

Fiscal Affairs Scotland Monthly Bulletin

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SCOTTISH AND UK PRE AND POST-RECESSION PRODUCTIVITY

In light of recently revised figures for Scottish and UK GDP, using an updated methodology, this bulletin reviews the productivity rates that now apply, both in total and across different industrial sectors.

Table 1 highlights these measures and compares the pre-recession period (back to 1998) with the post-recession period, up to 2014.

Table 1: Scottish and UK annualised productivity growth rates (1998 - 2014), real GVA per workforce job

	Scotland			UK		
	98 - 07	07- 14	Difference	98 - 07	07 - 14	Difference
Total						
(exc NSO)	1.3	0.5	-0.8	2.2	0.2	-2.0
(inc NSO)	n/a	n/a	n/a	1.9	-0.1	-2.0
<i>of which:</i>						
Production	4.3	1.4	-2.9	3.9	-0.6	-4.5
Const'n	0.1	2.4	+2.3	0.1	0.4	+0.3
Services	1.2	0.3	-0.9	1.9	0.2	-1.7
<i>of which:</i>						
- Hotels & Catering	-0.1	-1.5	-1.4	2.0	-1.0	-3.0
- Education	-2.7	-1.0	+1.7	-1.4	-1.2	+0.2
- Health & Social Work	-0.8	0.7	+1.5	1.8	0.6	-1.2

Sources: Scottish government Quarterly GDP publication, ONS GDP and Labour Productivity Quarterly publications, Fiscal Affairs Scotland

Note: annual workforce job numbers are taken from December estimates

It is worth considering some of these changes and differences in more detail:

Total (1)

Prior to the recession, overall productivity in the UK economy significantly outstripped that seen in Scotland, by almost one percentage point a year. This was down to a poorer productivity performance in the services sector.

However, post-recession, Scotland's productivity performance has been a little better than for the UK. This is seen in all the major areas of activity (Production, Construction and Services).

As the UK figures including North Sea Oil (NSO) show, the steep declines in oil output post 1999 have a negative impact on the UK's productivity performance, although they do not affect the pre vs post-recession productivity differential.

While this negative NSO impact is included in the UK, the data for Scotland excludes any such offshore activity impact. Were North Sea activity to be apportioned on a geographical basis across the UK then Scotland's productivity performance would have been considerably worse over the full period shown.

Construction

Scottish productivity in this sector has risen dramatically in the post-recession period, while the UK's increased only marginally.

In the initial years after the recession, to 2012, both output and employment in Scotland fell. However the last two years have seen a rise in output of almost 20%, with only a relatively modest (7%) increase in employment. In comparison output growth in the UK has been much more modest, at under 10% since 2012.

The scale of this recent pick up in Scottish productivity in the Construction sector is difficult to explain.

Hotels & Catering

For Scotland, the data suggests no output growth in this sector since 2003. Employment was no higher in 2012 than in 1998 but then grew considerably in 2013. Overall this has led to Scotland's long term relative (to the UK) underperformance in this sector.

One of the possible implications of this result is that tourism has been having little impact on the Scottish economy, as this is the sector where its influence is most likely to be seen.

Education

Scotland's poorer performance in the earlier period shown in Table 1 is, at least partly, down to an increase in the workforce of 15% in the last quarter of 2000. This seems most likely to be a data glitch, although there is no warning of this in the footnotes to the published tables. If this glitch were removed then Scotland would still show a reduction in productivity in this earlier period, but at a similar rate to that seen for the UK.

Both Scotland and the UK are experiencing falling productivity over the full period shown.

Health & Social work (H&SW)

Scotland's performance was both negative and much worse than the UK's in the earlier time period. In the post-recession period it has been positive and similar to the UK's productivity levels.

In the earlier period, the growth in output in Scotland's H&SW sector did not keep pace with the growth in the workforce whereas, in the UK, output growth exceeded growth in the workforce.

The 5 year plan for the English NHS incorporates considerable efficiency savings which should improve future productivity. However, no such plan exists for the NHS in Scotland at present.

Overall Reflections

A number of caveats need to be borne in mind when considering these productivity statistics.

The first is that for services such as education and health services, the concept of 'productivity' is not straightforward and not easy to measure. Nevertheless, the difference seen in some sectors in Table 1 remains stark.

The second is that the size and variance of some of these productivity statistics bring in to question the reliability of the data. For example, the figures for productivity in the Scottish Construction industry are difficult to explain, in relation to either the performance pre-recession in Scotland or in relation to the UK performance.

Notwithstanding these issues, it would appear that Scotland faces similar issues as the UK, in terms of declining productivity gains, post-recession. Furthermore, some of the sectoral patterns outlined here are difficult to understand and bring into question the reliability of the official, published, data which is used in our analysis.

Given the importance of productivity in understanding a country's economic fortunes, then access to an accurate and reliable estimate of this measure is crucial. At present it is highly debatable whether or not the productivity measures available for Scotland are fit for purpose.

The fact that the Scottish data throws up some highly unusual results reinforces the need for more analysis to help to explain such results.

At present little such analysis is forthcoming from the Scottish government.

In principle, understanding the causes of (s)low productivity growth should lead in turn to policy changes to help remedy such problems. This is difficult to do at the best of times, as the current UK debate on the productivity problem illustrates, but it becomes even harder if there are serious doubts over the reliability of the data in question.

If evidence-based economic policy is going to be effective then much more needs to be done to ensure the reliability of the basic data being used. Otherwise the wrong conclusions may be drawn and the wrong policies put in place.

FREE CARE COSTS IN SCOTLAND

The latest data on what is being spent on free personal and nursing care (FPNC) was published in April (2). The data highlights both the increase in the cost of the policy and the way it appears to be supporting more people at home for longer.

Expenditure on FPNC (for those supported either in a care home or those staying in their own home) has risen by almost 60% in real terms between 2004-05 and 2013-14; from £311 million to £494 million (row 1 in Table 3).

A subset of the expenditure, FPC at home, has increased in both value as well as in its share of the total FPNC spend (rows 2 and 3 in Table 3). In 2004-05, spend on FPC amounted to £196 million which then rose to £364 million by 2013-14; a real terms increase of 86%. This means FPC's share of the total spend on FPNC has risen from 63% in 2004-05 to around 75% since 2009-10.

The rate of growth in this care and support expenditure has slowed in recent years. Between 2010-11 and 2013-14 real spend on FPNC and FPC for those staying in their own home rose 3.9% and 0.8% respectively. This is in contrast to a 7.3% growth in the population aged 65+ over the same period.

Interestingly, whilst the increase in the number of people aged 65+ receiving FPC at home was a more modest 1.8% over the period 2010-11 to 2013-14, this was still faster growth than seen for the spend incurred on FPC services over the same period, of 0.8% (real).

Recipients of FPC AT HOME

As Figure 1 shows, there were just under 950,000 people aged 65+ in Scotland in 2013-14; an increase of 15% since 2004-05. Of these, almost 48,000 (3) received FPC at home, roughly 5% of the total 65+ population, a share which has remained fairly stable throughout the 10 year period (at between 4.4% to 5.4%).

Cost of FPC AT HOME

In providing for this increased demand for FPC at home, local authority expenditure has risen from £195.5 million in 2004-05 to £363.6 million in 2013-14 (see Figure 2).

Part of this expenditure increase is simply as a consequence of the rise in demand shown in Figure 1. However, some of it is due to a rise in spend per client. In 2004-05, spend per client was £5,400 which subsequently rose to around £7,600 by 2010-11. The data suggest that spend per client on FPC at home may now be plateauing at around this level.

Conclusions

So far, spend on FPC at home has been received by an annual average of only 5% of Scotland's over 65s. In part, such a relatively small percentage will reflect the relative health of many in this cohort. However, the number of people in Scotland aged 65+ is a growing cohort, rising by over 64,600 in the 3 years to 2013-14 alone. The reason net expenditure on FPC at home has not risen commensurately over this period is likely to be due to a combination of reasons, including: the real terms spend per person remaining at around £7,600 (in real terms); eligibility criteria; and the timing and quantum of support.

As integrated health and social care evolves, the possibility of many more people seeking to make use of FPC at home looks likely to continue to grow. Keeping Scotland's ageing population at home for longer is a key driver of the Scottish government's health and social care policy, as it offers most elderly citizens what they want whilst at the same time reducing the need for more expensive health service alternatives.

The cost of providing FPC support to help people stay in their own homes for longer is averaging around £7,600 per person (4) per year (in 2013-14 prices). The on-going affordability of the FPC policy will be further tested if this per client cost rises. As and when more people aged 65+ seek support at home, this may also include a growing number with more complex needs. Consequently, the current cost per individual may need to become more flexible again to accommodate such a new demand.

Initial concerns over the rapidly rising cost of FPC have been answered, to some extent, by the levelling off of this cost in more recent years. This has been due to both restraint on the cost of FPC per client and to a reduced rate of new over 65s taking up FPC. How long such restraints can continue for will be an important factor in determining the rate at which the future costs of this policy rise.

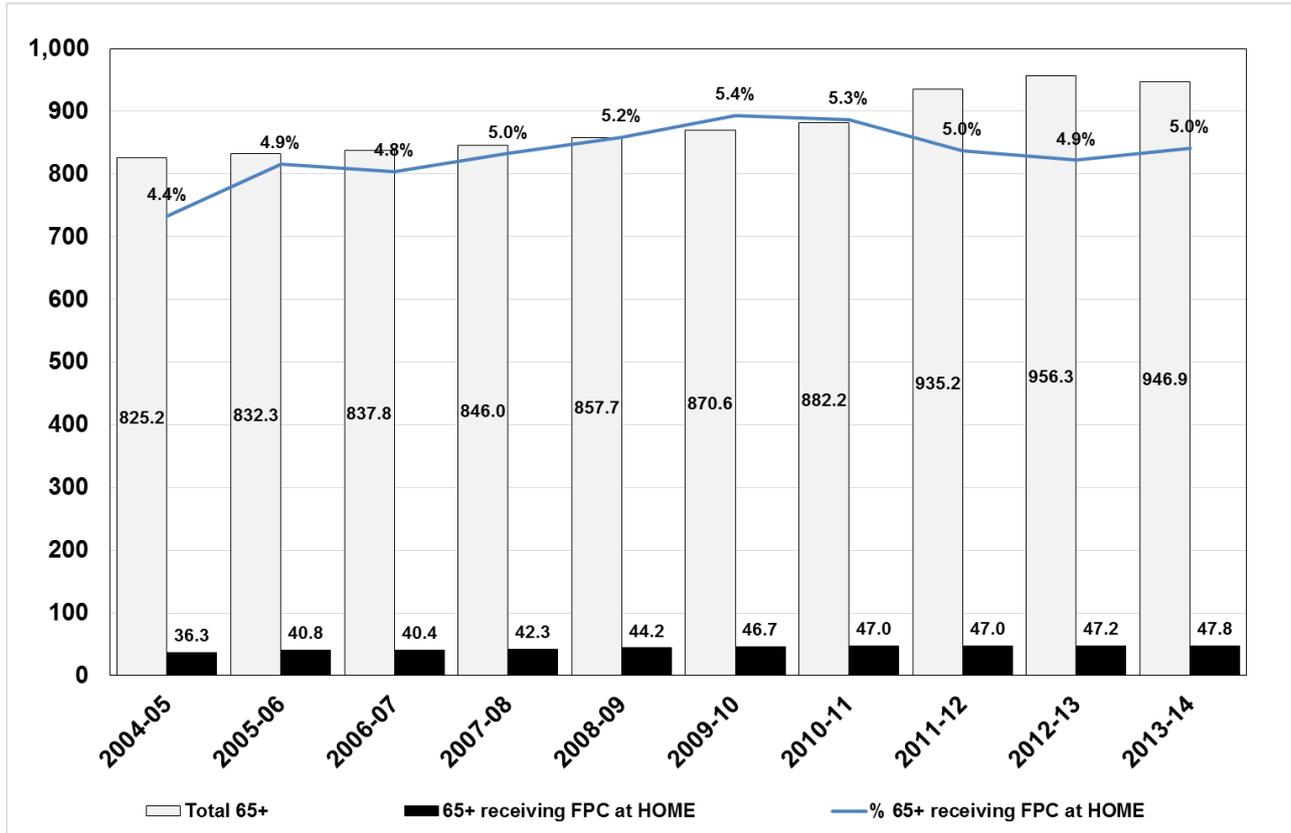
Table 3: Free personal and nursing care expenditure by local authorities, (real prices)

£ million, 2013-14 prices	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14
Free personal & nursing care (FPNC)	311	345	384	424	426	460	475	475	479	494
Free personal care AT HOME (FPC)	196	228	268	305	308	343	361	359	358	364
FPC as a % of FPNC	63%	66%	70%	72%	72%	75%	76%	76%	75%	74%

Note: Row 2 is a subset of row 1.

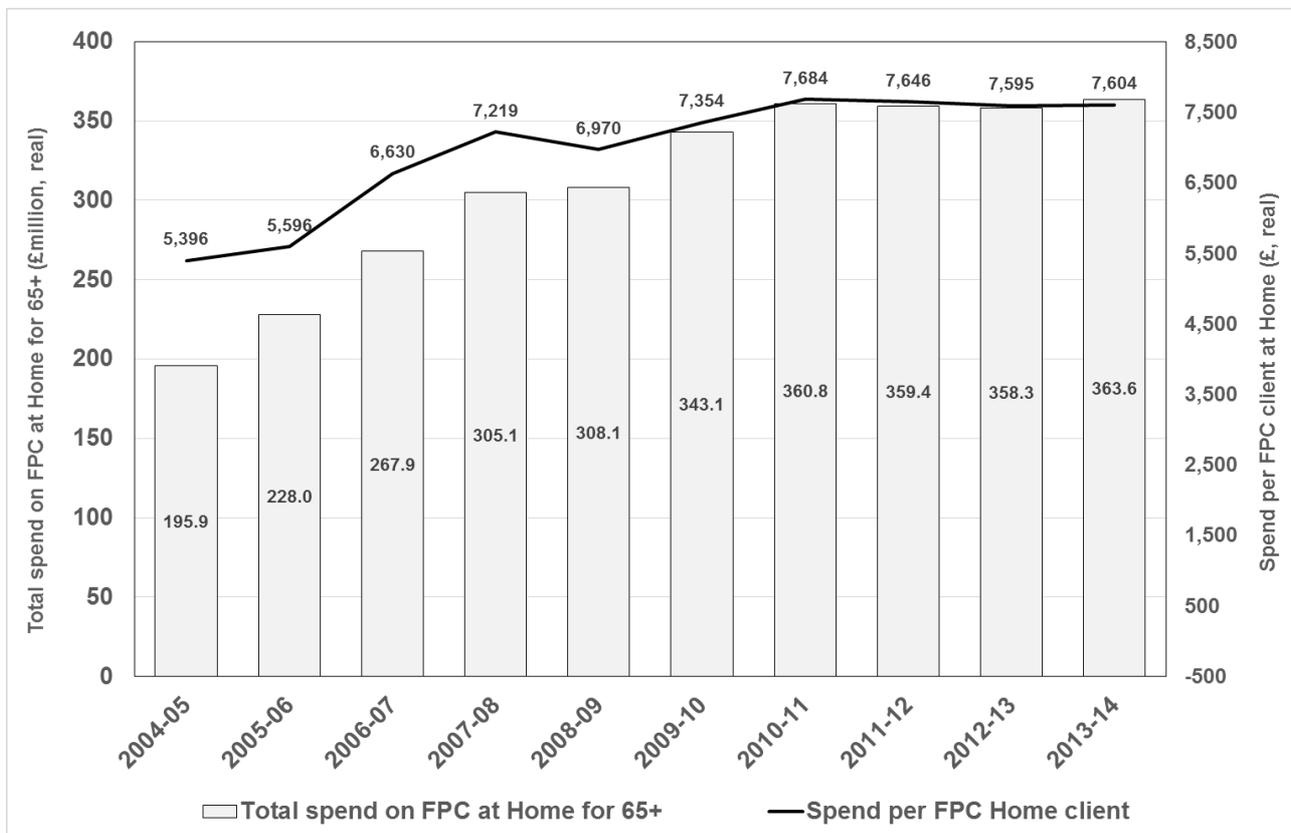
Source: Scottish Government, April 2015, Free Personal & Nursing Care 2004-05 to 2013-14

Figure 1: Number of people 65+, and number &% receiving FPC AT HOME



Source: Scottish Government, April 2015, Free Personal & Nursing Care 2004-05 to 2013-14

Figure 2: Net expenditure on FPC AT HOME and spend per client, £million (real)



Source: Scottish Government, April 2015, Free Personal & Nursing Care 2004-05 to 2013-14

RECENT FISCAL AFFAIRS SCOTLAND PAPERS

The following paper has also been published by Fiscal Affairs Scotland over the past month and is available from our website at www.fiscalaffairsscotland.co.uk.

- Analysis of latest cash terms Scottish GDP statistics

Fiscal Affairs Scotland June 2015

End - notes

(1) The ONS also publish estimates of 'regional' productivity, in terms of nominal GVA per job filled and based on its own collected regional accounts data (see 'Labour Productivity' quarterly publication). This uses the UK as a base (=100) and measures regional variances around the UK's performance. It shows that, of the four constituent countries of the UK, Scotland was the only one which had improved (2007 to 2013) relative to the UK. Scotland also displayed the highest relative regional improvement across all UK regions, followed by the South East of England.

(2) See <http://www.gov.scot/Publications/2015/04/5430>

(4) The quarterly data for FPC at home is based on a quarterly survey data that aggregated to annual equivalents.

(3) It is not clear from the data whether these averages mask any possible economies of scale where support is being provided for two people.



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