

GOVERNMENT
EXPENDITURE & REVENUE
SCOTLAND 2012-13

MARCH 2014



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SCOTLAND 2012-13

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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 towards the goods and services provided for the benefit of Scotland under the current constitutional arrangements. The estimates in this publication are consistent with the UK Public Sector Finances published in February 2014.
- 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.

Scottish Public Sector Revenue

Table E.1: Total Current Revenue: Scotland 2008-09 to 2012-13

	(£ million)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Excluding North Sea revenue	43,772	42,054	44,318	46,315	47,566
Including North Sea revenue (per capita share)	44,820	42,557	45,023	47,264	48,118
Including North Sea revenue (geographical share)	55,349	47,733	51,773	56,315	53,147
	(% of Total UK Revenue)				
Excluding North Sea revenue	8.4%	8.2%	8.1%	8.2%	8.2%
Including North Sea revenue (per capita share)	8.4%	8.2%	8.1%	8.2%	8.2%
Including North Sea revenue (geographical share)	10.3%	9.2%	9.3%	9.8%	9.1%

- In 2012-13, total Scottish non-North Sea public sector revenue was estimated at £47.6 billion, (8.2% of total UK non-North Sea revenue). Including a per capita share of North Sea revenue, total Scottish public sector revenue was estimated at £48.1 billion (8.2% 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 (9.1% of UK total public sector revenue).

Public Sector Expenditure for Scotland

Table E.2: Public Sector Total Managed Expenditure: Scotland 2008-09 to 2012-13

	2008-09	2009-10	2010-11	2011-12	2012-13
Total Public Sector Expenditure for Scotland (£ millions)	59,440	62,087	64,095	64,869	65,205
Total Public Sector Expenditure for Scotland (% of UK Total)	9.4%	9.2%	9.2%	9.3%	9.3%

- In 2012-13, total public sector expenditure for Scotland, including a per capita share of UK debt interest payments, was £65.2 billion, 9.3% of UK public sector expenditure.

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 budget 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 excluding capital investment.
- 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 2008-09 to 2012-13**

	(£ million)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Scotland - Excluding North Sea revenue	-10,695	-15,235	-15,753	-14,632	-14,180
Scotland - Including North Sea revenue (per capita share)	-9,647	-14,732	-15,049	-13,684	-13,628
Scotland - Including North Sea revenue (geographical share)	883	-9,556	-8,299	-4,632	-8,599
UK	-50,808	-108,900	-100,546	-88,663	-91,930
	(% of GDP)				
Scotland - Excluding North Sea revenue	-9.0%	-13.1%	-12.9%	-11.6%	-11.2%
Scotland - Including North Sea revenue (per capita share)	-8.0%	-12.5%	-12.1%	-10.7%	-10.6%
Scotland - Including North Sea revenue (geographical share)	0.6%	-7.1%	-5.7%	-3.1%	-5.9%
UK	-3.5%	-7.6%	-6.7%	-5.7%	-5.8%

- In 2012-13, the estimated current budget balance for the public sector in Scotland was a deficit of £14.2 billion (11.2% of GDP) excluding North Sea revenue, a deficit of £13.6 billion (10.6% of GDP) including a per capita share of North Sea revenue, or a deficit of £8.6 billion (5.9% of GDP) including an illustrative geographical share of North Sea revenue.
- In 2012-13, the UK as a whole ran a current budget deficit, including 100% of North Sea revenue, of £91.9 billion (5.8% of GDP).

Net Fiscal Balance**Table E.4: Net Fiscal Balance: Scotland and UK 2008-09 to 2012-13**

	(£ million)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Scotland - Excluding North Sea revenue	-15,668	-20,033	-19,777	-18,553	-17,639
Scotland - Including North Sea revenue (per capita share)	-14,620	-19,530	-19,072	-17,605	-17,087
Scotland - Including North Sea revenue (geographical share)	-4,091	-14,354	-12,322	-8,554	-12,058
UK	-99,355	-157,293	-139,199	-117,382	-114,756
	(% of GDP)				
Scotland - Excluding North Sea revenue	-13.2%	-17.2%	-16.1%	-14.7%	-14.0%
Scotland - Including North Sea revenue (per capita share)	-12.1%	-16.5%	-15.3%	-13.7%	-13.3%
Scotland - Including North Sea revenue (geographical share)	-2.9%	-10.7%	-8.5%	-5.8%	-8.3%
UK	-6.9%	-11.0%	-9.3%	-7.6%	-7.3%

- In 2012-13, Scotland's estimated net fiscal balance was a deficit of £17.6 billion (14.0% of GDP) when excluding North Sea revenue, a deficit of £17.1 billion (13.3% of GDP) when including a per capita share of North Sea revenue, or a deficit of £12.1 billion (8.3% of GDP) when an illustrative geographical share of North Sea revenue is included.
- In 2012-13, the equivalent UK position including 100% of North Sea revenue, referred to in the UK Public Sector Accounts as net borrowing, was a deficit of £114.8 billion (or 7.3% of GDP).

PREFACE

This report is the twentieth 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 towards 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 within the current constitutional framework.

GERS captures the entire public sector in Scotland and includes activity by each of the constituent parts 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 UK Statistics Authority is the independent body responsible for assessing whether statistics comply with the Code. GERS was reassessed as part of the UK Statistics Authority's 2013-14 work programme. The assessment report (number 274) was published in February 2014. The statistics in GERS are found to be readily accessible, produced according to sound methods and managed impartially and objectively in the public interest. The Authority has confirmed GERS' designation as National Statistics. The full report is available at the following link:

<http://www.statisticsauthority.gov.uk/assessment/assessment/assessment-reports/index.html>

Following recommendations in the assessment report, a small number of changes have been made to this year's publication. Firstly, further detail is provided on the methodology for estimating and quality assuring Scotland's illustrative geographical share of North Sea revenues in Chapter 4. Secondly, a comparison of revenue estimates published in GERS with the new experimental estimates of tax receipts for the four countries of the UK produced by HMRC is provided in Chapter 3. The Scottish Government, the Northern Ireland Executive and HMRC are committed to working together to reconcile, and where possible, align methodologies for estimating regional tax receipts. A joint statement on the different statistics is available on the GERS website.

¹ <http://www.ons.gov.uk>

The Approach

Unlike some countries, the UK fiscal framework does not provide separate detailed intra-country or inter-regional outturn 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. Secondly, in the absence of direct Scottish data, GERS estimates expenditure and revenue using the best available information and most appropriate apportionment methodologies, refined over many years following consultation with and feedback from users.

What Questions Does GERS Address?

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

1. What 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 revenue and expenditure in GERS embrace two key principles:

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

Both issues are discussed in detail below.

Revenue

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

In GERS the estimation of public sector revenues is based on an assessment according to the ‘who pays’ principle. This 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 A and the more detailed methodology note on the GERS website provide a detailed discussion of the methodologies and datasets used.

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 B and the more detailed methodology note on the GERS website provide a detailed discussion of the methodologies and datasets used to undertake this task.

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 UK Government website.²

The source of the revenue data in GERS is ONS’s Public Sector Finances Statistical Bulletin, 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 the estimates of Scottish Gross Domestic Product (GDP) in current market prices published in the Scottish Quarterly National Accounts (QNA) as part of the Scottish National Accounts Project (SNAP). Further information on the Scottish QNA is available on the Scottish Government website - <http://scotland.gov.uk/snap>.

Additional Information on the GERS Website

The GERS website is regularly updated with additional analysis of Scotland’s public sector finances. In addition to containing copies of the GERS report from 1990-91 onwards, the website also contains the tables underpinning this edition of GERS in excel form and experimental statistics providing a consistent time series of Scotland’s public sector finances from 1980-81 to 2012-13. Experimental quarterly fiscal balance estimates for Scotland are

² <https://www.gov.uk/government/publications/country-and-regional-analysis-2013>

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.

also available on the website. These estimates cover the first quarter of 1980 to the first quarter of 2013 on a non-seasonally adjusted basis, consistent with the financial year estimates in this publication.

As noted above, the Scottish Government, other devolved administrations, and HMRC are committed to working together to reconcile, and where possible, align methodologies for estimating regional tax receipts. Progress reports on this work will also be available on the GERS website.

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

Correction

A clerical error was discovered in Box 3.1, which compares the GERS estimates of revenues to those produced by HMRC. The table incorrectly summarised the HMRC values for North Sea revenues, meaning that the reported differences between GERS and HMRC figures were too low. It has now been corrected.

This error did not reflect any issue with underlying data and had no impact on any of the GERS statistics or on any other result in the publication.

Future Work

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

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1

INTRODUCTION AND OVERVIEW

Introduction

GERS 2012-13 estimates public sector revenue and expenditure for Scotland for the years 2008-09 to 2012-13 under the current constitutional arrangements. Particular focus is given to 2012-13, the latest fiscal year for which outturns of revenue and expenditure are available. All figures are in current prices.

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 2008-09 and 2012-13. 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. total current revenue less total managed expenditure).

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 uses the same definitions as 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.

Public sector expenditure is also divided into two categories: identifiable expenditure and non-identifiable expenditure. 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.

Chapter 6: Conclusion

Chapter 6 provides a short summary of the key results.

Annex A: Revenue Methodology

Annex A provides a brief summary of the various methodologies that have been applied to estimate public sector revenue in Scotland. 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 source.⁴

Annex B: Expenditure Methodology

Annex B provides a brief summary of the various methodologies that have been applied to estimate public sector expenditure for Scotland. It also highlights where the data contained in GERS differ from those in the underlying CRA database. More detailed analysis is also available on the GERS website.⁵

Annex C: Revisions

Annex C provides a summary of the extent and nature of the revisions to the previous estimates of revenue, expenditure, and balances between this edition of GERS and GERS 2011-12.

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 2008-09 to 2012-13 under the current constitutional arrangements. It outlines the latest estimates of public sector revenue in Scotland and expenditure for Scotland, and includes:

- Headline estimates of total 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.

Current and Capital Budgets

The following tables set out estimates of public sector revenue and expenditure for Scotland for the financial years 2008-09 to 2012-13. The figures for revenue and expenditure correspond to the estimates contained in Chapters 3, 4 and 5.⁶

Current revenue, as defined in the UK National Accounts, is the sum of all revenue raised in a particular year by the entire public sector.⁷ 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).

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, excluding capital investment by the public sector. It is therefore

⁶ All figures in GERS are in current 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

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.

The underlying estimates of the UK public sector finances published by the Office for Budget Responsibility (OBR) exclude a number of temporary and one-off transfers associated with the UK Government's financial sector interventions in 2008-09, the Royal Mail pension scheme transfer and the Bank of England Asset Purchase Facility. To ensure consistency, the same approach is adopted in GERS. Estimates of Scotland's public finances including these factors are provided in Box 2.4.

Table 2.1: Current and Capital Budgets: Scotland 2008-09 to 2012-13

	(£ million)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Current Budget					
Current revenue					
Excluding North Sea revenue	43,772	42,054	44,318	46,315	47,566
Including North Sea revenue (per capita share)	44,820	42,557	45,023	47,264	48,118
Including North Sea revenue (geographical share)	55,349	47,733	51,773	56,315	53,147
Current expenditure	52,681	55,406	58,127	58,909	59,627
Capital consumption	1,786	1,884	1,945	2,039	2,119
Balance on current budget (surplus is positive, deficit is negative)					
Excluding North Sea revenue	-10,695	-15,235	-15,753	-14,632	-14,180
Including North Sea revenue (per capita share)	-9,647	-14,732	-15,049	-13,684	-13,628
Including North Sea revenue (geographical share)	883	-9,556	-8,299	-4,632	-8,599
Capital Budget					
Capital expenditure	6,760	6,681	5,968	5,960	5,579
Capital consumption	-1,786	-1,884	-1,945	-2,039	-2,119
Net Investment	4,974	4,798	4,023	3,921	3,459
Net Fiscal Balance (surplus is positive, deficit is negative)					
Excluding North Sea revenue	-15,668	-20,033	-19,777	-18,553	-17,639
Including North Sea revenue (per capita share)	-14,620	-19,530	-19,072	-17,605	-17,087
Including North Sea revenue (geographical share)	-4,091	-14,354	-12,322	-8,554	-12,058

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 2008-09 to 2012-13

	(per cent of GDP)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Current Budget					
Current revenue (Excluding North Sea revenue)	36.9%	36.2%	36.2%	36.8%	37.7%
Current expenditure	44.4%	47.7%	47.4%	46.8%	47.2%
Capital consumption	1.5%	1.6%	1.6%	1.6%	1.7%
Balance on current budget (surplus is positive, deficit is negative)					
Excluding North Sea revenue	-9.0%	-13.1%	-12.9%	-11.6%	-11.2%
Capital Budget					
Capital expenditure	5.7%	5.8%	4.9%	4.7%	4.4%
Capital consumption	-1.5%	-1.6%	-1.6%	-1.6%	-1.7%
Net Investment	4.2%	4.1%	3.3%	3.1%	2.7%
Net Fiscal Balance (surplus is positive, deficit is negative)					
Excluding North Sea revenue	-13.2%	-17.2%	-16.1%	-14.7%	-14.0%

Table 2.2b: Current and Capital Budgets (Per Capita Share North Sea Revenue) % GDP: Scotland 2008-09 to 2012-13

	(per cent of GDP)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Current Budget					
Current revenue (Including per capita share of North Sea revenue)	37.0%	36.0%	36.1%	36.9%	37.5%
Current expenditure	43.5%	46.9%	46.5%	46.0%	46.5%
Capital consumption	1.5%	1.6%	1.6%	1.6%	1.7%
Balance on current budget (surplus is positive, deficit is negative)					
Including North Sea revenue (per capita share)	-8.0%	-12.5%	-12.1%	-10.7%	-10.6%
Capital Budget					
Capital expenditure	5.6%	5.7%	4.8%	4.7%	4.3%
Capital consumption	-1.5%	-1.6%	-1.6%	-1.6%	-1.7%
Net Investment	4.1%	4.1%	3.2%	3.1%	2.7%
Net Fiscal Balance (surplus is positive, deficit is negative)					
Including North Sea revenue (per capita share)	-12.1%	-16.5%	-15.3%	-13.7%	-13.3%

**Table 2.2c: Current and Capital Budgets (Geographical Share North Sea Revenue)
% GDP: Scotland 2008-09 to 2012-13**

	(per cent of GDP)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Current Budget					
Current revenue (Including geographical share of North Sea revenue)	38.8%	35.5%	35.7%	38.3%	36.7%
Current expenditure	36.9%	41.3%	40.0%	40.0%	41.2%
Capital consumption	1.3%	1.4%	1.3%	1.4%	1.5%
Balance on current budget (surplus is positive, deficit is negative)					
Including North Sea revenue (geographical share)	0.6%	-7.1%	-5.7%	-3.1%	-5.9%
Capital Budget					
Capital expenditure	4.7%	5.0%	4.1%	4.1%	3.9%
Capital consumption	-1.3%	-1.4%	-1.3%	-1.4%	-1.5%
Net Investment	3.5%	3.6%	2.8%	2.7%	2.4%
Net Fiscal Balance (surplus is positive, deficit is negative)					
Including North Sea revenue (geographical share)	-2.9%	-10.7%	-8.5%	-5.8%	-8.3%

Box 2.1 – UK Public Sector Accounts

The tables below provide estimates of the UK's Public Sector Accounts over the period 2008-09 to 2012-13, as set out in the ONS Public Sector Finances Statistical Bulletin published in February 2014. They are prepared on a consistent basis with the estimates in Tables 2.1 and 2.2. The figures show that, in 2012-13, the estimated current budget balance for the UK public sector was a deficit of £91.9 billion (5.8% 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 £114.8 billion (7.3% of GDP).

Current and Capital Budgets: UK 2008-09 to 2012-13 (£ million)

	2008-09	2009-10	2010-11	2011-12	2012-13
Current Budget					
Current revenue	536,271	516,109	555,506	576,933	586,925
Current expenditure	567,933	605,010	635,268	643,980	656,345
Capital consumption	19,146	19,999	20,784	21,616	22,510
Balance on current budget	-50,808	-108,900	-100,546	-88,663	-91,930
Capital Budget					
Capital expenditure	67,693	68,392	59,437	50,335	45,336
Capital consumption	-19,146	-19,999	-20,784	-21,616	-22,510
Net Investment	48,547	48,393	38,653	28,719	22,826
Net Fiscal Balance	-99,355	-157,293	-139,199	-117,382	-114,756

Current and Capital Budgets: UK 2008-09 to 2012-13 (% of GDP)					
	2008-09	2009-10	2010-11	2011-12	2012-13
Current Budget					
Current revenue	37.2%	36.0%	37.0%	37.2%	37.3%
Current expenditure	39.4%	42.2%	42.3%	41.6%	41.7%
Capital consumption	1.3%	1.4%	1.4%	1.4%	1.4%
Balance on current budget	-3.5%	-7.6%	-6.7%	-5.7%	-5.8%
Capital Budget					
Capital expenditure	4.7%	4.8%	4.0%	3.2%	2.9%
Capital consumption	-1.3%	-1.4%	-1.4%	-1.4%	-1.4%
Net Investment	3.4%	3.4%	2.6%	1.9%	1.5%
Net Fiscal Balance	-6.9%	-11.0%	-9.3%	-7.6%	-7.3%

Current Budget Balance

In 2012-13, excluding North Sea revenue, current expenditure exceeded current revenue in Scotland leading to a current budget deficit of £14.2 billion, or 11.2% 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 10.6% of GDP), as illustrated in Table 2.2b.

In 2012-13, including an illustrative geographical share of North Sea revenue, total current expenditure for Scotland exceeded current revenue to yield a current budget deficit of £8.6 billion (or 5.9% of GDP) as illustrated in Table 2.2c. In 2012-13, the equivalent UK current budget position, including 100% of all North Sea revenue, was a deficit of £91.9 billion (or 5.8% 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 2008-09 to 2012-13, the estimated cumulative current budget balance in Scotland when North Sea revenue is excluded was a deficit of £70.5 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 £30.2 billion. The cumulative current budget balance for the UK over this period, including 100% of North Sea revenue, was a deficit of £440.8 billion.

Net Fiscal Balance

The net fiscal balance is equal to the difference between total public sector revenue and total public sector 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 2012-13, excluding North Sea revenue, total revenue was less than total expenditure yielding a net fiscal deficit of £17.6 billion (or 14.0% of GDP). With a per capita share of North Sea revenue the estimated net fiscal deficit for Scotland was £17.1 billion (or 13.3% of GDP). Including an illustrative geographical share of North Sea revenue, Scotland's net fiscal deficit was £12.1 billion (or 8.3% of GDP). In 2012-13, the equivalent UK position including 100% of all North Sea revenue, referred to in the UK Public Sector Accounts as 'net borrowing', was a deficit of £114.8 billion (or 7.3% 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 effect of the global financial

2 Scotland's Public Sector Accounts

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.

In 2012-13, the net fiscal balance for Scotland excluding the North Sea improved from a deficit of 14.7% of GDP to a deficit of 14.0% of GDP. Including a per capita share of North Sea revenue, Scotland's net fiscal balance improved from a deficit of 13.7% to 13.3%. This reflects two factors. Firstly, onshore tax receipts grew by 2.7% in 2012-13, with national insurance contributions and VAT seeing the largest growth in cash terms. Secondly, total public spending for Scotland grew by 0.5% in cash terms between 2011-12 and 2012-13. This is slower than the growth in public spending observed in recent years.

Scotland's net fiscal deficit, including an illustrative geographical share of North Sea revenue increased from 5.8% of GDP in 2011-12 to 8.3% of GDP in 2012-13. The increase in Scotland's deficit under this scenario reflects the fact that Scotland's illustrative geographical share of North Sea oil and gas revenues is estimated to have fallen from £10.0 billion in 2011-12 to £5.6 billion in 2012-13.

North Sea tax receipts are driven by a number of factors, including the oil price, the sterling dollar exchange rate, production, operating expenditure and capital investment. The drivers of the decline in 2012-13 were primarily production and capital investment. Production in the North Sea fell by 15% between 2011-12 and 2012-13.⁸ This above trend fall in production reflects a combination of unplanned production stoppages at several large gas fields and higher levels of maintenance activity in the North Sea. Secondly, capital investment in the North Sea has risen in recent years, which has reduced companies' tax liabilities.

⁸ Experimental estimates of oil and gas production in Scotland's illustrative geographical share of the North Sea are published as part of the Scottish National Accounts Project - <http://scotland.gov.uk/Topics/Statistics/Browse/Economy/SNAP/expstats/oilandgas/>

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 offshore North Sea activities.

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

Scottish GDP Including and Excluding North Sea GDP: 2008-09 to 2012-13

	(£ million)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Scottish GDP					
Excluding North Sea GDP	118,669	116,190	122,551	125,841	126,313
Including per capita share of North Sea GDP	121,154	118,070	124,879	128,080	128,275
Including geographical share of North Sea GDP	142,616	134,272	145,161	147,120	144,672

Source: Scottish Quarterly National Accounts, <http://www.scotland.gov.uk/snap>

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

UK GDP: 2008-09 to 2012-13

	(£ million)				
	2008-09	2009-10	2010-11	2011-12	2012-13
UK GDP	1,442,253	1,432,213	1,502,176	1,549,085	1,573,541

Source: ONS

Current Revenue

Table 2.3 provides estimates of Scottish public sector current revenue by economic category for the years 2008-09 to 2012-13. A more detailed discussion and breakdown of revenue is provided in Chapters 3 and 4 and in Annex A.

Table 2.3: Summary of Current Revenue by Economic Category: Scotland 2008-09 to 2012-13

	(£ million)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Taxes on income and wealth	14,180	13,186	13,808	14,076	14,299
National insurance contributions	7,987	7,912	7,967	8,284	8,521
Taxes on production and imports	14,539	14,769	16,238	17,366	17,636
Other current taxes	2,690	2,744	2,738	2,847	2,868
Taxes on capital	245	206	175	229	243
Gross operating surplus	3,416	2,897	2,936	3,012	3,247
Rent and other current transfers	81	64	46	47	128
Interest and dividends from private sector and abroad	634	276	410	454	623
Total current non-North Sea revenue	43,772	42,054	44,318	46,315	47,566
North Sea revenue					
Per capita share	1,048	503	705	948	552
Geographical share	11,577	5,679	7,454	10,000	5,581
Total current revenue (including North Sea revenue)					
Per capita share	44,820	42,557	45,023	47,264	48,118
Geographical share	55,349	47,733	51,773	56,315	53,147

In 2012-13, total current revenue, excluding revenue from the North Sea was estimated to be approximately £47.6 billion. This represented a nominal increase of 2.7% on the previous year.

As Table 2.3 highlights, Scotland's illustrative geographical share of North Sea revenue increased in both 2010-11 and 2011-12. However, in 2012-13, this share of North Sea revenue fell by 44.2% to £5.6 billion as discussed earlier in this chapter.

Public Sector Expenditure

This section presents summary estimates of total public sector expenditure for Scotland for the years 2008-09 to 2012-13. The estimates of total public sector expenditure provided in GERS are based on the National Accounts aggregate Total Managed Expenditure (TME), which is equal to the sum of total current and capital expenditure. This ensures that the estimates in this report are produced on the same basis as the estimates of total public expenditure for the UK in the National Accounts.

In 2012-13 total public sector expenditure for Scotland was £65.2 billion. As outlined in Table 2.4, Scotland accounted for 9.3% of total UK public spending in 2012-13.

Table 2.4: Total Managed Expenditure: Scotland and UK 2008-09 to 2012-13

	(£ million)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Total Managed Expenditure for Scotland	59,440	62,087	64,095	64,869	65,205
Total Managed Expenditure for the UK	635,625	673,403	694,705	694,315	701,681
Total Managed Expenditure for Scotland as share of UK (%)	9.4%	9.2%	9.2%	9.3%	9.3%

Table 2.5 provides estimates for the six largest functions of public sector expenditure. Over the five year period since 2008-09, total public sector expenditure grew by 9.7% in nominal terms. However, growth has slowed in more recent years, with public spending increasing by 0.5% in cash terms between 2011-12 and 2012-13.

Social protection expenditure, which includes social transfers through the benefit system, and health are the two largest categories of spending in Scotland. They grew by 21.1% and 10.0% respectively between 2008-09 and 2012-13.

Table 2.5: Summary of Public Sector Expenditure: Scotland 2008-09 to 2012-13

	(£ million)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Social protection	18,543	20,076	20,692	21,159	22,458
Health	10,255	10,679	10,938	11,046	11,284
Education and training	7,528	7,729	7,651	7,490	7,651
General public services	4,867	4,780	6,124	6,387	6,068
Defence	3,096	3,167	3,292	3,237	3,027
Public order and safety	2,619	2,694	2,804	2,860	2,529
Other	12,532	12,962	12,594	12,690	12,188
Total Managed Expenditure	59,440	62,087	64,095	64,869	65,205

For a more detailed breakdown of expenditure, refer to Chapter 5 and Annex B.

Box 2.3: Total Public Sector Expenditure as a Share of GDP

The table below presents the estimates of Scottish and UK total public sector expenditure as a share of GDP.

In 2012-13, the ratio of TME for Scotland to GDP was 51.6% excluding North Sea GDP and 50.8% including a per capita share. This ratio falls to 45.1% when an illustrative geographical share of North Sea GDP is included. In comparison, UK TME was equivalent to 44.6% of GDP in 2012-13, including 100% of North Sea GDP.

Such statistics provide a useful illustration of the relative size of public spending between countries and over time 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: 2008-09 to 2012-13					
	(per cent of GDP)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Scottish TME as a Share of GDP:					
Excluding North Sea GDP	50.1%	53.4%	52.3%	51.5%	51.6%
Including per capita share of North Sea GDP	49.1%	52.6%	51.3%	50.6%	50.8%
Including geographical share of North Sea GDP	41.7%	46.2%	44.2%	44.1%	45.1%
UK TME as a share of GDP:					
Including 100% of North Sea GDP	44.1%	47.0%	46.2%	44.8%	44.6%

Box 2.4 Additional Measures of Scotland's Public Sector Finances

The headline measures of the UK public sector finances have been affected by a number of one-off or temporary factors in recent years. The primary change is that the majority of the UK Government's financial sector interventions in 2007-08 and 2008-09 were classified as having a temporary impact on the UK public finances and as such are excluded from headline measures of the UK public sector finances. A similar presentation is adopted in GERS.

In addition to this, there have been further temporary factors which are included in the headline measures of the UK public finances from 2012-13 onwards. These changes are:

- Transfers of the excess cash held in the Bank of England's Asset Purchase Facility (APF) to the Exchequer. These reduced UK public sector net borrowing in 2012-13 by £6.4 billion. Scotland is allocated a per capita share of these revenues in GERS (£535 million).
- The transfer of the Royal Mail's historic pension deficit and associated assets to the public sector in 2012-13 reduced UK net investment, and therefore public sector net borrowing, by £28.0 billion in 2012-13. Scotland is allocated a per capita share (£2.3 billion) of this transfer.

The Office for Budget Responsibility (OBR) focuses on underlying public sector net borrowing in its assessments of the UK public finances. This excludes the temporary effects of the UK Government's financial sector interventions, the transfers from the Bank of England's APF and the transfer of the Royal Mail's historic pension deficit and associated assets. The ONS also publish estimates of the UK public finances on this basis. These effects are excluded as doing provides an assessment of the longer term trends in the public finances. The OBR also present a headline figure which excludes only the temporary effects of the UK Government's financial sector interventions.

Following a consultation of users from October to December 2013,⁹ GERS presents estimates on a similar basis. The main tables in GERS are on the underlying basis excluding all the temporary measures described above, and are therefore directly

⁹ <http://scotland.gov.uk/Topics/Statistics/Browse/Economy/GERS/Consultation>

comparable to the measures of underlying UK public sector finances reported by the ONS and OBR.

The table below demonstrates the impact that including the transfers from the Bank of England's APF and the transfer of the Royal Mail's historic pension deficit and associated assets would have on the estimates of Scotland's net fiscal balance and current budget balance in 2012-13, earlier years are not affected by these changes. The corresponding UK totals published by the ONS are also provided for reference.

Overall Fiscal Position - Including Temporary Effects 2012-13				
	Excluding North Sea	Per Capita Share of North Sea	Geographic Share of North Sea	UK
Current Budget Balance - £ million	-13,645	-13,093	-8,064	-85,502
Current Budget Balance - % of GDP	-10.8%	-10.2%	-5.6%	-5.4%
Net Fiscal Balance - £ million	-14,768	-14,215	-9,186	-80,328
Net Fiscal balance - % of GDP	-11.7%	-11.1%	-6.3%	-5.1%

As part of a consultation on their UK Public Sector Finances publication, the ONS has announced plans to change the reporting of UK figures later this year.¹⁰ This will also reflect changes to international guidance on National Accounts which are contained in the European System of Accounts 2010. These changes are expected to result in a simplification of the reporting of public sector finances in future.

¹⁰ <http://www.ons.gov.uk/ons/about-ons/get-involved/consultations/consultations/consultation-on-proposals-from-the-review-of-public-sector-finance-statistics/index.html>

3

PUBLIC SECTOR REVENUE

Introduction

This chapter provides detailed estimates of Scottish public sector revenue, including analysis of the tax revenues which are currently devolved, and those which will be devolved via the Scotland Act 2012. As discussed in Chapter 2, public sector revenue estimates presented in this chapter exclude the revenues associated with the Bank of England Asset Purchase Facility.

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 A and in the detailed revenue methodology paper on the GERS website.¹¹

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. As discussed in the Preface, HMRC published experimental estimates of some taxes for the four countries in the UK in October 2013. Box 3.1 compares the HMRC estimates with those in this publication.

Estimated Revenue 2012-13

Table 3.1 highlights estimated public sector revenue in Scotland and the outturn data for the UK in 2012-13. 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 2012-13, total public sector non-North Sea current revenue in Scotland was estimated to be £47.6 billion. This is equivalent to 8.2% of UK total non-North Sea current revenue which is broadly in line with Scotland's share of the UK population.¹²

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

¹² Scotland's share of the UK population in 2012-13 was 8.3%. Scotland's share of UK less extra-regio GVA was 8.1% (National Records of Scotland (NRS), Quarterly National Accounts Scotland and UK Economic Accounts).

Table 3.1: Current Revenue: Scotland 2012-13

	Scotland		UK	Scotland as % of UK
	£ million	% of total non-North Sea revenue	£ million	
Income tax	10,865	22.8%	147,731	7.4%
Corporation tax (excluding North Sea)	2,872	6.0%	34,384	8.4%
Capital gains tax	292	0.6%	3,926	7.4%
Other taxes on income and wealth	271	0.6%	3,122	8.7%
National insurance contributions	8,521	17.9%	104,483	8.2%
VAT	9,347	19.7%	112,072	8.3%
Fuel duties	2,258	4.7%	26,571	8.5%
Stamp duties	472	1.0%	9,140	5.2%
Tobacco duties	1,128	2.4%	9,590	11.8%
Alcohol duties	980	2.1%	10,139	9.7%
Betting and gaming and duties	120	0.3%	1,228	9.8%
Air passenger duty	234	0.5%	2,818	8.3%
Insurance premium tax	207	0.4%	3,033	6.8%
Landfill tax	100	0.2%	1,116	8.9%
Climate change levy	62	0.1%	654	9.5%
Aggregates levy	45	0.1%	261	17.3%
Inheritance tax	243	0.5%	3,150	7.7%
Vehicle excise duty	481	1.0%	6,003	8.0%
Non-domestic rates ¹	1,981	4.2%	25,072	7.9%
Council tax	2,006	4.2%	26,279	7.6%
Other taxes, royalties and adjustments ²	1,082	2.3%	12,895	8.4%
Interest and dividends	623	1.3%	7,617	8.2%
Gross operating surplus	3,247	6.8%	27,591	11.8%
Rent and other current transfers	128	0.3%	1,418	9.0%
Total current revenue (excluding North Sea revenue)	47,566	100%	580,293	8.2%
North Sea revenue ³				
Per capita share	552		6,632	8.3%
Geographical share	5,581		6,632	84.2%
Total current revenue (including North Sea revenue)				
Per capita share	48,118		586,925	8.2%
Geographical share	53,147		586,925	9.1%

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 43.2% (£450 million) of this estimate for Scotland. This group also contains a small accounting adjustment to align the revenue estimates to those in the February 2013 UK Public Sector Finances Statistical Bulletin. This adjustment is apportioned to Scotland on a population share basis.

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 2012-13, income tax revenue was estimated at £10.9 billion – almost a quarter of all public sector revenue in Scotland (excluding revenue 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 £9.3 billion in 2012-13 – 19.7% of total non-North Sea revenues. National insurance contributions represented the third largest source of revenue, accounting for 17.9% of total non-North Sea revenues.

Gross operating surplus (GOS) refers to the operating (or trading) surpluses (or losses) of central government, local government and public corporation trading activity. It was the fourth largest revenue source in Scotland during 2012-13, generating approximately £3.2 billion in revenue, 6.8% of total non-North Sea revenue in Scotland.

Scotland accounted for 11.8% of the total UK GOS in 2012-13. Scotland's relatively large share of the UK GOS is partly due to Scottish Water which is one of the largest contributors to UK public corporations' GOS. The equivalent water companies in England and Wales are outside the public sector and hence do not contribute to their GOS.¹³

Corporation tax (excluding that from the North Sea) represented the fifth largest revenue source in Scotland in 2012-13 with receipts of £2.9 billion. This was equivalent to 6.0% of total non-North Sea current revenue.¹⁴

After these five main categories, all other types of tax listed each individually accounted for 4.7%, or less, of total non-North Sea revenue in Scotland in 2012-13.

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, reflecting in part differing income distributions, with relatively fewer higher rate tax payers in Scotland. For VAT, corporation tax (excluding North Sea) and national insurance contributions, Scotland's share of UK revenue was broadly in line with its share of the UK population. Revenue from duties on betting and gaming, alcohol and tobacco were higher than Scotland's share of the UK population.

Table 3.2 shows estimates of Scotland's share of UK revenue for five key tax groups between 2008-09 and 2012-13. In each year during this period, total non-North Sea revenue in Scotland has accounted for between 8.1% and 8.4% of UK non-North Sea revenue, broadly in line with Scotland's share of the UK population.

¹³ A more detailed discussion of GOS is provided in the detailed revenue methodology paper on the GERS website.

¹⁴ 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.

Table 3.2: Non-North Sea Current Revenue: Scotland as Share of UK 2008-09 to 2012-13

	(per cent of UK revenue)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Income tax	7.3%	7.3%	7.2%	7.4%	7.4%
Corporation tax (excluding North Sea revenue)	8.5%	8.3%	8.0%	8.4%	8.4%
National Insurance contributions	8.3%	8.2%	8.2%	8.2%	8.2%
Value added tax	8.6%	8.6%	8.4%	8.3%	8.3%
Local authority revenue ¹	7.9%	7.9%	8.0%	7.8%	7.8%
All other revenue	9.6%	9.4%	9.0%	9.2%	9.2%
Total non-North Sea current revenue	8.4%	8.2%	8.1%	8.2%	8.2%

1. Council tax and non-domestic rates

Box 3.1: Comparison between GERS and experimental HMRC estimates

Any analysis of public sector receipts in Scotland relies on estimation, and as such alternative estimates are possible. GERS has always sought to use the best possible methodologies, derived in consultation with its users. The methodologies used in GERS have been developed over time to ensure they meet user needs, in particular following a major review in 2007.

In a new addition to data available in this area, HM Revenue & Customs (HMRC) published in October 2013 experimental statistics on the breakdown of taxes collected by HMRC in the four countries of the UK. The statistical estimates remain in development and are currently the subject of a consultation which closes at the end of March 2014. In the meantime, HMRC advise that they are used with caution.

In most cases, the two sets of estimates in GERS and the HMRC publication are very similar. For some taxes, there are definitional differences which mean that the figures in the two publications should not be directly compared. For example, within GERS VAT receipts are shown before the removal of VAT refunds, whilst HMRC figures present VAT receipts including the removal of VAT refunds. For other taxes, notably corporation tax and revenues from oil and gas production, there are methodological differences between the different publications.

HMRC and the devolved administrations recognise that it is helpful to users of their publications to have consistent sets of official statistics wherever possible. HMRC and the devolved administrations are committed to working together to reconcile, and where possible, align methodologies for estimating regional tax receipts. While some differences may remain, the aim is to ensure a clear understanding of the reasons for any differences and to highlight these to users and the impact that this may have on any results. HMRC, the Scottish Government, and the Northern Ireland Executive have published a joint statement on this issue, which is available on the GERS website.¹⁵ This work is ongoing and updates will be added in the future.

The table below compares the estimates in GERS with those implied by the HMRC publication, both in cash terms and as a share of GDP.

¹⁵ <http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/GERS/RelatedAreas>

Estimates of Total Scottish Tax Revenues 2008-09 to 2012-13					
	£ million				
	2008-09	2009-10	2010-11	2011-12	2012-13
Cash estimates: onshore revenues					
GERS	43,772	42,054	44,318	46,315	47,566
HMRC ¹	43,579	42,025	44,701	46,198	47,717
Difference	193	29	-383	117	-151
Difference (% GDP)	0.2%	0.0%	-0.3%	0.1%	-0.1%
Cash estimates: geographical share of North Sea revenues					
GERS	11,577	5,679	7,454	10,000	5,581
HMRC ¹	10,490	5,257	7,206	9,372	5,231
Difference	1,087	423	249	628	350
Difference (% GDP)	0.8%	0.3%	0.2%	0.4%	0.2%
Share of UK total: onshore revenues					
GERS	8.4%	8.2%	8.1%	8.2%	8.2%
HMRC ¹	8.3%	8.2%	8.2%	8.2%	8.2%
Difference (% point)	0.0%	0.0%	-0.1%	0.0%	0.0%
Share of UK total: geographical share of North Sea revenues					
GERS	92.9%	94.8%	88.7%	88.2%	84.2%
HMRC	84.2%	87.7%	85.7%	82.7%	78.9%
Difference (% point)	8.7%	7.1%	3.0%	5.5%	5.3%

¹ For revenues not estimated by HMRC, the GERS estimate has been included in the HMRC figure to allow the totals to be comparable

Further information on the HMRC results and methodology is available at:
<https://www.gov.uk/government/publications/disaggregation-of-hmrc-tax-receipts>

Note to users
A clerical error was discovered in the above table relating to the estimate of North Sea revenue published by HMRC. This error did not reflect any issue with underlying data and had no impact on any of the GERS statistics or on any other result in the publication. It has now been corrected.

Estimated Revenue: Scotland and the UK, 2008-09 to 2012-13

Table 3.3 overleaf shows estimated current revenue in Scotland and the UK between 2008-09 and 2012-13. Current non-North Sea revenue in Scotland is estimated to have grown by 8.7% between 2008-09 and 2012-13 in nominal terms, less than for the UK as a whole (10.8%). This difference is largely explained by the slower estimated growth in gross operating surplus, VAT, and stamp duties in Scotland compared to the UK as a whole. The effect of the recession on the public finances is clearly visible, with non-North Sea revenues falling in both Scotland and the UK during 2009-10. From 2009-10, receipts recovered and have continued to increase in both Scotland and the UK.

3 Public Sector Revenue

Table 3.3: Current Revenue: Scotland and UK 2008-09 to 2012-13,										
	(£ million)									
	Scotland					UK				
	2008-09	2009-10	2010-11	2011-12	2012-13	2008-09	2009-10	2010-11	2011-12	2012-13
Income tax	10,547	10,277	10,589	10,776	10,865	143,791	140,606	146,627	146,548	147,731
Corporation tax (excl North Sea)	2,816	2,535	2,787	2,762	2,872	33,025	30,538	34,968	32,695	34,384
Capital gains tax	568	164	202	278	292	7,851	2,504	3,590	4,336	3,926
Other taxes on income and wealth	249	210	354	261	271	2,741	2,361	6,134	2,974	3,122
National insurance contributions	7,987	7,912	7,967	8,284	8,521	96,613	96,638	97,747	101,597	104,483
VAT	7,377	7,161	8,143	9,136	9,347	85,350	83,710	97,277	109,800	112,072
Fuel duties	2,095	2,234	2,324	2,276	2,258	24,615	26,197	27,256	26,798	26,571
Stamp duties	594	517	573	511	472	8,002	7,904	8,931	8,919	9,140
Tobacco duties	842	1,024	1,064	1,168	1,128	7,896	9,462	9,305	9,878	9,590
Alcohol duties	814	892	910	978	980	8,598	9,246	9,434	10,180	10,139
Betting and gaming and duties	105	106	98	122	120	994	1,029	1,069	1,221	1,228
Air passenger duty	168	162	183	227	234	1,835	1,870	2,183	2,637	2,818
Insurance premium tax	167	165	173	205	207	2,271	2,262	2,509	3,002	3,033
Landfill tax	82	85	98	96	100	863	944	1,094	1,075	1,116
Climate change levy	64	61	62	64	62	711	687	660	678	654
Aggregates levy	50	49	55	48	45	321	276	294	283	261
Inheritance tax	245	206	175	229	243	2,931	2,431	2,722	2,955	3,150
Vehicle excise duty	458	466	470	477	481	5,602	5,692	5,789	5,930	6,003
Non-domestic rates	1,736	1,822	1,892	1,933	1,981	21,925	22,639	22,715	23,980	25,072
Council tax	1,960	1,961	1,969	1,984	2,006	24,651	25,210	25,732	25,964	26,279
Other taxes, royalties and adjustments	717	806	837	988	1,082	8,012	9,174	9,617	11,881	12,895
Interest and dividends	634	276	410	454	623	7,614	3,407	4,947	5,489	7,617
Gross operating surplus	3,416	2,897	2,936	3,012	3,247	26,698	24,617	25,980	26,258	27,591
Rent and other current transfers	81	64	46	47	128	905	714	520	519	1,418
Total current revenue (excluding North Sea revenue)	43,772	42,054	44,318	46,315	47,566	523,815	510,118	547,100	565,597	580,293
North Sea revenue										
Per capita share	1,048	503	705	948	552	12,456	5,991	8,406	11,336	6,632
Geographical share	11,577	5,679	7,454	10,000	5,581	12,456	5,991	8,406	11,336	6,632
Total current revenue (including North Sea revenue)										
Per capita share	44,820	42,557	45,023	47,264	48,118	536,271	516,109	555,506	576,933	586,925
Geographical share	55,349	47,733	51,773	56,315	53,147	536,271	516,109	555,506	576,933	586,925

Table 3.4 shows per capita tax receipts for Scotland and the UK between 2008-09 and 2012-13. Excluding North Sea revenue, per capita receipts in Scotland are estimated to be £8,947 in 2012-13. Including an illustrative geographical share of North Sea revenue, Scottish per capita receipts in Scotland 2012-13 are estimated to be £9,997. UK per capita receipts, which include all North Sea revenues, were £9,200 in 2012-13. When oil and gas receipts are excluded, UK per capita receipts were £9,096 in 2012-13.

Table 3.4: Current Revenue Per Capita: Scotland and UK 2008-09 to 2012-13					
	2008-09	2009-10	2010-11	2011-12	2012-13
Scotland					
Excluding North Sea revenue	8,401	8,028	8,406	8,730	8,947
Including North Sea revenue (per capita share)	8,602	8,124	8,540	8,909	9,051
Including North Sea revenue (geographical share)	10,623	9,112	9,820	10,615	9,997
UK					
Excluding North Sea revenue	8,457	8,178	8,699	8,921	9,096
Including North Sea revenue	8,659	8,274	8,832	9,100	9,200
Difference (Scotland minus UK)					
Excluding North Sea revenue	-57	-151	-292	-191	-148
Including North Sea revenue (per capita share)	-57	-151	-293	-191	-148
Including North Sea revenue (geographical share)	1,964	838	988	1,515	798

Box 3.2 The Emissions Trading Scheme and Carbon Reduction Commitment

This box sets out the methodology used to assign Scotland a share of UK receipts from the Emissions Trading Scheme (ETS) and the Carbon Reduction Commitment. Prior to September 2013, ETS receipts were not included in the UK Public Sector Finances and so were not reflected in GERS 2011-12. These revenues are classified as other taxes, royalties, and adjustments, with the exception of estimated ETS revenue from offshore oil and gas, which is classified as a North Sea revenue.

Emissions Trading Scheme

Receipts from the EU Emissions Trading Scheme have not previously been included in the ONS UK Public Sector Finances. Following a change in European guidance on their treatment, these receipts were included for the first time in the September 2013 Public Sector Finances publication. This affects historical receipts from 2009-10 onwards.

The Emissions Trading Scheme operates by requiring firms to have allowances to emit greenhouse gases. The scheme covers power stations, oil refineries, offshore platforms, aviation and many other industries.

To calculate Scotland's share of ETS revenues, the UK total has been split into onshore, overseas (including Ministry of Defence (MoD)), and North Sea oil and gas revenues using data on ETS allowances provided by the Environment Agency and the Scottish Environment Protection Agency.

Scotland's share of onshore ETS receipts has been estimated using data on allowances held by Scottish installations. MoD and overseas ETS revenues are allocated to Scotland on a population basis, consistent with the GERS methodology in similar areas. Similarly, revenues from offshore oil and gas platforms have three treatments, and are allocated to Scotland on either a zero share, a per capita share, or an illustrative geographical production share. The results are set out in the table below. Further detail is provided in the revenue methodology paper on the GERS website.

Emissions Trading Scheme Revenues 2008-09 to 2012-13					
	(£ million)				
	2008-09	2009-10	2010-11	2011-12	2012-13
UK revenues					
Onshore revenues	0	54	230	321	552
MoD and overseas revenues	0.0	0.1	0.2	0.3	0.5
North Sea revenues	0	3	14	19	33
Scottish revenues					
Onshore revenues	0	5	23	32	55
MoD and overseas revenues	0.00	0.00	0.02	0.03	0.04
North Sea revenues - per capita share	0	0	1	2	3
North Sea revenues - production share	0	3	11	15	25

Carbon Reduction Commitment

The Carbon Reduction Commitment Energy Efficiency Scheme is a mandatory scheme aimed at improving energy efficiency and cutting emissions in large public and private sector organisations. Participants include supermarkets, water companies, banks, local authorities and all central government departments. Charges are based on an organisation's electricity consumption. The first receipts for the scheme are accrued to 2012-13.

UK receipts for the scheme in 2012-13 were £257 million. Based on its share of industrial electricity consumption, Scotland's estimated receipts are 7.7% of these revenues, or £19.7 million.

See Annex A for further details of the apportionment methodologies and data.

Devolved Taxation

Council Tax and Non-domestic Rates are the only two taxes which are currently set and administered by the Scottish Government and Scottish Local Authorities. Collectively the two taxes raised almost £4.0 billion during 2012-13 as outlined in the table below. This is equivalent to 8.4% of Scottish onshore tax revenue in this year.

	(£ million)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Council Tax	1,960	1,961	1,969	1,984	2,006
Non Domestic Rates	1,736	1,822	1,892	1,933	1,981
Total	3,696	3,783	3,861	3,917	3,987

The Scotland Act 2012 gives the Scottish Parliament new powers over taxation and borrowing.

From April 2015, Stamp Duty Land Tax (SDLT), which is levied by the UK Government on the conveyances and transfers of land and property, will be withdrawn in Scotland and replaced with the Land and Buildings Transaction Tax (LBTT). LBTT bands and rates will be determined by Scottish Ministers and subject to the scrutiny of the Scottish Parliament. Further information on the reforms is provided on the Scottish Government website.¹⁶

The table below sets out the revenue raised by SDLT in Scotland and the UK as a whole between 2008-09 and 2012-13. In 2012-13, SDLT raised £283 million in Scotland, equivalent to 4.1% of total UK SDLT receipts. SDLT receipts have been volatile in recent years, falling to £250 million in 2009-10 before recovering to £330 million in 2010-11. SDLT receipts fell back again to £275 million in 2011-12 and increased only marginally in 2012-13 to £283 million, 11.6% below their 2008-09 level.

	(£ million)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Scotland	320	250	330	275	283
UK	4,797	4,885	5,961	6,125	6,906
Scotland as % of the UK	6.7%	5.1%	5.5%	4.5%	4.1%

Landfill Tax, which is levied on the disposal of waste to landfill, will also be withdrawn in Scotland from April 2015. It will be replaced by a new Scottish Landfill Tax set and administered by the Scottish Government. Landfill Tax is estimated to have raised £100 million in Scotland during 2012-13, as outlined in the table below. This is equivalent to 8.9% of total UK landfill tax receipts. Landfill Tax revenue in both Scotland and the UK as a whole have been on an upward trend since 2008-09. This reflects a decision to increase annually the rate of tax on active waste sent to landfill during this period.

¹⁶ Scottish Government – Land and Building Transaction Tax
<http://www.scotland.gov.uk/Topics/Government/Finance/scottishapproach/lbtt>

Table 3.7: Landfill Tax Revenue: Scotland and UK 2008-09 to 2012-13

	(£ million)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Scotland	82	85	98	96	100
UK	863	944	1,094	1,075	1,116
Scotland as % of the UK	9.6%	9.0%	9.0%	8.9%	8.9%

From April 2016 the basic, higher and top rates of income tax levied on earned income by the UK Government in Scotland will be reduced by 10p. They will be replaced by a new Scottish Rate of Income Tax (SRIT), which will be set by the Scottish Government. The revenue collected from the SRIT will then form part of the Scottish budget. If the Scottish Government chooses to set the SRIT at 10p, the basic, higher and top rates of income tax in Scotland will remain at the same levels as in the rest of the UK.

The table below illustrates the revenue which would have been raised by the SRIT since 2008-09 assuming it was set at 10p in each year, therefore leaving the overall income tax rates unchanged. The table shows that in 2012-13 the SRIT would have generated approximately £4.2 billion.

Table 3.8: Scottish Rate of Income Tax Liabilities: Scotland 2008-09 to 2012-13

	(£ million)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Scottish Rate of Income Tax Liabilities	4,352	4,330	4,427	4,267	4,231

Note: this table shows Scottish Rate of Income Tax liabilities rather than receipts. They are therefore calculated on a different basis to the estimates of total Scottish income tax receipts in Table 3.1.

Collectively, existing devolved taxes (council tax and non-domestic rates), and the taxes which will be devolved under the Scotland Act generated an estimated £8.6 billion in revenue during 2012-13. This corresponds to approximately 18.1% of non-North Sea revenue in this year and 16.2% of total Scottish receipts when an illustrative geographical share of North Sea revenue is included.

Table 3.9: Devolved Taxes Revenue: Scotland 2008-09 to 2012-13

	(£ million)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Scottish Rate of Income Tax Liabilities	4,352	4,330	4,427	4,267	4,231
Landfill Tax	82	85	98	96	100
Stamp Duty Land Tax	320	250	330	275	283
Council Tax	1,960	1,961	1,969	1,984	2,006
Non Domestic Rates	1,736	1,822	1,892	1,933	1,981
Total	8,450	8,449	8,716	8,555	8,601
Devolved Taxes as % of non-North Sea Revenue	19.3%	20.1%	19.7%	18.5%	18.1%
Devolved Taxes as % Total Revenue (Including a population share of North Sea)	18.9%	19.9%	19.4%	18.1%	17.9%
Devolved Taxes as % Total Revenue (Including a geographical share of North Sea)	15.3%	17.7%	16.8%	15.2%	16.2%

4

NORTH SEA REVENUE

Introduction

This chapter provides a discussion of North Sea revenue and sets out the methodologies adopted in this publication.¹⁷

The North Sea Fiscal Regime

North Sea revenue in GERS has previously covered three key sources: petroleum revenue tax, corporation tax and licence fees. As discussed in Box 3.2, receipts from offshore installations as part of the Emissions Trading Scheme are now included in the public sector finances. Estimates of ETS receipts associated with North Sea oil and gas production are included in GERS as part of the overall revenue from the North Sea.

For the period 2008-09 to 2012-13, the taxation or charging regime for each of these elements was as follows:

1. Petroleum revenue tax (PRT): PRT was charged at a rate of 50% on field-based profits from oil and gas extraction on fields given development approval prior to March 1993 at which time it was abolished for all new fields. There were deductions for all exploration, appraisal, and development costs on a 100% first year basis with an uplift of 35% for field investment costs prior to field payback. There were also volume and safeguard allowances.
2. Corporation tax (CT): Ring-fenced corporation tax was charged at a rate of 30% on profits net of any PRT payments. A Supplementary Charge (SC) is levied on top of CT. The supplementary charge was increased to from 20% to 32% in March 2011 resulting in an overall corporation tax rate (CT + SC) of 62%.
3. Licence Fees: The UK Government grants licences for operators to "search and bore for and get"¹⁸ petroleum in specified areas for a set period of time. Operators pay an annual fee for holding these licences. Licence fees are charged at an escalating rate on each square kilometre that the licence covers.
4. EU Emissions Trading Scheme (ETS): The UK Government auctions allowances within the EU Emissions Trading Scheme, which grants operators the right to emit additional greenhouse gases.

¹⁷ The term North Sea revenue is generally used in GERS to refer to tax receipts levied on oil and gas production in the UK Continental Shelf (UKCS) as a whole and estimated ETS receipts from UKCS installations.

¹⁸ Petroleum Act 1998 - http://www.opsi.gov.uk/ACTS/acts1998/ukpga_19980017_en_1

4 North Sea Revenue

Annual North Sea revenue has fluctuated 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 2012-13^{1, 2}

Year	£ million	Year	£ million	Year	£ million	Year	£ million
1980-81	3,861	1989-90	2,502	1998-99	2,511	2007-08	7,474
1981-82	6,395	1990-91	2,342	1999-00	2,564	2008-09	12,456
1982-83	7,867	1991-92	1,017	2000-01	4,455	2009-10	5,991
1983-84	8,788	1992-93	1,338	2001-02	5,426	2010-11	8,406
1984-85	12,326	1993-94	1,266	2002-03	5,097	2011-12	11,336
1985-86	11,217	1994-95	1,673	2003-04	4,284	2012-13	6,632
1986-87	4,701	1995-96	2,341	2004-05	5,183		
1987-88	4,736	1996-97	3,351	2005-06	9,384		
1988-89	3,301	1997-98	3,330	2006-07	8,924		

1. Source: ONS Public Finance Statistics, 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 each component of North Sea revenue since 2008-09. Total North Sea revenue fell by 51.9% in nominal terms between 2008-09 and 2009-10, reflecting the decrease in wholesale oil and gas prices as a result of the global economic downturn. As wholesale oil and gas prices recovered, revenues rose again in both 2010-11 and 2011-12.

North Sea revenue decreased by 41.5% between 2011-12 and 2012-13. North Sea tax receipts are driven by a number of factors, including the oil price, the sterling dollar exchange rate, production, operating expenditure and capital investment. The drivers of the decline in 2012-13 were primarily production and capital investment. Production in the North Sea fell by 15% between 2011-12 and 2012-13.¹⁹ This above trend fall in production reflects a combination of unplanned production stoppages at several large gas fields and higher levels of maintenance activity in the North Sea. Secondly, capital investment in the North Sea has risen in recent years, which has reduced companies' tax liabilities.

Table 4.2: Composition of North Sea Revenue: UK 2008-09 to 2012-13

	(£ million)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Licence fees	63	67	70	67	69
North Sea corporation tax	9,826	4,998	6,864	9,218	4,793
Petroleum revenue tax	2,567	923	1,458	2,032	1,737
Emissions trading scheme revenues	0	3	14	19	33
Total	12,456	5,991	8,406	11,336	6,632

¹⁹ Experimental estimates of oil and gas production in Scotland's illustrative geographical share of the North Sea are published as part of the Scottish National Accounts Project -

<http://scotland.gov.uk/Topics/Statistics/Browse/Economy/SNAP/expstats/oilandgas/>

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 the same as 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.

Table 4.3: Per Capita Share of North Sea Revenue: Scotland 2008-09 to 2012-13					
	(£ million)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Total North Sea revenue	12,456	5,991	8,406	11,336	6,632
Scotland's per capita share	1,048	503	705	948	552
Scotland's percentage share of North Sea revenue	8.4%	8.4%	8.4%	8.4%	8.3%

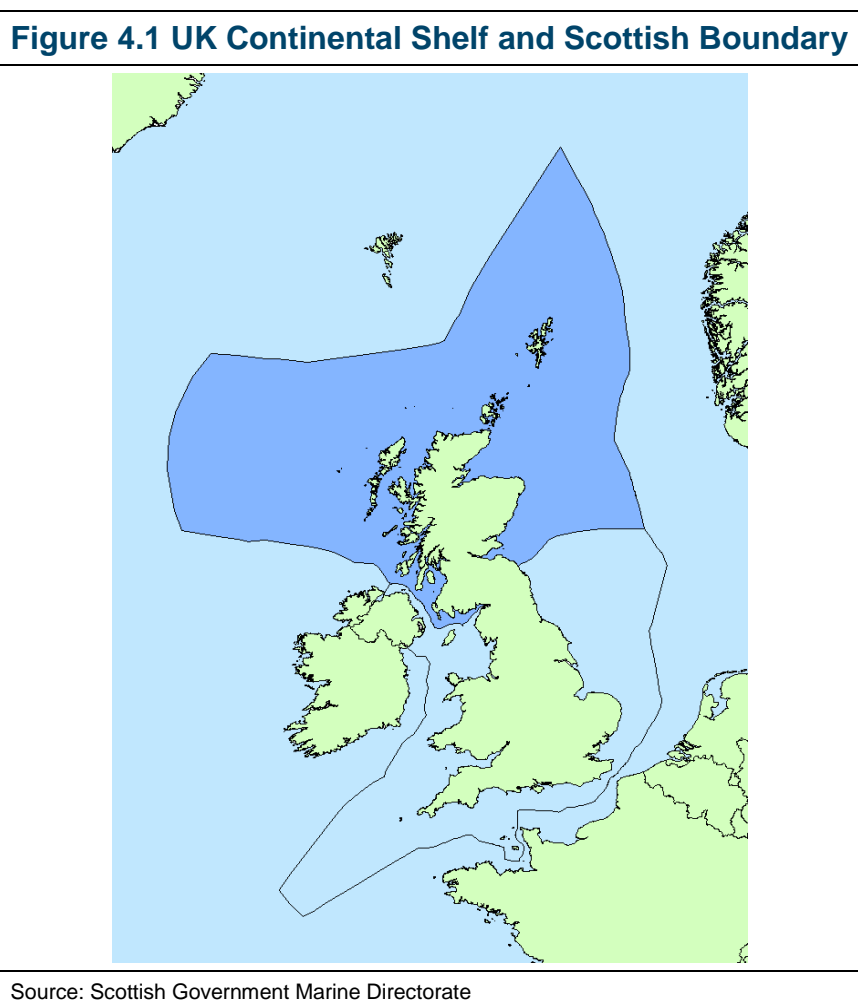
An Illustrative Geographical Share

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. Professor Kemp is Professor of Petroleum Economics and Director of Aberdeen Centre for Research in Energy Economics and Finance (ACREEF) at the University of Aberdeen. Professor Kemp and Linda Stephen have published extensively on licensing and taxation issues on the UK Continental Shelf (UKCS). Professor Kemp is the author of "The Official History of North Sea Oil and Gas", and is considered to be the leading expert in UK petroleum economics.

Methodology

The model used by the researchers to estimate Scotland's illustrative geographical share of North Sea activity was first detailed in a North Sea Study Occasional paper published by the University of Aberdeen in 1999²⁰. 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. UKCS production, costs and revenue is allocated on a field by field basis to either the rest of the UK or Scotland using this boundary.

Using this methodology, all fields in the Moray Firth, Northern North Sea, West of Shetland regions of the UKCS are allocated to Scotland. Fields in the Southern North Sea and Irish Sea are assigned to the rest of the UK. The Scottish boundary, based on the median line principle, intersects the Central North Sea (CNS) region. Fields in the CNS region to the north of the median line are assigned to Scotland and fields lying to the south assigned to the rest of the UK. No fields are intersected by the median line.



²⁰ http://aura.abdn.ac.uk/bitstream/2164/2956/1/Kemp_70.pdf

Kemp and Stephen estimate Scotland's share of tax revenue from Petroleum Revenue Tax, Ring Fenced Corporation Tax and the Supplementary Charge using a detailed financial model of the North Sea oil and gas sector. The model incorporates all changes made to the North Sea fiscal regime over the years. At an aggregate level the results produced by the model are consistent with HMRC estimates of tax revenues from oil and gas production in the UK.²¹

The model draws upon a database incorporating field and company level data for all of the UKCS that has been built up over a sustained number of years at the University of Aberdeen. Information on investment expenditures, operating costs, production, and decommissioning costs are incorporated in the database. Production data are consistent with DECC published field data.²²

The database contains information on all fields developed since the 1960s, including those which have development approval but are not yet producing. Also included are future fields which have not yet received development approval but are being considered for development by the operators concerned. Where possible the data has been validated by the operators and in other cases independent estimates have been made by the authors drawing on a range of different data sources as appropriate. The results of the modelling are tested against official published data for the whole of the UKCS relating to production, investment and operating expenditures, gross revenues, and tax revenues. The results are revised in the light of new information on production and expenditure.

Where the field database does not include field specific costs for legitimately deductible items for ring-fenced taxation (i.e. company level overhead costs, R&D expenditures, and loan interest) these are estimated, constraining to published totals, and allocated to the regions of the UKCS.

Company level costs are distributed across fields. For example, companies' exploration and appraisal costs are allocated across fields based on the respective number of wells in each field, as a measure of activity, adjusted for the relative cost of wells in different regions of the North Sea. A similar approach is adopted for allocating other eligible overheads between regions of the UKCS. For example, R&D expenditure and loan interest are allocated in relation to the percentage of total field development expenditures in the Scottish and rest of the UK sectors of the UKCS. Likewise, overheads are allocated between the two sectors in accordance with the share of total UKCS operating costs in the respective sectors.

Quality Assurance Process

Officials in the Scottish Government work closely with Kemp and Stephen to further quality assure the modelling results. This involves regular and iterative discussion about the findings and the model results. Of particular focus during these discussions are the drivers of changes in the results to ensure quality and better understanding of the model results.

In addition, Kemp and Stephen are actively involved in quality assurance of the commentary on the model results included in this publication to ensure they are satisfied that the results are being used appropriately and accurately. The Scottish Government also takes the following measures to be satisfied that the statistics are of high quality and fit for purpose.

²¹ <https://www.gov.uk/government/collections/petroleum-revenue-tax-prt-and-government-revenues-from-uk-oil-and-gas-production>

²² <https://www.gov.uk/oil-and-gas-uk-field-data>

The model results are compared with other sources of information to ensure that the key drivers are consistent with trends from other sources. This includes published information such as production, revenue, tax and cost data published by the Department of Energy and Climate Change (DECC) and Her Majesty's Revenue & Customs (HMRC) for the UK as a whole. Also used is propriety intelligence obtained by the Scottish Government. This includes corporate intelligence received from the oil and gas industry and other relevant factors. The Scottish Government also has access to detailed field level data from third party providers that informs the experimental quarterly Oil & Gas statistical release, which is used to quality assure the model results.²³

The Scottish Government is currently undertaking a process of significant investment in developing North Sea statistics. Estimates of revenues associated with the North Sea form a key part of the analysis presented in GERS and Scotland's wider economic statistics. Going forward, the Scottish Government will continue to consult with users as to how these statistics could be improved. This will involve working with other organisations with expertise on the North Sea and continuing to ensure that all Scottish Government statistics publications have a consistent treatment of the North Sea oil and gas industry.

The Scottish Government Oil and Gas model – which produces the information contained in the quarterly experimental statistics release – is being developed in accordance with these principles. The experimental results from the model were published for the first time in November 2013, and will now be produced quarterly incorporating user feedback and continual improvement. The early results coming from this model are used in addition to the other sources discussed above to quality assure the Kemp and Stephen analysis. The proposals for the next stage of development of these statistics will be discussed with the Scottish Economic Statistics User Group in Spring 2014.

Results

Kemp and Stephen's most recent analysis shows that Scotland's geographical share of oil production is estimated to have stood at 96.1% in 2012, while its geographical share of gas production is estimated to have stood at 46.6%. Scotland's share of total hydrocarbon production was 76.0% in 2012, down from 78.4% in 2011. The authors estimate that Scotland's illustrative geographical share of North Sea tax revenue was 85.2% in 2012. This is higher than Scotland's estimated share of production, reflecting that oil fields, which are more prevalent in Scottish waters, are relatively more profitable than gas fields, which tend to be concentrated in the Southern Gas Basin in the rest of the UK. However, it represents a fall in Scotland's share of North Sea tax receipts in 2011-12. This decline reflects two factors. Firstly, as outlined above, Scotland's share of overall production is estimated to have fallen between 2011-12 and 2012-13. Secondly, Kemp and Stephen estimate that investment and operating costs have increased more rapidly in the Scottish portion of the North Sea, thereby reducing the tax liabilities of companies operating in this area.

Using the above estimates of Scotland's illustrative geographical share of total North Sea production taxes and the methodology outlined in Box 3.2 for North Sea ETS receipts, it is possible to apportion the total UK revenue figure from the ONS Public Sector Finances Statistical Bulletin to Scotland. Table 4.4 provides estimates of Scotland's share of North

²³ <http://scotland.gov.uk/Topics/Statistics/Browse/Economy/SNAP/expstats/oilandgas/>

Sea revenue using this methodology.²⁴ The estimates of Scotland's illustrative geographical share of North Sea revenue for the years 2008-09 to 2011-12 have been revised since the last edition of GERS. Further discussion of these revisions can be found in Annex C.

Table 4.4: Geographical Share of North Sea Revenue: Scotland 2008-09 to 2012-13

	(£ million)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Total North Sea revenue	12,456	5,991	8,406	11,336	6,632
Scotland's geographical share	11,577	5,679	7,454	10,000	5,581
Scotland's percentage share of North Sea revenue	92.9%	94.8%	88.7%	88.2%	84.2%

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 2012-13, using a per capita and geographical share respectively.

Table 4.5: Current Revenue (Per Capita Share of North Sea Revenue): Scotland 2012-13

	Scotland		UK	Scotland as % of UK revenue
	£ million	% of total revenue	£ million	
Total current revenue (excluding North Sea revenue)	47,564	98.9%	580,293	8.2%
North Sea revenue	552	1.1%	6,632	8.3%
Total current revenue	48,117	100%	586,925	8.2%

Table 4.6: Current Revenue (Geographical Share of North Sea Revenue): Scotland 2012-13

	Scotland		UK	Scotland as % of UK revenue
	£ million	% of total revenue	£ million	
Total current revenue (excluding North Sea revenue)	47,564	89.5%	580,293	8.2%
North Sea revenue	5,581	10.5%	6,632	84.2%
Total current revenue	53,146	100.0%	586,925	9.1%

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

²⁴ 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.

4 North Sea Revenue

is, 8.2% in 2012-13. In contrast, under an illustrative geographical share, Scotland's estimated share of total UK current revenue increased to 9.1% in the same year.

5

PUBLIC SECTOR EXPENDITURE

Introduction

This chapter provides detailed estimates of public sector expenditure for Scotland. As discussed in Chapter 2, the expenditure estimates presented here exclude the transfer of the Royal Mail Pension Plan to the public sector.

The primary data source used to estimate Scottish public sector expenditure is the November 2013 Country and Regional Analysis (CRA) published by HM Treasury.²⁵ In addition to this, data provided directly by HM Treasury is used to provide a complete measure of Total Managed Expenditure, the headline measure of aggregate public spending in the UK Public Sector Finances.

This chapter divides public sector expenditure into two categories: identifiable expenditure and non-identifiable expenditure.

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.²⁶

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 B discusses the relevant apportionment methodologies applied while Annex C provides information on the revisions from previous reports.

²⁵ Available from <https://www.gov.uk/government/publications/country-and-regional-analysis-2013> users should note that the spending category, 'EU Transactions' published in the CRA is contained in the Accounting Adjustments spending category in GERS. A more detailed discussion of EU transactions is provided in Box 5.3.

²⁶ The estimates in GERS include a share of the permanent effects of the UK Government's financial sector interventions. 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 the CRA 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). The scale of the financial sector interventions, relative to other spending on EED, means that there is larger expenditure within this category in 2008-09 and 2009-10. Further information on the treatment of the UK Government's financial sector interventions is provided in Annex B.

Public Sector Expenditure

Estimated total public sector expenditure for Scotland by spending category for 2012-13 is shown in Table 5.1. In 2012-13, total public sector expenditure for Scotland was estimated to be £65.2 billion. This was equivalent to 9.3% of comparable total UK public sector expenditure in 2012-13, shown in Table 5.2. Social protection was the largest Scottish expenditure programme. Together with health expenditure, it accounted for over half of total public sector expenditure for Scotland in 2012-13.

Table 5.1: Total Expenditure: Scotland 2012-13		
	Scotland	
	£ million	% of total expenditure
General public services		
Public and common services	1,381	2.1%
International services	667	1.0%
Public sector debt interest	4,020	6.2%
Defence	3,027	4.6%
Public order and safety	2,529	3.9%
Economic affairs		
Enterprise and economic development	1,049	1.6%
Science and technology	249	0.4%
Employment policies	222	0.3%
Agriculture, forestry and fisheries	917	1.4%
Transport	2,779	4.3%
Environment protection	1,210	1.9%
Housing and community amenities	1,628	2.5%
Health	11,284	17.3%
Recreation, culture and religion	1,554	2.4%
Education and training	7,651	11.7%
Social protection	22,458	34.4%
Accounting adjustments	2,581	4.0%
Total Expenditure	65,205	100%

Total public sector expenditure for Scotland is estimated to have increased from £59.4 billion in 2008-09 to £65.2 billion in 2012-13, an increase of 9.7% in nominal terms. Over the same period, equivalent UK public sector expenditure increased from £635.6 billion to £701.7 billion, an increase of 10.4% in nominal terms.

Table 5.2: Total Current and Capital Expenditure Scotland and UK 2008-09 to 2012-13

	(£ million)									
	Scotland					UK				
	2008-09	2009-10	2010-11	2011-12	2012-13	2008-09	2009-10	2010-11	2011-12	2012-13
Current	52,681	55,406	58,127	58,909	59,627	567,933	605,010	635,268	643,980	656,345
Capital	6,760	6,681	5,968	5,960	5,579	67,693	68,392	59,437	50,335	45,336
Total	59,440	62,087	64,095	64,869	65,205	635,626	673,402	694,705	694,315	701,681

Table 5.3 shows the share of total expenditure between current and capital for Scotland. Between 2008-09 and 2009-10, capital expenditure for Scotland fell from approximately 11.4% to 10.8% of total expenditure. This is due in part to the UK Government's financial sector interventions in 2008-09. These are discussed further in Annex B. Capital expenditure fell as a share of total expenditure in the three subsequent years to 9.2% of total expenditure in 2011-12, and 8.6% in 2012-13.

Table 5.3: Current and Capital Expenditure (% of Total Expenditure): Scotland 2008-09 to 2012-13

	(per cent)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Current	88.6%	89.2%	90.7%	90.8%	91.4%
Capital	11.4%	10.8%	9.3%	9.2%	8.6%

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.

Box 5.1 Growth in Scottish and UK Capital Spending

Capital spending in Scotland has historically been higher than a population share of the UK total. In part this reflects the fact that water and sewerage services are within the public sector in Scotland, and these have a high level of associated capital expenditure. However, as shown in the table below, Scotland's share of UK capital spending has increased from being broadly around 10% between 2008-09 and 2010-11 to 12.3% in 2012-13. As both Scotland and the UK have seen falls in capital spending since 2010-11, this reflects the fact that capital spending in Scotland has fallen by less than capital spending in the UK.

UK capital spending declined by 15.3% between 2010-11 and 2011-12 and by a further 9.9% in between 2011-12 and 2012-13. In contrast, capital spending for Scotland remained broadly level in 2011-12 before falling by 6.4% between 2011-12 and 2012-13.

The divergence in Scottish and UK capital spending in 2011-12 was driven by increased spending by Scottish Local Authorities. Spending increased by approximately £350 million, with approximately half of this increase financed via Local Authority borrowing.²⁷ Capital spending in Scotland during 2012-13 was also supported by the Scottish Government's

²⁷ See Scottish Local Government Finance Statistics 2012-13

<http://www.scotland.gov.uk/Topics/Statistics/Browse/Local-Government-Finance/PubScottishLGFStats>

decision to switch approximately £230 million in spending from current to capital budgets.

Finally, capital spending on Enterprise and Economic Development in Scotland has diverged from the UK, with total Scottish spend remaining largely unchanged from 2010-11 whilst UK spending has fallen by almost £1 billion. This may reflect in part the fact that regional development agencies in England were abolished on the 31st March 2012, whilst funding has continued to be made available to development agencies in Scotland. Further detail on how different types of expenditure have changed is shown in Table 5.9.

Capital expenditure in Scotland and the UK: 2008-09 to 2012-13

	(£ million)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Scotland	6,760	6,681	5,968	5,960	5,579
UK	67,693	68,392	59,437	50,335	45,336
Scotland as % of UK total	10.0%	9.8%	10.0%	11.8%	12.3%

Table 5.4: Total Expenditure: Scotland 2008-09 to 2012-13

	(£ million)														
	Current					Capital					Total				
	2008-09	2009-10	2010-11	2011-12	2012-13	2008-09	2009-10	2010-11	2011-12	2012-13	2008-09	2009-10	2010-11	2011-12	2012-13
General public services															
Public and common services	1,296	1,499	1,402	1,475	1,199	298	83	207	147	182	1,594	1,582	1,609	1,622	1,381
International services	502	549	606	616	617	37	50	63	50	50	539	599	669	666	667
Public sector debt interest	2,734	2,599	3,846	4,099	4,020	0	0	0	0	0	2,734	2,599	3,846	4,099	4,020
Defence	2,802	2,825	2,931	2,934	2,740	294	342	361	303	287	3,096	3,167	3,292	3,237	3,027
Public order and safety	2,386	2,437	2,559	2,663	2,388	233	257	245	197	141	2,619	2,694	2,804	2,860	2,529
Economic affairs															
Enterprise and economic development	593	669	464	604	773	1,123	700	273	249	276	1,716	1,369	737	853	1,049
Science and technology	199	207	204	220	221	34	36	26	43	28	233	243	230	263	249
Employment policies	207	222	291	242	222	3	4	4	3	0	210	226	295	245	222
Agriculture, forestry and fisheries	734	781	796	828	773	100	111	152	149	144	834	892	948	977	917
Transport	1,526	1,509	1,576	1,574	1,518	1,110	1,329	1,071	1,143	1,261	2,636	2,838	2,647	2,717	2,779
Environment protection	853	970	980	979	945	196	193	238	198	265	1,049	1,163	1,218	1,177	1,210
Housing and community amenities	281	261	296	232	187	1,521	1,710	1,324	1,392	1,441	1,802	1,971	1,620	1,624	1,628
Health	9,740	10,140	10,348	10,560	10,736	515	539	590	486	548	10,255	10,679	10,938	11,046	11,284
Recreation, culture and religion	1,116	1,197	1,169	1,231	1,214	276	283	262	324	340	1,392	1,480	1,431	1,555	1,554
Education and training	6,882	7,068	7,054	6,803	7,012	646	661	597	687	639	7,528	7,729	7,651	7,490	7,651
Social protection	18,451	19,963	20,598	21,091	22,361	92	113	94	68	97	18,543	20,076	20,692	21,159	22,458
Accounting adjustments	2,377	2,507	3,002	2,762	2,702	284	273	461	522	-122	2,661	2,781	3,463	3,284	2,581
Total	52,681	55,406	58,127	58,909	59,627	6,760	6,681	5,968	5,960	5,579	59,440	62,087	64,095	64,869	65,205

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Table 5.5: Total Expenditure: UK 2008-09 to 2012-13

	(£ million)														
	Current					Capital					Total				
	2008-09	2009-10	2010-11	2011-12	2012-13	2008-09	2009-10	2010-11	2011-12	2012-13	2008-09	2009-10	2010-11	2011-12	2012-13
General public services															
Public and common services	11,889	11,946	11,288	10,631	10,173	2,116	1,820	1,635	1,114	1,503	14,005	13,766	12,923	11,745	11,676
International services	5,970	6,537	7,235	7,361	7,405	441	596	749	597	607	6,411	7,133	7,984	7,958	8,012
Public sector debt interest	32,497	30,956	45,891	48,984	48,230	0	0	0	0	0	32,497	30,956	45,891	48,984	48,230
Defence	33,317	33,652	34,981	35,056	32,908	3,500	4,059	4,305	3,606	3,457	36,817	37,711	39,286	38,662	36,365
Public order and safety	30,906	31,433	31,014	30,509	30,038	2,746	2,685	2,001	1,525	1,426	33,652	34,118	33,015	32,034	31,464
Economic affairs															
Enterprise and economic development	4,209	5,113	2,778	3,246	4,263	12,004	7,111	2,024	1,595	1,040	16,213	12,224	4,802	4,841	5,303
Science and technology	2,619	2,819	2,884	2,957	3,106	586	733	521	606	492	3,205	3,552	3,405	3,563	3,598
Employment policies	2,721	2,986	3,705	2,742	2,560	106	87	43	26	8	2,827	3,073	3,748	2,768	2,568
Agriculture, forestry and fisheries	5,451	5,550	5,152	5,521	4,998	315	273	329	268	343	5,766	5,823	5,481	5,789	5,341
Transport	9,019	9,768	8,831	8,375	7,987	11,958	13,204	12,659	11,667	11,351	20,977	22,972	21,490	20,042	19,338
Environment protection	7,060	8,187	8,146	8,213	7,970	2,170	2,209	2,784	2,251	3,175	9,230	10,396	10,930	10,464	11,145
Housing and community amenities	3,755	4,018	3,070	2,547	3,063	11,497	12,326	9,900	7,314	7,481	15,252	16,344	12,970	9,861	10,544
Health	103,382	110,737	114,436	116,984	119,634	5,366	6,179	5,389	4,264	4,640	108,748	116,916	119,825	121,248	124,274
Recreation, culture and religion	9,986	10,383	10,380	10,158	10,416	2,460	2,796	2,582	2,679	2,363	12,446	13,179	12,962	12,837	12,779
Education and training	74,705	78,551	82,351	79,109	80,395	8,295	9,934	9,149	7,788	7,056	83,000	88,485	91,500	86,897	87,451
Social protection	203,374	222,915	230,277	239,824	251,546	724	1,110	1,068	652	658	204,098	224,025	231,345	240,476	252,204
Accounting adjustments	27,079	29,462	32,847	31,763	31,651	3,411	3,269	4,300	4,381	-262	30,489	32,731	37,147	36,144	31,388
Total	567,933	605,010	635,268	643,980	656,345	67,693	68,392	59,437	50,335	45,336	635,626	673,402	694,705	694,315	701,681

Table 5.6 shows estimated total public sector expenditure for Scotland and the UK on a per capita basis from 2008-09 to 2012-13. The table also highlights the absolute per capita difference between Scotland and the UK, and the relative difference between the two. Total expenditure per capita for Scotland is estimated to have been £12,265 in 2012-13, £1,267 (11.5%) higher than the UK average. Since 2008-09, public spending per head for Scotland has been between 9.8% and 11.6% higher than the UK average.

Table 5.6: Total Expenditure Per Capita: Scotland and UK 2008-09 to 2012-13

	2008-09	2009-10	2010-11	2011-12	2012-13
Scotland (£)	11,408	11,852	12,158	12,227	12,265
UK (£)	10,263	10,796	11,046	10,951	10,998
<i>Difference (Scotland minus UK) (£)</i>	<i>1,145</i>	<i>1,056</i>	<i>1,112</i>	<i>1,276</i>	<i>1,267</i>
<i>Relative Expenditure for Scotland (UK = 100)</i>	<i>111.2</i>	<i>109.8</i>	<i>110.1</i>	<i>111.6</i>	<i>111.5</i>

There are a 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 sewerage 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. 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.²⁸

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.

²⁸ HESA estimate that Scottish Higher Education Institutions won 15% of UK Research Council grants and contracts in 2011-12. (HESA Finance Plus 2011/12, Table 5b)

Box 5.2 – Private Finance Initiative and Non-Profit Distributing Financing

The Private Finance Initiative (PFI) is a method to provide financial support for Public Private Partnerships (PPPs) between the public and private sectors. PFI projects are long-term contracts for services that include the provision of associated facilities or properties. Under the contract, the private sector is generally responsible for various roles including designing and constructing a building or facility and maintaining and servicing it throughout the contract term. The public sector retains accountability for the main public services. The private sector is responsible for financing the project up front and only receives payment from the public sector once construction has been completed and the services have commenced.

There was also another model of revenue finance in operation over this period called Non-Profit Distributing (NPD). The NPD model is 100% debt funded and 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 2008-09 and 2012-13 are included within individual spending lines, such as transport and health, in the main tables in this chapter, depending on the type of project. The table below presents the overall charges paid in Scotland as a whole.

Public Sector Unitary Charge Expenditure in Scotland 2008-09 to 2012-13					
	(£ million)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Scottish Public Sector Unitary Charges ¹	516	592	735	825	909
Other UK Government Departments PFI Unitary Charges for Projects in Scotland	20	23	23	26	26
Total Unitary Charges in Scotland	536	615	758	851	935

Source: Scottish Government and HM Treasury PFI Signed Project List (December 2013).

1. Includes both PFI and NPD figures.

Identifiable and Non-identifiable Expenditure

GERS classifies public sector expenditure for Scotland as either identifiable expenditure or non-identifiable expenditure.

In the vast majority of cases, GERS uses the data on identifiable expenditure contained in the CRA directly. It is a fundamental principle of the CRA 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 CRA 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.

Following a review of all 1,263 segments in CRA 2013, 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 the CRA. The principal changes relate to the treatment of expenditure on nuclear decommissioning by the UK Atomic Energy Authority, and the expenditure on the London Olympics.

Annex B contains a detailed list of all amendments to the CRA made in this report. As with all statistical products, developments in the CRA continue and any further refinements to the regional apportionment of public sector expenditure will be reflected in future GERS reports.

In 2012-13 UK identifiable expenditure covered 82.9% 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 B.

Table 5.7 illustrates the estimated level of identifiable and non-identifiable expenditure assigned to Scotland for each year between 2008-09 and 2012-13. Identifiable expenditure was estimated to be £55.8 billion in 2012-13. In comparison, non-identifiable expenditure was £9.4 billion in 2012-13, approximately 14.5% of estimated total public sector expenditure for Scotland.

Across most programme categories, the level of non-identifiable expenditure is relatively modest. Debt interest payments and defence are typically the largest elements of non-identifiable expenditure. Collectively, these two elements of expenditure accounted for 74.7% of total non-identifiable expenditure for Scotland in 2012-13.

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Table 5.7: Total Expenditure, Identifiable and Non-identifiable: Scotland 2008-09 to 2012-13

	(£ million)														
	Identifiable					Non-identifiable					Total				
	2008-09	2009-10	2010-11	2011-12	2012-13	2008-09	2009-10	2010-11	2011-12	2012-13	2008-09	2009-10	2010-11	2011-12	2012-13
General public services															
Public and common services	1,145	1,160	1,199	1,241	988	449	422	410	381	392	1,594	1,582	1,609	1,622	1,381
International services	17	15	18	17	14	522	584	651	649	654	539	599	669	666	667
Public sector debt interest	0	0	0	0	0	2,734	2,599	3,846	4,099	4,020	2,734	2,599	3,846	4,099	4,020
Defence	5	5	5	5	4	3,090	3,161	3,287	3,230	3,024	3,096	3,167	3,292	3,237	3,027
Public order and safety	2,444	2,508	2,654	2,721	2,402	176	185	149	140	126	2,619	2,694	2,804	2,860	2,529
Economic affairs															
Enterprise and economic development	948	971	856	895	951	768	398	-118	-43	98	1,716	1,369	737	853	1,049
Science and technology	57	58	58	80	80	176	184	171	184	168	233	243	230	263	249
Employment policies	210	226	295	244	222	0	0	0	0	0	210	226	295	245	222
Agriculture, forestry and fisheries	829	880	933	973	917	5	13	15	3	0	834	892	948	977	917
Transport	2,610	2,819	2,629	2,697	2,756	25	20	19	20	23	2,636	2,838	2,647	2,717	2,779
Environment protection	973	1,022	1,046	1,011	1,006	76	140	171	165	203	1,049	1,163	1,218	1,177	1,210
Housing and community amenities	1,802	1,970	1,621	1,624	1,629	0	0	0	0	0	1,802	1,971	1,620	1,624	1,628
Health	10,139	10,552	10,794	10,921	11,178	115	128	144	126	107	10,255	10,679	10,938	11,046	11,284
Recreation, culture and religion	1,080	1,154	1,095	1,224	1,240	312	326	337	331	314	1,392	1,480	1,431	1,555	1,554
Education and training	7,529	7,728	7,652	7,490	7,650	0	0	0	0	0	7,528	7,729	7,651	7,490	7,651
Social protection	18,077	19,518	20,130	20,703	21,969	466	558	564	455	489	18,543	20,076	20,692	21,159	22,458
Accounting adjustments	2,608	2,458	2,845	2,973	2,797	53	324	618	310	-215	2,661	2,781	3,463	3,284	2,581
Total	50,472	53,044	53,829	54,819	55,802	8,968	9,043	10,266	10,050	9,403	59,440	62,087	64,095	64,869	65,205

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 2008-09 to 2012-13.²⁹ 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 2008-09 to 2012-13 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 (NRS), and by public corporations. 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 and Scottish Local Authorities.

In the five years since 2008-09, UK Government departments have accounted for about a third of total identifiable current expenditure, primarily through expenditure on social protection. In contrast, in most years over the same period these departments were typically responsible for less than 3% 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. It should be noted that some of the differences in the composition of spending between Scotland and the UK will reflect variations in the classification of expenditure between spending categories.

²⁹ Expenditure by Scottish Government in the tables in Chapter 5 incorporates expenditure by Scottish Local Authorities and Public Corporations

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Table 5.8: Total Identifiable Expenditure: Scotland 2008-09 to 2012-13

	(£ million)														
	Scottish Government and Local Authorities					Other UK Government					Total				
	2008-09	2009-10	2010-11	2011-12	2012-13	2008-09	2009-10	2010-11	2011-12	2012-13	2008-09	2009-10	2010-11	2011-12	2012-13
General public services															
Public and common services	1,080	1,087	1,137	1,193	963	64	73	62	48	25	1,145	1,160	1,199	1,241	988
International services	0	0	0	0	0	17	15	18	17	14	17	15	18	17	14
Public sector debt interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Defence	5	5	5	4	4	0	0	0	0	0	5	5	5	5	4
Public order and safety	2,306	2,359	2,561	2,581	2,274	138	150	92	140	128	2,444	2,508	2,654	2,721	2,402
Economic affairs															
Enterprise and econ development	787	835	752	782	811	161	136	104	113	139	948	971	856	895	951
Science and technology	12	7	6	5	4	44	51	52	75	76	57	58	58	80	80
Employment policies	0	0	0	0	0	210	226	295	244	222	210	226	295	244	222
Agriculture, forestry and fisheries	818	870	926	965	909	10	10	8	8	8	829	880	933	973	917
Transport	2,599	2,768	2,595	2,665	2,727	11	50	34	32	28	2,610	2,819	2,629	2,697	2,756
Environment protection	927	978	986	956	955	47	45	60	55	51	973	1,022	1,046	1,011	1,006
Housing and community amenities	1,802	1,970	1,621	1,624	1,629	0	0	0	0	0	1,802	1,970	1,621	1,624	1,629
Health	10,130	10,545	10,789	10,916	11,169	9	7	5	5	9	10,139	10,552	10,794	10,921	11,178
Recreation, culture and religion	1,002	1,061	1,019	1,126	1,138	78	94	75	99	101	1,080	1,154	1,095	1,224	1,240
Education and training	7,499	7,702	7,629	7,463	7,625	30	25	23	27	25	7,529	7,728	7,652	7,490	7,650
Social protection	4,457	4,847	5,038	5,083	5,539	13,620	14,671	15,092	15,620	16,430	18,077	19,518	20,130	20,703	21,969
Accounting adjustments	2,608	2,458	2,845	2,973	2,797	0	0	0	0	0	2,608	2,458	2,845	2,973	2,797
Total	36,032	37,491	37,909	38,336	38,546	14,440	15,553	15,920	16,483	17,256	50,472	53,044	53,829	54,819	55,802

Table 5.9: Identifiable Expenditure - Scottish Government and Local Authorities: Scotland 2008-09 to 2012-13

	(£ million)									
	Current					Capital				
	2008-09	2009-10	2010-11	2011-12	2012-13	2008-09	2009-10	2010-11	2011-12	2012-13
General public services										
Public and common services	827	1,036	969	1,055	800	254	50	168	138	163
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	5	5	5	4	4	0	0	0	0	0
Public order and safety	2,100	2,140	2,343	2,408	2,151	206	218	218	173	123
Economic affairs										
Enterprise and econ development	527	560	511	551	564	260	275	241	231	247
Science and technology	5	7	6	5	4	7	0	0	0	0
Employment policies	0	0	0	0	0	0	0	0	0	0
Agriculture, forestry and fisheries	719	759	774	817	765	100	111	152	148	144
Transport	1,505	1,456	1,539	1,538	1,482	1,094	1,312	1,056	1,127	1,245
Environment protection	841	885	899	875	859	85	93	87	82	95
Housing and community amenities	281	261	296	231	188	1,521	1,709	1,324	1,393	1,441
Health	9,626	10,013	10,213	10,437	10,623	504	532	576	478	546
Recreation, culture and religion	758	814	793	851	834	244	247	226	275	304
Education and training	6,853	7,042	7,032	6,777	6,988	646	661	596	686	638
Social protection	4,395	4,788	4,990	5,040	5,465	62	59	48	43	74
Accounting adjustments	2,439	2,309	2,676	2,791	2,609	169	149	169	182	187
Total	30,880	32,075	33,047	33,381	33,338	5,153	5,416	4,862	4,955	5,208

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Table 5.10: Identifiable Expenditure - Other UK Government: Scotland 2008-09 to 2012-13

	(£ million)									
	Current					Capital				
	2008-09	2009-10	2010-11	2011-12	2012-13	2008-09	2009-10	2010-11	2011-12	2012-13
General public services										
Public and common services	60	61	57	45	27	4	12	5	3	-2
International services	17	14	17	16	13	0	0	1	1	1
Public sector debt interest	0	0	0	0	0	0	0	0	0	0
Defence	0	0	0	0	0	0	0	0	0	0
Public order and safety	129	136	87	132	124	9	13	5	7	4
Economic affairs										
Enterprise and econ development	123	121	88	112	139	38	15	16	1	1
Science and technology	44	49	51	64	73	1	2	1	11	3
Employment policies	207	222	291	242	222	3	4	4	2	1
Agriculture, forestry and fisheries	10	10	8	8	8	0	0	0	0	0
Transport	4	42	27	25	23	8	8	7	7	6
Environment protection	38	39	41	48	41	9	6	20	7	10
Housing and community amenities	0	0	0	0	0	0	0	0	0	0
Health	7	6	5	5	9	1	1	0	0	0
Recreation, culture and religion	57	70	52	70	79	22	24	23	28	23
Education and training	29	25	23	26	24	1	0	1	1	1
Social protection	13,592	14,632	15,058	15,609	16,430	28	39	34	11	-1
Accounting adjustments	0	0	0	0	0	0	0	0	0	0
Total	14,317	15,428	15,805	16,403	17,209	123	125	116	80	47

Table 5.11: Identifiable Expenditure: Scotland and UK 2012-13

	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	963	1.7%	25	0.0%	988	1.8%	6,939	1.2%
International services	0	0.0%	14	0.0%	14	0.0%	164	0.0%
Public sector debt interest	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Defence	4	0.0%	0	0.0%	4	0.0%	75	0.0%
Public order and safety	2,274	4.1%	128	0.2%	2,402	4.3%	29,947	5.1%
Economic affairs								
Enterprise and econ development	811	1.5%	139	0.2%	951	1.7%	4,097	0.7%
Science and technology	4	0.0%	76	0.1%	80	0.1%	1,582	0.3%
Employment policies	0	0.0%	222	0.4%	222	0.4%	2,568	0.4%
Agriculture, forestry and fisheries	909	1.6%	8	0.0%	917	1.6%	5,340	0.9%
Transport	2,727	4.9%	28	0.1%	2,756	4.9%	18,861	3.2%
Environment protection	955	1.7%	51	0.1%	1,006	1.8%	8,706	1.5%
Housing and community amenities	1,629	2.9%	0	0.0%	1,629	2.9%	10,543	1.8%
Health	11,169	20.0%	9	0.0%	11,178	20.0%	122,995	21.1%
Recreation, culture and religion	1,138	2.0%	101	0.2%	1,240	2.2%	9,015	1.5%
Education and training	7,625	13.7%	25	0.0%	7,650	13.7%	87,448	15.0%
Social protection	5,539	9.9%	16,430	29.4%	21,969	39.4%	246,125	42.3%
Accounting adjustments	2,797	5.0%	0	0.0%	2,797	5.0%	28,023	4.8%
Total	38,546	69.1%	17,256	30.9%	55,802	100%	582,427	100%

Box 5.3 – EU Transactions

As a member of the European Union (EU) the UK contributes to the EU budget and receives funding from the EU via a number of programmes. The methodology used in GERS to apportion a share of the UK's EU contributions and receipts to Scotland is set out below.

Contributions to the EU Budget

EU members contribute to the EU budget through three sources:

- *GNI based own resource*: Each member state makes a contribution in proportion to their GNI, in 2013 this was approximately 1.13% their GNI.
- *VAT based own resource*: Each member state contributes 0.3% of their harmonised VAT base.
- *Traditional Own Resource (TOR)*: Consists of agriculture duties and customs duties levied on agriculture and non-agriculture products from outside the EU.

Under the current fiscal framework, Scotland does not contribute directly to the EU budget. In GERS, Scotland is therefore assigned a share of the UK's contribution based on various apportionment methodologies. Scotland's share of the UK's GNI based contribution is calculated using the ratio of Scottish to UK onshore GDP. VAT based own resource and TOR are assigned to Scotland using Scotland's share of UK VAT receipts.

Since 1985, the UK has received a rebate broadly equal to 66% of the UK's net contribution in the previous year – where the net contribution is the difference between the UK's share of VAT contributions and its share of expenditure allocated to Member States. A population share of the rebate is assigned to Scotland.

Receipts from the EU Budget

Within GERS, receipts received from the EU are broken down into two categories, public sector receipts and external assistance. Public sector receipts reflect expenditure specifically for Scotland as reported in the Scottish Government's Consolidated Accounts such as payments under the Common Agricultural Policy. They are therefore recorded in GERS as identifiable expenditures for Scotland. The EU's external assistance budget provides aid to states outside the EU. A share of this expenditure is attributed to the UK based on its contribution to the EU budget. This is consistent with the UK Government's accounting approach. GERS classifies this expenditure as non-identifiable and assigns Scotland a population share.

Two measures are generally used to illustrate the UK's net contribution to the EU:

- The primary measure is the UK's net contribution to the EU budget – this is calculated as the difference between the UK's gross contribution to the EU budget (less the rebate) and public sector EU receipts.
- A secondary measure is the UK's net payment to EU institutions - this is equal to the UK's net contribution to the EU Budget less its share of the EU's external assistance aid budget.

Estimates of both measures are provided for Scotland in the table below. The table also demonstrates the impact of assigning the UK's GNI based contributions to Scotland using different measures of Scottish GDP.

Scotland's Estimated Notional Net Contributions to the EU					
	(£ million)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Total Contributions with:					
GNI contribution estimated based on Scottish onshore GDP share	1,104	1,132	1,283	1,284	1,368
GNI contribution estimated based on Scottish GDP including a per capita share of North Sea GDP	1,119	1,146	1,300	1,300	1,384
GNI contribution estimated based on Scottish GDP including a geographical share of North Sea GDP	1,248	1,267	1,450	1,438	1,512
Rebate	-471	-354	-225	-294	-264
Total Contribution after rebate with:					
GNI contribution estimated based on Scottish onshore GDP share	633	778	1,059	990	1,104
GNI contribution estimated based on Scottish GDP including a per capita share of North Sea GDP	648	792	1,076	1,006	1,119
GNI contribution estimated based on Scottish GDP including a geographical share of North Sea GDP	777	912	1,226	1,144	1,247
Public Sector EU Receipts	-622	-619	-724	-800	-687
Net Contribution to the EU Budget					
GNI contribution estimated based on Scottish onshore GDP share	11	159	335	190	417
GNI contribution estimated based on Scottish GDP including a per capita share of North Sea GDP	26	173	352	206	432
GNI contribution estimated based on Scottish GDP including a geographical share of North Sea GDP	155	293	502	344	560
Less payments to EU Budget attributed to the EU aid programme	63	78	81	73	74
Net payments to EU institutions with:					
GNI contribution estimated based on onshore GDP share	-52	81	254	117	343
GNI contribution estimated based on including a per capita share of North Sea GDP	-37	95	271	133	358
GNI contribution estimated based on including a geographical share of North Sea GDP	92	215	421	271	486

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 B.

In addition to non-identifiable expenditure, the CRA 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 2008-09 and 2012-13. 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 £9.4 billion in 2012-13, 7.9% 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 2012-13.

As outlined in Chapter 2 and Box B.1 in Annex B the UK Government's financial sector interventions in 2008-09 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 capital non-identifiable expenditure on EED for Scotland is estimated to have fallen from £825 million in 2008-09 to £17 million in 2010-11 before rising to £29 million in 2012-13.

The negative values for current expenditure for EED between 2008-09 and 2011-12 in Table 5.13 are due to the fact that the fees received from the various schemes are recorded as a negative current expenditure (i.e. revenue received), and these fees exceeded the current expenditure on other elements of EED in these years.

Table 5.12: Non-Identifiable Expenditure: Scotland and UK 2008-09 to 2012-13

	(£ million)									
	Scotland					UK				
	2008-09	2009-10	2010-11	2011-12	2012-13	2008-09	2009-10	2010-11	2011-12	2012-13
General public services										
Public and common services	449	422	410	381	392	5,366	5,061	4,927	4,581	4,738
International services	522	584	651	649	654	6,205	6,957	7,766	7,757	7,848
Public sector debt interest	2,734	2,599	3,846	4,099	4,020	32,497	30,956	45,891	48,984	48,230
Defence	3,090	3,161	3,287	3,230	3,024	36,736	37,634	39,212	38,601	36,288
Public order and safety	176	185	149	140	126	2,089	2,200	1,774	1,669	1,517
Economic affairs										
Enterprise and economic development	768	398	-118	-43	98	9,138	4,750	-1,401	-488	1,204
Science and technology	176	184	171	184	168	2,099	2,201	2,046	2,202	2,017
Employment policies	0	0	0	0	0	1	1	1	1	0
Agriculture, forestry and fisheries	5	13	15	3	0	55	149	178	37	2
Transport	25	20	19	20	23	303	245	247	271	477
Environment protection	76	140	171	165	203	901	1,675	2,043	1,967	2,439
Housing and community amenities	0	0	0	0	0	0	0	0	0	0
Health	115	128	144	126	107	1,367	1,522	1,717	1,500	1,280
Recreation, culture and religion	312	326	337	331	314	3,710	3,885	4,022	3,952	3,765
Education and training	0	0	0	0	0	3	3	4	4	4
Social protection	466	558	564	455	489	5,677	6,788	6,920	5,647	6,079
Accounting adjustments	53	324	618	310	-215	3,121	6,225	10,589	6,672	3,365
Total	8,968	9,043	10,266	10,050	9,403	109,268	110,253	125,936	123,357	119,254

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Table 5.13: Non-Identifiable Expenditure: Scotland 2008-09 to 2012-13

	(£ million)									
	Current					Capital				
	2008-09	2009-10	2010-11	2011-12	2012-13	2008-09	2009-10	2010-11	2011-12	2012-13
General public services										
Public and common services	409	403	376	375	372	40	19	34	5	20
International services	485	535	589	600	604	37	50	62	49	50
Public sector debt interest	2,734	2,599	3,846	4,099	4,020	0	0	0	0	0
Defence	2,796	2,820	2,926	2,928	2,736	294	341	361	302	288
Public order and safety	158	160	129	123	113	18	25	20	17	14
Economic affairs										
Enterprise and economic development	-57	-12	-136	-60	69	825	410	17	17	29
Science and technology	150	150	147	152	143	26	34	25	32	25
Employment policies	0	0	0	0	0	0	0	0	0	0
Agriculture, forestry and fisheries	5	13	15	3	0	0	0	0	0	0
Transport	17	12	11	12	13	8	9	8	8	9
Environment protection	-26	46	40	55	44	101	94	131	110	159
Housing and community amenities	0	0	0	0	0	0	0	0	0	0
Health	107	122	131	117	104	8	6	13	9	2
Recreation, culture and religion	302	313	324	310	301	10	13	13	21	13
Education and training	0	0	0	0	0	0	0	0	0	0
Social protection	465	543	551	441	466	1	15	13	15	23
Accounting adjustments	-62	199	326	-30	94	115	124	291	340	-309
Total	7,484	7,903	9,276	9,125	9,080	1,484	1,140	990	924	324

Table 5.14: Non-Identifiable Expenditure: UK 2008-09 to 2012-13

	(£ million)									
	Current					Capital				
	2008-09	2009-10	2010-11	2011-12	2012-13	2008-09	2009-10	2010-11	2011-12	2012-13
General public services										
Public and common services	4,890	4,828	4,516	4,518	4,492	476	233	412	63	246
International services	5,769	6,364	7,025	7,166	7,253	436	593	740	591	595
Public sector debt interest	32,497	30,956	45,891	48,984	48,230	0	0	0	0	0
Defence	33,237	33,576	34,909	34,990	32,834	3,499	4,058	4,303	3,611	3,454
Public order and safety	1,875	1,904	1,534	1,471	1,354	214	297	241	199	163
Economic affairs										
Enterprise and economic development	-669	-129	-1,607	-691	859	9,807	4,879	206	203	345
Science and technology	1,784	1,792	1,751	1,818	1,716	315	409	296	384	301
Employment policies	1	1	1	1	0	0	0	0	0	0
Agriculture, forestry and fisheries	55	149	178	37	2	0	0	0	0	0
Transport	207	143	150	179	363	96	103	97	92	114
Environment protection	-303	550	474	656	527	1,205	1,125	1,570	1,311	1,912
Housing and community amenities	0	0	0	0	0	0	0	0	0	0
Health	1,267	1,449	1,558	1,394	1,251	100	73	159	106	29
Recreation, culture and religion	3,587	3,730	3,866	3,705	3,612	122	156	156	248	153
Education and training	3	3	4	4	4	0	0	0	0	0
Social protection	5,663	6,613	6,764	5,470	5,800	14	175	156	177	280
Accounting adjustments	1,691	4,776	8,340	4,475	5,843	1,430	1,448	2,249	2,197	-2,478
Total	91,554	96,704	115,354	114,175	114,141	17,715	13,549	10,582	9,182	5,113

Box 5.4 – Debt Interest Payments and the Current Primary Balance

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.

The table below illustrates the current primary balance on public services consumed for Scotland between 2008-09 and 2012-13.

Current Primary Balance: Scotland 2008-09 to 2012-13					
	(£ million)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Current revenue					
Excluding North Sea revenue	43,772	42,053	44,317	46,313	47,564
Including North Sea revenue (per capita share)	44,820	42,556	45,022	47,261	48,117
Including North Sea revenue (geographical share)	55,350	47,732	51,771	56,313	53,146
Current expenditure including capital consumption	54,467	57,289	60,072	60,948	61,746
Less debt interest payments	2,734	2,599	3,846	4,099	4,020
Current expenditure on services	51,733	54,690	56,226	56,849	57,726
Current Primary balance					
Excluding North Sea revenue	-7,961	-12,637	-11,909	-10,536	-10,162
Including North Sea revenue (per capita share)	-6,913	-12,134	-11,204	-9,587	-9,610
Including North Sea revenue (geographical share)	3,617	-6,958	-4,454	-536	-4,581

The table below presents the estimates of Scottish and UK current primary balances as a share of GDP.

Current Primary Balance: Scotland & UK 2008-09 to 2012-13 (% GDP)					
	2008-09	2009-10	2010-11	2011-12	2012-13
Scotland - Excluding North Sea revenue	-6.7%	-10.9%	-9.7%	-8.4%	-8.0%
Scotland - Including North Sea revenue (per capita share)	-5.7%	-10.3%	-9.0%	-7.5%	-7.5%
Scotland - Including North Sea revenue (geographical share)	2.5%	-5.2%	-3.1%	-0.4%	-3.2%
UK	-1.3%	-5.4%	-3.6%	-2.6%	-2.8%

6

CONCLUSION

The aim of GERS is to enhance public understanding of fiscal issues in Scotland under the current constitutional framework. 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 2012-13, excluding revenues associated with the Bank of England Asset Purchase Facility and the Royal Mail pension scheme transfer, are as follows:

- In 2012-13, total Scottish non-North Sea public sector revenue was estimated at £47.6 billion, (8.2% of total UK non-North Sea revenue). Including a per capita share of North Sea revenue, total Scottish public sector revenue was estimated at £48.1 billion (8.2% 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 (9.1% of UK total public sector revenue).
- In 2012-13, total public sector expenditure for the benefit of Scotland by the UK Government, Scottish Government and all other parts of the public sector, including a per capita share of UK debt interest payments, was £65.2 billion. This is equivalent to 9.3% of total UK public sector expenditure.
- In 2012-13, the estimated current budget balance for the public sector in Scotland was a deficit of £14.2 billion (11.2% of GDP) excluding North Sea revenue, a deficit of £13.6 billion (10.6% of GDP) including a per capita share of North Sea revenue or a deficit of £8.6 billion (5.9% of GDP) including an illustrative geographical share of North Sea revenue.
- In 2012-13, the UK as a whole ran a current budget deficit, including 100% of North Sea revenue, worth £91.9 billion (5.8% of GDP).
- In 2012-13, Scotland's estimated net fiscal balance was a deficit of £17.6 billion (14.0% of GDP) when excluding North Sea revenue, a deficit of £17.1 billion (13.3% of GDP) when including a per capita share of North Sea revenue or a deficit of £12.1 billion (8.3% of GDP) when an illustrative geographical share of North Sea revenue is included.
- In 2012-13, the equivalent UK position including 100% of North Sea revenue, referred to in the UK Public Sector Accounts as net borrowing, was a deficit of £114.8 billion (or 7.3% of GDP).

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

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A 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. Revisions to the estimates of Scottish public sector revenues from the previous edition of GERS are discussed in Annex C.

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 revenues 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. A comparison of the apportionment methodologies used in this publication to the new experimental estimates by HMRC of the breakdown of taxes collected in the four countries in the UK is provided in Box 3.1.

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 Finances Statistical Bulletin. 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.³⁰

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 Finances Statistical Bulletin. 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 Statistical Bulletin published in February 2014. An accounting adjustment is applied to both the expenditure and revenue totals so that both

³⁰ <http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/GERS/Methodology>

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 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. In contrast, the alternative cash measure is more volatile as it, for example, records when bills are settled rather than when the expenditure occurs.

Summary of Apportionment Methodologies

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

In some instances ONS's Public Sector Finances Statistical Bulletin 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 2011-12. Information on the scale of revisions is provided in Annex C.

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

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

Revenue	Apportionment Methodology	Source	Changed
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 Data on overall spend on tax credits: HMRC	No
Corporation tax (excl. North Sea)	Scotland's share of profits (less holding gains) of UK corporations	Regional Accounts: ONS	No
Capital gains tax	Actual outturns for Scotland	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 Public Sector Finances: ONS ONS and NRS CRA CRA	Yes
Fuel duties	Scotland's share of road traffic fuel consumption	Fuel consumption statistics: DECC	No
Stamp duties	Land and property stamp duty: Actual outturns for Scotland Stocks and shares: - Scotland/UK ratio of adults owning shares	Land and property stamp duty: HMRC Stocks and shares: Family Resources Survey (DWP)	No
Tobacco duties	Spend on tobacco in Scotland/UK	Living Costs and Food Survey: ONS	No
Alcohol duties	Consumption of alcohol in Scotland/UK	Family Food Survey, DEFRA	Yes
Betting and gaming duties	Spend on betting and gaming in Scotland/UK	Living Costs and Food Survey: ONS	No
Air passenger duty	Scotland's share of passengers by air passenger duty band	Civil Aviation Authority and HMRC	No
Insurance premium tax	Spend on insurance Scotland/UK	Living Costs and Food Survey: ONS	Yes
Landfill tax	Scotland's share of UK tonnage of waste sent to landfill	Scottish Environment Protection Agency, Environment Agency, Dept. of Environment in Northern Ireland	No
Climate change levy	Electricity: Scotland's share of UK electricity consumption by commercial and industrial users Gas: Scotland's share of UK gas sales to commercial and industrial users Solid and other fuels: Scotland's share of UK (less extra-regio) GVA	Electricity: DECC Gas: DECC Solid and other fuels: Regional Accounts: ONS	No
Aggregates levy	Scotland's share of UK's aggregate production	United Kingdom Minerals Yearbook 2012: British Geological Survey	Yes

Table A.1: Apportionment Methodologies and Sources for Public Sector Revenue in Scotland (Excluding North Sea Revenue) (Cont)			
Inheritance tax	Actual outturns for Scotland	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 Public Corporation (PC) receipts: Scotland's share of public sector UK GVA	Regional Accounts: ONS	No
	For LG and CG receipts: Scotland/UK population	ONS	
Gross operating surplus	CG: Scottish/UK share of central government NMCC	CG: ONS Regional Accounts LG: ONS Regional Accounts PC: Supplied by Public Sector Finance team: ONS, and Regional Accounts: ONS	No
	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		
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	No

B

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.

The primary data source used to estimate Scottish public sector expenditure is the Country and Regional Analysis (CRA) database, published by HM Treasury.³¹ Within this, UK Government departments and devolved administrations have allocated expenditure programmes to Scotland, Wales, Northern Ireland and the English regions.

GERS separates total public spending 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.

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.

³¹ <https://www.gov.uk/government/publications/country-and-regional-analysis-2013>

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The methodologies used are listed in Table B.1. Each reflects the approach that is thought to capture most appropriately the ‘who benefits’ principle. Further discussion of the method used to apportion the UK Government’s financial sector interventions to Scotland is provided in Box B.1 below.

Table B.1: Apportionment Methodologies for Non-Identifiable Expenditure: Scotland 2008-09 to 2012-13^{1, 2}		
	Non-Identifiable Expenditure	Outside the UK
General public services		
Public and common services	Population	Population
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	Population	Population
Science and technology	GVA	Population
Employment policies	n/a	Population
Agriculture, forestry and fisheries	Population	Population
Transport	GVA	Population
Environment protection ³	GVA & Population	Population
Housing and community amenities	Population	n/a
Health	Population	Population
Recreation, culture and religion	Population	Population
Education and training	n/a	Population
Social protection	Population	Population
Accounting adjustments	Various (see section below)	Various (see section below)

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 primarily apportioned on a per capita basis.

3: All environment protection expenditure is apportioned on a GVA basis, except UK Atomic Energy Authority and British Nuclear Fuels expenditure on nuclear decommissioning, which is apportioned on a per capita basis.

Box B.1 – 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.

In the CRA 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).³² The CRA 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	2011-12	2012-13
Current	-88	-30	-155	-82	-5
Capital	788	380	0	0	0
Total	699	350	-155	-82	-5

A discussion paper providing further information on the treatment of the financial sector interventions in GERS is provided on the GERS website.³³

Methodology for Estimating the Accounting Adjustment

Table B.2 provides estimates of the two aspects of expenditure which form the accounting adjustment category reported in Chapter 5. It is important to note that the expenditure reported in the ‘EU Transaction’ line in Table B.2 is a balancing item. It does not report Scotland’s total EU receipts or notional contribution. Users interested in the public sector income and expenditure flows between Scotland and the EU should refer to Box 5.3 in Chapter 5.

³² 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 £23.0 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.

³³ Scottish Government (2011) - Treatment of the Financial Sector Interventions in GERS

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

Table B.2: Total Accounting Adjustment: Scotland and UK 2008-09 to 2012-13

	(£ million)				
	2008-09	2009-10	2010-11	2011-12	2012-13
<u>Scotland</u>					
Public Sector Finances accounting adjustment	3,148	3,023	3,653	3,618	2,681
EU transactions	-488	-241	-190	-332	-100
Total Scottish accounting adjustment	2,661	2,781	3,463	3,284	2,581
<u>UK</u>					
Public Sector Finances accounting adjustment	33,421	32,758	34,496	34,993	27,686
EU transactions	-2,932	-27	2,651	1,151	3,702
Total UK accounting adjustment	30,489	32,731	37,147	36,144	31,388

Further information on how the accounting adjustment line in Table B.2 is estimated is provided in the section below.

Public Sector Finances Accounting Adjustment

The primary data source used to estimate Scottish public sector expenditure is the CRA database, published by HM Treasury. The estimates of public spending published in the CRA are calculated on the basis of Total Expenditure on Services (TES).

TES is produced on a different basis to Total Managed Expenditure (TME), which is the primary measure of total public spending reported in the ONS National Accounts and the UK Public Sector Finances. 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. An accounting adjustment is therefore introduced into GERS to ensure that the estimates of total public spending for Scotland and the UK are reported on the basis on TME.

UK Accounting Adjustment

The accounting adjustments required to reconcile UK TME and TES are set out in Table B.3.

The largest component of the UK accounting adjustment is general government capital consumption (central and local government combined). It is a measure of the amount of fixed capital resources used up in the process of the provision of public services. In 2012-13, UK general government capital consumption of £17.3 billion represented 62.5% of the total UK accounting adjustment. Table B.3 shows the component disaggregation of the UK accounting adjustment. The total UK accounting adjustment was estimated at £27.7 billion in 2012-13.

Table B.3: Public Sector Finances Accounting Adjustment: UK 2008-09 to 2012-13

	(£ million)				
	2008-09	2009-10	2010-11	2011-12	2012-13
UK total managed expenditure (TME)	635,626	673,402	694,705	694,315	701,681
UK total expenditure on services (TES)	602,205	640,644	660,209	659,322	673,995
UK accounting adjustment	33,421	32,758	34,496	34,993	27,686
Of which current expenditure:					
Central government capital consumption	6,985	7,331	7,662	7,978	8,304
Local government capital consumption	7,164	7,550	8,037	8,524	9,008
Current VAT refunds	9,918	9,378	11,129	11,720	11,480
Student loans subsidy ¹	-788	-1,401	-4,317	-2,300	-3,685
Imputed subsidy from Local Authorities to the Housing Revenue Account ²	1,638	1,357	1,525	894	228
Imputed flows for Renewable Obligation Certificates ³	472	470	472	472	472
Current expenditure residual ⁴	4,622	4,803	5,689	3,324	2,142
Of which capital expenditure:					
Capital VAT refunds	1,980	1,821	2,051	2,184	2,216
Capital expenditure residual ⁴	1,430	1,448	2,249	2,197	-2,478

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 2012-13 includes a timing adjustment. The TES figure used in GERS is consistent with the latest CRA analysis, which is from November 2012. The TME figure in GERS is consistent with the public sector finances statistical bulletin published in February 2013. In addition, the residual includes changes to TES not reflected in TME and to TME not reflected in TES in the years prior to 2012-13.

Scottish Accounting Adjustment

The accounting adjustment required to reconcile TES and TME for Scotland is set out in Table B.4. The total Scottish public sector accounting adjustment was estimated at £2.7 billion in 2012-13, or 9.7% of the total UK accounting adjustment.

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 2012-13, capital consumption for Scotland was estimated at £1.7 billion (9.7% 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 Scotland's net fiscal aggregates.

VAT refunds have been allocated to Scotland using the apportionments derived in the revenue calculations (see Annex A), and therefore cancel out in the calculation of the net fiscal aggregates. 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,

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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 current and capital residuals are allocated to Scotland on a per capita basis.

Table B.4: Public Sector Finances Accounting Adjustment: Scotland 2008-09 to 2012-13					
	(£ million)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Scottish total managed expenditure (TME)	59,440	62,087	64,095	64,869	65,205
Scottish total expenditure on services (TES)	56,292	59,064	60,442	61,251	62,524
Scottish accounting adjustment	3,148	3,023	3,653	3,618	2,681
Percentage of UK accounting adjustment	9.4%	9.2%	10.6%	10.3%	9.7%
Of which current expenditure:					
Central government capital consumption ¹	666	699	728	763	793
Local government capital consumption	698	734	788	849	895
Current VAT refunds	847	767	917	975	969
Student loans subsidy ¹	31	-45	76	85	-124
Imputed subsidy from Local Authorities to the Housing Revenue Account ¹	140	99	112	65	21
Imputed flows for Renewable Obligation Certificates ¹	56	55	56	56	56
Current expenditure residual	426	439	516	303	193
Of which capital expenditure:					
Capital VAT refunds	169	149	169	182	187
Capital expenditure residual	115	124	291	340	-309

¹ See notes to Table B.3

The tables in Chapter 5 split expenditure into identifiable and non-identifiable expenditure. When reporting accounting adjustments, the current residual, the capital residual, and EU transactions are classified as non-identifiable. All other aspects of the accounting adjustment are classified as identifiable expenditure for both Scotland and the UK.

Amendments to CRA Data

A number of significant improvements have been made to the CRA database in recent years to apportion expenditure more accurately to countries and regions. While many anomalies in previous editions of the CRA have been addressed and are now reflected in both CRA 2013 and this GERS report, a small number of supplementary amendments to the CRA 2013 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 the CRA in producing this edition of GERS is shown in Table B.5 below. In the financial year 2012-13, the figure of total expenditure on services attributed to Scotland in GERS is £534 million lower than the corresponding CRA figure (using default apportionments for non-identifiable expenditure without further consideration). Table B.6 sets out in detail the sources of these revisions.

Table B.5: Summary of Amendments to Estimates of Total Public Sector Expenditure on Services from CRA 2013: Scotland 2008-09 to 2012-13

	(£ million)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Total Expenditure in Scotland (CRA) ³⁴	56,564	59,463	60,891	61,723	63,059
Total Expenditure in Scotland (GERS)	56,292	59,064	60,442	61,253	62,525
Total revision to expenditure in Scotland	-272	-398	-449	-471	-534

Table B.6: Amendments to Estimates of Total Public Sector Expenditure on Services from CRA 2013: 2008-09 to 2012-13

	(£ million)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Nuclear-related expenditure	-49	-112	-125	-126	-161
Railways expenditure	-121	-109	-104	-104	-127
London Olympics	-47	-55	-57	-57	-46
Pensions revisions	-25	-27	-35	-42	-43
Public sector debt interest	64	4	13	0	-11
Other minor revisions	-94	-100	-141	-140	-147
Total	-272	-398	-449	-471	-534

Nuclear Decommissioning and Related Expenditures

In CRA 2013, expenditure on nuclear decommissioning is classified as identifiable to the region where nuclear facilities are located. However, as discussed in previous editions of GERS,³⁵ 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.

Railways Expenditures

As discussed in previous editions of GERS,³⁶ 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 CRA data which affected the expenditure by London and Continental Railways, the Channel Tunnel Rail link, and Network Rail.

³⁴ In this analysis, an estimate of total expenditure from the CRA 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 B.1 above. This figure therefore excludes all amendments documented in this annex.

³⁵ See Box 5.3 in GERS 2008-09: <http://www.scotland.gov.uk/Publications/2010/06/22160331/9>

³⁶ See Box 5.1 in GERS 2007-08: <http://www.scotland.gov.uk/Publications/2009/06/18101733/8>

2012 Olympics

Although some Olympics expenditures were assigned to London in the latest CRA not all were identified in that way. Consequently, as discussed in previous editions of GERS,³⁷ 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 assigned across the countries and regions of the UK using the estimated regional distribution of the associated increase in tourism expenditure.

Public Sector Pensions

In CRA 2013, 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.

Public Sector Debt Interest

As GERS is consistent with the Public Sector Finances published in February 2014, the public sector debt interest payments in the CRA have been updated to be consistent with those in the most recent Public Sector Finances publication.

Other Amendments

A number of other minor amendments have been made to the CRA 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.

Cross-Border Policing

Previous editions of GERS included an adjustment to remove the double counting of expenditure associated with the Serious and Organised Crime Agency (SOCA) and the Assets Recovery Agency (ARA) where the Scottish Government was making a transfer to these organisations to pay for their activities in Scotland. The CRA database has now removed this double counting so this adjustment has been removed.

³⁷ See Box 6.3 in GERS 2010-11: <http://www.scotland.gov.uk/Publications/2011/06/21144516/8>

C

REVISIONS

This section presents revisions from the previous GERS 2011-12 publication.

Revisions to Non-North Sea Revenue Estimates from GERS 2011-12

Table C.1 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 2008-09 to 2011-12 has been revised up. This reflects upward revisions to UK receipts. These UK revisions are due to:

- Incorporation of data from the Whole of Government Accounts for public corporations and revisions to public corporations' capital accounts data; and
- Alignment of the calculation of interest and dividends in the public sector finances with methodologies used within National Accounts.

Both these revisions were made to the UK Public Sector Finances published in June 2013. However, for Scotland, the increase in these receipts in 2010-11 and 2011-12 is partially offset by downward revisions to other taxes, primarily corporation tax and VAT.

Table C.1: Revisions to Estimates of Total Non-North Sea Public Sector Revenue: 2008-09 to 2011-12				
	(£ million)			
	2008-09	2009-10	2010-11	2011-12
Scotland				
Estimates published in GERS 2011-12	43,502	41,664	44,287	46,297
Estimates published in GERS 2012-13	43,772	42,054	44,318	46,315
Revision	270	390	31	18
UK				
Estimates published in GERS 2011-12	520,332	506,090	542,601	561,386
Estimates published in GERS 2012-13	523,815	510,118	547,100	565,597
Revision	3,483	4,028	4,499	4,211
Scotland/UK ratio				
Estimates published in GERS 2011-12	8.4%	8.2%	8.2%	8.2%
Estimates published in GERS 2012-13	8.4%	8.2%	8.1%	8.2%
Revision (% point)	0.0%	0.0%	-0.1%	-0.1%

Table C.2 illustrates the revisions to individual public sector revenue streams in Scotland and the UK for 2012-13. The revisions to the UK revenue estimates and to the underlying data used to apportion some taxes to Scotland have resulted in revisions to some revenue estimates. The net effect of all of the changes has been to increase the estimate of public sector revenue in Scotland by £18 million and the estimate of UK tax revenue by £4.2 billion.

Table C.2: Revisions to Estimates of Public Sector Revenue: Scotland and UK 2011-12

	(£ million)		(%)	
	Scotland	UK	Scotland	UK
Income tax	-14	-40	0%	0%
Corporation tax (excluding North Sea)	-215	-205	-7%	-1%
Capital gains tax	31	0	13%	0%
Other taxes on income and wealth	-4	-2	-2%	0%
National insurance contributions	-109	0	-1%	0%
VAT	-419	-3	-4%	0%
Fuel duties	-20	0	-1%	0%
Stamp duties	5	0	1%	0%
Tobacco duties	38	0	3%	0%
Alcohol duties	-3	0	0%	0%
Betting and gaming and duties	7	0	6%	0%
Air passenger duty	14	0	6%	0%
Insurance premium tax	-46	0	-18%	0%
Landfill tax	-1	0	-1%	0%
Climate change levy	0	0	0%	0%
Aggregates levy	-4	0	-7%	0%
Inheritance tax	65	40	40%	1%
Vehicle excise duty	3	-7	1%	0%
Non-domestic rates	0	12	0%	0%
Council tax	-3	0	0%	0%
Other taxes, royalties and adjustments	-40	-950	-4%	-7%
Interest and dividends	218	2,682	92%	96%
Gross operating surplus	515	2,694	21%	11%
Rent and other current transfers	0	-10	0%	-2%
Total revision	18	4,211	0%	1%

Revisions to the majority of previously published estimates are relatively small and largely explained by revisions to the UK constraining totals for each revenue stream. For other revenues, changes to methodologies, the latest data, or the UK constraining totals have led to changes to the Scottish estimates. These are discussed below.

Revisions to corporation tax, national insurance contributions, and VAT, are due either to updates to the latest apportionment data or methodological changes. For corporation tax, UK receipts are assigned to Scotland in proportion of the country's share of company profits, as estimated from the ONS Regional Accounts. Scotland's share of UK company profits, particularly in financial services, has been revised down in the latest Regional Accounts publication. This is due to a change in methodology within Regional Accounts which attempts to apportion profits in line with company activity, rather than employment, leading to a downward revision in the estimate of Scottish on-shore corporation tax receipts in GERS. The changes to national insurance contributions reflect new 2011-12 accruals data received from HMRC. Changes to VAT receipts are primarily due to a revised methodology for estimating Local Government VAT refunds. There is a corresponding reduction in Local

Government expenditure. This change therefore has no effect on the current budget balance or the net fiscal balance.

Revisions to other taxes, royalties and adjustments, interest and dividends, and gross operating surplus reflect changes in the UK constraining data. The reasons for the revisions to the UK data for gross operating surplus have been discussed above, as have part of the revisions for interest and dividends. However, interest and dividends has also increased due to the reclassification of Northern Rock Asset Management and Bradford & Bingley from public financial corporations to central government. This was incorporated into UK public sector finances in January 2013, but was not incorporated into the ONS PSAT2 database in time for the 2013 GERS publication. As such, these revenues were captured through the revenue accounting adjustment in the GERS 2013 publication, but are now reported against interest and dividends. This results in a reduction in the other taxes, royalties and adjustments line and a corresponding increase in the interest and dividends line, with no change on overall revenues.

Revisions to North Sea Revenue Estimates from GERS 2011-12

Table C.3 summarises the revisions to North Sea revenues in this edition of GERS by comparing the estimates contained in this report with last year's publication. As revenues from the Emissions Trading Scheme were not reported in last year's publication, they are excluded from this comparison.

Overall, North Sea revenues in the UK for the years 2008-09 to 2011-12 have been revised down between 2008-09 and 2010-11 and up in 2011-12. This reflects downward revisions to North Sea Corporation Tax revenue made by HMRC. Receipts for 2008-09 were revised down by £469 million in April 2013, and receipts for 2009-10 and 2010-11 were revised down in August 2013. These revisions are due to final assessments being made to the proportion of companies' overall tax liabilities that fall within the ring fenced North Sea corporation tax regime, and the onshore corporation tax regime.³⁸

³⁸ See <https://www.gov.uk/government/publications/statistics-of-government-revenues-from-uk-oil-and-gas-production>

Table C.3: Revisions to UK North Sea Revenue: 2008-09 to 2011-12				
	(£ million)			
	2008-09	2009-10	2010-11	2011-12
Licence fees				
Estimates published in GERS 2010-11	0	0	0	0
Estimates published in GERS 2011-12	63	67	70	67
Revision	63	67	70	67
North Sea Corporation Tax				
Estimates published in GERS 2010-11	10,358	5,568	7,328	9,218
Estimates published in GERS 2011-12	9,826	4,998	6,864	9,218
Revision	-532	-570	-464	0
Petroleum Revenue Tax				
Estimates published in GERS 2010-11	2,567	923	1,458	2,032
Estimates published in GERS 2011-12	2,567	923	1,458	2,032
Revision	0	0	0	0
Total revisions	-469	-503	-394	67

Licence fees have been revised up in all years. This reflects an error in the UK public sector finances, whereby licence fees income was not being reported from 2008-09 onwards. Following advice from DECC, ONS have now revised up this series in the UK Public Sector Finances by between £60 million and £70 million a year.

Table C.4 below summarises the revisions to the estimate of Scotland's illustrative geographical share of the North Sea tax revenues since the previous publication. The estimated share of tax revenues has been revised upward in the years 2008-09 and 2009-10 and downwards in the years 2010-11 to 2011-12. These reflect updates to the data used by Kemp and Stephen to estimate Scotland's illustrative geographical share of North Sea revenues.

Table C.4: Revisions to geographical share of North Sea Revenue: 2008-09 to 2011-12				
	(£ million)			
	2008-09	2009-10	2010-11	2011-12
Estimates published in GERS 2011-12	90.9%	91.0%	91.5%	94.0%
Estimates published in GERS 2012-13	92.9%	94.8%	88.7%	88.2%
Difference (% point)	2.0%	3.8%	-2.9%	-5.8%

A discussion of revisions to all taxes between 2008-09 and 2011-12 is provided in the GERS 2012-13 Revenue Methodology note available on the GERS website.

Revisions to Expenditure Estimates from GERS 2011-12

Table C.5 sets out the changes in estimates of public expenditure in Scotland and the UK between this report and GERS 2011-12. These revisions reflect changes in the underlying 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 CRA database are specified separately.

Total public sector expenditure for Scotland in 2011-12 has been revised up by £412 million, 0.6% of the previous estimate. For the UK as a whole, total expenditure has been revised up by £716 million in 2011-12, 0.1% of the previous estimate.

Table C.5: Revisions to Estimates of Total Managed Expenditure: 2008-09 to 2011-12				
	(£ million)			
	2008-09	2009-10	2010-11	2011-12
Scotland				
Estimates published in GERS 2011-12	58,953	62,049	64,030	64,457
Estimates published in GERS 2012-13	59,440	62,087	64,095	64,869
Revision	487	38	65	412
Of which revisions to TES made in CRA 2013	-53	-83	-147	-326
UK				
Estimates published in GERS 2011-12	630,796	671,503	692,354	693,599
Estimates published in GERS 2012-13	635,626	673,402	694,705	694,315
Revision	4,830	1,899	2,351	716
Of which revisions to TES made in CRA 2013	-1,631	-1,901	-1,816	-7,488
Scotland/UK Ratio				
Estimates published in GERS 2011-12	9.3%	9.2%	9.2%	9.3%
Estimates published in GERS 2012-13	9.4%	9.2%	9.2%	9.3%
Revision (% point)	0.0%	0.0%	0.0%	-0.1%

There have been revisions to the estimates of total expenditure on services (TES) in the latest CRA, particularly in 2011-12. This follows the replacement of the previous cross government public spending database, the Combined Online Information System (COINS), with the Online System for Central Accounting and Reporting (OSCAR). This change has resulted in a smaller amount of expenditure being classified as identifiable to a UK region or country. HM Treasury note that whilst great efforts have been made to ensure that data are on a comparable basis to the previous year, differences exist in data at the lowest level. This is evident in Table C.6. As such, caution should be used in interpreting revisions from the previous publication.

Table C.6: Revisions to Estimates of Public Sector Expenditure: Scotland and UK 2011-12

	(£ million)		(%)	
	Scotland	UK	Scotland	UK
General public services				
Public and common services	145	-954	9.8%	-7.5%
International services	-84	-993	-11.2%	-11.1%
Public sector debt interest	27	371	0.7%	0.8%
Defence	-44	-457	-1.3%	-1.2%
Public order and safety	302	-284	11.8%	-0.9%
Economic affairs				
Enterprise and economic development	-41	1,521	-4.6%	45.8%
Science and technology	-72	-21	-21.5%	-0.6%
Employment policies	115	809	88.5%	41.3%
Agriculture, forestry and fisheries	-11	-49	-1.1%	-0.8%
Transport	69	-163	2.6%	-0.8%
Environment protection	-60	-754	-4.9%	-6.7%
Housing and community amenities	-95	-545	-5.5%	-5.2%
Health	-20	-39	-0.2%	0.0%
Recreation, culture and religion	-53	-360	-3.3%	-2.7%
Education and training	-213	-4,752	-2.8%	-5.2%
Social protection	-497	-1,814	-2.3%	-0.7%
Accounting adjustments	947	9,199	40.5%	34.1%
Total revision	412	716	0.6%	0.1%

Revisions to Fiscal Aggregates from GERS 2011-12

Table C.7 shows revisions to the current budget balance from the previous publication of GERS.

Table C.7: Revisions to Estimates of the Current Budget Balance: 2008-09 to 2011-12				
	(£ million)			
	2008-09	2009-10	2010-11	2011-12
Estimates published in GERS 2011-12				
Excluding North Sea revenue	-10,718	-15,558	-15,726	-13,972
Including North Sea revenue (per capita share)	-9,630	-15,013	-14,989	-13,030
Including North Sea revenue (geographical share)	1,034	-9,649	-7,684	-3,398
UK	-51,290	-110,328	-102,504	-92,297
Estimates published in GERS 2012-13				
Excluding North Sea revenue	-10,695	-15,235	-15,753	-14,632
Including North Sea revenue (per capita share)	-9,647	-14,732	-15,049	-13,684
Including North Sea revenue (geographical share)	883	-9,556	-8,299	-4,632
UK	-50,808	-108,900	-100,546	-88,663
Difference (£ million) (positive shows improvement)				
Excluding North Sea revenue	23	323	-27	-660
Including North Sea revenue (per capita share)	-17	280	-59	-654
Including North Sea revenue (geographical share)	-151	93	-615	-1,234
UK	482	1,428	1,958	3,634

Scotland's current budget balance excluding North Sea revenue in the years 2008-09 and 2009-10 is broadly unchanged, or changed in line with the UK. In 2010-11 and 2011-12, Scotland's position worsens whilst the UK position improves. In 2010-11 this is driven by downward revisions to the estimates of corporation tax in Scotland. In 2011-12 this reflects the upward revisions to expenditure discussed above. Including a share of the North Sea, Scotland's current budget balance has worsened in all years other than 2009-10, reflecting the downward revision to the estimates of Scotland's illustrative geographical share of North Sea revenues.

Table C.7 shows revisions to the net fiscal balance from the previous publication of GERS. The revisions here follow the same patterns as those for the current budget surplus.

Table C.8: Revisions to Estimates of the Net Fiscal Balance: 2008-09 to 2011-12

	(£ million)			
	2008-09	2009-10	2010-11	2011-12
Estimates published in GERS 2011-12				
Excluding North Sea revenue	-15,450	-20,385	-19,743	-18,159
Including North Sea revenue (per capita share)	-14,362	-19,839	-19,006	-17,217
Including North Sea revenue (geographical share)	-3,699	-14,475	-11,700	-7,586
UK	-97,539	-158,922	-140,967	-120,963
Estimates published in GERS 2012-13				
Excluding North Sea revenue	-15,668	-20,033	-19,777	-18,553
Including North Sea revenue (per capita share)	-14,620	-19,530	-19,072	-17,605
Including North Sea revenue (geographical share)	-4,091	-14,354	-12,322	-8,554
UK	-99,355	-157,293	-139,199	-117,382
Difference (£ million) (positive shows improvement)				
Excluding North Sea revenue	-218	352	-34	-394
Including North Sea revenue (per capita share)	-258	309	-66	-388
Including North Sea revenue (geographical share)	-392	121	-622	-968
UK	-1,816	1,629	1,768	3,581

In addition to revisions to the fiscal aggregates themselves, there are also revisions to the fiscal aggregates expressed as a share of GDP due to changes in GDP estimates. These are shown in Tables C.9 and C.10 for the current budget balance and the net fiscal balance respectively. If there had been no revisions to estimates of the current budget balance or net fiscal balance in cash terms, previous estimates of Scotland's fiscal aggregates excluding the North Sea would have improved since the previous publication. This reflects upward revisions to onshore GDP following the update of the Input-Output benchmark year from 2007 to 2009 in May 2013. This is broadly offset by downward revisions to Scotland's geographical share of North Sea GDP made in February 2014. As such, Scotland's fiscal aggregates including a geographical share of the North Sea are largely unchanged.

Table C.9: Impact of Revisions to GDP on Estimates of the Current Budget Balance: 2008-09 to 2011-12

	2008-09	2009-10	2010-11	2011-12
Estimates published in GERS 2011-12	(% of GDP)			
Excluding North Sea revenue	-9.3%	-13.8%	-13.1%	-11.2%
Including North Sea revenue (per capita share)	-8.1%	-13.0%	-12.3%	-10.2%
Including North Sea revenue (geographical share)	0.7%	-7.2%	-5.3%	-2.3%
UK	-3.6%	-7.8%	-6.9%	-6.0%
GERS 2011-12 estimate with latest GDP estimates	(% of GDP)			
Excluding North Sea revenue	-9.0%	-13.4%	-12.8%	-11.1%
Including North Sea revenue (per capita share)	-7.9%	-12.7%	-12.0%	-10.2%
Including North Sea revenue (geographical share)	0.7%	-7.2%	-5.3%	-2.3%
UK	-3.6%	-7.7%	-6.8%	-6.0%
Change (positive denotes improvement)	(% point difference)			
Excluding North Sea revenue	0.2%	0.4%	0.3%	0.1%
Including North Sea revenue (per capita share)	0.2%	0.3%	0.3%	0.1%
Including North Sea revenue (geographical share)	0.0%	0.0%	0.1%	-0.1%
UK	0.0%	0.1%	0.1%	0.1%

Table C.10: Impact of Revisions to GDP on Estimates of the Net Fiscal Balance: 2008-09 to 2011-12

	2008-09	2009-10	2010-11	2011-12
Estimates published in GERS 2011-12	(% of GDP)			
Excluding North Sea revenue	-13.4%	-18.1%	-16.5%	-14.6%
Including North Sea revenue (per capita share)	-12.1%	-17.2%	-15.6%	-13.5%
Including North Sea revenue (geographical share)	-2.6%	-10.7%	-8.1%	-5.0%
UK	-6.9%	-11.2%	-9.5%	-7.9%
GERS 2011-12 estimate with latest GDP estimates	(% of GDP)			
Excluding North Sea revenue	-13.0%	-17.5%	-16.1%	-14.4%
Including North Sea revenue (per capita share)	-11.9%	-16.8%	-15.2%	-13.4%
Including North Sea revenue (geographical share)	-2.6%	-10.8%	-8.1%	-5.2%
UK	-6.8%	-11.1%	-9.4%	-7.8%
Change (positive denotes improvement)	(% point difference)			
Excluding North Sea revenue	0.3%	0.5%	0.4%	0.1%
Including North Sea revenue (per capita share)	0.3%	0.4%	0.3%	0.1%
Including North Sea revenue (geographical share)	0.0%	0.0%	0.1%	-0.1%
UK	0.1%	0.1%	0.1%	0.1%

D

LIST OF ABBREVIATIONS

APF	Asset Purchase Facility
CG	Central Government
COINS	Combined Online Information System
CRA	Country and Regional Analysis
CT	Corporation Tax
DECC	Department of Energy and Climate Change
DEL	Departmental Expenditure Limit
DVLA	Driver and Vehicle Licensing Agency
DWP	Department for Work and Pensions
EED	Enterprise and Economic Development
EU	European Union
GDP	Gross Domestic Product (at market prices)
GERS	Government Expenditure and Revenue Scotland
GOS	Gross Operating Surplus
GVA	Gross Value Added (GDP at basic prices)
HMRC	HM Revenue and Customs
HMT	HM Treasury
LG	Local Government
NPD	Non-Profit Distributing
NHS	National Health Service
NRS	National Records of Scotland
NIC	National Insurance Contributions
NMCC	Non-Market Capital Consumption
MOD	Ministry of Defence
OBR	Office for Budget Responsibility
ONS	Office for National Statistics
OSCAR	Online System for Central Accounting and Reporting
PC	Public Corporations
PFI	Private Finance Initiative
PPP	Public Private Partnerships
PESA	Public Expenditure Statistical Analyses
PRT	Petroleum Revenue Tax
PSAT2	Public Sector Accounts Table 2
PSNB	Public Sector Net Borrowing
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
UKCS	UK Continental Shelf
VAT	Value Added Tax

Accounting Adjustment: the adjustment required to reconcile Total Expenditure on Services (TES) provided in the CRA 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.

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 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% 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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Further information about Official and National Statistics can be found on the UK Statistics Authority website at www.statisticsauthority.gov.uk

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