

GOVERNMENT
EXPENDITURE & REVENUE
SCOTLAND 2010-2011

MARCH 2012



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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 published in January 2012.
- 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 2006-07 to 2010-11

	2006-07	2007-08	2008-09	2009-10	2010-11
Total Public Sector Expenditure for Scotland (£ millions)	52,810	55,969	58,866	62,025	63,807
Total Public Sector Expenditure for Scotland (% of UK Total)	9.6%	9.6%	9.4%	9.3%	9.3%

- In 2010-11, total public sector expenditure for Scotland, including a per capita share of debt interest payments, was £63.8 billion, 9.3 per cent of UK public sector expenditure.

Scottish Public Sector Revenue

Table E.2: Total Current Revenue: Scotland 2006-07 to 2010-11

	(£ million)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Excluding North Sea revenue	42,272	45,167	43,391	41,916	45,177
Including North Sea revenue (per capita share)	43,026	45,796	44,479	42,462	45,914
Including North Sea revenue (geographical share)	49,776	52,282	55,131	47,846	53,128
	(% 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)	8.3%	8.3%	8.3%	8.3%	8.3%
Including North Sea revenue (geographical share)	9.6%	9.5%	10.3%	9.3%	9.6%

- In 2010-11, total Scottish non-North Sea public sector revenue was estimated at £45.2 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 £45.9 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 £53.1 billion (9.6 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 taxpayers meet the cost of paying for public services and a contribution to debt interest payments.
- The net fiscal balance measures the difference between total public sector expenditure (including capital expenditure) and public sector revenue. It therefore includes public sector capital investment, such as the construction of roads, hospitals, and schools, which yields benefits not just to current taxpayers but also to future taxpayers.

Current Budget Balance

Table E.3: Current Budget Balance: Scotland and UK 2006-07 to 2010-11					
	(£ million)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Scotland - Excluding North Sea revenue	-6,951	-7,222	-10,747	-15,182	-14,340
Scotland - Including North Sea revenue (per capita share)	-6,198	-6,593	-9,660	-14,637	-13,603
Scotland - Including North Sea revenue (geographical share)	552	-107	993	-9,253	-6,389
UK	-5,021	-4,949	-50,534	-107,774	-97,848
	(% of GDP)				
Scotland - Excluding North Sea revenue	-6.5%	-6.3%	-9.3%	-13.5%	-12.0%
Scotland - Including North Sea revenue (per capita share)	-5.7%	-5.6%	-8.2%	-12.8%	-11.2%
Scotland - Including North Sea revenue (geographical share)	0.4%	-0.1%	0.7%	-7.0%	-4.4%
UK	-0.4%	-0.3%	-3.6%	-7.7%	-6.6%

- In 2010-11, the estimated current budget balance for the public sector in Scotland was a deficit of £14.3 billion (12.0 per cent of GDP) excluding North Sea revenue, a deficit of £13.6 billion (11.2 per cent of GDP) including a per capita share of North Sea revenue, or a deficit of £6.4 billion (4.4 per cent of GDP) including an illustrative geographical share of North Sea revenue.
- In 2010-11, the UK as a whole ran a current budget deficit, including 100 per cent of North Sea revenue, of £97.8 billion (6.6 per cent of GDP).

Net Fiscal Balance

Table E.4: Net Fiscal Balance: Scotland and UK 2006-07 to 2010-11					
	(£ million)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Scotland - Excluding North Sea revenue	-10,538	-10,803	-15,474	-20,109	-18,630
Scotland - Including North Sea revenue (per capita share)	-9,784	-10,174	-14,387	-19,564	-17,893
Scotland - Including North Sea revenue (geographical share)	-3,034	-3,688	-3,734	-14,179	-10,679
UK	-30,861	-34,038	-96,493	-156,398	-136,142
	(% of GDP)				
Scotland - Excluding North Sea revenue	-9.9%	-9.5%	-13.4%	-17.9%	-15.6%
Scotland - Including North Sea revenue (per capita share)	-9.0%	-8.7%	-12.2%	-17.1%	-14.7%
Scotland - Including North Sea revenue (geographical share)	-2.4%	-2.6%	-2.6%	-10.7%	-7.4%
UK	-2.3%	-2.4%	-6.8%	-11.1%	-9.2%

- In 2010-11, Scotland's estimated net fiscal balance was a deficit of £18.6 billion (15.6 per cent of GDP) when excluding North Sea revenue, a deficit of £17.9 billion (14.7 per cent of GDP) when including a per capita share of North Sea revenue or a deficit of £10.7 billion (7.4 per cent of GDP) when an illustrative geographical share of North Sea revenue is included.
- In 2010-11, 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 £136.1 billion (or 9.2 per cent of GDP).

PREFACE

This report is the eighteenth 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) website.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 an estimated set 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 raised in Scotland 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 expenditure and revenue using the best available information and most appropriate apportionment methodologies.

¹ <http://www.ons.gov.uk>

What Questions Does GERS Address?

GERS fundamentally addresses three questions about Scotland's public sector accounts for a given year:

1. What tax revenues were raised?
2. How much did the country pay for the full range of public services that were consumed?
3. To what extent did the 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 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 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 UK 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.

Annex C 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. Annex B 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 in GERS is the Country and Regional Analysis (CRA) data published as part of HM Treasury's Public Expenditure Statistical Analyses (PESA) series. Access to the CRA database can be obtained through the HM Treasury website².

The source of the revenue data in GERS is ONS's 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

GERS also makes use of Scottish National Accounts Project (SNAP) estimates of Gross Domestic Product (GDP) in current market prices.

Additional Information on the GERS Website

The GERS website has recently been revised, and is now regularly updated with additional analysis of Scotland's public sector finances. Recent additions to the website include:

- Statistics providing a consistent time series of Scotland's public sector finances from 1980/81 to 2010/11;
- An Excel file containing all the data provided in this edition of GERS; and
- Electronic copies of the GERS report from 1993-94 onwards.

The GERS website can be accessed via <http://www.scotland.gov.uk/gers>.

Scottish National Accounts Project

Officials in the 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. Estimates have so far been developed for GDP and other measures of economic activity including offshore activities, household accounts and the public finances.

Further information is available on the SNAP website: <http://www.scotland.gov.uk/snap>

Future Work

Feedback from users of the publication is welcome. Please address any comments to

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St Andrew's House, Regent Road,
Edinburgh, EH1 3DG

² http://www.hm-treasury.gov.uk/pespb_natstats_oct2011.htm

³ The latest Public Sector Finances dataset is available from <http://www.ons.gov.uk/ons/taxonomy/index.html?nscl=Public+Sector+Finance>. As this dataset is updated monthly and subject to minor revision, figures in future data releases may differ from those used in this report.

1

INTRODUCTION AND OVERVIEW

Introduction

GERS 2010-11 estimates public sector expenditure and revenue for Scotland for the years 2006-07 to 2010-11. Particular focus is given to 2010-11, the latest fiscal year for which outturns of expenditure and revenue are available for Scotland. All figures are in current prices.

The structure of the report has changed slightly from that of GERS 2009-10, with information on Scotland's fiscal background now provided in Annex A. The outline below provides a brief overview of the chapters contained in the publication.

Chapter 2: Scotland's Public Sector Accounts

Chapter 2 provides a summary of estimated public sector revenue in and expenditure for Scotland between 2006-07 and 2010-11. It contains an estimate of total current and capital expenditure by the public sector for Scotland and an estimate of total 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 3: Public Sector Revenue

Chapter 3 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 4 provides a detailed discussion of North Sea revenue, the focus of this chapter is on all other elements of public sector revenue. The revenue analysis in GERS is consistent with the ONS Public Sector Finance Statistics.

Chapter 4: North Sea Revenue

Chapter 4 discusses the treatment of fiscal revenue from the North Sea. 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 5: Public Sector Expenditure

Chapter 5 presents a detailed discussion of public sector expenditure for Scotland and compares and contrasts the estimated figures for Scotland with those for the UK.

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 to an individual country or region. Finally, an accounting adjustment is required to bring the estimate of expenditure in line with current National Accounts conventions.

Chapter 6: Conclusion

Chapter 6 provides a short summary of the key results.

Annex A: Fiscal Background

Annex A provides an overview of the fiscal framework in which the public sector operates in Scotland and the UK.

Annex B: Revenue Methodology

Annex B 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 2009-10.

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 source⁴.

Annex C: Expenditure Methodology

Annex C provides a brief summary of the various methodologies that have been applied to estimate public sector expenditure for Scotland. Annex C also highlights where the data contained in GERS differ from that in the underlying PESA CRA database. More detailed analysis is also available on the GERS website⁵.

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

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

Introduction

This chapter provides a summary of Scotland's public sector accounts for the years 2006-07 to 2010-11. 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; and
- 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 raised in Scotland and of public sector expenditure for Scotland. Further information on the institutional framework in which Scottish public sector expenditure and revenue is currently set is provided in Annex A.

Current and Capital Budgets

The following tables set out estimates of public sector revenue and expenditure for Scotland for the financial years 2006-07 to 2010-11. The figures for revenue and expenditure correspond to the estimates contained in Chapters 3, 4 and 5⁶.

Current revenue, as defined in the UK National Accounts, is the sum of all revenue raised in a particular year by the entire public sector⁷. 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 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 and the net acquisition of land. Net investment is public sector capital expenditure, net of capital consumption (i.e. depreciation).

⁶ 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.

⁷ In the UK National Accounts, local authority user charges are classified as negative expenditures and therefore do not enter the revenue calculations in GERS.

2 Scotland's Public Sector Accounts

The current budget balance illustrates 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. It is therefore an important indicator of intergenerational fairness and indicates the sustainability of current policies.

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

In GERS, three estimates of Scotland's public sector accounts are presented, (i) an estimate excluding North Sea revenue, (ii) an estimate including a per capita share of North Sea revenue and (iii) an estimate including an illustrative geographical share of North Sea revenue. Chapter 4 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 2.1 and 2.2. Comparable estimates of the UK's current and capital budgets are provided in Box 2.1.

Table 2.1: Current and Capital Budgets: Scotland 2006-07 to 2010-11

	(£ million)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Current Budget					
Current revenue					
Excluding North Sea revenue	42,272	45,167	43,391	41,916	45,177
Including North Sea revenue (per capita share)	43,026	45,796	44,479	42,462	45,914
Including North Sea revenue (geographical share)	49,776	52,282	55,131	47,846	53,128
Current expenditure	45,363	48,246	50,007	52,992	55,281
Current expenditure accounting adjustment	2,265	2,468	2,392	2,269	2,312
Capital consumption	1,595	1,675	1,739	1,837	1,924
Balance on current budget (surplus is positive, deficit is negative)					
Excluding North Sea revenue	-6,951	-7,222	-10,747	-15,182	-14,340
Including North Sea revenue (per capita share)	-6,198	-6,593	-9,660	-14,637	-13,603
Including North Sea revenue (geographical share)	552	-107	993	-9,253	-6,389
Capital Budget					
Capital expenditure	5,044	5,218	6,500	6,435	6,344
Capital expenditure accounting adjustment	138	38	-34	329	-130
Capital consumption	-1,595	-1,675	-1,739	-1,837	-1,924
Net Investment	3,587	3,581	4,727	4,927	4,290
Net Fiscal Balance (surplus is positive, deficit is negative)					
Excluding North Sea revenue	-10,538	-10,803	-15,474	-20,109	-18,630
Including North Sea revenue (per capita share)	-9,784	-10,174	-14,387	-19,564	-17,893
Including North Sea revenue (geographical share)	-3,034	-3,688	-3,734	-14,179	-10,679

Tables 2.2a – 2.2c present the estimates of Scotland's public sector accounts as a percentage of Gross Domestic Product (GDP). Box 2.2 discusses the process used to estimate Scotland's GDP under the three sets of estimates for North Sea revenue.

Table 2.2a: Current and Capital Budgets (Excluding North Sea Revenue) % GDP: Scotland 2006-07 to 2010-11

	(per cent of GDP)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Current Budget					
Current revenue (Excluding North Sea revenue)	39.7%	39.5%	37.6%	37.2%	37.9%
Current expenditure	42.6%	42.2%	43.4%	47.1%	46.4%
Current expenditure accounting adjustment	2.1%	2.2%	2.1%	2.0%	1.9%
Capital consumption	1.5%	1.5%	1.5%	1.6%	1.6%
Balance on current budget (surplus is positive, deficit is negative)					
Excluding North Sea revenue	-6.5%	-6.3%	-9.3%	-13.5%	-12.0%
Capital Budget					
Capital expenditure	4.7%	4.6%	5.6%	5.7%	5.3%
Capital expenditure accounting adjustment	0.1%	0.0%	0.0%	0.3%	-0.1%
Capital consumption	-1.5%	-1.5%	-1.5%	-1.6%	-1.6%
Net Investment	3.4%	3.1%	4.1%	4.4%	3.6%
Net Fiscal Balance (surplus is positive, deficit is negative)					
Excluding North Sea revenue	-9.9%	-9.5%	-13.4%	-17.9%	-15.6%

Table 2.2b: Current and Capital Budgets (Per Capita Share North Sea Revenue) % GDP: Scotland 2006-07 to 2010-11

	(per cent of GDP)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Current Budget					
Current revenue (Including per capita share of North Sea revenue)	39.5%	39.2%	37.7%	37.1%	37.7%
Current expenditure	41.7%	41.3%	42.4%	46.3%	45.4%
Current expenditure accounting adjustment	2.1%	2.1%	2.0%	2.0%	1.9%
Capital consumption	1.5%	1.4%	1.5%	1.6%	1.6%
Balance on current budget (surplus is positive, deficit is negative)					
Including North Sea revenue (per capita share)	-5.7%	-5.6%	-8.2%	-12.8%	-11.2%
Capital Budget					
Capital expenditure	4.6%	4.5%	5.5%	5.6%	5.2%
Capital expenditure accounting adjustment	0.1%	0.0%	0.0%	0.3%	-0.1%
Capital consumption	-1.5%	-1.4%	-1.5%	-1.6%	-1.6%
Net Investment	3.3%	3.1%	4.0%	4.3%	3.5%
Net Fiscal Balance (surplus is positive, deficit is negative)					
Including North Sea revenue (per capita share)	-9.0%	-8.7%	-12.2%	-17.1%	-14.7%

Table 2.2c: Current and Capital Budgets (Geographical Share North Sea Revenue) % GDP: Scotland 2006-07 to 2010-11

	(per cent of GDP)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Current Budget					
Current revenue (Including geographical share of North Sea revenue)	39.1%	37.3%	38.9%	36.2%	36.7%
Current expenditure	35.7%	34.4%	35.3%	40.1%	38.2%
Current expenditure accounting adjustment	1.8%	1.8%	1.7%	1.7%	1.6%
Capital consumption	1.3%	1.2%	1.2%	1.4%	1.3%
Balance on current budget (surplus is positive, deficit is negative)					
Including North Sea revenue (geographical share)	0.4%	-0.1%	0.7%	-7.0%	-4.4%
Capital Budget					
Capital expenditure	4.0%	3.7%	4.6%	4.9%	4.4%
Capital expenditure accounting adjustment	0.1%	0.0%	0.0%	0.2%	-0.1%
Capital consumption	-1.3%	-1.2%	-1.2%	-1.4%	-1.3%
Net Investment	2.8%	2.6%	3.3%	3.7%	3.0%
Net Fiscal Balance (surplus is positive, deficit is negative)					
Including North Sea revenue (geographical share)	-2.4%	-2.6%	-2.6%	-10.7%	-7.4%

Box 2.1 – UK Public Sector Accounts

The tables below provide estimates of the UK's Public Sector Accounts over the period 2006-07 to 2010-11, as set out in the ONS Public Finance Statistical Bulletin published in January 2012. They are prepared on a consistent basis with the estimates in Tables 2.1 and 2.2. The figures show that, in 2010-11, the estimated current budget balance for the UK public sector was a deficit of £97.8 billion (6.6 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 £136.1 billion (9.2 per cent of GDP).

Current and Capital Budgets: UK 2006-07 to 2010-11 (£ million)

	2006-07	2007-08	2008-09	2009-10	2010-11
Current Budget					
Current revenue	519,184	548,899	532,730	513,338	551,663
Current expenditure	482,232	509,858	539,199	578,163	605,688
Current expenditure accounting adjustment	24,985	26,307	25,416	23,604	23,513
Capital consumption	16,988	17,683	18,649	19,345	20,310
Balance on current budget	-5,021	-4,949	-50,534	-107,774	-97,848
Capital Budget					
Capital expenditure	40,888	45,425	64,232	64,990	59,444
Capital expenditure accounting adjustment	1,940	1,347	376	2,979	-840
Capital consumption	-16,988	-17,683	-18,649	-19,345	-20,310
Net Investment	25,840	29,089	45,959	48,624	38,294
Net Fiscal Balance	-30,861	-34,038	-96,493	-156,398	-136,142

Current and Capital Budgets: UK 2006-07 to 2010-11 (% of GDP)					
	2006-07	2007-08	2008-09	2009-10	2010-11
Current Budget					
Current revenue	38.6%	38.5%	37.6%	36.5%	37.3%
Current expenditure	35.8%	35.8%	38.0%	41.1%	41.0%
Current expenditure accounting adjustment	1.9%	1.8%	1.8%	1.7%	1.6%
Capital consumption	1.3%	1.2%	1.3%	1.4%	1.4%
Balance on current budget	-0.4%	-0.3%	-3.6%	-7.7%	-6.6%
Capital Budget					
Capital expenditure	3.0%	3.2%	4.5%	4.6%	4.0%
Capital expenditure accounting adjustment	0.1%	0.1%	0.0%	0.2%	-0.1%
Capital consumption	-1.3%	-1.2%	-1.3%	-1.4%	-1.4%
Net Investment	1.9%	2.0%	3.2%	3.5%	2.6%
Net Fiscal Balance	-2.3%	-2.4%	-6.8%	-11.1%	-9.2%

Current Budget Balance

In 2010-11, excluding North Sea revenue, current expenditure exceeded current revenue in Scotland leading to a current budget deficit of £14.3 billion, or 12.0 per cent of GDP as presented in Table 2.2a. With a per capita share of North Sea revenue, current expenditure exceeded current revenue in Scotland by £13.6 billion (or 11.2 per cent of GDP), as illustrated in Table 2.2b.

In 2010-11, including an illustrative geographical share of North Sea revenue, total current expenditure for Scotland exceeded current revenue to yield a current budget deficit of £6.4 billion (or 4.4 per cent of GDP – as illustrated in Table 2.2c). In 2010-11, the equivalent UK current budget position, including 100 per cent of all North Sea revenue, was a deficit of £97.8 billion (or 6.6 per cent of GDP), as illustrated in Box 2.1.

As Tables 2.1 and 2.2 highlight, any estimate of Scotland's current balance varies according to the allocation of North Sea revenue. Over the period 2006-07 to 2010-11, the estimated cumulative current budget balance in Scotland when North Sea revenue is excluded was a deficit of £54.4 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 £14.2 billion. The cumulative current budget balance for the UK over the same period was a deficit of £266.1 billion.

Net Fiscal Balance

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 2010-11, excluding North Sea revenue, total revenue was less than total expenditure yielding an estimated negative net fiscal balance of £18.6 billion (or 15.6 per cent of GDP). With a per capita share of North Sea revenue the estimated negative net fiscal balance for Scotland was £17.9 billion (or 14.7 per cent of GDP). Including an illustrative geographical share of North Sea revenue, total revenue was less than total expenditure for Scotland to

2 Scotland's Public Sector Accounts

yield a net fiscal deficit of £10.7 billion (or 7.4 per cent of GDP). In 2010-11, the 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 £136.1 billion (or 9.2 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. The net fiscal balance improved in 2010-11 in both Scotland and the UK, although the deficits remained high relative to their pre-crisis levels.

The improvement in Scotland and the UK's fiscal positions in 2010-11 was driven by increased revenues (as shown in Table 2.4). Non-North Sea revenues in Scotland grew by 7.8 per cent between 2009-10 and 2010-11, primarily due to growth in income tax and VAT receipts. The growth in VAT receipts reflects the reversal in January 2010 of the temporary reduction in VAT, and the subsequent increase in the standard rate of VAT to 20 per cent in January 2011.

Scotland's deficit fell most under the scenario where it is assigned a geographical share of North Sea revenues. This is because overall North Sea receipts grew by 35.3 per cent in 2010-11 from the previous year, driven by a 24.8 per cent increase in average oil prices between 2009-10 and 2010-11.

Box 2.2: Scotland's GDP with and without North Sea GDP

When calculating Scotland's capital and current budgets as a percentage of GDP, the measure of GDP used should 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 were to be included in the Scottish estimate, then 100 per cent of North Sea GDP would be included in Scotland's corresponding GDP figure. Scotland's GDP figures, produced as part of the Scottish National Accounts Project (SNAP), under the three sets of estimates presented above are reflected in the following table.

Scottish GDP Including and Excluding North Sea GDP: 2006-07 to 2010-11

	(£ million)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Scottish GDP					
Excluding North Sea GDP	106,592	114,204	115,265	112,542	119,149
Including per capita share of North Sea GDP	108,826	116,830	117,984	114,559	121,732
Including geographical share of North Sea GDP	127,141	140,239	141,824	132,244	144,820

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

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

UK GDP: 2006-07 to 2010-11					
	(£ million)				
	2006-07	2007-08	2008-09	2009-10	2010-11
UK GDP	1,346,647	1,426,101	1,417,690	1,406,771	1,477,883

Source: ONS

Expenditure

This section presents summary estimates of public sector expenditure for Scotland (excluding accounting adjustments) for the years 2006-07 to 2010-11. Table 2.3 provides estimates for the six largest functions of public sector expenditure. For a discussion and more detailed breakdown of expenditure, refer to Chapter 5 and Annex C.

Table 2.3: Summary of Total Public Sector Expenditure: Scotland 2006-07 to 2010-11

	(£ million)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Social protection	16,264	17,291	18,613	20,203	21,047
Health	9,099	9,807	10,260	10,687	10,936
Education and training	7,150	7,372	7,581	7,751	8,050
General public services	4,350	4,572	4,865	4,883	5,973
Defence	2,721	2,838	3,094	3,169	3,277
Public order and safety	2,309	2,402	2,549	2,618	2,657
Other	8,515	9,183	9,545	10,115	9,686
Total	50,407	53,464	56,507	59,427	61,625

In 2010-11, total public sector expenditure for Scotland was estimated to be £61.6 billion, a £2.2 billion (3.6 per cent) increase on the previous year. The largest increase was in general public services, which rose by 22.3 per cent in nominal terms as a result of increased public sector debt interest payments.

Over the five year period since 2006-07, total public expenditure grew by 22.3 per cent in nominal terms. As well as rising public sector debt repayments, spending on social protection, which includes social transfers through the benefit system, grew by 29.4 per cent. However, growth in social protection slowed between 2009-10 and 2010-11, rising by 4.2 per cent, the lowest nominal growth over the five year period.

Box 2.3: 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 2.1.

In 2010-11 Total Managed Expenditure (TME) was £63.8 billion for Scotland, and £687.8 billion for the UK as a whole.

Total Managed Expenditure for Scotland and the UK: 2006-07 to 2010-11					
	(£ million)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Total Managed Expenditure for Scotland	52,810	55,969	58,866	62,025	63,807
Total Managed Expenditure for the UK	550,045	582,937	629,223	669,736	687,805

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

In 2010-11, the ratio of TME for Scotland to GDP was 53.6 per cent excluding North Sea GDP and 52.5 per cent including a per capita share. This ratio falls to 44.1 per cent when an illustrative geographical share of North Sea GDP is included. In comparison, UK TME was equivalent to 46.5 per cent of GDP in 2010-11, including 100 per cent 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: 2006-07 to 2010-11					
	(per cent of GDP)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Scottish TME as a Share of GDP:					
Excluding North Sea GDP	49.5%	49.0%	51.1%	55.1%	53.6%
Including per capita share of North Sea GDP	48.5%	47.9%	49.9%	54.1%	52.4%
Including geographical share of North Sea GDP	41.5%	39.9%	41.5%	46.9%	44.1%
UK TME as a share of GDP:					
100% of North Sea GDP	40.8%	40.9%	44.4%	47.6%	46.5%

Current Revenue

Table 2.4 provides estimates of Scottish public sector current revenue by economic category for the years 2006-07 to 2010-11. A more detailed discussion and breakdown of revenue is provided in Chapters 3 and 4 and in Annex B.

Table 2.4: Summary of Current Revenue by Economic Category: Scotland 2006-07 to 2010-11

	(£ million)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Taxes on income and wealth	14,160	15,378	14,288	13,145	14,240
National insurance contributions	7,303	7,841	7,990	7,819	8,018
Taxes on production and imports	14,625	15,298	14,530	14,776	16,537
Other current taxes	2,467	2,597	2,644	2,705	2,712
Taxes on capital	227	269	178	146	159
Gross operating surplus	2,528	2,624	2,739	2,722	2,934
Rent and other current transfers	397	393	416	397	395
Interest and dividends from private sector and abroad	564	767	606	206	183
Total current non-North Sea revenue	42,272	45,167	43,391	41,916	45,177
North Sea revenue					
Per capita share	754	629	1,087	545	736
Geographical share	7,503	7,115	11,740	5,930	7,951
Total current revenue (including North Sea revenue)					
Per capita share	43,026	45,796	44,479	42,462	45,914
Geographical share	49,776	52,282	55,131	47,846	53,128

In 2010-11, total current revenue, excluding revenue from the North Sea was estimated to be approximately £45.2 billion. This represented a nominal increase of 7.8 per cent on the previous year, driven by an 8.3 per cent rise in receipts from taxes on income and wealth and an 11.9 per cent rise in receipts from taxes on production and imports. The growth in receipts during 2010-11 reversed the decline in non-North Sea revenue observed between 2007-08 and 2009-10.

As Table 2.4 highlights, Scotland's geographical share of North Sea revenue followed an upward trend between 2006-07 and 2008-09, increasing by 56.5 per cent. 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. In 2010-11, North Sea revenue recovered, returning to £8.0 billion, in line with the average for the previous four years.

Box 2.4 – The UK Government's 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 crisis.

The UK Budget and the Office for Budget Responsibility's (OBR) accompanying Economic and Fiscal Outlook⁸, publish estimates of the UK's public sector finances which include the permanent effects of the interventions, but excluded the temporary effects. GERS adopts the same approach.

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 net 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)⁹. 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. The expenditure assigned to Scotland under this apportionment methodology is summarised in the table below.

Scotland: Estimated Share of UK Government's Financial Stability Expenditure			
	(£ millions)		
	2008-09	2009-10	2010-11
Current	-88	-30	-154
Capital	788	380	0
Total	699	351	-154

A discussion paper providing further information on the treatment of the financial sector interventions in GERS is provided on the GERS website¹⁰. 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.

⁸ This document is available at: <http://budgetresponsibility.independent.gov.uk/economic-and-fiscal-outlook-november-2011>.

⁹ The net cash outlay incurred as part of the UK Government's financial sector interventions represents the difference between the price paid for the equity in institutions such as RBS and Lloyds Banking Group, and the market price on the day of purchase. This outlay was worth £6.1 billion in 2008-09 and £6.4 billion in 2009-10. The additional cash outlay to finance the acquisition of equity included a further £30.8 billion in 2008-09 and £23 billion in 2009-10 (UK Budget 2010). This enters the UK Central Government's Net Cash Requirement. Only the net outlay is included in UK Public Sector Net Borrowing.

¹⁰ Scottish Government (2011) - Treatment of the Financial Sector Interventions in GERS
<http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/GERS/GERSfinanceinterventions>

3

PUBLIC SECTOR REVENUE

Introduction

This chapter provides detailed estimates of Scottish public sector revenue. As Chapter 4 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 Annex B and in the detailed revenue methodology paper on the GERS website¹¹.

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. In some cases, a variety of methodologies could be applied, each leading to different estimates of public sector revenue in Scotland.

Estimated Revenue 2010-11

Table 3.1 highlights estimated public sector revenue in Scotland and the outturn data for the UK in 2010-11. 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 2010-11, total public sector non-North Sea current revenue in Scotland was £45.2 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 population¹².

¹¹ <http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/GERS>

¹² Scotland's share of the UK population in 2010-11 was 8.4 per cent. Scotland's share of UK less extra-regio GVA was 8.2 per cent (General Registers for Scotland, Scottish National Accounts Project (SNAP) and UK Economics Accounts).

Table 3.1: Current Revenue: Scotland 2010-11

	Scotland		UK	Scotland as % of UK
	£ million	% of total non-North Sea revenue	£ million	
Income tax	10,634	23.5%	146,628	7.3%
Corporation tax (excl North Sea)	3,114	6.9%	34,661	9.0%
Capital gains tax	244	0.5%	3,589	6.8%
Other taxes on income and wealth	362	0.8%	6,177	5.9%
National insurance contributions	8,018	17.7%	97,755	8.2%
VAT	8,560	18.9%	97,277	8.8%
Fuel duties	2,339	5.2%	27,256	8.6%
Stamp duties	595	1.3%	8,931	6.7%
Tobacco duties	985	2.2%	9,131	10.8%
Alcohol duties	895	2.0%	9,434	9.5%
Betting and gaming and duties	113	0.3%	1,069	10.6%
Air passenger duty	183	0.4%	2,183	8.4%
Insurance premium tax	210	0.5%	2,511	8.4%
Landfill tax	99	0.2%	1,094	9.0%
Climate change levy	61	0.1%	660	9.2%
Aggregates levy	54	0.1%	292	18.5%
Inheritance tax	159	0.4%	2,722	5.8%
Vehicle excise duty	470	1.0%	5,789	8.1%
Non-domestic rates ¹	1,891	4.2%	22,682	8.3%
Council tax	1,986	4.4%	25,730	7.7%
Other taxes, royalties and adjustments ²	694	1.5%	8,073	8.6%
Interest and dividends	183	0.4%	2,151	8.5%
Gross operating surplus	2,934	6.5%	25,371	11.6%
Rent and other current transfers	395	0.9%	1,711	23.1%
Total current revenue (excluding North Sea revenue)	45,177	100.0%	542,877	8.3%
North Sea revenue ³				
Per capita share	736		8,786	8.4%
Geographical share	7,951		8,786	90.5%
Total current revenue (including North Sea revenue)				
Per capita share	45,914		551,663	8.3%
Geographical share	53,128		551,663	9.6%

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 65 per cent (£448 million) of this estimate for Scotland. This group also contains a small accounting adjustment to align the revenue estimates to those in the January 2012 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 4.

Income tax was the single largest source of public sector revenue in Scotland. In 2010-11, income tax revenue was estimated at £10.6 billion – approximately a quarter of all public sector revenue in Scotland (excluding revenues from the North Sea).

VAT represented the second largest revenue source in Scotland, and was the largest source of revenue from indirect taxes, raising an estimated £8.6 billion in 2010-11 – 18.9 per cent of total non-North Sea revenues. National insurance contributions represented the third largest source of revenue, accounting for 17.7 percent of total non-North Sea revenues.

Corporation tax (excluding that from the North Sea) represented the fourth largest revenue source in Scotland in 2010-11 with receipts of £3.1 billion. This was equivalent to 6.9 per cent of total non-North Sea current revenue¹³.

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 fifth largest revenue source in Scotland during 2010-11, generating £2.9 billion in revenue, 6.5 per cent of total non-North Sea revenue in Scotland.

Scotland accounted for 11.6 per cent of the total UK GOS in 2010-11. Scotland's relatively 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 GOS¹⁴.

After these five main categories, all other types of tax listed each individually accounted for less than 5 per cent of total non-North Sea revenue in Scotland in 2010-11, with the exception of fuel duty, which raised £2.3 billion or 5.2 per cent. Together, council tax and non-domestic rates raised £3.9 billion (8.6 per cent of total non-North Sea revenue).

The Scottish share of total UK revenue for each element of revenue varies according to the particular tax being estimated. For income tax, Scotland's share of UK revenue was lower than its share of the UK population. For national insurance contributions, Scotland's share of UK revenues was broadly in line with its per capita share. For VAT and corporation tax (excluding North Sea), Scotland's share of UK revenue was slightly higher than its share of the UK population. Revenue from duties on betting and gaming, alcohol and tobacco were also higher than Scotland's share of the UK population.

Table 3.2 shows estimates of Scotland's share of UK revenue for five key taxes between 2006-07 and 2010-11. 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.

¹³ 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.

¹⁴ A more detailed discussion of GOS is provided in the detailed revenue methodology paper on the GERS website.

Table 3.2: Non-North Sea Current Revenue: Scotland/UK Share 2006-07 to 2010-11

	(per cent of UK revenue)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Income tax	7.4%	7.4%	7.4%	7.2%	7.3%
Corporation tax (excluding North Sea revenue)	8.7%	8.7%	8.7%	8.9%	9.0%
National Insurance contributions	8.0%	8.2%	8.3%	8.1%	8.2%
Value added tax	8.7%	8.8%	8.7%	8.7%	8.8%
Local authority revenue ¹	8.5%	8.3%	7.9%	7.9%	8.0%
All other revenue	9.1%	9.2%	9.4%	9.4%	9.3%
Total non-North Sea current revenue	8.3%	8.3%	8.3%	8.3%	8.3%

1. Council tax and non-domestic rates

Box 3.1 – 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 3.1. The tables below provide further information on the revenue raised by each element.

Stamp Duty Reserve Tax: 2006-07 to 2010-11					
	(£ million)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Scotland	286	339	274	266	265
UK	3,756	4,165	3,204	3,016	2,970
Scotland as % of the UK	7.6%	8.1%	8.6%	8.8%	8.9%

Stamp Duty Land Tax: 2006-07 to 2010-11					
	(£ million)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Scotland	423	554	321	249	330
UK	9,634	9,956	4,797	4,885	5,961
Scotland as % of the UK	4.4%	5.6%	6.7%	5.1%	5.5%

Estimated Revenue: Scotland and the UK, 2006-07 to 2010-11

Table 3.3 shows estimated current revenue in Scotland and the UK between 2006-07 and 2010-11. Current non-North Sea revenue in Scotland is estimated to have grown by 6.9 per cent between 2006-07 and 2010-11 in nominal terms, compared to 6.4 per cent in the UK as a whole. However, the effect of the recession on public finances is clearly visible, with non-North Sea revenues falling in both Scotland and the UK during 2008-09 and 2009-10. However, receipts recovered in 2010-11 and grew to exceed their 2007-08 pre-recession peak in cash terms.

Table 3.3: Current Revenue: Scotland and UK 2006-07 to 2010-11

	(£ million)									
	Scotland					UK				
	2006-07	2007-08	2008-09	2009-10	2010-11	2006-07	2007-08	2008-09	2009-10	2010-11
Income tax	10,445	11,267	10,609	10,119	10,634	140,927	152,028	143,791	140,606	146,628
Corporation tax (excl North Sea)	3,254	3,525	2,841	2,678	3,114	37,307	40,384	32,493	29,968	34,661
Capital gains tax	204	341	589	135	244	3,812	5,267	7,851	2,504	3,589
Other taxes on income and wealth	258	246	249	213	362	2,970	2,717	2,741	2,360	6,177
National insurance contributions	7,303	7,841	7,990	7,819	8,018	90,916	95,437	96,613	96,638	97,755
VAT	7,606	7,922	7,430	7,311	8,560	87,740	89,896	85,350	83,710	97,277
Fuel duties	1,975	2,096	2,087	2,230	2,339	23,586	24,905	24,615	26,197	27,256
Stamp duties	709	893	595	515	595	13,390	14,121	8,001	7,901	8,931
Tobacco duties	966	894	893	942	985	8,146	8,031	8,358	8,805	9,131
Alcohol duties	725	745	764	884	895	7,914	8,215	8,598	9,246	9,434
Betting and gaming and duties	107	109	104	109	113	961	961	994	1,029	1,069
Air passenger duty	94	164	154	157	183	1,112	1,949	1,835	1,870	2,183
Insurance premium tax	195	194	191	190	210	2,304	2,302	2,271	2,261	2,511
Landfill tax	78	90	82	85	99	825	897	863	944	1,094
Climate change levy	63	65	65	62	61	696	705	711	687	660
Aggregates levy	52	58	53	52	54	324	339	321	276	292
Inheritance tax	227	269	178	146	159	3,618	3,890	2,931	2,431	2,722
Vehicle excise duty	411	436	458	466	470	5,139	5,412	5,602	5,692	5,789
Non-domestic rates	1,741	1,724	1,736	1,822	1,891	19,846	20,414	21,990	22,664	22,682
Council tax	1,859	1,936	1,960	1,960	1,986	22,466	23,635	24,652	25,214	25,730
Other taxes, royalties and adjustments	511	569	601	695	694	5,688	6,239	6,830	8,014	8,073
Interest and dividends	564	767	606	206	183	6,605	8,942	7,069	2,410	2,151
Gross operating surplus	2,528	2,624	2,739	2,722	2,934	22,247	23,074	23,392	23,697	25,371
Rent and other current transfers	397	393	416	397	395	1,721	1,675	1,933	1,723	1,711
Total current revenue (excluding North Sea revenue)	42,272	45,167	43,391	41,916	45,177	510,260	541,435	519,805	506,847	542,877
North Sea revenue										
Per capita share	754	629	1,087	545	736	8,924	7,464	12,925	6,491	8,786
Geographical share	7,503	7,115	11,740	5,930	7,951	8,924	7,464	12,925	6,491	8,786
Total current revenue (including North Sea revenue)										
Per capita share	43,026	45,796	44,479	42,462	45,914	519,184	548,899	532,730	513,338	551,663
Geographical share	49,776	52,282	55,131	47,846	53,128	519,184	548,899	532,730	513,338	551,663

4

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 2006-07 and 2010-11, 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 per cent 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 per cent first year basis with an uplift of 35 per cent 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 per cent. There were deductions for exploration, appraisal and development costs on a 100 per cent first year basis. In 2002, a Supplementary Charge (SC) of 10 per cent was introduced. This made the effective corporation tax rate (CT + SC) 40 per cent. From January 2006, the SC was increased to 20 per cent making the overall corporation tax rate 50 per cent¹⁵.
3. License Fees: The UK Government grants licenses for operators to "search and bore for and get"¹⁶ 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.

¹⁵ The 2011 UK Budget announced a 12 percentage point increase in the supplementary charge to 32% from 24 March 2011.

¹⁶ Petroleum Act 1998 - http://www.opsi.gov.uk/ACTS/acts1998/ukpga_19980017_en_1

4 North Sea Revenue

North Sea revenue has been relatively volatile over the last two decades. Table 4.1 shows the North Sea revenue collected by the UK Exchequer since 1980-81.

Table 4.1: Total North Sea Revenue: UK 1980-81 to 2010-11 ^{1, 2}

Year	£ million	Year	£ million	Year	£ million	Year	£ million
1980-81	3,861	1988-89	3,301	1996-97	3,351	2004-05	5,183
1981-82	6,395	1989-90	2,502	1997-98	3,330	2005-06	9,384
1982-83	7,867	1990-91	2,342	1998-99	2,511	2006-07	8,924
1983-84	8,788	1991-92	1,017	1999-00	2,564	2007-08	7,464
1984-85	12,326	1992-93	1,338	2000-01	4,455	2008-09	12,925
1985-86	11,217	1993-94	1,266	2001-02	5,426	2009-10	6,491
1986-87	4,701	1994-95	1,673	2002-03	5,097	2010-11	8,786
1987-88	4,736	1995-96	2,341	2003-04	4,284		

1. Source: ONS Public Finance Statistics and HMRC

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 4.2 shows the levels of revenue raised from the three key components of North Sea revenue since 2006-07.

Total North Sea revenue increased by 44.8 per cent in nominal terms between 2006-07 and 2008-09, reflecting the increase in wholesale oil and gas prices over this period. However, between 2009-10 and 2010-11, North Sea revenue fell from £12.9 billion to £6.5 billion (49.8 per cent), as wholesale oil and gas prices fell as a result of the global economic downturn. Revenues then rose again in 2010-11 (35.4 per cent), as wholesale oil and gas prices recovered.

Table 4.2: Composition of North Sea Revenue: UK 2006-07 to 2010-11

	(£ million)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Licence fees	60	56	0	0	0
North Sea corporation tax	6,709	5,728	10,358	5,568	7,328
Petroleum revenue tax	2,155	1,680	2,567	923	1,458
Total	8,924	7,464	12,925	6,491	8,786

Scotland's Share of North Sea Revenue

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.

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 2 and 3.

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

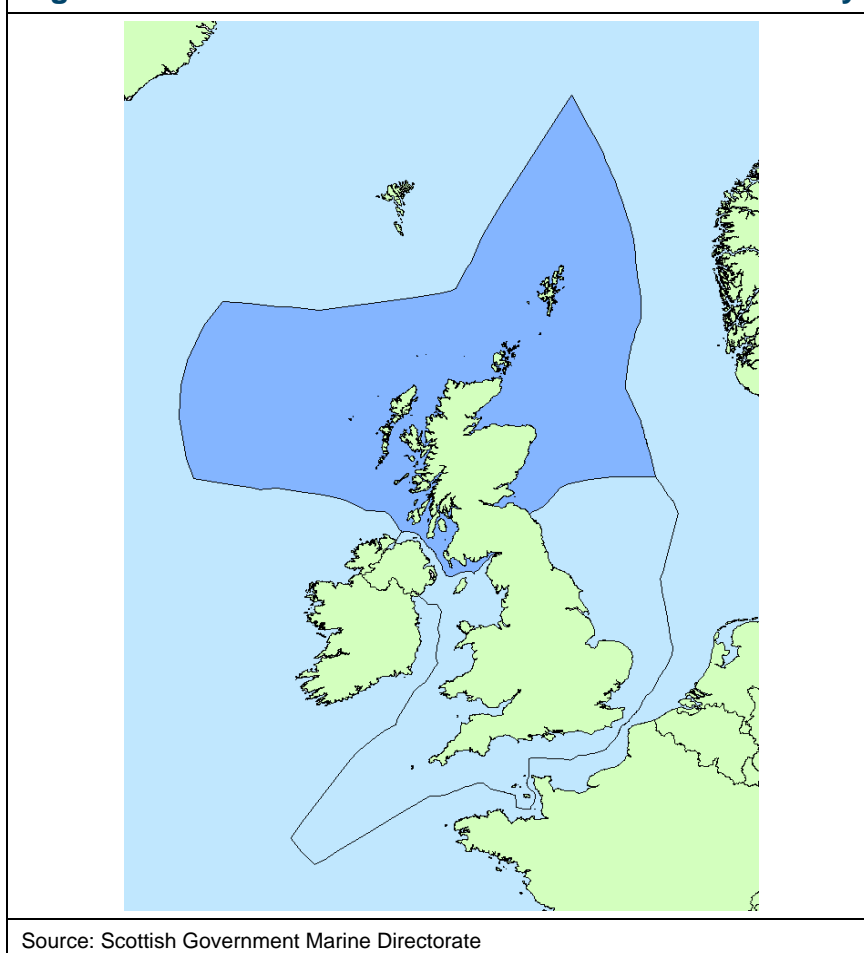
	(£ million)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Total North Sea revenue	8,924	7,464	12,925	6,491	8,786
Scotland's per capita share	754	629	1,087	545	736
Scotland's percentage share of North Sea revenue	8.4%	8.4%	8.4%	8.4%	8.4%

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 Aberdeen. Kemp and Stephen estimate Scotland's share of North Sea revenue based on a detailed financial model of the North Sea oil and gas industry and an assessment of Scotland's geographical share of the North Sea.

In their analysis, the researchers base the Scottish boundary of the UKCS on the median line principle as employed in 1999 to determine the boundary between Scotland and the rest of the UK for fishery demarcation purposes. Other alternatives are possible. Scotland's estimated geographical share of the North Sea sector, used in this report, is highlighted in the following diagram. Demarcation by the median line is highlighted by the dark shaded area in Figure 4.1. All oil and gas fields located in this region were apportioned to Scotland under the assumption of an illustrative geographical share.

Figure 4.1 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.¹⁷ Using

¹⁷ <http://www.scotland.gov.uk/Publications/2008/06/UKContinentalShelfRevenue>

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 4.4 provides estimates of Scotland's share of North Sea revenue using this methodology.¹⁸

Table 4.4: Geographical Share of North Sea Revenue: Scotland 2006-07 to 2010-11

	(£ million)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Total North Sea revenue	8,924	7,464	12,925	6,491	8,786
Scotland's geographical share	7,503	7,115	11,740	5,930	7,951
Scotland's percentage share of North Sea revenue	84.1%	95.3%	90.8%	91.4%	90.5%

Contribution to Current Revenue

Tables 4.5 and 4.6 show the estimated contribution to total Scottish current fiscal revenue from the North Sea in 2010-11, using a per capita and geographical share respectively.

Table 4.5: Current Revenue (Per Capita Share of North Sea Revenue): Scotland 2010-11

	Scotland		UK	Scotland as % of UK revenue
	£ million	% of total revenue	£ million	
Total current revenue (excluding North Sea revenue)	45,177	98.4%	542,877	8.3%
North Sea revenue	736	1.6%	8,786	8.4%
Total current revenue	45,914	100.0%	551,663	8.3%

Table 4.6: Current Revenue (Geographical Share of North Sea Revenue): Scotland 2010-11

	Scotland		UK	Scotland as % of UK revenue
	£ million	% of total revenue	£ million	
Total current revenue (excluding North Sea revenue)	45,177	85.0%	542,877	8.3%
North Sea revenue	7,951	15.0%	8,786	90.5%
Total current revenue	53,128	100.0%	551,663	9.6%

As Tables 4.5 and 4.6 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 2010-11. In contrast, under an illustrative geographical share, Scotland's estimated share of total UK current revenue increased to 9.6 per cent in the same year.

¹⁸ It should be noted that the figures provided by 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.

5

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 October 2011 Country and Regional Analysis (CRA) contained in the National Statistics publication Public Expenditure Statistical Analyses (PESA) published by HM Treasury¹⁹.

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 but is instead incurred on behalf of the UK as a whole. The largest elements of non-identifiable expenditure are defence expenditure and public sector debt interest payments.

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. Annex C discusses the revisions from previous reports and the relevant apportionment methodologies applied.

As discussed in Chapter 2, 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 2.4. 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.

¹⁹ Available from http://www.hm-treasury.gov.uk/pespb_natstats_oct2011.htm

Total Public Sector Expenditure

Estimated total public sector expenditure for Scotland by spending category for 2010-11 is shown in Table 5.1. In 2010-11, total public sector expenditure for Scotland was estimated to be £61.6 billion, this was equivalent to 9.3 per cent of comparable total UK public sector expenditure in 2010-11, shown in Table 5.2. Social protection was the largest Scottish expenditure programme. Together with health expenditure, it accounted for approximately 51.9 per cent of total public sector expenditure for Scotland in 2010-11.

Table 5.1: Total Expenditure: Scotland 2010-11		
	Scotland	
	£ million	% of total expenditure
General public services		
Public and common services	1,527	2.5%
International services	746	1.2%
Public sector debt interest	3,700	6.0%
Defence	3,277	5.3%
Public order and safety	2,657	4.3%
Economic affairs		
Enterprise and economic development	822	1.3%
Science and technology	391	0.6%
Employment policies	307	0.5%
Agriculture, forestry and fisheries	963	1.6%
Transport	2,722	4.4%
Environment protection	1,295	2.1%
Housing and community amenities	1,773	2.9%
Health	10,936	17.7%
Recreation, culture and religion	1,571	2.5%
Education and training	8,050	13.1%
Social protection	21,047	34.2%
EU transactions	-158	-0.3%
Total	61,625	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.

Total public sector expenditure for Scotland is estimated to have increased from £50.4 billion in 2006-07 to £61.6 billion in 2010-11, an increase of approximately 22.3 per cent in nominal terms. Over the same period, equivalent UK public sector expenditure increased from £523.1 billion to £665.1 billion, an increase of 27.1 per cent in nominal terms.

Table 5.2: Total Current and Capital Expenditure Scotland and UK 2006-07 to 2010-11

	(£ million)									
	Scotland					UK				
	2006-07	2007-08	2008-09	2009-10	2010-11	2006-07	2007-08	2008-09	2009-10	2010-11
Current	45,363	48,246	50,007	52,992	55,281	482,232	509,858	539,199	578,163	605,688
Capital	5,044	5,218	6,500	6,435	6,344	40,888	45,425	64,232	64,990	59,444
Total	50,407	53,464	56,507	59,427	61,625	523,120	555,283	603,431	643,153	665,132

Table 5.3 shows the share of total expenditure between current and capital for Scotland. In 2006-07 and 2007-08, capital expenditure for Scotland was approximately 10 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 fell as a share of total expenditure in the two subsequent years, to 10.3 per cent of total expenditure in 2010-11, although this remains a larger share of total expenditure than in the two years prior to 2008-09.

Table 5.3: Current and Capital Expenditure (% of Total Expenditure): Scotland 2006-07 to 2010-11

	(per cent)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Current	90.0%	90.2%	88.5%	89.2%	89.7%
Capital	10.0%	9.8%	11.5%	10.8%	10.3%

Tables 5.4 and 5.5 provide a more detailed breakdown of total public sector expenditure by current and capital split for Scotland and the UK.

5 Public Sector Expenditure

Table 5.4: Total Expenditure: Scotland 2006-07 to 2010-11

	(£ million)														
	Current						Capital						Total		
	2006-07	2007-08	2008-09	2009-10	2010-11	2006-07	2007-08	2008-09	2009-10	2010-11	2006-07	2007-08	2008-09	2009-10	2010-11
General public services															
Public and common services	1,255	1,321	1,303	1,510	1,270	140	41	298	75	257	1,396	1,363	1,601	1,585	1,527
International services	495	528	569	617	682	32	37	39	52	65	527	565	609	670	746
Public sector debt interest	2,428	2,644	2,655	2,628	3,700	0	0	0	0	0	2,428	2,644	2,655	2,628	3,700
Defence	2,645	2,624	2,803	2,831	2,921	75	214	292	338	356	2,721	2,838	3,094	3,169	3,277
Public order and safety	2,127	2,237	2,323	2,373	2,392	183	165	226	245	265	2,309	2,402	2,549	2,618	2,657
Economic affairs															
Enterprise and economic development	691	788	536	595	505	206	237	1,045	665	317	897	1,024	1,580	1,261	822
Science and technology	268	341	327	371	345	55	121	105	77	46	324	462	431	448	391
Employment policies	251	251	275	274	300	13	1	1	7	7	264	253	276	280	307
Agriculture, forestry and fisheries	612	700	722	764	781	73	71	101	112	182	686	771	823	875	963
Transport	1,443	1,537	1,517	1,506	1,521	1,278	1,242	1,118	1,327	1,201	2,721	2,779	2,634	2,833	2,722
Environment protection	835	829	871	985	1,049	162	190	190	188	246	997	1,019	1,061	1,173	1,295
Housing and community amenities	182	333	281	261	332	1,497	1,413	1,521	1,709	1,440	1,679	1,746	1,802	1,970	1,773
Health	8,802	9,360	9,748	10,149	10,312	297	447	512	537	624	9,099	9,807	10,260	10,687	10,936
Recreation, culture and religion	1,095	1,113	1,120	1,183	1,198	205	252	307	322	373	1,301	1,365	1,427	1,506	1,571
Education and training	6,426	6,675	6,932	7,088	7,226	724	696	649	664	823	7,150	7,372	7,581	7,751	8,050
Social protection	16,161	17,200	18,516	20,088	20,905	103	91	96	115	142	16,264	17,291	18,613	20,203	21,047
EU transactions	-353	-237	-491	-231	-158	0	0	0	0	0	-353	-237	-491	-231	-158
Total	45,363	48,246	50,007	52,992	55,281	5,044	5,218	6,500	6,435	6,344	50,407	53,464	56,507	59,427	61,625

Table 5.5: Total Expenditure: UK 2006-07 to 2010-11

	(£ million)														
	Current					Capital					Total				
	2006-07	2007-08	2008-09	2009-10	2010-11	2006-07	2007-08	2008-09	2009-10	2010-11	2006-07	2007-08	2008-09	2009-10	2010-11
General public services															
Public and common services	11,474	11,366	11,941	11,951	11,390	1,194	1,102	2,014	1,650	2,009	12,669	12,468	13,955	13,601	13,399
International services	5,863	6,272	6,769	7,350	8,133	388	455	472	625	770	6,251	6,726	7,241	7,974	8,903
Public sector debt interest	28,749	31,363	31,555	31,281	44,136	0	0	0	0	0	28,749	31,363	31,555	31,281	44,136
Defence	31,324	31,133	33,328	33,671	34,819	899	2,539	3,468	4,025	4,246	32,223	33,672	36,796	37,696	39,065
Public order and safety	28,673	29,824	31,106	31,627	31,415	1,817	2,022	2,740	2,694	2,309	30,490	31,846	33,846	34,321	33,724
Economic affairs															
Enterprise and economic development	4,786	5,423	4,018	4,840	2,728	1,534	1,402	11,409	6,450	1,597	6,320	6,826	15,426	11,290	4,325
Science and technology	2,191	2,518	2,686	2,943	2,976	675	785	625	733	515	2,865	3,303	3,311	3,676	3,491
Employment policies	3,215	3,208	3,175	3,392	3,736	195	79	86	112	71	3,410	3,287	3,261	3,503	3,806
Agriculture, forestry and fisheries	4,758	3,974	5,429	5,527	5,133	321	289	377	287	361	5,080	4,263	5,806	5,814	5,495
Transport	9,417	9,871	9,026	9,845	9,462	10,467	10,655	11,801	12,848	13,440	19,885	20,526	20,827	22,693	22,901
Environment protection	7,127	7,224	7,165	8,288	8,743	2,250	2,285	2,533	2,659	3,255	9,377	9,509	9,698	10,947	11,998
Housing and community amenities	3,599	3,878	3,787	4,053	3,535	7,948	9,037	11,207	12,129	10,177	11,547	12,916	14,995	16,182	13,712
Health	90,804	97,632	104,713	112,156	115,855	3,889	4,719	5,346	6,181	5,450	94,693	102,350	110,059	118,338	121,305
Recreation, culture and religion	9,516	9,867	10,019	10,354	10,287	1,842	2,346	3,083	3,567	3,679	11,358	12,213	13,102	13,922	13,966
Education and training	66,387	71,326	74,847	78,638	80,311	6,660	6,921	8,306	9,921	10,242	73,047	78,248	83,153	88,558	90,553
Social protection	176,152	186,510	202,565	222,177	230,106	807	789	766	1,110	1,325	176,959	187,299	203,331	223,287	231,431
EU transactions	-1,802	-1,531	-2,931	71	2,922	0	0	0	0	0	-1,802	-1,531	-2,931	71	2,922
Total	482,232	509,858	539,199	578,163	605,688	40,888	45,425	64,232	64,990	59,444	523,120	555,283	603,431	643,153	665,132

5 Public Sector Expenditure

Table 5.6 shows estimated total public sector expenditure for Scotland and the UK on a per capita basis from 2006-07 to 2010-11. 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 £11,785 in 2010-11, £1,122 higher than the UK average. The relative difference in public spending per capita between Scotland and the UK has been on a downward trend. In 2006-07 public spending per capita for Scotland was 14.1 per cent higher than the UK average, by 2010-11 this gap had fallen to 10.5 per cent.

Table 5.6: Total Expenditure Per Capita: Scotland and UK 2006-07 to 2010-11

	2006-07	2007-08	2008-09	2009-10	2010-11
Scotland (£)	9,838	10,380	10,920	11,426	11,785
UK (£)	8,621	9,089	9,813	10,390	10,663
<i>Difference (Scotland minus UK) (£)</i>	<i>1,217</i>	<i>1,291</i>	<i>1,107</i>	<i>1,037</i>	<i>1,122</i>
<i>Relative Expenditure for Scotland (UK = 100)</i>	<i>114.1</i>	<i>114.2</i>	<i>111.3</i>	<i>110.0</i>	<i>110.5</i>

There are number of reasons why public expenditure per capita for Scotland is above the UK average. In some cases, it reflects the lower population density in Scotland relative to the UK which increases the cost of providing the same level of public service activity, particularly in areas such as education, health and transport.

The scope and remit of the public sector also differs in Scotland compared to the UK. For example, water and sewage services are a public sector responsibility in Scotland, and are therefore included in Scottish public expenditure, whilst in England they are operated by the private sector.

In other instances, 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 relative to the rest of the UK.

Box 5.1 – 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 per cent 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 2006-07 and 2010-11 are presented in the table below.

Public Sector Unitary Charge Expenditure in Scotland 2006-07 to 2010-11					
	(£ million)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Scottish Public Sector Unitary Charges ¹	435	508	585	729	821
Other UK Government Departments PFI Unitary Charges	13	20	23	23	26
Total Unitary Charges in Scotland	448	527	608	752	847

Source: Scottish Government March 2011 and HM Treasury PFI Signed Project List – November 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 broader economy; 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.

5 Public Sector Expenditure

Following a detailed review of all 1,400 programme object groups in PESA CRA 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 relate to the treatment of expenditure on nuclear decommissioning by the UK Atomic Energy Authority (UKAEA), and the expenditure on the London Olympics.

Annex C 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 2010-11 UK identifiable expenditure covered approximately 82.8 per cent of UK total public expenditure. The remaining spending cannot be attributed to individual locations, for example, because it is spent for the benefit of the UK as a whole. A proportion of such UK non-identifiable expenditure is allocated to the public sector for Scotland either on the basis of Scotland's share of the UK population, GVA or a more specific apportionment variable. Information on the methodologies used to apportion each element of expenditure is provided in Annex C.

Table 5.7 illustrates the estimated level of identifiable and non-identifiable expenditure assigned to Scotland for each year between 2006-07 and 2010-11. Identifiable expenditure was estimated to be £52.6 billion in 2010-11. In comparison, non-identifiable expenditure was £9.1 billion in 2010-11, approximately 14.7 per cent of estimated total public sector expenditure for Scotland.

Across most programme categories, the level of non-identifiable expenditure is relatively modest. Debt interest payments, defence and international services are typically the largest elements of non-identifiable expenditure. Collectively, these three elements of expenditure accounted for 84.8 per cent of total non-identifiable expenditure for Scotland in 2010-11.

Table 5.7: Total Expenditure, Identifiable and Non-Identifiable: Scotland 2006-07 to 2010-11

	(£ million)																	
	Identifiable						Non-identifiable						Total					
	2006-07	2007-08	2008-09	2009-10	2010-11		2006-07	2007-08	2008-09	2009-10	2010-11		2006-07	2007-08	2008-09	2009-10	2010-11	
General public services																		
Public and common services	960	943	1,137	1,153	1,120		435	420	464	433	407		1,396	1,363	1,601	1,585	1,527	
International services	12	13	17	15	20		515	552	592	655	727		527	565	609	670	746	
Public sector debt interest	0	0	0	0	0		2,428	2,644	2,655	2,628	3,700		2,428	2,644	2,655	2,628	3,700	
Defence	7	7	5	9	9		2,713	2,831	3,089	3,160	3,268		2,721	2,838	3,094	3,169	3,277	
Public order and safety	2,139	2,228	2,375	2,435	2,508		170	174	174	184	149		2,309	2,402	2,549	2,618	2,657	
Economic affairs																		
Enterprise and economic development	811	908	759	828	901		85	116	821	433	-79		897	1,024	1,580	1,261	822	
Science and technology	260	412	378	390	335		63	50	54	58	56		324	462	431	448	391	
Employment policies	262	252	275	278	306		2	1	1	2	1		264	253	276	280	307	
Agriculture, forestry and fisheries	686	771	823	875	963		0	0	0	0	0		686	771	823	875	963	
Transport	2,702	2,759	2,611	2,812	2,700		19	20	24	22	22		2,721	2,779	2,634	2,833	2,722	
Environment protection	859	900	964	1,012	1,102		138	119	97	161	193		997	1,019	1,061	1,173	1,295	
Housing and community amenities	1,679	1,746	1,802	1,970	1,773		0	0	0	0	0		1,679	1,746	1,802	1,970	1,773	
Health	9,035	9,727	10,179	10,593	10,821		64	80	82	93	116		9,099	9,807	10,260	10,687	10,936	
Recreation, culture and religion	989	1,028	1,080	1,138	1,212		312	337	347	367	359		1,301	1,365	1,427	1,506	1,571	
Education and training	7,147	7,368	7,577	7,748	8,049		3	4	3	3	0		7,150	7,372	7,581	7,751	8,050	
Social protection	16,025	17,036	18,331	19,904	20,737		239	255	282	299	310		16,264	17,291	18,613	20,203	21,047	
EU transactions	0	0	0	0	0		-353	-237	-491	-231	-158		-353	-237	-491	-231	-158	
Total	43,575	46,097	48,313	51,160	52,556		6,832	7,367	8,194	8,267	9,069		50,407	53,464	56,507	59,427	61,625	

Analysis of Identifiable Expenditure

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

Table 5.8 disaggregates identifiable expenditure for Scotland into expenditure by the Scottish Government and by other UK Government departments for the years 2006-07 to 2010-11²⁰. Tables 5.9 and 5.10 provide a similar disaggregation but with an additional split for current and capital expenditure. Finally, Table 5.11 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 2006-07 and 2010-11 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 National Records of Scotland, and by public corporations. They also 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 the remaining 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.

In the five years since 2006-07, UK Government departments have accounted for slightly more than one third of total identifiable current expenditure. In contrast, over the same period these departments were typically responsible for less than three percent of identifiable capital expenditure in Scotland, with expenditure in this area instead being almost solely directed by the Scottish Government.

As Table 5.11 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.

²⁰ Expenditure by Scottish Government in the tables in Chapter 6 incorporates expenditure by Scottish Local Authorities and Public Corporations

Table 5.8: Total Identifiable Expenditure: Scotland 2006-07 to 2010-11

	(£ million)														
	Scottish Government and Local Authorities					Other UK Government					Total				
	2006-07	2007-08	2008-09	2009-10	2010-11	2006-07	2007-08	2008-09	2009-10	2010-11	2006-07	2007-08	2008-09	2009-10	2010-11
General public services															
Public and common services	898	873	1,079	1,085	1,059	62	70	58	67	61	960	943	1,137	1,153	1,120
International services	0	0	0	0	0	12	13	17	15	20	12	13	17	15	20
Public sector debt interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Defence	7	7	5	9	9	0	0	0	0	0	7	7	5	9	9
Public order and safety	2,091	2,165	2,306	2,355	2,443	48	63	69	80	65	2,139	2,228	2,375	2,435	2,508
Economic affairs															
Enterprise and econ development	689	818	664	734	820	122	90	95	94	82	811	908	759	828	901
Science and technology	88	195	137	110	68	173	216	241	280	267	260	412	378	390	335
Employment policies	0	1	4	3	3	262	251	271	275	303	262	252	275	278	306
Agriculture, forestry and fisheries	674	759	811	864	954	12	12	12	11	10	686	771	823	875	963
Transport	2,554	2,692	2,604	2,766	2,689	148	67	6	46	31	2,702	2,759	2,611	2,812	2,700
Environment protection	815	862	927	978	1,052	44	38	38	34	50	859	900	964	1,012	1,102
Housing and community amenities	1,679	1,746	1,802	1,970	1,773	0	0	0	0	0	1,679	1,746	1,802	1,970	1,773
Health	8,992	9,689	10,130	10,545	10,772	43	39	48	49	49	9,035	9,727	10,179	10,593	10,821
Recreation, culture and religion	892	945	999	1,058	1,122	97	84	81	80	90	989	1,028	1,080	1,138	1,212
Education and training	7,114	7,344	7,546	7,725	8,030	33	24	31	23	20	7,147	7,368	7,577	7,748	8,049
Social protection	3,768	4,264	4,479	4,865	5,160	12,257	12,772	13,852	15,039	15,577	16,025	17,036	18,331	19,904	20,737
EU transactions	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	30,261	32,360	33,492	35,066	35,932	13,314	13,737	14,821	16,093	16,623	43,575	46,097	48,313	51,160	52,556

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Table 5.9: Identifiable Expenditure - Scottish Government and Local Authorities: Scotland 2006-07 to 2010-11

	(£ million)									
	Current					Capital				
	2006-07	2007-08	2008-09	2009-10	2010-11	2006-07	2007-08	2008-09	2009-10	2010-11
General public services										
Public and common services	769	837	827	1,036	833	129	36	252	49	225
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	7	7	5	9	9	0	0	0	0	0
Public order and safety	1,918	2,013	2,100	2,136	2,198	173	152	206	218	245
Economic affairs										
Enterprise and econ development	532	627	470	492	541	157	192	194	242	279
Science and technology	69	110	68	80	56	18	85	69	30	12
Employment policies	0	1	4	3	3	0	0	0	0	0
Agriculture, forestry and fisheries	601	689	711	754	772	73	70	100	111	182
Transport	1,395	1,476	1,505	1,456	1,484	1,159	1,215	1,099	1,310	1,185
Environment protection	766	772	841	885	937	49	90	85	93	115
Housing and community amenities	182	333	281	261	332	1,497	1,413	1,521	1,709	1,440
Health	8,715	9,250	9,626	10,013	10,161	277	439	504	532	610
Recreation, culture and religion	735	742	755	811	826	157	203	244	247	297
Education and training	6,405	6,650	6,898	7,062	7,207	709	694	648	663	823
Social protection	3,710	4,198	4,413	4,805	5,065	58	65	65	61	95
EU transactions	0	0	0	0	0	0	0	0	0	0
Total	25,806	27,706	28,504	29,802	30,425	4,455	4,655	4,988	5,264	5,507

Table 5.10: Identifiable Expenditure - Other UK Government: Scotland 2006-07 to 2010-11

	(£ million)																					
	Current					Capital																
	2006-07	2007-08	2008-09	2009-10	2010-11	2006-07	2007-08	2008-09	2009-10	2010-11												
General public services																						
Public and common services	57	65	52	61	57		4	6	7	4												
International services	12	12	17	14	19		1	0	0	1												
Public sector debt interest	0	0	0	0	0		0	0	0	0												
Defence	0	0	0	0	0		0	0	0	0												
Public order and safety	48	61	67	78	65		1	2	2	0												
Economic affairs																						
Enterprise and econ development	120	88	93	84	69		2	2	2	13												
Science and technology	159	199	220	248	244		14	18	21	23												
Employment policies	249	249	270	268	296		13	1	1	7												
Agriculture, forestry and fisheries	11	11	11	10	9		1	1	1	0												
Transport	36	48	-3	37	24		111	19	9	7												
Environment protection	23	31	31	30	31		22	7	6	19												
Housing and community amenities	0	0	0	0	0		0	0	0	0												
Health	27	35	46	47	46		16	3	2	2												
Recreation, culture and religion	64	57	59	56	66		33	27	22	24												
Education and training	18	22	30	23	19		15	2	1	0												
Social protection	12,212	12,747	13,821	14,985	15,530		45	25	31	47												
EU transactions	0	0	0	0	0		0	0	0	0												
Total	13,036	13,626	14,717	15,941	16,477	278	111	104	152	147												

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Table 5.11: Identifiable Expenditure: Scotland and UK 2010-11

	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	1,059	2.0%	61	0.1%	1,120	2.1%	8,504	1.5%
International services	0	0.0%	20	0.0%	20	0.0%	235	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%	85	0.0%
Public order and safety	2,443	4.6%	65	0.1%	2,508	4.8%	31,948	5.8%
Economic affairs								
Enterprise and econ development	820	1.6%	82	0.2%	901	1.7%	5,134	0.9%
Science and technology	68	0.1%	267	0.5%	335	0.6%	2,808	0.5%
Employment policies	3	0.0%	303	0.6%	306	0.6%	3,800	0.7%
Agriculture, forestry and fisheries	954	1.8%	10	0.0%	963	1.8%	5,495	1.0%
Transport	2,669	5.1%	31	0.1%	2,700	5.1%	22,580	4.1%
Environment protection	1,052	2.0%	50	0.1%	1,102	2.1%	9,685	1.8%
Housing and community amenities	1,773	3.4%	0	0.0%	1,773	3.4%	13,712	2.5%
Health	10,772	20.5%	49	0.1%	10,821	20.6%	119,925	21.8%
Recreation, culture and religion	1,122	2.1%	90	0.2%	1,212	2.3%	8,598	1.6%
Education and training	8,030	15.3%	20	0.0%	8,049	15.3%	90,550	16.4%
Social protection	5,160	9.8%	15,577	29.6%	20,737	39.5%	227,727	41.3%
EU transactions	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	35,932	68.4%	16,623	31.6%	52,556	100.0%	550,787	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 Annex C.

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 5.12 presents total non-identifiable expenditure for Scotland and the UK between 2006-07 and 2010-11. Tables 5.13 and 5.14 decompose Scottish and UK non-identifiable expenditure into their current and capital components.

Total non-identifiable expenditure for Scotland was estimated to be £9.1 billion in 2010-11, 7.9 per cent of the UK total.

Defence and debt interest payments comprise the largest components. As Tables 5.13 and 5.14 highlight, current expenditure was the major component of non-identifiable expenditure for both Scotland and the UK in 2010-11.

As outlined in Box 2.4 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 have increased from £116 million in 2007-08 to £821 million in 2008-09, before falling to -£79 million in 2010-11.

The negative value for 2010-11 is due to the fact that the fees received from the various schemes are recorded as a negative current expenditure (i.e. revenue received). As shown in Table 5.13, these fees exceeded the current expenditure on other elements of EED in both 2008-09 and 2010-11. As such, total current expenditure on non-identifiable EED is negative in both of these years.

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Table 5.12: Non-Identifiable Expenditure: Scotland and UK 2006-07 to 2010-11

	(£ million)									
	Scotland					UK				
	2006-07	2007-08	2008-09	2009-10	2010-11	2006-07	2007-08	2008-09	2009-10	2010-11
General public services										
Public and common services	435	420	464	433	407	5,189	5,011	5,543	5,196	4,895
International services	515	552	592	655	727	6,094	6,551	7,029	7,795	8,668
Public sector debt interest	2,428	2,644	2,655	2,628	3,700	28,749	31,363	31,555	31,281	44,136
Defence	2,713	2,831	3,089	3,160	3,268	32,133	33,581	36,713	37,614	38,979
Public order and safety	170	174	174	184	149	2,018	2,070	2,070	2,186	1,776
Economic affairs										
Enterprise and economic development	85	116	821	433	-79	1,170	1,531	9,909	5,304	-810
Science and technology	63	50	54	58	56	777	607	644	704	683
Employment policies	2	1	1	2	1	18	13	18	25	6
Agriculture, forestry and fisheries	0	0	0	0	0	0	1	1	0	0
Transport	19	20	24	22	22	395	396	355	337	322
Environment protection	138	119	97	161	193	1,646	1,419	1,154	1,924	2,313
Housing and community amenities	0	0	0	0	0	0	0	0	0	0
Health	64	80	82	93	116	771	961	984	1,112	1,380
Recreation, culture and religion	312	337	347	367	359	3,885	4,435	4,980	5,390	5,368
Education and training	3	4	3	3	0	36	43	41	41	3
Social protection	239	255	282	299	310	2,831	3,026	3,351	3,563	3,703
EU transactions	-353	-237	-491	-231	-158	-1,802	-1,531	-2,931	71	2,922
Total	6,832	7,367	8,194	8,267	9,069	83,910	89,476	101,416	102,543	114,345

Table 5.13: Non-Identifiable Expenditure: Scotland 2006-07 to 2010-11

	(£ million)									
	Current					Capital				
	2006-07	2007-08	2008-09	2009-10	2010-11	2006-07	2007-08	2008-09	2009-10	2010-11
General public services										
Public and common services	429	419	424	413	379	6	1	40	20	27
International services	483	516	552	603	663	32	36	39	52	64
Public sector debt interest	2,428	2,644	2,655	2,628	3,700	0	0	0	0	0
Defence	2,638	2,617	2,798	2,822	2,912	75	214	292	338	356
Public order and safety	161	162	156	159	129	9	12	18	25	20
Economic affairs										
Enterprise and economic development	39	73	-27	20	-105	46	43	849	413	26
Science and technology	40	32	39	42	46	23	18	15	16	11
Employment policies	1	1	1	2	0	0	0	0	0	0
Agriculture, forestry and fisheries	0	0	0	0	0	0	0	0	0	0
Transport	11	12	14	13	13	7	7	9	8	9
Environment protection	47	26	-2	70	80	92	93	98	91	113
Housing and community amenities	0	0	0	0	0	0	0	0	0	0
Health	59	75	76	90	105	4	5	6	3	11
Recreation, culture and religion	296	314	305	317	307	15	22	42	51	52
Education and training	3	4	3	3	0	0	0	0	0	0
Social protection	238	255	282	298	310	1	1	0	1	1
EU transactions	-353	-237	-491	-231	-158	0	0	0	0	0
Total	6,522	6,915	6,787	7,249	8,380	311	452	1,408	1,018	690

5 Public Sector Expenditure

Table 5.14: Non-Identifiable Expenditure: UK 2006-07 to 2010-11

	(£ million)									
	Current					Capital				
	2006-07	2007-08	2008-09	2009-10	2010-11	2006-07	2007-08	2008-09	2009-10	2010-11
General public services										
Public and common services	5,110	4,998	5,065	4,960	4,567	79	14	478	236	327
International services	5,719	6,124	6,565	7,174	7,906	375	427	464	621	762
Public sector debt interest	28,749	31,363	31,555	31,281	44,136	0	0	0	0	0
Defence	31,242	31,045	33,247	33,590	34,735	891	2,536	3,466	4,023	4,245
Public order and safety	1,909	1,930	1,856	1,889	1,535	109	140	214	297	241
Economic affairs										
Enterprise and economic development	620	1,016	-177	381	-1,117	549	515	10,086	4,923	307
Science and technology	497	392	468	516	553	280	215	176	189	130
Employment policies	18	12	18	25	6	0	0	0	0	0
Agriculture, forestry and fisheries	0	1	1	0	0	0	0	0	0	0
Transport	207	241	259	238	211	188	155	96	99	111
Environment protection	561	313	-13	840	966	1,086	1,106	1,167	1,084	1,347
Housing and community amenities	0	0	0	0	0	0	0	0	0	0
Health	721	907	917	1,076	1,249	50	54	67	37	132
Recreation, culture and religion	3,591	3,859	3,718	3,868	3,777	295	576	1,261	1,522	1,591
Education and training	36	43	41	41	2	0	0	0	0	1
Social protection	2,822	3,019	3,346	3,551	3,694	9	6	5	12	10
EU transactions	-1,802	-1,531	-2,931	71	2,922	0	0	0	0	0
Total	79,999	83,732	83,934	89,500	105,142	3,911	5,744	17,482	13,043	9,203

Box 5.2 – Debt Interest Payments

The debt interest payment expenditure in the above tables refers to payments to cover interest on outstanding UK Government debt. As there is no separate identification of Scotland's share of UK public sector net debt in UK public financial accounts they do not provide a separate Scottish debt interest expenditure. 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.

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 2.

Estimates for Scotland over the period 2006-07 to 2010-11, 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 2006-07 to 2010-11					
	(£ million)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Current revenue					
Excluding North Sea revenue	42,272	45,167	43,391	41,916	45,177
Including North Sea revenue (per capita share)	43,026	45,796	44,479	42,462	45,914
Including North Sea revenue (geographical share)	49,776	52,282	55,131	47,846	53,128
Total current expenditure (including capital consumption and accounting adjustments)	49,223	52,389	54,138	57,099	59,517
Less debt interest payments (as used in headline GERS estimates)	-2,428	-2,644	-2,655	-2,628	-3,700
Total current expenditure on services consumed within current financial year	46,796	49,744	51,483	54,470	55,817
Current balance on public services consumed within current financial year					
Excluding North Sea revenues	-4,523	-4,578	-8,092	-12,554	-10,640
Including North Sea revenues (per capita share)	-3,770	-3,949	-7,004	-12,009	-9,903
Including North Sea revenues (geographical share)	2,980	2,538	3,648	-6,624	-2,689

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). The differences between TME and TES are described in detail in Annex C. In most years, TES amounts to approximately 95 per cent of TME. To reconcile TES and TME, an accounting adjustment is introduced such that TES plus the accounting adjustment equals TME.

The largest component of the UK accounting adjustment is general government capital consumption. It is a measure of the amount of fixed capital resources used up in the process of the provision of public services. In 2010-11, the UK general government capital consumption of £15.2 billion represented 67.2 per cent of the total UK accounting adjustment. Table 5.15 shows the component disaggregation of the UK accounting adjustment. The total UK accounting adjustment was estimated at £22.7 billion in 2010-11.

Table 5.15: Accounting Adjustment: UK 2006-07 to 2010-11					
	(£ million)				
	2006-07	2007-08	2008-09	2009-10	2010-11
UK total managed expenditure (TME)	550,045	582,937	629,223	669,736	687,805
UK total expenditure on services (TES)	523,120	555,283	603,431	643,153	665,132
UK accounting adjustment	26,925	27,654	25,792	26,583	22,673
of which:					
Central government capital consumption	5,951	6,170	6,544	6,700	7,200
Local government capital consumption	6,466	6,774	7,164	7,550	8,027
Current VAT refunds	9,419	9,701	9,952	9,354	10,777
Capital VAT refunds	1,705	1,883	1,934	1,834	2,194
Nigerian debt cancellation	1,406	0	0	0	0
Student loans subsidy ¹	-305	-1,046	-814	-1,466	-1,746
Imputed subsidy from Local Authorities to the Housing Revenue Account ²	1,528	1,535	1,477	1,500	1,581
Imputed flows for Renewable Obligation Certificates ³	474	487	472	470	535
Residual ⁴	281	2,150	-937	641	-5,895

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.

⁴The residual for the UK in 2010-11 is largely explained by a timing adjustment. The TES figure used in GERS is consistent with the latest CRA analysis, which is from June 2011. The TME figure in GERS is consistent with the public sector finances statistical bulletin published in January 2012. The June 2011 residual of -£2,034 million was revised down by £3,861 million in the January 2012 publication reflecting downward revisions to TME for 2010-11 made by the ONS.

The corresponding Scottish figures, as highlighted in Table 5.16, are calculated using a variety of apportionment methodologies described in Annex C. The total Scottish public sector accounting adjustment was estimated at £2.2 billion in 2010-11, or 9.6 per cent of the total UK accounting adjustment. The relatively higher proportion compared to a per capita share reflects the high share of general government capital consumption for Scotland.

Table 5.16: Accounting Adjustment: Scotland 2006-07 to 2010-11					
	(£ million)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Capital consumption:¹					
Central government capital consumption	528	544	580	594	645
Local government capital consumption	610	656	683	723	766
Current expenditure:	0	0	0	0	0
Current VAT refunds	840	878	905	888	1,006
Student loans subsidy ²	-42	-58	-17	-63	22
Imputed subsidy from Local Authorities to the Housing Revenue Account ³	158	146	126	119	76
Imputed flows for Renewable Obligation Certificates ⁴	35	48	56	55	60
Current expenditure residual	136	254	59	-46	-262
Capital expenditure:	0	0	0	0	0
Capital VAT refunds	152	171	176	174	197
Nigerian debt cancellation	119	0	0	0	0
Capital expenditure residual	-133	-133	-210	155	-327
Total accounting adjustment	2,403	2,506	2,358	2,598	2,182
Percentage of UK accounting adjustment	8.9%	9.1%	9.1%	9.8%	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.

6

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 2010-11 are as followed:

- In 2010-11, total public sector expenditure for the benefit of Scotland by the UK Government, Scottish Government and all other tiers of the public sector, including a per capita share of debt interest payments, was £63.8 billion. This is equivalent to 9.3 per cent of total UK public sector expenditure.
- In 2010-11, total Scottish non-North Sea public sector revenue was estimated at £45.2 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 £45.9 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 £53.1 billion (9.6 per cent of UK total public sector revenue).
- In 2010-11, the estimated current budget balance for the public sector in Scotland was a deficit of £14.3 billion (12.0 per cent of GDP) excluding North Sea revenue, a deficit of £13.6 billion (11.2 per cent of GDP) including a per capita share of North Sea revenue or a deficit of £6.4 billion (4.4 per cent of GDP) including an illustrative geographical share of North Sea revenue.
- In 2010-11, the UK as a whole ran a current budget deficit, including 100 per cent of North Sea revenue, worth £97.8 billion (6.6 per cent of GDP).
- In 2010-11, Scotland's estimated net fiscal balance was a deficit of £18.6 billion (15.6 per cent of GDP) when excluding North Sea revenue, a deficit of £17.9 billion (14.7 per cent of GDP) when including a per capita share of North Sea revenue or a deficit of £10.7 billion (7.4 per cent of GDP) when an illustrative geographical share of North Sea revenue is included.
- In 2010-11, 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 £136.1 billion (or 9.2 per cent of GDP).

Feedback from users of the publication is welcome. Please address any comments to

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A

FISCAL BACKGROUND

This annex 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)²¹. 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 2006-07 to 2010-11 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 expenditure²².

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 A.1.

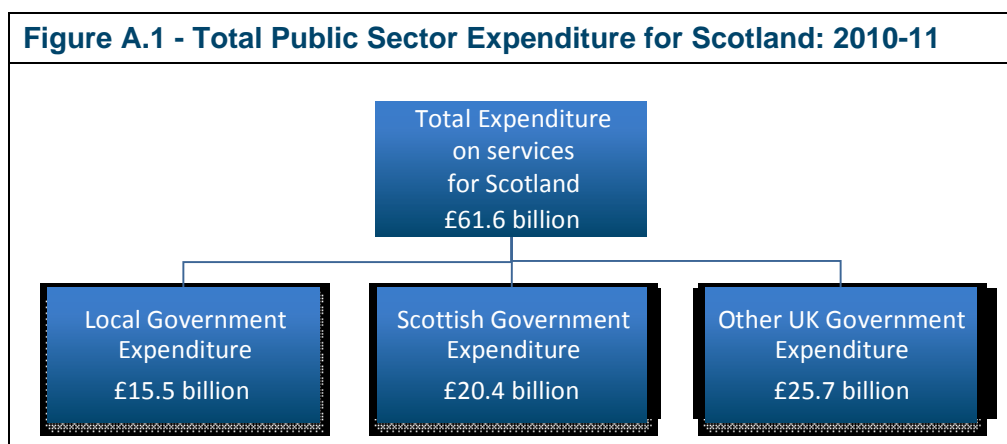
In this context, the term 'central government' comprises: parliaments; government departments and their executive agencies; government funds such as the national loans fund; the official foreign exchange reserves; non-departmental public bodies; NHS trusts and various other non-market public bodies controlled 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.

²¹ Total Managed Expenditure is a measure of public sector expenditure drawn from components in National Accounts produced by the Office for National Statistics (ONS).

²² Further information on COFOG is available on the UN's website <http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=4>

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.



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).

- 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.

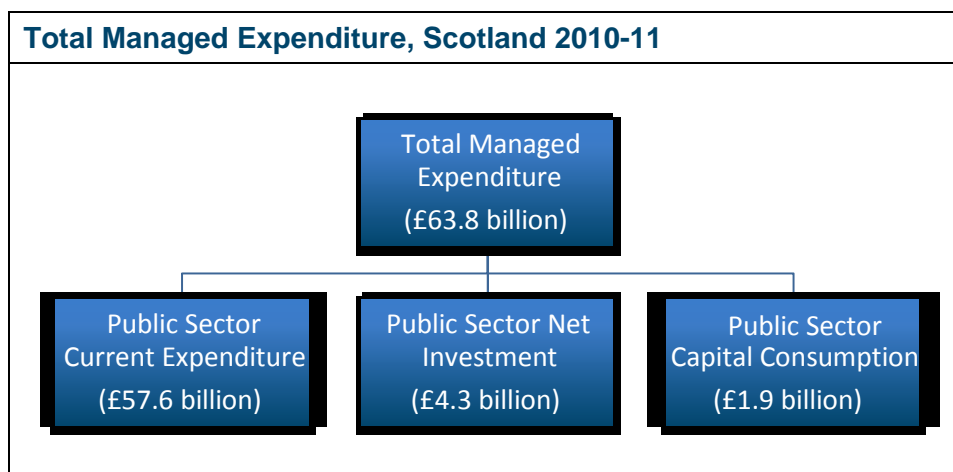
Box A.1 – Aggregate Scottish Public Sector Expenditure

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.

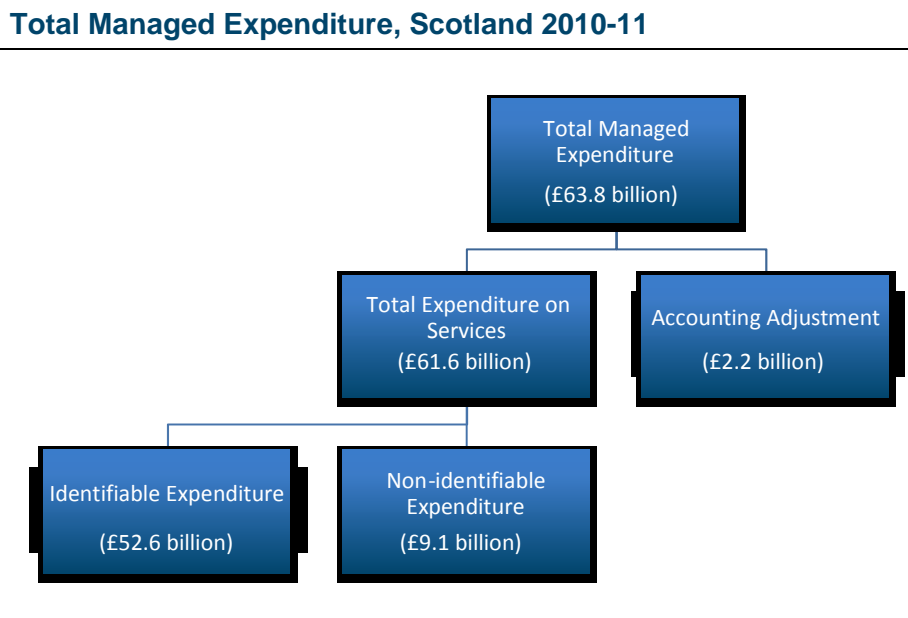


TME can also be expressed as the sum of Annually Managed Expenditure (AME) and Departmental Expenditure Limits (DEL). AME covers current and capital spending programmes which are generally less predictable and are not easily subject to firm multi-year limits. Key elements of AME include debt interest 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 5) 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 per cent 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 Annex C.



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 2010-11, the potential change in revenue from the full use of this power was approximately £1 billion²³.

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 61.

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

²³ HM Treasury – UK Budget 2009, page 156

B REVENUE METHODOLOGY

This annex outlines the methodologies used to estimate public sector revenue in Scotland. As the issue of North Sea revenue has been discussed extensively in Chapter 4, this annex 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 annex discusses these techniques. 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 3, 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 assumptions²⁴.

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 published in January 2012. 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'.

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

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

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.

Summary of Apportionment Methodologies

Table B.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 2009-10.

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

Table B.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 and Scottish Government analysis	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 annex)	Various (see web annex)	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	No
Fuel duties	Scotland's share of road traffic fuel consumption	Public Sector Finances: ONS	No
Stamp duties	Land and property stamp duty: Actual outturns for Scotland Stocks and shares: - Scotland/UK ratio of adults owning shares	ONS and GROS PESA PESA	No
Tobacco duties	Spend on tobacco in Scotland/UK	Fuel consumption statistics: DECC	No
Alcohol duties	Spend on alcohol in Scotland/UK	Land and property stamp duty: HMRC	No
Betting and gaming duties	Spend on betting and gaming in Scotland/UK	Stocks and shares: Family Resources Survey (DWP)	No
Air passenger duty	Scotland/UK population	Living Costs and Food Survey: ONS	No
Insurance premium tax	Scotland/UK population	Living Costs and Food Survey: ONS	No
Landfill tax	Scotland's share of UK tonnage of waste sent to landfill	ONS and GROS	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	ONS and GROS Scottish Environment Protection Agency, Environment Agency, Dept. of Environment in Northern Ireland	No
Aggregates levy	Scotland's share of UK's aggregate production	Electricity: DECC Gas: DECC Solid and other fuels: Regional Accounts: ONS	No
		United Kingdom Minerals Yearbook 2010: British Geological Survey	No

B Revenue Methodology

Table B.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 annex)	Various (see web annex)	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 annex)	Various (see web annex)	No
North Sea revenue	See Chapter 4	See Chapter 4	

Table B.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 2007-08 and 2008-09 has been revised upwards by 0.3 per cent and 0.6 per cent respectively. The estimate of public sector revenue for Scotland in 2009-10 has been revised down by 0.7 per cent. The 2006-07 estimate is unchanged.

Table B.2: Revision to Estimates of Total Non-North Sea Public Sector Revenue: 2006-07 to 2009-10				
	(£ million)			
	2006-07	2007-08	2008-09	2009-10
Scotland				
Estimates published in GERS 08-09	42,272	45,031	43,131	42,201
Estimates published in GERS 09-10	42,272	45,167	43,391	41,916
Revision	0	136	260	-285
UK				
Estimates published in GERS 08-09	510,260	541,367	520,310	506,669
Estimates published in GERS 09-10	510,260	541,435	519,805	506,847
Revision	0	68	-505	178
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 (% point)	0.0%	0.0%	0.1%	-0.1%

B Revenue Methodology

Table B.3 illustrates the revisions to individual public sector revenue streams in Scotland and the UK for 2009-10. The 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 £285 million and to increase the estimate of UK tax revenue by £178 million.

Table B.3: Revision to Estimates of Public Sector Revenue: Scotland and UK 2009-10		
	(£ million)	
	Scotland	UK
Income tax	-286	-349
Corporation tax (excluding North Sea)	81	0
Capital gains tax	-39	0
Other taxes on income and wealth	3	13
National insurance contributions	-178	0
VAT	-37	94
Fuel duties	23	0
Stamp duties	9	0
Tobacco duties	-5	0
Alcohol duties	68	0
Betting and gaming and duties	0	0
Air passenger duty	0	0
Insurance premium tax	0	-1
Landfill tax	-8	-2
Climate change levy	1	0
Aggregates levy	10	0
Inheritance tax	0	0
Vehicle excise duty	20	108
Non-domestic rates	-1	47
Council tax	0	126
Other taxes, royalties and adjustments	36	224
Interest and dividends	-25	-216
Gross operating surplus	37	49
Rent and other current transfers	5	85
Revision	-285	178

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.

C

EXPENDITURE METHODOLOGY

This annex 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 2010-11, TES accounted for approximately 97 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 Treasury²⁵. 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.

For this publication, a timing adjustment to the PESA CRA database has been made in relation to EU transactions in 2009-10 and 2010-11. The adjustment ensures consistency with the latest figures published in HM Treasury's European Union Finances 2011 (December 2011).²⁶ These adjustments lower total UK expenditure by £2 million and £155 million in 2009-10 and 2010-11 respectively.

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.

²⁵ http://www.hm-treasury.gov.uk/pespb_natstats_oct2011.htm

²⁶ http://www.hm-treasury.gov.uk/d/european_union_finances_2011.pdf

The methodologies used are listed in Table C.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.

Table C.1: Apportionment Methodologies for Non-Identifiable Expenditure: Scotland 2006-07 to 2010-11^{1, 2}		
	Non-Identifiable Expenditure	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	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 2010-11, capital consumption for Scotland was estimated at £1.4 billion (9.3 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 Annex B), 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 on a per capita basis.

In summary, the accounting adjustment for Scotland was estimated at £2.2 billion in 2010-11, 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 C2 below. In the financial year 2010-11, the figure of total expenditure attributed to Scotland in GERS is £440 million lower than the corresponding PESA figure (using default apportionments for non-identifiable expenditure without further consideration). Table C3 sets out in detail the sources of these revisions.

Table C.2: Amendments to Estimates of Total Public Sector Expenditure from PESA 2011: UK and Scotland 2006-07 to 2010-11

	(£ million)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Total Expenditure in Scotland (PESA) ²⁷	50,630	53,793	56,861	59,841	62,065
Total Expenditure in Scotland (GERS)	50,407	53,464	56,507	59,427	61,625
Total revision to expenditure in Scotland	-223	-329	-354	-415	-440

²⁷ In this analysis, an estimate of total expenditure from PESA has been calculated as the sum of all identifiable expenditure plus a proportion of non-identifiable expenditure/outside UK expenditures using the default apportionments noted in table B1 above. This figure therefore excludes all amendments documented in this annex.

Table C.3: Amendments to Estimates of Total Public Sector Expenditure from PESA 2011: 2006-07 to 2010-11

	(£ million)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Nuclear-related expenditure	-115	-134	-77	-124	-140
Cross-border policing	-56	-49	-54	-61	-49
Railways expenditure	-10	-81	-119	-104	-98
Olympics	-13	-33	-68	-83	-90
Pensions revisions	11	8	3	1	-5
Other minor revisions	-41	-40	-39	-44	-59
Total	-223	-329	-354	-415	-440

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 GERS²⁸, 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 GERS²⁹, 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

As discussed in previous editions of GERS³⁰, all capital expenditure associated with the Olympics has been assigned to the rest of the UK, primarily London and surrounding area, on the basis that Scotland will not receive a lasting benefit from the infrastructure and regeneration associated with the games. Current expenditure on the Olympics has been

²⁸ See Box 5.3 in GERS 2010: <http://www.scotland.gov.uk/Publications/2010/06/22160331/9>

²⁹ See Box 5.1 in GERS 2009: <http://www.scotland.gov.uk/Publications/2009/06/18101733/8>

³⁰ See Box 6.3 in GERS 2010-11: <http://www.scotland.gov.uk/Publications/2011/06/21144516/8>

assigned across the countries and regions of the UK using the projected regional distribution of the associated increase in tourism expenditure.

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.

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. A new minor amendment has been made in relation to inward investment expenditures in this edition of GERS.

Revisions to Expenditure Estimates from GERS 2009-10

Tables C.4 and C.5 set out the changes in estimates of public expenditure in Scotland and the UK between this report and GERS 2009-10. 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 C.4 displays the difference between the estimates of total expenditure in GERS 2009-10 and those contained in Chapter 5 of this publication.

Total public sector expenditure for Scotland in 2009-10 has been revised up by £257 million (0.4 per cent of total expenditure). For the UK as a whole, total expenditure has been revised up by £3.9 billion in 2009-10 (0.6 per cent of total expenditure). Almost all 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 C.4: Revisions to Estimates of Total Expenditure: Scotland 2006-07 to 2009-10

	(£ million)			
	2006-07	2007-08	2008-09	2009-10
Scotland				
GERS 2009-10	50,274	53,299	56,342	59,170
GERS 2010-11	50,407	53,464	56,507	59,427
Revision	133	165	165	257
Of which revisions made in PESA 2011	141	163	143	255
UK				
GERS 2009-10	522,853	555,619	602,102	639,238
GERS 2010-11	523,120	555,283	603,431	643,153
Revision	267	-336	1,329	3,915
Of which revisions made in PESA 2011	266	-336	1,329	3,917
Scotland/UK Ratio				
GERS 2009-10	9.6%	9.6%	9.4%	9.3%
GERS 2010-11	9.6%	9.6%	9.4%	9.2%
Revision (% point)	0.0%	0.0%	0.0%	0.0%

All other revisions are net changes between GERS 2009-10 and GERS 2010-11.

Total Revision to Expenditure (including accounting adjustment)

The overall change in Total Managed Expenditure (TME) between GERS 2009-10 and GERS 2010-11 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 absolute revisions to TME are less than 0.3 per cent.

Table C.5: Revisions to Estimates of Total Managed Expenditure: Scotland 2006-07 to 2009-10

	(£ million)			
	2006-07	2007-08	2008-09	2009-10
Total Expenditure on Services				
GERS 2009-10	50,274	53,299	56,342	59,170
GERS 2010-11	50,407	53,464	56,507	59,427
Accounting Adjustment				
GERS 2009-10	2,418	2,503	2,571	2,916
GERS 2010-11	2,403	2,506	2,358	2,598
Total Managed Expenditure				
GERS 2009-10	52,692	55,803	58,913	62,086
GERS 2010-11	52,810	55,969	58,866	62,025
Revision to Total Managed Expenditure	118	166	-47	-61

D

LIST OF ABBREVIATIONS

AEF	Aggregate External Finance
AME	Annually Managed Expenditure
BNF	British Nuclear Fuels
CGT	Capital Gains Tax
CG	Central Government
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
DVLA	Driver and Vehicle Licensing Agency
DWP	Department for Work and Pensions
EED	Enterprise and Economic Development
ESA	European System of Accounts
EU	European Union
GDP	Gross Domestic Product (at market prices)
GERS	Government Expenditure and Revenue Scotland
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 Budget Responsibility
ONS	Office for National Statistics
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

D List of Abbreviations

PSNB	Public Sector Net Borrowing
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
UKCS	UK Continental Shelf
VAT	Value Added Tax
WGA	Whole of Government Accounts

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 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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Other contacts for Scottish statistics

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The Scottish Funding Councils for Higher and Further Education	(0131) 313 6575
General Register Office for Scotland - Vital statistics and publications - Population statistics, census statistics or digital boundary products	(0131) 314 4243 (0131) 314 4254

For **general enquiries about National Statistics** in the United Kingdom Government contact the National Statistics Public Enquiry Service on

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You can also find National Statistics on the internet - go to **www.statistics.gov.uk**

If you would like to be consulted about new or existing statistical collections or receive notification of forthcoming statistical publications, please register your interest on the Scottish Government ScotStat website at **www.scotland.gov.uk/scotstat**

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/Topics/Statistics**

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
	Gross Domestic Product for Scotland for the third quarter of 2011	18/01/2012	Free
	Scottish Manufactured Exports Estimates for the third quarter of 2011	18/01/2012	Free
	Scotland's Global Connections 2010	25/01/2012	Free
	Input-Output Tables and Multipliers for Scotland (1998 – 2007)	13/10/2010	Free
	Scottish National Accounts Project for the third quarter of 2011	17/02/2012	Free

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