ANNEX A

Item 1:

John Swinney MSP
GERS report
GMS
25Aug22
10m35s

Presenter
In Scotland's ongoing constitutional debate, the publication of the annual Government Expenditure and Revenue Scotland report, better known as GERS, is a recurring flashpoint. The numbers are used by both unionists and nationalists to argue their cases for and against Scottish independence. The top line perhaps is that Scotland's public spending deficit fell to £23.7 billion pounds last year. For two reasons. The first, spending dropped as the government gradually reduced COVID mitigation measures. And the second, income from taxes rose by £11 billion to £73.8 billion. Well, let's talk now to the Deputy First Minister and for the moment the Cabinet Secretary for Finance John Swinney. Good morning to you.

John Swinney
Good morning

Presenter
Now the Scottish Conservatives, who we heard from earlier in the programme, claimed that each person in Scotland receives a windfall of almost £2,200 more in public spending here than they do elsewhere across the rest of the UK. Do you dispute that figure?

John Swinney
Obviously, when you look at the approach that is taken by GERS, you can produce figures of that type, because it simply looks at the current constitutional arrangements and presents the information and the data in that fashion. I think the important point about GERS is that it highlights the improving position within the public finances in Scotland in the aftermath of the enormous disruption of COVID, with a strong rise in income. And particularly the demonstration of Scotland's energy wealth contributing significantly to the United Kingdom Treasury.

Presenter
Yes, onshore income grew less quickly than the rest of the UK as a whole, but offshore taxes obviously soared through the roof with the energy crisis.

John Swinney
Obviously, that's the case with the rising oil price. And in this current financial year, the expectation, the prediction is that oil revenues will not be the £3.5 billion that they are as cited in the GERS report, but are likely to be off the order of £13 billion. Which again, is further demonstration of the contribution that Scotland's energy wealth is making to the United Kingdom Treasury. And of course that has been the case over the last 50 years or so, where about… around £400 billion of revenue has been generated from North Sea oil and gas, which has contributed towards supporting the United Kingdom's finances.

Presenter
Is this sort of bittersweet for you and your colleagues, given that so much money has been generated from North Sea oil and gas and yet the Scottish Government is resistant for plans

to develop more fields in the North Sea? How do you square that? You'll benefit financially but you don't want any more development?

John Swinney
The key point to take from all of this is that Scotland is an energy rich country in all scenarios and the GERS figures demonstrate the strength of the oil and gas sector in contributing to the United Kingdom economy. And I certainly want to make sure that we work with the oil and gas industry to support it through the challenging period that lies ahead in relation to net zero, which is a completely different argument to the public finance arguments that we're pursuing today. But then in addition to that, we have the significant energy wealth and opportunities through the renewable sector which has generated… generating thousands of jobs within Scotland. And is beginning to a position where Scotland is now generating essentially 100% of our electricity requirements from renewable sources…

Presenter
So does the Scottish Government then… will it maintain its resistance to plans to develop more fields in the North Sea, even though they're a cash cow just now?

John Swinney
Well I heard the Conservative spokesperson on the radio this morning and I didn't agree with the characterisation of our approach that she set out, and probably not surprisingly. But what we believe is that we have to work with the North Sea oil and gas sector to manage the transition that has to lie ahead because often the imperative of climate change. And all of our approach on oil and gas has to be climate compatible. So what we've said is that where there are developments that emerge, we will undertake climate compatibility assessments to see whether they can be pursued. And that's a whole process that will be taken forward working with the oil and gas sector.

Presenter
Will you I… mean, you've mentioned there that next year revenue from North Sea oil and gas could come in at around £13 billion. Will you use that for day to day spending, or will you put it aside in a trust as was suggested way back in 2014?

John Swinney
The Growth Commission gave us really substantial thinking about the way in which the revenues that come from North Sea oil and gas can contribute towards long term prosperity by being held in trusts for future generations. I heard Douglas Fraser on the radio this morning talking about the situation in Norway, where the Norwegians have very formidable financial strength because they took long-term decisions about the management of their resources.

Presenter
So are you going to factor in the £13 billion windfall for next year's figures and public spending or will you put it in a trust?

John Swinney
Well obviously we'll have to be independent to do that. So I certainly want to make sure Scotland is independent to enable us to take those decisions, which will be about securing the future interests of people in… **[CROSSTALK]**

Presenter
You could put Scotland's share of it aside? You could take that decision on your own just now?

John Swinney
Well there’s many other constraints on how we're operating within the public finances of the United Kingdom. You know, I don't have the ability to borrow, I don't have the ability to expand the size of the financial envelope available to me in within a financial year. So there's many, many constraints on how I operate within a devolved context… **[CROSSTALK]**

Presenter
That sounds like you are going to spend any increased revenue?

John Swinney
The point I'm making to you is that Scotland, just know, when £13 billion of oil revenues are not been generated.. are being been generated, is not an independent country. That's an issue that we will, we'll address when we are independent. But the point I'm making is that if we were independent, we'd be able to take these decisions and be able to invest for the long term, which we’re restricted from doing because of the arrangements of the United Kingdom.

Presenter
We are almost £24 billion in deficit, it's the notional deficit. Can you give us some idea of the proposals, how would you make that back if you were independent? Which levers that the UK government currently holds would you be able to use, would allow you to raise a further £24 billion to keep spending the way it is?

John Swinney
Fundamentally, this relates to how we manage the economy and how we stimulate growth. I would point out that Scotland has a notional deficit, and these figures, the United Kingdom is running a deficit of £143 billion. And most Western countries are in deficit in the aftermath of the COVID pandemic. And actually, on an ongoing basis, most countries do run a fiscal deficit in their activities. So, I think we've got to avoid a situation where we apply a test to Scotland that we don't apply to the current arrangements of the United Kingdom. But what independence would give us the ability to do is to take policies that would address some of the fundamental challenges we face, first of all about the availability of labour. We suffer labour shortages in Scotland. The madness of Brexit has, has, had a negative impact on the availability of a new employees coming into Scotland. So that can help to fuel growth, population growth can fuel economic growth, it's one of the biggest factors. Of course the UK has a hostile attitude towards population growth. There's also the opportunity to use the fiscal leaves that would be available to us to borrow for long term investment, to improve the competitiveness and productivity of the Scottish economy. Create the ability… **[CROSSTALK]**

Presenter
Would you still like to try and get into the EU, to rejoin the EU? Because at the moment with a deficit of 12%, you couldn't do that? To get into the EU, you have to have a deficit of no more than 3%?

John Swinney
We would of course, want to be members of the European Union. And that would obviously give us the platform to take forward many of the steps I've talked about, about growing the Scottish economy and also about growing the population through free movement...

Presenter
That’s a circular argument. You've got to reduce the deficit in order to be able to get into the EU in the first place?

John Swinney
And obviously we are in a situation where we are reducing the deficit. We've just made a significant impact on that by the by the huge rise in income that's been generated, and revenues, that have been identified in the GERS report in the last financial year. And in this financial year there'll be further erosions. So that journey towards getting to a position where our public finances are much closer to what we would expect them to be in an ongoing independence situation, gives us a platform upon which we can take forward a membership of the European Union, and open up the opportunities that have been restricted by Brexit.

Item 2:

Fiscal Policy

What will Scotland's fiscal position be on independence

The Scottish Government is committed to fiscal sustainability and the paper sets out the key requirements for fiscal policy that will deliver this objective.

Recent events, such as UK Government policy decisions that will require a large increase in borrowing, high inflation, and changes in oil prices mean it is not possible to deliver an accurate forecast for the situation a few years from now.

However, Institute of Fiscal Studies (IFS) analysis[1] has noted that:

> *"Government Expenditure and Revenue Scotland (GERS) publication suggests that Scotland's underlying fiscal position recovered more strongly in 2021-22 than that of the UK as a whole."*

And that…

> *"Scotland's implicit budget deficit this year could be close to that of the UK as a whole".*

Item 3:

24 Aug: GERS report shows Scotland's deficit in 2021-22 remains large compared to the UK and internationally, and that by 2022-23 it is likely to be similar to the UK as a whole – for the first time in over a decade. Tories tweet that 'Union dividend' is £2,184 in 2021-22, the highest value ever.

GERS

GERS represents Scotland's fiscal position under current constitutional arrangements.

- A significant amount of the GERS spending (37%) and revenue (73%) is reserved and outside of the control of the Scottish Government.
- GERS 2021-22 assigns Scotland a population share of UK debt interest (£4.5bn) and defence spending (£4.0bn). This takes no account of the over

£400bn in revenue that the UK Government has received from North Sea production in real terms over the past fifty years.

Item 4:

<u>The GERS numbers show Scotland’s position within the UK and not as an independent nation.</u>

- The notional deficit represents Scotland’s fiscal position as part of the UK - including spending on UK Government policies - and as such the figures do not portray the starting point of finances of an independent Scotland.
- Over 70% of revenue and over 40% of expenditure are reserved and so reflect UK Government policy choices, not the choices this government would make.
- Scotland’s fiscal position under independence would depend on a number of factors – including the policy choices made by future Scottish Governments, growth seen in advance of independence and the level of spending Scotland chose to allocate to areas such as defence.

Item 5:

18 Aug: SG “Government Expenditure and Revenue Scotland” (GERS) report shows an unprecedented increase in Scotland’s fiscal deficit in 2020-21.

<u>The GERS numbers show Scotland’s position within the UK and not as an independent nation. While Scotland’s notional fiscal deficit has increased slightly faster than the UK’s in 2020-21, the overall performance is similar.</u>

- The deficit in Scotland has increased faster than for the UK as a whole largely due to Scotland’s greater exposure to the oil and gas industry. This has impacted both revenues and GDP.
- The oil and gas industry has been particularly exposed to the impacts of COVID-19, with falls in demand contributing to falling prices and North Sea GDP falling 40%.

Item 6:

<u>GERS</u>
<u>The notional deficit represents Scotland’s fiscal position as part of the UK – including spending on UK Government policies – and as such the figures do not portray the starting point of finances of an independent Scotland.</u>

- Around 70% of revenue and 40% of expenditure are reserved and so reflect UK Government policy choices, not the choices this government would make.

Item 7:

18 August: The Scottish Government "Government Expenditure and Revenue Scotland" (GERS) report shows an unprecedented increase in Scotland's fiscal deficit in 2020-21. Including an illustrative geographic share of North Sea Revenue the net fiscal deficit is now £36.3 billion or 22.4% of GDP.

The GERS numbers show Scotland's position within the UK and not as an independent nation.

- The pandemic has led to an unprecedented increase in government deficits, not just in Scotland but across the world. An independent Scotland would have had the power to do the same.
- Around 70% of revenue and 40% of expenditure are reserved and so reflect UK Government policy choices, not the choices this government would make.

Item 8:

18 Aug: The IFS report on GERS states that "the starting point for an independent Scotland at any point in the next few years would therefore almost certainly be as a country with a sizeable structural deficit".
18 Aug: The FAI report on GERS states that GERS sets "the starting point for a discussion about the choices and challenges that need to be addressed by those advocating independence or new fiscal arrangements. It is not enough to say 'everything will be fine'".

The GERS numbers show Scotland's position within the UK and not as an independent nation. While Scotland's notional fiscal deficit has increased slightly faster than the UK's in 2020-21, the overall performance is similar.

- The deficit in Scotland has increased faster than for the UK as a whole largely due to Scotland's greater exposure to the oil and gas industry. This has impacted both revenues and GDP.
- The oil and gas industry has been particularly exposed to the impacts of COVID-19, with falls in demand contributing to falling prices and North Sea GDP falling 40%.

Item 9:

- The most recent GERS figures, covering 2020-21, show that Scottish tax revenue effectively covered all devolved day-to-day spending, as well as major reserved social security – including the state pension and universal credit.

Item 10:

24 Aug: GERS report shows Scotland's deficit in 2021-22 remains large compared to the UK and internationally, and that by 2022-23 it is likely to be similar to the UK as a whole – for the first time in over a decade. Tories tweet that 'Union dividend' is £2,184 in 2021-22, the highest value ever.

GERS

Scotland's deficit has fallen rapidly (from 22.7% to 12.3%) and has fallen faster than the UK's, due to Scotland's oil and gas industry.

- The UK continues to benefit from Scotland's natural wealth.
- An independent Scotland would have been able to borrow to fund its response to COVID-19 and the cost crisis.
- Every single advanced economy is now running a deficit and the UK deficit is now £144bn, one of the largest in Europe.

GERS represents Scotland's fiscal position under current constitutional arrangements.

- Even excluding oil and gas, revenue in GERS covers all Scottish Government day-to-day spending and all reserved social security, including the State Pension.

Item 11:

According to GERS, Scotland's notional deficit in 2021-22 has fallen rapidly (from 22.7% to 12.3%) and has fallen faster than the UK's, due to Scotland's oil and gas industry.

- Scotland's notional deficit can be expected to fall further and faster than the UK's next year, with the UK continuing to benefit from Scotland's natural wealth to fund its response to the cost crisis.
- The IFS states that Scotland's budget deficit in 2022-23 is likely to be similar to the UK as a whole, for the first time in over a decade. (IFS, 1 Dec 2022)

Item 12:

GERS represents Scotland's fiscal position under current constitutional arrangements.

- We have always been clear that the GERS figures show Scotland's finances as part of the UK, not as an independent country.
- GERS 2021-22 assigns Scotland a population share of UK debt interest (£4.5 billion) and defence spending (£4.0 billion). This takes no account of the £396 billion in revenue the UK Government has received from North Sea production in real terms over the past fifty years.

Item 13:

19 Mar: [National] It is an “absolute certainty” the deficit of a newly independent Scotland would be “much smaller” than what is often assumed from GERS figures, Professor John Doyle of Dublin City University has stated.

- The GERS publication explicitly states that it shows Scotland’s position under the current constitutional set-up and not as an independent nation, where spending choices would clearly be different.

Item 14:

- **16 August: [GERS]** The GERS report shows that Scotland’s notional deficit in 2022-23 was £19.1 billion (9% of GDP), compared to 5.2% in the UK. Scotland’s deficit has fallen rapidly (from 12.8% in 2021-22) and faster than the UK’s due to record energy sector revenues.
- **17 August [Scotland Office, Conservatives]:** Commenting on GERS, Scottish Secretary Alister Jack highlighted that the benefit of Scotland being part of the UK is worth £1,500 to every Scot (dubbed the ‘union dividend’) while Liz Smith noted “The figures also wholly reaffirm the case for ensuring our oil and gas sector continuing to play a key role in Scotland’s economy for years to come.”

GERS represents Scotland’s fiscal position under current constitutional arrangements.

- We have always been clear that the GERS figures show Scotland’s finances as part of the UK, not as an independent country.
- **QUOTE:** “If the very purpose of independence is to take different choices about the type of economy and society that we live in, then it is possible that these a set of accounts based upon the world today could look different, over the long term, in an independent Scotland.” (Fraser of Allander, 16 August)
- GERS 2022-23 assigns Scotland a population share of UK reserved debt interest (£9.2 billion) and defence spending (£4.5 billion). This takes no account of the £429 billion in revenue the UK Government has received from North Sea production in real terms over the past sixty years.

Section 30(b)(i) – free and frank provision of advice

An exemption under section 30(b)(i) of FOISA (free and frank provision of advice) applies to a small amount of the information requested. This exemption applies because disclosure would, or would be likely to, inhibit substantially the free and frank provision of advice.

This exemption recognises the need to have a private space within which to provide free and frank advice before the Scottish Government reaches a settled public view. Disclosing the content of free and frank advice will substantially inhibit the provision of such advice in the future.

This exemption is subject to the 'public interest test'. Therefore, taking account of all the circumstances of this case, we have considered if the public interest in disclosing the information outweighs the public interest in applying the exemption. We have found that, on balance, the public interest lies in favour of upholding the exemption. We recognise that there is a public interest in disclosing information as part of open, transparent and accountable government, and to inform public debate. However, there is a greater public interest in allowing a private space within which Scottish Government staff can provide full and frank advice until the Government as a whole can adopt a policy that is sound and likely to be effective. This private thinking space is essential to enable all options to be properly considered, based on the best available advice, so that good policy decisions can be taken. Premature disclosure is likely to undermine the full and frank discussion of issues between officials, which in turn will undermine the quality of the policy making process, which would not be in the public interest.