

**GOVERNMENT
EXPENDITURE & REVENUE
SCOTLAND 2008-2009**

JUNE 2010



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EXECUTIVE SUMMARY

- Government Expenditure and Revenue Scotland (GERS) is a National Statistics publication.
- GERS follows the current practice of ONS and HM Treasury in incorporating the effects of the financial sector interventions into the public accounts. The financial crisis has clearly been a unique event, particularly over the publication period of GERS, and therefore separating out this particular element helps provide continuity with previous GERS publications. Therefore in this edition of GERS, estimates are provided of Scotland's public sector finances both including and not including a share of the expenditure associated with the UK Government's financial sector interventions.
- Incorporating a share of the expenditure associated with the UK Government's financial sector interventions, in 2008-09, the estimated current budget balance for the public sector in Scotland was a deficit of £10.5 billion (9.1 per cent of GDP) excluding North Sea revenue, a deficit of £9.4 billion (8.0 per cent of GDP) including a per capita share of North Sea revenue or a surplus of £1.3 billion (0.9 per cent of GDP) including an illustrative geographical share of North Sea revenue. These estimates are comparable with the estimate of the UK's current budget balance published in the March 2010 UK Budget.
- Not including a share of the UK Government's financial sector interventions, in 2008-09, the estimated current budget balance for the public sector in Scotland was a deficit of £10.5 billion (9.1 per cent of GDP) excluding North Sea revenue, a deficit of £9.4 billion (8.0 per cent of GDP) including a per capita share of North Sea revenue or a surplus of £1.2 billion (0.9 per cent of GDP) including an illustrative geographical share of North Sea revenue.
- Incorporating a share of the expenditure associated with the UK Government's financial sector interventions, in 2008-09, the estimated net fiscal balance was a deficit of £15.5 billion (13.5 per cent of GDP) when excluding North Sea revenue, a deficit of £14.5 billion (12.2 per cent of GDP) when including a per capita share of North Sea revenue or a deficit of £3.8 billion (2.6 per cent of GDP) when an illustrative geographical share of North Sea revenue is included. This is comparable with the estimate of UK net borrowing published in the March 2010 UK Budget.
- Not including a share of the UK Government's financial sector interventions, in 2008-09, the estimated net fiscal balance in Scotland, that is the estimated current budget balance plus estimated net capital investment, was a deficit of £14.7 billion (12.8 per cent of GDP) when excluding North Sea revenue, a deficit of £13.6 billion (11.5 per cent of GDP) when including a per capita share of North Sea revenue or a deficit of £3.0 billion (2.1 per cent of GDP) when an illustrative geographical share of North Sea revenue is included.
- In 2008-09, total Scottish non-North Sea public sector revenue was estimated at £43.5 billion, equivalent to 8.3 per cent of the comparative total UK non-North Sea public sector revenue.
- In 2008-09, total public sector expenditure for Scotland was estimated at £56.5 billion (equivalent to 9.4 per cent of total UK public sector expenditure) when a share of the UK Government's financial sector interventions is included, and £55.8 billion (equivalent to 9.4 per cent of total UK public sector expenditure), when these are not included.

Preface

This report is the sixteenth in the series of official published estimates of expenditure and revenue balances of the public sector in Scotland.

The aims and objectives

The aim of GERS is to enhance public understanding of fiscal issues in Scotland. The primary objective is to estimate a set of public sector accounts for Scotland through detailed analysis of official UK and Scottish Government finance statistics. GERS estimates the contribution of revenue raised in Scotland toward the goods and services provided for the benefit of the people of Scotland. The report is designed to allow users to understand and analyse Scotland's fiscal position under different scenarios.

GERS captures the entire public sector in Scotland and includes activity by each of the constituent sub-sectors of the public sector: central government, local government and public corporations. In addition to providing an analysis of aggregate expenditure and revenue, the report contains a detailed breakdown according to individual expenditure and revenue components.

National Statistics in GERS

All expenditure and revenue data in GERS are classified as UK National Statistics. National Statistics are those figures which come within the scope of the principles of the National Statistics Code of Practice. The Code seeks to ensure that National Statistics will be valued for their relevance, integrity, quality and accessibility. More information about National Statistics is available on the Office for National Statistics (ONS) web site.¹

The approach

Unlike many other countries, the UK fiscal framework does not provide separate detailed intra-country or intra-regional fiscal accounts. GERS therefore provides estimates of public sector fiscal accounts for Scotland.

In the absence of formal intra-UK fiscal accounts, estimating a set of equivalent accounts for Scotland raises two key practical issues:

- Firstly, there is no formally agreed set of accounting concepts and definitions for the formulation of UK country or regional fiscal accounts.
- Secondly, a number of key elements of underlying data necessary for constructing public sector country or regional fiscal accounts, while available at the UK level, are not available at the UK country or regional level.

In light of this, GERS develops a robust framework for measuring public sector revenue and expenditure for Scotland. Firstly, public sector balances of expenditure and revenue are estimated for Scotland on the basis of the national accounting standards adopted by the UK Government: the European System of Accounts 1995 (ESA 95). Secondly, in the absence of unique data for Scotland, GERS estimates appropriate expenditure and revenue using the best available information and best considered apportionment methodologies. However, there are alternative approaches and data sources that could be used in the analysis. As an acknowledgement of this, the report highlights where there are different options and the

¹ <http://www.statistics.gov.uk>

sensitivity of the results presented. Furthermore, it should be borne in mind that these methodologies are subjective and therefore the figures should be viewed accordingly.

What questions does GERS address?

GERS fundamentally addresses three questions that can be captured from a set of public sector accounts for a given year:

1. What did the country pay for the full range of public services that were consumed?
2. What tax revenues were raised?
3. To what extent did these revenues raised cover the payments made for these public services?

The methodology

The headline estimates of Scottish public sector expenditure and revenue in GERS embrace two key principles:

- 1. Public sector expenditure is estimated on the basis of spending incurred for the benefit of residents and enterprises in Scotland;**
- 2. Public sector revenue is estimated for taxes where a financial burden is imposed on residents and enterprises in Scotland.**

Both issues are discussed in detail below.

Expenditure

Public sector expenditure is estimated on the basis of spending incurred for the benefit of residents and enterprises in Scotland.

The estimation of regional public sector expenditure is based on an assessment according to the 'who benefits' principle. That is, a particular public sector expenditure is apportioned to a given region if the benefit of the service or transfer derived from the expenditure is thought to accrue to residents and enterprises of that region. Assessing the regional dimension of the 'who benefits' principle is a difficult and complex task. This is especially the case in countries with closely integrated markets, significant inter-regional spillovers and mobile factors of production.

In attempting to determine the regional dimension of public sector expenditure, it is possible to classify each element of expenditure using two approaches:

- Expenditure *for* a region: where spending is allocated to a given region if the benefit of the service or transfer derived from the expenditure is thought to accrue to residents and enterprises of that region;
- Expenditure *in* a region: where spending is allocated to the region in which the expenditure actually took place.

An example of the difference between the *in* and *for* approach can help clarify the distinction. Consider the case of government funding for a national museum. Here the *in* approach would associate all government spending on the museum with the region in which the museum is located. However, the *for* approach would consider the beneficiaries of the service provided; that is, it would consider where the visitors and other users of the museum were located, measuring the spending as spread across the regions where the users live.

For most elements of expenditure, estimates of 'who benefits' based upon the *in* and *for* approaches will yield similar results. For example, the vast majority of health expenditure by NHS Scotland occurs *in* Scotland and is *for* patients resident in Scotland. Therefore, the *in* and *for* approaches should yield virtually identical assessments of 'who benefits'. However, for expenditure where the final impact is more widespread, such as defence, or higher and further education, an assessment of 'who benefits' depends critically upon the nature of the benefit being assessed.

The objective of GERS is to estimate a set of public sector accounts for Scotland. On the expenditure side, it therefore identifies the expenditure in a given year that was incurred for the full range of public services that were consumed: that is, those services provided *for* the people of Scotland.

The *for* approach considers the location of the recipients of services or transfers that government expenditure finances, irrespective of where the expenditure takes place. For example, with respect to defence expenditure, as the service provided is a national 'public good', the *for* methodology operates on the premise that the entire population benefits from the provision of a national defence service. Accordingly, under the *for* methodology, national defence expenditure is apportioned across the UK on a per capita basis.

An assessment of the more narrow economic benefits of public sector expenditure would concentrate on the *production* of the good or service and where the expenditure actually took place. The focus of this approach would be on employment levels, procurement costs and local economic multiplier effects.

However, the aim of GERS is to provide an estimate of the full range of public services consumed in a given year for the benefit of Scotland. A study of the economic impact of government expenditure is a separate exercise. Therefore GERS uses, wherever possible, the *for* methodology.

Appendix B provides a detailed discussion of the methodologies and datasets used to undertake this task.

Financial Sector Interventions

In 2008 and 2009, the global financial system experienced a significant shock. What began as a localised crisis in the US sub-prime mortgage market developed into a full scale international credit crunch and recession. Across the world, financial institutions came under significant pressure following the collapse of the investment bank Lehman Brothers and, in order to prevent a systemic collapse, governments intervened. This action took a number of forms. For example, deposit insurance schemes were extended in at least 40 countries to mitigate the risk of bank runs and mechanisms were established to buy 'toxic' assets, and to insure against excessive losses. In addition, many governments provided direct financial support in the form of capital injections in a number of institutions. In the USA, the insurance company AIG and bank Citigroup received capital funding, as did UBS and Credit Suisse in Switzerland, ING in the Netherlands and Fortis received joint support from the Benelux countries. In the UK, capital injections were made in the Royal Bank of Scotland, Lloyds TSB and HBOS.

Preface

Accounting for the full spectrum of financial sector interventions in the public finances is not straightforward. Indeed, ONS have yet to fully incorporate the various financial accounts of RBS and Lloyds Banking Group into the UK National Accounts².

GERS follows the current practice of ONS and HM Treasury in incorporating the effects of the financial sector interventions into the public accounts. It should be noted that as this remains work in progress at the UK level, the GERS estimates should be viewed accordingly.

In this edition of GERS, estimates are provided of Scotland's public sector accounts both including and not including a share of the expenditure associated with the UK Government's financial sector interventions. Estimates not including the effects of the financial interventions are presented to help highlight underlying trends in the GERS data from previous years to the latest year, 2008-09. The financial crisis has clearly been a unique event, particularly over the publication period of GERS, and therefore separating out this particular element helps provide continuity with previous GERS publications. It should be noted that the GERS estimates of Scotland's fiscal accounts which include the effects of the UK Government's financial sector interventions are directly comparable with the data presented in Tables C3 and C4 in the March 2010 UK Budget.

A discussion of the current methodologies undertaken in this edition of GERS, and the various alternative approaches, is provided in Chapter 3.

Revenue

Public sector revenue is estimated for taxes where a financial burden is imposed on residents and enterprises *in* Scotland

Corresponding to the 'who benefits' principle is the 'who pays' principle, which concerns the identification of the location of the source of public sector revenue. In GERS, the 'who pays' principle is based upon the residential location of where the revenue is raised.

For a variety of practical and theoretical reasons, estimating revenue for individual countries and regions of the UK is generally more difficult than estimating expenditure. Revenue is generally collected on a UK basis, whereas the benefits of expenditure are generally targeted on a regional basis. Under current UK Budgetary accounting procedures, separately identified revenue figures for each country and region of the UK are not available.

As a result, Scottish public sector revenue is estimated by considering each revenue stream separately. Appendix A provides a detailed discussion of the methodologies and datasets used.

² A full discussion of the approach that is currently being taken by ONS can be accessed in the publication 'Public Sector Excluding Financial Sector Interventions' <http://www.statistics.gov.uk/cci/article.asp?ID=2380>.

The data sources

The primary data source used to estimate Scottish public sector expenditure is the Public Expenditure Statistical Analyses (PESA) data published by HM Treasury. Within PESA, tables relating to a Country and Regional Analysis (CRA) are available, together with a database in which UK Government departments and devolved administrations allocate expenditure programmes to Scotland, Wales, Northern Ireland and English regions. Access to the CRA database can be obtained through the HM Treasury website³.

The source of the revenue data is ONS Public Sector Finance Statistics, which provides disaggregated figures relating to UK public sector revenue. Access to the ONS Public Sector Finance Statistics database can be obtained through the ONS website.⁴

Future Work

The development of GERS is an ongoing process and feedback from users of the publication is welcome. Please address any comments to

Government Expenditure and Revenue Scotland (GERS)
Office of the Chief Economic Adviser,
Scottish Government,
St Andrew's House,
Regent Road,
Edinburgh, EH1 3DG

³ http://www.hm-treasury.gov.uk/pesp_cra.htm

⁴ The latest Public Sector Finances dataset is available from http://www.statistics.gov.uk/downloads/theme_economy/PSF_Supplementary_Data.xls. As this dataset is updated monthly, figures contained in the more recent data releases will differ from those used in this report.

1

INTRODUCTION AND OVERVIEW

Introduction

The aim of GERS is to enhance public understanding of fiscal issues in Scotland. The primary objective is to estimate a detailed set of public sector accounts for Scotland through an in-depth analysis of official UK and Scottish Government finance statistics.

The report estimates public sector expenditure and revenue for Scotland for the years 2004-05 to 2008-09. Particular focus is given to 2008-09, the latest fiscal year for which outturns of expenditure and revenue are available for Scotland. Comparable data for the years 2002-03 and 2003-04 can be found in the previous two GERS publications. The data used are a snapshot of the UK public finance dataset at the time of the March 2010 UK Budget. All figures are in current prices.

Full discussion of the methodologies used to estimate the figures for Scotland are contained in the document and in the detailed appendices on the Scottish Government GERS website⁵.

The figures within this report are estimates and should therefore be viewed accordingly. Sensitivity analysis is conducted to highlight how the headline analysis contained within the report can be expected to change in light of variation in the estimates of particular expenditures and revenues. These results are presented in the detailed appendices.

Structure of report

The structure of the report follows that of GERS 2007-08. The outline below provides a brief overview of the chapters contained in the publication.

Chapter 2: Fiscal background

This chapter provides a brief background to the fiscal framework in which the public sector operates in Scotland and the UK.

Chapter 3: Scotland's public sector accounts

This chapter provides a summary of estimated public sector revenue in and expenditure for Scotland between 2004-05 and 2008-09. It contains an estimate of total current and capital expenditure by the public sector for Scotland and an estimate of the revenue raised. It also includes an estimate of the current budget balance (i.e. current revenue less current expenditure less capital consumption) and the overall net fiscal balance (i.e. the current budget balance less net investment). As the figures in this chapter cover the whole of the public sector in Scotland, and use National Accounts definitions, they are not directly reconcilable with departmental budget reports.

⁵ <http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/GERS>

Chapter 4: Public sector revenue

Chapter 4 presents a detailed discussion of public sector revenue raised in Scotland and compares the estimated figures for Scotland with those for the UK. As Chapter 5 provides a detailed discussion of North Sea revenue, the focus of this chapter is on all other elements of public sector revenue. While the report covers the fiscal years 2004-05 to 2008-09, special attention is given to 2008-09, the latest fiscal year for which the outturn data of public sector revenue are available for Scotland.

The revenue analysis in GERS is consistent with ONS's Public Sector Finance Statistics.

The majority of public sector revenue raised in the UK is collected centrally by the UK Government and corresponding figures for Scotland have to be estimated. Appendix A and the detailed revenue methodology paper on the GERS website discuss the approach taken to estimate each particular component of public sector revenue.

Chapter 5: North Sea revenue

Chapter 5 discusses the treatment of fiscal revenue from the North Sea. For many years, there has been considerable debate on how the delineation of North Sea output and revenue might be determined. In this chapter, a range of estimates of Scotland's share of North Sea revenue are provided, together with their impact on total public sector revenue in Scotland.

Chapter 6: Public sector expenditure

Chapter 6 presents a detailed discussion of public sector expenditure for Scotland and compares and contrasts the estimated figures for Scotland with those for the UK. While the report covers the fiscal years 2004-05 to 2008-09, special attention is given to 2008-09, the latest fiscal year for which outturns of public sector expenditure are available for Scotland.

The expenditure analysis in GERS is consistent with the approach HM Treasury takes to estimate public sector expenditure in the UK. Total expenditure is divided into current and capital expenditure. Current expenditure includes items such as public sector wages and social security payments. Capital expenditure largely comprises the development of public sector infrastructure, either new construction or significant renovation to existing infrastructure, such as schools and hospitals.

In GERS, expenditure is also divided into three categories: identifiable expenditure; non-identifiable expenditure; and accounting adjustments. Identifiable expenditure is expenditure that can be directly identified as having been spent for the benefit of a country or region within the UK. Non-identifiable expenditure is expenditure that is considered to occur on behalf of the UK as a whole and which cannot be apportioned on an individual country or regional basis. Finally, an accounting adjustment is required to bring the estimate of expenditure in line with current National Accounts conventions.

In the main, expenditure for Scotland is sourced from the PESA CRA database. Estimates of identifiable expenditure are taken directly from this database, though a number of important modifications were made before being used in the GERS report. These are highlighted in the chapter. Scotland's share of non-identifiable expenditure, accounting adjustments and UK Government expenditure on activities and services outside the UK, are estimated according to a variety of apportionment methodologies. Appendix B, which is also available on the GERS website, discusses the approach taken to estimate each element of public sector expenditure.

Chapter 7: Conclusion

Chapter 7 provides a short summary of the key results.

Appendix A: Revenue methodology

Appendix A provides a brief summary of the various methodologies that have been applied to estimate public sector revenue in Scotland and summarises the extent and nature of the revisions to the revenue estimates between this edition of GERS and GERS 2007-08.

A more detailed revenue methodology paper is available on the GERS website which provides a full discussion of the estimation techniques applied for each revenue source⁶.

Appendix B: Expenditure methodology

Appendix B provides a brief summary of the various methodologies that have been applied to estimate public sector expenditure for Scotland.

Appendix B also highlights where the data contained in GERS differ from that in the underlying PESA CRA database. The appendix also discusses the key apportionment methodologies that have been applied to estimate Scotland's share of UK non-identifiable expenditure, identifiable expenditure outside the UK and accounting adjustments.

This appendix is also available on the GERS website⁷.

⁶ <http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/GERS>

⁷ <http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/GERS>

2

FISCAL BACKGROUND

This chapter outlines the institutional framework in which Scottish public sector expenditure and revenue is set.

PUBLIC SECTOR EXPENDITURE FOR SCOTLAND

Total Managed Expenditure in the United Kingdom

In the current UK public finance framework, the key expenditure aggregate is Total Managed Expenditure (TME)⁸. TME comprises public sector current expenditure, net investment, and capital consumption. TME covers the entire public sector, including central government, local government, and public corporations.

System of Public Expenditure and Data Sources

The primary source of public sector expenditure data across the four countries of the UK is the Public Expenditure Statistical Analyses (PESA) database published by HM Treasury. Expenditure figures in PESA are net expenditure (e.g. expenditure net of any receipts).

Included in PESA is an analysis of Total Expenditure on Services (TES) by country and region (CRA). HM Treasury request that UK departments and devolved administrations apportion spending between countries and regions on the basis of 'who benefits', using the *for* methodology. Guidance on how this should be done is provided by HM Treasury and ONS. HM Treasury then collates departments' returns and combines these with the known spending of local authorities. The results for 2004-05 to 2008-09 are published in Chapters 9 and 10 of PESA.

The data in PESA and CRA are presented according to the Classification of the Functions of Government (COFOG), a United Nations based code for functional analysis of government expenditure⁹.

It is important to note that expenditure allocated to Scotland in PESA includes expenditure by the Scottish Government, expenditure by Scottish local authorities, expenditure by public corporations for Scotland and expenditure by the UK Government on goods and services for the benefit of Scotland.

⁸ Total Managed Expenditure is a measure of public sector expenditure drawn from components in National Accounts produced by the Office for National Statistics (ONS).

⁹ Further information on COFOG is available on the UN's website <http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=4>

In this context, the term 'central government' comprises: parliaments; government departments and their executive agencies; government funds such as the national loans fund; the official foreign exchange reserves; non-departmental public bodies; NHS trusts and various other non-market public bodies controlled by the public sector. Central government does not include some non-profit institutions that receive significant government funding, but are not controlled by government. These are classified in the private or third sector: for example, universities, further education colleges, and housing associations.

Local government comprises all local government administrations in the UK. Scotland has 32 local authorities operating over the period of this edition of GERS.

Public corporations are publicly controlled entities that are deemed to operate in the market based on a test of their sales to operating costs. A body that fails this test, such as the BBC where the majority of its income is from the licence fee rather than sales, is deemed non-market and will hence be classified as either central or local government.

A number of significant improvements have been made to the PESA CRA database in recent years to apportion expenditure more accurately to countries and regions. While many anomalies in previous editions of PESA CRA have been addressed and are now reflected in both PESA CRA 2010 and this GERS report, a number of supplementary amendments to the PESA CRA 2010 dataset were made in producing this GERS. The aim of these refinements was to ensure that the public sector expenditure figure for Scotland captures as accurately as possible expenditure for the benefit of Scotland. As part of the preparation of GERS, Scottish Government statisticians have scrutinised the published April 2010 PESA CRA data to identify any remaining issues. From 1,400 programme object groups in PESA CRA 2010, a small number were identified and, in these cases, GERS uses different data to those in the underlying PESA CRA database. All such amendments are set out in Chapter 6 and Appendix B.

The refinements made to the CRA database have also improved the apportionment of expenditure between COFOG categories. Therefore, the estimates of expenditure by COFOG category in this edition of GERS are not directly comparable to those in GERS 2006-07.

Although every effort has been made when compiling this report to verify the credibility and accuracy of the data contained in PESA, it is inevitable that minor anomalies will remain. Work to improve the quality of PESA is an ongoing objective of HM Treasury and UK Government departments and Scottish Government officials will continue to liaise with UK Government colleagues to improve further the quality of the PESA data.

The Framework for the Management of Expenditure by the Scottish Government

Scottish Government spending programmes fall into two categories: those within the Scottish Departmental Expenditure Limit (DEL) and those within Annually Managed Expenditure (AME), as set out in Box 2.1.

- Departmental Expenditure Limit (DEL) expenditure is expenditure that is planned and controlled across the period of each spending review; and,
- Annually Managed Expenditure (AME) is expenditure that cannot reasonably be subject to firm, multi-year limits in the same way as DEL.

DEL is significantly larger than AME. DEL plus AME plus an 'accounting adjustment' sum to TME.

The Scottish Government's DEL encompasses most administrative budgets and all programme expenditures. Programmes outside the Scottish Government's DEL are mainly those where expenditure cannot be planned far ahead and has to be adjusted annually; for example, expenditure on the capital costs relating to motorways and trunk roads.

For programmes within DEL, Scotland (like the other devolved administrations) receives a direct funding allocation from the UK Government. Expenditure limits are raised according to the population-related proportion of spending increases on comparable expenditure by Whitehall departments (this process is known as the "Barnett Formula"). For the years contained within this publication, such expenditure has, by and large, been determined by the UK Government as part of the UK Comprehensive Spending Review process.

The Framework for the Management of Expenditure for Scotland by the UK Government

UK Government expenditure for Scotland falls into the same two categories: DEL and AME. This expenditure is governed by the same rules and accounting procedures as those for the Scottish Government.

The single largest element of identifiable public sector expenditure for Scotland by a Whitehall Department is social security expenditure, which is administered by the Department for Work and Pensions (DWP).

The Framework for the Management of Local Government Expenditure for Scotland

Scotland's local government 'net revenue expenditure' is supported through a combination of funding from central government, known as total revenue support, and resources raised locally by local authorities themselves through council tax. Total revenue support comprises three elements: the amount which Scottish Ministers have estimated will be payable to local authorities as specific revenue grants; the distributable amount of non-domestic rate income (NDR); and General Revenue Grant (GRG). The total amount of revenue support is distributed to local authorities using an agreed needs-based methodology, known as the client group approach. Statistical data describing the 'clients' – i.e. those who 'benefit' from particular services – are used to re-distribute resources between local authorities in Scotland.

The Framework for the Management of Expenditure by Public Corporations for Scotland

Expenditure by public corporations for Scotland is set out within DEL and AME. Individual public corporations are responsible for their own expenditure. The largest public corporation in Scotland is Scottish Water. The expenditure incurred by public corporations in producing goods and services for sale is not included in public sector current expenditure. Instead, it is deducted from their sales and the net position is recorded in public sector revenue.

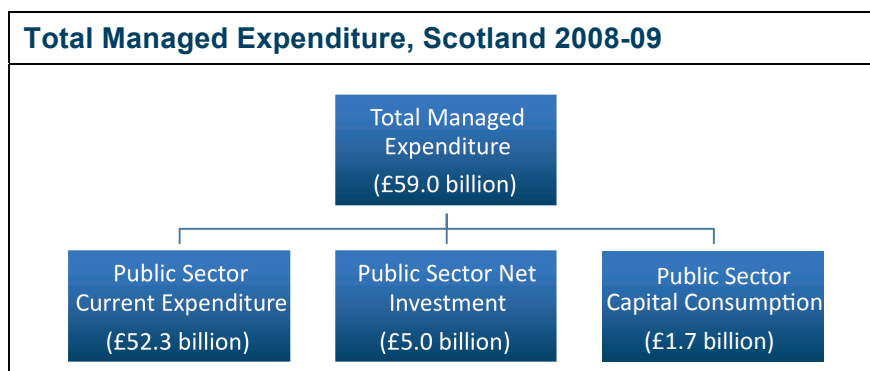
Box 2.1 – Aggregate Scottish Public Sector Expenditure

This box outlines the two key measures of aggregate public sector expenditure in UK public finances, Total Managed Expenditure (TME) and Total Expenditure on Services (TES), which are used in GERS.

Total Managed Expenditure

TME is an aggregate measure of public sector expenditure derived from the UK National Accounts. It encompasses all current and capital spending by the public sector and includes the activities of central and local governments and public corporations. In GERS, TME is the expenditure side of the equation used to derive Scotland's net fiscal balance.

TME is comprised of a number of different sub measures. For example, TME can be broken down into public sector current expenditure, public sector net investment and public sector capital consumption, as set out in the chart below. The estimates below include a share of the UK Government's financial sector interventions.



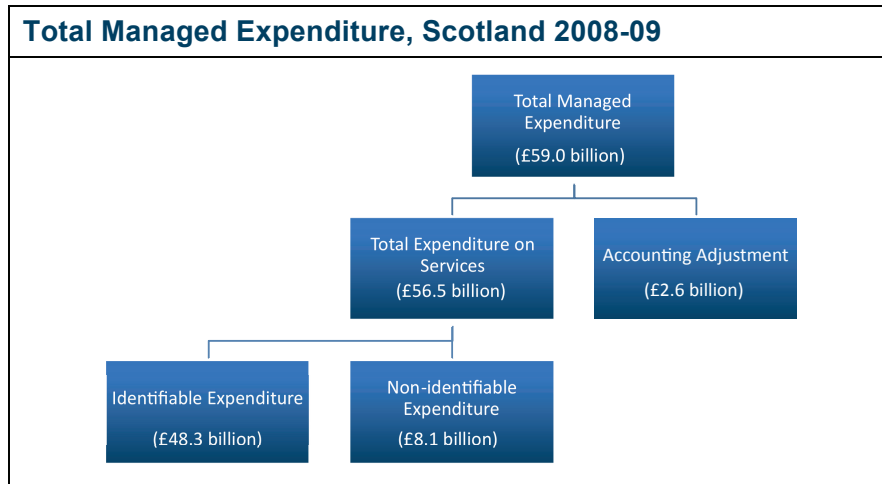
TME can also be expressed as the sum of Annually Managed Expenditure (AME) and Departmental Expenditure Limits (DEL). AME covers current and capital spending programmes which are generally less predictable and are not easily subject to firm multi-year limits. Key elements of AME include debt interest payments and social transfers such as tax credits and unemployment benefit. In contrast, DEL covers spending which is planned and controlled across the period of a spending review period and generally incorporates administrative budgets and all programme expenditures, such as most spending on health and education. The vast majority of expenditure by the Scottish Government is DEL expenditure.

Total Expenditure on Services

The detailed COFOG analysis of public sector expenditure in GERS (Chapter 6) focuses on TES. TES is an alternative aggregate of public sector expenditure in the UK provided in PESA which can be used to analyse a detailed breakdown of public sector capital and current spending by government department. TES accounts for approximately 95% of TME and there are a number of minor differences between TES and TME. The main differences are that TES does not include general government capital consumption and does not reverse the deduction of certain VAT refunds from budget based expenditure data. TES also contains a number of items that are in departmental budgets but are not included in TME, for example the hidden benefit contained within student loans, which are granted with

a concessional interest rate.

An accounting adjustment reconciles TES and TME such that TES plus the accounting adjustment equals TME as summarised in the figure below. The accounting adjustment used in GERS is set out in more detail in Chapter 6. The estimates provided in the illustration below include a share of the UK Government’s financial sector interventions.



PUBLIC SECTOR REVENUE IN SCOTLAND

UK Fiscal Revenues

The vast majority of fiscal revenue raised by the public sector in Scotland is controlled by the UK Government with collection the responsibility of HM Revenue and Customs. Changes to UK taxation are typically announced in the UK Budget or Pre-Budget Reports (PBR). Taxes on income and wealth and on production are the two largest sources of tax revenue in the UK.

The primary source of UK revenue data is the ONS’s Public Sector Finance statistics.

Devolved Fiscal Revenues

Under The Scotland Act, the Scottish Parliament has the power to vary the UK basic rate of income tax by up to 3 pence for Scottish residents. To date, this power has not been used. For 2008-09, the potential change in revenue from the full use of this power was approximately £1.1 billion¹⁰.

Local government ‘own-source’ revenues stem from council tax, non-domestic rates (also known as business rates) and non-tax revenues such as user charges, fees and fines. Council tax and non-tax revenues are controlled and administered by individual local authorities.

Since 1 April 1993, all non-domestic rates income (NDRI) in Scotland has been placed in a national ‘pool’ and shared between local authorities pro rata to their population. Although the poundage rate is set nationally by the Scottish Government, local authorities are

¹⁰ HM Treasury – UK Budget 2008, page 113

2 Fiscal Background

responsible for the local collection of NDRI. Any over-estimation of NDRI is compensated for by a reduction in the General Revenue Grant (GRG) and vice versa.

Government Borrowing

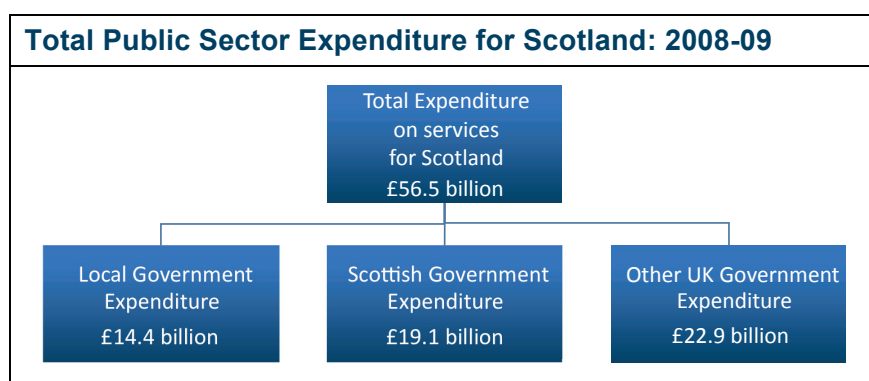
The borrowing powers of the Scottish Government are strictly limited. The Scotland Act provides for short term borrowing sufficient to cover 'a temporary excess of sums paid out of the Scottish Consolidated Fund over sums paid into that Fund' or for 'providing a working balance in the Fund'. Any such borrowings must only be from the UK Government. In effect, this means that the Scottish Government has very limited authority to raise extra resource by borrowing or sanctioning borrowing. Local authorities have wider borrowing powers. The Scottish Government funds the debt servicing costs of some of this borrowing, known as "supported borrowing", via the GRG whilst the unsupported borrowing element, arranged under the Prudential Regime, is financed through local authorities' own general resources.

The UK Government is able to borrow to fund public sector expenditure across the UK, including the Scottish Government block grant.

Box 2.2 – Whole of Government Accounts

GERS captures the entire public sector in Scotland and includes activity by each of the constituent sub-sectors of the public sector: central government, local government and public corporations.

Following a recommendation by the Public Accounts Committee, a key goal in the presentation of financial accounts for the public sector in the UK, is to make greater use of a system which provides a full and comprehensive record of expenditure and revenue and the transfer of resources between elements of the public sector. This has led to a commitment to produce commercial-style accounts for the entire public sector known as Whole of Government Accounts (WGA). The tables below present a summary of aggregate levels of expenditure in Scotland by each element of the public sector in Scotland. The estimates below include a share of the UK Government's financial sector interventions.



Introduction

This chapter provides a summary of Scotland's public sector accounts for the years 2004-05 to 2008-09. It outlines the latest estimates of public sector revenue in Scotland and expenditure for Scotland, and includes:

- Headline estimates of public sector revenue in Scotland and of expenditure for Scotland, the key aggregates for assessing the strength of public finances in Scotland;
- Five-year estimates of current and capital expenditure for Scotland and key elements of public sector revenue in Scotland;
- Estimates of the current budget balance and net fiscal balance of the public sector in Scotland.

As discussed in the preface, within the present constitutional arrangements there is no formal requirement for a comprehensive compilation of UK country and regional budgetary accounts. Therefore, the results presented in this section are statistical estimates of public sector revenue in Scotland and of expenditure for Scotland, not precise financial accounts and should be viewed accordingly.

Financial Sector Interventions

Accounting for the full spectrum of financial sector interventions in the public finances is not straightforward. Indeed, ONS has yet to fully incorporate the various financial accounts of RBS and Lloyds Banking Group into the UK Public Sector Finances¹¹.

The series of measures undertaken to support the UK financial sector has consisted of three key elements - guarantees, recapitalisation and various loan programmes such as the support provided through the Financial Services Compensation Scheme.

It is important to note that the actual outlay by the government has been much less than the total value of support offered. Many of the provisions, for example the Asset Protection Scheme, would only incur net financial costs if the facility was called upon by participating institutions. Indeed, the full amount would only be realised in a worst case scenario. The stabilisation of markets since these measures were announced has meant that the net outlay from such guarantee schemes is forecast to "not have a material cost on the UK tax payer"¹².

However other measures, such as the direct recapitalisation of financial institutions, did incur an immediate, but potentially transitory, financial cost and this will be reflected in any assessment of the public finances.

The headline measure of UK public sector net borrowing in the 2009 Pre-Budget Report and the March 2010 Budget, together with the assessment of the public finances undertaken by the Office for Budget Responsibility in June 2010, is referred to as PSNB-ex. This measure

¹¹ A full discussion of the approach that is currently being taken by ONS can be accessed in the publication "Public Sector finances excluding financial interventions" - <http://www.statistics.gov.uk/cci/article.asp?ID=2380> .

¹² HM Treasury (2010) – March 2010 UK Budget Pg 213.

classifies the support to the financial sector as a transaction between the public and private sector, even if the transaction involves a financial institution which is deemed to be in the public sector. This reflects the fact that, in time, the government will return ownership of these institutions to the private sector. For example, any programme of recapitalisation is classified as a burden on the public finances, even if the direct result of such an action is to bring this institution into the public sector. Such a measure of net borrowing therefore captures the effects of the various financial interventions on the UK's public finances. In the financial year 2008-09, the net outlay recorded in public sector net borrowing was £8.3 billion, of which, capital expenditure was £9.4 billion and current expenditure -£1.1 billion (a net-revenue).¹³ These figures include expenditure associated with the recapitalisation of RBS, HBOS and Lloyds TSB, and depositor compensation for Bradford and Bingley, net of all revenues received, including those from fees and payments associated with the various schemes.

This edition of GERS follows two approaches. Firstly, it provides an estimate of Scotland's public sector accounts including a share of the net costs of the various measures to support the financial sector within the estimates of Scotland's current budget and net fiscal balance. These estimates are directly comparable with the headline UK current budget and net borrowing figures presented in the March 2010 Budget. Secondly, it estimates Scotland's public sector accounts without a share of the various interventions to support the financial sector. These estimates are presented to highlight underlying trends in the GERS data from previous years to the latest year, 2008-09.¹⁴

In tracing the impact of the various financial sector interventions on the public finances, it should be noted that there is an important distinction between the central government net cash requirement (CGNCR) and net borrowing. CGNCR represents the government's net financing requirement at a given point in time. In contrast, net borrowing is a general assessment of the change in the public sector's net financial indebtedness and is therefore a broader measure of the underlying strength of the public finances. For example, the package of financial recapitalisation for RBS, HBOS and Lloyds TSB is divided into non-financial and financial elements. The financial part represents the value of the equity acquired. The non-financial part, which contributes to government net borrowing, is recorded as the difference between the price paid for the equity and its market price on the day of the purchase. These were worth £6.1 billion in 2008-09 and £6.4 billion in 2009-10. In contrast, the additional outlay to finance the acquisition of equity included a further £30.8 billion in 2008-09 and £23 billion in 2009-10, and it is this full amount which enters the CGNCR.

Treatment of Financial Sector Interventions in GERS

PESA classifies the UK Government's support for the financial sector as UK non-identifiable expenditure – that is HM Treasury has deemed that such interventions are for the benefit of the UK as a whole.

There are various methods that can be applied to apportion a share of such non-identifiable expenditure to Scotland. The method used in this edition of GERS assigns a population share to Scotland of the total UK expenditure, on the basis that all areas of the UK have benefited equally from the resulting stabilisation of the UK financial system. This apportionment results in total Scottish expenditure on financial stability measures of £700

¹³ Extract from PESA 2010 - http://www.hm-treasury.gov.uk/pesa2010_section4.htm

¹⁴ An alternative methodology would be to fully incorporate the publically controlled financial institutions into the public sector accounts. Such a measure may be volatile once ONS has fully incorporated all the financial institutions into the Public Sector Finances as all transactions between these publically controlled financial institutions and private households, businesses and other financial institutions will feed into this measure of the public finances.

million, comprised of £788 million and -£88 million in capital and current expenditure respectively.

Table 3.1: Scotland: Estimated Share of Financial Stability Expenditures: 2008-09		
	(£ millions)	
	Scotland	UK
Current	-88	-1,049
Capital	788	9,361
Total	700	8,312

These estimates are clearly highlighted in Chapter 5 within expenditure on Enterprise and Economic Development.

Current and Capital Budgets

The following tables set out estimates of public sector revenue and expenditure for Scotland over the financial years 2004-05 to 2008-09. The figures for revenue and expenditure correspond to the estimates contained in Chapters 4, 5 and 6¹⁵.

Current revenue, as defined in the UK National Accounts, is the sum of all revenue raised in a particular year by the entire public sector¹⁶. In Scotland, this consists of the Scottish Government, the UK Government, local authorities and public corporations. The main component is tax revenues.

Public sector current expenditure is the sum of the current expenditure of general government for Scotland and certain distributive transactions (interest and dividends) payable by public corporations. Current expenditure includes items such as wages and salaries, social security payments and day to day health expenditure.

Public sector capital expenditure includes capital formation, the net acquisition of land, and net expenditure through capital grants. Net investment is public sector capital expenditure, net of capital consumption. Capital consumption represents the amount of fixed capital used up each year. It is generally calculated from a model based on assumptions about asset lives and a rolling estimate of the public sector's stock of capital assets derived from annual capital expenditure data.

The term net fiscal balance measures the difference between public sector expenditure and revenue. In Scotland, the gap between public sector revenue and expenditure is not directly reflected in borrowing (or saving) and instead, is part of the overall fiscal stance of the UK public sector.

In GERS, three estimates of Scotland's public sector accounts are presented, (i) an estimate excluding North Sea revenue, (ii) an estimate including a per capita share of North Sea revenue and (iii) an estimate including an illustrative geographical share of North Sea revenue. Chapter 5 contains a discussion of North Sea revenue and the precise definitions used here.

¹⁵ All figures in GERS are in market prices (i.e. nominal terms) and in most tables figures are presented as rounded to the nearest £ million. Components of tables may not therefore sum exactly to the published totals.

¹⁶ In the UK National Accounts, local authority user charges are classified as negative expenditures and therefore do not enter the revenue calculations in GERS.

Scotland's Fiscal Balance Including a Share of the UK Government's Financial Sector Interventions

As set out in the Preface, this edition of GERS provides estimates of Scotland's public sector accounts both with and without a share of the expenditure associated with the UK Government's financial sector interventions.

Table 3.2 presents estimates of Scotland's current budget balance and net fiscal balance including a share of the UK Government's financial sector interventions. This is consistent with the methodology used to estimate UK public sector revenue, expenditure and net borrowing in the March 2010 UK Budget and the Pre-Budget Forecasts published by the newly established Office for Budgetary Responsibility in June 2010¹⁷.

Table 3.2: Current and Capital Budgets Including Financial Sector Interventions: Scotland 2004-05 to 2008-09

	(£ million)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Current Budget					
Current revenue					
Excluding North Sea revenue	36,983	39,787	42,198	44,966	43,466
Including North Sea revenue (per capita share)	37,422	40,580	42,952	45,627	44,553
Including North Sea revenue (geographical share)	41,515	47,914	49,694	52,417	55,236
Current expenditure	40,814	43,394	45,128	47,962	49,876
Current expenditure accounting adjustment	1,779	2,066	2,261	2,372	2,397
Capital consumption	1,443	1,523	1,518	1,609	1,694
Balance on current budget (surplus is positive, deficit is negative)					
Excluding North Sea revenue	-7,053	-7,197	-6,709	-6,976	-10,501
Including North Sea revenue (per capita share)	-6,614	-6,403	-5,955	-6,316	-9,413
Including North Sea revenue (geographical share)	-2,521	931	787	474	1,270
Capital Budget					
Capital expenditure	3,704	4,283	4,964	5,243	6,585
Capital expenditure accounting adjustment	321	171	147	85	157
Capital consumption	-1,443	-1,523	-1,518	-1,609	-1,694
Net Investment	2,582	2,931	3,593	3,719	5,047
Net Fiscal Balance (surplus is positive, deficit is negative)					
Excluding North Sea revenue	-9,635	-10,127	-10,302	-10,695	-15,548
Including North Sea revenue (per capita share)	-9,195	-9,334	-9,548	-10,035	-14,460
Including North Sea revenue (geographical share)	-5,103	-2,000	-2,806	-3,245	-3,777

Tables 3.3a – 3.3c present the estimates of Scotland's public sector accounts as a percentage of Gross Domestic Product (GDP), including a share of the UK Government's

¹⁷ The Budget and OBR report refer to this measure as excluding the *temporary* effects of the financial sector interventions. This is because once the publically owned banks are fully incorporated into the public sector accounts, this measure will exclude the effect of transactions between these banks and the private sector when reporting the public sector finances, as set out on pages 23 and 24

financial sector interventions. Box 3.2 discusses the process used to estimate Scotland's GDP under the three sets of estimates for North Sea revenue.

Table 3.3a: Current and Capital Budgets Including Financial Sector Interventions (Excluding North Sea Revenue) % GDP: Scotland 2004-05 to 2008-09

	(per cent of GDP)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Current Budget					
Current revenue					
Excluding North Sea revenue	38.4	39.3	39.1	39.2	37.7
Current expenditure	42.4	42.9	41.8	41.8	43.3
Current expenditure accounting adjustment	1.8	2.0	2.1	2.1	2.1
Capital consumption	1.5	1.5	1.4	1.4	1.5
Balance on current budget (surplus is positive, deficit is negative)					
Excluding North Sea revenue	-7.3	-7.1	-6.2	-6.1	-9.1
Capital Budget					
Capital expenditure	3.8	4.2	4.6	4.6	5.7
Capital expenditure accounting adjustment	0.3	0.2	0.1	0.1	0.1
Capital consumption	-1.5	-1.5	-1.4	-1.4	-1.5
Net Investment	2.7	2.9	3.3	3.2	4.4
Net Fiscal Balance (surplus is positive, deficit is negative)					
Excluding North Sea revenue	-10.0	-10.0	-9.6	-9.3	-13.5

Table 3.3b: Current and Capital Budgets Including Financial Sector Interventions (Per Capita Share North Sea Revenue) % GDP: Scotland 2004-05 to 2008-09

	(per cent of GDP)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Current Budget					
Current revenue					
Including North Sea revenue (per capita share)	38.1	39.2	39.0	38.8	37.7
Current expenditure	41.6	42.0	41.0	40.8	42.2
Current expenditure accounting adjustment	1.8	2.0	2.1	2.0	2.0
Capital consumption	1.5	1.5	1.4	1.4	1.4
Balance on current budget (surplus is positive, deficit is negative)					
Including North Sea revenue (per capita share)	-6.7	-6.2	-5.4	-5.4	-8.0
Capital Budget					
Capital expenditure	3.8	4.1	4.5	4.5	5.6
Capital expenditure accounting adjustment	0.3	0.2	0.1	0.1	0.1
Capital consumption	-1.5	-1.5	-1.4	-1.4	-1.4
Net Investment	2.6	2.8	3.3	3.2	4.3
Net Fiscal Balance (surplus is positive, deficit is negative)					
Including North Sea revenue (per capita share)	-9.4	-9.0	-8.7	-8.5	-12.2

Table 3.3c: Current and Capital Budgets Including Financial Sector Interventions (Geographical Share North Sea Revenue) % GDP: Scotland 2004-05 to 2008-09

	(per cent of GDP)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Current Budget					
Current revenue					
Including North Sea revenue (geographical share)	36.7	39.1	38.5	36.7	38.4
Current expenditure	36.0	35.4	35.0	33.6	34.7
Current expenditure accounting adjustment	1.6	1.7	1.8	1.7	1.7
Capital consumption	1.3	1.2	1.2	1.1	1.2
Balance on current budget (surplus is positive, deficit is negative)					
Including North Sea revenue (geographical share)	-2.2	0.8	0.6	0.3	0.9
Capital Budget					
Capital expenditure	3.3	3.5	3.9	3.7	4.6
Capital expenditure accounting adjustment	0.3	0.1	0.1	0.1	0.1
Capital consumption	-1.3	-1.2	-1.2	-1.1	-1.2
Net Investment	2.3	2.4	2.8	2.6	3.5
Net Fiscal Balance (surplus is positive, deficit is negative)					
Including North Sea revenue (geographical share)	-4.5	-1.6	-2.2	-2.3	-2.6

The current budget surplus is defined as current revenue (including capital taxes) less current expenditure and capital consumption.

In 2008-09, excluding North Sea revenue, current expenditure exceeded current revenue in Scotland leading to a current budget deficit of £10.5 billion (or 9.1 per cent of GDP) as presented in Table 3.3a. With a per capita share of North Sea revenue, current expenditure exceeded current revenue in Scotland by £9.4 billion (or 8.0 per cent of GDP – see Table 3.3b).

In 2008-09, including an illustrative geographical share of North Sea revenue, total current revenue exceeded current expenditure for Scotland to yield a current budget surplus of £1.3 billion (or 0.9 per cent of GDP – see Table 3.3c). In 2008-09, the equivalent UK current budget position, including 100 per cent of all North Sea revenue, was a deficit of £48.9 billion (or 3.4 per cent of GDP)¹⁸.

As Tables 3.2 and 3.3 highlight, any estimate of Scotland's current balance depends on assumptions regarding the allocation of North Sea revenue. Over the period 2005-06 to 2008-09, the estimated current budget balance in Scotland including an illustrative geographical share of North Sea revenue was in surplus. Under the assumption of a geographical share of North Sea revenue, the greatest surplus on the current budget over the past five years was £1.3 billion in 2008-09, with a deficit of £2.5 billion in 2004-05.

The 'net fiscal balance' is equal to public sector current and capital revenue less public sector current and capital expenditure. A positive figure, i.e. a surplus, in any given year is obtained if total public sector revenue in Scotland is greater than total public sector expenditure.

¹⁸ HM Treasury (March 2010) – Budget 2010, Tables C3 and C4

In 2008-09, excluding North Sea revenue, total revenue was less than total expenditure yielding an estimated negative net fiscal balance of £15.5 billion (or 13.5 per cent of GDP). With a per capita share of North Sea revenue the estimated negative net fiscal balance for Scotland was £14.5 billion (or 12.2 per cent of GDP). Including an illustrative geographical share of North Sea revenue, total revenue was less than total expenditure for Scotland to yield a negative net fiscal balance of £3.8 billion (or 2.6 per cent of GDP). In 2008-09, the equivalent UK position including 100 per cent of all North Sea revenue, referred to in the UK Budget 2010 Report as 'net borrowing', was a deficit of £96.1 billion (or 6.7 per cent of GDP)¹⁹.

Over the past five years, excluding North Sea revenue, the largest absolute gap between public sector revenue and expenditure in Scotland was observed in 2008-09 when the net fiscal balance was -£15.5 billion. With a per capita share of North Sea revenue the largest gap was also observed in 2008-09. Under the assumption of an illustrative geographical share of North Sea revenue, the largest gap between public sector revenue and expenditure in Scotland was observed in 2004-05 with an estimated deficit of £5.1 billion. This had fallen to £2.0 billion in 2005-06, but started rising again year on year to £3.8 billion in 2008-09. As a proportion of GDP, the largest deficit, both excluding and with a per capita of North Sea revenue, was in 2008-09. However, with an illustrative geographical share of North Sea revenue the largest deficit was in 2004-05.

Scotland's Fiscal Balance Not Including a Share of the UK Government's Financial Sector Interventions

The tables below estimate Scotland's current budget balance and net fiscal balance without a share of the various interventions to support the financial sector. These estimates are presented to highlight underlying trends in the GERS data from previous years to the latest year, 2008-09²⁰.

Table 3.4: Current and Capital Budgets: Scotland 2004-05 to 2008-09 (£ Million) Not Including Financial Sector Interventions					
	(£ million)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Balance on current budget (surplus is positive, deficit is negative)					
Excluding North Sea revenue	-7,053	-7,195	-6,708	-6,965	-10,530
Including North Sea revenue (per capita share)	-6,613	-6,402	-5,954	-6,305	-9,443
Including North Sea revenue (geographical share)	-2,520	933	788	485	1,240
Net Fiscal Balance (surplus is positive, deficit is negative)					
Excluding North Sea revenue	-9,636	-10,128	-10,303	-10,732	-14,728
Including North Sea revenue (per capita share)	-9,196	-9,335	-9,550	-10,071	-13,640
Including North Sea revenue (geographical share)	-5,103	-2,000	-2,808	-3,281	-2,957

¹⁹ HM Treasury (March 2010) – Budget 2010, Tables C3 and C4

²⁰ Small variations between the estimates of the current budget balance and net fiscal balance for the years 2004-05 to 2007-08 with and without the effect of the UK Government's interventions reflect differences in the estimates of the accounting adjustments due to the treatment of depreciation relating to public corporation financial institutions in the PSAT2 database.

Table 3.5: Current and Capital Budgets: Scotland 2004-05 to 2008-09 (% of GDP) Not Including Financial Sector Interventions

	(per cent of GDP)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Balance on current budget (surplus is positive, deficit is negative)					
Excluding North Sea revenue	-7.3	-7.1	-6.2	-6.1	-9.1
Including North Sea revenue (per capita share)	-6.7	-6.2	-5.4	-5.4	-8.0
Including North Sea revenue (geographical share)	-2.2	0.8	0.6	0.3	0.9
Net Fiscal Balance (surplus is positive, deficit is negative)					
Excluding North Sea revenue	-10.0	-10.0	-9.6	-9.4	-12.8
Including North Sea revenue (per capita share)	-9.4	-9.0	-8.7	-8.6	-11.5
Including North Sea revenue (geographical share)	-4.5	-1.6	-2.2	-2.3	-2.1

In 2008-09, when a share of the UK Government's financial sector interventions are not included, Scotland is estimated to have a current budget deficit of £10.5 billion (9.1 per cent of GDP) excluding North Sea revenue, and a current budget deficit of £9.4 billion (8.0 per cent of GDP) when a per capita share of North Sea revenue is assigned to Scotland. In 2008-09, including an illustrative geographical share of North Sea revenue, Scotland is estimated to have a current budget surplus of £1.2 billion (0.9 per cent of GDP) when the impact of the UK Government's financial sector interventions are not included.²¹

Not including a share of the UK Government's financial sector interventions, Scotland's net fiscal balance is estimated to have been a deficit of £14.7 billion (12.8 per cent of GDP) in 2008-09 excluding North Sea revenue, and a deficit of £13.6 billion (11.5 per cent of GDP) including a per capita share of North Sea revenue. When an illustrative geographical share of North Sea revenue is included, Scotland is estimated to have a net fiscal deficit of £3.0 billion (2.1 per cent of GDP), not including a share of the UK Government's financial sector interventions.

Box 3.1 – Current Budget Balance and Net Fiscal Balance

Scotland's current budget balance illustrates the difference between current revenue and current expenditure, including capital consumption and an accounting adjustment. It measures the degree to which current taxpayers meet the cost of paying for the public services they use and a contribution to debt interest payments. It is therefore an important indicator of intertemporal fairness and indicates the sustainability of current policies. National governments typically aim to manage current surpluses and deficits to ensure balance over the longer term and that any systematic excess of total expenditure over and above revenue is used only for capital expenditure, which will accrue benefits to future tax payers. This capital expenditure must itself be managed responsibly.

²¹ As the entry for the current expenditures associated with the various financial sector interventions is negative (i.e. revenues received from fees etc), the estimate of Scotland's current budget balance, including a share of the UK Government's financial sector interventions, will report a larger surplus/lower deficit than the equivalent estimate when these effects are not included.

Box 3.2: Scotland's GDP with and without North Sea GDP

When calculating Scotland's capital and current budgets as a percentage of GDP, the measure of GDP used must adopt the same assumptions made in the corresponding budget calculations.

When Scotland's public sector accounts are presented excluding North Sea revenue, they are expressed as a percentage of Scotland's GDP excluding the amount of GDP arising from North Sea activities.

When a proportion of North Sea revenue is included in the Scottish public sector revenue estimates, the same share is included in Scottish GDP. For example, if 100 per cent of North Sea revenue is included in the Scottish estimate, then 100 per cent of North Sea GDP will be included in Scotland's corresponding GDP figure. Scotland's GDP figures under the three sets of estimates presented above are reflected in the following table.

Scottish GDP Including and Excluding North Sea GDP: 2004-05 to 2008-09

	(£ million)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Scottish GDP					
Excluding North Sea GDP	96,258	101,136	107,871	114,747	115,286
Including per capita share of North Sea GDP	98,096	103,440	110,148	117,544	118,189
Including geographical share of North Sea GDP	113,259	122,599	128,929	142,725	143,834

Estimates of Gross Domestic Product at current market prices used in the GERS publication are calculated using an income approach in which estimates of Compensation of Employees, Gross Operating Surplus and Taxes, less subsidies, on production are added to an estimate of taxes, less subsidies, on products (final consumption taxes) to form a headline estimate for Scotland. As part of the Scottish National Accounts Project (SNAP), a programme of work designed to improve the collection and reporting of economic statistics in Scotland, these estimates are now released quarterly (in experimental form). Further information can be obtained from the SNAP website - <http://www.scotland.gov.uk/snap>²².

Expenditure

This section presents summary results of estimates of public sector expenditure for Scotland (excluding accounting adjustments) for the years 2004-05 to 2008-09. Table 3.6 provides estimates for the six largest functions of public sector expenditure. The share of the UK Government's expenditure on financial sector interventions assigned to Scotland is also separately identified. Total public sector expenditure for Scotland is reported with and without Scotland's estimated share of the UK Government's financial sector interventions. For a discussion and more detailed breakdown of expenditure, refer to Chapter 6 and Appendix B.

²² Further details of the methodology underpinning these estimates can be found in an article in the 2008 edition of Scottish Economic Statistics and can be downloaded from <http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/papers/SES2008A1>

3 Scotland's Public Sector Accounts

Table 3.6: Summary of Total Public Sector Expenditure: Scotland 2004-05 to 2008-09

	(£ million)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Social protection	15,329	15,847	16,087	17,110	18,571
Health	7,758	8,606	9,102	9,810	10,244
Education and training	6,145	6,570	7,137	7,360	7,563
General public services	3,954	4,366	4,346	4,584	4,856
Defence	2,524	2,613	2,714	2,832	3,078
Public order and safety	2,115	2,285	2,279	2,354	2,509
Financial sector interventions	0	0	0	0	700
Other	6,693	7,389	8,428	9,156	8,938
Total					
With financial sector interventions	44,518	47,677	50,093	53,205	56,460
Without financial sector interventions	44,518	47,677	50,093	53,205	55,761

In 2008-09, total public sector expenditure for Scotland was estimated to be £56.5 billion when a share of the UK Government's financial sector interventions is included, and £55.8 billion not including this share. This represented nominal increases of 26.8 per cent and 25.3 per cent respectively since 2004-05. Health and education and training expenditure experienced the greatest relative increases, rising by approximately 32.1 per cent and 23.1 per cent respectively in nominal terms over these five years.

Box 3.3: Total Managed Expenditure as a Share of GDP²³

In 2008-09 aggregate public expenditure for Scotland, as measured by Total Managed Expenditure (TME) was £59 billion, when a share of the UK Government's financial sector interventions is included. This measure of expenditure is comparable to the headline measures of UK TME published in the March 2010 UK Budget, and the Office for Budgetary Responsibility's June 2010 Pre-Budget Forecasts.

Total Managed Expenditure for Scotland Including Financial Sector Interventions: 2004-05 to 2008-09					
	(£ million)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Current expenditure	40,814	43,394	45,128	47,962	49,876
Current expenditure accounting adjustment	1,779	2,066	2,261	2,372	2,397
Capital expenditure	3,704	4,283	4,964	5,243	6,585
Capital expenditure accounting adjustment	321	171	147	85	157
Total Managed Expenditure With Financial Interventions	46,617	49,914	52,500	55,661	59,014

²³ Small variations between the estimates of the accounting adjustments for the years 2004-05 to 2007-08 with and without the effect of the UK Government's interventions reflect differences in the treatment of depreciation relating to public corporation financial institutions in the PSAT2 database.

The table below presents the estimates of TME as a share of GDP under the three sets of estimates of GDP.

In 2008-09, the ratio of TME for Scotland to GDP was 51.2 per cent excluding North Sea GDP and 49.9 per cent including a per capita share. This ratio falls to 41.0 per cent when an illustrative geographical share of North Sea GDP is included.

Such statistics provide a useful illustration of the relative size of public spending between countries by controlling for the size of the economy. They should not, however, be viewed as an estimate of the relative contribution of public spending (or the public sector) to the economy as a significant proportion of such spending is on transfers from government to individuals and businesses.

Total Managed Expenditure for Scotland Including Financial Sector Interventions as a Share of GDP: 2004-05 to 2008-09					
	(per cent of GDP)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Share of GDP:					
Excluding North Sea GDP	48.4%	49.4%	48.7%	48.5%	51.2%
Including per capita share of North Sea GDP	47.5%	48.3%	47.7%	47.4%	49.9%
Including geographical share of North Sea GDP	41.2%	40.7%	40.7%	39.0%	41.0%

Not including a share of the UK Government's financial sector interventions, TME for Scotland was estimated to be £58.2 billion in 2008-09, as illustrated in the tables below. This is equivalent to 50.5 per cent of Scottish GDP when North Sea GDP is excluded, and 49.3 per cent of GDP when Scotland is assigned a population share of North Sea GDP. Including an illustrative geographical share of North Sea GDP the ratio falls to 40.5 per cent.

Total Managed Expenditure for Scotland Not Including Financial Sector Interventions: 2004-05 to 2008-09					
	(£ million)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Current expenditure	40,814	43,394	45,128	47,962	49,964
Current expenditure accounting adjustment	1,782	2,070	2,268	2,385	2,383
Capital expenditure	3,704	4,283	4,964	5,243	5,797
Capital expenditure accounting adjustment	322	173	149	126	86
Total Managed Expenditure Without Financial Interventions	46,622	49,919	52,509	55,716	58,229

Total Managed Expenditure for Scotland Not Including Financial Sector Interventions as a Share of GDP: 2004-05 to 2008-09					
	(per cent of GDP)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Share of GDP:					
Excluding North Sea GDP	48.4%	49.4%	48.7%	48.6%	50.5%
Including per capita share of North Sea GDP	47.5%	48.3%	47.7%	47.4%	49.3%
Including geographical share of North Sea GDP	41.2%	40.7%	40.7%	39.0%	40.5%

Current Revenue

This section summarises the estimates of public sector revenue in Scotland for the years 2004-05 to 2008-09. Table 3.7 provides estimates of Scottish public sector current revenue by economic category. A more detailed discussion and breakdown of revenue is provided in Chapters 4, 5 and in Appendix A.

Table 3.7: Summary of Current Revenue by Economic Category: Scotland 2004-05 to 2008-09

	(£ million)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Taxes on income and wealth	11,550	12,911	14,153	15,255	14,320
National insurance contributions	6,533	6,925	7,304	7,873	7,988
Taxes on production and imports	13,482	13,875	14,588	15,250	14,678
Other current taxes	2,225	2,369	2,485	2,594	2,647
Taxes on capital	164	198	227	269	178
Gross operating surplus	2,103	2,492	2,505	2,566	2,613
Rent and other current transfers	388	413	382	395	381
Interest and dividends from private sector and abroad	537	602	554	766	659
Total current non-North Sea revenue	36,983	39,787	42,198	44,966	43,466
North Sea revenue					
Per capita share	440	793	754	660	1,088
Geographical share	4,532	8,128	7,496	7,450	11,771
Total current revenue (including North Sea revenue)					
Per capita share	37,422	40,580	42,952	45,627	44,553
Geographical share	41,515	47,914	49,694	52,417	55,236

In 2008-09, total current revenue, excluding revenue from the North Sea was estimated to be approximately £43.5 billion. This represented a nominal increase of 17.5 per cent from the £37.0 billion estimated to have been raised in 2004-05. This was largely a consequence of increased revenue from taxes on income and wealth, national insurance contributions, gross operating surplus and interest and dividends from the private sector and abroad. It is interesting to note that for a number of key taxes, the cash value raised in 2008-09 was lower than in 2007-08. This reflects the impact of the credit crunch on economic activity and corresponding fall in tax revenues. A detailed discussion of these effects is provided in Box 4.3.

As Table 3.7 highlights, there was a significant increase in revenue from the North Sea from 2005-06 onwards. In 2004-05, Scotland's estimated geographical share of North Sea revenue was estimated at approximately £4.5 billion, but in 2008-09, this figure had increased to £11.8 billion. A similar relative increase was observed under a per capita apportionment though the overall impact was much smaller.

4

PUBLIC SECTOR REVENUE

Introduction

This chapter provides detailed estimates of Scottish public sector revenue. As Chapter 5 discusses the treatment of North Sea revenue in detail, the focus of this chapter is on non-North Sea elements of public sector revenue.

The majority of public sector revenue payable by Scottish residents and enterprises is collected at the UK level. Generally it is not possible to identify separately the proportion of that revenue receivable from Scotland. GERS therefore uses a number of different methodologies to apportion revenue to Scotland. These methods are discussed in Appendix A and in the detailed revenue methodology paper on the GERS website²⁴.

For certain revenue sources, there are theoretical and practical challenges in determining an appropriate share to allocate to Scotland. In some cases, a variety of methodologies could be applied, each leading to different estimates of public sector revenue in Scotland. GERS makes use of the best data sources and methodologies available and therefore represents as accurate a reflection of public sector revenue in Scotland as is currently possible. The effect that any change to the revenue estimates contained in this chapter would have on the estimate of total public sector revenue due to alternative methodologies is discussed in Appendix A. The appendix highlights that there are only a small number of taxes for which variations in the proportion assigned to Scotland will have a significant impact on the estimate of total public sector revenue in Scotland.

Estimated Revenue 2008-09

Table 4.1 highlights estimated public sector revenue in Scotland and the outturn data for the UK in 2008-09. The contribution of each element of taxation to the total estimated tax yield in Scotland, and the proportion of UK revenue raised in Scotland, are also included in the table.

On the basis of the assumptions and methodologies described in this report, in 2008-09, total public sector non-North Sea current revenue in Scotland was £43.5 billion. This is equivalent to 8.3 per cent of UK total non-North Sea current revenue which is in line with Scotland's share of the UK population²⁵.

²⁴ <http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/GERS>

²⁵ Scotland's share of the UK population in 2008-09 was 8.4 per cent. Scotland's share of UK less extra-regio GVA was 8.2 per cent (General Registers for Scotland and ONS Regional Accounts).

4 Public Sector Revenue

Table 4.1: Current Revenue: Scotland 2008-09

	Scotland		UK	Scotland as % of UK
	£ million	% of total non-North Sea revenue	£ million	
Income tax	10,717	24.6%	144,451	7.4%
Corporation tax (excl North Sea)	2,791	6.4%	32,493	8.6%
Capital gains tax	547	1.3%	7,851	7.0%
Other taxes on income and wealth	265	0.6%	2,889	9.2%
National insurance contributions	7,988	18.4%	96,961	8.2%
VAT	7,481	17.2%	85,350	8.8%
Fuel duties	2,055	4.7%	24,615	8.3%
Stamp duties	593	1.4%	8,002	7.4%
Tobacco duties	940	2.2%	8,358	11.3%
Alcohol duties	784	1.8%	8,598	9.1%
Betting and gaming and duties	113	0.3%	994	11.4%
Air passenger duty	154	0.4%	1,835	8.4%
Insurance premium tax	191	0.4%	2,271	8.4%
Landfill tax	85	0.2%	863	9.9%
Climate change levy	66	0.2%	711	9.2%
Aggregates levy	53	0.1%	321	16.6%
Inheritance tax	178	0.4%	2,931	6.1%
Vehicle excise duty	446	1.0%	5,602	8.0%
Non-domestic rates ¹	1,736	4.0%	21,924	7.9%
Council tax	1,961	4.5%	24,543	8.0%
Other taxes and royalties ²	667	1.5%	7,178	9.3%
Interest and dividends	659	1.5%	7,723	8.5%
Gross operating surplus	2,613	6.0%	22,662	11.5%
Rent and other current transfers	381	0.9%	1,530	24.9%
Total current revenue (excluding North Sea revenue)	43,466	100.0%	520,656	8.3%
North Sea revenue ³				
Per capita share	1,088		12,925	
Geographical share	11,771		12,925	
Total current revenue (including North Sea revenue)				
Per capita share	44,553		533,581	8.3%
Geographical share	55,236		533,581	10.4%

1. Excludes non-domestic rates that local authorities pay themselves

2. Although this group includes some 13 separate revenues (as set out in the detailed methodology paper on the GERS website), the two largest – TV Licences and National Lottery Distribution Fund - account for 63.6% (£424 million) of this estimate for Scotland.

3. A full discussion of North Sea revenue is provided in Chapter 5.

Income tax is the single largest source of public sector revenue in Scotland. In 2008-09, income tax revenue was estimated at £10.7 billion – approximately a quarter of all public sector revenue in Scotland (excluding revenues from the North Sea). Scottish income tax revenue is estimated on the basis of residence of the tax-payer. A full discussion of the methodology used to estimate Scottish income tax receipts is provided in the revenue methodology paper on the GERS website.

Box 4.1 – Income Tax

Income tax is a tax paid on an individual's income. Taxable income includes earnings from employment, earnings from self employment, earnings from non-incorporated businesses (e.g. partnerships) most pension income, interest on most savings, income from shares (dividends), rental income and income paid from trusts.

The table below provides a breakdown of estimated income tax receipts in Scotland and the UK by source of income. The estimated number of taxpayers by source is also listed. The results show that in both Scotland and the UK, income from employment accounts for just under three quarters of income tax receipts. Self employed income is the second largest source in both Scotland and the UK. It accounts for approximately 11 per cent of income tax receipts in Scotland and 12 per cent of receipts in the UK.

Total income tax receipts in Scotland in 2008-09 accounted for approximately 7.4 per cent of total UK income tax receipts, while Scotland's share of UK taxpayers was 8.6 per cent.

2008-09 Income Tax Revenue By Source of Income

	(£ million)			(Thousands)		
	UK Revenue	Scottish Revenue	Scottish Share of UK Revenue	Number of UK Tax payers	Number of Scottish Tax payers	Scottish Share of UK Taxpayers
Self employed	17,533	1,192	6.8%	2,690	183	6.8%
Employed	105,023	7,984	7.6%	22,900	2,050	9.0%
Pensions	9,790	779	8.0%	5,290	452	8.5%
Investment	12,105	762	6.3%	1,570	93	5.9%
<i>Savings</i>	3,213	219	6.8%	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
<i>Dividends</i>	6,766	427	6.3%	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
<i>Property</i>	1,152	54	4.7%	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
<i>Other Incomes</i>	974	62	6.4%	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
Total Income Tax Receipts	144,451	10,717	7.4%	32,500	2,780	8.6%

Note: Non National Statistics: Estimates based upon the 2007-08 Survey of Personal Incomes (latest year of survey). This table depicts income tax revenue by source of income and the number of taxpayers for which each classification is their largest source of income. Figures relating to the number of taxpayers may not add due to rounding.

Taxable income is subject to different tax rates depending upon the source of income and the value of income. The table below present estimates of the revenue raised from income tax in Scotland and the UK from each tax band in 2008-09. The total number of taxpayers liable for tax under each band is also listed.

2008-09 Income Tax Revenue By Tax Band

	(£ million)			(Thousands)		
	UK Revenue	Scottish Revenue	Scottish Share of UK Revenue	Number of UK Tax payers	Number of Scottish Tax payers	Scottish Share of UK Taxpayers
Starting Rate	628	45	7.2%	3,440	283	8.2%
Savers Rate	968	61	6.3%	1,070	73	6.8%
Basic Rate (Earnings, savings and dividends)	60,108	5,400	9.0%	24,100	2,140	8.9%
Higher Rate (Earnings, savings and dividends)	82,748	5,211	6.3%	3,870	288	7.4%
Total Income Tax Receipts	144,451	10,717	7.4%	32,500	2,780	8.6%

Note: Non National Statistics. Estimates based upon the 2007-08 Survey of Personal Incomes (latest year of survey). Figures relating to the number of taxpayers may not sum due to rounding.

In Scotland, 50 per cent of income tax revenue is raised from the basic rate, whilst in the UK as a whole the comparable figure is 42 per cent. Revenue paid at the higher rate accounted for 49 per cent of the income tax revenue raised in Scotland during 2008-09, compared to 57 per cent of the revenue raised in the UK as a whole. In total, there were approximately 2.8 million income tax payers during 2008-09, equivalent to 8.6 per cent of the UK total. 10 per cent of Scottish tax payers are estimated to pay higher rate income tax, compared to 12 per cent of tax payers in the UK as a whole.

National insurance contributions represented the second largest revenue source in Scotland, an estimated £8.0 billion in 2008-09 – 18.4 per cent of total non-North Sea revenues. VAT represented the third largest source of revenue and was the largest source of revenue from indirect taxes – accounting for 17.2 per cent of total non-North Sea revenues.

Corporation tax revenue (excluding that from the North Sea) was estimated at £2.8 billion in Scotland during 2008-09, 6.4 per cent of total non-North Sea current revenue collected in Scotland. In GERS, corporation tax revenue is allocated on the basis of the profits generated in Scotland. A full discussion of the methodology used to estimate corporation tax revenue is presented in the detailed revenue methodology paper on the GERS website.

Gross operating surplus (GOS) refers to the operating (or trading) surpluses (or losses) of central government, local government and public corporation trading activity. It is the fifth largest revenue source in Scotland generating £2.6 billion in revenue during 2008-09, 6.0 per cent of total non-North Sea revenue in Scotland.

Scotland accounted for 11.5 per cent of the total UK GOS in 2008-09. Scotland's large share of the UK GOS is partly due to Scottish Water which is one of the greatest contributors to UK public corporations' GOS. The equivalent water companies in England and Wales are outside the public sector and hence do not contribute to their GOS. A more detailed discussion of GOS is provided in the detailed revenue methodology paper on the GERS website.

After these five main categories, all other types of tax listed each accounted for less than 5 per cent of total non-North Sea revenue in Scotland in 2008-09. Together, council tax and non-domestic rates raised £3.7 billion (8.5 per cent of total non-North Sea revenue) while fuel duties raised £2.1 billion.

The Scottish share of total UK revenue for each element of revenue varies according to the particular tax being estimated. For income tax, the Scottish percentage was slightly less than both a per capita share and a GVA share²⁶. For national insurance contributions the Scottish percentage was slightly less than a per capita share but in line with a GVA share. For VAT and corporation tax (excluding North Sea), the Scottish percentage was broadly in line with a per capita share. In contrast, revenue from duties on betting and gaming, alcohol and tobacco were considerably higher than Scotland's share of the UK population or GVA.

The estimated Scottish share of revenue from stamp duties and capital gains tax were lower than both a GVA share and a per capita share. This is largely explained by the lower value of asset sales relative to other parts of the UK, and in particular London and the South East of England.

Environmental taxes, such as aggregates levy, climate change levy and landfill tax contribute relatively small amounts of revenue to the overall total with each contributing less than 0.5 per cent of revenue in Scotland and the UK.

Box 4.2 – Stamp Duty

Stamp duty is levied on two types of transactions – i) conveyances and transfers of land and property (stamp duty land tax) and ii) share and marketable security transactions (stamp duty reserve tax). The revenue raised from both sources is reported jointly as a consolidated estimate in Table 4.1.

Property or Land – Stamp Duty Land Tax

Stamp Duty Land Tax (SDLT) is generally payable on transactions above a certain threshold value. In 2008-09, this rate was set at £125,000 for residential properties or land (or £150,000 if in an area has been designated as 'disadvantaged') and £150,000 for non-residential properties. If the property or land value is above this threshold, SDLT is charged on the entire value. SDLT is calculated on a sliding scale, with charges of between 1 per cent and 4 per cent. The table below estimates the revenue raised from SDLT in Scotland and the UK for each year between 2004-05 and 2008-09. In 2008-09, SDLT raised £319 million in Scotland, 6.6 per cent of the UK total. This is lower than Scotland's share of the UK population and GVA and reflects the lower average price of property in Scotland relative to other parts of the UK, such as London and the South East.

Over the period 2004-05 to 2007-08, SDLT both in Scotland and UK grew significantly in nominal terms, with growth of 78.5 percent and 59.3 percent respectively. Both Scotland and the UK recording significant drops in SDLT revenue between 2007-08 and 2008-09. This reflects a fall in average house prices and the number of transactions over the year.

Stamp Duty Land Tax 2004-05 to 2008-09					
	(£ million)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Scotland	311	284	423	555	319
UK	6,250	7,454	9,637	9,958	4,798
Scotland as % of the UK	5.0%	3.8%	4.4%	5.6%	6.6%

²⁶ Scotland's share of the UK population in 2008-09 was 8.4 per cent. Scotland's share of UK less extra-regio GVA was 8.2 per cent. (General Register Office for Scotland and ONS Regional Accounts).

Stocks and Shares – Stamp Duty Reserve Tax

Stamp duty reserve tax (SDRT) is charged on the transfer of stocks, shares, units in unit trusts and shares in open-ended investment companies. It is payable at a flat rate of 0.5% of the value of the financial transactions. The table below estimates the revenue raised from SDLT in Scotland and the UK for each year between 2004-5 and 2008-09.

Stamp Duty Reserve Tax 2004-05 to 2008-09					
	(£ million)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Scotland	208	259	286	339	274
UK	2,716	3,464	3,756	4,165	3,204
Scotland as % of the UK	7.7%	7.5%	7.6%	8.1%	8.5%

The results show that in 2008-09, SDRT raised £274 million in Scotland. This is equivalent to 8.5 per cent of total UK SDRT receipts in that year, broadly in line with Scotland's share of the UK population. Over the period 2004-05 to 2007-08, SDRT revenue both in Scotland and UK grew significantly in nominal terms, with growth of 63.0 per cent and 53.4 per cent respectively. As with SDLT revenue, SDRT revenue fell significantly in 2008-09 both in Scotland and the UK.

Estimated Revenue: Scotland and the UK, 2004-05 to 2008-09

Table 4.2 shows estimated current revenue in Scotland and the UK between 2004-05 and 2008-09.

Current non-North Sea revenue in Scotland and the UK are estimated to have both grown by approximately 17.5 percent and 16.4 per cent respectively since 2004-05 in nominal terms.

In general, tax revenue in Scotland and the UK are estimated to have followed similar patterns of growth between 2004-05 and 2008-09. Income tax revenue in Scotland grew by 22.0 per cent in nominal terms between 2004-05 and 2008-09 compared to growth of 19.1 per cent at the UK level, while VAT rose by 10.4 per cent in Scotland and 6.7 per cent in the UK. National insurance contributions increased by approximately 22.3 per cent in Scotland and 19.8 per cent in the UK.

Among some of the smaller taxes, there was greater variation in the growth rates between Scotland and the UK. The greatest variation was in stamp duties and inheritance tax where Scottish revenue rose considerably faster than the UK average. In contrast, other taxes and royalties and non domestic rates increased faster in the UK than they did in Scotland.

Table 4.2: Current Revenue: Scotland and UK 2004-05 to 2008-09

	(£ million)									
	Scotland					UK				
	2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09
Income tax	8,788	9,605	10,444	11,266	10,717	121,271	130,562	140,927	152,028	144,451
Corporation tax (excl North Sea)	2,463	2,910	3,217	3,432	2,791	29,720	34,278	37,307	40,017	32,493
Capital gains tax	119	175	230	305	547	2,278	3,041	3,812	5,267	7,851
Other taxes on income and wealth	180	221	262	252	265	2,016	2,512	2,996	2,764	2,889
National insurance contributions	6,533	6,925	7,304	7,873	7,988	80,923	85,559	90,916	95,437	96,961
VAT	6,778	7,074	7,599	7,883	7,481	79,979	81,505	87,739	89,891	85,350
Fuel duties	1,924	1,945	1,967	2,079	2,055	23,313	23,438	23,585	24,905	24,615
Stamp duties	519	543	709	893	593	8,966	10,918	13,393	14,123	8,002
Tobacco duties	1,041	1,023	964	896	940	8,113	7,952	8,146	8,031	8,358
Alcohol duties	717	723	722	750	784	7,889	7,876	7,914	8,215	8,598
Betting and gaming and duties	89	95	106	110	113	876	884	961	961	994
Air passenger duty	74	77	94	164	154	872	906	1,112	1,949	1,835
Insurance premium tax	200	198	195	194	191	2,353	2,347	2,304	2,302	2,271
Landfill tax	62	68	78	89	85	673	753	825	897	863
Climate change levy	68	65	63	65	66	750	741	696	705	711
Aggregates levy	50	50	50	57	53	326	323	324	339	321
Inheritance tax	164	198	227	269	178	2,931	3,276	3,618	3,890	2,931
Vehicle excise duty	365	389	400	425	446	4,737	4,950	5,139	5,412	5,602
Non-domestic rates	1,622	1,736	1,741	1,724	1,736	17,800	18,816	19,846	20,357	21,924
Council tax	1,663	1,773	1,862	1,935	1,961	20,054	21,226	22,340	23,504	24,543
Other taxes and royalties	536	485	524	578	667	5,710	5,641	6,072	6,386	7,178
Interest and dividends	537	602	554	766	659	6,142	6,847	6,469	8,925	7,723
Gross operating surplus	2,103	2,492	2,505	2,566	2,613	17,891	21,038	21,991	22,759	22,662
Rent and other current transfers	388	413	382	395	381	1,743	1,760	1,627	1,557	1,530
Total current revenue (excluding North Sea revenue)	36,983	39,787	42,198	44,966	43,466	447,326	477,149	510,059	540,621	520,656
North Sea revenue										
Per capita share	440	793	754	660	1,088	5,183	9,384	8,924	7,831	12,925
Geographical share	4,532	8,128	7,496	7,450	11,771	5,183	9,384	8,924	7,831	12,925
Total current revenue (including North Sea revenue)										
Per capita share	37,422	40,580	42,952	45,627	44,553	452,509	486,533	518,983	548,452	533,581
Geographical share	41,515	47,914	49,694	52,417	55,236	452,509	486,533	518,983	548,452	533,581

4 Public Sector Revenue

Table 4.3 shows estimates of Scotland's share of UK revenue for five key taxes between 2004-05 and 2008-09. Over this period, Scotland's share of UK revenue has remained relatively stable.

Between 2004-05 and 2008-09 total non-North Sea revenue in Scotland accounted for 8.3 per cent of UK non-North Sea revenue, broadly in line with Scotland's share of the UK population and slightly higher than a GVA share. Scotland's share of UK income tax, corporation tax and VAT both increased over this period but this was offset by a decline in Scotland's share of both local authority revenue and the 'other revenue' categories (however, in 2008-09 the latter grew back to its 2004-05 share of UK revenues).

Table 4.3: Non-North Sea Current Revenue: Scotland/UK Share 2004-05 to 2008-09

	(per cent of UK revenue)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Income tax	7.2%	7.4%	7.4%	7.4%	7.4%
Corporation tax (excluding North Sea revenue)	8.3%	8.5%	8.6%	8.6%	8.6%
National Insurance contributions	8.1%	8.1%	8.0%	8.2%	8.2%
Value added tax	8.5%	8.7%	8.7%	8.8%	8.8%
Local authority revenue ¹	8.7%	8.8%	8.5%	8.3%	8.0%
All other revenue	9.4%	9.3%	9.0%	9.1%	9.4%
Total non-North Sea current revenue	8.3%	8.3%	8.3%	8.3%	8.3%

1. Includes council tax and non-domestic rates only²⁷

²⁷ Other local authority revenues that are included in UK Public Sector Finances are (1) Interest and dividends paid to local authorities from the private sector – included along with central government and public corporations interest etc. as part of the total interest and dividend revenue figure, (2) Local government capital consumption – included as part of gross operating surplus, (3) Local authority trading services – again included as part of gross operating surplus, (4) Rents and other current transfers – included as part of total public sector rents and other current transfers. It should be noted that the terminology and presentation used in Scottish Local Government Financial Statistics will differ from that used here. This is because the former uses terms and presentation devised by CIPFA for local authority accounting practice, based on the equivalent commercial accounting standards, whereas the Budgetary and fiscal framework are based on the National Accounts framework.

Box 4.3: Scottish Tax Receipts and the Recession

From 2004-05 to 2007-08, most tax receipts in Scotland grew year on year, in line with the growth of the wider economy. Both Scotland and the UK entered recession in mid 2008. This had a corresponding impact on tax revenue, with receipts from many taxes falling in nominal terms between 2007-08 and 2008-09. The table below summarises the changes in total Scottish tax revenue, and in selected individual receipts.

The estimates show a nominal drop in total Scottish tax revenue, excluding North Sea revenue, of £1.5 billion (3.5%) between 2007-08 and 2008-09. Income tax receipts fell by 4.9 per cent in 2008-09, while corporation tax was down 18.7 per cent compared to the previous year. Inheritance tax and stamp duty saw the greatest relative fall, with each declining by 33.7 per cent from the previous year.

Summary of Scottish Tax Receipts: 2007-08 & 2008-09				
	(£ million)			
	2007-08	2008-09	Difference	Difference in % terms
Income Tax	11,266	10,717	-549	-4.9%
Corporation Tax (excl North Sea)	3,432	2,791	-641	-18.7%
Inheritance Tax	269	178	-90	-33.7%
Stamp Duty	893	593	-301	-33.7%
VAT	7,883	7,481	-402	-5.1%
Total current Revenue (excluding North Sea revenue)	44,966	43,466	-1,501	-3.5%
North Sea revenue ³				
Per capita share	660	1,088	+428	+64.8%
Geographical share	7,450	11,771	+4,321	+58.0%
Total current revenue (including North Sea revenue)				
Per capita share	45,627	44,553	-1,074	-2.4%
Geographical share	52,417	55,236	+2,819	+5.4%

Whilst total onshore tax receipts fell during 2008-09, total UK North Sea revenues increased by almost two thirds compared to the previous year. This growth was driven by a rapid increase in oil prices during the first six months of 2008. Prices peaked at over \$140 a barrel in July 2008, a record high in nominal terms, before falling back. Scotland's population share of North Sea revenue is estimated to have increased by 64.8 per cent between 2007-08 and 2008-09 whilst Scotland's illustrative geographical share of North Sea revenue is estimated to have grown by 58%.

Total current revenue in Scotland, including a per capita share of North Sea revenue is estimated to have fallen by £1.1 billion (2.4%) between 2007-08 and 2008-09. Including an illustrative geographical share of North Sea revenue, Scottish tax revenue is estimated to have grown by £2.8 billion (5.4%).

5

NORTH SEA REVENUE

Introduction

This chapter provides a discussion of North Sea revenue and sets out the methodologies adopted in this publication.

The North Sea Fiscal Regime

North Sea revenue stems from three key sources: petroleum revenue tax, corporation tax and license fees.

For the period 2004-05 to 2008-09, the taxation or charging regime for each of these three elements was as follows –

1. Petroleum revenue tax (PRT): PRT was charged at a rate of 50% on field-based profits from oil and gas extraction on fields given development approval prior to March 1993 at which time it was abolished for all new fields. There were deductions for all exploration, appraisal, and development costs on 100% first year basis with an uplift of 35% for field investment costs prior to field payback. There were also volume and safeguard allowances.
2. Corporation tax (CT): Ring-fenced corporation tax was charged at a rate of 30%. There were deductions for exploration, appraisal and development costs on a 100% first year basis. In 2002, a Supplementary Charge (SC) of 10% was introduced. This made the effective corporation tax rate (CT + SC) 40%. From January 2006, the SC was increased to 20% making the overall tax rate 50%.
3. License Fees: The UK Government grants licenses for operators to "search and bore for and get"²⁸ petroleum in specified areas for a set period of time. Operators pay an annual fee for holding these licenses. License fees are charged at an escalating rate on each square kilometre that the licence covers. However, licence fees were gradually phased out over the period and, by 2008-09, no revenue was raised from this source.

²⁸ Petroleum Act 1998 - http://www.opsi.gov.uk/ACTS/acts1998/ukpga_19980017_en_1

5 North Sea Revenue

North Sea revenue has been relatively volatile over the last two decades. Table 5.1 shows the North Sea revenue collected by the UK Exchequer since 1980-81.

Table 5.1: Total North Sea Revenue: UK 1981-82 to 2008-09 ^{1, 2}

Year	£ million	Year	£ million	Year	£ million	Year	£ million
1981-82	6,395	1988-89	3,301	1995-96	2,341	2002-03	5,097
1982-83	7,867	1989-90	2,502	1996-97	3,351	2003-04	4,284
1983-84	8,788	1990-91	2,342	1997-98	3,330	2004-05	5,183
1984-85	12,326	1991-92	1,017	1998-99	2,511	2005-06	9,384
1985-86	11,217	1992-93	1,338	1999-00	2,564	2006-07	8,924
1986-87	4,701	1993-94	1,266	2000-01	4,455	2007-08	7,831
1987-88	4,736	1994-95	1,673	2001-02	5,426	2008-09	12,925

1. Source ONS Public Finance Statistics

2. Note: gas levies are not included in total public sector revenue from the UK continental shelf because it is categorised as a tax on expenditure rather than an income from oil and gas production. Gas levies were abolished from 1 April 1998.

Table 5.2 shows the levels of revenue raised from the three key components of North Sea revenue since 2004-05.

Total North Sea revenue has increased by 149.4 per cent in nominal terms since 2004-05. This reflects the increase in wholesale oil and gas prices over this period and the higher supplementary corporation tax introduced in January 2006. Licence fees were gradually phased out over the period, so that by 2008-09 no revenues were raised from this source.

Table 5.2: Composition of North Sea Revenue: UK 2004-05 to 2008-09

	(£ million)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Licence fees	68	61	60	56	0
North Sea corporation tax	3,831	7,307	6,709	6,095	10,358
Petroleum revenue tax	1,284	2,016	2,155	1,680	2,567
Total	5,183	9,384	8,924	7,831	12,925

In the ONS Regional Accounts, the convention is for the UK Continental Shelf (UKCS) to be included as a (notional) separate region of the UK (the extra-regio territory) and not to allocate this to specific geographic regions within the UK mainland.

A number of different approaches can be used to allocate a share of North Sea revenue to Scotland.

The following section presents a range of estimates of North Sea revenue that could be allocated to Scotland under various assumptions about the apportionment of the oil and gas industry.

Scotland's Share of North Sea Revenue

For many years, there has been considerable debate on how the delineation of North Sea oil and gas output might be determined.

Three key estimates of Scotland's share of North Sea revenue are adopted in the GERS report -

1. Zero share
2. Per capita share
3. An illustrative geographical share

These are the figures which are used in the headline estimates of total public sector revenue in Chapters 3 and 4.

As the situation under option 1 is dealt with in the revenue estimates for all non-North Sea revenues, the discussion below focuses on per capita and geographical shares.

Per capita share

One interpretation of North Sea revenue is to view it as a non-identifiable UK revenue, in which case a per capita share may be apportioned to Scotland.

Table 5.3 provides an estimate of Scotland's share of North Sea revenue under this approach.

	(£ million)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Total North Sea revenue	5,183	9,384	8,924	7,831	12,925
Scotland's per capita share	440	793	754	660	1,088
Scotland's percentage share of North Sea revenue	8.5%	8.5%	8.4%	8.4%	8.4%

An Illustrative Geographical Share

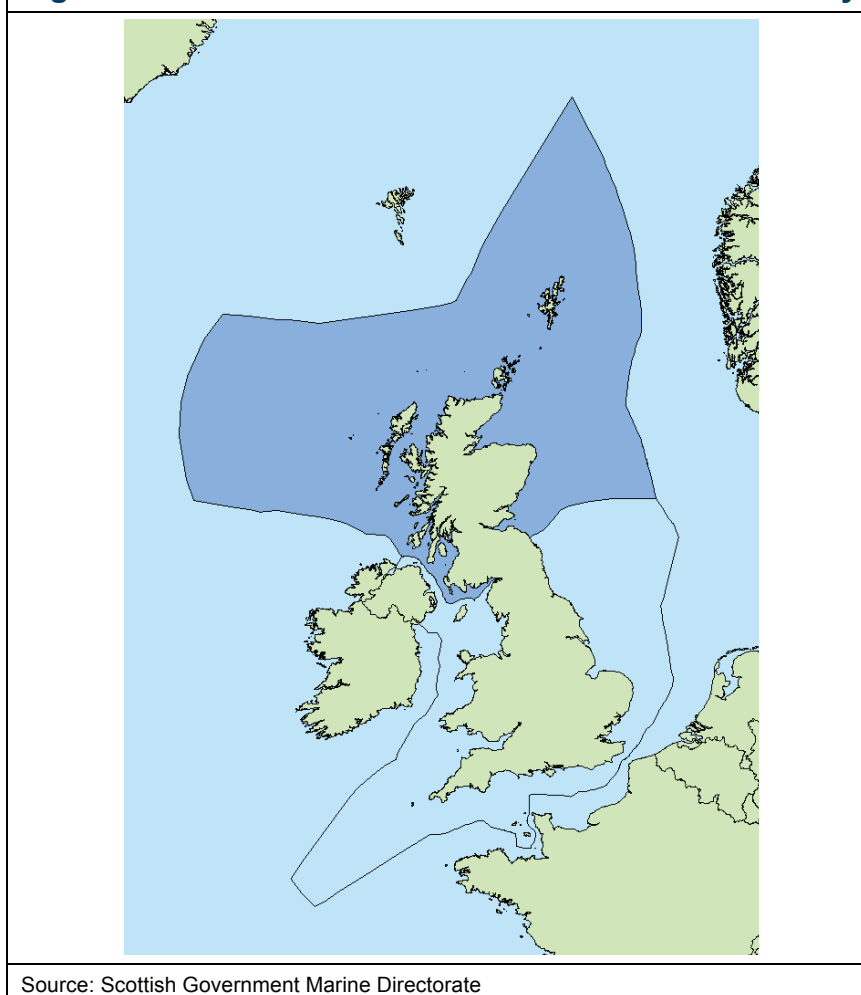
An alternative approach is to apportion a geographic share of North Sea revenue to Scotland. In order to estimate this share, GERS draws upon academic research carried out by Professor Alex Kemp and Linda Stephen from the University of Aberdeen²⁹. Kemp and Stephen (2008) estimate Scotland's share of North Sea revenue based on a detailed financial model of the North Sea oil and gas industry and an assessment of Scotland's geographical share of the North Sea.

In their analysis, the researchers base the Scottish boundary of the UKCS on the median line principle as employed in 1999 to determine the boundary between Scotland and the rest of the UK for fishery demarcation purposes. Other alternatives are possible. Scotland's estimated geographical share of the North Sea sector, used in this report, is highlighted in the following diagram. Demarcation by the median line is highlighted by the dark shaded

²⁹ Kemp and Stephen (2008), 'The Hypothetical Scottish Shares of Revenues and Expenditures from the UK Continental Shelf 2000-2013'

area in Figure 5.1. All oil and gas fields located in this region were apportioned to Scotland under the assumption of an illustrative geographical share.

Figure 5.1 UK Continental Shelf and Scottish Boundary



Source: Scottish Government Marine Directorate

Based on a detailed database of North Sea oil and gas fields, Kemp and Stephen estimated the tax revenue raised in each field. Their detailed modelling took account of production levels and a range of costs including research and development, and decommissioning. Taking the median line as the line of demarcation, the authors assigned revenue from each field to Scotland and the rest of the UK. The authors' most recent estimates show that Scotland's geographical share of oil production remained at 96% in 2009, while its geographical share of gas production fell to 58% from 61% in the previous year. Scotland's share of total hydrocarbon production stood at 80% falling marginally from 81% in both 2007 and 2008.

Details of the methodology used by Kemp and Stephen are provided in the paper Kemp and Stephen (2008), 'The Hypothetical Scottish Shares of Revenues and Expenditures from the UK Continental Shelf 2000-2013' which is available from the weblink below.³⁰ Using estimates of Scotland's geographical share of total North Sea revenue, it is possible to apportion the total UK revenue figure from the ONS Public Sector Finance statistics to Scotland.

³⁰ <http://www.scotland.gov.uk/Publications/2008/06/UKContinentalShelfRevenue>

Table 5.4 provides estimates of Scotland’s share of North Sea revenue using this methodology. It should be noted that the figures provided in Kemp and Stephen are on a calendar year basis. The estimates for financial years are calculated by first estimating the quarterly proportions using a cubic spline methodology. These are applied to the quarterly revenue data, and summed to form the financial year estimates.

Table 5.4: Geographical Share of North Sea Revenue: Scotland 2004-05 to 2008-09					
	(£ million)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Total North Sea revenue	5,183	9,384	8,924	7,831	12,925
Scotland’s geographical share	4,532	8,128	7,496	7,450	11,771
Scotland’s percentage share of North Sea revenue	87.4%	86.6%	84.0%	95.1%	91.1%

Box 5.1 – Evolution of North Sea Revenues Since 1980/81

Between 1981-80 and 2008-09, the North Sea has generated approximately £147.1 billion in revenue for the UK Exchequer. Revenues peaked in the mid 1980s before declining in the early 1990s. More recently, North Sea revenues have followed an upward trend.

Using the estimates provided in Kemp and Stephen (1999 and 2008) it is possible to estimate Scotland’s illustrative geographical share of North Sea revenue for each year from 1981-82 onwards³¹. The results are illustrated in cash terms in the table below. They suggest that over the period 1981-82 to 2008-09, Scotland’s illustrative geographical share of North Sea revenue was £130.4 billion, this equates to approximately 89% of total UK North Sea revenue over the period.

Scotland’s Geographical Share of North Sea Revenue: 1981-82 to 2008-09								
Year	% of Total UK revenue	£(million)	Year	% of Total UK revenue	£(million)	Year	% of Total UK revenue	£(million)
1981-82	97.9	6,263	1991-92	63.3	644	2001-02	83.1	4,507
1982-83	97.6	7,681	1992-93	62.7	838	2002-03	87.8	4,473
1983-84	96.0	8,437	1993-94	72.4	916	2003-04	86.9	3,725
1984-85	93.0	11,467	1994-95	82.3	1,377	2004-05	87.4	4,532
1985-86	93.5	10,488	1995-96	79.5	1,862	2005-06	86.6	8,128
1986-87	94.3	4,432	1996-97	80.5	2,697	2006-07	84.0	7,496
1987-88	89.7	4,249	1997-98	74.7	2,487	2007-08	95.1	7,450
1988-89	88.9	2,935	1998-99	78.0	1,958	2008-09	91.1	11,771
1989-90	82.2	2,057	1999-00	81.3	2,083			
1990-91	70.0	1,640	2000-01	84.4	3,759			

³¹ Kemp and Stephen (2008) - The Hypothetical Scottish Shares of Revenues and Expenditures from the UK Continental Shelf 2000-2013
 Kemp and Stephen (1999) - Expenditures and Revenues from the UKCS – Estimating the Hypothetical Shares 1970 – 2003

Contribution to current revenue

Tables 5.5 and 5.6 show the estimated contribution to total Scottish current fiscal revenue from the North Sea in 2008-09, using a per capita and geographical share respectively.

Table 5.5: Current Revenue (Per Capita Share of North Sea Revenue): Scotland 2008-09

	Scotland		UK	Scotland as % of UK revenue
	£ million	% of total revenue	£ million	
Total current revenue (excluding North Sea revenue)	43,466	97.6%	520,656	8.3%
North Sea revenue	1,088	2.4%	12,925	8.4%
Total current revenue	44,553	100.0%	533,581	8.3%

Table 5.6: Current Revenue (Geographical Share of North Sea Revenue): Scotland 2008-09

	Scotland		UK	Scotland as % of UK revenue
	£ million	% of total revenue	£ million	
Total current revenue (excluding North Sea revenue)	43,466	78.7%	520,656	8.3%
North Sea revenue	11,771	21.3%	12,925	91.1%
Total current revenue	55,236	100.0%	533,581	10.4%

As tables 5.5 and 5.6 highlight, the estimated size of current revenue in Scotland alters significantly depending on whether a per capita or an illustrative geographical share of North Sea revenue is apportioned to Scotland.

Assuming a per capita share, Scotland's estimated share of total UK current revenue remains at the same level as the share assuming the exclusion of North Sea revenue, that is, 8.3 per cent in 2008-09. In contrast, under an illustrative geographical share, Scotland's estimated share of total UK current revenue increased to 10.4 per cent in the same year.

Sensitivity analysis

Prior to 2006-07, earlier GERS reports presented illustrative figures to show North Sea revenue allocated to Scotland under various assumptions. For consistency, Table 5.7 shows estimated North Sea revenue under these various percentage allocations.

Table 5.7: Hypothetical Shares of North Sea Revenue: Scotland 2004-05 to 2008-09

	(£ million)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Total North Sea Revenue	5,183	9,384	8,924	7,831	12,925
<u>Hypothetical shares</u>					
66%	3,421	6,193	5,990	5,168	8,617
75%	3,887	7,038	6,806	5,873	9,694
90%	4,665	8,446	8,168	7,048	11,633

6

PUBLIC SECTOR EXPENDITURE

Introduction

This chapter provides detailed estimates of public sector expenditure for Scotland.

The primary data source used to estimate Scottish public sector expenditure is the Country and Regional Analysis (CRA) contained in the National Statistics publication Public Expenditure Statistical Analyses (PESA) published by HM Treasury³².

In GERS, public sector expenditure is divided into three categories: identifiable expenditure, non-identifiable expenditure and an accounting adjustment. Identifiable expenditure is expenditure that can be clearly allocated to Scotland in terms of having been spent for the benefit of Scottish residents and enterprises. Examples of identifiable expenditure include unemployment benefits, local economic development expenditure and most education and health expenditure.

Non-identifiable expenditure is expenditure that cannot be allocated to a particular country of the UK or English region but is instead incurred on behalf of the UK as a whole. The largest element of non-identifiable expenditure is defence expenditure.

Finally, an accounting adjustment ensures that public sector expenditure reported in PESA is consistent with Total Managed Expenditure (TME), the UK Government's principal measure of public sector expenditure used in the UK Public Finance Accounts.

For total expenditure and each expenditure component, a detailed breakdown according to current and capital is provided.

Each element of expenditure is discussed in detail below. Appendix B discusses the revisions from previous reports and the relevant apportionment methodologies applied.

As discussed in Chapter 3, the UK Government's net financial sector interventions are classified as non-identifiable expenditure in PESA. The outlays by the UK Government are recorded as a capital expenditure, whilst the fees received are recorded as a negative current expenditure. In PESA and GERS, these elements appear in the Enterprise and Economic Development (EED) expenditure programmes.

The scale of the financial sector interventions, relative to other spending on EED, means that there is a significant increase in expenditure within this category between 2007-08 and 2008-09. GERS therefore separates these two elements of spending.

Total Public Sector Expenditure

Estimated total public sector expenditure for Scotland by spending category for 2008-09 is shown in Table 6.1. On the basis of the assumptions and methodologies described in this report, in 2008-09, total public sector expenditure for Scotland was £56.5 billion when an estimated share of the UK Government's financial sector interventions is included, and £55.8 billion when this share is not included. Under both measures, this was equivalent to 9.4 per cent of comparable total UK public sector expenditure in 2008-09. Social protection was the

³² The most recent edition of PESA is available from http://www.hm-treasury.gov.uk/national_statistics.htm

6 Public Sector Expenditure

largest Scottish expenditure programme. Together with health expenditure, it accounts for approximately 50% of total public sector expenditure for Scotland in 2008-09.

Table 6.1: Total Expenditure: Scotland 2008-09			
		Scotland	
	£ million	% of total expenditure incl. financial sector interventions	% of total expenditure excl. financial sector interventions
General public services			
Public and common services	1,597	2.8%	2.9%
International services	602	1.1%	1.1%
Public sector debt interest	2,658	4.7%	4.8%
Defence	3,078	5.5%	5.5%
Public order and safety	2,509	4.4%	4.5%
Economic affairs			
Enterprise and economic development			
Financial sector interventions	700	1.2%	N/A
Other enterprise and economic development	1,006	1.8%	1.8%
Science and technology	420	0.7%	0.8%
Employment policies	261	0.5%	0.5%
Agriculture, forestry and fisheries	799	1.4%	1.4%
Transport	2,629	4.7%	4.7%
Environment protection	1,037	1.8%	1.9%
Housing and community amenities	1,799	3.2%	3.2%
Health	10,244	18.1%	18.4%
Recreation, culture and religion	1,490	2.6%	2.7%
Education and training	7,563	13.4%	13.6%
Social protection	18,571	32.9%	33.3%
EU transactions	-502	-0.9%	-0.9%
Total			
With financial sector interventions	56,460	100.0%	N/A
Without financial sector interventions	55,761	N/A	100.0%

¹In the TME presentation, expenditure on grants abroad is shown net of grants payable to the UK. This is why the EU transaction shows negative net expenditure.

Current expenditure is the sum of the current expenditure of general government (i.e. the Scottish Government, the UK Government in Scotland and Scottish local authorities) and certain distributive transactions (interest and dividends) payable by public corporations to the private sector and abroad. It does not include expenditure incurred by public corporations in producing goods and services for sale. Instead, the surplus of sale receipts over operating costs for public corporations is scored as a public sector revenue and does not affect the expenditure measure. Public sector current expenditure is defined to be net of certain revenue items, such as some sales of goods and services by general government. As it is defined at the public sector level, any transactions between parts of the public sector are also excluded.

Public sector capital expenditure refers to new capital formation, the net acquisition of land, and expenditure on capital grants. Capital expenditure leads to the holding of assets that can be used repeatedly to produce goods and services and generally have an economic life of more than one year. Tables 6.2 and 6.2a provide a summary of total current and capital expenditure over the years 2004-05 to 2008-09³³.

Table 6.2: Total Current and Capital Expenditure Including Financial Sector Interventions: Scotland and UK 2004-05 to 2008-09

	(£ million)									
	Scotland					UK				
	2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09
Current	40,814	43,394	45,128	47,962	49,876	438,524	463,692	482,193	510,221	538,133
Capital	3,704	4,283	4,964	5,243	6,585	32,612	37,488	40,711	45,431	64,266
Total	44,518	47,677	50,093	53,205	56,460	471,136	501,180	522,904	555,652	602,399

Table 6.2a: Total Current and Capital Expenditure Not Including Financial Sector Interventions: Scotland and UK 2004-05 to 2008-09

	(£ million)									
	Scotland					UK				
	2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09
Current	40,814	43,394	45,128	47,962	49,964	438,524	463,692	482,193	510,221	539,182
Capital	3,704	4,283	4,964	5,243	5,797	32,612	37,488	40,711	45,431	54,905
Total	44,518	47,677	50,093	53,205	55,761	471,136	501,180	522,904	555,652	594,087

Tables 6.3 and 6.3a highlight the share of total expenditure according to current and capital expenditure. Including a share of the UK Government's financial sector interventions, capital expenditure for Scotland increased from 8.3 per cent of total expenditure in 2004-05 to 11.7 per cent in 2008-09. When this share is not included, capital expenditure increased from 8.3 per cent to 10.4 per cent of total expenditure over the same period.

Table 6.3: Current and Capital Expenditure Including Financial Sector Interventions (% of Total Expenditure): Scotland 2004-05 to 2008-09

	(per cent)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Current	91.7%	91.0%	90.1%	90.1%	88.3%
Capital	8.3%	9.0%	9.9%	9.9%	11.7%

Table 6.3a: Current and Capital Expenditure Not Including Financial Sector Interventions (% of Total Expenditure): Scotland 2004-05 to 2008-09

	(per cent)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Current	91.7%	91.0%	90.1%	90.1%	89.6%
Capital	8.3%	9.0%	9.9%	9.9%	10.4%

³³ As the entry for the current expenditures associated with the various financial sector interventions is negative (i.e. revenues received from fees etc), the total estimated figure for Scottish current expenditure including a share of the UK Government's financial sector interventions, will be lower than the equivalent estimate when these effects are not included.

6 Public Sector Expenditure

Tables 6.4 and 6.5 provide a more detailed breakdown of total public sector expenditure by current and capital split for Scotland and the UK.

Including a share of the UK Government's financial sector interventions, total public sector expenditure for Scotland is estimated to have increased from £44.5 billion in 2004-05 to £56.5 billion in 2008-09, an increase of approximately 26.8 per cent in nominal terms. Over the same period, equivalent UK public sector expenditure increased from £471.1 billion to £602.4 billion, an increase of 27.9 per cent in nominal terms. When a share of the UK Government's financial sector interventions is not included, total public expenditure for Scotland is estimated to have increased from £44.5 billion to £55.8 billion over this period whilst the equivalent UK public sector expenditure is estimated to have grown from £471.1 billion to £594.1 billion.

Including a share of the UK Government's financial sector interventions, estimated public sector current expenditure for Scotland was £49.9 billion in 2008-09; 88.3 per cent of total Scottish public sector expenditure. When a share of these interventions is not included, current expenditure was estimated to have been £50.0 billion in 2008-09; 89.6 per cent of total public sector expenditure for Scotland. In comparison, UK public sector current expenditure was £538.1 billion in 2008-09; 89.3 per cent of total UK public sector expenditure, including the financial sector interventions, and £539.2 billion; 90.6 per cent of total public expenditure, when these effects are not included.

Estimated public sector capital expenditure for Scotland was £6.6 billion in 2008-09, including a share of the UK Government's financial sector interventions. This is equivalent to 11.7 per cent of total estimated Scottish public sector expenditure. When these effects are not included, public sector capital expenditure for Scotland was estimated to be £5.8 billion in 2008-09, 10.4 per cent of total public sector expenditure. Over the period 2004-05 to 2008-09, capital expenditure, including a share of the UK Government's financial sector interventions, increased by 77.8 per cent in nominal terms, much faster than the growth observed in current expenditure. When a share of the UK Government's financial interventions are not included, capital expenditure increased by 56.5 per cent over the same period.

Table 6.4: Total Expenditure: Scotland 2004-05 to 2008-09

	(£ million)														
	Current						Capital						Total		
	2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09
General public services	1,104	1,396	1,248	1,313	1,300	269	186	144	61	297	1,372	1,582	1,392	1,374	1,597
Public and common services	454	496	497	532	566	16	28	30	34	35	470	524	527	566	602
International services	2,112	2,260	2,427	2,645	2,658	0	0	0	0	0	2,112	2,260	2,427	2,645	2,658
Public sector debt interest	2,387	2,523	2,639	2,618	2,787	137	90	75	214	292	2,524	2,613	2,714	2,832	3,078
Defence	1,935	2,121	2,089	2,188	2,284	180	164	189	165	225	2,115	2,285	2,279	2,354	2,509
Public order and safety															
Economic affairs															
Enterprise and economic development	0	0	0	0	-88	0	0	0	0	788	0	0	0	0	700
Financial sector interventions	751	745	725	804	713	126	175	216	247	293	877	920	941	1,051	1,006
Other enterprise and econ development	242	301	261	330	321	48	62	55	120	99	290	363	316	450	420
Science and technology	260	241	246	253	260	11	33	13	1	1	271	274	259	254	261
Employment policies	621	605	593	677	709	44	42	67	65	90	664	646	660	741	799
Agriculture, forestry and fisheries	884	933	1,449	1,533	1,526	745	913	1,181	1,228	1,103	1,629	1,846	2,630	2,761	2,629
Transport	676	728	833	822	848	104	206	162	190	189	779	935	995	1,012	1,037
Environment protection	279	162	182	333	260	1,068	1,363	1,497	1,413	1,539	1,347	1,526	1,679	1,746	1,799
Housing and community amenities	7,334	8,355	8,804	9,363	9,726	424	251	297	447	518	7,758	8,606	9,102	9,810	10,244
Health	1,000	1,056	1,093	1,110	1,119	173	189	209	271	371	1,174	1,245	1,302	1,382	1,490
Recreation, culture and religion	5,841	6,091	6,413	6,664	6,914	304	480	724	696	649	6,145	6,570	7,137	7,360	7,563
Education and training	15,273	15,747	15,984	17,019	18,475	57	100	103	91	96	15,329	15,847	16,087	17,110	18,571
Social protection	-339	-366	-355	-242	-502	0	0	0	0	0	-339	-366	-355	-242	-502
EU transactions															
Total	40,814	43,394	45,128	47,962	49,876	3,704	4,283	4,964	5,243	6,585	44,518	47,677	50,093	53,205	56,460
With financial sector interventions	40,814	43,394	45,128	47,962	49,964	3,704	4,283	4,964	5,243	5,797	44,518	47,677	50,093	53,205	55,761
Without financial sector interventions															

6 Public Sector Expenditure

Table 6.5: Total Expenditure: UK 2004-05 to 2008-09

	(£ million)														
	Current						Capital						Total		
	2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09
General public services															
Public and common services	10,451	11,072	11,385	11,291	11,830	1,653	1,675	1,241	1,262	2,012	12,104	12,747	12,626	12,553	13,843
International services	5,358	5,868	5,887	6,309	6,733	194	341	368	426	423	5,552	6,209	6,255	6,734	7,156
Public sector debt interest	24,897	26,744	28,744	31,362	31,579	0	0	0	0	0	24,897	26,744	28,744	31,362	31,579
Defence	28,119	29,846	31,250	31,055	33,130	1,635	1,072	899	2,539	3,466	29,755	30,918	32,149	33,594	36,596
Public order and safety	26,785	27,685	28,633	29,652	30,917	1,707	1,610	1,815	2,091	2,741	28,492	29,295	30,448	31,743	33,658
Economic affairs															
Enterprise and economic development															
Financial sector interventions	0	0	0	0	-1,049	0	0	0	0	9,361	0	0	0	0	8,312
Other enterprise and econ development	5,094	5,236	4,998	5,501	5,362	1,503	1,309	1,515	1,386	2,171	6,598	6,544	6,512	6,888	7,533
Science and technology	1,931	2,232	2,136	2,416	2,550	514	683	629	784	618	2,445	2,915	2,765	3,200	3,168
Employment policies	3,027	2,987	3,155	3,210	3,017	157	355	195	72	87	3,184	3,342	3,349	3,282	3,104
Agriculture, forestry and fisheries	5,203	5,316	4,835	4,753	5,034	236	280	315	293	383	5,439	5,596	5,150	5,046	5,416
Transport	8,129	8,459	9,551	9,872	9,027	7,894	8,580	10,437	10,620	11,758	16,022	17,039	19,988	20,492	20,785
Environment protection	6,177	6,364	7,169	7,271	7,133	905	2,211	2,231	2,274	2,593	7,082	8,575	9,400	9,545	9,726
Housing and community amenities	3,262	3,540	3,560	3,859	3,737	5,055	7,131	7,946	8,998	11,196	8,317	10,670	11,506	12,856	14,933
Health	79,218	86,467	90,623	97,432	104,605	3,718	3,116	3,885	4,722	5,345	82,936	89,583	94,509	102,155	109,951
Recreation, culture and religion	8,496	9,110	9,462	9,754	9,977	1,467	1,699	1,767	2,252	3,063	9,962	10,809	11,229	12,006	13,040
Education and training	59,620	63,254	66,266	71,162	74,282	5,500	6,450	6,665	6,936	8,302	65,120	69,704	72,931	78,098	82,583
Social protection	163,647	170,111	176,340	186,827	203,195	475	976	804	775	747	164,122	171,088	177,143	187,603	203,942
EU transactions	-892	-598	-1,802	-1,505	-2,927	0	0	0	0	0	-892	-598	-1,802	-1,505	-2,927
Total	438,524	463,692	482,193	510,221	538,133	32,612	37,488	40,711	45,431	64,266	471,136	501,180	522,904	555,652	602,399
With financial sector interventions	438,524	463,692	482,193	510,221	539,182	32,612	37,488	40,711	45,431	54,905	471,136	501,180	522,904	555,652	594,087
Without financial sector interventions															

Box 6.1 – Social Protection Expenditure

In 2008-09, social protection expenditure accounted for approximately 33 per cent of public sector expenditure in Scotland and 34 percent of public sector expenditure in the UK as a whole.

Social protection comprises personal social services and social security expenditure. Personal social services covers both social work and social care services provided by local authorities. Examples include residential care homes for the elderly and home care services. Social security comprises cash benefits that are given to eligible individuals defined by states of need, such as unemployment, disability, sickness, old age etc.

The table below disaggregates social protection expenditure in Scotland and the UK by its key components in 2008-09. The results show that the composition of spending on social protection in Scotland and the UK is broadly similar. In both countries, pensions accounted for over a third of spending on social protection and were the largest single category. Social security expenditure on sickness and disability, which includes incapacity benefit³⁴ and elements of income support, was the second largest category in both countries, accounting for 16.2 percent of total social protection in Scotland and 15.1 per cent in the UK. Social security spending in Scotland is 10.0% of the UK total. This is higher than a per capita and GVA share.

Social Protection Expenditure in Scotland and the UK 2008-09 (£ million)

	Scotland		UK	Scotland as % of UK
	£ million	% of total social protection expenditure	£ million	
Central Government:				
Sickness and Disability	3,004	16.2%	28,050	10.7%
Pensions	6,830	36.8%	70,077	9.7%
Widow's Benefits	192	1.0%	1,622	11.8%
Family Benefits (Income support; Tax Credits and Personal Social Services)	1,883	10.1%	19,658	9.6%
Unemployment related benefits and personal social services	390	2.1%	4,874	8.0%
Social exclusion	1,667	9.0%	18,593	9.0%
Other social protection	189	1.0%	1,985	0.1%
Local Government	4,417	23.8%	40,512	10.9%
Total Social Protection Expenditure	18,571	100.0%	185,371	10.0%

³⁴ Employment and Support Allowance (ESA) was introduced on 27 October 2008. and replaced Incapacity Benefit and Income Support, paid because of an illness or disability, for new claimants.

6 Public Sector Expenditure

Table 6.6 shows estimated total public sector expenditure for Scotland and the UK on a per capita basis. The table also highlights the absolute per capita difference between Scotland and the UK and Scottish expenditure relative to the UK level. Total expenditure per capita for Scotland is estimated to have been £10,910 in 2008-09, £1,097 (or 11.4 per cent) higher than the UK average, when a share of the UK Government's financial sector interventions is included, and £10,775 (11.5 per cent higher than the UK average) when these effects are not included. It should be noted that UK Government departments may have classified certain expenditures to particular categories using a different approach to that taken by Scottish Government Statisticians. Therefore, allocations of certain expenditure for Scotland may differ from those for the UK, not as a result of different levels of actual expenditure, but as a result of different classifications of similar expenditures. Caution should therefore be exercised when comparing expenditure per capita for Scotland with UK figures for individual expenditure categories.

Table 6.6: Total Expenditure per capita: Scotland and UK 2008-09				
	Scotland (£)	UK (£)	Per Capita Difference (Scotland less UK) (£)	Relative expenditure for Scotland (UK = 100)
General public services				
Public and common services	309	225	83	137
International services	116	116	0	100
Public sector debt interest	514	514	0	100
Defence	595	595	0	100
Public order and safety	485	547	-63	89
Economic affairs				
Enterprise and economic development				
Financial sector interventions	135	135	0	100
Other enterprise and econ development	194	123	72	159
Science and technology	81	52	30	157
Employment policies	50	50	0	100
Agriculture, forestry and fisheries	154	88	66	175
Transport	508	338	170	150
Environment protection	200	158	42	127
Housing and community amenities	348	243	105	143
Health	1,980	1,788	191	111
Recreation, culture and religion	288	212	76	136
Education and training	1,462	1,343	118	109
Social protection	3,589	3,317	272	108
EU transactions	-97	-48	-49	204
Total				
With financial sector interventions	10,910	9,797	1,113	111
Without financial sector interventions	10,775	9,662	1,113	112

With the exception of defence, international services, public sector debt interest payments, public order and safety and employment policies, public expenditure per capita for Scotland was estimated to be higher than the UK average across all programme types. The biggest absolute differences were in social protection, health and transport, where per capita expenditure for Scotland was between £170 and £272 higher than the UK average. In relative terms, the greatest differences in expenditure per capita occurred in science and technology and agriculture, forestry and fisheries expenditure.

Within the UK, the levels of public expenditure vary from one constituent part to another, reflecting the needs rather than the wealth or tax capacity of an area.

There are number of reasons why public expenditure for Scotland often lies above the UK average. In some cases, higher expenditure per capita reflects the greater relative importance of particular activities for Scotland. Agriculture, fisheries and forestry is one such example. Scotland also has a lower population density than the UK which increases the cost of providing the same level of public service activity, particularly in areas such as education, health and transport.

The scope and remit of the public sector also differs in Scotland compared to the UK. For example, water and sewage services are a public sector responsibility in Scotland, and are therefore included in Scottish public expenditure, whilst in England they are operated by the private sector. The inclusion of Scottish Water in the public sector is one reason why net investment in Scotland is relatively higher than for the UK as a whole.

In other areas, the higher Scottish expenditure often observed reflects greater demand for Scottish-based providers. For example, the strength of Scottish universities has created a net inflow of students from other parts of the UK. Additionally, Scottish university courses are typically longer - the honours degree course takes four years, compared with a typical three year course in England and Wales. Therefore, expenditure on education and training for Scotland will be relatively higher than the rest of the UK. However, this benefits the UK as a whole. As discussed in GERS 2006-07, Scottish universities have also been able to attract above average levels of research funding which has contributed to the high level of public expenditure for science and technology in Scotland.

Finally, higher public expenditure also reflects Scotland's greater need for some public services such as in health and housing.

Box 6.2 – Private Finance Initiative

The Private Finance Initiative (PFI) is a method to provide financial support for Public Private Partnerships (PPPs) between the public and private sectors. PFI projects are long-term contracts for services that include the provision of associated facilities or properties. Under the contract, the private sector is generally responsible for various roles including designing and constructing a building or facility and maintaining and servicing it throughout the contract term. The public sector retains accountability for the main public services. The private sector is responsible for financing the project up front and only receives payment from the public sector once construction has been completed and the services have commenced. Payment takes the form of a unitary charge which is usually paid annually over the lifetime of the contract. A detailed discussion of the treatment of PFI projects in GERS is provided in Box 6.3 of GERS 2007-08.

The unitary charges paid on PFI projects in Scotland between 2004-05 and 2008-09 are presented in the table below.

6 Public Sector Expenditure

PFI Unitary Charge Expenditure in Scotland 2004-05 to 2008-09					
	(£ million)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Scottish Public Sector Unitary Charge	358	391	435	509	610
Other UK Government Departments Unitary Charges	18	19	20	28	22
Total Unitary Charges in Scotland	376	410	455	537	632

Source: Scottish Government and HM Treasury PFI Signed Project List – February 2010

Identifiable and Non-identifiable Expenditure

GERS classifies public sector expenditure for Scotland according to three categories: identifiable expenditure, non-identifiable expenditure and accounting adjustments.

In the vast majority of cases, GERS uses the data on identifiable expenditure contained in PESA CRA directly. It is a fundamental principle of PESA that the apportionment of UK expenditure adheres to the 'who benefits' principle whereby spending is allocated to a given region if the benefit of the service derived from the expenditure is thought to accrue to residents and enterprises of that region. As highlighted in the PESA publication, there are limitations in the ability to capture precisely 'who benefits' from a given item of expenditure:

- there are practical difficulties. For example, schools are not used solely by the residents of a region in which the facility is located and roads serve the needs of more than the geographical area through which they pass. Definitional and border problems become increasingly significant the smaller the geographical unit considered;
- there are also significant definitional problems associated with assessing 'who benefits'. For example, agricultural support is treated as benefiting the farmers who receive subsidies rather than the final consumers of food; and
- there are also issues around collecting accurate country and regional data in a cost efficient way. UK government departments are encouraged but not required to allocate all expenditure on the basis of 'who benefits'. If spending is not significant (less than £20 million on capital or current) and/or relevant data for allocating this to regions are not available, departments may use some statistical proxy instead. For example: using straight per capita shares, or using the regional allocation proportions for related spending. Further, it is not practical or cost effective to collect local government spending data on the basis of 'who benefits'. Instead, local government spending is assumed to benefit the area where the expenditure occurs.

Following a detailed review of all 1,404 expenditure programme object groups in PESA 2010, a number of important modifications to the PESA data have been made before being used for the GERS report. These changes reflect the fact that in certain circumstances, officials in the Scottish Government believe a more accurate assessment of 'who benefits' is thought possible than is currently presented in PESA. As in GERS 2007-08, the principal change relates to the treatment of expenditure on nuclear decommissioning by the UK Atomic Energy Authority (UKAEA) and British Nuclear Fuels, as outlined in Box 6.3.

Appendix B contains a detailed list of all amendments to PESA implemented in this report. The development of PESA continues to be work in progress and further improvements in the regional apportionment of public sector expenditure will be reflected in future GERS reports.

Box 6.3 – The Regional Allocation of Decommissioning Expenditure by UK Atomic Energy Authority and British Nuclear Fuels

PESA currently apportions decommissioning expenditure by the UK Atomic Energy Authority (UKAEA) and British Nuclear Fuels (BNF) to UK countries or English regions according to where the nuclear facility is located.

GERS has departed from the PESA CRA analysis in this instance and re-classified all UKAEA and BNF decommissioning expenditure as non-identifiable, on the basis that during the plants operational life, the value added from nuclear facilities benefited all UK residents. A proportion of total decommissioning expenditure, including that for plants in England, is therefore apportioned to Scotland on a per capita basis. Related expenditure, for example that corresponding to the security of nuclear facilities is treated similarly. The rationale for this change is set out in detail in Box 6.4 of GERS 2007-08.

The table below illustrates the impact of these revisions and highlights the extent to which the data presented in GERS differ from PESA CRA analysis in this respect. Under the methodology used in GERS, expenditure on UKAEA and BNF decommissioning for Scotland was estimated to be £65 million in 2008-09, £48 million lower than the estimate contained in PESA.

Expenditure on Nuclear Decommissioning: 2004-05 to 2008-09					
	(£ million)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Total UKAEA Decommissioning Expenditure and related nuclear expenditure	524	1,280	1,606	1,374	987
Expenditure 'identified' to Scotland in PESA	180	507	240	238	145
Revised apportionment to Scotland in GERS	44	108	136	116	83
Revision	-135	-399	-104	-122	-62

In 2008-09, UK identifiable expenditure covered approximately 83.4 per cent of UK total public sector expenditure including the financial sector interventions. When these effects are not included, UK identifiable expenditure accounted for 84.6 per cent of UK total public sector expenditure. The remaining spending cannot be attributed to individual locations, for example, because it is spent for the benefit of the UK as a whole. A proportion of such UK non-identifiable expenditure is allocated to the public sector for Scotland either on the basis of Scotland's share of the UK population, GVA or a more specific apportionment variable. Information on the methodologies used to apportion each element of expenditure is provided in Appendix B.

Table 6.7 illustrates the estimated level of identifiable and non-identifiable expenditure assigned to Scotland for each year between 2004-05 and 2008-09. Identifiable expenditure was estimated to be £48.3 billion in 2008-09. This figure is not affected by the UK Government's financial sector interventions as all of these are classified as non-identifiable. In comparison, non-identifiable expenditure was £8.1 billion in 2008-09, approximately 14.4 per cent of estimated total public sector expenditure for Scotland when a share of the UK Government's financial interventions is included. When these effects are not included, non-identifiable expenditure was £7.4 billion in 2008-09, approximately 13.3 per cent of estimated total public sector expenditure for Scotland.

Across most programme categories, the level of non-identifiable expenditure is relatively modest. This, in part, reflects development work that has been undertaken in compiling the PESA CRA database in recent years to identify more specifically particular elements of expenditure on a regional basis. Debt interest payments, defence and enterprise and economic development are typically the largest elements of non-identifiable expenditure. Collectively, these three elements of expenditure accounted for 79.7 per cent of total non-identifiable expenditure for Scotland in 2008-09 when a share of the UK Government's financial sector interventions is included, and 77.8 per cent of total non-identifiable expenditure for Scotland when these effects are not included.

Box 6.4 – The London Olympics and Glasgow Commonwealth Games

In PESA CRA 2010, HM Treasury classify expenditure on the London Olympics as UK non-identifiable expenditure. This assumes the benefits from the London Olympics are shared equally by all UK residents. There is some debate whether all the expenditures classified as being part of the 2012 London Olympics are non-identifiable. For example, a significant proportion of spending is for investment in infrastructure and re-development of areas in the east end of London. Previous regeneration schemes have generally been classified as identifiable to the region in which they occur.

Expenditure associated with the 2014 Commonwealth Games in Glasgow has been separately identified in PESA for the first time this year. Current expenditures of £2 million and £4 million are reported for 2007-08 and 2008-09 respectively. PESA classifies all the expenditure associated with the Commonwealth Games as being identifiable to Scotland. This implies all the resulting benefits accrue to Scotland.

The classifications used in PESA imply that Scottish residents are assumed to be the sole beneficiaries of the expenditure associated with the Commonwealth Games, whilst all UK residents benefit equally from the expenditure associated with the London Olympics. This creates an apparent asymmetry in the treatment of the expenditures associated with these two events.

One option would be to reclassify expenditure on the London Olympics as being identifiable to London. This would mean that expenditures associated with the Olympics and Commonwealth Games are treated symmetrically, with the principal beneficiaries of both events being the residents of the area in which they are held. This adjustment would reduce the estimates of Scottish public expenditure by £33 million in 2007-08 and £96 million in 2008-09. However this approach would not account for the fact that regions outside London will benefit as a result of the hosting of the Olympic Games in the UK. For example, through increased tourism. Equally, England, Wales and Northern Ireland may accrue similar benefits from the expenditure associated with the Commonwealth Games. Scottish Government Statisticians will review the methodologies used to apportion expenditures associated with the Olympics and Commonwealth Games in GERS with a view to proposing a revised methodology for introduction in GERS 2009-10. This will be informed by the review of Olympic expenditure currently being undertaken by UK Government officials in response to a formal request from the Devolved Administrations.

Table 6.7: Total Expenditure, Identifiable and Non-identifiable: Scotland 2004-05 to 2008-09

	(£ million)														
	Identifiable						Non-identifiable						Total		
	2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09
General public services	942	1,137	961	943	1,145	431	445	430	430	452	1,372	1,582	1,392	1,374	1,597
Public and common services	16	18	16	16	18	453	506	511	549	584	470	524	527	566	602
International services	0	0	0	0	0	2,112	2,260	2,427	2,645	2,658	2,112	2,260	2,427	2,645	2,658
Public sector debt interest	6	6	7	7	5	2,517	2,607	2,707	2,825	3,073	2,524	2,613	2,714	2,832	3,078
Defence	1,931	2,119	2,105	2,176	2,332	184	167	173	177	177	2,115	2,285	2,279	2,354	2,509
Public order and safety															
Economic affairs															
Enterprise and economic development	0	0	0	0	0	0	0	0	0	700	0	0	0	0	700
Financial sector interventions	832	869	884	998	953	45	51	57	53	53	877	920	941	1,051	1,006
Other enterprise and econ development	250	318	260	400	365	40	44	56	50	55	290	363	316	450	420
Science and technology	270	273	258	253	260	1	1	1	1	1	271	274	259	254	261
Employment policies	664	646	660	741	799	0	0	0	0	0	664	646	660	741	799
Agriculture, forestry and fisheries	1,611	1,827	2,612	2,742	2,606	18	18	18	20	23	1,629	1,846	2,630	2,761	2,629
Transport	733	826	859	897	951	46	109	136	115	86	779	935	995	1,012	1,037
Environment protection	1,347	1,526	1,679	1,746	1,799	0	0	0	0	0	1,347	1,526	1,679	1,746	1,799
Housing and community amenities	7,702	8,562	9,035	9,727	10,160	56	44	67	82	84	7,758	8,606	9,102	9,810	10,244
Health	898	951	989	1,029	1,081	276	295	313	353	409	1,174	1,245	1,302	1,382	1,490
Recreation, culture and religion	6,138	6,564	7,130	7,353	7,554	7	6	7	7	10	6,145	6,570	7,137	7,360	7,563
Education and training	15,124	15,625	15,859	16,867	18,304	205	222	227	242	267	15,329	15,847	16,087	17,110	18,571
Social protection	0	0	0	0	0	-339	-366	-355	-242	-502	-339	-366	-355	-242	-502
EU transactions															
Total	38,466	41,267	43,314	45,897	48,329	6,052	6,409	6,778	7,308	8,132	44,518	47,677	50,093	53,205	56,460
With financial sector interventions	38,466	41,267	43,314	45,897	48,329	6,052	6,409	6,778	7,308	7,432	44,518	47,677	50,093	53,205	55,761
Without financial sector interventions															

Analysis of Identifiable Expenditure

This section provides a more detailed analysis of identifiable expenditure for Scotland.

As the UK Government's financial sector interventions are recorded in GERS as non-identifiable expenditure, they are not reflected in the identifiable expenditure tables below. Therefore only one estimate of both expenditure on Enterprise and Economic Development and total public spending is provided.

Table 6.8 disaggregates identifiable expenditure for Scotland into expenditure by the Scottish Government and by other UK Government departments for the years 2004-05 to 2008-09³⁵. Tables 6.9 and 6.10 provide a similar disaggregation but with an additional split for current and capital expenditure. Finally, Table 6.11 provides an assessment of the contribution of each expenditure programme to overall identifiable expenditure for Scotland and the UK as a whole.

The Scottish Government accounted for over two thirds of total Scottish identifiable public expenditure in each year between 2004-05 and 2008-09 with the majority of such expenditure on health and education. It should be noted that the figures presented for Scottish Government expenditure in GERS do not reconcile directly with Scottish Government budget statements. The identifiable expenditure figures contained in GERS include expenditure by non-ministerial departments, such as the General Register Office for Scotland (GROS), and by public corporations. They exclude a small expenditure by the Scottish Government on services outside Scotland. Furthermore, the figures presented in GERS are consistent with the National Accounts framework for public sector expenditure and will therefore differ from the Scottish Government budget documents in their treatment of certain cash and non-cash items. There are also important differences in classification of expenditure.

UK Government departments accounted for a third of Scottish identifiable expenditure. Their spending is dominated by expenditure on social protection – i.e. welfare payments and unemployment benefits. Social protection is the only function where the majority of identifiable expenditure is not undertaken by the Scottish Government.

Decomposing the data into current and capital components shows that the Scottish Government's share of identifiable current expenditure increased from 65.0 per cent in 2004-05 to 66.1 per cent in 2008-09. Over the same period the proportion of identifiable capital expenditure undertaken by the Scottish Government increased from 88.6 per cent in 2004-05 to 96.6 per cent in 2008-09. A significant element of this increase reflects the transfer of responsibility for elements of railways expenditure from the Department for Transport to the Scottish Government. This issue is set out more in detail in box 6.1 in GERS 2007-08.

As Table 6.11 highlights, the pattern of identifiable expenditure for Scotland was broadly similar to that for the UK as a whole, with social protection and health being the dominant expenditure components.

³⁵ Expenditure by Scottish Government in the tables in Chapter 6 incorporates expenditure by Scottish Local Authorities and Public Corporations

Table 6.8: Total Identifiable Expenditure: Scotland 2004-05 to 2008-09

	(£ million)														
	Scottish Government						Other UK Government						Total		
	2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09
General public services															
Public and common services	897	1,062	898	873	1,083	45	75	63	70	61	942	1,137	961	943	1,145
International services	0	0	0	0	0	16	18	16	16	18	16	18	16	16	18
Public sector debt interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Defence	6	6	7	7	5	0	0	0	0	0	6	6	7	7	5
Public order and safety	1,914	2,104	2,091	2,165	2,305	18	15	15	11	27	1,931	2,119	2,105	2,176	2,332
Economic affairs															
Enterprise and econ development	671	664	689	818	760	161	205	194	179	193	832	869	884	998	953
Science and technology	90	135	88	195	138	161	184	172	204	227	250	318	260	400	365
Employment policies	0	0	0	1	4	270	273	258	252	256	270	273	258	253	260
Agriculture, forestry and fisheries	651	634	646	727	785	13	12	14	14	13	664	646	660	741	799
Transport	1,335	1,586	2,554	2,688	2,585	276	241	58	54	21	1,611	1,827	2,612	2,742	2,606
Environment protection	694	776	815	862	919	39	50	44	35	31	733	826	859	897	951
Housing and community amenities	1,347	1,526	1,679	1,746	1,799	0	0	0	0	0	1,347	1,526	1,679	1,746	1,799
Health	7,664	8,517	8,992	9,689	10,111	38	45	43	39	48	7,702	8,562	9,035	9,727	10,160
Recreation, culture and religion	808	835	892	945	999	90	116	97	84	82	898	951	989	1,029	1,081
Education and training	6,108	6,528	7,098	7,330	7,523	30	36	31	23	31	6,138	6,564	7,130	7,353	7,554
Social protection	3,650	3,817	3,765	4,261	4,499	11,474	11,808	12,094	12,606	13,805	15,124	15,625	15,859	16,867	18,304
EU transactions	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	25,835	28,189	30,214	32,308	33,515	12,631	13,079	13,100	13,589	14,813	38,466	41,267	43,314	45,897	48,329

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Table 6.9: Identifiable Expenditure - Scottish Government: Scotland 2004-05 to 2008-09

	(£ million)									
	Current					Capital				
	2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09
General public services										
Public and common services	674	923	769	837	832	223	139	129	36	252
International services	0	0	0	0	0	0	0	0	0	0
Public sector debt interest	0	0	0	0	0	0	0	0	0	0
Defence	6	6	7	7	5	0	0	0	0	0
Public order and safety	1,746	1,945	1,918	2,013	2,099	168	159	173	152	206
Economic affairs										
Enterprise and econ development	564	532	532	627	542	107	132	157	192	218
Science and technology	73	105	69	110	75	17	30	18	85	63
Employment policies	0	0	0	1	4	0	0	0	0	0
Agriculture, forestry and fisheries	609	593	579	663	696	43	41	67	64	89
Transport	820	889	1,395	1,476	1,505	515	696	1,159	1,211	1,080
Environment protection	616	681	766	772	834	79	95	49	90	85
Housing and community amenities	279	162	182	333	260	1,068	1,363	1,497	1,413	1,539
Health	7,261	8,282	8,715	9,250	9,602	402	234	277	439	510
Recreation, culture and religion	676	707	735	742	756	131	128	157	203	244
Education and training	5,823	6,068	6,390	6,637	6,875	285	460	709	694	648
Social protection	3,612	3,770	3,707	4,195	4,434	38	46	58	66	65
EU transactions	0	0	0	0	0	0	0	0	0	0
Total	22,760	24,665	25,765	27,664	28,517	3,075	3,524	4,449	4,644	4,999

Table 6.10: Identifiable Expenditure - Other UK Government: Scotland 2004-05 to 2008-09

	(£ million)									
	Current					Capital				
	2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09
General public services										
Public and common services	39	69	58	65	56	6	5	5	5	5
International services	16	18	16	16	17	1	1	0	1	0
Public sector debt interest	0	0	0	0	0	0	0	0	0	0
Defence	0	0	0	0	0	0	0	0	0	0
Public order and safety	16	17	7	10	26	2	-2	7	1	1
Economic affairs										
Enterprise and econ development	147	168	144	130	126	14	37	50	49	66
Science and technology	136	160	146	182	202	25	23	26	23	25
Employment policies	258	240	245	251	255	11	33	13	1	1
Agriculture, forestry and fisheries	12	11	14	13	13	1	1	1	1	1
Transport	53	32	42	45	7	223	209	15	10	14
Environment protection	19	26	22	28	25	21	24	22	7	6
Housing and community amenities	0	0	0	0	0	0	0	0	0	0
Health	19	25	27	35	46	19	20	16	3	2
Recreation, culture and religion	55	66	64	57	60	35	50	33	27	22
Education and training	11	16	16	20	29	19	19	15	3	1
Social protection	11,456	11,755	12,050	12,582	13,774	19	53	44	25	31
EU transactions	0	0	0	0	0	0	0	0	0	0
Total	12,235	12,605	12,851	13,435	14,639	396	474	249	154	174

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Table 6.11: Identifiable Expenditure: Scotland and UK 2008-09

	Scotland				UK	
	Scottish Government		Other UK Government		Total	
	Expenditure (£ million)	Share of identifiable expenditure	Expenditure (£ million)	Share of identifiable expenditure	Expenditure (£ million)	Share of identifiable expenditure
General public services						
Public and common services	1,083	2.2%	61	0.1%	1,145	2.4%
International services	0	0.0%	18	0.0%	18	0.0%
Public sector debt interest	0	0.0%	0	0.0%	0	0.0%
Defence	5	0.0%	0	0.0%	5	0.0%
Public order and safety	2,305	4.8%	27	0.1%	2,332	4.8%
Economic affairs						
Enterprise and econ development	760	1.6%	193	0.4%	953	2.0%
Science and technology	138	0.3%	227	0.5%	365	0.8%
Employment policies	4	0.0%	256	0.5%	260	0.5%
Agriculture, forestry and fisheries	785	1.6%	13	0.0%	799	1.7%
Transport	2,585	5.3%	21	0.0%	2,606	5.4%
Environment protection	919	1.9%	31	0.1%	951	2.0%
Housing and community amenities	1,799	3.7%	0	0.0%	1,799	3.7%
Health	10,111	20.9%	48	0.1%	10,160	21.0%
Recreation, culture and religion	999	2.1%	82	0.2%	1,081	2.2%
Education and training	7,523	15.6%	31	0.1%	7,554	15.6%
Social protection	4,499	9.3%	13,805	28.6%	18,304	37.9%
EU transactions	0	0.0%	0	0.0%	0	0.0%
Total	33,515	69.3%	14,813	30.7%	48,329	100.0%
					502,365	100.0%

Table 6.12 shows identifiable expenditure per capita for Scotland in 2008-09 and compares this with the corresponding per capita figure for the UK. In 2008-09, identifiable expenditure per capita for Scotland was estimated to be £9,339 which is £1,169 (14.3 per cent) higher than the UK average.

In absolute terms, the largest differences arose in transport, health and social protection where per capita identifiable expenditure for Scotland was between £170 and £274 higher than the UK average. These are the key factors in explaining the difference in total identifiable expenditure between Scotland and the UK.

In relative terms, the greatest variations in spending per capita arose in enterprise and economic development, science and technology, and agriculture, forestry and fisheries.

Table 6.12: Identifiable Expenditure per capita: Scotland and UK 2008-09

	Scotland (£)	UK (£)	Difference (Scotland less UK) (£)	Relative expenditure for Scotland (UK = 100)
General public services				
Public and common services	221	136	85	162
International services	3	3	0	97
Public sector debt interest	0	0	0	0
Defence	1	1	0	72
Public order and safety	451	513	-63	88
Economic affairs				
Enterprise and econ development	184	112	72	164
Science and technology	70	40	30	174
Employment policies	50	50	0	100
Agriculture, forestry and fisheries	154	88	66	175
Transport	504	333	170	151
Environment protection	184	141	42	130
Housing and community amenities	348	243	105	143
Health	1,963	1,772	192	111
Recreation, culture and religion	209	132	77	158
Education and training	1,460	1,341	118	109
Social protection	3,537	3,263	274	108
EU transactions	0	0	0	0
Total	9,339	8,170	1,169	114

Analysis of Non-Identifiable Expenditure

This section provides a more detailed analysis of non-identifiable expenditure. There are a number of possible ways in which to allocate a share of UK non-identifiable expenditure to Scotland including Scotland's share of UK GVA or population. The methodologies used to apportion each element of non-identifiable expenditure are discussed in Appendix B.

In addition to non-identifiable expenditure, PESA also includes a small amount of UK Government expenditure which is classified as identifiable but for programmes outside the UK. This includes expenditure on international development programmes. This category is included in GERS within non-identifiable expenditure for both Scotland and the UK. This treatment is consistent with the view that expenditure outside the UK is non-identifiable from the perspective of the UK's constituent countries, as the benefits are shared between them. To make the Scottish non-identifiable expenditure comparable with UK data, this category is therefore included in UK non-identifiable expenditure.

Table 6.13 presents total non-identifiable expenditure for Scotland and the UK between 2004-05 and 2008-09. Tables 6.14 and 6.15 decompose Scottish and UK non-identifiable expenditure into their current and capital components.

Including a share of the UK Government's financial sector interventions, total non-identifiable expenditure for Scotland was estimated to be £8.1 billion in 2008-09, 8.1 per cent of the equivalent UK figure. When a share of the financial sector interventions is not included, total non-identifiable expenditure for Scotland is estimated to be £7.4 billion (8.1 per cent of the UK total).

Defence and debt interest payments comprise the largest components. As Tables 6.14 and 6.15 highlight, current expenditure was the major component of non-identifiable expenditure for both Scotland and the UK in 2008-09.

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Table 6.14: Non-Identifiable Expenditure: Scotland 2004-05 to 2008-09

	(£ million)									
	Current					Capital				
	2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09
General public services										
Public and common services	391	404	420	410	412	40	42	10	20	40
International services	438	478	481	516	549	15	28	30	34	35
Public sector debt interest	2,112	2,260	2,427	2,645	2,658	0	0	0	0	0
Defence	2,381	2,517	2,632	2,611	2,782	137	90	75	214	292
Public order and safety	174	160	164	165	159	10	7	9	12	18
Economic affairs										
Enterprise and economic development										
Financial sector interventions	0	0	0	0	-88	0	0	0	0	788
Other enterprise and econ development	40	45	48	47	45	5	6	9	6	8
Science and technology	34	36	45	39	44	6	9	10	12	11
Employment policies	1	1	1	1	1	0	0	0	0	0
Agriculture, forestry and fisheries	0	0	0	0	0	0	0	0	0	0
Transport	11	11	11	12	14	6	7	7	7	9
Environment protection	41	21	45	22	-12	5	87	92	93	98
Housing and community amenities	0	0	0	0	0	0	0	0	0	0
Health	53	47	62	78	79	3	-3	4	5	6
Recreation, culture and religion	269	283	294	311	303	7	12	19	42	106
Education and training	7	6	7	7	10	0	0	0	0	0
Social protection	205	221	227	242	267	0	1	1	1	0
EU transactions	-339	-366	-355	-242	-502	0	0	0	0	0
Total	5,818	6,124	6,512	6,863	6,720	233	285	266	445	1,412
With financial sector interventions	5,818	6,124	6,512	6,863	6,809	233	285	266	445	624
Without financial sector interventions										

Table 6.15: Non-Identifiable Expenditure: UK 2004-05 to 2008-09

	(£ million)									
	Current					Capital				
	2004-05	2005-06	2006-07	2007-08	2008-09	2004-05	2005-06	2006-07	2007-08	2008-09
General public services										
Public and common services	4,632	4,802	5,008	4,893	4,970		493	123	242	481
International services	5,168	5,655	5,702	6,115	6,524	178	329	355	398	417
Public sector debt interest	24,897	26,744	28,744	31,362	31,579	0	0	0	0	0
Defence	28,066	29,776	31,168	30,965	33,050	1,610	1,066	891	2,536	3,464
Public order and safety	2,051	1,894	1,945	1,962	1,890	114	79	109	142	216
Economic affairs										
Enterprise and economic development										
Financial sector interventions	0	0	0	0	-1,049	0	0	0	0	9,361
Other enterprise and econ development	480	542	579	565	544	64	68	107	75	97
Science and technology	414	441	559	472	538	76	106	129	145	140
Employment policies	14	14	17	13	17	0	1	0	0	0
Agriculture, forestry and fisheries	0	0	0	0	0	0	0	0	0	0
Transport	152	165	161	197	214	219	215	184	154	92
Environment protection	496	263	541	264	-126	56	1,037	1,086	1,106	1,167
Housing and community amenities	0	0	0	0	0	0	0	0	0	0
Health	642	574	753	937	950	30	-36	50	54	67
Recreation, culture and religion	3,195	3,375	3,517	3,725	3,642	90	142	236	506	1,268
Education and training	88	72	80	84	113	0	0	0	0	0
Social protection	2,516	2,726	2,811	3,014	3,328	1	8	9	7	5
EU transactions	-892	-598	-1,802	-1,505	-2,927	0	0	0	0	0
Total	71,920	76,444	79,784	83,063	83,258	2,907	3,507	3,279	5,365	16,776
With financial sector interventions	71,920	76,444	79,784	83,063	84,307	2,907	3,507	3,279	5,365	7,415
Without financial sector interventions										

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Table 6.16 compares the composition of non-identifiable expenditure for Scotland and the UK for 2008-09. For both Scotland and the UK, the structure of non-identifiable expenditure is broadly similar, with debt interest and defence expenditure contributing the largest amounts.

Table 6.16: Non-Identifiable Expenditure: Scotland and UK 2008-09						
	Scotland			UK		
	Expenditure (£ million)	Share of non-identifiable expenditure inc. financial interventions	Share of non-identifiable expenditure exc. financial interventions	Expenditure (£ million)	Share of non-identifiable expenditure inc. financial interventions	Share of non-identifiable expenditure exc. financial interventions
General public services						
Public and common services	452	5.6%	6.1%	5,451	5.4%	5.9%
International services	584	7.2%	7.9%	6,942	6.9%	7.6%
Public sector debt interest	2,658	32.7%	35.8%	31,579	31.6%	34.4%
Defence	3,073	37.8%	41.4%	36,514	36.5%	39.8%
Public order and safety	177	2.2%	2.4%	2,106	2.1%	2.3%
Economic affairs						
Enterprise and economic development						
Financial sector interventions	700	8.6%	N/A	8,312	8.3%	N/A
Other enterprise and econ development	53	0.7%	0.7%	641	0.6%	0.7%
Science and technology	55	0.7%	0.7%	678	0.7%	0.7%
Employment policies	1	0.0%	0.0%	17	0.0%	0.0%
Agriculture, forestry and fisheries	0	0.0%	0.0%	0	0.0%	0.0%
Transport	23	0.3%	0.3%	306	0.3%	0.3%
Environment protection	86	1.1%	1.2%	1,041	1.0%	1.1%
Housing and community amenities	0	0.0%	0.0%	0	0.0%	0.0%
Health	84	1.0%	1.1%	1,017	1.0%	1.1%
Recreation, culture and religion	409	5.0%	5.5%	4,910	4.9%	5.4%
Education and training	10	0.1%	0.1%	113	0.1%	0.1%
Social protection	267	3.3%	3.6%	3,333	3.3%	3.6%
EU transactions	-502	-6.2%	-6.8%	-2,927	-2.9%	-3.2%
Total						
With financial sector interventions	8,132	100.0%	N/A	100,035	100.0%	N/A
Without financial sector interventions	7,432	N/A	100.0%	91,722	N/A	100.0%

Table 6.17 outlines Scottish non-identifiable expenditure on services per capita in 2008-09 and compares this with the corresponding figure for the UK. For Scotland, non-identifiable expenditure was estimated to be £1,571 per capita including a share of the UK Government's financial sector interventions, and £1,436 per capita when these effects are not included. These are marginally lower than the equivalent UK per capita figures of £1,627 and £1,492 respectively. This reflects the fact that for some apportionments, GVA was used and Scotland's GVA per capita (excluding extra-regio) was marginally smaller than the corresponding UK figure in 2008-09.

Table 6.17: Non-Identifiable Expenditure Per Capita: Scotland and UK 2008-09

	Scotland (£)	UK (£)	Difference (Scotland less UK) (£)	Relative expenditure for Scotland (UK = 100)
General public services				
Public and common services	87	89	-1	98
International services	113	113	0	100
Public sector debt interest	514	514	0	100
Defence	594	594	0	100
Public order and safety	34	34	0	100
Economic affairs				
Enterprise and economic development				
Financial sector interventions	135	135	0	100
Other enterprise and econ development	10	10	0	99
Science and technology	11	11	0	97
Employment policies	0	0	0	100
Agriculture, forestry and fisheries	0	0	0	0
Transport	4	5	0	90
Environment protection	17	17	0	99
Housing and community amenities	0	0	0	0
Health	16	17	0	99
Recreation, culture and religion	79	80	-1	99
Education and training	2	2	0	100
Social protection	52	54	-3	95
EU transactions	-97	-48	-49	204
Total				
With financial sector interventions	1,571	1,627	-56	97
Without financial sector interventions	1,436	1,492	-56	96

Box 6.5 – Debt Interest Payments

The debt interest payment expenditure in the above tables refers to payments to cover interest on outstanding UK Government debt. In GERS, such expenditure is classified as non-identifiable. For each year, a per capita share of UK Government debt interest expenditure is allocated for Scotland. The allocation on a per capita basis is based on the assumption that residents across the UK bear an equal burden of UK Government liabilities.

As there is no separate identification of Scotland's share of UK public sector net debt in UK public financial accounts, a separate Scottish debt interest expenditure does not exist. An assessment of an implied 'debt position' for Scotland is inherently problematic, not least because general government borrowing is controlled by the UK Government.

Debt interest payments can also be viewed as payments related to past UK public sector net borrowing and government expenditure. Current expenditure excluding debt interest payments represents expenditure on public services consumed within the current financial year. The difference between this estimate and estimated current revenue represents the current budget fiscal position for public services provided at a given point in time (the primary current balance). In GERS, an estimate of debt interest payments is then deducted from this balance to obtain the current budget balance which is presented in Chapter 3.

Estimates for Scotland over the period 2004-05 to 2008-09, including a share of the UK Government's financial sector interventions, are highlighted in the table below, illustrating the current balance on public services consumed within each financial year.

Current Balance on Public Services Consumed Including Financial Sector Interventions: Scotland 2008-09					
	(£ million)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Current revenue					
Excluding North Sea revenue	36,983	39,787	42,198	44,966	43,466
Including North Sea revenue (per capita share)	37,422	40,580	42,952	45,627	44,553
Including North Sea revenue (geographical share)	41,515	47,914	49,694	52,417	55,236
Total current expenditure (including capital consumption and accounting adjustments)	44,036	46,983	48,907	51,943	53,966
Less debt interest payments (as used in headline GERS estimates)	-2,112	-2,260	-2,427	-2,645	-2,658
Total current expenditure on services consumed within current financial year	41,924	44,723	46,480	49,298	51,309
Current balance on public services consumed within current financial year					
Excluding North Sea revenues	-4,941	-4,936	-4,281	-4,332	-7,843
Including North Sea revenues (per capita share)	-4,502	-4,143	-3,528	-3,671	-6,755
Including North Sea revenues (geographical share)	-409	3,192	3,214	3,119	3,928

Accounting Adjustments

The analysis of public sector expenditure in GERS focuses on Total Expenditure on Services (TES). This is consistent with the departmental budget framework. In UK public finance documents, the principal measure of public sector expenditure is Total Managed Expenditure (TME). TME is constructed from categories in the National Accounts framework. The main difference between TES and TME is that TES does not include general government capital consumption and does not reverse the deduction of certain VAT refunds in the budget-based expenditure data. It also contains a number of items that are in budgets but not in TME, for example the grant-equivalent element of student loans. In most years, TES amounts to approximately 95 per cent of TME. To reconcile TES and TME, an accounting adjustment is introduced such that TES plus the accounting adjustment equals TME.

The largest component of the UK accounting adjustment is general government capital consumption. It is a measure of the amount of fixed capital resources used up in the process of the provision of public services. In 2008-09, the UK capital consumption of £13.8 billion represented 50.5 per cent of the total UK accounting adjustment. Table 6.18 shows the component disaggregation of the UK accounting adjustment. The total UK accounting adjustments was estimated at £27.3 billion in 2008-09. The estimates of the UK accounting adjustment presented in Table 6.18 include the effect of the UK Government's financial sector interventions.

Table 6.18: Accounting Adjustment Including Financial Sector Interventions: UK 2004-05 to 2008-09

	(£ million)				
	2004-05	2005-06	2006-07	2007-08	2008-09
UK total managed expenditure (TME)	492,332	523,942	549,819	581,919	629,659
UK total expenditure on services (TES)	471,136	501,180	522,904	555,652	602,399
UK accounting adjustment	21,196	22,762	26,915	26,267	27,260
of which:					
Central government capital consumption	5,513	5,734	5,881	6,142	6,530
Local government capital consumption	5,437	5,952	6,478	6,803	7,224
Current VAT refunds	7,803	8,791	9,416	9,725	10,001
Capital VAT refunds	1,508	1,655	1,772	1,982	1,978
Nigerian debt cancellation	116	1,246	1,406	0	0
Student loans subsidy ¹	-327	-429	-290	-1,032	-524
Imputed subsidy from Local Authorities to the Housing Revenue Account ²	715	1,431	1,528	1,535	1,488
Imputed flows for Renewable Obligation Certificates ³	368	370	474	469	472
Residual	63	-1,988	250	643	91

¹TES includes the subsidy implied in student loans being issued at lower than market rate. This is not included in TME – the National Accounts measures (in the current balance) the difference between interest received from students and the amount of interest paid by the government on the debt incurred to make the loans.

²The Housing Revenue Account (HRA) is classified as a Public Corporation by the ONS, which means that they pay dividends on their profits to local authorities. To ensure that these dividends are non-negative, the ONS impute a subsidy from local authorities to HRAs to cover any shortfall (offset in Public Corporation gross operating surplus, which scores on the revenue side of the account).

³Renewable Obligation Certificates are bought and sold by energy companies. The ONS have decided that these flows should be channelled through central government and so impute offsetting amounts of spending and income.

6 Public Sector Expenditure

The corresponding Scottish figures, as highlighted in Table 6.19, are calculated using a variety of apportionment methodologies. Firstly, estimates of general government capital consumption from the ONS Regional Accounts, together with information from local government returns, have been used to apportion capital consumption to UK countries and English regions. In 2008-09, general government capital consumption for Scotland was estimated at £1.3 billion (9.2 per cent of UK capital consumption). This is relatively high for Scotland, reflecting a higher stock of public sector assets (e.g. roads, hospitals, schools) than elsewhere in the UK. These figures are identical to those used in the general government gross operating surplus calculations in the revenue account. The figures cancel out in the net borrowing calculation

VAT refunds have been allocated to Scotland using the apportionments derived in the revenue calculations for VAT refunds which form part of the total VAT calculations (see Appendix A), and therefore cancel out in the calculation of net borrowing. The figures for Scottish student loan subsidies were provided by HM Treasury. The imputed subsidy from local authorities to the Housing Revenue Account adopt the same apportionment allocation as in the gross operating surplus calculations on the revenue side, and the imputed flows for Renewable Obligation Certificates adopts the same methodology used in 'other taxes and royalties'. These items cancel in the net borrowing calculations. The Scottish share of the Nigerian debt write-off has been allocated on a per capita basis. The current and capital residuals are allocated to Scotland using the appropriate TES ratios.

In sum, the total Scottish public sector accounting adjustment was estimated at £2.6 billion in 2008-09, or 9.4 per cent of the total UK accounting adjustment, including the effect of the UK Government's financial sector interventions. The relatively higher proportion compared to per capita or GVA shares reflects the high share of general government capital consumption for Scotland.

Table 6.19: Accounting Adjustment Including Financial Sector Interventions: Scotland 2004-05 to 2008-09

	(£ million)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Capital consumption:¹					
Central government capital consumption	496	501	522	542	579
Local government capital consumption	591	651	611	658	688
Current expenditure:					
Current VAT refunds	736	868	839	879	909
Student loans subsidy ²	-33	-40	-27	-44	7
Imputed subsidy from Local Authorities to the Housing Revenue Account ³	75	160	158	149	128
Imputed flows for Renewable Obligation Certificates ⁴	46	33	35	50	56
Current expenditure residual					
Capital expenditure:	142	163	158	179	180
Capital VAT refunds	10	105	119	0	0
Nigerian debt cancellation	169	-98	-130	-95	-23
Capital expenditure residual					
Total accounting adjustment	2,100	2,238	2,408	2,456	2,553
Percentage of UK accounting adjustment	9.9%	9.8%	8.9%	9.4%	9.4%

¹Public Corporations' capital consumption is included in gross operating surplus.

²TES includes the subsidy implied in student loans being issued at lower than market rate. This is not included in TME – the National Accounts measures (in the current balance) the difference between interest received from students and the amount of interest paid by the government on the debt incurred to make the loans.

³The Housing Revenue Account (HRA) is classified as a Public Corporation by the ONS, which means that they pay dividends on their profits to local authorities. To ensure that these dividends are non-negative, the ONS impute a subsidy from local authorities to HRAs to cover any shortfall (offset in Public Corporations gross operating surplus, which scores on the revenue side of the account).

⁴Renewable Obligation Certificates are bought and sold by energy companies. The ONS have decided that these flows should be channelled through central government and so impute offsetting amounts of spending and income.

7 CONCLUSION

The aim of GERS is to enhance public understanding of fiscal issues in Scotland. The primary objective is to estimate a detailed set of public sector accounts for Scotland through an analysis of official UK and Scottish Government financial statistics.

Incorporating a share of the expenditure associated with the UK Government's financial sector interventions, in 2008-09, the estimated current budget balance for the public sector in Scotland was a deficit of £10.5 billion (9.1 per cent of GDP) excluding North Sea revenue, a deficit of £9.4 billion (8.0 per cent of GDP) including a per capita share of North Sea revenue or a surplus of £1.3 billion (0.9 per cent of GDP) including an illustrative geographical share of North Sea revenue. These estimates are comparable with the estimate of the UK's current budget balance published in the March 2010 UK Budget.

Not including a share of the UK Government's financial sector interventions, in 2008-09, the estimated current budget balance for the public sector in Scotland was a deficit of £10.5 billion (9.1 per cent of GDP) excluding North Sea revenue, a deficit of £9.4 billion (8.0 per cent of GDP) including a per capita share of North Sea revenue or a surplus of £1.2 billion (0.9 per cent of GDP) including an illustrative geographical share of North Sea revenue.

Incorporating a share of the expenditure associated with the UK Government's financial sector interventions, in 2008-09, the estimated net fiscal balance was a deficit of £15.5 billion (13.5 per cent of GDP) when excluding North Sea revenue, a deficit of £14.5 billion (12.2 per cent of GDP) when including a per capita share of North Sea revenue or a deficit of £3.8 billion (2.6 per cent of GDP) when an illustrative geographical share of North Sea revenue is included. This is comparable with the estimate of UK net borrowing published in the March 2010 UK Budget.

Not including a share of the UK Government's financial sector interventions, in 2008-09, the estimated net fiscal balance in Scotland, that is the estimated current budget balance plus estimated net capital investment, was a deficit of £14.7 billion (12.8 per cent of GDP) when excluding North Sea revenue, a deficit of £13.6 billion (11.5 per cent of GDP) when including a per capita share of North Sea revenue or a deficit of £3.0 billion (2.1 per cent of GDP) when an illustrative geographical share of North Sea revenue is included.

Between 2007-08 and 2008-09, Scottish revenues (excluding North Sea revenues) decreased from £45.0 billion to £43.5 billion, a decline of 3.5 per cent. The equivalent UK figures fell by 3.7 per cent. Over this period, total managed expenditure in Scotland increased by 6.0 per cent.

The development of GERS is an ongoing process and feedback from users of the publication is welcome. Please address any comments to

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A

REVENUE METHODOLOGY

This appendix outlines the methodologies used to estimate public sector revenue in Scotland. As the issue of North Sea revenue has been discussed extensively in Chapter 5, this appendix focuses on all other elements of public sector revenue.

In contrast to public sector expenditure, there is no one generic approach to estimating public sector revenue in Scotland; instead each revenue stream is estimated using a separate methodology. This appendix discusses these techniques and highlights any significant changes which have been introduced in this edition of GERS. It should be noted that, as the underlying datasets used in GERS have been subject to revision and update, estimates may differ from previous editions of GERS even if the methodology has remained unchanged.

Methodology

As highlighted in Chapter 4, the vast majority of public sector revenue raised in Scotland is collected at the UK level by HM Revenue and Customs.

In some cases, revenue figures can be obtained for Scotland directly. Examples include local government revenue and particular elements of public corporation revenue. Such revenues are the exception and separate identification of most other revenue streams for Scotland is not possible. GERS therefore uses a number of different methodologies to apportion revenue to Scotland. In doing so, there are often theoretical and practical challenges in determining an appropriate share to allocate to Scotland. In certain cases, a variety of alternative methodologies could be applied each leading to different estimates.

Obtaining an estimate of public sector revenue in Scotland is a two-stage process.

In the first stage, the UK outturn figure for each element of revenue is obtained from ONS Public Sector Finance Statistics. In the second stage, Scotland's share of the UK figure is estimated according to a specific apportionment methodology. The methodology used differs for each element of revenue. The detailed Revenue Methodology paper on the GERS website contains a discussion of the apportionment methodology used for each revenue stream and highlights the sensitivity of the results to changes in the underlying assumptions³⁶.

UK Revenue Figures

The basis for estimating public sector revenue for Scotland is National Statistics outturn figures for UK fiscal revenue taken from ONS Public Sector Finance Statistics. The detailed components, revenue by revenue, are taken from an ONS database which is consistent with both the totals published in the Public Sector Finances and the figures published in table PSAT2 of Public Sector Accounts. PSAT2 is HM Treasury's preferred presentation of revenues, it is shown in Tables 21 and 22 of the Supplementary Material to the March 2010 UK Budget³⁷, and underlies the main tables in the UK Budget.

These data are presented on an accruals basis and separately identify revenue attributed to central government, local government and public corporations. The international standards

³⁶ <http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/GERS>

³⁷ Budget 2010: The Economy and Public Finances - Supplementary Material

for National Accounts and Government Finance Statistics use the accruals basis rather than a cash approach. This is because accruals accounting reflects a more accurate picture of when revenue is due and spending occurs than the more volatile alternative of cash, which, for example, records when bills are settled rather than when the expenditure occurs.

The revenue figures used in GERS are taken from published outturns as at April 2010, consistent with those used for the UK Budget in March 2010³⁸.

It should be noted that the UK figures for individual revenues presented in GERS 2008-09 may differ from other publications as, on certain occasions, figures are still presented on a cash rather than an accruals basis. For example, Table C6 of the UK Budget in March 2010 shows types of tax on a cash basis. However, to be consistent with the presentation throughout GERS and international standards, the equivalent table to C6 is presented on an accruals basis.

The treatment of tax credits and EU revenue in GERS follows international standards for National Accounts and is different from Table C6 of the UK Budget in March 2010. Revenue raised for the EU (on VAT, import levies and sugar levy) is not shown as public sector revenue, instead it is considered to be paid directly to the EU, even though the UK Government may act as an intermediary in the process between the taxpayer and the EU³⁹.

The assumptions underpinning the apportionment of each revenue source are outlined below.

Summary of Changes

Table A.1 provides a summary of the apportionment methodologies used for each element of revenue and highlights whether or not the methodology has changed since the previous edition of GERS. Most of these revisions have been relatively minor.

In some instances ONS's Public Sector Finance estimates of UK revenue for some taxes have also been revised since the last edition of GERS, these changes will affect the estimates of Scottish tax revenue. In addition, there have been revisions to some of the data sources used to apportion tax revenues to Scotland. This means that the share of some UK taxes apportioned to Scotland has changed since GERS 2007-08.

More detailed information on the methodologies used and the changes introduced can be found in the Revenue Methodology paper on the GERS website.

³⁸ The latest Public Sector Finances database is available from http://www.statistics.gov.uk/downloads/theme_economy/PSF_Supplementary_Data.xls. As this database is updated monthly, figures contained in the more recent data releases will differ from those used in this report

³⁹ Tables which show revenues on a cash basis, e.g. Table C6 of Budget 2010 and the revenue tables in previous editions of GERS, identify EU revenues. However, these tables also include a negative entry (either separately or in 'other revenue') for contributions to EU budget. The net effect is zero revenue to the UK and is therefore consistent with the approach taken in GERS.

Table A.1: Apportionment Methodologies and Sources for Public Sector Revenue in Scotland (Excluding North Sea Revenue)

Revenue	Apportionment Methodology	Source	Revised
Income tax	Scottish share of UK income tax liabilities applied to income tax gross of tax credits. Negative expenditure on tax credits estimated using Scot/UK share of overall spend on tax credits (negative tax plus benefits)	Survey of Personal Income (SPI): HMRC Data on overall spend on tax credits: HMRC	No
Corporation tax (excl. North Sea)	Scotland's share of profits (less holding gains) of UK corporations	Regional Accounts: ONS	No
Capital gains tax	Actual outturns for Scotland	Supplied directly by HMRC	No
Other taxes on income and wealth	Various (see web appendix)	Various (see web appendix)	No
National insurance contributions	Estimates of employer, employee, class 2 and class 3 NIC revenue in UK and Scotland	Supplied directly by HMRC	No
VAT	VAT net of LG and CG refunds: Scotland's share of UK household VAT expenditure LG refunds: Scotland's share of UK LG current expenditure on goods and services CG Refunds – MOD: Scotland/UK populations – NHS: Scotland/UK TES for Health – Other Gov depts: Scotland/UK total TES (Excluding NHS/MOD)	Expenditure and Food Survey: ONS Public Sector Finances: ONS ONS and GROS PESA PESA	Yes
Fuel duties	Scotland's share of road traffic fuel consumption	Fuel consumption statistics: DECC	No
Stamp duties	Land and property stamp duty: Actual outturns for Scotland Stocks and shares: - Scotland/UK ratio of adults owning shares	Land and property stamp duty: HMRC Stocks and shares: Family Resources Survey (DWP)	No
Tobacco duties	Spend on tobacco in Scotland/UK	Expenditure and Food Survey : ONS	Yes
Alcohol duties	Spend on alcohol in Scotland/UK	Expenditure and Food Survey : ONS	Yes
Betting and gaming duties	Spend on betting and gaming in Scotland/UK	Expenditure and Food Survey : ONS	Yes
Air passenger duty	Scotland/UK population	ONS and GROS	No
Insurance premium tax	Scotland/UK population	ONS and GROS	No
Landfill tax	Scotland's share of UK tonnage of waste sent to landfill	Scottish Environment Protection Agency, Environment Agency, Dept. of Environment in Northern Ireland	No
Climate change levy	Electricity: Scotland's share of UK electricity consumption by commercial and industrial users Gas: Scotland's share of UK gas sales to commercial and industrial users Solid and other fuels: Scotland's share of UK (less extra-region) GVA	Electricity: DECC Gas: DECC Solid and other fuels: Regional Accounts: ONS	No
Aggregates levy	Scotland's share of UK's aggregate production	United Kingdom Minerals Yearbook 2008: British Geological Survey	No

A Revenue Methodology

Table A.1: Apportionment Methodologies and Sources for Public Sector Revenue in Scotland (Excluding North Sea Revenue) (Cont)

	Actual outturns for Scotland		Supplied directly by HMRC	
Inheritance tax	Scotland's share of total value of UK vehicle licences issued (less refunds)		DVLA	No
Vehicle excise duty	Actual Data		Scottish Local Government Finance Statistics	No
Non-domestic rates	Actual Data		Scottish Local Government Finance Statistics	No
Council tax	Various (see web appendix)		Various (see web appendix)	Yes
Other taxes and royalties	For PC receipts: Scotland's share of public sector UK GVA For LG and CG receipts: Scotland/UK population		Regional Accounts: ONS	No
Interest and dividends	CG: Scottish/UK share of central government NMCC LG: Scottish/UK share of local government NMCC		CG: ONS Regional Accounts LG: ONS Regional Accounts	
Gross operating surplus	Public corporations – individual data for Scottish PCs – data for UK-wide PCs based on relevant industry GVA – and actual data for Local Authority housing rentals		PC: Supplied by Public Sector Finance team: ONS, and Regional Accounts: ONS	Yes
Rent and other current transfers (excluding oil royalties and licence fees)	Various (see web appendix)		Various (see web appendix)	No
North Sea revenue	See Chapter 5		See Chapter 5	

Table A.2 summarises the revisions in this edition of GERS by comparing the estimates contained in this report with last year's publication. Overall, estimated public sector revenue in Scotland has been revised downwards by between 0.5 per cent and 1.1 per cent over the years 2004-05 and 2007-08.

Table A.2: Revision to Estimates of Total Non-North Sea Public Sector Revenue: 2004-05 to 2007-08				
	(£ million)			
	2004-05	2005-06	2006-07	2007-08
Scotland				
Estimates published in GERS 07-08	37,369	40,095	42,674	45,191
Estimates published in GERS 08-09	36,983	39,787	42,198	44,966
Revision	-386	-308	-476	-225
UK				
Estimates published in GERS 07-08	447,439	477,102	510,246	540,150
Estimates published in GERS 08-09	447,326	477,149	510,059	540,621
Revision	-113	47	-187	471
Scotland/UK ratio				
Estimates published in GERS 07-08	8.4%	8.4%	8.4%	8.4%
Estimates published in GERS 08-09	8.3%	8.3%	8.3%	8.3%
Revision	-0.1%	-0.1%	-0.1%	-0.1%

Table A.3 illustrates the revisions to individual public sector revenue streams in Scotland and the UK for 2007-08, the latest year directly comparable between GERS 2007-08 and GERS 2008-09. The methodology changes summarised above, combined with revisions to the UK revenue estimates and to the underlying data used to apportion some taxes to Scotland, have resulted in minor revisions to some revenue estimates. The net effect of all of the changes has been to reduce the estimate of public sector revenue in Scotland by £225 million and to increase the estimate of UK tax revenue by £471 million.

Table A.3: Revision to Estimates of Public Sector Revenue: Scotland and UK 2007-08		
	(£ million)	
	Scotland	UK
Income tax	22	282
Corporation tax (excluding North Sea)	-32	0
Capital gains tax	6	0
Other taxes on income and wealth	8	0
National insurance contributions	106	-73
VAT	-89	13
Fuel duties	5	0
Stamp duties	-14	0
Tobacco duties	-27	0
Alcohol duties	32	0
Betting and gaming and duties	7	0
Air passenger duty	0	0
Insurance premium tax	-1	-9
Landfill tax	6	-1
Climate change levy	0	0
Aggregates levy	5	-1
Inheritance tax	0	0
Vehicle excise duty	0	0
Non-domestic rates	0	0
Council tax	-1	9
Other taxes and royalties	26	18
Interest and dividends	18	206
Gross operating surplus	-299	61
Rent and other current transfers	-3	-34
Revision	-225	471

The large revision to the gross operating surplus estimate for Scotland is due to a revised estimate of local government depreciation. The figures now used are consistent with those in the ONS Regional Accounts as the previous source has been discontinued. The revision has also been applied to the accounting adjustment, and so will have no impact on the current budget balance.

Sensitivity Analysis

As the figures for public sector revenue in Scotland contained in this report are estimates, it is important to obtain a sense of the impact on total revenue of any possible variation in the estimates of individual revenue streams. Table A.4 illustrates the effect a 1 per cent variation in the estimate of each revenue stream would have on total non-North Sea revenue in Scotland for 2008-09.

The largest source of non-North Sea revenue in Scotland is income tax. A 1 per cent variation in the estimate of income tax would revise income tax in Scotland by £107 million, which is equivalent to 0.2 per cent of total non-North Sea revenue.

Table A.4: Effect of a 1% Change in Revenue (Excluding North Sea Revenue): Scotland 2008-09

	Impact of 1% variation	
	(+/- £ million)	As % of total non-North Sea revenue (+/- %)
Income tax	107	0.2%
Corporation tax (excluding North Sea)	28	0.1%
Capital gains tax	5	0.0%
Other taxes on income and wealth	3	0.0%
National insurance contributions	80	0.2%
VAT	75	0.2%
Fuel duties	21	0.0%
Stamp duties	6	0.0%
Tobacco duties	9	0.0%
Alcohol duties	8	0.0%
Betting and gaming and duties	1	0.0%
Air passenger duty	2	0.0%
Insurance premium tax	2	0.0%
Landfill tax	1	0.0%
Climate change levy	1	0.0%
Aggregates levy	1	0.0%
Inheritance tax	2	0.0%
Vehicle excise duty	4	0.0%
Non-domestic rates	17	0.0%
Council tax	20	0.0%
Other taxes and royalties	7	0.0%
Interest and dividends	7	0.0%
Gross operating surplus	26	0.1%
Rent and other current transfers (excluding oil royalties and licence fees)	4	0.0%
Total	435	1.0%

B

EXPENDITURE METHODOLOGY

This appendix outlines the methodologies used to estimate public sector expenditure for Scotland and highlights where these methodologies differ from those used in previous editions of GERS.

Methodology

Figures for UK and Scottish public sector expenditure are taken directly from official UK Government sources.

Total Expenditure on Services (TES) can be separated into two components:

- Identifiable expenditure: that is expenditure that can be clearly allocated to a country or region in terms of having been spent for the benefit of that country or region; and
- Non-identifiable expenditure; that is expenditure that cannot be identified as benefiting a particular country or region of the UK but is instead incurred on behalf of the UK as a whole.

Total Expenditure on Services covers most expenditure by the public sector. Adding an accounting adjustment reconciles it with Total Managed Expenditure (TME). In 2008-09, TES accounted for approximately 96 per cent of TME.

UK Expenditure Figures

The primary data source used to estimate Scottish public sector expenditure is the Public Expenditure Statistical Analyses (PESA) database, published by HM Treasury⁴⁰. Within PESA, tables relating to a Country and Regional Analysis (CRA) are available in which UK Government departments and devolved administrations have allocated expenditure programmes to Scotland, Wales, Northern Ireland and English regions.

Methodologies for apportioning non-identifiable expenditure

In GERS, the methodology to apportion non-identifiable expenditure and identifiable expenditure which occurs outside the UK to Scotland varies according to the particular expenditure estimated.

The methodologies used are listed in Table B.1. Each reflects the approach that is thought to capture most appropriately the 'who benefits' principle. None of the methods used to apportion non-identifiable expenditure to Scotland have changed from the previous edition of GERS.

⁴⁰ http://www.hm-treasury.gov.uk/pespub_pes10_natstats.htm

Table B.1: Apportionment Methodologies for Non-Identifiable Expenditure: Scotland 2004-05 to 2008-09^{1, 2}

	Non-id	Outside the UK
General public services		
Public and common services	Population	n/a
International services	Population	Population
Public sector debt interest	Population	n/a
Defence	Population	n/a
Public order and safety	Population	n/a
Economic affairs		
Enterprise and econ development ³	Population	Population
Science and technology	GVA	Population
Employment policies	n/a	Population
Agriculture, forestry and fisheries	n/a	n/a
Transport	GVA	Population
Environment protection ⁴	GVA & Population	Population
Housing and community amenities	n/a	n/a
Health	n/a	Population
Recreation, culture and religion	Population	Population
Education and training	n/a	Population
Social protection	n/a	Population
EU transactions	Actual	GVA, VAT & Population

1: Where there is no UK non-identifiable expenditure this is entered as not applicable (n/a).

2: Identifiable expenditure outside the UK, except EU transactions, is apportioned on a per capita basis.

3: All environment protection expenditure is apportioned on a GVA basis, except UKAEA and BNF expenditure on nuclear decommissioning, which is apportioned on a per capita basis.

Methodology for estimating the accounting adjustment

The public sector expenditure analysis in this report focuses on Total Expenditure on Services (TES). In UK public finance documents, the principal measure of public sector expenditure is Total Managed Expenditure (TME). The main difference between TES and TME is that TES does not include general government capital consumption and does not reverse the deduction of certain VAT refunds in the budget-based expenditure data. It also contains a number of items that are in budgets but not in TME, for example the grant equivalent element of student loans. TME is consistent with ONS National Accounts and the UK Public Sector Finances.

An accounting adjustment is introduced to align TES to TME. The largest component of the UK accounting adjustment is general government capital consumption. This is a measure of the amount of fixed capital resources used up in the process of providing public services.

The estimate of an accounting adjustment for Scotland is calculated using a variety of apportionment methodologies. Firstly, estimates of capital consumption from the ONS regional accounts, together with data from UK local government returns, have been used to estimate capital consumption for Scotland. In 2008-09, capital consumption for Scotland was estimated at £1.3 billion (9.2 per cent of the UK total). This calculation is identical to that underpinning the estimates of general government gross operating surplus on the revenue side. These two elements cancel out when calculating net borrowing.

VAT refunds have been allocated to Scotland using the apportionments derived in the revenue calculations (see Appendix A), and therefore cancel out in the calculation of net borrowing. The figures for Scottish student loan subsidies were provided by HM Treasury. The imputed subsidy from local authorities to HRA adopt the same apportionment allocation as in the gross operating surplus calculations on the revenue side, and the imputed flows for Renewable Obligation Certificates adopts the same methodology used in 'other taxes and royalties'. These items cancel in the net borrowing calculations. The Scottish share of the Nigerian debt write-off has been allocated on a per capita basis. The current and capital residuals are allocated to Scotland using the appropriate TES ratios.

In summary, the accounting adjustment for Scotland was estimated at £2.6 billion in 2008-09, or 9.4 per cent of the total UK Accounting Adjustment.

Amendments to PESA CRA Data

A number of significant improvements have been made to the PESA CRA database in recent years to apportion expenditure more accurately to countries and regions. While many anomalies in previous editions of PESA CRA have been addressed and are now reflected in both PESA CRA 2010 and this GERS report, a number of supplementary amendments to the PESA CRA 2010 dataset were made in producing GERS. The aim of these refinements was to ensure that the public sector expenditure figure for Scotland captures as accurately as possible expenditure for the benefit of Scotland.

The revisions to PESA CRA 2010 made in GERS can be grouped under the following headings and are summarised in Table B2:

- direct amendment of the PESA database (affecting UK total)
- re-classification of expenditure from Scotland to the rest of UK;
- re-apportionment of expenditure between Scotland and the rest of UK.

Table B.2: Revisions to Estimates of Total Public Sector Expenditure from PESA 2010: Scotland 2004-05 to 2008-09

	(£ million)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Total Expenditure in Scotland (PESA) ⁴¹	44,351	47,982	50,357	53,496	56,696
Total Expenditure in Scotland (GERS)	44,518	47,677	50,093	53,205	56,460
Total revisions between PESA and GERS	167	-306	-265	-291	-236
Of which					
Amendment of PESA database	332	120	0	0	21
Re-classification of expenditure	-59	-62	-195	-194	-218
Re-apportionment of expenditure	-106	-364	-70	-97	-38

⁴¹ In this analysis, an estimate of total expenditure from PESA has been calculated as the sum of all ID expenditure plus a proportion of Non-ID/outside UK expenditures. This figure therefore excludes all amendments documented in this appendix.

B Expenditure Methodology

Amendment of the PESA database

Due to a reporting change, capital expenditure by Scottish Water in PESA CRA 2008 was revised downwards from the expenditure reported in PESA CRA 2007. While the figures for 2007-08 and 2008-09 in PESA CRA 2010 are accurate, the figures for earlier years are incorrect. Following a review of the actual capital expenditure undertaken by Scottish Water, GERS replaced the erroneous data in PESA CRA 2010 with the correct data, entered in PESA CRA 2007, for the years 2004-05 to 2005-06. These are consistent with Scottish Water's published annual accounts.

Following the publication of PESA 2010, the Local Government Finance team in the Scottish Government identified a number of their expenditure lines which had been since been revised. These revisions have been incorporated into the PESA database.

An inconsistency between the expenditure classification of fisheries science activities was identified during the production of this publication. In Scotland, Fisheries Research Services (FRS) expenditure was assigned to "Public and common services" in PESA, whereas the counterpart organisation for the rest of UK – CEFAS – was assigned to the "Environment protection" group. In the interests of comparability by function, FRS expenditure has been re-assigned to the environment protection category albeit with no change to total expenditure.

Table B.3: Amendments to the 2010 PESA database

	(£ million)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Scottish Water capital expenditure	361	120	0	0	0
Amendments to Local Government Expenditure	-29	0	0	0	21
Fisheries science – reduction in "Public and common services"	-39	-53	-77	-54	-84
Fisheries science – increase in "Environment protection"	39	53	77	54	84
Total	332	120	0	0	21

Re-classification of expenditure in PESA 2010

In PESA CRA 2010, some expenditure by UK Government departments with responsibility only in England and Wales was recorded as UK non-identifiable or a share directly allocated to Scotland. This included:

- Office of the Third Sector
- Office of Government Commerce
- Insolvency Services Executive Agency
- an element of central health administration expenditure and health pensions paid overseas
- Department for Culture, Media and Sport (DCMS) expenditure on libraries and administration.
- Department of Communities and Local Government research expenditure
- UK Population Census (Office for National Statistics)

In GERS, such expenditure has been re-classified as expenditure for England and Wales only. As a result, no share was apportioned to Scotland in this publication.

An inconsistency was also identified in the attribution of some UK-wide police activities as identifiable expenditure to Scotland. Whilst the powers of the Serious and Organised Crime Agency (SOCA) and the related Assets Recovery Agency (ARA) were acknowledged to be weaker in Scotland, an amount equivalent to a population share had been assigned to Scotland in PESA. Further investigation with the Scottish Government's finance team revealed that transfers of money from the Scottish Government to these organisations to pay for these activities had already been accounted for in the Scottish Government's PESA return. Any further attribution of expenditure to Scotland is therefore likely to represent a double-count. As a result, these expenditures have been re-allocated to the rest of the UK.

As discussed in Box 6.1 in last years' edition of GERS, railways expenditure, alongside expenditure on roads, is apportioned to Scotland on an 'in' basis. This means that expenditure 'in' Scotland on railways is apportioned to Scottish public sector expenditure while, where possible, a zero share is allocated to Scotland for all expenditure on rail across the rest of the UK. This required a number of modifications to the underlying PESA data which affected the expenditure by London and Continental Railways, the Channel Tunnel Rail link, and Network Rail.

Table B.4: Re-classification of Expenditure in PESA 2010: Scotland 2004-05 to 2008-09

	(£ million)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Office of the third sector	0	0	0	-1	-1
Office of Government Commerce	-1	-1	-3	-3	-2
Insolvency Services Executive Agency	0	0	-2	-3	-1
Central health administration and pensions	-10	-11	-12	-13	-15
Census	0	0	0	0	-4
Libraries and DCMS Administration	-5	-5	-7	-7	-7
Network Rail	0	0	-94	-90	-112
London and Continental Railways	-12	-11	-8	-6	1
Channel Tunnel	0	-1	-1	-3	-2
Police and Crime Reduction	-13	-18	-50	-49	-54
Other	-18	-15	-19	-21	-22
Total	-59	-62	-195	-194	-218

0 : less than £0.5 million

Re-apportionment of Expenditure in PESA 2010

In PESA CRA 2010, expenditure on nuclear decommissioning was classified as identifiable to the region where nuclear facilities are located. However, as discussed in Box 6.4 it is believed that this expenditure is best captured as a non-identifiable expenditure. This has been amended and nuclear decommissioning expenditure has been apportioned on a per capita basis. Other associated nuclear expenditure has also been reapportioned on a per capita basis.

In addition to this relatively major revision, a number of smaller amendments were made.

PESA CRA 2010 assigns no expenditure from the Export Credit Guarantee Department to Scotland. As the department covers the whole of the UK, an element of this expenditure has been assigned in Scotland in proportion to Scotland's share of UK Manufacturing GVA.

B Expenditure Methodology

Similarly, a number of learned societies, for example the Royal Society and the Royal Academy of Engineering, are attributed only to London despite the benefits of their activities benefitting all in the UK and overseas. Such organisations have been re-apportioned with Scotland receiving a population share of expenditure. Similarly, research facilities located in England but available for use by all UK-wide academic and commercial researchers have been re-apportioned to Scotland on a population basis.

Finally, in PESA CRA 2010, expenditure for the Scottish Office Pension Agency, NHS and Teacher pensions was allocated only to Scotland. In contrast, expenditure by comparable pension agencies across the rest of the UK was allocated to the residence of the recipient of the pension. To correct for this asymmetry, information from the Scottish Office Pension Agency was used to re-apportion these pension expenditures across the UK according to residence. As some elements of the pension expenditure were negative this change has resulted in a slight increase in expenditure assigned to Scotland.

Table B.5: Re-apportionment of Expenditure in PESA 2010: Scotland 2004-05 to 2008-09

	(£ million)				
	2004-05	2005-06	2006-07	2007-08	2008-09
Nuclear Decommissioning and related expenditure	-135	-399	-104	-122	-62
Export Credit Guarantee Department	3	3	3	2	2
Learned societies	4	4	5	6	6
Research facilities	7	6	4	0	0
Public Pensions	7	9	8	5	1
Other	9	12	14	11	14
Total	-106	-364	-70	-97	-38

Revisions to Expenditure Estimates from GERS 2007-08

Tables B.6 to B.9 set out the changes in estimates of public expenditure in Scotland and the UK between this report and GERS 2007-08. These revisions reflect changes in the underlying PESA CRA data and other revisions to the GERS methodology. Revisions to public expenditure that can be traced to changes in the PESA CRA database are specified separately.

Revisions to total expenditure

Table B.6 displays the difference between the estimates of total expenditure in GERS 2007-08 and those contained in Chapter 6 of this publication.

Total public sector expenditure for Scotland in 2007-08 has been revised down by £131 million (0.2 per cent of total expenditure). For the UK as a whole total expenditure has been revised up by £441 million in 2007-08 (0.1 per cent of total expenditure). Around 33 per cent of these changes reflect revisions made in PESA 2010 which have a corresponding impact on the estimates for Scotland in this edition of GERS.

Table B.6: Revisions to Estimates of Total Expenditure: Scotland 2004-05 to 2007-08

	(£ million)			
	2004-05	2005-06	2006-07	2007-08
Scotland				
GERS 2007-08	44,625	47,746	50,267	53,336
GERS 2008-09	44,518	47,677	50,093	53,205
Revision	-107	-70	-174	-131
Of which revisions made in PESA 2010	176	200	25	-43
UK				
GERS 2007-08	471,000	501,166	523,003	555,211
GERS 2008-09	471,136	501,180	522,904	555,652
Revision	136	15	-99	441
Of which revisions made in PESA 2010	165	15	-99	441
Scotland/UK Ratio				
GERS 2007-08	9.5%	9.5%	9.6%	9.6%
GERS 2008-09	9.4%	9.5%	9.6%	9.6%
Revision	0.0%	0.0%	0.0%	0.0%

All other revisions are net changes between GERS 2007-08 and GERS 2008-09.

The large revision in the accounting adjustment is due to the revised estimate of local government depreciation. The figures now used are consistent with those in the ONS Regional Accounts as the previous source has discontinued. The revision has also been applied to the gross operating surplus estimates, and so will have no impact on the current budget balance.

Revisions to identifiable expenditure

Table B.7 summarises the effects of methodological changes and revisions to the underlying PESA CRA data on the estimates of Scottish identifiable expenditure between 2004-05 and 2007-08. In 2007-08, the estimate of identifiable expenditure in Scotland has been revised down by £77 million. This revision equates to 0.2 per cent of identifiable expenditure in 2007-08.

Revisions made in PESA 2010 reflect changes made by UK Government departments in allocating spending to UK countries and regions. The reduction of £104 million is the difference between the estimate of total identifiable expenditure on services for Scotland reported in Table 9.1 in PESA 2010 and that reported in the same table in PESA 2010.

Table B.7: Revisions to Estimates of Identifiable Expenditure: Scotland 2004-05 to 2007-08

	(£ million)			
	2004-05	2005-06	2006-07	2007-08
GERS 2007-08	38,541	41,298	43,438	45,974
GERS 2008-09	38,466	41,267	43,314	45,897
Revision	-75	-30	-124	-77
Of which revisions made in PESA 2010	-75	-101	-151	-104

All other revisions are net changes between GERS 2007-08 and GERS 2008-09.

B Expenditure Methodology

Revisions to non-identifiable expenditure

Table B.8 summarises the effects of methodological changes and revisions to the underlying PESA data on the estimates of Scottish non-identifiable expenditure between 2004-05 and 2007-08, the final year for which such comparisons are possible.

In total, revisions to the underlying PESA data and changes in apportionment methodologies have resulted in an downward revision of £53 million to the estimate of total non-identifiable expenditure for Scotland in 2007-08. This revision equates to 0.7 per cent of total non-identifiable expenditure in that year.

Table B.8: Revisions to Estimates of Total Non-Identifiable Expenditure: Scotland 2004-05 to 2007-08

	(£ million)			
	2004-05	2005-06	2006-07	2007-08
GERS 2007-08	6,084	6,448	6,829	7,362
GERS 2008-09	6,052	6,409	6,778	7,308
Revision	-32	-39	-50	-53
Of which revisions made in PESA 2010	251	301	176	61

All other revisions are net changes between GERS 2007-08 and GERS 2008-09.

Total Revision to expenditure (including accounting adjustment)

The overall change in Total Managed Expenditure (TME) is highlighted below. The revision is equal to the sum of revisions to Total Expenditure on Services (TES) and the accounting adjustment.

Table B.9: Revisions to Estimates of Total Managed Expenditure: Scotland 2004-05 to 2007-08

	(£ million)			
	2004-05	2005-06	2006-07	2007-08
Total Expenditure on Services				
GERS 2007-08	44,625	47,746	50,267	53,336
GERS 2008-09	44,518	47,677	50,093	53,205
Accounting Adjustment				
GERS 2007-08	2,292	2,486	2,801	2,949
GERS 2008-09	2,100	2,238	2,408	2,456
Total Managed Expenditure				
GERS 2007-08	46,917	50,232	53,068	56,285
GERS 2008-09	46,617	49,914	52,500	55,661
Revision to Total Managed Expenditure	-300	-318	-568	-624

Sensitivity Analysis

As the figures for public sector expenditure for Scotland contained in this report are estimates, it is important to obtain a sense of the impact on total expenditure of any possible variation in the estimates of individual expenditure components. Table B.10 illustrates the effect a 1 per cent variation in the estimate of each expenditure programme would have on overall expenditure for Scotland in 2008-09.

As the largest elements of public sector expenditure for Scotland, changes in the estimated level of social security, health and education will have the most significant impact on estimated total public sector expenditure for Scotland.

Table B.10: Effect of a 1% Change in Expenditure: Scotland 2008-09		
	Impact of 1% variation	
	(+/- £ million)	as % of total expenditure (+/- %)
General public services		
Public and common services	16	~
International services	6	~
Public sector debt interest	27	~
Defence	31	0.1%
Public order and safety	25	~
Economic affairs		
Enterprise and economic development		
Financial Sector Interventions	7	~
Other enterprise and econ. dev.	10	~
Science and technology	4	~
Employment policies	3	~
Agriculture, forestry and fisheries	8	~
Transport	26	~
Environment protection	10	~
Housing and community amenities	18	~
Health	102	0.2%
Recreation, culture and religion	15	~
Education and training	76	0.1%
Social protection	186	0.3%
EU transactions	-5	~
Total	565	1.0%

- : less than £0.5 million

~ : less than 0.05%

C

LIST OF ABBREVIATIONS

AEF	Aggregate External Finance
AME	Annually Managed Expenditure
BGS	British Geological Survey
BNF	British Nuclear Fuels
CG	Central Government
CGNCR	Central Government Net Cash Requirement
COFOG	UN Classification of Functions of Government
CRA	Country and Regional Analysis
CT	Corporation Tax
DECC	Department of Energy and Climate Change
DCMS	Department for Culture, Media and Sport
DEL	Departmental Expenditure Limit
DfT	Department for Transport
DVLA	Driver and Vehicle Licensing Agency
DWP	Department for Work and Pensions
EED	Enterprise and Economic Development
EFS	Expenditure and Food Survey
ESA	European System of Accounts
ESA	Employment and Support Allowance
EU	European Union
FISIM	Financial Intermediation Services Indirectly Measured
GDP	Gross Domestic Product (at market prices)
GERS	Government Expenditure and Revenue Scotland
GNI	Gross National Income
GOS	Gross Operating Surplus
GRG	General Revenue Grant
GROS	General Register Office for Scotland
GVA	Gross Value Added (GDP at basic prices)
HMRC	HM Revenue and Customs
HMT	HM Treasury
HRA	Housing Revenue Account
LG	Local Government
NDRI	Non-Domestic Rate Income
NHS	National Health Service
NIC	National Insurance Contributions
NMCC	Non-Market Capital Consumption
MOD	Ministry of Defence
ONS	Office for National Statistics
PBR	Pre-Budget Report
PC	Public Corporations
PFI	Private Finance Initiative

C List of Abbreviations

PPP	Public Private Partnerships
PESA	Public Expenditure Statistical Analyses
PRT	Petroleum Revenue Tax
PSAT2	Public Sector Accounts Table 2
PSNB	Public Sector Net Borrowing
SDLT	Stamp Duty Land Tax
SDRT	Stamp Duty Revenue Tax
SC	Supplementary Charge
SNAP	Scottish National Accounts Project
SPI	Survey of Personal Incomes
TES	Total Expenditure on Services
TME	Total Managed Expenditure
UK	United Kingdom
UKAEA	UK Atomic Energy Authority
UK-CEFAS	United Kingdom – Centre for Environment, Fisheries and Aquaculture
UKCS	UK Continental Shelf
VAT	Value Added Tax
WGA	Whole of Government Accounts
UKAEA	UK Atomic Energy Authority
UKCS	UK Continental Shelf
VAT	Value Added Tax
US/USA	United States of America
WGA	Whole of Government Accounts

D GLOSSARY

Accounting Adjustment: the adjustment required to reconcile Total Expenditure on Services (TES) provided in PESA with Total Managed Expenditure (TME), the principal measure of public sector expenditure in UK public finance publications. The largest element of the accounting adjustment is capital consumption.

Accruals: the accounting convention whereby an expenditure or revenue is recorded (recognised) at the time when it has been incurred or earned rather than when the money is paid or received.

Aggregate External Finance (AEF): central government support for expenditure on local authority core services.

Annually Managed Expenditure (AME): spending that does not fall within Departmental Expenditure Limits (DEL). Expenditure in AME is generally less predictable than expenditure in DEL and cannot be reasonably be subject to firm, multi-year limits.

Capital Consumption: also called Consumption of Fixed Capital; the amount of fixed assets used up in an accounting period as a result of normal wear and tear, foreseeable obsolescence, and losses from accidental damage. Has been referred to as depreciation in some documents, although this is not recommended to avoid confusion with the same term used with a different definition for tax and business accounting purposes.

Capital Expenditure: includes

- capital formation, the net acquisition of land, and expenditure on capital grants. Fixed assets are assets that can be used repeatedly to produce goods and services and generally have an economic life of more than one year.
- capital expenditure includes the value of assets acquired under finance leases.
- in-house development of assets such as computer software and databases can be capitalised in government accounts provided certain conditions are met. It is sometimes called 'own account capital formation'.

Central Government: comprises parliaments; government departments (including Scottish Government) and their executive agencies; government funds such as the national loans fund; the foreign exchange official reserves; non-departmental public bodies; NHS trusts and various other non-market public bodies controlled by central government.

Country and Regional Analysis (CRA): Analysis in PESA showing public expenditure identifiable to Scotland, Wales, Northern Ireland and the English regions.

Current Budget: the difference between current revenues (including capital taxes) and current expenditure (including capital consumption)

Current Expenditure: the sum of the current expenditure of general government (i.e. the Scottish Government, the UK Government in Scotland and Scottish local authorities) and certain distributive transactions (interest and dividends) payable by public corporations to the private sector and abroad. Public sector current expenditure is defined to be net of certain revenue items, such as some sales of goods and services by general government. As it is defined at the public sector level, any transactions and transfers between parts of the public

sector are also excluded. Current expenditure includes items such as public sector wages and salaries and transfer payments.

Current Revenue: all revenue raised by the public sector from tax and non-tax revenues except the sale of assets or interest received.

Departmental Expenditure Limits (DELs): spending which is planned and controlled across the period of each spending review. In general, DEL will cover all administration budgets and all programme expenditure. The vast majority of Scottish Government expenditure is DEL.

European System of Accounts 1995 (ESA95): the system used by the Office for National Statistics for producing and presenting UK National Accounts. The system is a legal requirement for EU member states reporting economic statistics to the EU Commission.

Extra-regio: the part of UK economic activity that is not allocated to a specific region. Extra-regio includes 'continental shelf' activity relating to offshore oil and gas extraction, UK embassies overseas and armed forces stationed abroad.

General Government: Central government and local government.

Gross Domestic Product (at market prices): a measure of the value of goods and services produced in the UK before providing for capital consumption. It is equal to gross value added at basic prices plus taxes (less subsidies) on products. Alternatively, it is equal to the sum of total final domestic consumption expenditures less imports of goods and services.

Gross Operating Surplus: the surplus generated by operating activities after the labour factor input has been recompensed.

Gross Value Added: the contribution to the economy of each individual producer, industry or sector in Scotland or the UK. It is a measure of GDP in basic prices.

Holding Gains (or losses): either profit or loss obtained by holding assets whose price changes within the period of account. This represents that part of the change in the book value of inventories and work-in-progress during the year, which arises from increases in the prices at which inventories and work-in-progress are valued.

Identifiable Expenditure: expenditure that can be directly identified as having been spent *for* the benefit of a country or region within the UK.

Local Government: all 32 local authorities in Scotland.

National Accounts: a statistical system that represents the economic activity and transactions between sectors in a national economy.

Net Fiscal Balance: the difference between estimated total public sector spending for Scotland and estimated total public sector revenue raised in Scotland.

Net Investment: public sector capital expenditure, net of capital consumption.

Non-departmental bodies: a body which has a role in the processes of government, but is not a government department or part of one, and which accordingly operates to a greater or lesser extent at arm's length from Ministers.

Non-Identifiable Expenditure: expenditure that is considered to occur on behalf of the UK as a whole and which cannot be decomposed on an individual country or regional basis.

Outturn: expenditure (revenue) actually incurred (received) to date and been subject to audit.

Public Corporations: a sector from National Accounts consisting of publicly controlled market entities. To be classed as 'market' their sales must be at least 50 per cent of their operating costs.

Public Expenditure Statistical Analysis (PESA): the primary source of outturn data on public expenditure in the UK. The country and regional analysis, (CRA), presents public expenditure identifiable for Scotland, Wales, Northern Ireland and the English regions.

Public Sector Finances: the monthly statistics on the public sector produced jointly by the Office for National Statistics and HM Treasury.

Total Expenditure on Services (TES): an aggregate used in PESA to analyse capital and current spending of the public sector. It includes current expenditure on services and capital expenditure on services.

Total Managed Expenditure (TME): a definition of aggregate public spending derived from National Accounts. TME captures total public expenditure in the UK.

UK Public Sector Net Borrowing: the difference between the sum of UK public sector current and capital revenues and UK public sector expenditure as measured in the Public Sector Finances according to the National Accounts framework.

Who Benefits Principle: the approach used to estimate expenditure for Scotland. It identifies the expenditure in a given year that was incurred for the full range of public services that were consumed: that is, those services provided *for* the people of Scotland.

Who Pays Principle: the approach used to estimate public sector revenue in Scotland. It is based upon the residential location of where the revenue is raised.

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