18,600	£27,700	£33,300	£42,400
Top 10%	> £3,4200	> £5,1100	> £61,300	> £78,100

Source: Scottish Government/Households Below Average Income dataset (DWP)

Incomes can also be measured on an after-housing cost basis, and this is often preferable as it gives more of an idea of disposable income available in the household. Housing costs are unavoidable, and they can vary substantially (by geography and by tenure) so by netting off this element, we can compare a little more clearly across households.

Devolved policies that might impact on income

This is a summary of some of the main policy levers the Scottish government has under their control in the current devolution settlement.

Recurring taxation aimed at individuals and households

- Scottish Income Tax
- Council Tax (along with power to replace it with a different local tax)

Scottish social security

- Disability and carer benefits
- Means tested-benefits and reductions (Scottish Child Payment and Council Tax Reduction are current examples)
- Benefits in kind (e.g. free school meals)

Earnings

- Employability programmes (e.g. Fair Start Scotland)
- Public sector-pay and conditions
- Using procurement as a tool to support fair work
- Encouraging business participation in fair work practices
- Providing services that facilitates paid work (e.g. childcare, transport, social care support)
- Skills and training and education

Housing Costs (if looking at after housing cost measure of income)

- Powers over rents
- Housing supply
- Indirect impact on social housing rents via levels of grant and responsibilities placed on social housing providers

This list does not include non-housing policies that reduce costs but represent the 'social contract', for example, free prescriptions and free undergraduate university education, or free bus travel for over 65s. Not all individuals access these services, and they are not provided on the basis of income (i.e. they are not means tested). Although they do not relate to income, they can make a significant difference to the amount of residual income that a household has to spend on other things, and hence can have an impact on standard of living.

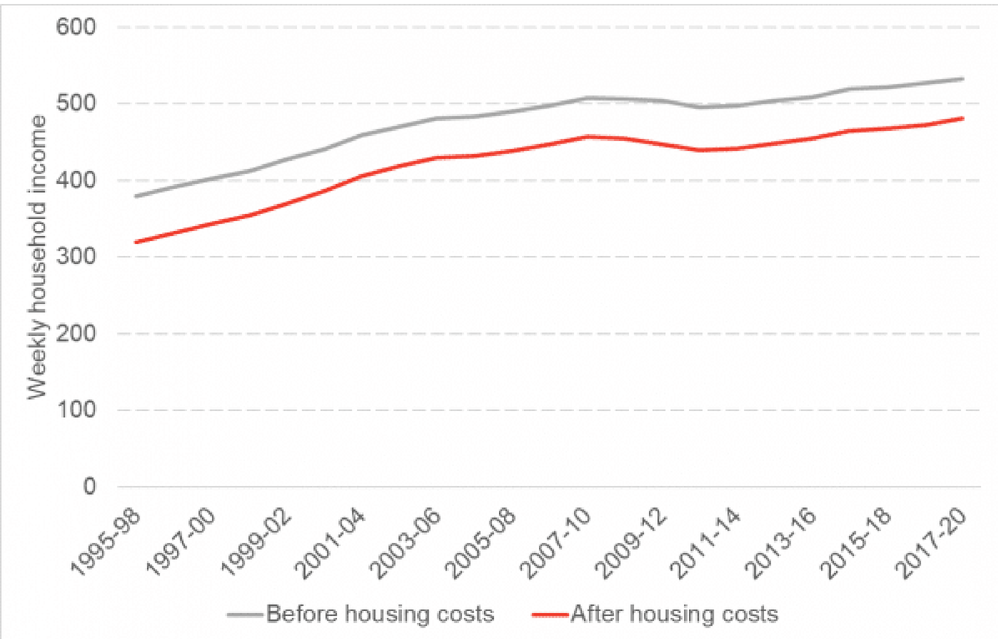
Key statistics

Average Income

The most recent official data on household income relates to the financial year 2019/20. This data is collected from a UK wide survey called the Family Resources Survey. The relatively small size of the sample in Scotland means that often three years worth of data is averaged together to give more certainty to the estimates.

In the three-year period 2017-20, median income in Scotland was £533 per week before housing costs and £481 after housing costs had been taken into account. Incomes (in real terms) according to the most recent data have risen since the last election (note all official figures are pre-covid).

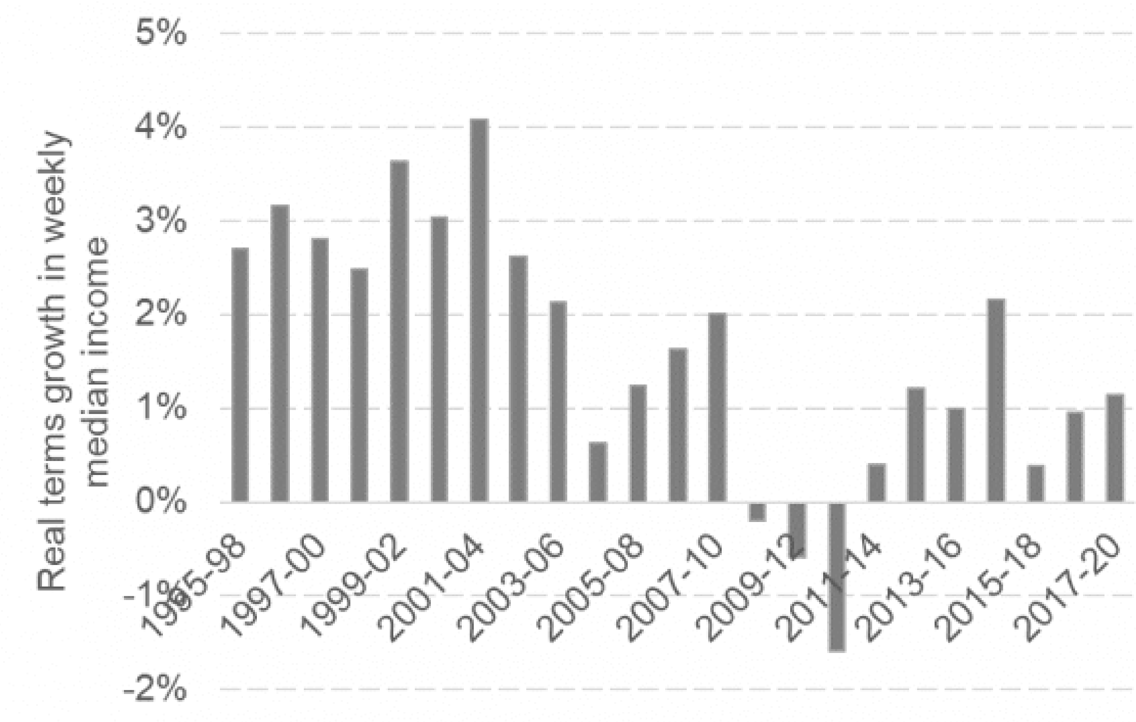
Chart x.3 - Median income over time (2019/20 prices)



Source: Scottish Government/Households Below Average Income dataset (DWP)

However, real terms growth in income has been remarkably sluggish in recent years compared to historical trends. Chart 4 shows real terms growth in before housing costs real terms income.

Chart x.4 - Real terms changes in median income



Source: Scottish Government/Households Below Average Income dataset (DWP)

Income Inequality

Income inequality shows the extent to which income is unequally shared across the population. Income inequality is due to a range of factors. Whilst some parties may have different views on the extent to which this inequality, particularly where it is due to high earning individuals, is an issue most agree that more needs to be done to tackle low incomes and barriers that prevent social mobility.

Understanding the income distribution is important for designing policies such as tax and benefit policies, and it is also important for understanding the drivers of issues such as the attainment gap and health inequalities. Some studies point to inequality itself as a driver of many societal problems, with more unequal societies performing worse on many other outcomes.

There are various different figures that are used to describe income inequality. Two of the most frequently used in Scotland are the Gini coefficient and the Palma ratio. The Palma Ratio shows how the incomes of the top 10% of the population compare to the bottom 40%. In 2017 - 20, the top 10% had 43% more income than the bottom 40% combined on the after housing cost measure. There is no trend apparent in the data over the past 20 years although over the past few years has declined marginally (this data does not include the period of the Covid-19 pandemic).

Chart x.5 - Palma ratio

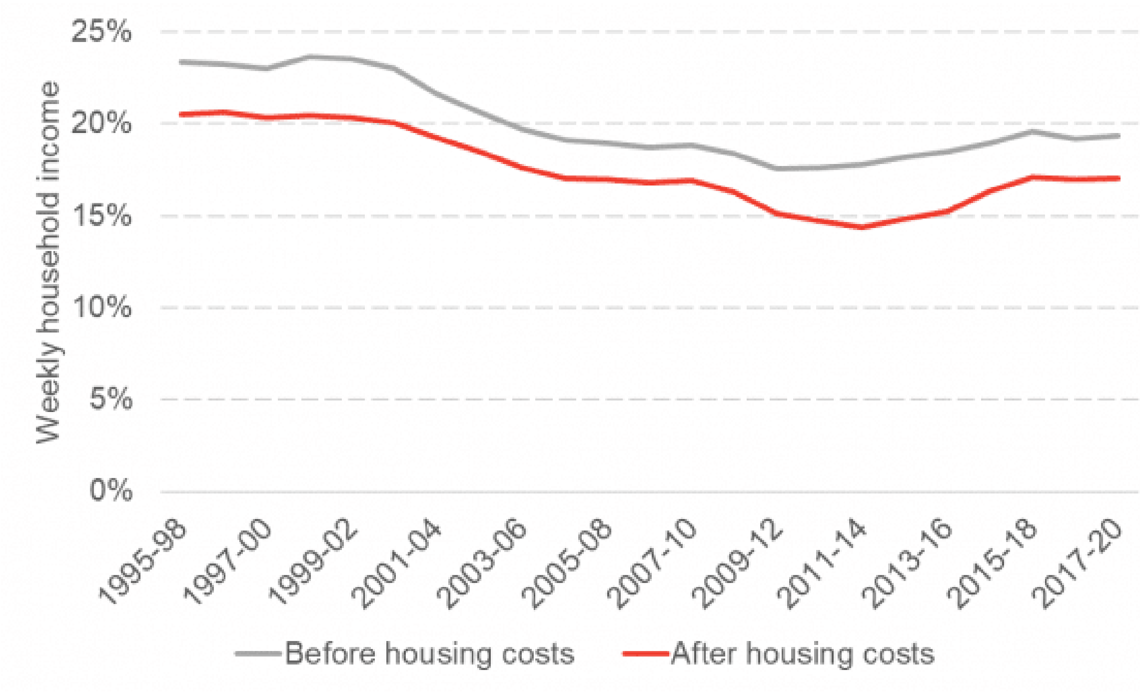
Source: Scottish Government/Households Below Average Income dataset (DWP)

Low income/poverty

Those at the lowest end of the income distribution are those least likely to be able to meet their basic needs. A number of definitions of poverty try to capture this, as it can be difficult to measure such a multi-faceted issue with a single statistic. There are four measures that the Scottish Government tends to use: relative poverty (a measures of low income compared to a population average); absolute poverty (a measure of how low income has changed over time); material deprivation (a measure of whether essential goods and services can be afforded) and; persistent poverty (a measure of how many years a person has been living in poverty).

Most measures, although at varying levels, have demonstrated a similar trend over recent years (pre-covid) when measured at the population level, and in the last five years have been fairly stable.

Chat x.6 - Relative Poverty, whole population



Source: Scottish Government/Households Below Average Income dataset (DWP)

However, there are some different trends lying beneath the headline statistics. For example, in-work poverty has risen significantly since the last recession (52% AHC at its lowest in 2009 – 12 compared to 61% AHC in the latest data), although this has now stabilised. Pensioner poverty had been on a steep downward trend since the 1990s, but in recent years has started to increase slightly although this is now levelling off.

Poverty rates are much higher for people living in households were a person is disabled (23% AHC compared to 19% AHC for the population average), for children (24%) and it is also higher for those in ethnic minority groups (41% AHC for Asian or Asian British and 43% AHC for Mixed, Black or Black British and Other based on a sample of five years of data 2015 - 20).

The main policy routes for reducing relative poverty are via social security, policies which improve availability and access of good quality jobs, and reductions in the cost of housing (if using the after housing cost measure). Taxation is less effective as relatively few people living in poverty pay income tax, and many are protected from Council Tax by the Council Tax Reduction scheme.

There was consensus in the last parliament that saw the passing of the Child Poverty (Scotland) Bill in 2017, and generally finding ways to tackle poverty is seen as a responsibility of government. However, different parties have varying views on the right mix of policies to achieve this.

The impact of Covid-19

There is little doubt that Covid-19 will have had an impact on average household incomes yet it will be 2022 before we get official statistics on household incomes covering the first year of the pandemic.

We know that the impact will not have been the same across all households. The pandemic will have led some people to lose their jobs and others to see reduced pay due to furlough. Others will have had no impact to their earnings and, due to working from home, may actually have seen a benefit to their bank balance from reduced travel costs.

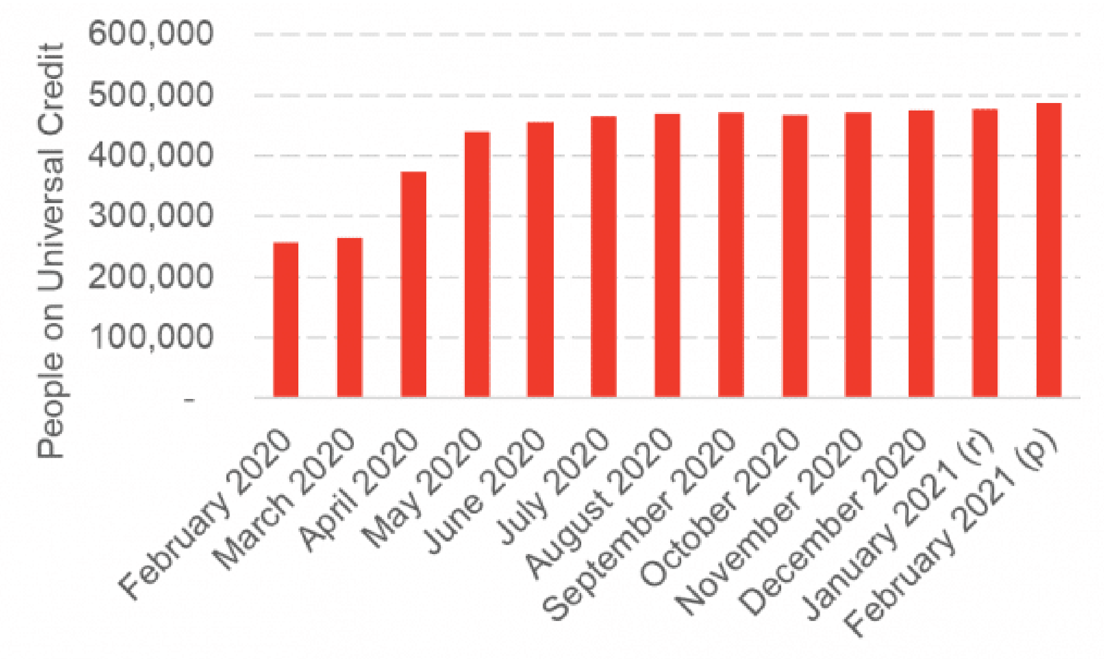
There has been some data produced from the Understanding Society panel survey that helps us to track people over the course of the Covid-19. Analysis of this data for Scotland shows that by April 2020, there had been considerable changes in terms of hours worked compared to pre-pandemic.

Using a similar methodology to Benseval et al. with the sample limited to Scotland, we found that by April 2020, although employment had seemingly not reduced, the proportion of the population working positive hours had fallen from around 70% to around 50% (Benseval et al. found similar falls for the UK as a whole). The reduction was far larger for those educated to lower levels and we do see differences in different parts of the income distribution, with the impact most felt in Scotland in the second income quintile (as noted by Brewer & Handscomb here this is likely to be because there are more people in the lowest quintile who were not in work pre-pandemic).

The same patterns seen in April were still apparent in June, but by September 2020 (by which point many parts of the economy had reopened, albeit temporarily) there had been a bounce back in terms of hours worked, for some groups, but others had not recovered to previous levels. This was most likely to be the case for women, those in the 2nd and 3rd income quintiles. Interestingly, those with the lowest education levels, who were hit hardest earlier on, had almost fully recovered previous hours by September, which may imply it was lower skilled jobs (for example hospitality) that were seeing the biggest bounce back at this point.

Of course, since September, there have been a number of subsequent lockdowns and the patterns may have reversed again. Universal Credit numbers rose sharply at the start of the pandemic and have stabilised since and may rise again significantly later in in 2021.

Chart x.7 - People on Universal Credit



Source: StatXplore (DWP)

What happens in 2021 is dependent on what happens to schemes such as the Coronavirus Job Retention Scheme (CJRS) and the Self Employment Support Scheme (SEISS). When support is removed as is currently planned at the end of September 2021, there may be many more people who find their jobs no longer exist and their incomes dropping substantially. The Universal Credit top up also ends at about the same time. See here for further discussion on the potential impact of this timing.

Conclusion

Even pre-pandemic, there was not a great deal to shout about with regards to household incomes. Growth since the last recession in average incomes has been sluggish, and poverty levels have not improved. The pandemic will have had a big impact, but much of the damage has been cushioned interventions such as the CJRS, SEISS and the UC uplift. Once these are taken away, the legacy of the pandemic on incomes will be clearer. For parties going into the election, the uncertainty that the next year will bring may make it hard to put forward effective policies, and indeed many of the powers used during the pandemic have been reserved and implemented by the UK Government.

However, there are already early signs that parties are keen to act using devolved powers, with many making pledges on increasing social security in Scotland for low income children. They may need to do much more than this once the scale of the impact of the pandemic becomes clear. Over the long term, sustainable improvements in income requires economic growth, distributed throughout the income distribution, and there are no shortage of challenges there either (see our economy election brief for more information).

Household incomes of course matter to voters, and government can play a key role in shaping how much and to who the income goes. We expect debates over the effect of policy on household incomes to feature widely in this election campaign despite the uncertainties of what will happen in the next year.

10. Universal Basic Income

In the election debate on Tuesday evening, the topic of Universal Basic Income came up in the discussion. It's an issue that can unite people across the political divides and yet divide those within the same ideological camps.

Those who support a basic income see it as a way of transforming society. They believe that the current system is not giving sufficient income security for enough people in society and that the system of conditional means-tested social security does not provide adequate support with appropriate dignity. There is no doubt that there are many issues at the moment that mean that many people do not have enough financial security, and poverty is too prevalent. But not everyone is convinced that a basic income is the right way forward, not least because the universal nature of it implies giving money to those higher up the income distribution who have adequate financial security already.

It is an emotive issue, with pros, cons and a whole heap of uncertainties about the impact it would have in the real world. But one of the key questions is how would it be paid for and what impact would such a fiscally neutral scheme have. A basic income requires large amounts of redistribution. That is the whole point for some proponents of the scheme. But what are the implications of this?

Last year, the Fraser of Allander Institute in collaboration with Manchester Metropolitan University and IPPR Scotland tried to answer this by looking at the impact of a fiscally neutral universal basic income scheme on the tax and benefit system and the outcomes in terms of poverty, inequality, and the wider economy.

Here are some of our key findings:

Radical redistribution

We modelled two version of a CBI, one that tried to replicate the main means-tested standard allowances available in the current social security system (but of course extended these universally) and the second was a higher, much more generous payment, set at the Joseph Rowntree Foundation's Minimum Income Standard.

With the low-level CBI, we modelled that this would reduce the number of people in poverty by 280,000 (5.4 percentage points) and the number of children in poverty by 90,000 (9 percentage points).

The high-level CBI would have much larger impacts with 910,000 people taken out of poverty (17.3 percentage points) and 250,000 children (25 percentage points) which comes close to completely eradicating child poverty.

These do imply that a basic income could be transformative. But at what cost?

The price tag

The cost of the lower basic income was estimated to be £27 billion. The cost of the higher-level basic income was estimated to be £58 billion.

If Scotland had full powers over social security (much of which are currently reserved) part of the cost could be offset by abolishing much of the current social security system, including the state pension. Residual costs would be around £7 billion for the low level around £40 billion for the high level.

If we look at how much income tax would need to change in Scotland to fund this, this would mean 8 points on every band, with the tax free personal allowance abolished. That would mean that the first £1 of income earnt would mean a 27p paid in tax rising to 54p in for the top rate. For the high level CBI, the tax schedule would start at 58p for the first £1 of income earned, and rise to 85p per for the higher and top rate.

This is clearly an expensive policy. A more targeted policy, where only those on a low enough income qualifies for the payment could could be equally as redistributive and a lot cheaper, but would require some sort of means test, which we know means that take-up falls below 100% for various reasons, including the stigma of claiming it.

This is the trade-off between universal and targeted policy. The first will have better take up, but be more expensive. The latter will be less expensive, but not everyone will claim.

Wider impacts – good, bad or unrealistic?

What other impacts could it have? We looked at modelling the wider economic impact of a fiscally neutral basic income, and found that the tax rises required to pay for the policy could lead to some contraction in the size of economy. For some this is a price worth paying. Others worry that the long term impact on the economy would be too damaging for competitiveness, jobs, and the tax base.

There is no precedent in terms of how the economy and society would respond. Existing studies have tended to be limited to local pilots (rather than at a national scale) or focus upon one aspect of a CBI, e.g. the introduction of a universal benefit but they do not test how people respond to the taxation required to fund the policy.

How people respond to the funding mechanism is arguably as important as their response to the basic income itself.

Those who call for a CBI want to see radical change to an economic system that is not working well enough for everyone. The financial security it would give households could potentially improve wellbeing, and give more people choices about work, study and time spent at home doing ‘unpaid’ work. There could be productivity benefits for those who can train for better jobs, or feel more in control of their financial situation, hence reducing stress.

But to do this, basic income would have to be at a level sufficient to live off without paid- work, and that probably entails something akin to the high-level basic income that we modelled. To reiterate, this would require a starting income tax rate, from the first £1 of income earnt, of 58% and a top rate of 85%. Of course, some people may accept this as a price worth paying, but many would baulk at that level of income tax levied on their take home pay.

Other options?

More recently, IPPR Scotland have suggested a Minimum Income Guarantee, that is available to all, but only when income from falls underneath a specified floor. That would be much more affordable than an equivalent amount from a universal basic income, but does not have the benefit from universality of simplicity and lack of stigma. A social security system, such as Universal Credit, but with sanctions removed is also a possible route to securing incomes but again without the benefits of universality (and of course universal credit remains reserved so sanctions cannot be removed by a Scottish Government).

This is a debate that will no doubt continue, and basic income of course does have its merits. But it is important that this debate recognises the costs as well as the potential benefits from such a scheme.

Our full report that discusses all this in much more detail is available here.

11. Number of taxpayers subject to Scottish higher rate of tax set to top 550,000 in the next parliament

The forthcoming election is taking place against a backdrop of huge economic and policy uncertainty. But one thing we do know about is the UK Government's plans for income tax policy over the coming years.

The UK personal allowance and higher rate threshold will be frozen at 2021-22 levels for the following four years – up to and including 2025-26. Compared to standard uprating policy, this is anticipated to raise an additional £8bn for the UK Government in 2025/26.

Options and constraints

Of course, UK income tax policy does not apply in Scotland. The Scottish Government has the powers to set all rates and bands for Scottish Income tax. Furthermore, although the setting of the Personal Allowance is technically reserved to Westminster, the Scottish Government could, if it wanted, set a higher effective tax-free amount of income tax by creating a zero-rate band of income tax in Scotland.

So, in principle, when it comes to Scottish income tax policy in the next parliament, anything is possible. But in reality, the UK policy will frame the scope for manoeuvre.

The Scottish Government's current tax policy in 2021/22 is estimated to raise around £500m in revenue, relative to what would be raised if the UK policy was implemented in Scotland. If it wishes to maintain that revenue differential in future years, the Scottish Government in effect needs to maintain the existing levels of divergence between the Scottish and UK income tax systems.

If the Scottish Government 'followed' the UK Government in freezing thresholds over the coming years, then it could continue to claim that its divergent policy was raising at least £500m each year. Its budget would increase at around 2% per annum in real terms (reflecting the implications of UK Government spending plans on the Barnett formula), with Scottish tax decisions providing an annual £500m boost each year on top.

On course for a significant increase in Scottish higher rate taxpayers

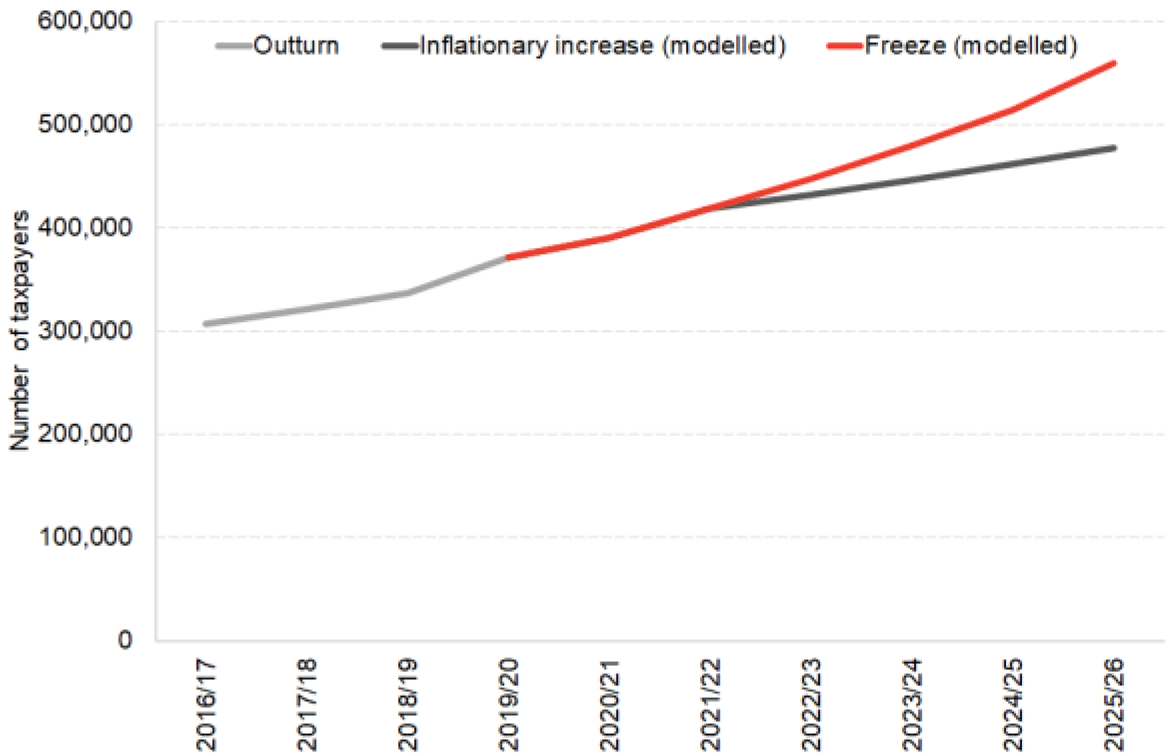
One implication of freezing thresholds in cash terms would be a rapid growth in the number of taxpayers in Scotland subject to the higher rate. In January, the SFC forecast that, even under standard uprating policy, the number of higher and additional rate taxpayers in Scotland would increase from 366,000 in 2020/21 to 484,000 in 2025/26.

If the higher rate threshold were in fact frozen, we estimate that the number of higher and additional rate taxpayers in Scotland could be closer to 550,000 in 2025/26 – representing 12% of adults in Scotland.

Considering that in 2016/17 only 305,000 Scottish income taxpayers (7% of adults) paid tax at the higher and additional rates, this would represent a remarkable evolution in effective tax rate for a sizeable number of people (Chart 1).

It would also mean that around 130,000 Scottish taxpayers would be liable to a combined income tax and employee National Insurance Contribution marginal tax rate of 53%. These are working age individuals with earned income between the Scottish and rUK higher rate thresholds for income tax and liable for both the Scottish higher rate of income tax at 41% and the 12% employee NICs rate.

Chart x.1 - Modelled and outturn number of higher and additional rate taxpayers under an inflationary increase / freeze in income tax thresholds, Scotland, 2016/17–2025/26



Source: *FAI calculations using HMRC SPI data*
Note: *Both modelled policies assume a freezing of the additional threshold of income tax at £150,000 per annum over the forecast horizon.*

Other choices are possible

This then is the starting point, the point from which the parties' actual tax policies will need to build. What they will propose is not for us to guess.

But, by way of illustration, what would happen if the next Scottish Government did decide to increase income tax thresholds – and the effective tax-free amount, i.e. the personal allowance – in Scotland in line with inflation (effectively following 'normal' uprating procedures)?

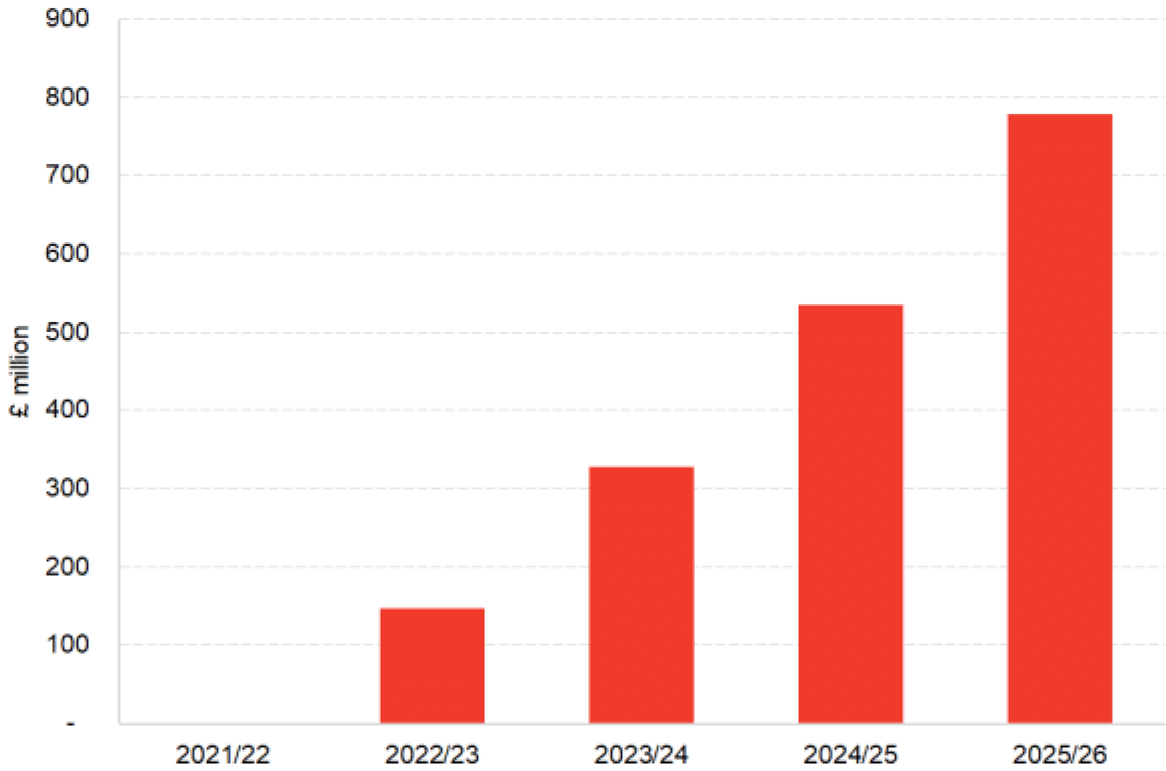
The answer is that it would have significant revenue implications.

In fact, those revenue implications would increase each year. If Scottish income tax thresholds were increased in line with inflation, then the median Scottish income taxpayer would pay around £195 less in tax in 2025/26. But the Scottish budget would be worse off in 2025/26 by over £700m (Chart 2).

It cannot be reiterated enough – freezing bands might not sound like a big deal, but over time it can make a big difference to liabilities and revenues. This is one reason that freezing thresholds, relying on "fiscal drag" to pull more people into higher bands, can be quite an effective way to raise more revenue over a number of years – without the level of political backlash that can come with an overt tax rise.

Faced with this backdrop, it will be interesting to see what the Scottish parties propose in their manifestos in coming weeks.

Chart x.2 - Modelled difference in revenue raised from income tax between a freeze and inflationary increase in income tax thresholds, Scotland, 2021/22 – 2025/26



***Source**: FAI calculations using HMRC SPI data*

12. Conclusion

This article compiled the Fraser of Allander Institute's coverage of the core policy areas being discussed in the run-up to the 2021 Scottish Parliament election. These included a range of briefing notes on: how the number of jobs supported by a capital investment is estimated; the adult social care system; working age and disability benefits; disability and carers benefits for children and pensioners; the employability landscape; inequality in educational attainment; household incomes; universal basic income; and modelled scenarios for options on changing income tax.

As we have highlighted throughout this compilation, theses policy areas will continue to be at the forefront of the policy debate over the next five years. It is for that reason we have brought them together here as a post-election resource. We will also continue to cover these areas in depth in the coming years, and continue to publish both short articles and/or research on each. You can find all of our past writings and analysis on the Fraser of Allander website, and this is where you can also keep up-to-date with our ongoing work.

Fraser of Allander Institute
University of Strathclyde
199 Cathedral Street
Glasgow G4 0QU
Scotland, UK

Telephone: 0141 548 3958
Email: fraser@strath.ac.uk
Website: fraserofallander.org
Follow us on Twitter via @Strath_FAI
Follow us on LinkedIn: FAI LinkedIn
