

## Annex - Projection of Scotland's finances: Methodology Note

1. The projection of Scotland's public sector finances contained in the report "*Outlook for Scotland's Public Finances and the Opportunities of Independence*" consist of a number of different elements:
  - Onshore receipts;
  - North Sea receipts;
  - Current non-debt interest expenditure;
  - Current debt interest expenditure;
  - Capital expenditure;
  - Onshore GDP; and
  - North Sea GDP.
2. For each element, data for financial year 2012-13 is used as the baseline. This is the latest financial year for which consistent estimates are available for all series for Scotland and the UK as a whole. The methodologies used to project each element in future years are set out below.<sup>1</sup>

### Public sector receipts

#### Onshore

3. Onshore receipts have been projected on a tax by tax basis.
4. UK taxes are assumed to grow in line with the forecasts published by the Office for Budget Responsibility (OBR) in their March 2014 Economic and Fiscal Outlook. The exception is taxes within the category 'other taxes, royalties, and adjustments'. This is projected in line with the residual of the identified taxes, and includes an accounting adjustment to ensure consistency with the UK equivalent published by the OBR.
5. For each tax, an average ratio of Scottish to UK receipts in the years 2010-11 to 2012-13 is calculated and applied to the UK forecast to produce a Scottish projection.

#### North Sea

6. The projections of Scottish North Sea revenues are taken from the Scottish Government's Oil and Gas Analytical Bulletin published in May 2014. The Bulletin sets out in detail the methodologies and assumptions which underpin the projections.<sup>2</sup>

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<sup>1</sup> To ensure consistency with the 'underlying' measures of the UK public finances published by the Office of National Statistics and projections in this report excluding transactions associated with the Asset Purchase Facility.

<sup>2</sup> <http://www.scotland.gov.uk/Topics/Statistics/Browse/Business/Energy>

## **Public sector expenditure**

### Current non-debt interest expenditure

7. UK current non-debt interest expenditure is grown in line with the projections in the OBR's March 2014 Economic and Fiscal Outlook.
8. The average ratio of Scottish to UK non-debt interest expenditure in the years 2010-11 to 2012-13 is calculated and applied to the UK forecast to produce a Scottish projection

### Current debt interest expenditure

9. As set out in the main document, an independent Scotland's share of debt interest will depend on the negotiated settlement between the Scottish and UK Governments. To demonstrate the impact that different settlements could have on the results, the main report contains estimates under a number of different scenarios.
10. Under the 'per capita' debt interest scenario, current public sector debt interest expenditure in 2012-13, as reported in GERS, is grown forward in line with the OBR projection of central government debt interest.
11. The 'historical share' scenario augments the above estimate by accounting for Scotland's historical contribution to UK public sector finances, based on the experimental long run public sector finance tables published on the GERS website<sup>3</sup> and the projections for future years contained in this report.

### Capital expenditure

12. Capital expenditure in Scotland and the UK has followed different patterns in recent years. As detailed in GERS, between 2010-11 and 2012-13, UK capital spending fell by almost 25% in nominal terms, whilst the decline in Scotland has been more modest, at slightly over 5%. This reflects in part the Scottish Government policy of prioritising capital expenditure.
13. In future years, Scottish capital expenditure is projected to grow so that the differential between Scottish and UK expenditure returns to its 2010-11 level.

## **Gross domestic product (GDP)**

14. Onshore Scottish GDP is projected forward in line with the OBR's forecast for UK economic growth. Estimates of Scottish North Sea GDP are based on projected changes to North Sea output consistent with the assumptions in the Oil and Gas Analytical Bulletin.

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<sup>3</sup> <http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/GERS/RelatedAreas>