

**GOVERNMENT
EXPENDITURE & REVENUE
SCOTLAND 2009-2010**

JUNE 2011



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EXECUTIVE SUMMARY

- Government Expenditure and Revenue Scotland (GERS) is a National Statistics publication. It estimates the contribution of revenue raised in Scotland toward the goods and services provided for the benefit of Scotland. The estimates in this publication are consistent with the UK Public Sector Finance Statistics for April 2011.
- Three estimates of Scotland's public sector accounts are presented in GERS, (i) excluding North Sea revenue, (ii) including a per capita share of North Sea revenue and (iii) including an illustrative geographical share of North Sea revenue.

Public Sector Expenditure for Scotland

Table E.1: Public Sector Total Managed Expenditure: Scotland 2005-06 to 2009-10

	2005-06	2006-07	2007-08	2008-09	2009-10
Public Sector Expenditure for Scotland (£ millions)	49,962	52,692	55,803	58,913	62,086
Public Sector Expenditure for Scotland (% of UK Total)	9.5%	9.6%	9.6%	9.4%	9.3%

- In 2009-10, total public sector expenditure for the benefit of Scotland, plus a per capita share of debt interest payments, was £62.1 billion. This is equivalent to 9.3% of total UK public sector expenditure.

Scottish Public Sector Revenue

Table E.2: Total Current Revenue: Scotland 2005-06 to 2009-10

	(£ million)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Excluding North Sea revenue	39,839	42,272	45,031	43,131	42,201
Including North Sea revenue (per capita share)	40,632	43,026	45,661	44,219	42,747
Including North Sea revenue (geographical share)	47,856	49,775	52,147	54,871	48,132
	(% of Total UK Revenue)				
Excluding North Sea revenue	8.3%	8.3%	8.3%	8.3%	8.3%
Including North Sea revenue (per capita share)	8.4%	8.3%	8.3%	8.3%	8.3%
Including North Sea revenue (geographical share)	9.8%	9.6%	9.5%	10.3%	9.4%

- In 2009-10, total Scottish non-North Sea public sector revenue was estimated at £42.2 billion, (8.3 per cent of total UK non-North Sea revenue). Including a per capita share of North Sea revenue, total Scottish public sector revenue was estimated at £42.7 billion (8.3 per cent of UK total public sector revenue). When an illustrative geographical share of North Sea revenue is included, total Scottish public sector revenue was estimated at £48.1 billion (9.4 per cent of UK total public sector revenue).

Scotland's Overall Fiscal Position

- GERS provides two measures of Scotland's fiscal position, the current budget balance and the net fiscal balance. The current balance shows the difference between current revenue and current expenditure. 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

Executive Summary

- The net fiscal balance measures the difference between total public sector expenditure (including capital expenditure) and public sector revenue. It therefore includes investments in public sector infrastructure – roads, hospitals, and schools which bring benefits to the Scottish economy in the future.

Current Budget Balance

Table E.3: Current Budget Balance: Scotland 2005-06 to 2009-10

	(£ million)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Excluding North Sea revenue	-7,277	-6,799	-7,112	-10,952	-14,897
Including North Sea revenue (per capita share)	-6,484	-6,045	-6,483	-9,864	-14,352
Including North Sea revenue (geographical share)	740	704	3	787	-8,966
	(% of GDP)				
Excluding North Sea revenue	-7.3%	-6.4%	-6.2%	-9.5%	-13.4%
Including North Sea revenue (per capita share)	-6.3%	-5.5%	-5.6%	-8.4%	-12.6%
Including North Sea revenue (geographical share)	0.6%	0.6%	0.0%	0.6%	-6.8%

- In 2009-10, the estimated current budget balance for the public sector in Scotland was a deficit of £14.9 billion (13.4 per cent of GDP) excluding North Sea revenue, a deficit of £14.4 billion (12.6 per cent of GDP) including a per capita share of North Sea revenue or a deficit of £9.0 billion (6.8 per cent of GDP) including an illustrative geographical share of North Sea revenue.
- In 2009-10, the UK as a whole ran a current budget deficit, including 100 per cent of North Sea revenue, of £107.3 billion (7.6% of GDP).

Net Fiscal Balance

Table E.4: Net Fiscal Balance: Scotland 2005-06 to 2009-10

	(£ million)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Excluding North Sea revenue	-10,123	-10,420	-10,771	-15,782	-19,885
Including North Sea revenue (per capita share)	-9,330	-9,666	-10,142	-14,694	-19,339
Including North Sea revenue (geographical share)	-2,106	-2,916	-3,656	-4,043	-13,954
	(% of GDP)				
Excluding North Sea revenue	-10.1%	-9.8%	-9.4%	-13.7%	-17.8%
Including North Sea revenue (per capita share)	-9.1%	-8.9%	-8.7%	-12.5%	-17.0%
Including North Sea revenue (geographical share)	-1.7%	-2.3%	-2.6%	-2.9%	-10.6%

- In 2009-10, Scotland's estimated net fiscal balance was a deficit of £19.9 billion (17.8 per cent of GDP) when excluding North Sea revenue, a deficit of £19.3 billion (17.0 per cent of GDP) when including a per capita share of North Sea revenue or a deficit of £14.0 billion (10.6 per cent of GDP) when an illustrative geographical share of North Sea revenue is included.
- In 2009-10, the equivalent UK position including 100 per cent of North Sea revenue, referred to in the UK Public Sector Accounts as 'net borrowing', was a deficit of £156.5 billion (or 11.1 per cent of GDP).

PREFACE

This report is the seventeenth 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 Code of Practice for Official Statistics. 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 in 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 and the more detailed methodology note on the GERS website provide a detailed discussion of the methodologies and datasets used to undertake this task.

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 and the more detailed methodology note on the GERS website provide a detailed discussion of the methodologies and datasets used.

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 website².

The Scottish Government are currently in discussion with HM Treasury about the timing of the Public Expenditure Statistical Analysis publication. HM Treasury have indicated that the timing of this publication may be advanced by a few months. The Country and Regional Analysis chapters of PESA are the main components of the public sector expenditure estimates in GERS, and are one of the last elements of the publication to be prepared. It may therefore be possible to publish GERS to an earlier timetable. The Scottish Government will consult users in advance of any change to the date of publication.

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.³

Scottish National Accounts Project

Over the past two years, statisticians in the Scottish Government's Office of the Chief Economic Adviser have developed a new range of quarterly economic statistics for Scotland. The Scottish National Accounts Project (SNAP) system has been developed as an integrated system which links the main Scottish Government's macro-economic and fiscal outputs.

These new SNAP statistics are presented as a range of tables which are consistent with the quarterly GDP (output-based) estimates. The quarterly revenue estimates, for example, derived from the SNAP system are used in the GERS analysis (aggregated to financial years), in the Input-Output tables (aggregated to calendar years), and to convert Gross Value Added to Gross Domestic Product (quarterly).

Users of GERS are recommended to investigate the SNAP web pages: <http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/SNAP>

Future Work

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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Edinburgh, EH1 3DG

² http://www.hm-treasury.gov.uk/pesp_cra.htm

³ 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 2005-06 to 2009-10. Particular focus is given to 2009-10, the latest fiscal year for which outturns of expenditure and revenue are available for Scotland. The data used are a snapshot of the UK public finance dataset at the time of the ONS Public Finance Statistical Bulletin for April 2011, the most recently available estimates at the time of publication. 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 website⁴.

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 appendices.

UK Statistics Authority – Assessment of GERS

As a National Statistics publication, GERS is subject to periodic assessment against the Code of Practice for National Statistics by the UK Statistics Authority (UKSA). The UKSA published its first assessment of GERS in March 2011⁵.

The UKSA assessment concluded that the statistics are presented impartially and objectively. The UK Statistics Authority confirms that the statistics may continue to be designated as National Statistics. It also made a series of minor recommendations to strengthen GERS's compliance with the National Statistics Code of Practice. As a result of these recommendations, the following changes have been made to GERS 2009-10.

- The tables provided in this edition of GERS can be downloaded from the GERS website as an Excel file⁶.
- The analysis of Scotland's Public Sector Accounts in Chapter 3 has been expanded to include more detailed comparisons between Scotland and the UK's overall fiscal positions. These comparisons have been set out in cash values and as a proportion of GDP.

⁴ <http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/GERS>

⁵ UK Statistics Authority (March 2011) - Assessment Report 98 - Government Expenditure and Revenue Scotland <http://www.statisticsauthority.gov.uk/assessment/assessment/assessment-reports/assessment-report-98---government-expenditure-and-revenue.pdf>

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

1 Introduction and Overview

- The Executive Summary has been revised to more clearly illustrate Scotland's overall fiscal position, and how it compares to the UK as a whole.
- The GERS website will be updated over the summer to include electronic copies of the report from 1993-94 onwards.
- Over the course of 2011/12, the Scottish Government will consult users about the presentation of GERS with a view to improving the use made of these statistics and the types of decision they inform.

Structure of Report

The structure of the report follows that of GERS 2008-09. 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 2005-06 and 2009-10. 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, such as the Scottish Government Draft Budget.

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 2005-06 to 2009-10, special attention is given to 2009-10, 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 2005-06 to 2009-10, special attention is given to 2009-10, 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 2008-09.

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 source⁷.

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

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.

More detailed analysis is also available on the GERS website⁸.

⁸ <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 currently 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)⁹. TME comprises public sector current expenditure, net investment, and capital consumption. TME covers the entire public sector, including central government (Scottish Government and UK 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 2005-06 to 2009-10 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 expenditure¹⁰.

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, as summarised in Figure 2.1.

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.

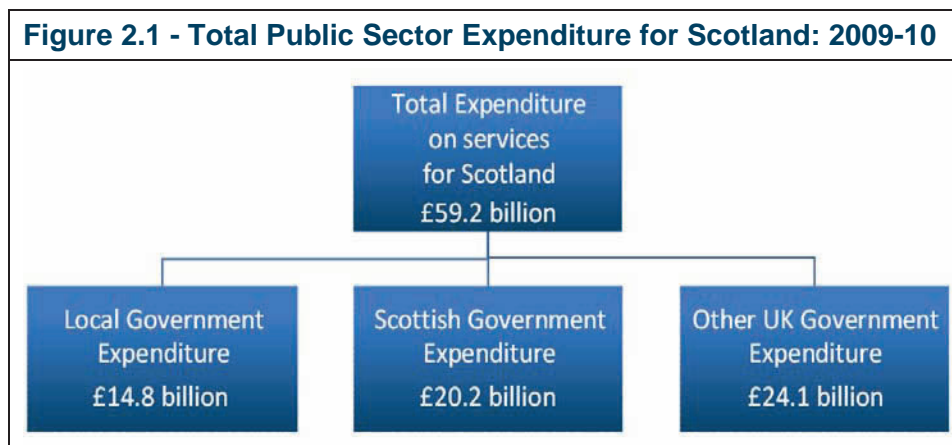
⁹ Total Managed Expenditure is a measure of public sector expenditure drawn from components in National Accounts produced by the Office for National Statistics (ONS).

¹⁰ Further information on COFOG is available on the UN's website <http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=4>

2 Fiscal Background

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 2011 and this GERS report, a small number of supplementary amendments to the PESA CRA 2011 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 2011 PESA CRA data to identify any remaining issues. From 1,400 programme object groups in PESA CRA 2011, 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.

Although every effort has been made when compiling this report to verify the credibility and accuracy of the data contained in PESA, work to improve the quality of PESA is an ongoing objective of HM Treasury and UK Government departments. 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 (NDRI); 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.

Capital expenditure by local government in Scotland is primarily funded by borrowing, the sale of surplus assets and central government grants. Grant support from the Scottish Government is in the form of specific capital grants to support individual projects or programmes, and a General Capital Grant (GCG). Distribution of both reflects the needs of local authorities using a similar needs-based approach to the GRG. The GRG includes support to local authorities to meet some of the borrowing costs associated with their capital expenditure.

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.

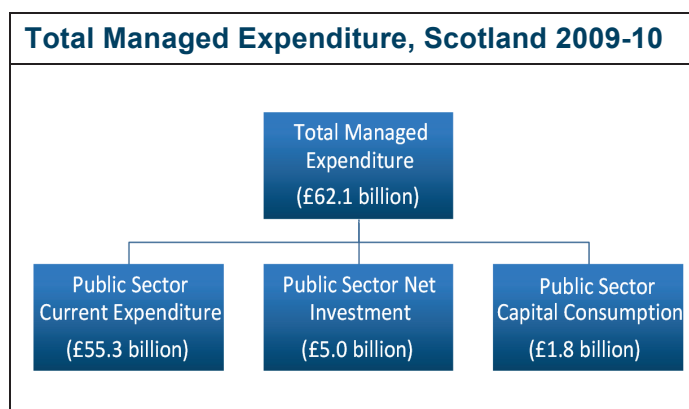
Box 2.1 – Aggregate Scottish Public Sector Expenditure

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.

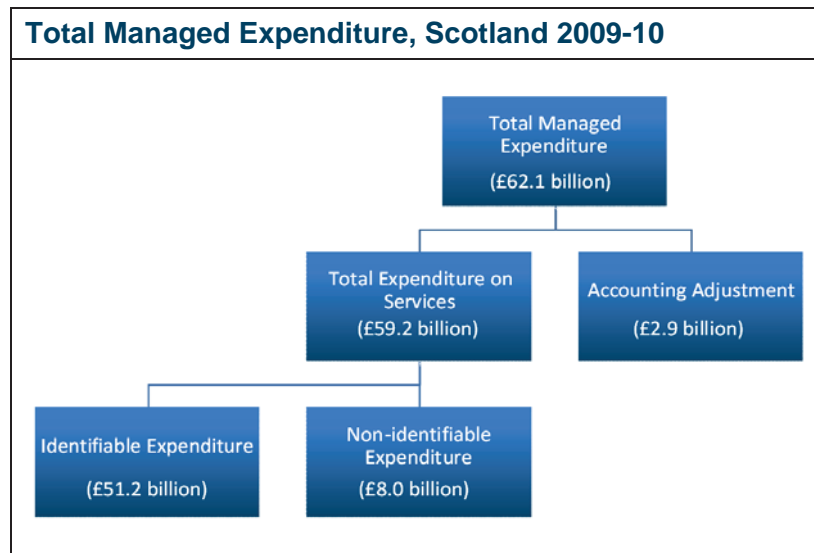


TME can also be expressed as the sum of Annually Managed Expenditure (AME) and Departmental Expenditure Limits (DEL). AME covers current and capital spending programmes which are generally less predictable and are not easily subject to firm multi-year limits. Key elements of AME include debt interest 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.



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. 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 1998, 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 2009-10, the potential change in revenue from the full use of this power was approximately £1 billion¹¹.

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 responsible for the local collection of NDRI.

Government Borrowing

The borrowing powers of the Scottish Government are strictly limited. The Scotland Act 1998 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 no authority to raise extra resource by borrowing or sanctioning borrowing except for in exceptional circumstances. Local authorities have wider borrowing powers. These are summarised in the Framework for Local Government expenditure section on page 17.

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

¹¹ HM Treasury – UK Budget 2009, page 156

Introduction

This chapter provides a summary of Scotland's public sector accounts for the years 2005-06 to 2009-10. 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

The most significant change in the UK Public Sector Finances in recent years has been the inclusion of the UK Government's interventions to support the banking sector at the height of the global financial crises.

GERS follows the current practice of ONS and HM Treasury in incorporating the effects of the UK Government's financial sector interventions into the public sector accounts. This distinguishes between the permanent and temporary effect that the interventions will have on the public finances, as outlined in Box 3.1.

The March 2011 UK Budget and the Office for Budget Responsibility's (OBR) accompanying Economic and Fiscal Outlook, published estimates of the UK's public sector finances which include the permanent effects of the interventions, but excluded the temporary effects. This edition of GERS adopts the same approach¹². A discussion paper providing further information on the treatment of the financial sector interventions in GERS is provided on the GERS website¹³. Supplementary analysis is also provided which includes an estimate of Scotland's public sector finances when both the permanent and temporary effects of the financial sector interventions are incorporated.

¹² The OBR also publish a supplementary table online which estimates UK Public Sector Net Debt and Net Borrowing including both the permanent and temporary effects of the interventions. See for example, OBR (March 2011) - March 2011 economic and fiscal outlook supplementary fiscal tables.

http://budgetresponsibility.independent.gov.uk/pubs/obr_fiscal_supplementary_tables1.xls

¹³ Scottish Government (2011) - Treatment of the Financial Sector Interventions in GERS
<http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/GERS/GERSfinanceinterventions>

Treatment of Financial Sector Interventions in GERS

As highlighted above, the methodology used to account for the financial interventions in GERS is identical to the treatment in the UK Budget, and the OBR's Economic and Fiscal Outlook. The expenditure and revenue estimates, and the estimates of Scotland's current budget balance and overall fiscal position are therefore directly comparable to the equivalent UK estimates published by the UK Government and OBR

In PESA the outlays associated with the UK Government's financial sector interventions are recorded as a capital expenditure, whilst the fees received from the various schemes are recorded as a negative current expenditure (i.e. revenue received). PESA classifies the permanent effects of the UK Government's financial sector interventions as UK non-identifiable expenditure – that is HM Treasury has deemed that the cost of such interventions cannot be assigned to particular countries or regions.

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 million in 2008-09 and £191 million in 2009-10.

Table 3.1: Scotland: Estimated Share of UK Government's Financial Stability Expenditure		
	(£ millions)	
	2008-09	2009-10
Current	-88	-190
Capital	788	380
Total	700	191

Box 3.1 – The UK Government's Financial Sector Interventions

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

When accounting for the full spectrum of financial sector interventions in the public sector finances, the Office for National Statistics (ONS) distinguishes between the temporary and permanent effects that the UK Government's financial sector interventions¹⁴.

The eventual impact of the UK Government's financial sector interventions on the public finances depends on the ultimate profit or loss incurred on each of its interventions. This will represent the permanent impact on the tax payer and the public sector accounts.

Permanent impacts of the interventions which are currently included in the public sector accounts include:

¹⁴ For a detailed discussion on the impact of the financial sector interventions of the UK Public Finances see chapter 3 of GERS 2008-09.

- Fee income or loss payments from the Asset Protection Scheme and the Credit Guarantee Scheme
- Interest payments from the public sector banks to the Government and interest flows from the Asset Purchase Scheme
- Capital injections into Northern Rock
- Depositor compensation from the Government's support for Bradford and Bingley.
- Equity injections into RBS and Lloyds Banking Group

While the banks are in the public sector, they will also have a temporary effect on the public sector accounts as the liabilities and assets acquired through the interventions are temporarily classified as part of the public sector. These temporary effects include the public owned banks gross operating surpluses, their transactions with the private sector and their net liabilities. They have the potential to be very large and volatile. However, once the banks are transferred back to the private sector, these effects will have no lasting impact of the public sector finances. The UK Government and OBR therefore do not include these effects in their headline estimates of the UK public sector accounts.

Current and Capital Budgets

The following tables set out estimates of public sector revenue and expenditure for Scotland over the financial years 2005-06 to 2009-10. 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.

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.

3 Scotland's Public Sector Accounts

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. Estimates of Scotland's current and capital budgets under each of these assumptions are provided in Tables 3.2 and 3.3. Comparable estimates of the UK's current and capital budgets are provided in Box 3.3.

Table 3.2: Current and Capital Budgets: Scotland 2005-06 to 2009-10

	(£ million)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Current Budget					
Current revenue					
Excluding North Sea revenue	39,839	42,272	45,031	43,131	42,201
Including North Sea revenue (per capita share)	40,632	43,026	45,661	44,219	42,747
Including North Sea revenue (geographical share)	47,856	49,775	52,147	54,871	48,132
Current expenditure	43,471	45,231	48,078	49,866	52,770
Current expenditure accounting adjustment	2,058	2,284	2,419	2,495	2,542
Capital consumption	1,586	1,557	1,646	1,722	1,786
Balance on current budget (surplus is positive, deficit is negative)					
Excluding North Sea revenue	-7,277	-6,799	-7,112	-10,952	-14,897
Including North Sea revenue (per capita share)	-6,484	-6,045	-6,483	-9,864	-14,352
Including North Sea revenue (geographical share)	740	704	3	787	-8,966
Capital Budget					
Capital expenditure	4,261	5,043	5,221	6,476	6,400
Capital expenditure accounting adjustment	171	134	84	76	374
Capital consumption	-1,586	-1,557	-1,646	-1,722	-1,786
Net Investment	2,846	3,621	3,659	4,830	4,987
Net Fiscal Balance (surplus is positive, deficit is negative)					
Excluding North Sea revenue	-10,123	-10,420	-10,771	-15,782	-19,885
Including North Sea revenue (per capita share)	-9,330	-9,666	-10,142	-14,694	-19,339
Including North Sea revenue (geographical share)	-2,106	-2,916	-3,656	-4,043	-13,954

Box 3.2 – 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.

Tables 3.3a – 3.3c present the estimates of Scotland's public sector accounts as a percentage of Gross Domestic Product (GDP). Box 3.4 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 (Excluding North Sea Revenue) % GDP: Scotland 2005-06 to 2009-10

	(per cent of GDP)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Current Budget					
Current revenue (Excluding North Sea revenue)	39.8%	39.6%	39.5%	37.5%	37.9%
Current expenditure	43.5%	42.4%	42.2%	43.3%	47.4%
Current expenditure accounting adjustment	2.1%	2.1%	2.1%	2.2%	2.3%
Capital consumption	1.6%	1.5%	1.4%	1.5%	1.6%
Balance on current budget (surplus is positive, deficit is negative)					
Excluding North Sea revenue	-7.3%	-6.4%	-6.2%	-9.5%	-13.4%
Capital Budget					
Capital expenditure	4.3%	4.7%	4.6%	5.6%	5.7%
Capital expenditure accounting adjustment	0.2%	0.1%	0.1%	0.1%	0.3%
Capital consumption	-1.6%	-1.5%	-1.4%	-1.5%	-1.6%
Net Investment	2.8%	3.4%	3.2%	4.2%	4.5%
Net Fiscal Balance (surplus is positive, deficit is negative)					
Excluding North Sea revenue	-10.1%	-9.8%	-9.4%	-13.7%	-17.8%

Table 3.3b: Current and Capital Budgets (Per Capita Share North Sea Revenue) % GDP: Scotland 2005-06 to 2009-10

	(per cent of GDP)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Current Budget					
Current revenue (Including per capita share of North Sea revenue)	39.7%	39.5%	39.1%	37.5%	37.7%
Current expenditure	42.5%	41.5%	41.2%	42.3%	46.5%
Current expenditure accounting adjustment	2.0%	2.1%	2.1%	2.1%	2.2%
Capital consumption	1.6%	1.4%	1.4%	1.5%	1.6%
Balance on current budget (surplus is positive, deficit is negative)					
Including North Sea revenue (per capita share)	-6.3%	-5.5%	-5.6%	-8.4%	-12.6%
Capital Budget					
Capital expenditure	4.2%	4.6%	4.5%	5.5%	5.6%
Capital expenditure accounting adjustment	0.2%	0.1%	0.1%	0.1%	0.3%
Capital consumption	-1.6%	-1.4%	-1.4%	-1.5%	-1.6%
Net Investment	2.8%	3.3%	3.1%	4.1%	4.4%
Net Fiscal Balance (surplus is positive, deficit is negative)					
Including North Sea revenue (per capita share)	-9.1%	-8.9%	-8.7%	-12.5%	-17.0%

3 Scotland's Public Sector Accounts

Table 3.3c: Current and Capital Budgets (Geographical Share North Sea Revenue) % GDP: Scotland 2005-06 to 2009-10

	(per cent of GDP)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Current Budget					
Current revenue (Including geographical share of North Sea revenue)	39.4%	39.1%	37.2%	38.7%	36.7%
Current expenditure	35.8%	35.5%	34.3%	35.2%	40.2%
Current expenditure accounting adjustment	1.7%	1.8%	1.7%	1.8%	1.9%
Capital consumption	1.3%	1.2%	1.2%	1.2%	1.4%
Balance on current budget (surplus is positive, deficit is negative)					
Including North Sea revenue (geographical share)	0.6%	0.6%	0.0%	0.6%	-6.8%
Capital Budget					
Capital expenditure	3.5%	4.0%	3.7%	4.6%	4.9%
Capital expenditure accounting adjustment	0.1%	0.1%	0.1%	0.1%	0.3%
Capital consumption	-1.3%	-1.2%	-1.2%	-1.2%	-1.4%
Net Investment	2.3%	2.8%	2.6%	3.4%	3.8%
Net Fiscal Balance (surplus is positive, deficit is negative)					
Including North Sea revenue (geographical share)	-1.7%	-2.3%	-2.6%	-2.9%	-10.6%

Box 3.3 – UK Public Sector Accounts

The tables below provide estimates of the UK's Public Sector Accounts over the period 2005-06 to 2009-10, as published in the ONS Public Finance Statistical Bulletin for April 2011. They are prepared on a consistent basis with the estimates in Tables 3.2 and 3.3. The figures show that in 2009-10, the estimated current budget balance for the UK public sector was a deficit of £107.3 billion (7.6 per cent of GDP). For the same year, the estimated UK public sector net fiscal balance, referred to in the UK Public Sector Accounts as 'net borrowing', was a deficit of £156.5 billion (11.1 per cent of GDP).

Current and Capital Budgets: UK 2005-06 to 2009-10 (£ million)

	2005-06	2006-07	2007-08	2008-09	2009-10
Current Budget					
Current revenue	486,597	519,184	548,831	533,235	513,160
Current expenditure	463,696	482,029	510,068	537,792	574,511
Current expenditure accounting adjustment	20,759	25,188	25,813	26,550	26,568
Capital consumption	16,095	16,988	17,758	18,688	19,335
Balance on current budget	-13,953	-5,021	-4,808	-49,795	-107,254
Capital Budget					
Capital expenditure	37,512	40,824	45,552	64,310	64,726
Capital expenditure accounting adjustment	2,039	2,005	1,134	947	3,856
Capital consumption	-16,095	-16,988	-17,758	-18,688	-19,335
Net Investment	23,456	25,841	28,928	46,569	49,247
Net Fiscal Balance	-37,409	-30,862	-33,736	-96,364	-156,501

Current and Capital Budgets: UK 2005-06 to 2009-10 (% of GDP)					
	2005-06	2006-07	2007-08	2008-09	2009-10
Current Budget					
Current revenue	38.2%	38.5%	38.6%	37.2%	36.5%
Current expenditure	36.4%	35.7%	35.8%	37.5%	40.9%
Current expenditure accounting adjustment	1.6%	1.9%	1.8%	1.9%	1.9%
Capital consumption	1.3%	1.3%	1.2%	1.3%	1.4%
Balance on current budget	-1.1%	-0.4%	-0.3%	-3.5%	-7.6%
Capital Budget					
Capital expenditure	2.9%	3.0%	3.2%	4.5%	4.6%
Capital expenditure accounting adjustment	0.2%	0.1%	0.1%	0.1%	0.3%
Capital consumption	-1.3%	-1.3%	-1.2%	-1.3%	-1.4%
Net Investment	1.8%	1.9%	2.0%	3.3%	3.5%
Net Fiscal Balance	-2.9%	-2.3%	-2.4%	-6.7%	-11.1%

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

In 2009-10, excluding North Sea revenue, current expenditure exceeded current revenue in Scotland leading to a current budget deficit of £14.9 billion, or 13.4 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 £14.4 billion (or 12.6 per cent of GDP – see Table 3.3b).

In 2009-10, including an illustrative geographical share of North Sea revenue, total current expenditure for Scotland exceeded current revenue to yield a current budget deficit of £9.0 billion (or 6.8 per cent of GDP – see Table 3.3c). In 2009-10, the equivalent UK current budget position, including 100 per cent of all North Sea revenue, was a deficit of £107.3 billion (or 7.6 per cent of GDP), as illustrated in Box 3.3.

As Tables 3.2 and 3.3 highlight, any estimate of Scotland's current balance varies according to the allocation of North Sea revenue. Over the period 2005-06 to 2009-10, the estimated cumulative current budget balance in Scotland between 2005-06 and 2009-10 when North Sea revenue is excluded was a deficit of £47.0 billion. When an illustrative geographical share of North Sea revenue is assigned to Scotland, the estimated cumulative current budget balance over the same period was a deficit of £6.7 billion. The cumulative current budget balance for the UK over the same period was a deficit of £180.8 billion.

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.

In 2009-10, excluding North Sea revenue, total revenue was less than total expenditure yielding an estimated negative net fiscal balance of £19.9 billion (or 17.8 per cent of GDP). With a per capita share of North Sea revenue the estimated negative net fiscal balance for Scotland was £19.3 billion (or 17.0 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 £14.0 billion (or 10.6 per cent of GDP). In 2009-10, the

3 Scotland's Public Sector Accounts

equivalent UK position including 100 per cent of all North Sea revenue, referred to in the UK Public Sector Accounts as 'net borrowing', was a deficit of £156.5 billion (or 11.1 per cent of GDP).

Over the past five years, the largest net fiscal deficit in Scotland under all three assumptions about North Sea revenue occurred in 2009-10. This reflects the effects of the global financial crisis and subsequent recession which resulted in a significant deterioration in the strength of the public finances across many countries. For example, the UK's net fiscal deficit in 2009-10 represented the largest annual deficit, as a proportion of GDP, since 1945. This picture was mirrored across most advanced economies. The IMF estimates that the average net fiscal deficit among the G7 economies increased from 4.4 per cent of GDP in 2008 to 9.8 per cent of GDP in 2009¹⁷. Broadly speaking, four key effects lead to this deterioration. Firstly, as a result of the recession, key tax revenues declined. Secondly, certain expenditures, such as social welfare benefits, increased automatically as unemployment rose. Thirdly, governments took discretionary actions, such as temporarily cutting taxes and increasing capital spending to offset falls in private demand. Finally, many countries were forced to take direct interventions to support their financial and banking sectors.

Box 3.4: 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: 2005-06 to 2009-10

	(£ million)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Scottish GDP					
Excluding North Sea GDP	99,978	106,735	114,013	115,150	111,446
Including per capita share of North Sea GDP	102,300	108,972	116,635	117,873	113,464
Including geographical share of North Sea GDP	121,507	127,291	140,038	141,716	131,163

Source: Scottish National Accounts Project (SNAP), <http://www.scotland.gov.uk/snap>

¹⁷ IMF World Economic Outlook – April 2011- <http://www.imf.org/external/pubs/ft/fm/2011/01/fmindex.htm>

Comparable estimates of UK GDP, including 100% of North Sea GDP are provided in the table below.

UK GDP: 2005-06 to 2009-10					
	(£ million)				
	2005-06	2006-07	2007-08	2008-09	2009-10
UK GDP	1,273,641	1,348,377	1,423,649	1,432,418	1,406,248

Source: ONS

Expenditure

This section presents summary results of estimates of public sector expenditure for Scotland (excluding accounting adjustments) for the years 2005-06 to 2009-10. Table 3.4 provides estimates for the six largest functions of public sector expenditure. For a discussion and more detailed breakdown of expenditure, refer to Chapter 6 and Appendix B.

Table 3.4: Summary of Total Public Sector Expenditure: Scotland 2005-06 to 2009-10

	(£ million)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Social protection	15,948	16,193	17,205	18,589	20,189
Health	8,606	9,102	9,810	10,264	10,712
Education and training	6,568	7,134	7,358	7,558	7,739
General public services	4,358	4,344	4,583	4,855	4,875
Defence	2,613	2,715	2,832	3,088	3,160
Public order and safety	2,284	2,288	2,369	2,515	2,635
Other	7,355	8,499	9,142	9,473	9,861
Total	47,732	50,274	53,299	56,342	59,170

In 2009-10, total public sector expenditure for Scotland was estimated to be £59.2 billion. This represents a nominal increase of 24.0 per cent since 2005-06. Social protection and health experienced the greatest relative increases, rising by 26.6 per cent and 24.5 per cent respectively in nominal terms over these five years. Between 2008-09 and 2009-10, total public sector expenditure for Scotland increased by £2.8 billion (5.0%) in nominal terms. Over half of this increase is attributable to higher spending on social protection, reflecting the deterioration in the labour market as the economy went into recession.

Box 3.5: Total Managed Expenditure as a Share of GDP

Total Managed Expenditure (TME) is the main aggregate of total public sector expenditure used in the UK National Accounts. It is equal to the sum of total current and capital expenditure and the respective accounting adjustments, as detailed in Table 3.2.

In 2009-10 Total Managed Expenditure (TME) was £62.1 billion for Scotland, and £669.7 billion for the UK as a whole.

Total Managed Expenditure for Scotland and the UK: 2005-06 to 2009-10					
	(£ million)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Total Managed Expenditure for Scotland	49,962	52,692	55,803	58,913	62,086
Total Managed Expenditure for the UK	524,006	550,046	582,567	629,599	669,661

The tables below present the estimates of Scottish and UK TME as a share of GDP.

In 2009-10, the ratio of TME for Scotland to GDP was 55.7 per cent excluding North Sea GDP and 54.7 per cent including a per capita share. This ratio falls to 47.3 per cent when an illustrative geographical share of North Sea GDP is included. In comparison, UK TME was equivalent to 47.6% of GDP in 2009-10, including 100% of North Sea GDP.

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 as a Share of GDP: 2005-06 to 2009-10					
	(per cent of GDP)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Scottish TME as a Share of GDP:					
Excluding North Sea GDP	50.0%	49.4%	48.9%	51.2%	55.7%
Including per capita share of North Sea GDP	48.8%	48.4%	47.8%	50.0%	54.7%
Including geographical share of North Sea GDP	41.1%	41.4%	39.8%	41.6%	47.3%
UK TME as a share of GDP:					
100% of North Sea GDP	41.1%	40.8%	40.9%	44.0%	47.6%

Current Revenue

This section summarises the estimates of public sector revenue in Scotland (excluding accounting adjustments) for the years 2005-06 to 2009-10. Table 3.5 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 3.5: Summary of Current Revenue by Economic Category: Scotland 2005-06 to 2009-10

	(£ million)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Taxes on income and wealth	12,934	14,188	15,288	14,163	13,386
National insurance contributions	6,926	7,303	7,850	7,988	7,997
Taxes on production and imports	13,897	14,611	15,286	14,496	14,703
Other current taxes	2,357	2,464	2,591	2,634	2,661
Taxes on capital	198	227	269	178	146
Gross operating surplus	2,502	2,524	2,574	2,651	2,685
Rent and other current transfers	418	390	405	417	392
Interest and dividends from private sector and abroad	607	565	768	604	231
Total current non-North Sea revenue	39,839	42,272	45,031	43,131	42,201
North Sea revenue					
Per capita share	793	754	629	1,088	545
Geographical share	8,017	7,503	7,115	11,739	5,931
Total current revenue (including North Sea revenue)					
Per capita share	40,632	43,026	45,661	44,219	42,747
Geographical share	47,856	49,775	52,147	54,871	48,132

In 2009-10, total current revenue, excluding revenue from the North Sea was estimated to be approximately £42.2 billion. This represented a fall of 2.2 per cent on the previous year, primarily due to a 5.5 per cent fall in receipts from taxes on income and wealth. Non-North Sea revenue has now fallen for two consecutive years, and is now 6.3 per cent lower than in 2007-08. Over 80 per cent of the fall in total Scottish non-North Sea tax receipts between 2007-08 and 2009-10 is attributable to falls in income tax, corporation tax and VAT. Total current revenue including a per capita share of North Sea revenue faced similar declines between 2007-08 and 2009-10: falling by approximately £2.9 billion (6.4 per cent).

As Table 3.5 highlights, there was a significant increase in North Sea revenue between 2005-06 and 2008-09. In 2005-06, Scotland's estimated illustrative geographical share of North Sea revenue was estimated at approximately £8.0 billion, rising to £11.7 billion in 2008-09, a record high in nominal terms. However, between 2008-09 and 2009-10, North Sea revenues fell by 49.5 per cent to £5.9 billion reflecting the significant drop in global oil and gas prices as the global recession sharply reduced demand. As a result, total current revenue in Scotland, including a geographical share of North Sea revenue fell by £6.7 billion (12.3 per cent) between 2008-09 and 2009-10.

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 website¹⁸.

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 2009-10

Table 4.1 highlights estimated public sector revenue in Scotland and the outturn data for the UK in 2009-10. 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 2009-10, total public sector non-North Sea current revenue in Scotland was £42.2 billion. This is equivalent to 8.3 per cent of UK total non-North Sea current revenue which is broadly in line with Scotland's share of the UK population¹⁹.

¹⁸ <http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/GERS>

¹⁹ Scotland's share of the UK population in 2009-10 was 8.4 per cent. Scotland's share of UK less extra-regio GVA was 8.0 per cent (General Registers for Scotland, Scottish National Accounts Project (SNAP) UK Economics Accounts).

Table 4.1: Current Revenue: Scotland 2009-10

	Scotland		UK	Scotland as % of UK
	£ million	% of total non-North Sea revenue	£ million	
Income tax	10,405	24.7%	140,955	7.4%
Corporation tax (excl North Sea)	2,597	6.2%	29,968	8.7%
Capital gains tax	174	0.4%	2,504	7.0%
Other taxes on income and wealth	210	0.5%	2,347	8.9%
National insurance contributions	7,997	18.9%	96,638	8.3%
VAT	7,348	17.4%	83,616	8.8%
Fuel duties	2,207	5.2%	26,197	8.4%
Stamp duties	506	1.2%	7,901	6.4%
Tobacco duties	947	2.2%	8,805	10.8%
Alcohol duties	816	1.9%	9,246	8.8%
Betting and gaming and duties	109	0.3%	1,029	10.6%
Air passenger duty	157	0.4%	1,870	8.4%
Insurance premium tax	190	0.5%	2,262	8.4%
Landfill tax	93	0.2%	946	9.9%
Climate change levy	61	0.1%	687	8.9%
Aggregates levy	42	0.1%	276	15.2%
Inheritance tax	146	0.3%	2,431	6.0%
Vehicle excise duty	446	1.1%	5,584	8.0%
Non-domestic rates ¹	1,823	4.3%	22,617	8.1%
Council tax	1,960	4.6%	25,088	7.8%
Other taxes, royalties and adjustments ²	659	1.6%	7,790	8.5%
Interest and dividends	231	0.5%	2,626	8.8%
Gross operating surplus	2,685	6.4%	23,648	11.4%
Rent and other current transfers	392	0.9%	1,638	23.9%
Total current revenue (excluding North Sea revenue)	42,201	100.0%	506,669	8.3%
North Sea revenue ³				
Per capita share	545		6,491	8.4%
Geographical share	5,931		6,491	91.4%
Total current revenue (including North Sea revenue)				
Per capita share	42,747		513,160	8.3%
Geographical share	48,132		513,160	9.4%

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

2. Although this group includes some 11 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 66 per cent (£437 million) of this estimate for Scotland. This group also contains a small accounting adjustment to align the revenue estimates to those in the April 2011 UK Public Sector Finances Statistical Bulletin. This adjustment is apportioned to Scotland on the basis of Scotland's share of total onshore UK tax revenue.

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

Box 4.1 – Capital Gains Tax

Capital Gains Tax (CGT) is a tax on the profit or gain made by individuals or companies when they sell, or give away, assets. Exemptions are available for some assets, including gifts between spouses, personal possessions worth below £6,000 and, in most cases, an individual's main home. Individuals have an annual CGT tax-free allowance, which allows them to make a certain amount of gains each year before being liable for tax. For the tax year 2009-10, the personal allowance for most individuals was £10,100.

Between 2005-06 and 2007-08 CGT operated on a similar basis to income tax, with three different bands and tax rates. The system was reformed in 2008-09, and an 18 per cent flat rate of CGT was introduced. The rate was subsequently increased to 28 per cent in 2010-11 as part of a wider series of tax reforms.

	(£ million)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Scotland	175	230	305	547	174
UK	3,041	3,812	5,267	7,851	2,504
Scotland as % of the UK	5.8%	6.0%	5.8%	7.0%	7.0%

Scotland's share of UK CGT revenues has increased from 5.8 per cent in 2005-06 to 7.0 per cent in 2009-10. This is lower than either a per capita or GVA share, reflecting the lower value of asset sales in Scotland. In both countries, CGT revenues account for less than 1 per cent of public sector revenues. In both Scotland and the UK CGT revenue fell by around 70 per cent between 2008-09 and 2009-10, significantly larger than the decline in any other revenue. This can be attributed to the fall in the value of many assets and the volume of transactions as a result of the recession.

Income tax is the single largest source of public sector revenue in Scotland. In 2009-10, income tax revenue was estimated at £10.4 billion – approximately a quarter of all public sector revenue in Scotland (excluding revenues from the North Sea).

National insurance contributions represented the second largest revenue source in Scotland, an estimated £8.0 billion in 2009-10 – 18.9 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 17.4 per cent of total non-North Sea revenues.

Gross operating surplus (GOS) refers to the operating (or trading) surpluses (or losses) of central government, local government and public corporation trading activity. It was the fourth largest revenue source in Scotland during 2009-10, generating £2.7 billion in revenue, 6.4 per cent of total non-North Sea revenue in Scotland.

Scotland accounted for 11.4 per cent of the total UK GOS in 2009-10. 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.

4 Public Sector Revenue

Corporation tax revenue (excluding that from the North Sea) was estimated at £2.6 billion in Scotland during 2009-10, 6.2 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.

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 2009-10. Together, council tax and non-domestic rates raised £3.8 billion (9.0 per cent of total non-North Sea revenue) while fuel duties raised £2.2 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 lower than both Scotland's share of the UK population and GVA. For national insurance contributions the Scottish percentage was in line with a per capita share and slightly higher than a GVA share. For VAT and corporation tax (excluding North Sea), the Scotland's share of UK revenue was slightly higher than its share of the UK population and GVA. Revenue from duties on betting and gaming, alcohol and tobacco were also 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 and 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. Boxes 4.1 and 4.2 discuss capital gains tax and stamp duty in more detail.

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 1 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. The tables below provide further information on the revenue raised by each element.

Stocks and Shares – Stamp Duty Reserve Tax (SDRT)

In 2009-10 SDRT raised £258 million in Scotland, 8.6 per cent of the UK total. Over the period 2005-06 to 2007-08, SDRT revenue grew by 30.9 per cent in Scotland and by 20.2 per cent in the UK. However, as with SDLT, SDRT revenue fell significantly between 2007-08 and 2009-10 as the economy entered recession. In Scotland, SDRT receipts fell by 24 per cent over these two years, compared to a fall in the UK as a whole of 28 per cent.

Stamp Duty Reserve Tax: 2005-06 to 2009-10					
	(£ million)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Scotland	259	286	339	274	258
UK	3,464	3,756	4,165	3,204	3,016
Scotland as % of the UK	7.5%	7.6%	8.1%	8.6%	8.6%

Property or Land – Stamp Duty Land Tax (SDLT)

Stamp Duty Land Tax has been relatively volatile over the past five years. Between 2005-06 and 2007-08, SDLT grew by 95 per cent in Scotland, and 34 per cent in the UK. However revenue subsequently fell by 55 per cent in Scotland, and by 49 per cent in the UK, between 2007-08 and 2009-10. This fall is attributed to two factors. Firstly, the recession reduced average selling prices and the number of transactions. Secondly, the UK Government temporarily increased the threshold at which domestic properties were liable to stamp duty between September 2008 and 2009 to support the housing market. This measure was effectively a tax cut and reduced revenues.

Stamp Duty Land Tax: 2005-06 to 2009-10					
	(£ million)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Scotland	284	423	554	321	248
UK	7,453	9,634	9,956	4,797	4,885
Scotland as % of the UK	3.8%	4.4%	5.6%	6.7%	5.1%

Estimated Revenue: Scotland and the UK, 2005-06 to 2009-10

Table 4.2 shows estimated current revenue in Scotland and the UK between 2005-06 and 2009-10. Current non-North Sea revenue in Scotland and the UK are estimated to have both grown by approximately 6 percent between 2005-06 and 2009-10 in nominal terms. This reflects strong revenue growth between 2005-06 and 2007-08. During these three years, non-North Sea revenue grew by 13.0 per cent in Scotland and by 13.4 per cent in the UK as a whole. However, non-North Sea revenue subsequently fell by 6.3 per cent in Scotland, and by 6.4 per cent in the UK, between 2007-08 and 2009-10, clearly displaying the effects of the recession on the public finances. This trend is mirrored in most advanced economies. For example, the IMF estimates that across the G7 economies as a whole, government revenue fell by 8 per cent between 2008 and 2009²⁰.

Over 80 per cent of the fall in total Scottish non-North Sea tax receipts between 2007-08 and 2009-10 is attributable to falls in income tax, corporation tax and VAT.

Corporation tax receipts grew by £538 million (18.3 per cent) in Scotland between 2005-06 and 2007-08, before falling by £875 million (25.2 per cent) over the subsequent two years. A similar trend is observed in the UK as a whole, where corporation tax receipts grew by 17.8 per cent between 2005-06 and 2007-08, before falling by 25.8 per cent between 2007-08 and 2009-10. Income tax receipts followed the same trend as corporation tax. Between 2005-06 and 2007-08 they grew by 17.3 per cent in Scotland, and 16.4 per cent in the UK. However, in the subsequent two years, they fell by 7.6 per cent in Scotland and by 7.3 per cent in the UK as a whole. VAT receipts grew by £826 million (11.6 per cent) between 2005-06 and 2007-08. As part of the UK Government's package of measures to support the economy during the recession, the standard rate of VAT was temporarily reduced from 17.5% to 15% between December 2008 and the December 2009. As a result of this tax cut, and a reduction in household consumption due to the recession, VAT receipts fell by £574 million (7.2 per cent) in Scotland between 2007-08 and 2009-10, in line with the decline across the UK as a whole.

²⁰ IMF World Economic Outlook – April 2011- <http://www.imf.org/external/pubs/ft/fm/2011/01/fmindex.htm>

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Table 4.2: Current Revenue: Scotland and UK 2005-06 to 2009-10										
	(£ million)									
	Scotland					UK				
	2005-06	2006-07	2007-08	2008-09	2009-10	2005-06	2006-07	2007-08	2008-09	2009-10
Income tax	9,605	10,444	11,266	10,660	10,405	130,562	140,927	152,028	144,401	140,955
Corporation tax (excl North Sea)	2,935	3,255	3,472	2,712	2,597	34,278	37,307	40,384	32,493	29,968
Capital gains tax	175	230	305	547	174	3,041	3,812	5,267	7,851	2,504
Other taxes on income and wealth	219	258	245	245	210	2,493	2,970	2,717	2,738	2,347
National insurance contributions	6,926	7,303	7,850	7,988	7,997	85,559	90,916	95,437	96,613	96,638
VAT	7,095	7,608	7,922	7,438	7,348	81,507	87,740	89,896	85,350	83,616
Fuel duties	1,945	1,976	2,092	2,075	2,207	23,438	23,585	24,905	24,615	26,197
Stamp duties	543	709	893	595	506	10,917	13,390	14,121	8,001	7,901
Tobacco duties	1,026	967	894	894	947	7,952	8,146	8,031	8,358	8,805
Alcohol duties	725	724	749	752	816	7,876	7,914	8,215	8,598	9,246
Betting and gaming and duties	95	107	109	104	109	884	961	961	994	1,029
Air passenger duty	77	94	164	154	157	906	1,112	1,949	1,835	1,870
Insurance premium tax	198	195	194	191	190	2,347	2,304	2,302	2,271	2,262
Landfill tax	68	78	89	85	93	753	825	897	863	946
Climate change levy	65	63	65	65	61	741	696	705	711	687
Aggregates levy	46	46	53	48	42	323	324	339	321	276
Inheritance tax	198	227	269	178	146	3,276	3,618	3,890	2,931	2,431
Vehicle excise duty	389	400	425	446	446	4,950	5,139	5,412	5,602	5,584
Non-domestic rates	1,736	1,741	1,724	1,736	1,823	18,816	19,846	20,357	21,924	22,617
Council tax	1,773	1,862	1,935	1,959	1,960	21,226	22,340	23,522	24,541	25,088
Other taxes, royalties and adjustments	474	506	571	587	659	5,492	5,814	6,407	6,982	7,790
Interest and dividends	607	565	768	604	231	6,897	6,605	8,931	7,029	2,626
Gross operating surplus	2,502	2,524	2,574	2,651	2,685	21,169	22,248	23,019	23,355	23,648
Rent and other current transfers	418	390	405	417	392	1,810	1,721	1,675	1,933	1,638
Total current revenue (excluding North Sea revenue)	39,839	42,272	45,031	43,131	42,201	477,213	510,260	541,367	520,310	506,669
North Sea revenue										
Per capita share	793	754	629	1,088	545	9,384	8,924	7,464	12,925	6,491
Geographical share	8,017	7,503	7,115	11,739	5,931	9,384	8,924	7,464	12,925	6,491
Total current revenue (including North Sea revenue)										
Per capita share	40,632	43,026	45,661	44,219	42,747	486,597	519,184	548,831	533,235	513,160
Geographical share	47,856	49,775	52,147	54,871	48,132	486,597	519,184	548,831	533,235	513,160

Table 4.3 shows estimates of Scotland's share of UK revenue for five key taxes between 2005-06 and 2009-10. In each year during this period total non-North Sea revenue in Scotland has 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.

Table 4.3: Non-North Sea Current Revenue: Scotland/UK Share 2005-06 to 2009-10					
	(per cent of UK revenue)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Income tax	7.4%	7.4%	7.4%	7.4%	7.4%
Corporation tax (excluding North Sea revenue)	8.6%	8.7%	8.6%	8.3%	8.7%
National Insurance contributions	8.1%	8.0%	8.2%	8.3%	8.3%
Value added tax	8.7%	8.7%	8.8%	8.7%	8.8%
Local authority revenue ¹	8.8%	8.5%	8.3%	8.0%	7.9%
All other revenue	9.3%	9.0%	9.1%	9.3%	9.3%
Total non-North Sea current revenue	8.3%	8.3%	8.3%	8.3%	8.3%

1. Council tax and non-domestic rates²¹

²¹ 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.

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 2005-06 and 2009-10, 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%²².
3. License Fees: The UK Government grants licenses for operators to "search and bore for and get"²³ 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.

²² The 2011 UK Budget announced a 12% increase in the supplementary charge to 32% from 24 March 2011.

²³ 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 1980-81 to 2009-10^{1, 2}

Year	£ million	Year	£ million	Year	£ million	Year	£ million
1980-81	3,764	1988-89	2,616	1996-97	2,891	2004-05	5,183
1981-82	6,125	1989-90	2,007	1997-98	2,509	2005-06	9,384
1982-83	7,665	1990-91	1,979	1998-99	1,856	2006-07	8,924
1983-84	8,358	1991-92	647	1999-00	2,444	2007-08	7,464
1984-85	11,082	1992-93	858	2000-01	4,455	2008-09	12,925
1985-86	10,132	1993-94	1,047	2001-02	5,426	2009-10	6,491
1986-87	3,571	1994-95	1,374	2002-03	5,097		
1987-88	4,055	1995-96	1,667	2003-04	4,284		

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 2005-06.

Total North Sea revenue increased by 37.7 per cent between 2005-06 and 2008-09, reflecting the increase in wholesale oil and gas prices over this period and the higher supplementary corporation tax introduced in January 2006. However, between 2008-09 and 2009-10, North Sea revenue fell from £12.9 billion to £6.5 billion (49.8 per cent), as wholesale oil and gas prices fell significantly as a result of the global economic downturn.

Table 5.2: Composition of North Sea Revenue: UK 2004-05 to 2009-10

	(£ million)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Licence fees	61	60	56	0	0
North Sea corporation tax	7,307	6,709	5,728	10,358	5,568
Petroleum revenue tax	2,016	2,155	1,680	2,567	923
Total	9,384	8,924	7,464	12,925	6,491

HMRC have revised the estimate of North Sea Corporation tax in 2007-08 from £6,095 million to £5,728 million. Corporation tax figures for all other years in the table remain unchanged.

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.

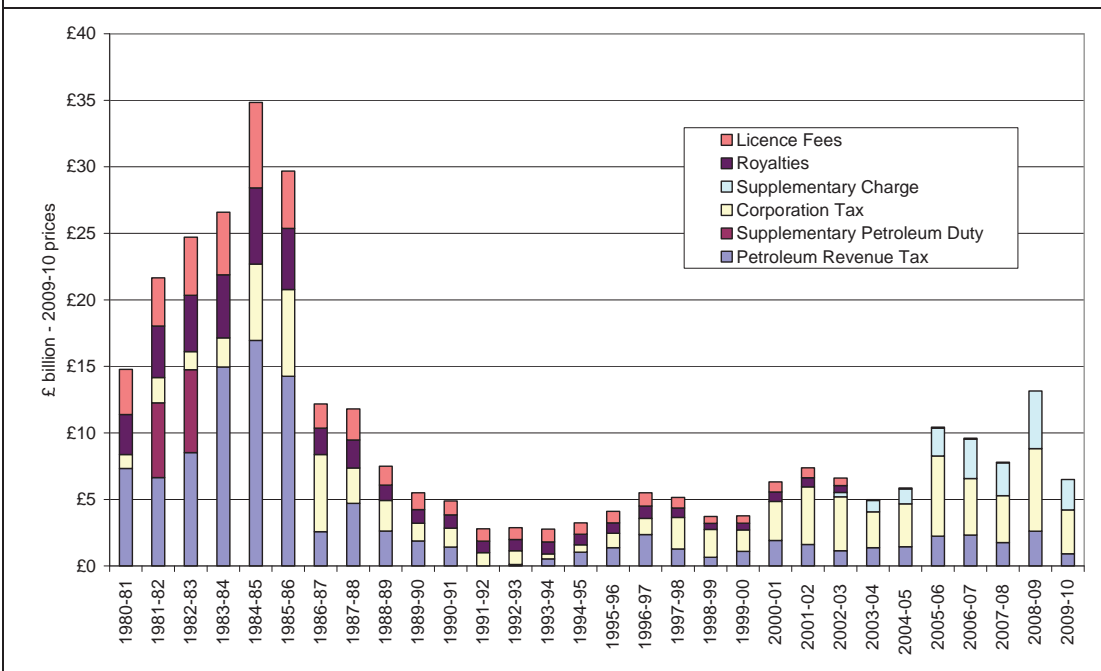
The following section presents a range of estimates of North Sea revenue that could be allocated to Scotland under various assumptions about the apportionment of the oil and gas industry.

Box 5.1 – Composition of UK North Sea Revenues

The structure and composition of the UK North Sea tax regime has varied significantly over the past 35 years. The chart below illustrates the total real terms tax revenue raised from North Sea oil and gas production, together with the revenue raised from each different element of the tax system. The chart illustrates that the importance of Petroleum Revenue Tax and Royalty payments has diminished since the mid 1980s, with an increasing proportion of revenue coming from corporation tax.

Further information on the historic structure of the North Sea fiscal regime is available from the HMRC website²⁴.

Government Revenues from UK Oil and Gas Production (2009/10 prices)



Source: HMRC and HM Treasury

²⁴ <http://www.hmrc.gov.uk/international/ns-fiscal.htm>.

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)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Total North Sea revenue	9,384	8,924	7,464	12,925	6,491
Scotland's per capita share	793	754	629	1,088	545
Scotland's percentage share of North Sea revenue	8.5%	8.4%	8.4%	8.4%	8.4%

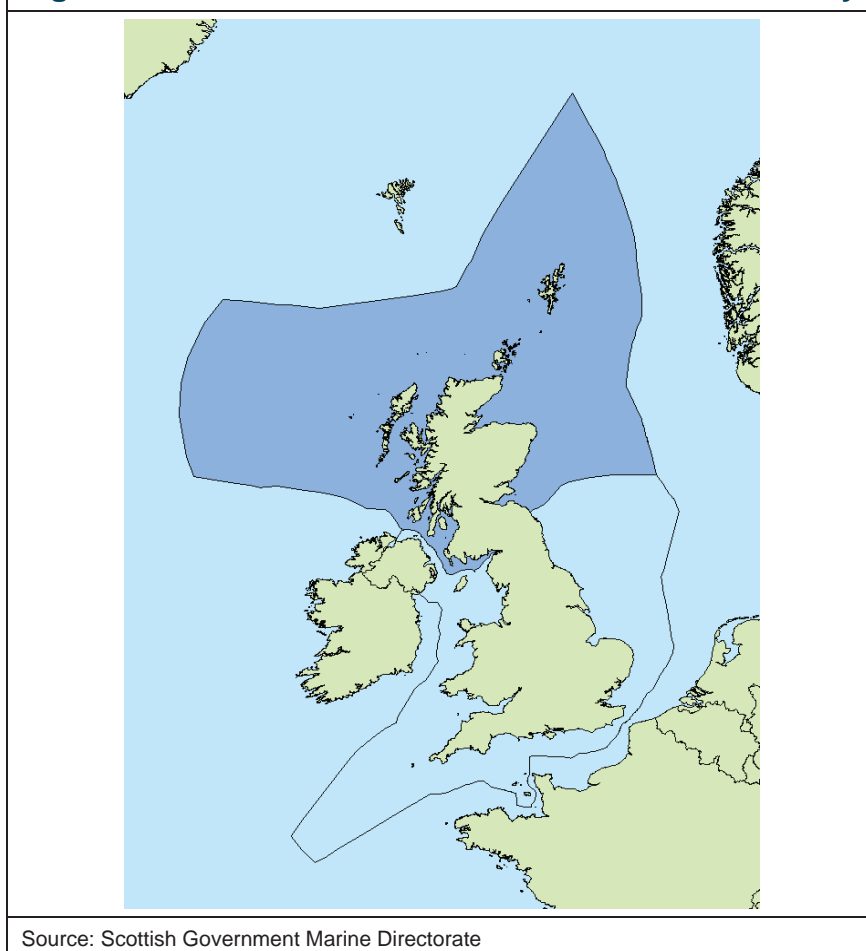
An Illustrative Geographical Share

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 Aberdeen²⁵. 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.

²⁵ Kemp and Stephen (2008), 'The Hypothetical Scottish Shares of Revenues and Expenditures from the UK Continental Shelf 2000-2013'

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 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



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 stood at 97 per cent in 2010, while its geographical share of gas production remained at 58 per cent. Scotland's share of total hydrocarbon production was 81 per cent in 2010, up marginally from 80 per cent in 2009.

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.²⁶ Using

²⁶ <http://www.scotland.gov.uk/Publications/2008/06/UKContinentalShelfRevenue>

5 North Sea Revenue

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.

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 interpolation. 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 2005-06 to 2009-10

	(£ million)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Total North Sea revenue	9,384	8,924	7,464	12,925	6,491
Scotland's geographical share	8,017	7,503	7,115	11,739	5,931
Scotland's percentage share of North Sea revenue	85.4%	84.1%	95.3%	90.8%	91.4%

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 2009-10, using a per capita and geographical share respectively.

Table 5.5: Current Revenue (Per Capita Share of North Sea Revenue): Scotland 2009-10

	Scotland		UK	Scotland as % of UK revenue
	£ million	% of total revenue	£ million	
Total current revenue (excluding North Sea revenue)	42,201	98.7%	506,669	8.3%
North Sea revenue	545	1.3%	6,491	8.4%
Total current revenue	42,747	100.0%	513,160	8.3%

Table 5.6: Current Revenue (Geographical Share of North Sea Revenue): Scotland 2009-10

	Scotland		UK	Scotland as % of UK revenue
	£ million	% of total revenue	£ million	
Total current revenue (excluding North Sea revenue)	42,201	87.7%	506,669	8.3%
North Sea revenue	5,931	12.3%	6,491	91.4%
Total current revenue	48,132	100.0%	513,160	9.4%

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 2009-10. In contrast, under an illustrative geographical share, Scotland's estimated share of total UK current revenue increased to 9.4 per cent in the same year.

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 Treasury²⁷.

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 Sector 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 estimates in GERS include a share of the permanent effects of the UK Government's financial sector interventions. This is consistent with the methodology used by HM Treasury and the OBR. The UK Government's net financial sector interventions are classified as non-identifiable and are recorded in the Enterprise and Economic Development (EED) expenditure programme lines in both PESA and GERS. The outlays by the UK Government are recorded as a capital expenditure, whilst the fees received are recorded as a negative current expenditure (i.e. revenue received), as summarised in Box 3.1. 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.

²⁷ The most recent edition of PESA is available from http://www.hm-treasury.gov.uk/national_statistics.htm

Total Public Sector Expenditure

Estimated total public sector expenditure for Scotland by spending category for 2009-10 is shown in Table 6.1. On the basis of the assumptions and methodologies described in this report, in 2009-10, total public sector expenditure for Scotland was £59.2 billion, this was equivalent to 9.3 per cent of comparable total UK public sector expenditure in 2009-10. Social protection was the largest Scottish expenditure programme. Together with health expenditure, it accounts for approximately 52 per cent of total public sector expenditure for Scotland in 2009-10.

Table 6.1: Total Expenditure: Scotland 2009-10		
	Scotland	
	£ million	% of total expenditure
General public services		
Public and common services	1,567	2.6%
International services	672	1.1%
Public sector debt interest	2,635	4.5%
Defence	3,160	5.3%
Public order and safety	2,635	4.5%
Economic affairs		
Enterprise and economic development	1,089	1.8%
Science and technology	446	0.8%
Employment policies	280	0.5%
Agriculture, forestry and fisheries	858	1.5%
Transport	2,853	4.8%
Environment protection	1,185	2.0%
Housing and community amenities	1,920	3.2%
Health	10,712	18.1%
Recreation, culture and religion	1,466	2.5%
Education and training	7,739	13.1%
Social protection	20,189	34.1%
EU transactions	-236	-0.4%
Total	59,170	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. Table 6.2 provides a summary of total current and capital expenditure over the years 2005-06 to 2009-10.

Total public sector expenditure for Scotland is estimated to have increased from £47.7 billion in 2005-06 to £59.2 billion in 2009-10, an increase of approximately 24 per cent in nominal terms. Over the same period, equivalent UK public sector expenditure increased from £501.2 billion to £639.2 billion, an increase of 28 per cent in nominal terms.

Chapters four and five illustrated that Scottish tax revenue fell sharply in 2008-09 and 2009-10 as a result of the recession. Aggregate, public expenditure has not been as volatile and has grown, on average, by approximately 5.5 per cent in nominal terms in each of the last five years. Aggregate current expenditure has also remained fairly stable over this period. However, when capital expenditure is considered in isolation, it is shown to be considerably more volatile, increasing by 24 per cent between 2007-08 and 2008-09. This reflects the UK Government's financial sector interventions, which accounted for nearly two thirds of the growth in capital expenditure for Scotland between 2007-08 and 2008-09. Capital expenditure fell slightly in 2009-10, but remained significantly higher than in the three years prior to 2008-09. This is because whilst the expenditure associated with the UK Government's financial sector interventions fell in 2009-10, there was a significant increase in infrastructure investment, as both the Scottish and UK Governments brought forward capital expenditure planned for 2010-11 into 2009-10 to support the economy.

Table 6.2: Total Current and Capital Expenditure Scotland and UK 2005-06 to 2009-10

	(£ million)									
	Scotland					UK				
	2005-06	2006-07	2007-08	2008-09	2009-10	2005-06	2006-07	2007-08	2008-09	2009-10
Current	43,471	45,231	48,078	49,866	52,770	463,696	482,029	510,068	537,792	574,511
Capital	4,261	5,043	5,221	6,476	6,400	37,512	40,824	45,552	64,310	64,726
Total	47,732	50,274	53,299	56,342	59,170	501,208	522,853	555,619	602,102	639,238

Table 6.3 highlights the share of total expenditure according to current and capital expenditure. Between 2005-06 and 2007-08, capital expenditure for Scotland varied between 8.9 per cent and 10.0 per cent of total expenditure. In 2008-09, capital expenditure for Scotland subsequently increased to 11.5 per cent of total expenditure, reflecting the impact of the UK Government's financial sector interventions. Capital expenditure subsequently fell to 10.8 per cent of total expenditure in 2009-10, although this remains a larger share of total expenditure than in the years prior to 2008-09.

Table 6.3: Current and Capital Expenditure (% of Total Expenditure): Scotland 2005-06 to 2009-10

	(per cent)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Current	91.1%	90.0%	90.2%	88.5%	89.2%
Capital	8.9%	10.0%	9.8%	11.5%	10.8%

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.

6 Public Sector Expenditure

Table 6.4: Total Expenditure: Scotland 2005-06 to 2009-10

	(£ million)														
	Current					Capital					Total				
	2005-06	2006-07	2007-08	2008-09	2009-10	2005-06	2006-07	2007-08	2008-09	2009-10	2005-06	2006-07	2007-08	2008-09	2009-10
General public services															
Public and common services	1,395	1,247	1,311	1,291	1,485	180	140	61	297	82	1,574	1,387	1,372	1,588	1,567
International services	495	497	531	572	620	28	32	36	40	53	524	529	567	611	672
Public sector debt interest	2,261	2,428	2,645	2,656	2,635	0	0	0	0	0	2,261	2,428	2,645	2,656	2,635
Defence	2,523	2,639	2,619	2,796	2,822	90	75	214	292	338	2,613	2,715	2,832	3,088	3,160
Public order and safety	2,116	2,105	2,204	2,289	2,389	168	183	165	226	245	2,284	2,288	2,369	2,515	2,635
Economic affairs															
Enterprise and economic development	721	698	782	529	432	147	205	235	1,040	657	867	902	1,016	1,569	1,089
Science and technology	307	267	337	319	367	68	59	120	106	79	375	326	457	425	446
Employment policies	241	246	253	260	273	33	13	1	1	7	274	259	254	261	280
Agriculture, forestry and fisheries	605	592	677	700	765	45	73	71	100	94	650	666	748	800	858
Transport	929	1,446	1,543	1,527	1,514	913	1,278	1,243	1,124	1,340	1,842	2,724	2,785	2,651	2,853
Environment protection	730	836	831	866	981	206	162	190	196	204	937	998	1,021	1,062	1,185
Housing and community amenities	162	182	333	281	260	1,363	1,497	1,413	1,521	1,660	1,526	1,679	1,746	1,802	1,920
Health	8,355	8,804	9,363	9,751	10,133	251	297	447	512	579	8,606	9,102	9,810	10,264	10,712
Recreation, culture and religion	1,057	1,095	1,112	1,119	1,182	190	201	239	276	284	1,247	1,296	1,351	1,395	1,466
Education and training	6,088	6,411	6,662	6,909	7,076	480	724	696	649	664	6,568	7,134	7,358	7,558	7,739
Social protection	15,847	16,090	17,114	18,492	20,074	101	103	91	96	115	15,948	16,193	17,205	18,589	20,189
EU transactions	-362	-352	-237	-493	-236	0	0	0	0	0	-362	-352	-237	-493	-236
Total	43,471	45,231	48,078	49,866	52,770	4,261	5,043	5,221	6,476	6,400	47,732	50,274	53,299	56,342	59,170

Table 6.5: Total Expenditure: UK 2005-06 to 2009-10

	(£ million)														
	Current					Capital					Total				
	2005-06	2006-07	2007-08	2008-09	2009-10	2005-06	2006-07	2007-08	2008-09	2009-10	2005-06	2006-07	2007-08	2008-09	2009-10
General public services															
Public and common services	11,076	11,389	11,286	11,810	11,903	1,603	1,193	1,329	2,013	1,726	12,678	12,582	12,615	13,823	13,629
International services	5,865	5,884	6,303	6,798	7,380	341	388	443	473	627	6,206	6,272	6,745	7,271	8,007
Public sector debt interest	26,746	28,749	31,363	31,555	31,363	0	0	0	0	0	26,746	28,749	31,363	31,555	31,363
Defence	29,846	31,250	31,056	33,243	33,561	1,072	899	2,539	3,468	4,024	30,918	32,149	33,595	36,710	37,585
Public order and safety	27,673	28,621	29,637	30,907	31,796	1,608	1,817	2,022	2,746	2,694	29,281	30,438	31,659	33,653	34,490
Economic affairs															
Enterprise and economic development	5,244	5,003	5,508	4,146	3,112	1,322	1,534	1,414	11,409	6,412	6,566	6,537	6,922	15,555	9,524
Science and technology	2,242	2,146	2,426	2,541	2,896	757	675	785	625	733	2,999	2,821	3,211	3,165	3,629
Employment policies	2,987	3,155	3,210	3,017	3,377	355	195	72	85	111	3,342	3,349	3,282	3,102	3,489
Agriculture, forestry and fisheries	5,319	4,783	4,701	5,037	5,574	282	321	289	377	270	5,601	5,105	4,990	5,415	5,844
Transport	8,459	9,417	9,872	9,019	9,822	8,580	10,460	10,630	11,801	12,863	17,039	19,878	20,501	20,820	22,686
Environment protection	6,324	7,142	7,243	7,105	8,217	2,213	2,250	2,284	2,608	2,835	8,537	9,392	9,526	9,713	11,052
Housing and community amenities	3,559	3,601	3,879	3,760	4,032	7,138	7,948	9,037	11,207	11,907	10,697	11,549	12,916	14,967	15,939
Health	86,467	90,623	97,432	104,626	112,577	3,115	3,889	4,719	5,346	6,203	89,582	94,512	102,151	109,972	118,780
Recreation, culture and religion	9,110	9,462	9,760	9,932	10,246	1,699	1,786	2,278	3,082	3,288	10,809	11,248	12,038	13,014	13,533
Education and training	63,254	66,266	71,162	74,387	77,853	6,450	6,665	6,936	8,315	9,945	69,704	72,931	78,098	82,702	87,797
Social protection	170,124	176,340	186,762	202,840	220,729	976	804	775	755	1,089	171,100	177,144	187,537	203,596	221,818
EU transactions	-598	-1,802	-1,531	-2,931	73	0	0	0	0	0	-598	-1,802	-1,531	-2,931	73
Total	463,696	482,029	510,068	537,792	574,511	37,512	40,824	45,552	64,310	64,726	501,208	522,853	555,619	602,102	639,238

Box 6.1 – Social Protection Expenditure

In the public accounts, social protection expenditure comprises spending on personal social services and social security. 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.

Total social protection expenditure for Scotland is estimated to have increased from £15.9 billion in 2005-06 to £20.2 billion in 2009-10, an increase of approximately 27 per cent in nominal terms. Expenditure on social protection grew particularly rapidly in 2008-09 and 2009-10, accounting for half the growth observed in total public expenditure for Scotland in these years.

The rapid growth in expenditure on social protection in 2008-09 and 2009-10 partly reflects the impact of the recession which has increased the number of people eligible for social security benefits. For example, the table below shows that expenditure on unemployment related benefits in Scotland increased from £406 million in 2007-08 to £605 million in 2009-10, a rise of 49.0 per cent. Across the UK as a whole, expenditure unemployment related benefits increased by 66.4 per cent over the same time period.

Social Protection Expenditure Scotland and UK 2005-06 to 2009-10

	(£ million)									
	Scotland					UK				
	2005-06	2006-07	2007-08	2008-09	2009-10	2005-06	2006-07	2007-08	2008-09	2009-10
Central Government:										
Sickness and Disability	2,553	2,610	2,706	3,000	3,216	26,108	26,961	28,191	31,046	33,147
Pensions	5,495	5,732	6,140	6,831	7,261	61,905	64,405	69,776	76,783	80,603
Widow's Benefits	191	187	192	193	193	1,846	1,811	1,808	1,814	1,816
Family Benefits ¹	1,887	1,872	1,945	1,831	1,875	21,458	21,462	22,481	21,490	22,121
Unemployment related benefits and services	394	451	406	472	605	4,011	4,580	4,273	5,264	7,110
Social exclusion	1,313	1,424	1,522	1,643	1,983	14,449	15,649	16,998	20,103	23,905
Other social protection	303	222	180	200	303	3,385	2,490	2,047	2,168	3,365
Local Government	3,813	3,694	4,114	4,418	4,753	37,938	39,786	41,963	44,927	49,750
Total Social Protection	15,948	16,193	17,205	18,589	20,189	171,100	177,144	187,537	203,596	221,818

¹Income support; Tax Credits and Personal Social Services

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 £11,370 in 2009-10, £1,050 (or 10.2 per cent) higher than the UK average. 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 2009-10

	Scotland (£)	UK (£)	Per Capita Difference (Scotland less UK) (£)	Relative expenditure for Scotland (UK = 100)
General public services				
Public and common services	301	220	81	137
International services	129	129	0	100
Public sector debt interest	506	506	0	100
Defence	607	607	0	100
Public order and safety	506	557	-51	91
Economic affairs				
Enterprise and economic development	209	154	55	136
Science and technology	86	59	27	146
Employment policies	54	56	-2	96
Agriculture, forestry and fisheries	165	94	71	175
Transport	548	366	182	150
Environment protection	228	178	49	128
Housing and community amenities	369	257	112	143
Health	2,058	1,918	141	107
Recreation, culture and religion	282	218	63	129
Education and training	1,487	1,417	70	105
Social protection	3,880	3,581	298	108
EU transactions ¹	-45	1	-47	N/A
Total	11,370	10,320	1,050	110

¹EU transactions are recorded as a negative net expenditure for Scotland, but a positive net expenditure for the UK as whole. This is due to changes at the component level with differing shares of each being attributed to Scotland. The UK figure has become positive in 2009-10 largely to an increase in EU contributions (£8.6 billion to £10.6 billion) and a reduction in some receipts from the EU. For each of these changes, Scotland is apportioned between 8.1 and 8.7 per cent depending on the component. However, Scotland receives a comparatively large share of EU DEL receipts (approximately 13 per cent) which have remained stable and act to maintain Scotland's position as a net recipient from the EU.

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 estimated to be between £141 and £298 higher than the UK average. In relative terms, the greatest differences in expenditure per capita occurred in transport 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

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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. 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 and Non-Profit Distributing Financing

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. There was also another model of revenue finance in operation over this period called Non-Profit Distributing (NPD). The NPD model is 100% debt funded which ensures that the returns to the private sector are capped and that there is no dividend bearing equity. Payments for both PFI and NPD projects take the form of a unitary charge which is usually paid annually over the lifetime of the contract.

Public sector unitary charges paid on PFI and NPD projects in Scotland between 2005-06 and 2009-10 are presented in the table below.

Public Sector Unitary Charge Expenditure in Scotland 2005-06 to 2009-10					
	(£ million)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Scottish Public Sector Unitary Charges ¹	392	435	508	585	729
Other UK Government Departments PFI Unitary Charges	12	13	20	23	23
Total Unitary Charges in Scotland	403	448	527	608	752

Source: Scottish Government March 2011 and HM Treasury PFI Signed Project List – March 2011.

1. Includes both PFI and NDP figures.

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 1,400 programme object groups in PESA 2011, a number of important modifications have been made to a small number of programme expenditures 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. The principal changes relates to the treatment of expenditure on nuclear decommissioning by the UK Atomic Energy Authority (UKAEA), the expenditure on the London Olympics, as outlined in the Appendix B and Box 6.3 respectively.

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.

In 2009-10 UK identifiable expenditure covered approximately 84.4 per cent of UK total public. 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 2005-06 and 2009-10. Identifiable expenditure was estimated to be £51.2 billion in 2009-10. In comparison, non-identifiable expenditure was £8 billion in 2009-10, approximately 13.5 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 international services are typically the largest elements of non-identifiable expenditure. Collectively, these three elements of expenditure accounted for 80.5 per cent of total non-identifiable expenditure for Scotland in 2009-10.

Box 6.3 – The London Olympics and Glasgow Commonwealth Games

In PESA 2011, HM Treasury classified expenditure on the London Olympics as non-identifiable expenditure. This implies the benefits from the Olympics are shared equally by all UK residents. There is some debate as to whether or not all the expenditures classified as being part of the 2012 Olympics are non-identifiable, and therefore of equal benefit to all UK regions. For example, a significant proportion of spending on the Olympics is for investment in infrastructure and re-development of areas in the east end of London which will have lasting benefits for the city. Previous regeneration schemes have generally been classified in PESA as identifiable to the region in which they occur.

Expenditure on the 2014 Commonwealth Games is also reported in PESA. PESA classifies all the expenditure associated with the Commonwealth Games as being identifiable to Scotland. This implies that all the resulting benefits also accrue to Scotland.

The classifications used in PESA imply that Scottish residents are 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 asymmetry in the treatment of the expenditures associated with the two events.

The Scottish Government published a discussion paper in May 2011 proposing a number of changes to the treatment of the expenditure on the London Olympics and Commonwealth Games in GERS to more accurately capture the benefits accruing to Scotland from this expenditure. As a result of this consultation the following changes have been made to the data in PESA 2011 before being used in GERS:

- All capital expenditure associated with the Olympics has been assigned to London, on the basis that this will capture the lasting benefit to the city of the infrastructure and regeneration associated with the games.
- Current expenditure on the Olympics has been assigned across the countries and regions of the UK using the projected regional distribution of the associated increase in tourism expenditure.
- All current and capital expenditure associated with the Commonwealth Games continues to be assigned to Scotland.

These adjustments reduce the estimates of Scottish public sector expenditure by £92 million in 2008-09 and £91 million in 2009-10, as summarised in the table below. Further information on the changes is available on the GERS website:

(<http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/GERS/GERSolympicstreatment>)

Expenditure on the 2012 Olympic Games: 2005-06 to 2009-10					
	(£ million)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Total UK Olympic Expenditure	0.0	99	386	1,096	1,088
Population Share – Previous apportionment method used to assigned expenditure to Scotland	0.0	8.4	32.5	92.2	91.4
Revised apportionment to Scotland in GERS 2009-10	0.0	0.0	0.1	0	0.1

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Table 6.7: Total Expenditure, Identifiable and Non-identifiable: Scotland 2005-06 to 2009-10

	(£ million)														
	Identifiable					Non-identifiable					Total				
	2005-06	2006-07	2007-08	2008-09	2009-10	2005-06	2006-07	2007-08	2008-09	2009-10	2005-06	2006-07	2007-08	2008-09	2009-10
General public services															
Public and common services	1,134	959	941	1,137	1,134	440	427	431	450	433	1,574	1,387	1,372	1,588	1,567
International services	18	16	16	21	20	506	513	550	590	653	524	529	567	611	672
Public sector debt interest	0	0	0	0	0	2,261	2,428	2,645	2,656	2,635	2,261	2,428	2,645	2,656	2,635
Defence	6	7	7	5	9	2,607	2,707	2,825	3,083	3,151	2,613	2,715	2,832	3,088	3,160
Public order and safety	2,120	2,117	2,194	2,341	2,451	164	170	174	174	184	2,284	2,288	2,369	2,515	2,635
Economic affairs															
Enterprise and economic development	842	849	965	815	866	25	53	51	755	223	867	902	1,016	1,569	1,089
Science and technology	324	266	407	368	388	51	60	51	58	58	375	326	457	425	446
Employment policies	273	258	253	260	278	1	1	1	1	2	274	259	254	261	280
Agriculture, forestry and fisheries	650	666	748	800	858	0	0	0	0	0	650	666	748	800	858
Transport	1,823	2,706	2,766	2,628	2,831	19	19	20	23	22	1,842	2,724	2,785	2,651	2,853
Environment protection	826	859	900	964	1,022	111	140	121	98	162	937	998	1,021	1,062	1,185
Housing and community amenities	1,526	1,679	1,746	1,802	1,920	0	0	0	0	0	1,526	1,679	1,746	1,802	1,920
Health	8,562	9,035	9,727	10,179	10,616	44	67	82	85	96	8,606	9,102	9,810	10,264	10,712
Recreation, culture and religion	952	991	1,030	1,082	1,140	295	305	321	313	326	1,247	1,296	1,351	1,395	1,466
Education and training	6,566	7,131	7,354	7,555	7,736	2	3	4	3	3	6,568	7,134	7,358	7,558	7,739
Social protection	15,728	15,967	16,964	18,321	19,905	220	227	241	268	284	15,948	16,193	17,205	18,589	20,189
EU transactions	0	0	0	0	0	-362	-352	-237	-493	-236	-362	-352	-237	-493	-236
Total	41,349	43,505	46,018	48,276	51,173	6,384	6,769	7,281	8,066	7,998	47,732	50,274	53,299	56,342	59,170

Analysis of Identifiable Expenditure

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

Table 6.8 disaggregates identifiable expenditure for Scotland into expenditure by the Scottish Government and by other UK Government departments for the years 2005-06 to 2009-10²⁸. 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 2005-06 and 2009-10 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 66 per cent in 2005-06 to 67 per cent in 2007-08. This subsequently fell to 65 per cent by 2009-10. Over the same period the proportion of identifiable capital expenditure undertaken by the Scottish Government increased from 89 per cent in 2005-06 to 97 per cent in 2008-09, then falling marginally to 96 per cent in 2009-10. 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.

²⁸ Expenditure by Scottish Government in the tables in Chapter 6 incorporates expenditure by Scottish Local Authorities and Public Corporations

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Table 6.8: Total Identifiable Expenditure: Scotland 2005-06 to 2009-10

	(£ million)														
	Scottish Government and Local Authorities					Other UK Government					Total				
	2005-06	2006-07	2007-08	2008-09	2009-10	2005-06	2006-07	2007-08	2008-09	2009-10	2005-06	2006-07	2007-08	2008-09	2009-10
General public services															
Public and common services	1,062	898	873	1,079	1,084	72	61	68	59	50	1,134	959	941	1,137	1,134
International services	0	0	0	0	0	18	16	16	21	20	18	16	16	21	20
Public sector debt interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Defence	6	7	7	5	9	0	0	0	0	0	6	7	7	5	9
Public order and safety	2,104	2,091	2,165	2,306	2,368	16	27	29	35	83	2,120	2,117	2,194	2,341	2,451
Economic affairs															
Enterprise and econ development	664	689	818	664	734	178	160	147	151	132	842	849	965	815	866
Science and technology	135	88	195	137	110	189	178	211	231	278	324	266	407	368	388
Employment policies	0	0	1	4	3	273	258	252	256	275	273	258	253	260	278
Agriculture, forestry and fisheries	637	652	734	787	845	13	14	14	13	13	650	666	748	800	858
Transport	1,586	2,554	2,692	2,604	2,768	237	151	74	23	63	1,823	2,706	2,766	2,628	2,831
Environment protection	776	815	862	927	981	50	44	38	37	41	826	859	900	964	1,022
Housing and community amenities	1,526	1,679	1,746	1,802	1,920	0	0	0	0	0	1,526	1,679	1,746	1,802	1,920
Health	8,517	8,992	9,689	10,130	10,567	45	43	39	48	48	8,562	9,035	9,727	10,179	10,616
Recreation, culture and religion	835	892	945	999	1,058	118	99	85	83	81	952	991	1,030	1,082	1,140
Education and training	6,528	7,098	7,330	7,522	7,713	37	33	24	33	22	6,566	7,131	7,354	7,555	7,736
Social protection	3,819	3,768	4,263	4,479	4,866	11,908	12,199	12,701	13,842	15,039	15,728	15,967	16,964	18,321	19,905
EU transactions	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	28,194	30,223	32,321	33,444	35,026	13,154	13,283	13,697	14,832	16,146	41,349	43,505	46,018	48,276	51,173

Table 6.9: Identifiable Expenditure - Scottish Government and Local Authorities: Scotland 2005-06 to 2009-10

	(£ million)									
	Current					Capital				
	2005-06	2006-07	2007-08	2008-09	2009-10	2005-06	2006-07	2007-08	2008-09	2009-10
General public services										
Public and common services	923	769	837	827	1,034	139	129	36	252	50
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	7	7	5	9	0	0	0	0	0
Public order and safety	1,945	1,918	2,013	2,100	2,149	159	173	152	206	218
Economic affairs										
Enterprise and econ development	532	532	627	470	492	132	157	192	194	242
Science and technology	105	69	110	68	80	30	18	85	69	30
Employment policies	0	0	1	4	3	0	0	0	0	0
Agriculture, forestry and fisheries	593	579	663	687	752	44	73	70	100	93
Transport	889	1,395	1,476	1,505	1,459	696	1,159	1,215	1,099	1,310
Environment protection	681	766	772	841	887	95	49	90	85	94
Housing and community amenities	162	182	333	281	260	1,363	1,497	1,413	1,521	1,660
Health	8,282	8,715	9,250	9,626	9,993	234	277	439	504	575
Recreation, culture and religion	707	735	742	755	812	128	157	203	244	247
Education and training	6,068	6,390	6,637	6,874	7,050	460	709	694	648	663
Social protection	3,773	3,710	4,198	4,413	4,805	46	58	65	65	61
EU transactions	0	0	0	0	0	0	0	0	0	0
Total	24,667	25,768	27,666	28,456	29,785	3,527	4,455	4,655	4,988	5,241

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Table 6.10: Identifiable Expenditure - Other UK Government: Scotland 2005-06 to 2009-10

	(£ million)									
	Current					Capital				
	2005-06	2006-07	2007-08	2008-09	2009-10	2005-06	2006-07	2007-08	2008-09	2009-10
General public services										
Public and common services	67	56	63	54	44	5	5	4	5	6
International services	17	15	16	21	19	1	0	1	0	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	14	26	29	33	81	2	1	1	1	2
Economic affairs										
Enterprise and econ development	166	142	128	120	104	12	18	19	31	28
Science and technology	166	152	188	205	239	24	27	23	25	40
Employment policies	240	245	251	255	268	33	13	1	1	7
Agriculture, forestry and fisheries	12	13	13	12	13	1	1	1	1	1
Transport	28	40	54	8	42	209	112	20	15	22
Environment protection	26	22	31	31	30	24	22	7	6	11
Housing and community amenities	0	0	0	0	0	0	0	0	0	0
Health	25	27	35	46	47	20	16	3	2	2
Recreation, culture and religion	67	66	58	61	56	50	33	27	22	25
Education and training	18	18	21	32	22	19	15	3	1	1
Social protection	11,855	12,154	12,675	13,811	14,985	53	44	25	31	53
EU transactions	0	0	0	0	0	0	0	0	0	0
Total	12,702	12,975	13,564	14,690	15,949	453	307	134	141	197

Table 6.11: Identifiable Expenditure: Scotland and UK 2009-10

	Scotland						UK	
	Scottish Government and Local Authorities		Other UK Government		Total		Total	
	Expenditure (£ million)	Share of identifiable expenditure	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	1,084	2.1%	50	0.1%	1,134	2.2%	8,408	1.6%
International services	0	0.0%	20	0.0%	20	0.0%	236	0.0%
Public sector debt interest	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Defence	9	0.0%	0	0.0%	9	0.0%	82	0.0%
Public order and safety	2,368	4.6%	83	0.2%	2,451	4.8%	32,304	6.0%
Economic affairs	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Enterprise and econ development	734	1.4%	132	0.3%	866	1.7%	6,808	1.3%
Science and technology	110	0.2%	278	0.5%	388	0.8%	2,917	0.5%
Employment policies	3	0.0%	275	0.5%	278	0.5%	3,464	0.6%
Agriculture, forestry and fisheries	845	1.7%	13	0.0%	858	1.7%	5,844	1.1%
Transport	2,768	5.4%	63	0.1%	2,831	5.5%	22,345	4.1%
Environment protection	981	1.9%	41	0.1%	1,022	2.0%	9,104	1.7%
Housing and community amenities	1,920	3.8%	0	0.0%	1,920	3.8%	15,939	3.0%
Health	10,567	20.6%	48	0.1%	10,616	20.7%	117,627	21.8%
Recreation, culture and religion	1,058	2.1%	81	0.2%	1,140	2.2%	8,532	1.6%
Education and training	7,713	15.1%	22	0.0%	7,736	15.1%	87,757	16.3%
Social protection	4,866	9.5%	15,039	29.4%	19,905	38.9%	218,295	40.5%
EU transactions	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	35,026	68.4%	16,146	31.6%	51,173	100.0%	539,661	100.0%

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 6.12 presents total non-identifiable expenditure for Scotland and the UK between 2005--06 and 2009-10. Tables 6.13 and 6.14 decompose Scottish and UK non-identifiable expenditure into their current and capital components.

Total non-identifiable expenditure for Scotland was estimated to be £8.0 billion in 2009-10, 8 per cent of the equivalent UK figure.

Defence and debt interest payments comprise the largest components. As Tables 6.13 and 6.14 highlight, current expenditure was the major component of non-identifiable expenditure for both Scotland and the UK in 2009-10.

As outlined in the introduction to Chapter 6, the UK Government's financial sector interventions are classified as non-identifiable expenditure and are recorded in the Enterprise and Economic Development (EED) expenditure programme lines. The scale of the financial sector interventions, relative to other spending on this category, means that total non-identifiable expenditure on EED for Scotland is estimated to increase from £51 million in 2007-08 to £755 million in 2008-09, before falling back to £223 million in 2009-10.

The fees received from the various schemes are recorded as a negative current expenditure (i.e. revenue received). These fees exceeded the current expenditure on other elements of EED in both 2008-09 and 2009-10. As such, total current expenditure on non-identifiable EED is negative in both of these years.

Table 6.12: Non-Identifiable Expenditure: Scotland and UK 2005-06 to 2009-10

	(£ million)									
	Scotland					UK				
	2005-06	2006-07	2007-08	2008-09	2009-10	2005-06	2006-07	2007-08	2008-09	2009-10
General public services										
Public and common services	440	427	431	450	433	5,241	5,114	5,161	5,396	5,221
International services	506	513	550	590	653	5,984	6,077	6,526	7,015	7,771
Public sector debt interest	2,261	2,428	2,645	2,656	2,635	26,746	28,749	31,363	31,555	31,363
Defence	2,607	2,707	2,825	3,083	3,151	30,841	32,058	33,504	36,628	37,503
Public order and safety	164	170	174	174	184	1,939	2,018	2,070	2,070	2,186
Economic affairs										
Enterprise and economic development	25	53	51	755	223	358	692	669	9,027	2,715
Science and technology	51	60	51	58	58	621	733	618	699	712
Employment policies	1	1	1	1	2	15	18	13	17	25
Agriculture, forestry and fisheries	0	0	0	0	0	1	0	1	1	0
Transport	19	19	20	23	22	420	394	395	350	340
Environment protection	111	140	121	98	162	1,322	1,667	1,441	1,178	1,949
Housing and community amenities	0	0	0	0	0	0	0	0	0	0
Health	44	67	82	85	96	538	804	991	1,023	1,153
Recreation, culture and religion	295	305	321	313	326	3,517	3,756	4,240	4,871	5,002
Education and training	2	3	4	3	3	29	36	42	41	40
Social protection	220	227	241	268	284	2,718	2,813	3,008	3,341	3,524
EU transactions	-362	-352	-237	-493	-236	-598	-1,802	-1,531	-2,931	73
Total	6,384	6,769	7,281	8,066	7,998	79,692	83,127	88,510	100,284	99,577

6 Public Sector Expenditure

Table 6.13: Non-Identifiable Expenditure: Scotland 2005-06 to 2009-10

	(£ million)									
	Current					Capital				
	2005-06	2006-07	2007-08	2008-09	2009-10	2005-06	2006-07	2007-08	2008-09	2009-10
General public services										
Public and common services	405	421	410	410	407	35	6	20	40	26
International services	478	482	515	551	601	28	32	35	39	52
Public sector debt interest	2,261	2,428	2,645	2,656	2,635	0	0	0	0	0
Defence	2,517	2,632	2,612	2,791	2,813	90	75	214	292	338
Public order and safety	157	161	162	156	159	7	9	12	18	25
Economic affairs										
Enterprise and economic development	23	24	27	-61	-164	3	30	24	815	387
Science and technology	36	46	39	46	48	15	14	12	11	10
Employment policies	1	1	1	1	2	0	0	0	0	0
Agriculture, forestry and fisheries	0	0	0	0	0	0	0	0	0	0
Transport	12	11	13	14	14	7	7	7	9	8
Environment protection	23	48	28	-6	64	88	92	93	104	99
Housing and community amenities	0	0	0	0	0	0	0	0	0	0
Health	47	62	78	79	93	-3	4	5	6	3
Recreation, culture and religion	283	294	311	303	314	12	11	10	11	12
Education and training	2	3	4	3	3	0	0	0	0	0
Social protection	220	226	241	267	283	1	1	1	0	1
EU transactions	-362	-352	-237	-493	-236	0	0	0	0	0
Total	6,103	6,488	6,848	6,720	7,036	281	281	432	1,346	962

Table 6.14: Non-Identifiable Expenditure: UK 2005-06 to 2009-10

	(£ million)									
	Current					Capital				
	2005-06	2006-07	2007-08	2008-09	2009-10	2005-06	2006-07	2007-08	2008-09	2009-10
General public services										
Public and common services	4,835	5,035	4,919	4,918	4,907	406	79	242	478	314
International services	5,655	5,702	6,111	6,550	7,148	329	375	415	465	623
Public sector debt interest	26,746	28,749	31,363	31,555	31,363	0	0	0	0	0
Defence	29,776	31,168	30,968	33,162	33,481	1,066	891	2,536	3,466	4,022
Public order and safety	1,860	1,909	1,930	1,856	1,889	79	109	140	214	297
Economic affairs										
Enterprise and economic development	327	339	383	-662	-1,888	31	353	286	9,689	4,603
Science and technology	441	559	472	559	591	180	174	145	139	121
Employment policies	14	17	13	17	25	1	0	0	0	0
Agriculture, forestry and fisheries	1	0	1	1	0	0	0	0	0	0
Transport	206	207	241	254	241	215	188	153	96	99
Environment protection	283	581	335	-64	764	1,039	1,086	1,106	1,243	1,184
Housing and community amenities	0	0	0	0	0	0	0	0	0	0
Health	574	753	937	956	1,117	-36	50	54	67	37
Recreation, culture and religion	3,375	3,517	3,731	3,611	3,762	142	238	508	1,260	1,239
Education and training	29	36	42	41	40	0	0	0	0	0
Social protection	2,711	2,804	3,001	3,336	3,511	7	9	6	5	12
EU transactions	-598	-1,802	-1,531	-2,931	73	0	0	0	0	0
Total	76,232	79,575	82,917	83,160	87,025	3,459	3,552	5,593	17,123	12,551

6 Public Sector Expenditure

Table 6.15 compares the composition of non-identifiable expenditure for Scotland and the UK for 2009-10. 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 6.15: Non-Identifiable Expenditure: Scotland and UK 2009-10				
	Scotland		UK	
	Expenditure (£ million)	Share of non-identifiable expenditure	Expenditure (£ million)	Share of non-identifiable expenditure
General public services				
Public and common services	433	5.4%	5,221	5.2%
International services	653	8.2%	7,771	7.8%
Public sector debt interest	2,635	32.9%	31,363	31.5%
Defence	3,151	39.4%	37,503	37.7%
Public order and safety	184	2.3%	2,186	2.2%
Economic affairs				
Enterprise and economic development	223	2.8%	2,715	2.7%
Science and technology	58	0.7%	712	0.7%
Employment policies	2	0.0%	25	0.0%
Agriculture, forestry and fisheries	0	0.0%	0	0.0%
Transport	22	0.3%	340	0.3%
Environment protection	162	2.0%	1,949	2.0%
Housing and community amenities	0	0.0%	0	0.0%
Health	96	1.2%	1,153	1.2%
Recreation, culture and religion	326	4.1%	5,002	5.0%
Education and training	3	0.0%	40	0.0%
Social protection	284	3.6%	3,524	3.5%
EU transactions	-236	-3.0%	73	0.1%
Total	7,998	100%	99,577	100%

Box 6.4 – 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 2005-06 to 2009-10, are highlighted in the table below, illustrating the current balance on public services consumed within each financial year.

Current Balance on Public Services Consumed: Scotland 2009-10					
	(£ million)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Current revenue					
Excluding North Sea revenue	39,839	42,272	45,031	43,131	42,201
Including North Sea revenue (per capita share)	40,632	43,026	45,661	44,219	42,747
Including North Sea revenue (geographical share)	47,856	49,775	52,147	54,871	48,132
Total current expenditure (including capital consumption and accounting adjustments)	47,116	49,071	52,143	54,083	57,098
Less debt interest payments (as used in headline GERS estimates)	-2,261	-2,428	-2,645	-2,656	-2,635
Total current expenditure on services consumed within current financial year	44,856	46,643	49,498	51,427	54,463
Current balance on public services consumed within current financial year					
Excluding North Sea revenues	-5,016	-4,371	-4,467	-8,296	-12,262
Including North Sea revenues (per capita share)	-4,223	-3,618	-3,838	-7,208	-11,717
Including North Sea revenues (geographical share)	3,001	3,132	2,648	3,443	-6,331

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.

6 Public Sector Expenditure

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 2009-10, the UK capital consumption of £14.3 billion represented 46.8 per cent of the total UK accounting adjustment. Table 6.16 shows the component disaggregation of the UK accounting adjustment. The total UK accounting adjustments was estimated at £30.4 billion in 2009-10.

	(£ million)				
	2005-06	2006-07	2007-08	2008-09	2009-10
UK total managed expenditure (TME)	524,006	550,046	582,567	629,599	669,661
UK total expenditure on services (TES)	501,208	522,853	555,619	602,102	639,238
UK accounting adjustment	22,798	27,193	26,948	27,497	30,423
of which:					
Central government capital consumption	5,744	5,951	6,170	6,544	6,700
Local government capital consumption	5,960	6,466	6,774	7,164	7,550
Current VAT refunds	8,624	9,419	9,701	9,952	9,354
Capital VAT refunds	1,636	1,710	1,888	1,940	1,838
Nigerian debt cancellation	1,246	1,406	0	0	0
Student loans subsidy ¹	-441	-305	-1,046	-814	-1,466
Imputed subsidy from Local Authorities to the Housing Revenue Account ²	1,431	1,528	1,535	1,603	1,433
Imputed flows for Renewable Obligation Certificates ³	370	474	542	472	470
Residual	-1,772	544	1,384	636	4,544

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.

The corresponding Scottish figures, as highlighted in Table 6.17, 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 2009-10, 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, royalties and adjustments'. 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 £2.9 billion in 2009-10, or 9.6 per cent of the total UK accounting adjustment. The relatively higher proportion compared to per capita or GVA shares reflects the high share of general government capital consumption for Scotland.

Table 6.17: Accounting Adjustment: Scotland 2005-06 to 2009-10

	(£ million)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Capital consumption:¹					
Central government capital consumption	502	528	544	580	594
Local government capital consumption	652	610	656	683	723
Current expenditure:					
Current VAT refunds	852	840	878	905	888
Student loans subsidy ²	-52	-42	-58	-17	-63
Imputed subsidy from Local Authorities to the Housing Revenue Account ³	159	158	146	137	114
Imputed flows for Renewable Obligation Certificates ⁴	33	35	52	56	55
Current expenditure residual	-87	155	202	151	232
Capital expenditure:					
Capital VAT refunds	162	152	171	176	174
Nigerian debt cancellation	105	119	0	0	0
Capital expenditure residual	-96	-137	-86	-100	199
Total accounting adjustment	2,230	2,418	2,503	2,571	2,916
Percentage of UK accounting adjustment	9.8%	8.9%	9.3%	9.4%	9.6%

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.

The key results for 2009-10 are as followed:

- In 2009-10, total public sector expenditure for the benefit of Scotland by the UK Government, Scottish Government and all other tiers of the public sector, plus a per capita share of debt interest payments, was £62.1 billion. This is equivalent to 9.3 per cent of total UK public sector expenditure.
- In 2009-10, total Scottish non-North Sea public sector revenue was estimated at £42.2 billion, (8.3 per cent of total UK non-North Sea revenue). Including a per capita share of North Sea revenue, total Scottish public sector revenue was estimated at £42.7 billion (8.3 per cent of UK total public sector revenue). When an illustrative geographical share of North Sea revenue is included, total Scottish public sector revenue was estimated at £48.1 billion (9.4 per cent of UK total public sector revenue).
- In 2009-10, the estimated current budget balance for the public sector in Scotland was a deficit of £14.9 billion (13.4 per cent of GDP) excluding North Sea revenue, a deficit of £14.4 billion (12.6 per cent of GDP) including a per capita share of North Sea revenue or a deficit of £9.0 billion (6.8 per cent of GDP) including an illustrative geographical share of North Sea revenue.
- In 2009-10, the UK as a whole ran a current budget deficit, including 100 per cent of North Sea revenue, worth £107.3 billion (7.6 per cent of GDP).
- In 2009-10, Scotland's estimated net fiscal balance was a deficit of £19.9 billion (17.8 per cent of GDP) when excluding North Sea revenue, a deficit of £19.3 billion (17.0 per cent of GDP) when including a per capita share of North Sea revenue or a deficit of £14.0 billion (10.6 per cent of GDP) when an illustrative geographical share of North Sea revenue is included.
- In 2009-10, the equivalent UK position including 100 per cent of North Sea revenue, referred to in the UK Public Sector Accounts as 'net borrowing', was a deficit of £156.5 billion (or 11.1 per cent of GDP).

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 assumptions²⁹.

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 (PSAT2) which is produced on a quarterly basis. The fiscal balance calculations in GERS are constrained to the UK Public Sector Finances for April 2011. An accounting adjustment is applied to both the expenditure and revenue totals so that both sides of the fiscal balance calculations are presented on a consistent basis. The revenue accounting adjustment is very small and has been included in 'other taxes, royalties and adjustments'.

²⁹ <http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/GERS>

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

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 there have been small changes in the share of some UK taxes apportioned to Scotland since GERS 2008-09.

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

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)	Living Costs and Food Survey: ONS Public Sector Finances: ONS ONS and GROS PESA PESA	No
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	Living Costs and Food Survey: ONS	No
Alcohol duties	Spend on alcohol in Scotland/UK	Living Costs and Food Survey: ONS	No
Betting and gaming duties	Spend on betting and gaming in Scotland/UK	Living Costs and Food Survey: ONS	No
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-regio) 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 2009: British Geological Survey	No

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

Inheritance tax	Actual outturns for Scotland	Supplied directly by HMRC	No
Vehicle excise duty	Scotland's share of total value of UK vehicle licences issued (less refunds)	DVLA	No
Non-domestic rates	Actual Data	Scottish Local Government Finance Statistics	No
Council tax	Actual Data	Scottish Local Government Finance Statistics	No
Other taxes, royalties and adjustments	Various (see web appendix)	Various (see web appendix)	No
Interest and dividends	For PC receipts: Scotland's share of public sector UK GVA For LG and CG receipts: Scotland/UK population	Regional Accounts: ONS	No
Gross operating surplus	CG: Scottish/UK share of central government NMCC LG: Scottish/UK share of local government NMCC 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	CG: ONS Regional Accounts LG: ONS Regional Accounts PC: Supplied by Public Sector Finance team: ONS, and Regional Accounts: ONS	No
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 for the years 2005-06 to 2007-08 has been revised upwards by between 0.1 per cent and 0.2 per cent. The estimate of public sector revenue for Scotland in 2008-09 has been revised down by 0.8 per cent.

Table A.2: Revision to Estimates of Total Non-North Sea Public Sector Revenue: 2005-06 to 2008-09				
	(£ million)			
	2005-06	2006-07	2007-08	2008-09
Scotland				
Estimates published in GERS 08-09	39,787	42,198	44,966	43,466
Estimates published in GERS 09-10	39,839	42,272	45,031	43,131
Revision	52	74	65	-335
UK				
Estimates published in GERS 08-09	477,149	510,059	540,621	520,656
Estimates published in GERS 09-10	477,213	510,260	541,367	520,310
Revision	64	201	746	-346
Scotland/UK ratio				
Estimates published in GERS 08-09	8.3%	8.3%	8.3%	8.3%
Estimates published in GERS 09-10	8.3%	8.3%	8.3%	8.3%
Revision	0.0%	0.0%	0.0%	-0.1%

Table A.3 illustrates the revisions to individual public sector revenue streams in Scotland and the UK for 2008-09, the latest year directly comparable between GERS 2008-09 and GERS 2009-10. 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 £335 million and to reduce the estimate of UK tax revenue by £346 million.

Table A.3: Revision to Estimates of Public Sector Revenue: Scotland and UK 2008-09		
	(£ million)	
	Scotland	UK
Income tax	-57	-50
Corporation tax (excluding North Sea)	-79	0
Capital gains tax	0	0
Other taxes on income and wealth	-20	-151
National insurance contributions	0	-348
VAT	-43	0
Fuel duties	20	0
Stamp duties	2	-1
Tobacco duties	-46	0
Alcohol duties	-32	0
Betting and gaming and duties	-9	0
Air passenger duty	0	0
Insurance premium tax	0	0
Landfill tax	0	0
Climate change levy	-1	0
Aggregates levy	-5	0
Inheritance tax	0	0
Vehicle excise duty	0	0
Non-domestic rates	0	0
Council tax	-2	-2
Other taxes, royalties and adjustments	-80	-196
Interest and dividends	-55	-694
Gross operating surplus	38	693
Rent and other current transfers	36	403
Revision	-335	-346

Revisions to previously published estimates are relatively small and largely explained by revisions to the UK constraining totals for each revenue stream. The incorporation of revised estimates of Scottish sectoral Gross Value Added from Regional Accounts explains the revisions to corporation tax and 'other taxes, royalties and adjustments'. Revised estimates of Household Consumption in Scotland from the Living Costs and Food Survey have led to revisions to VAT and duties levied on the consumption of fuel, tobacco and alcohol.

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 2009-10.

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 £104 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 2009-10

	Impact of 1% variation	
	(+/- £ million)	As % of total non-North Sea revenue (+/- %)
Income tax	104	0.2%
Corporation tax (excluding North Sea)	26	0.1%
Capital gains tax	2	0.0%
Other taxes on income and wealth	2	0.0%
National insurance contributions	80	0.2%
VAT	73	0.2%
Fuel duties	22	0.1%
Stamp duties	5	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	0	0.0%
Inheritance tax	1	0.0%
Vehicle excise duty	4	0.0%
Non-domestic rates	18	0.0%
Council tax	20	0.0%
Other taxes, royalties and adjustments	0	0.0%
Interest and dividends	7	0.0%
Gross operating surplus	2	0.0%
Rent and other current transfers (excluding oil royalties and licence fees)	4	0.0%
Total	422	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 2009-10, TES accounted for approximately 95 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 Treasury³⁰. 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.

³⁰ http://www.hm-treasury.gov.uk/pespub_pesastats.htm

Table B.1: Apportionment Methodologies for Non-Identifiable Expenditure: Scotland 2005-06 to 2009-10^{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 2009-10, capital consumption for Scotland was estimated at £1.8 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, royalties and adjustments'. 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 £2.9 billion in 2009-10, or 9.6 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 2011 and this GERS report, a small number of supplementary amendments to the PESA CRA 2011 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 total amendment made to PESA in producing this edition of GERS is shown in Table B2 below. In the financial year 2009-10, the figure of total expenditure attributed to Scotland in GERS is £411 million lower than the corresponding PESA figure (using default apportionments for non-ID expenditure without further consideration). Table B3 sets out in detail the sources of these revisions.

Table B.2: Amendments to Estimates of Total Public Sector Expenditure from PESA 2011: UK and Scotland 2005-06 to 2009-10

	(£ million)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Total Expenditure in Scotland (PESA) ³¹	48,214	50,491	53,629	56,715	59,581
Total Expenditure in Scotland (GERS)	47,732	50,274	53,299	56,342	59,170
Total revision to expenditure in Scotland	-482	-217	-330	-373	-411

³¹ 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 using the default apportionments noted in table B1 above. This figure therefore excludes all amendments documented in this appendix.

Table B.3: Amendments to Estimates of Total Public Sector Expenditure from PESA 2011: 2005-06 to 2009-10

	(£ million)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Nuclear-related Expenditure	-426	-115	-134	-77	-128
Cross-border policing	-29	-64	-58	-63	-72
Railways expenditure	-11	-9	-80	-112	-89
Olympics	-	-8	-32	-92	-91
Pensions revisions	2	-	-4	-10	-11
Learned Societies	4	5	6	6	7
Other minor revisions	-22	-25	-28	-25	-27
Total	-482	-217	-330	-373	-411

Nuclear decommissioning and related expenditures

In PESA CRA 2011, expenditure on nuclear decommissioning was classified as identifiable to the region where nuclear facilities are located. However, as discussed in previous editions of GERS³², 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, such as security at nuclear facilities, has also been reapportioned on a per capita basis.

Cross-Border Policing

PESA CRA 2011 assigns a population share of the expenditure associated with the Serious and Organised Crime Agency (SOCA) and the Assets Recovery Agency (ARA). However a transfer from the Scottish Government to these organisations is already included in PESA to pay for the activities these organisations undertake in Scotland. Any further attribution of expenditure to Scotland would therefore double count the expenditure occurred on behalf of Scotland. As a result, the additional population share of expenditure assigned to Scotland in PESA CRA 2011 has been re-allocated to the rest of the UK.

Railways Expenditures

As discussed in previous editions of GERS³³, 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.

2012 Olympics

A number of changes have been made to the treatment of expenditure associated with the London Olympic Games. These are discussed in Box 6.3.

³² See Box 6.3 in GERS 2010: <http://www.scotland.gov.uk/Publications/2010/06/22160331/9>

³³ See Box 6.1 in GERS 2009: <http://www.scotland.gov.uk/Publications/2009/06/18101733/8>

Public Sector Pensions

In PESA CRA 2011, 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 countries and regions of the UK based on the residence of the recipient of the pension. To correct 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 in one of the years.

Learned Societies

Expenditure associated with a number of learned societies, for example the Royal Society and the Royal Academy of Engineering, are attributed only to London in PESA CRA 2011 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.

Other amendments

A number of other minor amendments have been made to PESA to correct asymmetries in the regional attribution of expenditures related to consumer protection, civil aviation, tourism and libraries amongst others. These are discussed further in previous editions of GERS.

Revisions to Expenditure Estimates from GERS 2008-09

Tables B.4 and B.5 set out the changes in estimates of public expenditure in Scotland and the UK between this report and GERS 2008-09. These revisions reflect changes in the underlying PESA CRA data, revisions to the GERS methodology and revisions to the data sources used to apportion non identifiable expenditure to Scotland. Revisions to public expenditure that can be traced to changes in the PESA CRA database are specified separately.

Revisions to total expenditure

Table B.4 displays the difference between the estimates of total expenditure in GERS 2008-09 and those contained in Chapter 6 of this publication.

Total public sector expenditure for Scotland in 2008-09 has been revised down by £118 million (0.2 per cent of total expenditure). Approximately three quarters of this revision reflects changes to the methodology used to apportion expenditure associated with the London Olympic Games, as discussed in Box 6.3. For the UK as a whole total expenditure has been revised down by £297 million in 2008-09 (less than 0.1 per cent of total expenditure). Around 90 per cent of this revision reflects changes made in the estimates of total UK public sector expenditure reported in PESA 2011 which have a corresponding impact on the estimates for the UK in this edition of GERS.

Table B.4: Revisions to Estimates of Total Expenditure: Scotland 2005-06 to 2008-09

	(£ million)			
	2005-06	2006-07	2007-08	2008-09
Scotland				
GERS 2008-09	47,677	50,093	53,205	56,460
GERS 2009-10	47,732	50,274	53,299	56,342
Revision	55	181	94	-118
Of which revisions made in PESA 2011	228	131	127	10
UK				
GERS 2008-09	501,180	522,904	555,652	602,399
GERS 2009-10	501,208	522,853	555,619	602,102
Revision	28	-51	-33	-297
Of which revisions made in PESA 2011	147	-51	-33	-276
Scotland/UK Ratio				
GERS 2008-09	9.5%	9.6%	9.6%	9.4%
GERS 2009-10	9.5%	9.6%	9.6%	9.4%
Revision	0.0%	0.0%	0.0%	0.0%

All other revisions are net changes between GERS 2008-09 and GERS 2009-10.

Total Revision to expenditure (including accounting adjustment)

The overall change in Total Managed Expenditure (TME) between GERS 2008-09 and GERS 2009-10 is highlighted below. The revision is equal to the sum of revisions to Total Expenditure on Services (TES) and the accounting adjustment. For all years the revisions to TME are less than 0.4 per cent.

Table B.5: Revisions to Estimates of Total Managed Expenditure: Scotland 2005-06 to 2008-09

	(£ million)			
	2005-06	2006-07	2007-08	2008-09
Total Expenditure on Services				
GERS 2008-09	47,677	50,093	53,205	56,460
GERS 2009-10	47,732	50,274	53,299	56,342
Accounting Adjustment				
GERS 2008-09	2,238	2,408	2,456	2,553
GERS 2009-10	2,230	2,418	2,503	2,571
Total Managed Expenditure				
GERS 2008-09	49,915	52,501	55,661	59,013
GERS 2009-10	49,962	52,692	55,803	58,913
Revision to Total Managed Expenditure	47	191	142	-100

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.6 illustrates the effect a 1 per cent variation in the estimate of each expenditure programme would have on overall expenditure for Scotland in 2009-10.

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.6: Effect of a 1% Change in Expenditure: Scotland 2009-10		
	Impact of 1% variation	
	(+/- £ million)	as % of total expenditure (+/- %)
General public services		
Public and common services	16	~
International services	7	~
Public sector debt interest	26	~
Defence	32	0.1%
Public order and safety	26	~
Economic affairs		
Enterprise and economic development	11	~
Science and technology	4	~
Employment policies	3	~
Agriculture, forestry and fisheries	9	~
Transport	29	~
Environment protection	12	~
Housing and community amenities	19	~
Health	107	0.2%
Recreation, culture and religion	15	~
Education and training	77	0.1%
Social protection	202	0.3%
EU transactions	-2	~
Total	592	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
CGT	Capital Gains Tax
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
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
GCG	General Capital Grant
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
NPD	Non-Profit Distributing
NHS	National Health Service
NIC	National Insurance Contributions
NMCC	Non-Market Capital Consumption
MOD	Ministry of Defence
OBR	Office for Budgetary Responsibility

C List of Abbreviations

ONS	Office for National Statistics
PBR	Pre-Budget Report
PC	Public Corporations
PFI	Private Finance Initiative
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 Science
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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Current contact points, e-mail addresses and the publications listed below as well as a range of other statistical publications can be found on the Scottish Government Web site at **www.scotland.gov.uk/stats**

Further information on the General Register Office for Scotland is available on the website **www.gro-scotland.gov.uk**

Most recent Publications relating to the economy theme

Ref no.	Title	Last published	Price
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	Scottish Manufactured Exports Estimates for the fourth quarter of 2010	06/04/2011	Free
	Scotland's Global Connections 2009	21/01/2011	Free
	Input-Output Tables and Multipliers for Scotland (1998 – 2007)	13/10/2010	Free

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