

Consultation on Government Expenditure & Revenue Scotland (GERS) 2016-17

Background

As part of the commitment to continuous improvement to the processes used in all their publications, Scottish Government statisticians have been reviewing the data and methodologies in the Government Expenditure & Revenue Scotland (GERS) publication.

The Scottish Government held its annual meeting of the Scottish Economic Statistics Consultation Group on 25 April 2017. This consultation document incorporates the comments of the group on Scotland's public sector finances statistics. In addition, users of GERS may be interested to know that the group has recommended the creation of a Public Sector Finances Working Group to support the development of statistics in this area.

One of the changes made to the GERS 2015-16 publication was the introduction of more information on expenditure associated with the Non-Profit Distributing (NPD) model. More information on this and other changes made in response to the last consultation is available at:

<http://www.gov.scot/Topics/Statistics/Browse/Economy/GERS/GERSConsultation2016/GERSConsl2016Resp>

The consultation is split into two parts. The first part asks for your views on the GERS publication in general, whilst the second part asks for your views on more technical changes.

These proposed changes are a continuation of the improvements made to GERS over recent years. The Scottish Government is also seeking feedback on the changes to the timing of GERS made in the 2015-16 publication. Annex A provides a summary of the major changes to the methodology and timing of GERS that have been made since the 2008 review.

Replying to this consultation

The consultation is open until **Friday 28 July 2017**. Users can reply to this consultation either

Online at: <https://www.surveymonkey.co.uk/r/JGFCK52>;

By email at Economic.Statistics@gov.scot; or post (see page 13).

If users would find it helpful to have a discussion with Scottish Government statisticians about the proposed changes, then please contact Sandy Stewart, Head of National Accounts – sandy.stewart@gov.scot.

Summary of consultation

As well as seeking feedback on last year's changes, the consultation covers two areas:

Methodological changes. The main methodological change is to use estimates of North Sea revenue for Scotland produced by HM Revenue & Customs (HMRC), rather than those produced by Professor Alex Kemp. This change follows a review of the different methodologies in which Professor Alex Kemp was closely involved.

Presentational changes. Two presentational changes are being considered. Firstly, it is proposed to change the revenue lines presented in GERS to match the definitions used by the Office for Budget Responsibility (OBR) and the Office for National Statistics (ONS). Secondly, changes to the way that devolved fiscal powers are calculated and reported are being proposed.

Part A – General comments on the GERS publication

Q1. How useful do you find the GERS publication?

1 Not at all	2	3	4	5 Very useful
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q2. What do you find most/least useful about the publication?

Q3. Which figures do you use from the publication:

	Not at all	Somewhat	A lot
Net fiscal balance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Current budget balance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Detailed revenue breakdown	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Detailed spending breakdown	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Q4. What do you feel is missing from the GERS publication?

Part B – Methodological changes

This section of the consultation covers proposed changes to GERS methodologies.

Estimation of the illustrative geographical share of Scottish North Sea revenue

Any estimate of Scotland's illustrative geographical share of North Sea revenue will inevitably involve a degree of judgement. Companies operating in the North Sea are not required to report at a field level for tax purposes, and many costs which are important for tax calculations, such as research and development and company overheads, cannot be easily assigned to either Scottish or non-Scottish waters.

Since 2008, GERS has used estimates produced by Professor Alex Kemp for Scotland's illustrative geographical share of North Sea revenue, based on the median line principle, which is also used to determine the Scottish boundary for fishery demarcation purposes. Professor Kemp was the first to produce estimates of not only North Sea tax revenue, but also sales revenue, production, operating costs, and capital expenditures for Scotland. Prior to October 2013, no other estimates were available.

In October 2013, HMRC released for the first time their *A disaggregation of HMRC tax receipts between England, Wales, Scotland & Northern Ireland*. This contained, also for the first time, an estimate by HMRC of Scotland's illustrative geographical share of North Sea revenue, again using the median line boundary. At this time, the estimates were classed as experimental official statistics, which meant that they were still in development.

Following the publication of the HMRC statistics, in their 2014 assessment report of GERS the UK Statistics Authority required the Scottish Government to:

put in place arrangements for reconciling, and as far as possible aligning, the methodology for allocating Scotland's share of UK tax revenues with HMRC's model¹

Following this, the Scottish Government and HMRC published a joint statement on how the work would progress.² There has been ongoing work between the Scottish Government and HMRC to compare the two models across a range of variables, such as production of crude oil, non-gaseous liquids, natural gas; sales revenue; operating expenditure; and capital and decommissioning expenditure. Professor Alex Kemp has also been involved in this process. As well as comparing the results from the two models, the Scottish Government has produced its own estimates of Scotland's share of North Sea revenue. This has built upon the work estimating oil and gas production, income, and expenditure published as part of the Scottish National Accounts Project.

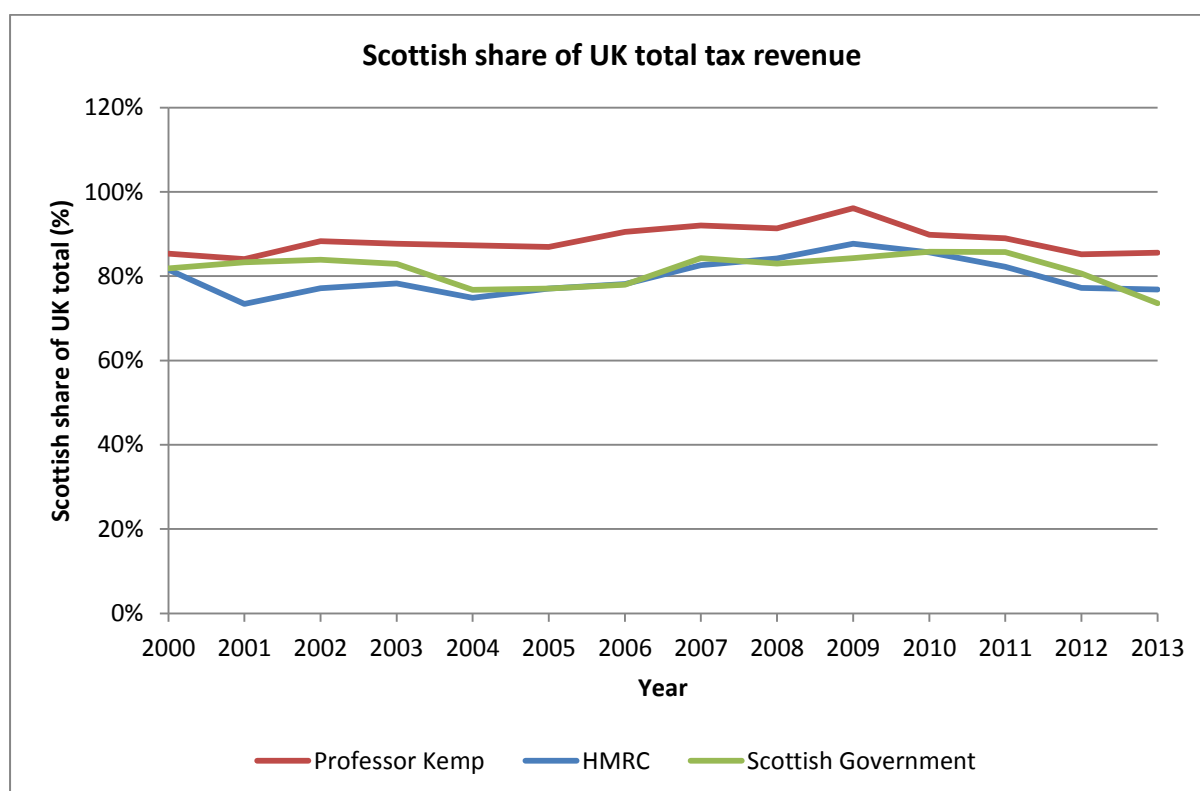
<http://www.gov.scot/Topics/Statistics/Browse/Economy/oilgas>

¹ <https://www.statisticsauthority.gov.uk/publication/statistics-on-government-expenditure-and-revenue-scotland/>

² <http://www.gov.scot/Topics/Statistics/Browse/Economy/GERS/RelatedAreas/HMRCjointstatement>

As a result of this work, a number of differences have been identified between the models. Firstly, the estimates use different data, with HMRC analysis based on administrative tax data and Professor Kemp’s based on self-reported company data. The main modelling difference relates to the level at which tax liability is estimated. Professor Alex Kemp estimates the tax liability at the field level, whilst HMRC and the Scottish Government estimate the tax liability at company level. Other differences between the models, such as differences between prices, were found to have little impact on the overall tax share.

The chart below compares the estimates for North Sea tax revenue produced by HMRC, the Scottish Government, and Professor Alex Kemp.



Comparisons of other differences between the models, including shares of production and expenditure, are available in the ‘Update to GERS methodology’ presentation to the Scottish Economic Statistics Consultation Group, available at: <http://www.gov.scot/Topics/Statistics/Browse/Economy/ScotStat/Meetings>

Since the HMRC analysis was first published, they have moved from being experimental statistics to official statistics, and were used in the recent ONS Country and Regional Public Sector Finances publication, available at: <https://www.ons.gov.uk/releases/countryandregionalpublicsectorfinances>

As a result of this work, the changing status of the HMRC statistics and their use by ONS, and discussions with Alex Kemp, we are proposing to align the estimate of Scotland’s illustrative geographical share of North Sea revenue in GERS with that used by HMRC and the ONS.

Q5: Do you agree with this proposal? What further analysis or information could be used to judge the change?

Presentational changes

Presentation of Income tax, corporation tax, and other small taxes

The GERS presentation for revenue was introduced in 2008, and is now inconsistent with the presentation used for the UK by the Office for Budget Responsibility (OBR) and the Office for National Statistics (ONS). These differences primarily affect income tax, corporation tax. The differences are primarily for technical reasons. For example, unlike the OBR and ONS, GERS does not report gift aid and other charitable adjustments as part of income tax, and does not include company tax credits within corporation tax.

In order to aid comparison between different publications, it is proposed to align the GERS presentation with that used by ONS and OBR. This in effect will result in the removal of the category 'other taxes on income and wealth' with this revenue moved into other tax lines as shown in the table below. **The estimates of total revenue for Scotland will not be affected.**

Change in presentation of revenues (£ million, 2015-16)

	Current presentation	Proposed presentation	Difference
Income tax	12,151	12,248	97
Corporation tax	3,130	3,191	61
Betting and gaming duties	225	289	64
Other taxes on income and wealth	234	0	-234
Other taxes, royalties, & adjustments	1,535	1,547	12
Total of above taxes	17,275	17,275	0

Q6: Do you agree with the proposal to align the GERS presentation with that used by the OBR and ONS? If not, how would you like the results to be presented?

Devolved powers measures

Following the implementation of the Scotland Act 2016, the Scottish Parliament will have responsibility for an increased amount of devolved revenue and expenditure. Since GERS 2013-14, the GERS publication has included reporting of these using different measures. A number of areas where improvements to the presentation could be made have been identified, and a proposed new presentation is shown below.

The main changes have been made to the revenue side and include introducing:

- Revenue from public corporations such as Scottish Water;
- Aligning the revenue accounting adjustments such as VAT refunds and general government gross operating surplus, to ensure they are symmetrical with the devolved expenditure accounting adjustments.

The table below shows the new presentation. In addition to the revenue changes, the expenditure presentation has been simplified to show only one treatment of housing benefit expenditure.

Table 4.9: Fiscal Powers before and after Scotland Act 2016, 2015-16 (£m)		
	Before Scotland Act 2016	After Scotland Act 2016
Non Saving Non Dividend Income Tax Liabilities (2016-17)	4,277	11,214
Land and Buildings Transaction Tax (2015-16)	416	416
Air Passenger Duty (2018-19)		275
Landfill Tax	147	147
Aggregates Levy (date to be decided)		53
Non-domestic Rates	1,916	1,916
Council Tax	2,122	2,122
Gross operating surplus	988	988
VAT refunds	1,263	1,263
Total devolved revenues	11,129	18,395
Devolved revenue as % of non-North Sea Scottish revenue	21%	34%
as % of revenue incl geographical share of North Sea revenue	21%	34%
Assigned net VAT (assigned from 2019-20)	-	5,614
Total devolved and assigned revenues	11,129	24,009
Devolved and assigned revenue as % of non-North Sea Scottish revenue	21%	45%
as % of revenue incl geographical share of North Sea revenue¹	21%	45%
Devolved expenditure including housing benefit	40,536	43,304
Devolved revenue as % of estimated devolved expenditure	27%	42%
Devolved and Assigned revenue as % of estimated devolved expenditure	27%	55%

The Scottish Government is keen to understand from users how useful they find this information, and how it could be improved.

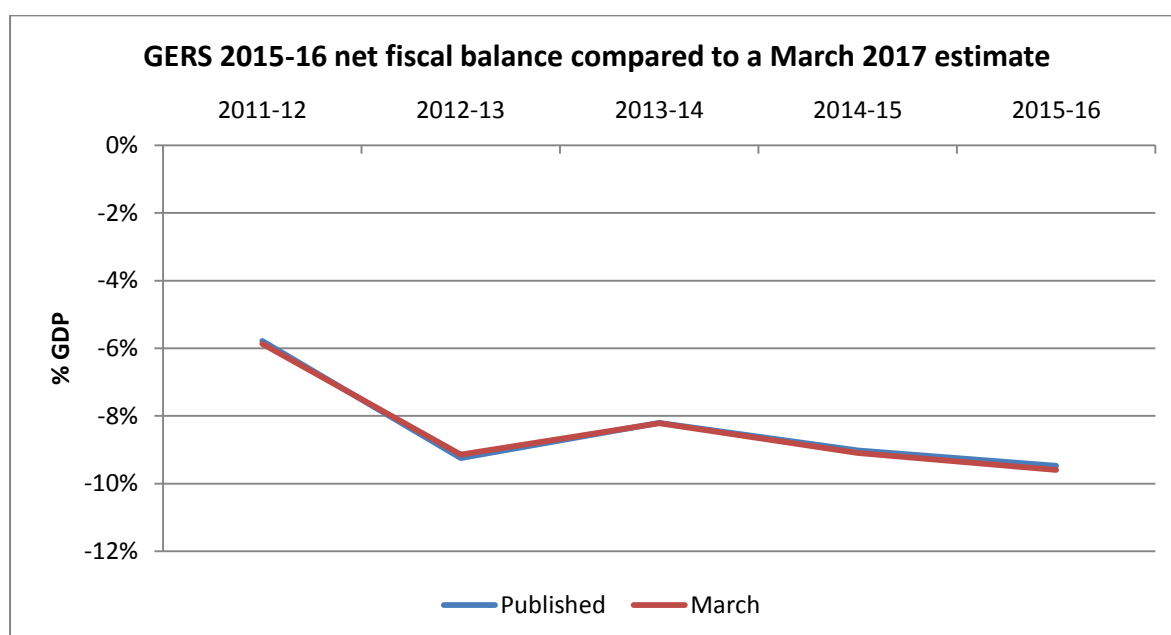
Q7: Do you find the new presentation helpful? Are there any items which you feel should/should not be included?

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Review of the change to timing made in GERS 2015-16

Following last year’s user consultation, the publication of GERS 2015-16 was brought forward to August 2016. The Scottish Government has since undertaken a review of the impact of the change. Detailed results were presented to the Scottish Economic Statistics Consultation Group in April, and are available at the link below, as part of the ‘Past and future development of GERS publication’ presentation.
<http://www.gov.scot/Topics/Statistics/Browse/Economy/ScotStat/Meetings>

The main impacts of the change are summarized below. Overall, the net fiscal balance that might have been produced in March 2017 on the previous publication timescale would have differed from that published in August by 0.1 percentage points (a deficit of 9.6% compared to the published deficit of 9.5%). The graph below compares the two estimates for the years 2011-12 to 2015-16.



This difference of 0.1 percentage points in the net fiscal balance in 2015-16 represents offsetting underlying differences of 0.40 percentage points in the revenue estimates and 0.04 percentage points in the expenditure estimate. Overall, the Scottish Government considers these acceptable differences, given the benefit of making results available to users 7 months earlier.

Q8: What are users views on the impact of the change of the move to August? What further information on the change would you like?

Further comments

If you have any further comments on the methodology, commentary, or presentation of results in GERS, or any other comments, please enter them in the box below.

Respondent information

The following section is optional.

Please could you provide your name and contact details.

Name/Organization

Postal address

Phone

Email

Are you happy for the Scottish Government to contact you in relation to this consultation exercise?

Yes No

Handling consultation responses

The Scottish Government may wish to publish a summary of the responses to the consultation. The contact details of respondents would not be published.

Would you be happy to be named as a respondent to the consultation?

Yes No

Would you be happy for your response to be published alongside your name?

Yes No

Would you be happy for your response to be published without your name?

Yes No

All respondents should be aware that the Scottish Government is subject to the provisions of the Freedom of Information (Scotland) Act 2012 and would therefore have to consider any request made to it under the Act for information relating to responses made to this consultation exercise.

Responding to the consultation

Responses to the consultation should be submitted by

Friday 28 July

You can submit your comments using the options below.

Online:

At: <https://www.surveymonkey.co.uk/r/HCB52MR>;

By post:

Please send your form to:

Government Expenditure & Revenue Scotland Consultation
4WR St Andrews House
Regent Road
Edinburgh
EH1 3DG

By email:

Please email your form to:

Economic.Statistics@gov.scot

Office of the Chief Economic Adviser

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Annex A – Recent changes to GERS methodology and timing

The table below shows the main changes that have been made to GERS methodologies since GERS 2007-08 was published following the major methodological review in 2008.

Table A1 – Changes to GERS methodologies since 2008	
Publication and revenue changed	Description
GERS 2015-16	
Council tax	Adjust revenue in latest year to account for late payments
Expenditure	Switch from the Country and Regional Analysis publication to Public Expenditure Statistical Analyses publication and Scottish Government accounts data for spending.
GERS 2014-15	
Corporation tax	Based on HMRC company level estimates for Scotland
Crown Estate	Switched from population share to share based on Crown Estate Scotland Report.
Research Council spending	Switched from population share to location of institution receiving the grant
VAT	Sector weights taken from HMRC VAT model, rather than ONS supply use tables.
Student loans	Switched from population share of UK total to Scottish specific data
GERS 2013-14	
VAT	VAT spread across four sectors: household, government, business, and housing sector. These are then apportioned to Scotland using different factors
Fuel duties	Duty from petrol and duty from diesel apportioned separately
GERS 2012-13	
Alcohol duties	Switched from Living Cost and Food survey to Family Food publication
Insurance premium tax	Switched from population share to insurance spending share
Gross operating surplus	Separated out surplus associated with artistic originals for BBC and Channel 4
GERS 2011-12	
Air passenger duty	Switched from population share to using data from Civil Aviation Authority
Vehicle excise duty	Vehicle excise duty from households and from businesses apportioned separately
GERS 2010-11 and 2009-10	
None	
GERS 2008-09	
VAT	Improved estimates of Local Government

	refunds
Gross operating surplus	Switch from Local Government Finance returns to ONS Regional Accounts for Local Government

The timing of the GERS publication has also been brought forward since the 2008 review.

- GERS 2007-08, 2008-09, and 2009-10: published June (14 months after year end);
- GERS 2010-11, 2011-12, 2012-13, 2013-14, and 2014-15: published March (11 months after year end);
- GERS 2015-16: published August (5 months after year end).