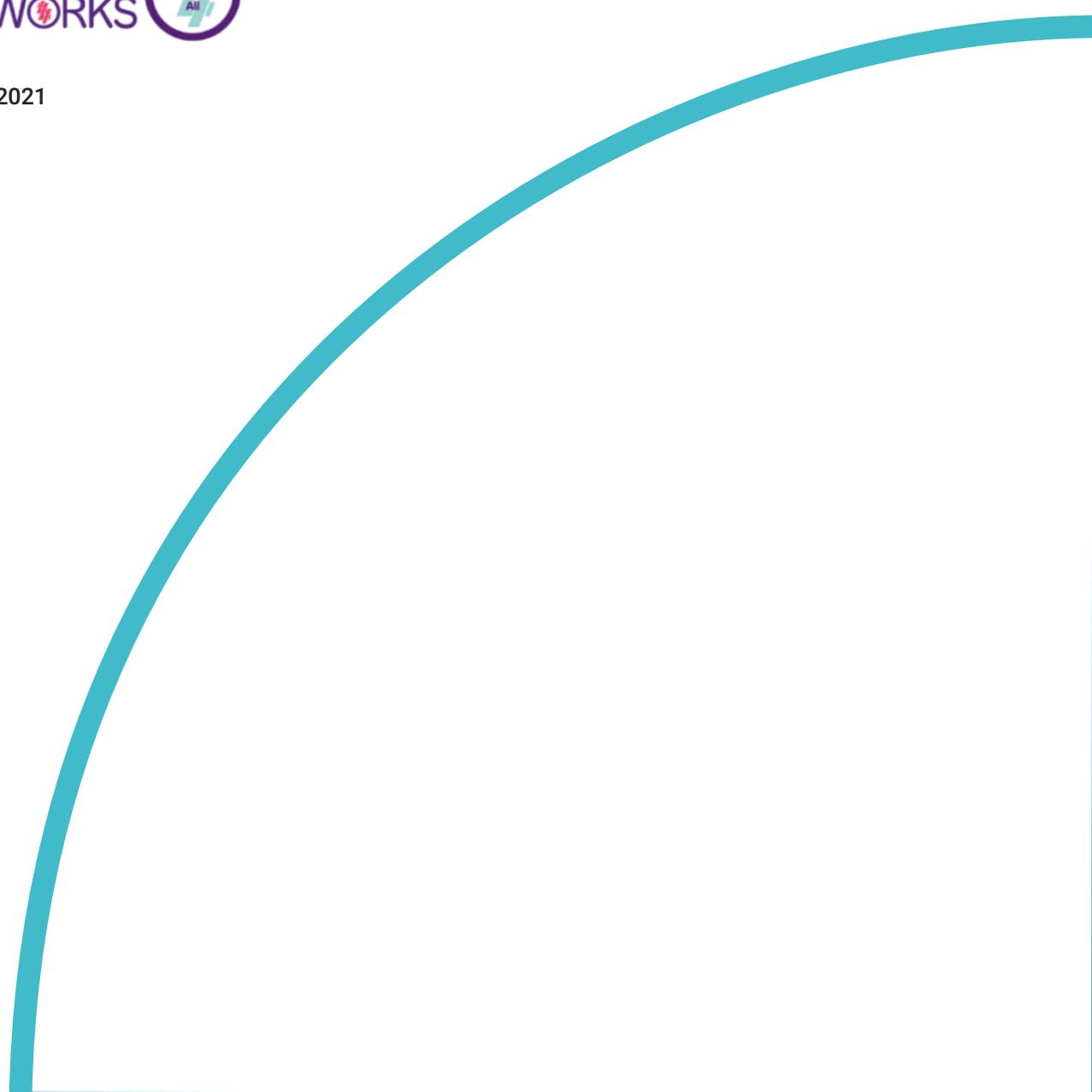


Scotland's Care Sector: An Economic Driver

A report to



September 2021



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1.

Key Points

The care sector makes a significant contribution to Scotland's Purpose and National Outcomes. As the population ages and expectations of what care should be increase, the care sector will be a source of inclusive sustainable growth for the Scottish economy.

The care sector makes a significant contribution to the Scottish economy and is at the heart of the health and wellbeing of the country.

The key findings set out in this report on the economic, fiscal and wellbeing contribution of the Scottish care sector are:

- The care sector is undergoing extensive scrutiny, review and potential change as a public policy priority.
- The care sector employs approximately 206,410 people, of whom 34% work in the public sector, 39% work in the private sector and 27% work in the voluntary sector.
- There are an estimated 3,250 volunteers working in Scotland's care sector.
- There are more than 700,000 unpaid carers supporting relatives and friends in Scotland.
- Scotland's Care Sector contributes over **£5.1 billion Gross Value Added (GVA)** to the national economy and supports 297,020 jobs, including:
 - direct economic impact of £3.3 billion GVA and 206,410 jobs (155,330 full-time equivalents, FTEs);
 - indirect economic impact of £0.8 billion GVA and supports 49,510 jobs (37,260 FTEs); and
 - induced impact of the care sector in Scotland generates £1.1 billion GVA and supports 41,100 jobs (30,930 FTEs).
- The care sector is labour intensive and most costs are related to wages; therefore, any increase in wages contributes to the overall costs of care.
 - However, an increase in wages will also generate additional taxation revenues so the net cost of wage increases is lower than often assumed.
 - In addition, for lower paid part-time workings there can be savings if Universal Credit is no longer required.
- Wage increases could reasonably be expected to:
 - Have a positive impact of the wellbeing of staff;
 - Help address the extensive job vacancy rate;
 - Help address the skill gaps across the care sector.
- In 2021, an agreement was reached to pay the Real Living Wage in the care sector in Scotland.



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- Had the agreement not been reached the rise in the minimum wage levels from £8.72 to £8.91 (the National Minimum Wage) would have resulted in a 1.5% increase in net earnings.
 - The increase to the Real Living Wage of £9.50 has resulted in a 6.1% increase in net earnings.
 - Other analysis have been undertaken in this study to show the net earnings increase at other hourly rates: £12.00 would be a 21.2% increase and £15.00 would be a 33.9% increase.
 - Many of the National Performance Framework outcomes and indicators can be positively aligned with high quality social care from all perspectives; the person using care; the carers; communities; businesses and society as a whole.
 - Social care has the potential to be a 'Superpolicy' because it can achieve positive outcomes across a wide range of areas without unintended negative outcomes.

Enable is in the strong position of having deep understanding, connection and compassion for the lived experience of care users and families; of valuing, training and understanding the workforce; of understanding the current context and the drive and influence to enhance even more lives in the future.



2.

Scotland's Care Sector

The social care sector in Scotland is complex, enormous, varied, woven into all aspects of society and will touch most of the population at some point. Social care can not only enhance the lives of those supported – it can also create opportunities for employment, business, volunteering, innovation and creativity.

2.1 Scotland's Care Sector

The care sector makes a significant contribution to the Scottish economy and is at the heart of the health and wellbeing of the country. In practical terms and according to the Scottish Government, social care is defined as follows:

Social care means all forms of personal and practical support for children, young people and adults who need extra support. It describes services and other types of help, including care homes and supporting unpaid carers to help them continue in their caring role.

The sector has been under great scrutiny over the past few years with considerable reviews, programmes and policies implemented such as (greater) integration of health and social care through Public Bodies (Joint Working) (Scotland) Act 2014¹, The Promise (2020) Independent Care Review Reports for children and young people² and the Social Care (Self-directed Support) (Scotland) Act 2013³ which allows for greater choice and control over how care users receive services. It is under even greater scrutiny in the context of Covid-19, (i.e. residential care)⁴ and the challenges and crises as a result thereof and is of increasing prominence as a driver of public policy.

¹ <https://www.gov.scot/policies/social-care/health-and-social-care-integration/>

² <https://www.carereview.scot/conclusions/independent-care-review-reports/>

³ <https://careinfoscotland.scot/topics/how-to-get-care-services/self-directed-support/>

⁴ <https://www.gov.scot/publications/root-cause-analysis-care-home-outbreaks/>



The Scottish Government most recently commissioned an Independent Review of Adult Social Care in Scotland (Feeley Review)⁵ which has made a number of recommendations, including the creation of a National Care Service. The Scottish Government has accepted the findings and has said it is working towards implementing key recommendations whilst others are under consideration and consultation.

The Feeley Review has made a strong statement about the purpose and intention of the sector highlighting the broader role of care:

Everyone in Scotland will get the social care support they need to live their lives as they choose and to be active citizens.

Over the coming months and beyond, there is an opportunity to influence the social, economic and wellbeing impact of this sector. The Enable Group already plays an important role and has commissioned BiGGAR Economics to undertake a study of the care sector as an economic driver.

2.2 Current Care Providers

Key figures that are associated with the care sector:

- the care sector employs approximately 206,410 people (detailed in section 3), of whom:
 - 34% work in the public sector;
 - 39% work in the private sector; and
 - 27% work in the voluntary sector;
- there are an estimated total of 3,250 volunteers working in Scotland's social care sector.

In addition to the paid employment supported by social care sector, there are also hundreds of thousands of unpaid carers estimated to be working in the sector.

The 2012/13 Scottish Health Survey⁶ found around 16% of adults aged over 16 in Scotland were providing unpaid care, and 4% of children aged 4 to 15 years old also providing unpaid care. Based on 2020 population figures, these findings imply that

⁵ Independent Review of Adult Social Care in Scotland (Feeley Review) - <https://www.gov.scot/publications/independent-review-adult-social-care-scotland/>

⁶ Scottish Government, (2014). Scottish Health Survey 2013.



there are 728,000 unpaid carers aged over 16 in Scotland, and 28,000 unpaid carers aged between 4 and 15⁷.

According to a study published by Carers UK in 2015⁸, the value of the work undertaken by unpaid carers contributed around £10.8 billion to the Scottish economy each year (based on an analysis of the unit cost of replacement care).

2.3 Future Social Care Costs

A report by the Personal Social Services Research Unit (PSSRU) states that a 3.5% real increase in social care expenditure is needed per year in England until 2035⁹. Given that 25% of Scotland's population is expected to be over 65 by 2035, compared with 23% of England's population¹⁰, the need to increase investment will be greater.

The Scottish Government Health and Social Care Medium Term Financial Framework¹¹ assumes a nominal growth rates for social care of 4% per year gross and 3% per year net of savings till 2023/24. It also assumes 1.8% per year inflation.

In addition, the Feeley Review estimates that the implementation of its recommendations would increase annual expenditure increase on social care sector by £0.66 billion, about 0.4% of Scottish GDP¹².

⁷ National Records of Scotland, (2021). Mid-2020 Population Estimates Scotland.

⁸ Carers UK (2015), Valuing Carers 2015 – the rising value of carers' support.

⁹ Personal Social Services Research Unit, (2015). Projections of Demand for and Costs of Social Care for Older People and Younger Adults in England, 2015 to 2035.

¹⁰ ONS, (2018). National Population Projections by Single Year of Age.

¹¹ Scottish Government, (2018). Health and social care: medium term financial framework.

¹² Scottish Government, (2021). Independent Review of Adult Social Care in Scotland.



3. Economic Impact of the Care Sector

Scotland's Care Sector contributes £5.1 billion Gross Value Added (GVA) to the national economy and supports 297,020 jobs.

In 2018, a report carried commissioned by Skills for Care and Development (SfCD) estimated that the adult social care sector in Scotland contributed £3.4 billion GVA to the national economy¹³. This was based on 2016 data and focussed specifically on the economic impact of the adult care sector.

This section outlines new analysis conducted by BiGGAR Economics based on 2019 employment statistics and includes the whole of the paid care sector.

3.1 Employment

This section gives a breakdown of total employment in the care sector by the three sub-sectors. It is plausible to assume that the economic impact generated by each sub-sector is equivalent to the proportion of total employment it accounts for.

3.1.1 Direct Employment

Recent data from the Scottish Social Services Council (Table 3-1) indicates that, in 2019, a total of 206,410 headcount staff (155,330 FTEs) were working across the country's 12,681 registered care services. These figures represent a 4.5% increase since 2010.

3.1.2 Central/Strategic Staff

Central and strategic staff account for the remaining employees working in the sector and account and account for 2,630 headcount staff, equivalent to 2,200 WTEs. Data from Care Inspectorate Scotland indicates that this organisation alone employs 600 staff in Scotland, including 23 FTE senior managers and 570 staff and paid salaries totalling £29.9 million in 2019/20.

In 2019 total employment in Scotland stood at approximately 2.6 million, therefore the Care sector accounted for 8% of the country's total employment.

¹³ ICF (2018), The Economic Value of the Adult Social Care sector – Scotland.



Table 3-1 Direct Employment in the Scotland's Social Care Sector

	Headcount Employees	FTE
Adults Services	144,650	106,620
Children's Services	59,130	46,510
Central/Strategic Staff	2,630	2,200
Total	206,410	155,330

Source: SSSC (2020), Report on 2019 Workforce Data

Out of this total employment:

- 69,660 (34%) work for public sector employers:
 - 26,850 provide services for children;
 - 40,180 provide services for adults;
- 80,910 (39%) work for the private sector:
 - 20,770 provide services for children;
 - 60,140 provide services for adults;
- 55,840 (27%) work for the voluntary sector:
 - 11,510 provide services for children;
 - 44,330 provide services for adults.

The public sector is involved in a wider range of services compared with the private and voluntary sector, it is the largest employer in adult day care services and day care of children services.

Almost half of the private sector workforce work in care homes for adults, the sector also being the largest employer for adults' services and the second largest employer in children's services

Almost two-thirds of voluntary sector staff work in the housing support/care at home sub-sector, making up the largest part of the workforce in that sector. Voluntary staff make up the largest percentages of the workforce in many other sub-sectors such as: fostering services, offenders' accommodation, residential child care and school care accommodation sub-sectors.

Employment data from the SSSC¹⁴ also estimated that there were a total of 3,250 volunteers in Scotland's social care sector. These include 390 volunteers in the public sector, 250 in the private sector and 2,030 in the voluntary sector.

¹⁴ SSSC (2020), Report on 2019 Workforce Data



3.1.3 Wages

Data prepared by Skills for Care¹⁵ estimates the average pay for full-time equivalent (FTE) workers in the care sector. Whilst this data is for England it has been used as a proxy for estimating the wage levels in Scotland as this data is not readily available. The source also separates out average earnings in the public and private sector and by service provided.

Based on this source it was estimated that paid employees working in direct care (adults services and children's services) earn an average FTE annual pay of £21,900 if employed by a public sector service and £17,100 if employed by a private or voluntary employer. For central and strategic staff, a wage proxy of £24,900 for public sector employees and £17,600 for private and voluntary sector employees was used.

Applying these wage assumptions to the number of FTE workers employed in each of the three sectors gives an estimated total wage value for the care sector of £2.9 billion.

3.2 Direct Economic Impact

The estimate of the direct economic impact generated by Scotland's care sector has been calculated by adding the total wage value for the sector, as described above, to the gross operating surplus for the sector, which will be primarily associated with private sector operators.

On this basis it has been estimated that indicates that the sector generates a direct economic impact of £3.3 billion GVA, most of which is associated with employment costs.

3.3 Indirect Economic Impact

The operation of the care sector includes the purchase of goods and services to support it. When registered care services buy supplies from Scottish businesses, they are supporting the turnover and employment of these businesses and so contributing to the Scottish economy.

In order to calculate the economic impact of such purchases (termed as the indirect impact), the direct GVA and employment figures have been multiplied by the Type 1 GVA and Employment multipliers for SIC codes 87 (residential care activities) and 88 (social work activities without accommodation) as found in the Scottish Government's Input-Output tables¹⁶.

¹⁵ Skills for Care (2020), Adult Social Care Workforce Data Set (ASC-WDS)

¹⁶ Scottish Government (2020), Supply, Use and Input-Output Tables: 1998-2017



Applying the above calculation estimates that the supply chain expenditure of services operating in the care sector generates an indirect economic impact of £792 million GVA and supports 49,510 jobs (37,260 FTEs) in the Scottish economy.

3.4 Induced Economic Impact

Induced economic impacts arise from the spending of care sector employees' wages in the Scottish economy. As outlined above, the total value of wages paid in the sector are estimated to be around £2.9 billion.

Applying Type 2 GVA and Employment multipliers for SIC 87 and 88 to the direct economic impact estimates that the induced impact of the care sector in Scotland generates £1.1 billion GVA and supports 41,100 jobs (30,930 FTEs) in the Scottish economy.

3.5 Total Economic Impact

Combining the figures presented in this section estimate that Scotland's care sector generates £5.1 billion GVA to the Scottish economy and supports 297,020 jobs (223,520 FTEs) across the country.

Table 3-2 Economic Impact of Scotland's Care Sector

	GVA (£bn)	Employment (headcount jobs)	Employment (FTE jobs)
Direct Impact	3.3	206,410	155,330
Indirect Impact	0.8	49,510	37,260
Induced Impact	1.1	41,100	30,930
Total Impact	5.1	297,020	223,520

Source: BiGGAR Economics Analysis. *Figures may not sum due to rounding.



4. Fiscal Impact of the Care Sector

Whilst there are fiscal costs associated with care, there are also fiscal receipts from the sector, so the net fiscal costs are lower than often assumed.

4.1 Cost of Care

The Scottish Government's overall health and care expenditure now exceeds £15 billion per year¹⁷.

In 2018/19, expenditure on formal adult social care in Scotland totalled £3.8 billion¹⁸. This cost is projected to increase by £2.8 billion by 2035. If the recommendations set out by the Feeley Report are implemented, this will cost the Government an additional £0.66 billion each year.

Most of this funding came from the public sector, with the balance from individuals through local authority service charges and self-funding off care home places by residents. Funding came from the following:

- £51m from the Independent Living Fund;
- £238m from Local Authority Service Charges
- £381m from self-funders
- £730m from Integration Joint Boards
- £989m from Council Tax/Non-Domestic Rates; and
- £1,434m from Scottish Government Grants.

Two-thirds of expenditure on adult social care was on services for older people, with more expenditure on community-based services than compared with accommodation-based services.

Expenditure on adult social care is broken down as follows:

- £51m spent on Independent Living Fund;
- £187m spent on mental health;
- £268m spent on physical or sensory needs;
- £850m spent on persons with learning disabilities;
- £2,397m spent on older people; and

¹⁷ Scottish Government Budget 2020-21

¹⁸ Fraser of Allander Institute (2021), Election 2021 issue brief: Adult Social Care, Available at: <https://fraserofallander.org/election-2021-issue-brief-adult-social-care/>



- £71m spent on other needs.

This cost is projected to increase by £2.8 billion by 2035.

The costs of the 'care system' for children have been estimated at £1.14 billion¹⁹, including:

- £942 million for the operational costs; and
- £198 million for universal services.

This does not include the costs of meeting the needs of care experienced people have as a result of the care system failing (estimated at £875 million) and losses (estimated at £732 million) in lost taxation income as a result of care experienced people having lower incomes.

On this basis the total costs of providing social care services in Scotland is at least £6 billion per annum, which is expected to increase as a result of demographic trends and aspirations to improve the services that are provided and their outcomes.

4.2 Fiscal Receipts

There are also fiscal receipts associated with the care sector. The care sector is a labour-intensive sector and so these are particularly associated with employment taxes.

4.2.1 Direct Employment Taxes

As set out in the economic impact chapter, recent data from SSSC indicates that, in 2019, a total of 206,410 headcount staff (155,330 FTEs) were working across the country's 12,681 registered care services, in the public, private and voluntary sectors. The total wage bill associated with these employees has been estimated at £2.9 billion per annum.

The employment associated with these employees includes income tax and National Insurance (employee and employer contributions).

The taxes paid by each employees will depend on earnings (and so hours worked and hourly pay rates) as well as the tax system. Employees earning above the tax-free allowance (£12,500 per annum in 2019-20) will pay income tax at the starter rate of 19% (on earnings up to £14,549 in 2019-20) and at the basic rate of 20% (on earnings up to £24,944). Few if any care sector employees will have earnings at the level where intermediate and higher rates of income tax are paid.

For National Insurance, for earnings above a threshold (£8,634 in 2019-20), employees pay at a rate of 12% and employers at 13.8%.

¹⁹ Independent Care Review (2020), Follow the Money



Based on the average (mean) wages for those in the private, public and voluntary sectors and for those in central and strategic posts, it is possible to estimate what employees will typically pay in income tax and National Insurance (Table 4-1). Note that the differences in earnings reflect differences in hours worked as well as pay rates – the average hours for those working in the public sector are higher than for private and voluntary sector employees.

Table 4-1 Taxation Receipts in Scotland's Care Sector Per Employee

	Average (Mean) Earnings (£)	Income Tax (£)	Employee NI (£)	Employer NI (£)
Public	16,644	808	961	1,106
Private	12,768	51	496	571
Voluntary	12,768	51	496	571
Central	20,584	1,596	1,434	1,607

Source: BiGGAR Economics Analysis. *Figures may not sum due to rounding.

Applying the income tax and National Insurance per employee to the total care workforce suggests that employment taxes in 2019-20 were around **£358 million** mostly National Insurance (Table 4-2).

Table 4-2 Employment Taxation Receipts in Scotland's Care Sector

	Employees	Income Tax (£m)	Employee NI (£m)	Employer NI (£m)	Total Tax (£m)
Public	67,030	54.2	64.4	74.1	192.7
Private	80,910	4.1	40.2	46.2	90.5
Voluntary	55,840	2.8	27.7	31.9	62.4
Central	2,630	4.2	3.8	4.3	12.3
Total	206,410	65.3	136.1	156.5	357.9

Source: BiGGAR Economics Analysis. *Figures may not sum due to rounding.

In addition, the organisations providing care services that are in the private sector will also be liable for corporation tax on any profits generated. A previous economic impact study²⁰ estimated that surpluses were around 12% of total earnings.

Applying that proportion to the latest earnings estimates would give total surpluses of £362.5 million. At the 2019-20 Corporation Tax rate of 19%, this would imply corporate tax liabilities of **£68.9 million**.

²⁰ ICF Consulting Ltd for Skills for Care and Development (2018), The Economic Value of the Adult Social Care sector - Scotland 2016



4.2.2 Indirect and Induced Employment Taxes

In addition to the direct employment and corporate taxes, the wider economic multiplier effects (quantified in the previous chapter) will also be associated with taxation revenues.

The indirect GVA associated with the care sector (from purchases of goods and services), has been estimated as £792 million. The expected taxation receipts that would be associated with this indirect GVA have been estimated, based on the taxes that would be paid by employees on median earnings in the Scottish economy. On this basis, the taxes associated with the indirect (supplier) multiplier effect have been estimated as **£215.8 million**.

The induced GVA associated with the care sector (arising from the spending of Care sector employees' wages in the Scottish economy), has been estimated as £1.1 billion. The taxes associated with the induced (income) multiplier effect (using the same method as for indirect effects) have been estimated as **£288.9 million**.

In addition, a significant proportion of employee spending will be retained in the Scottish economy, and some of that spending will be accounted for by VAT. Based on previous analysis of consumer spending patterns undertaken by BiGGAR Economics, it has been assumed that two-thirds of employee spending will be retained in the Scottish economy, and around 8% of that spending would be collected in VAT²¹. On this basis, total VAT receipts have been estimated as **£145.5 million**.

4.2.3 Care Sector Taxation Receipts

In total, the taxation receipts associated with the care sector in Scotland have been estimated at **£1.1 billion per annum** (Table 4-3).

²¹ European Commission (2013), A study on the economic effects of current VAT structures. This comparative analysis of VAT in EU member states found that, on average, 8% of UK consumer spending was accounted for by VAT. This is lower than the standard rate of VAT since some purchases (e.g. food) are zero-rated.



Table 4-3 Taxation Receipts in Scotland's Care Sector

	Total Tax (£m)
Direct Employee Income Tax	65.3
Direct Employee National Insurance (Employee)	136.1
Direct Employee National Insurance (Employer)	156.5
Corporation Tax	68.9
Indirect Taxes (Employees in Supply Chain)	215.8
Induced Taxes (from Activity Supported by Employee Spend)	288.9
VAT Associated with Induced Spending	145.5
Total	1,077.0

Source: BiGGAR Economics Analysis. *Figures may not sum due to rounding.

So, while the costs of care are a subject of public policy debate, the net costs are lower, as some of the spending returns to the public purse in tax receipts.



5.

Wages and Income Effects

The fiscal impact of the care sector will increase as a result of higher wages in the sector, including as a result of the recent agreement on the Real Living Wage. This is because it will take many employees to wage levels where income tax is payable and where in-work benefits (Universal Credit) are no longer required.

5.1 Labour Market and Income

A recent report from Audit Scotland also identified that there are gaps in skills across the care sector and currently around a third of services have job vacancies.²²

Whilst there will be several factors that matter to the labour market conditions in the care sector, economic theory would predict that higher wages would help to address the problems identified by Audit Scotland.

Whilst an increase in wage rates might seem like there is a cost to employers and to the care system, there would also be benefits. If improved wages lead to reduced staff turnover, fewer vacancies and a workforce who feel valued, this would be expected to be associated with improvements in the care being delivered.

Reduced staff turnover would also generate some savings to employers, offsetting some of the costs of higher wages.

5.2 Effect of Wages on Costs and Fiscal Effects

Many employees in the care sector are on minimum wage levels. This has been recognised in recent years, not least by the recent agreement to increase the wage levels in the sector to at least the Real Living Wage of £9.50 per hour, as committed to by the Scottish Government in May 2021. This compares with the National Minimum Wage of £8.72 per hour for those over 25 in 2020-21, which increased to £8.91 per hour for those over 23 from April 2021.

A change in minimum wage levels can be considered from a number of different perspectives, including on:

- care sector wage costs;

²² Audit Scotland (2021) Social Care



- employee income; and
- taxation receipts.

5.2.1 Wage Rates and Sector Wage Costs

Whether an increase in minimum wage levels lead to a general increase in wage levels in a sector depends on the labour market conditions in that sector. However, in a sector such as care that has vacancies, it would be expected to have such effects since, for example, those just above minimum wage levels would also expect commensurate increases.

The increase in the National Minimum Wage from £8.72 to £8.91 would have represented a 2.2% increase in wages in the sector, a total increase of £63.6 million on the total wage bill of £2.9 billion (Table 5-1).

The increase instead to the Real Living Wage represents an increase of 8.9% on the National Minimum Wage, implying an additional £260.9 million on the total wage bill of £2.9 billion.

If the minimum hourly wages were to be increased further, to £12 this would imply an increase of 37.6%, an additional £1.1 billion, bringing the total wage bill to £4.0 billion. A minimum hourly wage of £15 would imply an increase of 72.0%, an additional £2.1 billion, bringing the total wage bill to £5.0 billion.

Table 5-1 Hourly Rates and the Care Sector Wage Bill

Minimum Hourly Rate	% increase on £8.72	Total Wage Bill (£bn)	Additional Wage Bill (£m)
£8.72	-	2.9	-
£8.91	2.2%	3.0	63.6
£9.50	8.9%	3.2	260.9
£12.00	37.6%	4.0	1,097.2
£15.00	72.0%	5.0	2,100.7

Source: BIGGAR Economics Analysis. *Figures may not sum due to rounding.

5.2.2 Wage Rates and Employee Income

An increase in wage rates would, of course, also increase employee earnings. Table 5-2 shows the annual earnings in whole-time equivalents and for average hours worked (28.25 per week) for employees on the minimum rate. The increase in the National Minimum Wage from £8.72 to £8.91 would have increased net (take-home) earnings by 1.5%, but the increase to the Real Living Wage delivers a 6.1% increase.

If the minimum hourly wages were to be increased to £12 this would give an increase in net earnings of 21.1% whilst £15 would give an increase of 33.9% compared to the 2020-21 National Minimum Wage of £8.72.



Table 5-2 Hourly Rates and the Care Sector Wage Bill

Minimum Hourly Rate	Annual WTE Earnings (Gross, £)	Typical Earnings, 28.25hrs/week (Gross, £)	% Change on £8.72/hr	Typical Earnings, 28.25hrs/week (Net, £)	% Change on £8.72/hr
£8.72	17,004	12,810	-	12,250	-
£8.91	17,375	13,089	+2.1%	12,442	+1.5%
£9.50	18,525	13,956	+8.2%	13,040	+6.1%
£12.00	23,400	17,628	+27.3%	15,543	+21.2%
£15.00	29,250	22,035	+41.9%	18,540	+33.9%

Source: BIGGAR Economics Analysis. *Figures may not sum due to rounding.

5.2.3 Wage Rates and Taxation Receipts

An increase in wage rates would also be associated with higher employment tax receipts. Given that many employees on minimum wage rates will be earning just above tax thresholds, an increase in wages is likely to result in a disproportionate increase in taxation receipts.

Table 5-3 shows the additional taxes per person and additional employment taxes associated with increases in wage rates. The increase in the National Minimum Wage from £8.72 to £8.91 would have increased taxes paid by £125 per person per year (£25.8 million in total), whilst the increase to the Real Living Wage will result in additional taxes of £513 per person per year (£106.0 million in total).

If the minimum hourly wages were to be increased to £12 this would generate an additional £451.9 million in employment tax revenues and £15 would generate an extra £868.5 million.

Table 5-3 Hourly Rates and Employment Tax Receipts

Minimum Hourly Rate	Typical Earnings, 28.25hrs/ week (Gross, £)	Additional Taxes (per person,£)	Additional Employment Taxes (Sector, £m)
£8.91	13,089	125	25.8
£9.50	13,956	513	106.0
£12.00	17,628	2,189	451.9
£15.00	22,035	4,208	868.5

Source: BIGGAR Economics Analysis. *Figures may not sum due to rounding.

In addition to employment taxes, there would also be additional taxes in the economy, associated with the spending of wages, supporting employment in the wider Scottish economy. This would result in further taxes, associated with this



employment and with VAT, as set out in the previous chapter. The total additional taxes associated with different minimum wage levels are summarised in Table 5-4.

Table 5-4 Additional Employment and Income Effect Taxes

Minimum Hourly Rate	Additional Employment Taxes (£m)	Additional Taxes from Income Effects (£m)	Total Additional Taxes (£m)
£8.91	25.8	5.3	31.1
£9.50	106.0	21.9	127.9
£12.00	451.9	91.2	543.1
£15.00	868.5	174.2	1,042.7

Source: BIGGAR Economics Analysis. *Figures may not sum due to rounding.

There could be some further fiscal benefits from increased wage rates, associated with in-work benefits, particularly for staff working part-time. Entitlement to benefits depends on individual circumstances and so it is difficult to calculate potential savings at the sector level.

To illustrate the potential effects, an employee over the age of 25 for 20 hours per week on an hourly rate of £8.72 would earn £9,016, net of National Insurance. They might also expect to qualify for an additional £1,493 in Universal Credit, which would bring their income to £10,489.

An increase to £9.50 per hour would increase net earnings to £9,730. They would likely still qualify for Universal Credit, but at the lower level of £1,023, which would bring their income to £10,753 (an extra £5 per week).

If the wage rate was increased to £12 per hour, this would increase the take home pay to £12,018, which would likely be above the level for Universal Credit. This would be a 15% increase in take-home pay. There would also be a net fiscal benefit of £3,458 from additional taxation and savings in Universal Credit.

Increasing minimum wages in the care sector can deliver both higher incomes to employees and generate fiscal benefits, particularly associated with part-time employees.

5.2.4 Net Fiscal Costs of Wage Rate Increases

Whilst employees in the care sector work across the private, public and voluntary sector, a large proportion of the costs of employment will fall to the public sector, either as direct employment costs or indirectly via services procured from the public and voluntary sectors.

Therefore, an increase in the wage rates for employees in the care sector will have implications for public sector budgets.



For example, an increase to an hourly rate of £9.50 would be expected to add up to £293.5 million to employment costs, including National Insurance. However, it will also generate additional tax revenues, so even if all of the increase falls to the public sector, the net costs after tax receipts would be lower, estimated at £165.7 million.

An increase to £12 per hour would add more than £1.2 billion to the wage bill, but the net costs would be lower, at less than £700 million. An increase to £15 per hour would add almost £2.4 billion to the wage bill, with net costs of around £1.3 billion.

Table 5-5 Gross and Net Costs of Hourly Rate Increases

Minimum Hourly Rate	Additional Costs of Wage Increase (£m)	Additional Taxes (£m)	Net Costs of Wage Increase (£m)
£8.91	71.5	31.1	40.3
£9.50	293.5	127.9	165.7
£12.00	1,234.4	543.1	691.3
£15.00	2,363.4	1,042.7	1,320.7

Source: BiGGAR Economics Analysis. Note that the Additional Costs are higher than in Table 5-1 since the costs in this table also include Employers National Insurance. The increases shown are compared to the £8.72 minimum hourly rate. *Figures may not sum due to rounding.

Of relevance to any public policy debate on the fiscal implications of wage levels will be the fiscal powers and responsibilities of the UK and Scottish Governments. The costs of care are the responsibility of the Scottish Government. Whilst the income tax receipts associated with an increase in wages would accrue directly to the Scottish Budget, much of the additional taxation revenue would be from National Insurance contributions (and some VAT), which would accrue to the UK Treasury.



6.

Contribution to the National Performance Framework

Economic impacts are key considerations and wider measures such as individual and population health and wellbeing, social impact, communities, human rights and the environment should feature more strongly when considering any changes to social care which impacts the entire country.

Social care has numerous outcomes attributed to it, such as the 9 National Health and Wellbeing Outcomes, 5 Health and Social Care Standards, 146 Standard Statements, and 23 Integration Indicators²³. As meaningful or useful as they may be, they do not take into account the economic or fiscal impact nor are they assessed in the greater context.

In addition to the detailed economic and fiscal analysis this report provides, it considers the impact of social care on the greater economic and societal outcomes with the National Performance Framework (NPF) as a wider tool for assessing the potential benefits and impacts of the sector.

6.1 National Performance Framework

Scotland's Economic Strategy is summarised in the purpose statement of the NPF:

To focus on creating a more successful country with opportunities for all of Scotland to flourish through increased wellbeing, and sustainable and inclusive economic growth

Social Care is one of the most significant sectors of the economy with great potential to contribute to this purpose and be of even more benefit to the population of Scotland as well as increasing Scotland's economic performance.

²³ <https://www.gov.scot/groups/independent-review-of-adult-social-care/>



It can align and encompass the various health and social care frameworks and initiatives as well as those about workplace fairness, such as the Fair Work Framework²⁴

6.1.1 Wellbeing at the Heart of Policy Debate

In recent years, governments and organisations around the world have been rethinking how they measure economic wellbeing, moving to a much broader concept than that afforded by traditional income, expenditure and employment measures.

Frameworks for a shift in policy emphasis to achieve global wellbeing have been developed by the OECD (Better Life Index), the United Nations (Sustainable Development Goals) and several governments, including those of the UK and Scotland. The United Nations Sustainable Development Goals brought new impetus to policy efforts to put people, prosperity, peace, partnerships and the health of the planet at the forefront.

The approach to assessing economic wellbeing in Scotland is particularly well advanced and Scotland is a founding member of the Wellbeing Economy Governments (WEGo) initiative where member countries work together to understand the key priorities for a wellbeing economy.

In a speech at the TED Summit in Edinburgh²⁵ in July 2019, the First Minister Nicola Sturgeon expressed a growing need for policies to focus on wellbeing, in addition to economic growth, as a better measure of a country's success claiming that it could help to address the divisions and inequalities that exist in society. Reflecting on how economic success should be about more than increasing economic output, she set out how increasing wellbeing should be placed at the centre of policy.

A Wellbeing Economy is characterised by four principles:

- **Economic progress and prosperity:** promoting a thriving, innovative and entrepreneurial private sector with growing and sustainable businesses;
- **Inclusion:** ensuring all people and communities in all regions of Scotland share in economic growth;
- **Sustainability:** building a thriving economy which conserves and grows the country's natural assets using low carbon technology and supporting the circular economy; and
- **Resilience:** an economy that is future proof and agile enough to withstand and respond to external risks and shocks.

Over a period of time this thinking has created the National Performance Framework which was first published in 2007 and refreshed in June 2018.

²⁴ [The Fair Work Framework - The Fair Work Convention](#)

²⁵ <https://www.gov.scot/news/the-first-ministers-ted-talk/>



6.1.2 The Framework

The National Performance Framework sets out the Scottish Government’s vision for measuring progress towards economic growth that is both sustainable and inclusive. It uses an **outcomes-based approach** to measuring performance, rather than inputs and outputs.

The Framework sets out 11 different outcomes and progress towards them is assessed using 81 indicators to give a measure of wellbeing that includes a broad range of social, cultural and environmental factors as well as economic considerations. A detailed description of each outcome can be found on the Scottish Government’s website²⁶.

“The NPF is Scotland’s wellbeing framework. It explicitly includes ‘increased wellbeing’ as part of its purpose and combines measurement of how well Scotland is doing in economic terms with a broader range of wellbeing measures. These indicators incorporate a wide range of different types of data—from social attitudes and perceptions to economic and environmental statistics—in order to paint a picture of Scotland’s performance.”

Following the Covid-19 pandemic, the Advisory Group on Economic Recovery recommended an approach to economic policy that values the four capitals of the economy: the human natural, social and economic elements that are necessary for the wellbeing of current and future generations²⁷. These resonate strongly in the themes set out in the NPF. In its response to the Advisory Group, the Scottish Government has accepted this recommendation and built the four capitals approach into the National Performance Framework²⁸.

²⁶ <https://nationalperformance.gov.scot/national-outcomes>

²⁷ Advisory Group on Economic Recovery, 2020, Towards a Robust, Resilient Wellbeing Economy for Scotland

²⁸ Scottish Government, 2020, Economic Recovery Implementation Plan: The Scottish Government’s response to the Advisory Group on Economic Recovery



Figure 6-1: National Performance Framework



Source: Scottish Government (August 2020), Economic Recovery Implementation Plan, p11

6.2 Economic, Social and Wellbeing Impacts

The country's social care policy is one that is central when considering the wellbeing of the population, inclusion and community and requires creative and innovative thinking, as well as doing, to enable economic growth to take place and making it more sustainable and resilient, able to meet increasing demand for care in the years ahead.



The NPF belongs to the whole of Scotland as is not just a Scottish Government framework which means that everyone and every organisation has a role to play in contributing to the delivery of the National Outcomes.

It also places a duty on public authorities to have regard to the national outcomes in carrying out their functions.

The section below demonstrates how social care can support the outcomes defined in the National Performance Framework and is regularly referenced by the government, for example in the Feeley Review²⁹ and the Scottish Social Service's Council Annual Report (2019/2020)³⁰.

The nature and scope of impact realised in each indicator will vary greatly depending on the aspect of care concerned. Although individual examples of care may be challenging to demonstrate, each will deliver against one or many outcomes and an assessment against these themes will encourage a broader perspective on the benefits that investment can bring.

6.2.1 Human Rights

Outcome: “We respect, protect and fulfil human rights and live free from discrimination”

The indicators within this outcome (with those that are relevant in **bold**) are:

- **Public services treat people with dignity and respect**
- **Quality of public services**
- **Influence over local decisions**
- Access to justice

In line with the Scottish Government's manifesto and the Feeley Review, there is agreement that quality social care is a basic human right. The first measure of the NPF in this regard is that public services treat people with dignity and respect followed by quality of public services. Social care is amongst the most significant public services in terms of size and scope and as personal as service can get.

6.2.2 Health

Outcome: “We are healthy and active”

The indicators within this outcome (with those that are relevant in **bold**) are:

²⁹ <https://www.gov.scot/groups/independent-review-of-adult-social-care/>

³⁰ <https://www.sssc.uk.com/knowledgebase/article/KA-03022/en-us>



-
- **Healthy life expectancy**
 - **Mental wellbeing**
 - Healthy weight
 - Health risk behaviours
 - **Physical activity**
 - Journeys by active travel
 - **Quality of care experience**
 - **Work related ill health**
 - **Premature mortality**

Quality of Care experience stands alone as an indicator directly linked to the health and wellbeing of the population. This outcome suggests that we are living the best life possible and for many people, this requires supportive care.

Several of the other indicators are clearly supported by quality social care. Social care can impact the quality of life lived and encompasses mental wellbeing and physical health as the two are intertwined.

This outcome applies not only to users of care support and services but to carers, both paid and unpaid in terms of their physical and mental wellbeing and risk of injury in the job.

6.2.3 Fair Work & Business

Outcome: “We have thriving and innovative business, with quality jobs and fair work for everyone”

The indicators within this outcome (with those that are relevant in **bold**) are:

- **The number of businesses**
- **High growth businesses**
- **Innovative businesses**
- **Economic participation**
- **Employees on the living wage**
- **Pay gap**
- **Contractually secure work**
- **Employee voice**
- **Gender balance in organisations**

Good work practices and fair pay are the key considerations in the care sector. A positive improvement has been the introduction of the Real Living Wage, aligning to a key indicator above. The Fair Work Convention, 2016³¹ defined fair work as being characterised by: security of employment, work and income; opportunity to access and progress in work; effective voice so that employees are listened to individually

³¹ [The Fair Work Framework - The Fair Work Convention 2016](#)



and/or collectively; fulfilment; and respect. There is evidence that promoting these inter-connected components of fair work can benefit individuals, organisations and society. Whilst this should apply to all work contexts, that in which people are caring for other people, it must be the minimum expectation and ensured.

As the workers in the paid sector are predominantly female (83%)³², it is crucial that any gender pay gap issues are resolved which also aligns to this NPF outcome.

From an economic perspective, we can also have creative, ethical and sustainable products and services, all within good supply chains in the care sector which align to these principles. Scotland Procurement³³ Outcomes and the Sustainable Procurement Guidance outlined in the Procurement Reform Act of 2014³⁴ are aligned to the NPF and include the importance of a wide range of impacts resulting from procurement and supply chains.

6.2.4 Communities

Outcome: “We live in communities that are inclusive, empowered, resilient and safe”

The indicators within this outcome (with those that are relevant in **bold**) are:

- **Perceptions of local area**
- **Loneliness**
- Perceptions of local crime rate
- Community land ownership
- Crime victimisation
- **Access to green and blue space**
- **Places to interact**
- **Social capital**

Communities and local areas are of key importance for enhancing our ability to socialise and have connection with others. Access to local areas can be restricted for some without support of good social care which can make it very difficult to engage in social interaction. Unpaid carers may also be restricted in their ability to be part of the community unless there is support for them.

The potential benefits of blue and green spaces on mental and physical wellbeing has been evidenced to the extent that it has made it as an indicator in the NPF and there are green prescribing schemes in Scotland³⁵ Again, these spaces and the benefits they bring can contribute to this outcome.

³² [Scottish Social Service Sector: Report on 2019 Workforce Data \(sssc.uk.com\)](https://www.sssc.uk.com/)

³³ [Outcomes for procurement - gov.scot \(www.gov.scot\)](https://www.gov.scot/)

³⁴ [Procurement Reform \(Scotland\) Act 2014: statutory guidance - gov.scot \(www.gov.scot\)](https://www.gov.scot/)

³⁵ <http://www.healthscotland.com/documents/4300.aspx>



Loneliness and isolation, already difficult for many requiring care were exacerbated and highlighted during the pandemic. Quality social care contributes to alleviating loneliness.

6.2.5 Economy

Outcome: “We have a globally competitive, entrepreneurial, inclusive and sustainable economy”

The indicators within this outcome (with those that are relevant in **bold**) are:

- **Productivity**
- International exporting
- **Economic growth**
- Carbon footprint
- Natural Capital
- Greenhouse gas emissions
- Access to superfast broadband
- **Spend on research and development**
- **Income inequalities**
- **Entrepreneurial activity**

The care sector makes a significant contribution to the Scottish economy in terms of GVA and employment. Given the ambition to improve the services that are provided and the projected increase in social care costs, there will be a need for research and development to find ways to improve the quantitative and qualitative productivity of the sector.

6.2.6 Education

Outcome: “We are well educated, skilled and able to contribute to society”

The indicators within this outcome (with those that are relevant in **bold**) are:

- **Educational attainment**
- **Confidence of children and young people**
- **Resilience of children and young people**
- **Work place learning**
- **Engagement in extra-curricular activities**
- **Young people’s participation**
- **Skill profile of the population**
- **Skill shortage vacancies**
- **Skills under-utilisation**



Education is an outcome which can be impacted in different aspects of social care. With approximately 29,000 young carers in Scotland³⁶ (<18yo), the education of a young carer may be impaired by the burden of caring and potentially result in stagnation in education and/or training. As a result of this and lack of freedom to socialise with peers and engage in extra-curricular activities, their confidence may also suffer and ultimately result in not fulfilling their potential. Support for young carers and those they look after is crucial to break this cycle and enhance the lives of both.

Quality care for children requiring additional support, is also crucial for them to reach their potential and the same knock-on effects apply, good care, good educational potential, access to the social aspects of being a young person and enhancing confidence.

Other indicators in this outcome also apply to both the care users and carers, paid and unpaid. Given that there are more than 700,000 unpaid carers, it is reasonable to expect that many have other skills being under-utilised and at the same time, possibly not provided with the skills and training to provide care optimally. For paid carers, there is a need and an opportunity for better trained and skilled work which not only would provide higher quality care but support carers to feel more valued. It could also result in greater attraction to the sector where shortages are significant and chronic.

6.2.7 Poverty

Outcome: “We tackle poverty by sharing opportunities, wealth and power ”

The indicators within this outcome (with those that are relevant in **bold**) are:

- **Relative poverty after housing costs**
- **Wealth inequalities**
- **Cost of living**
- **Unmanageable debt**
- **Persistent poverty**
- **Satisfaction with housing**
- **Food insecurity**

There are a number of ways that the level and access of good quality care impact on financial wellbeing, of care users and of those employed in the care sector.

One example is the interaction of housing and care, including quality and quantity of appropriate housing, adaptability, and accessibility.

³⁶ <https://www.gov.scot/groups/independent-review-of-adult-social-care/>



There are risks that the requirement for social care can exacerbate wealth inequalities and otherwise impact negatively on financial wellbeing if the costs of care required exceed allowances and what can be afforded.

This outcome applies to the workforce as well, both in terms of opportunity costs for unpaid carers and in-work poverty for those who are paid.

6.2.8 Children

Outcome: “We grow up loved, safe and respected so that we realise our full potential”

The indicators within this outcome (with those that are relevant in **bold**) are:

- **Child social and physical development**
- **Child wellbeing and happiness**
- **Children’s voices**
- **Healthy start**
- **Quality of children’s services**
- **Children have positive relationships**
- **Children’s material deprivation**

This outcome is crucial – for children in care, families supported by care and also for young carers. This is vital for today’s and future generations and good social care can contribute all of the indicators, the wellbeing of children and families so they can reach their full potential.

6.2.9 International

Outcome: “We are open, connected and make a positive contribution internationally”

The indicators within this outcome (with those that are relevant in **bold**) are:

- A positive experience for people coming to Scotland
- **Scotland’s reputation**
- **Scotland’s population**
- **Trust in public organisations**
- International networks
- Contribution of development support to other nations

As a founding member of the Wellbeing Economy Governments (WEGo) initiative, Scotland seeks to be an international exemplar of taking account a wide range of issues when considering economic and social progress.



How a country provides for those requiring social care has an impact on how it is perceived.

6.2.10 Culture

Outcome: “We are creative and our vibrant and diverse cultures are expressed and enjoyed widely”

The indicators within this outcome (with those that are relevant in **bold**) are:

- **Attendance at cultural events or places of culture**
- **Participation in a cultural activity**
- Growth in cultural economy
- People working in arts and culture

Good quality care can increase the opportunities that those cared for are able to contribute to culture, whether as a participant or an attendant. In addition to personal or supportive care, adaptations at venues for performers and the audience is a greater part of the social care provision which can enhance participation.

6.2.11 Environment

Outcome: “We are open, connected and make a positive contribution internationally”

The indicators within this outcome (with those that are relevant in **bold**) are:

- **Visits to the outdoors**
- State of historic sites
- Condition of protected nature sites
- **Energy from renewable sources**
- **Waste generated**
- Sustainability of fish stocks
- Biodiversity
- Marine environment

How social care is delivered has environmental impacts and as services are developed, an opportunity for innovative solutions, particularly in heating, power and transport.

6.3 Summary of Wellbeing Benefits

It is clear that many of the outcomes and indicators can be positively aligned with high quality social care from all perspectives; the person using care; the carers;



communities; businesses and society as a whole. Conversely poor care does not have a neutral but rather a devastating impact on all of the above, as outline by numerous narratives in the Feeley Review.

A recent article in Public Health³⁷ proposes the term 'superpolicy'. In the article, the authors state: *'We propose the term 'superpolicy' for policies that achieve positive outcomes across a wide range of areas beyond that which was the primary intention, and which do not have unintended negative outcomes.'*

Social care can fit the criteria of superpolicy, if done correctly, as it is a win-win for everyone, including the government as investor. It aligns to the overall purpose of the NPF, the outcomes and a vast number of indicators that social care can positively impact and influence as show in Figure 6-2.

Whilst a number of the measures are relevant to social care and good quality care has the potential to impact them, it is worth noting that the depth and volume of impact will vary depending on the number of people affected.

Figure 6-2: Potential Contribution to NPF Outcomes from Social Care Sector



Source: BiGGAR Economics Analysis

³⁷ ['Superpolicies' and 'policy-omnishambles' - ScienceDirect](#) by GerryMcCartney, LyndaFentona, GeorgeMorris and PhilMackied

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