The Cost of Living in a separate Scotland

Introduction

The cost of living in Scotland is lower as part of the UK. The size of the UK economy allows us to pool and share our resources and spread costs across 63 million people rather than 5 million. Our unified single market keeps costs down by increasing competition between companies. Scotland's vast, empty and beautiful landscapes make the cost of doing business higher but our union with the rest of the UK ensures the cost of meeting this challenge is shared.

A recent report, *Disposable Income in Scotland: How does it compare*, released by Professor David Bell of Stirling University, showed Scotland has lower prices than our northern European neighbours. Analysing new OECD data, Bell said *"Scotland is part of a more comprehensive free trade zone than are the Scandinavian countries or Ireland."* As such, people in Scotland have more disposable income than most people in Scandinavia or Ireland.

If Scotland voted to leave the UK, we would lose this single market that keeps prices low in Scotland. Trade barriers would be erected between us and our biggest business partner. We would lose the disproportionate benefits we gain from the UK-wide renewable energy subsidy. The cost of doing business in Scotland would be reflected in food prices in supermarkets. Funding for things like rail subsidies would be threatened as part of the £6 billion of spending cuts the impartial Institute for Fiscal Studies (IFS) has said would be necessary.

Perhaps the most damaging aspect of separation would be the currency chaos certain to hit Scotland. People have already started sending back their postal ballot, yet we still do not know what currency an independent Scotland would use. Our currency determines the value of everything. Without knowing what that currency is, we cannot know what our cost of living will be.

Below is an illustration of the potential impact of separation on the cost of living in Scotland. It works on the basis of the cards and receipts you would find in a typical wallet or purse. The impact will be profound and so wide spread that it would touch almost every aspect of our day to day lives. Those every-day things we would find in our purse or wallet - train tickets and shopping bills - will all be affected by our decision, the biggest we have ever made in Scotland.

We explain in more detail below but the underlying point is simple: **if Scotland votes to leave the UK every aspect of our lives would be touched by the consequences and our cost of living would go up**.

NO THANKS BRIEFING

Currency

What is Alex Salmond's Plan B on currency? We don't know. What we do know is that a currency union with the rest of the UK is not going to happen if Scotland votes to leave the UK. That leaves Scotland with three terrible currency choices: using the pound out-with a currency union; adopting our own separate currency; or joining the Euro.

We can't know what the cost of living in an independent Scotland would be without knowing what currency we would use. It affects the value of our wages, cost of food and size of our bills. It is truly astonishing that at this late stage in the campaign, we still do not know what currency our wages, pensions or benefits would be paid in.

Energy Bills

The cost of energy in a separate Scotland is likely to go up for two reasons. The first is the loss of the UK-wide renewable energy subsidy. Currently Scotland generates around 10% of UK electricity sales but receives 28% of the green energy subsidies. The Department for Energy and Climate Change has estimated that the loss of these subsidies could increase household energy bills by up to £189 a year in Scotland. That's £15.75 a month. Others such as Citigroup have suggested this figure could be even higher.

The other factor is the burden of decommissioning North Sea oil and gas infrastructure. This burden would fall on Scotland alone if we vote to leave the UK. The UK Government has set aside £20 billion for the clean-up of the North Sea. This will cost £380 per person across the UK. However, if Scotland leaves the UK the cost will fall on people in Scotland alone, increasing it to £3,800 per person. The figure in here assumes a 40 year life-span left for North Sea infrastructure. £3,800 divided over 40 years between a 4 person household means a £31.64 increase in our average energy bills.

Rail Ticket and Receipt

Scotland's train journeys are more heavily subsidised than England's. Government funding per passenger km travelled in Scotland is £0.17. In England it is £0.06. Funding of this sort is already a devolved matter but we are more able to afford it using the strength, security and stability of the UK. With the independent and impartial Institute for Fiscal Studies saying Scotland would need an 8 per cent cut in public finances, we assume here that rail subsidies would not escape the cuts.

Please note the 8 per cent cut is under the IFS's most *optimistic* scenario, the reality could be much worse.

An 8% cut in the rail subsidy would mean a decrease of £0.013 per km travelled. A return journey between Glasgow and Dundee is around 256km. If we take away the £0.013 in rail subsidies and add that to the cost to the passenger, that results in an added cost of £3.33 on the ticket. For a fare of £41.70, this is an 8 per cent increase.

NO THANKS BRIEFING

Shopping Basket Receipt

The cost of shopping is likely to increase in an independent Scotland. Common sense tells us that the cost of doing business is higher in a country like Scotland where our towns are further apart and the population more widely spread. Justin King, CEO of Sainsbury's, has said, *"there's no doubt Scotland is a more costly country in which to run a grocery retail business."*

We estimate that shopping bills in a separate Scotland could increase by around 13 per cent. The 13 per cent extra cost comes from the difference in prices between Ireland and the UK based on official EU (Eurostat) figures.

Pay slip

A vote to leave the UK could have very large consequences for our pay packets. We have chosen a nurse earning a mid-range band 5 salary of £24,312 as our example. Obviously it would be up to any Scottish Government to decide where and how it raises taxes but there is no doubt that they would have to do so. The most optimistic scenario from the IFS entails a rise in the basic rate of income tax of 9%.

We illustrate what the equivalent of a 9 per cent rise in the basic rate of income tax would mean for our nurses' pay slip. Currently, it looks like this:

Pay: £2,026
Taxable Pay: £1,193
Income Tax: £238.50
NI Employee Contribution: £163.58
NI Employer Contribution: £173.63
Employer Pension Contribution: £283.64

A 9 per cent increase in the basic rate of income tax would provide an increase of £1288.48 a year or £107.37 a month. It's unlikely an independent Scotland's government would put this burden entirely on income tax; or indeed entirely on tax-payers in general. However, we have spread the £107.37 cost per month evenly across income tax, employees national insurance and employers national insurance to illustrate the potential cost of independence to our cost of living and public finances.

For this reason, the post-separation payslip looks like this:

Pay: £2,026
Taxable Pay: £1,193

Income Tax: £282.95 (+£44.45)
NI Employee Contribution: £194.07 (+£30.49)
NI Employer Contribution: £206.06 (+£32.49)

Employer Pension Contribution: £283.64

Credit Card

Being part of the UK keeps costs down for families in Scotland. One practical benefit is that we all benefit from lower borrowing costs. This means the cost of things like mortgages repayments, credit card bills and car loans are cheaper. Impartial economists at the National Institute of Economic and Social Research (NIESR) calculate that if we leave the UK, interest rates in Scotland would rise by up to 1.65%.

Average household debt in the UK (excluding mortgages) was £6,016 according to The Money Charity. The increased costs for the average household would therefore be around £120 in increased repayment costs per year.

A rise in interest rates would also push up repayment costs on mortgages. Treasury figures confirm that if the cost of borrowing increased by just 1% that would push up mortgage costs by £1,300. If Alex Salmond followed through on his reckless threat to default on debt because he couldn't get his way on currency, the increased mortgage costs could sky rocket to £5,200.

Kids clothing

A receipt for kids clothing illustrates the problem an independent Scotland would face in complying with EU VAT regulations. Today as part of the UK we enjoy zero VAT on 54 areas of goods because of a long-standing agreement with the EU. This means we have cheaper children's clothes, books and equipment for the disabled.

If we vote to leave the UK, this opt-out on VAT would no longer apply. All of the UK's EU opt outs would be on the negotiating table with slim prospects of any at all being retained. In respect to VAT the European Commissioner for Enlargement has said as much.

In May he said *"a new Member State's VAT rates have to comply upon joining the EU with the EU legislation which currently lays down the obligation of applying a standard VAT rate."* We have projected a possible 20% rate that will include EU compliance and possible further rises to help plug the IFS's £6bn black hole.

National Insurance Card

Most Scottish wallets or purses include a national insurance card. It is the key to our participation in the welfare state that pools and shares resources across the entire UK. In a separate Scotland that arrangement, those broad shoulders, would no longer apply. The strength and stability of the UK would no longer back-up our social security as the responsibility passes onto a separate Scottish Government. Without any answers on currency, a rapidly ageing population in Scotland and £6 billion of extra cuts to our public services, the future for our pensions and social security is deeply uncertain.

NO THANKS BRIEFING