

GOVERNMENT EXPENDITURE & REVENUE SCOTLAND 2013-14

MARCH 2015



GOVERNMENT
EXPENDITURE & REVENUE
SCOTLAND 2013-14

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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 are consistent with the UK Public Sector Finances published in January 2015 by the Office of National Statistics (ONS).

Changes to presentation of results

- In line with the changes to UK Public Sector Finances in September 2014, the GERS estimates of Scotland's public sector finances are presented consistent with the European System of Accounts 2010 (ESA10). Figures are therefore not directly comparable with previous publications. This publication provides a consistent time series from 2009-10, and a longer time series is available on the GERS website from 1998-99.
- On the ESA10 basis, public revenue, expenditure, and GDP are all higher than previously estimated. This has led to revisions to Scotland's fiscal aggregates in all years. Similar revisions were made to the UK public sector finances following the move to ESA10 in September 2014.
- In addition, estimates of public spending by Scottish Local Authorities in the Country and Regional Analysis (CRA) published by HM Treasury, a key data source used in GERS, have been revised in line with the latest outturn figures published by the Scottish Government, which were not previously available. This affects spending in 2012-13. HMRC have also revised down their estimates of UK North Sea corporation tax for 2011-12 and 2012-13. These revisions are unrelated to the ESA10 changes. A detailed description of the revisions contained in this publication is provided in Annex C.

Scotland's revenue and expenditure

- Table E.1 shows the three estimates of Scotland's public sector revenue presented in GERS, (i) excluding North Sea revenue, (ii) including a population share of North Sea revenue and (iii) including an illustrative geographical share of North Sea revenue.
- As a percentage of GDP, non-North Sea revenues fell in 2013-14. The main driver for this was National Insurance Contributions growing more slowly than GDP. This will, in part, reflect recent UK Government policy changes which have reduced the yield from National Insurance Contributions.
- Including an illustrative geographical share of the North Sea, there was a larger fall in revenue as a percentage of GDP. This reflects the decline in North Sea revenue, which fell by 24% in 2013-14 compared to 2012-13. This is driven by higher operating costs, which have reduced North Sea profits, and higher levels of capital investment, which reduces companies' tax liabilities.

Table E.1: Total Revenue: Scotland 2009-10 to 2013-14

	(£ million)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Excluding North Sea revenue	43,316	45,523	47,279	48,321	49,958
Including North Sea revenue (population share)	43,819	46,227	48,196	48,838	50,354
Including North Sea revenue (geographical share)	48,998	52,981	56,947	53,555	53,954
	(% of Total UK Revenue)				
Excluding North Sea revenue	8.2%	8.1%	8.1%	8.1%	8.1%
Including North Sea revenue (population share)	8.2%	8.1%	8.1%	8.1%	8.1%
Including North Sea revenue (geographical share)	9.2%	9.3%	9.6%	8.9%	8.6%
	(% of GDP)				
Excluding North Sea revenue	35.9%	37.1%	37.0%	37.3%	37.0%
Including North Sea revenue (population share)	35.7%	37.0%	37.0%	37.1%	36.8%
Including North Sea revenue (geographical share)	35.0%	36.5%	37.8%	36.4%	35.3%
UK	35.5%	36.3%	36.4%	36.2%	36.0%

- Table E.2 below shows estimates of revenue per person for Scotland and the UK. Excluding North Sea revenue, or including a population share of North Sea revenue, revenue per person in Scotland is lower than in the UK by approximately £200 to £300 per year. Including an illustrative geographical share of North Sea revenue, revenue per person in Scotland is higher than the UK average in all years, with the difference being quite variable.

Table E.2: Revenue Per Person: Scotland and UK 2009-10 to 2013-14

	2009-10	2010-11	2011-12	2012-13	2013-14
Scotland					
Excluding North Sea revenue	8,300	8,600	8,900	9,100	9,400
Including North Sea revenue (population share)	8,400	8,800	9,100	9,200	9,400
Including North Sea revenue (geographical share)	9,400	10,000	10,700	10,100	10,100
UK					
Excluding North Sea revenue	8,500	9,000	9,200	9,300	9,600
Including North Sea revenue	8,500	9,100	9,400	9,400	9,700
Difference (Scotland minus UK)					
Excluding North Sea revenue	-200	-300	-300	-200	-300
Including North Sea revenue (population share)	-200	-300	-300	-200	-300
Including North Sea revenue (geographical share)	800	900	1,400	600	400

Note: Figures rounded to nearest £100

- Table E.3 below shows estimates of total managed expenditure for Scotland and the UK. Scotland's share of UK expenditure is relatively stable over the period, at between 9.2% and 9.4% of UK expenditure.
- Generally, expenditure as a share of GDP has been declining in Scotland and the UK since 2009-10. However, in 2012-13, there was a one-off increase in expenditure

associated with the transfer of the Royal Mail Pension Plan into government. This increased expenditure in this year by £9.5 billion for the UK, with a population share of approximately £800 million for Scotland. As a result, there is then a larger fall in expenditure in 2013-14.

Table E.3: Public Sector Total Managed Expenditure: 2009-10 to 2013-14

	2009-10	2010-11	2011-12	2012-13	2013-14
Scotland - £ millions	63,533	65,112	65,768	67,848	66,388
Share of UK (%)	9.3%	9.2%	9.3%	9.4%	9.2%
	% of GDP				
Scotland - Excluding North Sea	52.6%	53.1%	51.4%	52.3%	49.2%
Scotland - including population share of North Sea	51.8%	52.1%	50.5%	51.6%	48.5%
Scotland - including geographic share of North Sea	45.4%	44.9%	43.6%	46.1%	43.5%
UK	45.7%	44.8%	43.4%	43.3%	41.6%

- Table E.4 below shows expenditure per person for Scotland and the UK. Expenditure for Scotland has been consistently higher per person than the UK average over the period, by approximately 10% a year.

Table E.4: Total Managed Expenditure per person: Scotland & UK 2009-10 to 2013-14¹

	2009-10	2010-11	2011-12	2012-13	2013-14
Scotland (£)	12,100	12,400	12,400	12,800	12,500
UK (£)	11,000	11,200	11,100	11,300	11,200
<i>Difference (Scotland minus UK) (£)</i>	<i>1,100</i>	<i>1,100</i>	<i>1,300</i>	<i>1,500</i>	<i>1,200</i>

¹ Figures rounded to nearest £100

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. It is shown in Table E.5 below.
- Excluding North Sea revenue, the current budget balance for Scotland tends to move in line with the figure for the UK, although the deficit is larger by six to seven percentage points. When including an illustrative geographical share of the North Sea, the movement in Scotland's current budget balance is more variable. The relatively small fall in the current budget deficit in 2013-14 under this scenario reflects the decline in North Sea revenue in this year.

Table E.5: Current Budget Balance: Scotland and UK 2009-10 to 2013-14

	(£ million)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Scotland - Excluding North Sea	-16,033	-16,030	-14,732	-14,851	-13,837
Scotland - Including North Sea (population share)	-15,530	-15,325	-13,815	-14,334	-13,441
Scotland - Including North Sea (geographical share)	-10,351	-8,571	-5,064	-9,616	-9,840
UK	-103,811	-93,756	-81,921	-83,848	-71,490
	(% of GDP)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Scotland - Excluding North Sea	-13.3%	-13.1%	-11.5%	-11.5%	-10.3%
Scotland - Including North Sea (population share)	-12.7%	-12.3%	-10.6%	-10.9%	-9.8%
Scotland - Including North Sea (geographical share)	-7.4%	-5.9%	-3.4%	-6.5%	-6.4%
UK	-6.9%	-5.9%	-5.0%	-5.0%	-4.1%

- The net fiscal balance measures the difference between total public sector 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. It is shown in Table E.6 below.
- The net fiscal balance tends to move in the same way as the current budget balance. This reflects the fact that capital spending is relatively stable as a share of total spending over time.
- However, the net fiscal balance for the UK worsens from 2011-12 into 2012-13, whilst the current budget balance remains broadly unchanged. The same is true for Scotland excluding the North Sea. This reflects the one-off increase in capital spending associated with the Royal Mail Pension Plan discussed above.

Table E.6: Net Fiscal Balance: Scotland and UK 2009-10 to 2013-14

	(£ million)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Scotland - Excluding North Sea	-20,217	-19,589	-18,489	-19,527	-16,430
Scotland - Including North Sea (population share)	-19,714	-18,885	-17,572	-19,010	-16,034
Scotland - Including North Sea (geographical share)	-14,535	-12,130	-8,821	-14,293	-12,434
UK	-153,032	-134,005	-112,782	-119,399	-97,280
	(% of GDP)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Scotland - Excluding North Sea	-16.8%	-16.0%	-14.5%	-15.1%	-12.2%
Scotland - Including North Sea (population share)	-16.1%	-15.1%	-13.5%	-14.5%	-11.7%
Scotland - Including North Sea (geographical share)	-10.4%	-8.4%	-5.9%	-9.7%	-8.1%
UK	-10.2%	-8.5%	-6.9%	-7.2%	-5.6%

PREFACE

This report is the twenty-first 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 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 UK Statistics Authority 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 confirmed GERS' designation as National Statistics. Full report:

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

In line with the Code of Practice, the content of and methodology used in GERS is continually reviewed in conjunction with users, through the Scottish Economic Statistics Consultation Group, forums like ScotStat, the Statistics Consultation Network, and through formal consultation. The latest consultation about this edition of GERS was carried out between November 2014 and January 2015. A summary of responses was published in early February, and a fuller response is published alongside this edition of GERS.²

Feedback from users of the publication is welcome. A correspondence address is available in the back leaf of the publication. Comments can be emailed to:

economic.statistics@scotland.gsi.gov.uk

The Approach

¹ <http://www.statisticsauthority.gov.uk/>

² <http://www.gov.scot/Topics/Statistics/Browse/Economy/GERS/GERSConsultation2014>

Unlike some countries, the UK does not produce intra-UK 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 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 such accounts are not available at the UK country or regional level.

As such, GERS develops a framework for estimating public sector revenue raised in Scotland and expenditure for Scotland. Where Scottish data are unavailable, GERS estimates expenditure and revenue using a set of appropriate apportionment methodologies, refined over a number of years following consultation with and feedback from users. The accounts are estimated for Scotland on the basis of the national accounting standards adopted by the UK Government: the European System of Accounts 2010.

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 in Scotland?
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 costs of 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 of 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 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, an assessment of 'who benefits' depends 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 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 population 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. Box 5.2 in Chapter 5 discusses the differences between the figures used in GERS for expenditure *for* Scotland, and other figures such as Scottish Government budgets.

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 by HM Treasury. Access to the CRA database can be obtained through the UK Government website.³

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 data can be obtained through the ONS website.⁴

GERS also makes use of the estimates of Scottish Gross Domestic Product (GDP) in current market prices published in the Quarterly National Accounts Scotland (QNAS). Further information on QNAS is available on the Scottish Government website.⁵

Additional Information on the GERS Website

The GERS website contains a number of additional analyses 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 statistics providing a consistent time series of Scotland's public sector finances from 1998-99 to 2013-14, following consultation with users. This makes the GERS time series consistent with the other Economic Statistics products.

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. Further details on this work can be seen in Box 3.1 in Chapter 3. Progress reports on this work will also be available on the GERS website.

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

³ <https://www.gov.uk/government/statistics/country-and-regional-analysis-2014>

⁴ 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.

⁵ <http://www.gov.scot/snap>

INTRODUCTION AND OVERVIEW

Introduction

GERS 2013-14 estimates public sector revenue and expenditure for Scotland for the years 2009-10 to 2013-14 under the current constitutional arrangements. Particular focus is given to 2013-14, the latest fiscal year for which outturns of revenue and expenditure are available. All figures are in current prices. New for this year's GERS, time series for most tables are presented on the website back to 1998-99, to make GERS consistent with other economic statistics outputs produced by the Scottish Government.

Following changes to the UK Public Sector Finances made by the ONS in September 2014, the GERS estimates of Scotland's public sector finances are presented consistent with the European System of Accounts 2010 (ESA 2010). Figures are therefore not directly comparable with previous publications. This publication provides a consistent time series from 2009-10, and the longer time series available on the GERS website back to 1998-99 is also on this basis.

On the ESA10 basis, public revenue, expenditure, and GDP are higher than previously estimated. This has led to revisions to Scotland's fiscal aggregates in all years. In addition, the estimates of public spending in Scotland in the Country and Regional Analysis (CRA) data published by HM Treasury, a key data source used in GERS, have been revised, to update them with the latest outturn figures published by the Scottish Government, which were not previously available. This has led to further revisions, particularly in 2012-13. These revisions are unrelated to the ESA10 changes. A detailed outline of the revisions contained in this publication can be found in Annex C.

The outline below provides a brief overview of the chapters contained in the publication.

Chapter 1: Scotland's Public Sector Accounts

Chapter 1 provides a summary of estimated public sector revenue in and expenditure for Scotland between 2009-10 and 2013-14. 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 and capital consumption) and the overall net fiscal balance (i.e. total current revenue less total managed expenditure).

Chapter 2: Devolution of Revenue and Expenditure

This is a new chapter for GERS. In response to user demand, the aim of this chapter is to clearly set out the amount of revenue and spending functions being transferred to the Scottish Parliament as part of the Scotland Act, and under the current Smith Commission proposals.

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 and the ONS take 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.

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.⁶

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.⁷

Annex C: Revisions

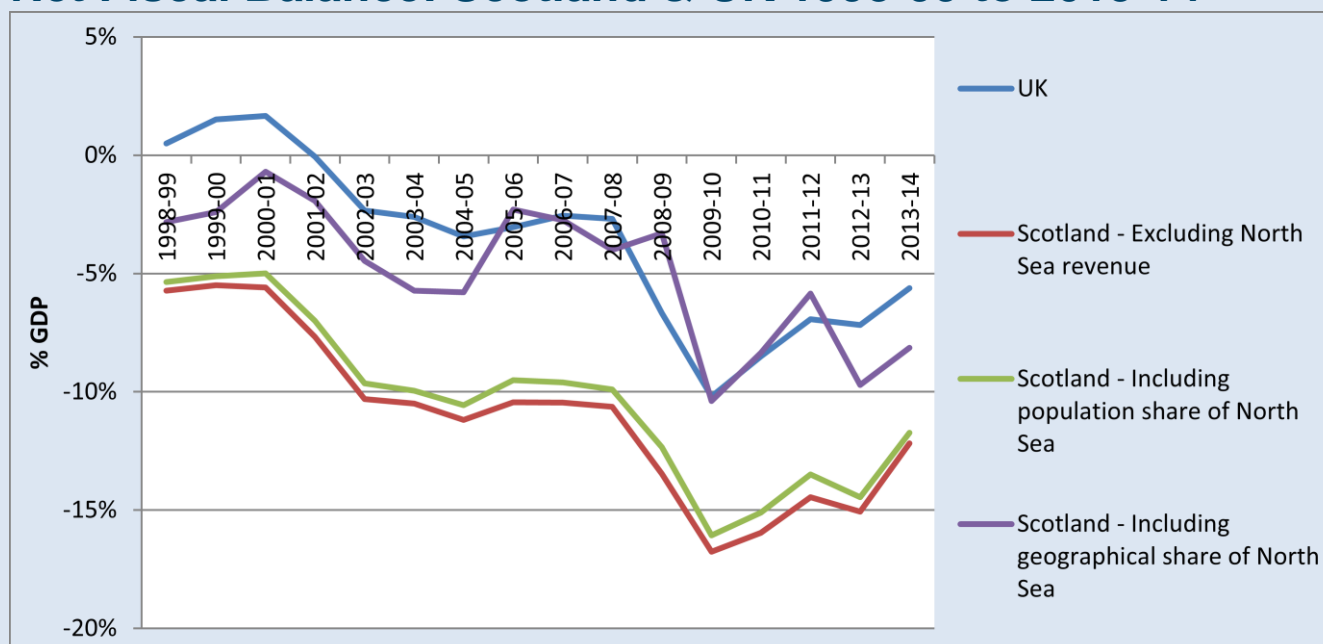
Annex C provides a summary of the extent and nature of the revisions to the previous estimates of revenue, expenditure, and balances between this edition of GERS and GERS 2012-13.

⁶ <http://www.gov.scot/Topics/Statistics/Browse/Economy/GERS>

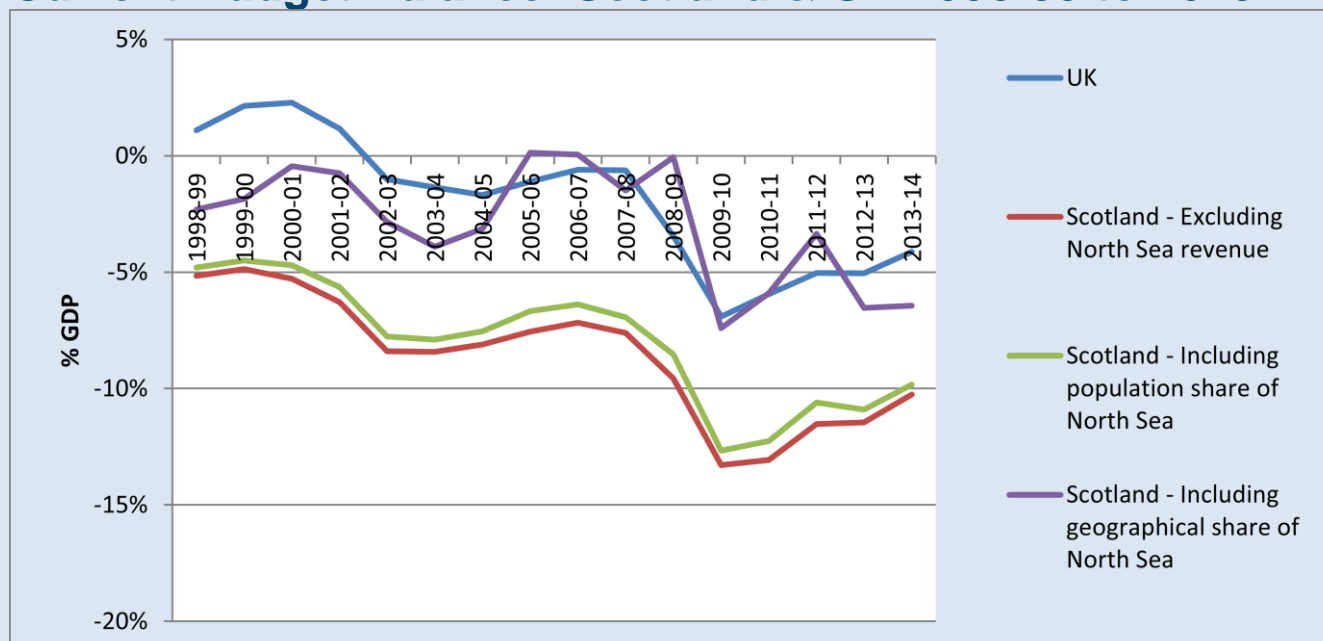
⁷ <http://www.scot.gov/Topics/Statistics/Browse/Economy/GERS>

CHAPTER 1: SCOTLAND'S PUBLIC SECTOR ACCOUNTS

Net Fiscal Balance: Scotland & UK 1998-99 to 2013-14



Current Budget Balance: Scotland & UK 1998-99 to 2013-14



Introduction

This chapter provides a summary of Scotland's public sector accounts for the years 2009-10 to 2013-14 under the current constitutional arrangements. A longer time series is available on the GERS website from 1998-99. 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; and
- 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, there are no UK country and regional fiscal accounts. The results presented in this section are therefore 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 2009-10 to 2013-14. The figures for revenue and expenditure correspond to the estimates contained in Chapters 3, 4 and 5.⁸

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.⁹ 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 central and local 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. Public sector capital expenditure is referred to as net investment.

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 used as an indicator of intergenerational fairness and the sustainability of current policies.

⁸ 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.

⁹ In the UK National Accounts, local authority user charges are classified as negative expenditures and therefore do not enter the revenue calculations in GERS.

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 population 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 1.1 and 1.2.

Table 1.1: Current and Capital Budgets: Scotland 2009-10 to 2013-14

	(£ million)				
	2009-10	2010-11	2011-12	2012-13	2013-14
<u>Current Budget</u>					
Current revenue					
Excluding North Sea revenue	43,316	45,523	47,279	48,321	49,958
Including North Sea revenue (population share)	43,819	46,227	48,196	48,838	50,354
Including North Sea revenue (geographical share)	48,998	52,981	56,947	53,555	53,954
Current expenditure	55,560	57,776	58,265	59,353	59,653
Capital consumption	3,789	3,777	3,746	3,818	4,142
Balance on current budget (surplus is positive, deficit is negative)					
Excluding North Sea revenue	-16,033	-16,030	-14,732	-14,851	-13,837
Including North Sea revenue (population share)	-15,530	-15,325	-13,815	-14,334	-13,441
Including North Sea revenue (geographical share)	-10,351	-8,571	-5,064	-9,616	-9,840
<u>Capital Budget</u>					
Capital expenditure	7,973	7,336	7,503	8,495	6,735
Capital consumption	-3,789	-3,777	-3,746	-3,818	-4,142
Net Investment	4,184	3,559	3,757	4,676	2,593
Net Fiscal Balance (surplus is positive, deficit is negative)					
Excluding North Sea revenue	-20,217	-19,589	-18,489	-19,527	-16,430
Including North Sea revenue (population share)	-19,714	-18,885	-17,572	-19,010	-16,034
Including North Sea revenue (geographical share)	-14,535	-12,130	-8,821	-14,293	-12,434

Table 1.2 presents the estimates of Scotland's public sector accounts as a percentage of Gross Domestic Product (GDP).

Table 1.2: Current and Net Fiscal Balances % GDP: Scotland 2009-10 to 2013-14

	(per cent of GDP)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Excluding the North Sea					
Balance on current budget	-13.3%	-13.1%	-11.5%	-11.5%	-10.3%
Net investment	3.5%	2.9%	2.9%	3.6%	1.9%
Net fiscal balance	-16.8%	-16.0%	-14.5%	-15.1%	-12.2%
Including a population share of the North Sea					
Balance on current budget	-12.7%	-12.3%	-10.6%	-10.9%	-9.8%
Net investment	3.4%	2.8%	2.9%	3.6%	1.9%
Net fiscal balance	-16.1%	-15.1%	-13.5%	-14.5%	-11.7%
Including an geographical share of the North Sea					
Balance on current budget	-7.4%	-5.9%	-3.4%	-6.5%	-6.4%
Net investment	3.0%	2.5%	2.5%	3.2%	1.7%
Net fiscal balance	-10.4%	-8.4%	-5.9%	-9.7%	-8.1%

Table 1.3 below provides estimates of the UK's Public Sector Accounts over the period 2009-10 to 2013-14, as set out in the ONS Public Sector Finances Statistical Bulletin published in January 2015, expressed as a percentage of GDP. They are prepared on a consistent basis with the estimates in Tables 1.1 and 1.2. The figures show that, in 2013-14, the estimated current budget deficit for the UK public sector was 4.1% of GDP. For the same year, the estimated UK public sector net fiscal balance, or net borrowing, was a deficit of 5.6% of GDP.

Table 1.3 Current and Capital Budgets: UK 2009-10 to 2013-14 (% of GDP)

	2009-10	2010-11	2011-12	2012-13	2013-14
<u>Current Budget</u>					
Current revenue	35.5%	36.3%	36.4%	36.2%	36.0%
Current expenditure	40.4%	40.2%	39.4%	39.1%	38.1%
Capital consumption	2.0%	2.0%	2.0%	2.1%	2.0%
Balance on current budget	-6.9%	-5.9%	-5.0%	-5.0%	-4.1%
<u>Capital Budget</u>					
Capital expenditure	5.3%	4.6%	3.9%	4.2%	3.5%
Capital consumption	-2.0%	-2.0%	-2.0%	-2.1%	-2.0%
Net Investment	3.3%	2.6%	1.9%	2.1%	1.5%
Net Fiscal Balance	-10.2%	-8.5%	-6.9%	-7.2%	-5.6%

Fiscal Balance

Current Budget Balance

As Tables 1.1 and 1.2 highlight, any estimate of Scotland's current budget balance varies according to the allocation of North Sea revenue. Over the period 2009-10 to 2013-14, the estimated current budget balance in Scotland when North Sea revenue is excluded was an average deficit of 11.9% of GDP, or 11.3% when a population share of North Sea revenue is included. When an illustrative geographical share of North Sea revenue is assigned to Scotland, the estimated current budget balance over the same period was an average deficit of 5.9% of GDP. The average current budget balance for the UK over this period, including 100% of North Sea revenue, was a deficit of 5.4% of GDP.

Net Fiscal Balance

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 crisis and subsequent recession, which resulted in a significant deterioration in the strength of the public finances across many countries.

Between 2012-13 and 2013-14, the net fiscal balance for Scotland, excluding the North Sea, improved from a deficit of 15.1% of GDP to a deficit of 12.2% of GDP. This primarily reflects expenditure related to the transfer of the Royal Mail Pension Plan into central government in 2012-13, which resulted in a one-off increase in spending of approximately £10 billion for the UK in this year. As this was a one-off spending item, there is a reduction in spending in 2013-14 and in turn a reduction in the net fiscal deficit.

Scotland's net fiscal deficit including an illustrative geographical share of North Sea revenue decreased from 9.7% of GDP in 2012-13 to 8.1% of GDP in 2013-14. The reduction in this deficit under this scenario is relatively smaller, compared to the scenario where North Sea oil is excluded. This reflects the fact that Scotland's illustrative geographical share of North Sea oil and gas revenues is estimated to have fallen from £5.2 billion in 2012-13 to £4.0 billion in 2013-14.

North Sea tax receipts are driven by a number of factors, including the oil price, the sterling dollar exchange rate, production, operating expenditure, capital investment, and the tax regime. The drivers of the decline in 2013-14 were rising operating costs and capital investment. Operating costs in the North Sea grew by approximately 11% between 2012-13 and 2013-14, whilst capital investment increased by 12%, which in turn has reduced companies' tax liabilities.

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 adopts the same assumptions made in the corresponding budget calculations. As such, when Scotland's public sector accounts are presented excluding North Sea revenue, they are expressed as a percentage of Scotland's GDP excluding GDP arising from offshore North Sea activities.

Similarly, when a proportion of North Sea revenue is included in the Scottish public sector revenue estimates, a related share of offshore GDP 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.

As explained throughout this document the expenditure and revenue statistics are now reported on the basis of the European System of Accounts 2010 (ESA10). This updated system also leads to changes in other parts of the national accounts, including GDP, due to the inclusion of new activities within GDP and other conceptual changes. A key change is the capitalisation of research and development expenditure. To allow comparisons between Scotland and the UK, and to properly compare GDP, expenditure and revenue on the same basis, provisional estimates of GDP on an ESA10 basis were published in Scotland's Quarterly National Accounts Scotland in February.¹⁰

GDP figures for Scotland and the UK are reflected in the Table 1.4.

Table 1.4 Scottish GDP Including and Excluding North Sea GDP: 2009-10 to 2013-14					
	(£ million)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Scottish GDP					
Excluding North Sea GDP	120,679	122,715	127,928	129,670	134,905
Including population share of North Sea GDP	122,676	125,014	130,259	131,516	136,752
Including geographical share of North Sea GDP	139,890	145,167	150,724	147,251	152,765
UK GDP	1,501,670	1,576,231	1,628,485	1,663,163	1,732,914

Source: Quarterly National Accounts Scotland, <http://www.gov.scot/snap>; ONS

¹⁰ <http://www.gov.scot/Topics/Statistics/Browse/Economy/SNAP/QNAS>

Current Revenue

Table 1.5 provides estimates of Scottish public sector current revenue for the main taxes by value for the years 2009-10 to 2013-14. A more detailed discussion and breakdown of revenue is provided in Chapters 3 and 4 and in Annex A.

Table 1.5: Summary of Current Revenue by Economic Category: Scotland 2009-10 to 2013-14

	(£ million)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Income tax	10,300	10,611	10,780	10,856	11,410
Corporation tax (excluding North Sea revenue)	2,542	2,728	2,646	2,799	2,817
National Insurance contributions	7,911	7,968	8,266	8,501	8,730
Value added tax	7,326	8,366	9,386	9,569	10,060
Local authority revenue ¹	3,716	3,764	3,847	3,875	3,869
All other revenue	11,520	12,085	12,355	12,721	13,073
Total current non-North Sea revenue	43,316	45,523	47,279	48,321	49,958
North Sea revenue					
Population share	503	705	917	518	396
Geographical share	5,682	7,459	9,668	5,235	3,996
Total current revenue (including North Sea revenue)					
Population share	43,819	46,227	48,196	48,838	50,354
Geographical share	48,998	52,981	56,947	53,555	53,954

1. Council tax and non-domestic rates

As Table 1.5 highlights, Scotland's illustrative geographical share of North Sea revenue increased in both 2010-11 and 2011-12. However, between 2011-12 and 2013-14, it fell by 58.7% to £4.0 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 2009-10 to 2013-14. 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 2013-14 total public sector expenditure for Scotland was £66.4 billion. As outlined in Table 1.6, Scotland accounted for 9.2% of total UK public spending in 2013-14.

Table 1.6: Total Managed Expenditure: Scotland and UK 2009-10 to 2013-14

	(£ million)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Total Managed Expenditure for Scotland	63,533	65,112	65,768	67,848	66,388
Total Managed Expenditure for the UK	686,295	706,520	706,190	720,836	721,489
Total Managed Expenditure for Scotland as share of UK (%)	9.3%	9.2%	9.3%	9.4%	9.2%

Table 1.7 provides estimates for the six largest functions of public sector expenditure. Over the five year period since 2009-10, total public sector expenditure grew by 4.5% in nominal terms. However, growth has slowed in more recent years, with public spending falling 2.2% in cash terms between 2012-13 and 2013-14. As discussed above, much of this fall is due to the one-off effect of the Royal Mail Pension Plan transfer, if this effect was excluded, spending would have fallen by 1.0% in 2013-14.

Social protection expenditure, which includes benefit expenditure, is the largest single category of expenditure. It grew relatively strongly between 2009-10 and 2012-13, due to the impact of the recession. However, in 2013-14, this trend ended, with growth of only 0.2%, reflecting improving labour market conditions and welfare reforms.

Table 1.7: Summary of Public Sector Expenditure: Scotland 2009-10 to 2013-14

	(£ million)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Social protection	20,005	20,617	21,100	22,285	22,323
Health	10,670	10,931	11,046	11,290	11,465
Education and training	7,727	7,652	7,489	7,674	7,599
General public services	4,500	5,661	5,814	5,310	5,526
Defence	3,164	3,292	3,234	3,028	3,025
Public order and safety	2,698	2,806	2,866	2,850	2,557
Other	14,769	14,153	14,219	15,411	13,893
Total Managed Expenditure	63,533	65,112	65,768	67,848	66,388

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

Box 1.1: Figures on a General Government basis

The figures presented in GERS are consistent with the presentation in ONS's Public Sector Finances Statistical Bulletin, and cover the whole of the public sector. However, many institutions, such as the IMF or OECD, use figures on a general government basis when comparing across countries. The key difference between the public sector finances and general government finances is that the general government basis excludes revenue and spending associated with public corporations, which are market bodies controlled by government. In the UK, this includes the Bank of England and bodies such as Channel 4 and Scottish Water.

In order to help improve comparability of the GERS figures, the table below estimates Scottish and UK revenue, expenditure, and net fiscal balance on a general government basis. The figures are also shown on a calendar year rather than financial year basis, consistent with the approach adopted by most international institutions.

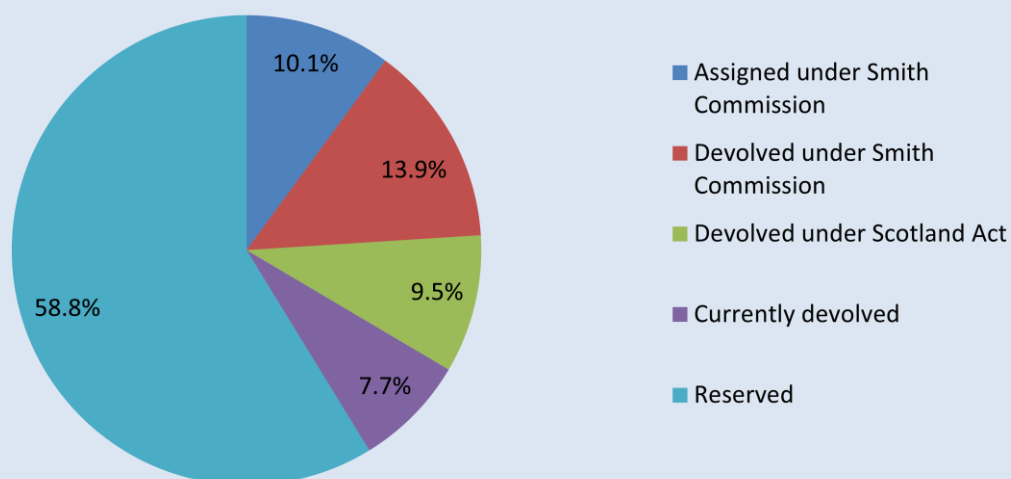
In most years, the Scottish and UK general government position is slightly worse than the position of the public sector as a whole. This is because UK public corporations, including the Bank of England, which are excluded from the measure, tend to run at a slight surplus.

General government revenue, expenditure, and balance: Scotland and UK 2009-10 to 2013-14

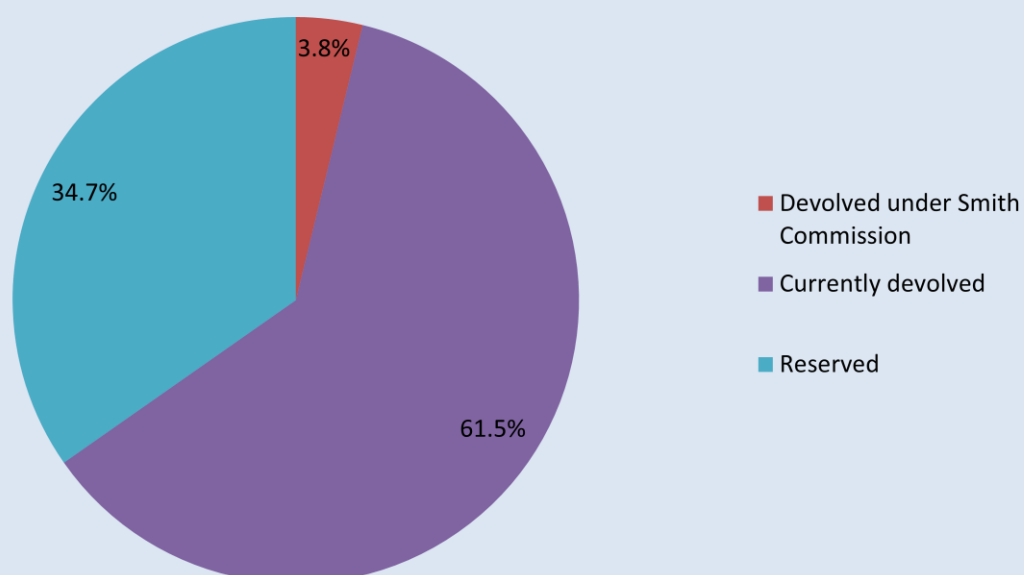
	(£ million)				
	2009	2010	2011	2012	2013
Revenue					
Excluding North Sea revenue	41,565	43,523	45,923	46,784	49,744
Including North Sea revenue (population share)	42,126	44,166	46,772	47,454	50,180
Including North Sea revenue (geographical share)	47,963	50,382	54,929	53,652	54,141
UK	517,957	553,432	583,937	591,848	628,214
Expenditure					
Scotland	62,621	64,629	65,059	68,203	66,568
UK	678,136	703,568	706,449	729,242	726,450
Net fiscal balance					
Excluding North Sea revenue	-21,056	-21,105	-19,136	-21,419	-16,824
Including North Sea revenue (population share)	-20,495	-20,463	-18,287	-20,749	-16,388
Including North Sea revenue (geographical share)	-14,658	-14,246	-10,130	-14,551	-12,427
UK	-160,179	-150,136	-122,512	-137,394	-98,236
	(% of GDP)				
Excluding North Sea revenue	-17.4%	-17.3%	-15.1%	-16.6%	-12.6%
Including North Sea revenue (population share)	-16.7%	-16.4%	-14.2%	-15.8%	-12.1%
Including North Sea revenue (geographical share)	-10.4%	-9.9%	-6.8%	-9.8%	-8.2%
UK	-10.8%	-9.6%	-7.6%	-8.3%	-5.7%

CHAPTER 2: DEVOLUTION OF REVENUE & EXPENDITURE

Devolved & Reserved Revenue in Scotland: 2013-14



Devolved & Reserved Expenditure in Scotland: 2013-14



2 DEVOLUTION OF REVENUE & EXPENDITURE

This is a new chapter for GERS. In response to user demand, the aim of this chapter is to clearly set out the amount of public sector revenue and expenditure currently devolved and how this will change following the implementation of the Scotland Act 2012, and the proposals contained in the Smith Commission's final report.¹¹

Currently Devolved Revenue

At present, Council Tax and Non-Domestic Rates are the only two taxes set and administered by the Scottish Government and Scottish Local Authorities. Collectively the two taxes raised almost £4.0 billion during 2013-14 as outlined in the table below. This is equivalent to 7.7% of Scottish onshore tax revenue in this year.

Table 2.1: Existing Devolved Taxes Revenue: Scotland 2009-10 to 2013-14

	(£ million)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Council Tax	1,894	1,901	1,914	1,929	1,941
Non Domestic Rates	1,822	1,863	1,933	1,946	1,927
Total	3,716	3,764	3,847	3,875	3,869

Scotland Act 2012

The Scotland Act 2012 gives the Scottish Parliament a number of new powers over taxation.

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 have been determined by Scottish Ministers and are subject to the scrutiny of the Scottish Parliament. Further information on the reforms, and the bands and rates set, is provided on the Scottish Government website.¹²

The table below sets out the revenue raised by SDLT in Scotland between 2009-10 and 2013-14. Receipts have been volatile in recent years, reflecting movements in the number of housing transactions and new UK Government policies such as exempting some first-time buyers from the duty.

Table 2.2: Stamp Duty Land Tax Revenue: Scotland 2009-10 to 2013-14

	(£ million)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Scotland	250	333	274	283	385

¹¹ <http://www.smith-commission.scot/>

¹² <http://www.gov.scot/Topics/Government/Finance/scottishapproach/lbtt>

2 Devolution of Revenue & Expenditure

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 £105 million in Scotland during 2013-14, as outlined in the table below. Landfill Tax has been on an upward trend since 2009-10. This reflects the UK Government's decision to increase annually the rate of tax on active waste sent to landfill during this period.

Table 2.3: Landfill Tax Revenue: Scotland 2009-10 to 2013-14

	(£ million)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Scotland	85	97	95	99	105

From April 2016 the basic, higher and additional rates of income tax levied on 'non-savings and non-dividend 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, although the tax will still be administered and collected by HMRC. If the Scottish Government chooses to set the SRIT at 10p, the basic, higher and additional rates of income tax in Scotland would remain at the same levels as in the rest of the UK.

The SRIT will apply to 'non-savings and non-dividend income' only. This comprises all earnings from employment, profits from self-employment, pensions, taxable social security benefits and income from property.

The table below illustrates the estimated revenue which would have been raised by the SRIT since 2009-10 assuming it was set at 10p in each year, therefore leaving the overall income tax rates unchanged. The table shows that in 2013-14 the SRIT would have generated approximately £4.3 billion.

Table 2.4 Estimated Scottish Rate of Income Tax Liabilities: 2009-10 to 2013-14

	(£ million)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Scottish Rate of Income Tax Liabilities	4,330	4,427	4,267	4,273	4,258

Source: HMRC, OBR

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.

Smith Commission proposals

The Smith Commission Agreement, published on 27th November 2014, recommended further devolution over elements of taxation and public spending. The UK Government published draft legislation on 22nd January 2015¹³ with a view to bring forward a new Scotland Bill after the UK General Election in May 2015. There has been no decision on the date from which these new powers will become available to the Scottish Parliament.

Income Tax

Under the Smith Commission proposals, the power to vary the rates of income tax and the thresholds at which these are paid for the 'non-savings and non-dividend income' of Scottish taxpayers will be fully devolved to the Scottish Parliament. This represents an extension of the income tax powers being devolved under the Scotland Act 2012.

Certain elements of income tax will continue to be determined by the UK Government. This includes the definition of taxable income, the personal allowance, the ability to introduce or change tax reliefs or exemptions and the taxation of income from savings and dividends. This means that income tax will still apply on a UK-wide basis and thus represents a "shared" tax, although taxpayers may be subject to different rates and thresholds in Scotland.

The table below illustrates the estimated revenue which would have been raised between 2009-10 and 2013-14, assuming tax rates were the same as in the rest of the UK.

Table 2.5: Estimated Devolved Income Tax Liabilities under Smith Commission proposals: Scotland 2009-10 to 2013-14					
	(£ million)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Tax Liabilities: Non-savings and non-dividend income	10,124	10,392	10,584	10,714	10,911

Source: HMRC. Note that this table shows tax liabilities rather than receipts. They are therefore calculated on a different basis to the estimates of total Scottish income tax receipts in Table 3.3

Air Passenger Duty and Aggregates Levy

The Smith Commission recommended that control over air passenger duty for flights from Scottish airports should be devolved to the Scottish Parliament. The amount of revenue generated by the duty is estimated at £251 million in 2013-14. Receipts from air passenger duty have been on an upwards trend in Scotland since 2009-10, reflecting the rise in air travel in recent years as well as increases in the rates over this period.

The Smith Commission also proposed that the aggregates levy, which is an environmental tax payable on commercial exploitation in the UK of rock, sand and gravel, be fully devolved. Aggregates levy receipts are estimated at £50 million in 2013-14.

Collectively, these two taxes are estimated to have raised £301 million in 2013-14.

¹³ Scotland in the United Kingdom: An enduring settlement, January 2015:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/397079/Scotland_EnduringSettlement_acc.pdf

Table 2.6: Air Passenger Duty and Aggregates Levy: Scotland 2009-10 to 2013-14

	(£ million)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Air Passenger Duty	162	183	227	234	251
Aggregates Levy	49	55	48	44	50
Total	212	238	275	278	301

VAT Assignment

The Smith Commission proposed that the Scottish Government should be assigned a share of Scottish VAT receipts equivalent to the first 10 percentage points of the revenue raised from this tax in Scotland. The UK Government's draft legislation also proposes assigning the first 2.5 percentage points of revenue raised in Scotland from the 5% reduced rate which applies on certain goods, such as domestic energy. As a result, the Scottish Government would receive 50% of VAT receipts from Scotland. The Scottish Parliament will not have any control over the setting of VAT rates.

Within GERS, VAT is shown gross of VAT refunds to government. This is consistent with the approach taken by the ONS in the UK public sector finances. This figure is higher than the actual amount of VAT received by HMRC, which is VAT net of refunds. Table 2.7 shows the estimated VAT which would be assigned to Scotland on both a gross and net basis.

As set out in more detail in Box A.1 in Annex A, there are some practical challenges in devising an appropriate methodology for apportioning VAT receipts raised in Scotland.

Table 2.7: VAT Assignment: Scotland 2009-10 to 2013-14

	(£ million)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Gross VAT	3,663	4,183	4,693	4,784	5,030
Net VAT	3,167	3,611	4,091	4,191	4,432

Devolution of Expenditure Responsibilities

Under the Smith Commission Agreement, a number of elements of the United Kingdom's welfare system will be devolved to Scotland.

Universal Credit, which has started to replace a range of existing mean-tested benefits and tax credits, will remain reserved to the UK Government. However, the Scottish Government will have the power to vary the housing element of Universal Credit. It will also have the power to change the frequency of payments, vary the existing plans for single household payments, and pay landlords direct for housing costs in Scotland.

It should be noted that the existing housing benefit, £1.8 billion¹⁴ in Scotland in 2013-14, is currently administered by Scottish Local Authorities. Under the GERS methodology, this spending is therefore included in the £41 billion of expenditure by the Scottish Government

¹⁴ DWP, Benefit expenditure by Region 1996/97 to 2013/14, including expenditure on discretionary housing benefit
<https://www.gov.uk/government/statistics/benefit-expenditure-and-caseload-tables-2014>

and Local Authorities, despite the fact that this benefit is not currently devolved to Scotland. The difficulties of defining devolved spending are explored in more detail below.

Other benefits outside of Universal Credit which will be transferred to the Scottish Parliament are summarised in the table below. The proposed package comprises benefits for carers, disabled people and those who are ill as well as benefits included in the Regulated Social Fund, such as the winter fuel payment. In total, these benefits are estimated to have been worth around £2.5 billion in 2013-14. In value terms, the largest of the benefits to be devolved is the Disability Living Allowance, with spending of £1.5 billion in 2013-14, followed by the Attendance Allowance which cost £481 million in Scotland.

Table 2.8: Devolved Benefits Under Smith Commission Proposals, 2013-14 (£m)

Attendance Allowance	481
Carer's Allowance	182
Disability Living Allowance	1,473
Industrial Injuries Disablement Benefit ¹⁵	83
Personal Independence Payment ¹⁶	17
Severe Disablement Allowance	91
Cold Weather Payment	1
Funeral Payment ¹⁷	4
Sure Start Maternity Grant	3
Winter Fuel Payment	185
Total expenditure on benefits to be devolved	2,521

Finally, the Scottish Government will also be given the power to introduce new benefits in devolved areas of welfare responsibility.

Defining devolved expenditure and revenue

The representation of devolved expenditure in Scotland in GERS is the total managed expenditure of the Scottish Government and Local Authorities shown in Table 5.8, as it is the entire representation of the output and therefore costs of the devolved public sector in Scotland. This figure is produced on a National Accounts basis, and therefore is most comparable to figures for overall UK public spending reported by the ONS.

Table 2.9 compares Scotland's fiscal powers under the Scotland Act 2012 and the Smith Commission proposals.

¹⁵ Industrial Injuries Disablement Benefit is the main benefit contained within the Industrial Injuries Benefits line in DWP outturn data. It accounts for around 91% of the total at the GB level so this proportion has been applied to the Scotland line to give this figure.

¹⁶ Actual Personal Independence Payments expenditure data for Scotland is not available. However, it is estimated that in 2013/14 around £17m was spent on Personal Independence Payments in Scotland based on Scotland's proportion of the GB caseload.

¹⁷ Estimate based on taking Scotland population share of GB and applying that to GB figure for funeral payments available at DWP, Outturn & forecasts: Autumn Statement 2014 <https://www.gov.uk/government/statistics/benefit-expenditure-and-caseload-tables-2014>

2 Devolution of Revenue & Expenditure

Table 2.9: Fiscal Powers under Scotland Act and Smith Commission, 2013-14 (£m)

	Scotland Act	Smith Commission
Income Tax Liabilities	4,258	10,911
Stamp Duties (Land and Buildings)	385	385
Air Passenger Duty		251
Landfill Tax	105	105
Aggregates Levy		50
Non-domestic Rates	1,927	1,927
Council Tax	1,941	1,941
Total devolved revenues	8,617	15,571
Devolved revenue as % of non-North Sea Scottish revenue	17%	31%
as % of revenue incl geographical share of North Sea revenue¹	16%	29%
Assigned VAT ²	0	5,030
Total devolved and assigned revenues	8,617	20,600
Devolved and assigned revenue as % of non-North Sea Scottish revenue	17%	41%
as % of revenue incl geographical share of North Sea revenue¹	16%	38%
Devolved expenditure ³	40,813	43,334
Devolved revenue as % of estimated devolved expenditure	21%	36%
Devolved and Assigned revenue as % of estimated devolved expenditure	21%	48%

¹ Figures for the shares of devolved revenue as a share of total revenue including a population share of North Sea revenue are the same as the share when excluding North Sea revenue.

² Assigned VAT is on a gross basis, consistent with the National Accounts presentation. If net VAT were to be used, devolved expenditure would also need to be adjusted, as set out in Box 5.2. In this case, devolved and assigned taxes as a share of illustrative devolved expenditure would be 47%. Devolved and assigned revenue as a share of total non-North Sea revenue would still be 41%.

³ Scotland Act figure includes housing benefit administered by Scottish Local Authorities. If this expenditure were removed, devolved revenue as a share of devolved expenditure would be 22%. Devolved and assigned revenue as a share of devolved expenditure would also be 22%.

Box 2.1: Challenges of International Comparisons of Fiscal Decentralisation

In the context of the Smith Commission and further devolution to the Scottish Parliament, there has been considerable interest from users in international comparisons of fiscal devolution. This box discusses ways in which fiscal devolution can be measured, and highlights some of the difficulties that are involved with such comparisons.

Measuring the extent of devolution across countries on a comparable basis is a complex concept covering a range of government activities, such as delivery of services, regulation and public finances. There is no single accepted indicator which captures the entirety of powers devolved to the subnational level. The most frequently used indicators in this context are the proportion of the country's total tax revenue which is raised at subnational level and the proportion of total government spending which is undertaken by subnational governments.¹⁸

Nevertheless, international comparisons remain difficult. When comparing internationally, it is important to ensure that the autonomy a government has over different taxes is reflected. For example, under the Smith Commission proposals, the Scottish Parliament will have greater autonomy over air passenger duty than over income tax, and will have no autonomy over VAT. Differences in the level of autonomy over devolved taxes across countries should therefore be considered when comparing devolution, rather than just looking at the proportion of tax revenue which is classed as being devolved.

Similarly, defining the extent of devolution of expenditure is not as straightforward as it may initially appear. For example, subnational spending may be strongly influenced by central government regulation or be purely administrative in nature. This is exemplified by the case of housing benefit in Scotland. This is administered by Local Authorities, so when comparing internationally it would be in Local Government spending. However, Local Authorities in Scotland have no control over the spending as it is currently set centrally and is funded through central government budgets.

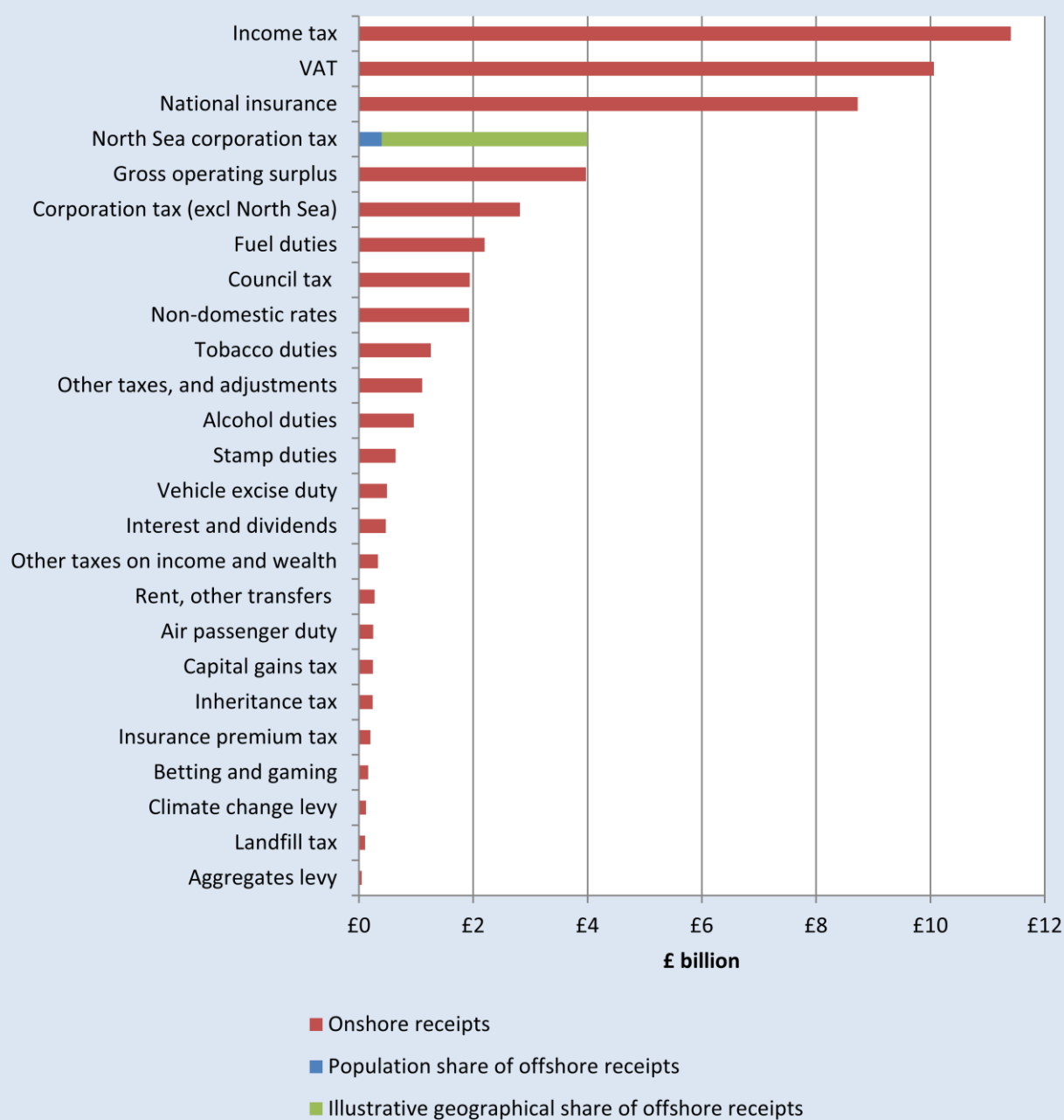
In addition to definitional difficulties, the degree of devolution can also vary within countries. For example, in Spain, the Basque region and Navarre enjoy a relatively greater degree of autonomy than other Spanish regional governments.

Finally, Scottish figures for devolution tend to include both the Scottish Government and Local Government. It is therefore important to ensure that Local Government is included in any comparison to ensure that it is on a similar basis.

¹⁸ Available from the OECD Fiscal Decentralisation Database:
<http://www.oecd.org/tax/federalism/oecdiscaldecentralisationdatabase.htm>

CHAPTER 3: PUBLIC SECTOR REVENUE

Total Public Sector Revenue: Scotland 2013-14



3

PUBLIC SECTOR REVENUE

Introduction

This chapter provides detailed estimates of Scottish public sector revenue. As Chapter 4 discusses the treatment of North Sea revenue in detail, the focus of this chapter is on non-North Sea elements of public sector revenue.

The majority of public sector revenue payable by Scottish residents and enterprises is collected at the UK level. Generally it is not possible to identify separately the proportion of that revenue receivable from Scotland. GERS therefore uses a number of different methodologies to apportion revenue to Scotland. These methods are discussed in Annex A and in the detailed revenue methodology paper on the GERS website.¹⁹

GERS uses a set of data sources and methodologies developed over a number of years following consultation with and feedback from users. 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 publish estimates of the taxes they collect for the four countries in the UK. Box 3.1 compares the HMRC estimates for Scotland with those in this publication.

Estimated Revenue 2013-14

Table 3.1 highlights estimated public sector revenue in Scotland and the outturn data for the UK in 2013-14. The contribution of each element of revenue to the Scottish total, 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, total public sector non-North Sea current revenue in Scotland was estimated to be £50.0 billion in 2013-14. This is equivalent to 8.1% of UK total non-North Sea current revenue which is broadly in line with Scotland's share of the UK population.²⁰

¹⁹ <http://www.gov.scot/Topics/Statistics/Browse/Economy/GERS>

²⁰ Scotland's share of the UK population in 2013-14 was 8.3%. Scotland's share of UK less extra-regio GVA was 7.8% (National Records of Scotland (NRS), Quarterly National Accounts Scotland and UK Economic Accounts).

Table 3.1: Current Revenue: Scotland 2013-14

	Scotland		UK	Scotland as % of UK
	£ million	% of total non-North Sea revenue	£ million	
Income tax	11,410	22.8%	156,011	7.3%
Corporation tax (excluding North Sea)	2,817	5.6%	35,651	7.9%
Capital gains tax	243	0.5%	3,907	6.2%
Other taxes on income and wealth	334	0.7%	4,118	8.1%
National insurance contributions	8,730	17.5%	107,306	8.1%
VAT	10,060	20.1%	120,226	8.4%
Fuel duties	2,197	4.4%	26,881	8.2%
Stamp duties	639	1.3%	12,481	5.1%
Tobacco duties	1,258	2.5%	9,556	13.2%
Alcohol duties	961	1.9%	10,308	9.3%
Betting and gaming and duties	163	0.3%	1,645	9.9%
Air passenger duty	251	0.5%	3,003	8.4%
Insurance premium tax	201	0.4%	3,018	6.6%
Landfill tax	105	0.2%	1,179	8.9%
Climate change levy	120	0.2%	1,200	10.0%
Aggregates levy	50	0.1%	294	16.9%
Inheritance tax	240	0.5%	3,541	6.8%
Vehicle excise duty	488	1.0%	6,121	8.0%
Non-domestic rates ¹	1,927	3.9%	25,564	7.5%
Council tax	1,941	3.9%	27,533	7.1%
Other taxes, royalties and adjustments ²	1,109	2.2%	12,677	8.7%
Interest and dividends	472	0.9%	5,781	8.2%
Gross operating surplus	3,972	8.0%	38,281	10.4%
Rent and other current transfers	272	0.5%	3,161	8.6%
Total current revenue (excluding North Sea revenue)	49,958	100%	619,443	8.1%
North Sea revenue ³				
Population share	396		4,766	8.3%
Geographical share	3,996		4,766	83.8%
Total current revenue (including North Sea revenue)				
Population share	50,354		624,209	8.1%
Geographical share	53,954		624,209	8.6%

1. Excludes non-domestic rates that local authorities pay themselves.

2. Although this group includes some 11 separate revenues (as set out in the detailed methodology paper on the GERS website), the two largest – TV Licences and National Lottery Distribution Fund - account for 40.6% (£450 million) of this estimate for Scotland. This group also contains a small accounting adjustment to align the revenue estimates to those in the January 2015 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 2013-14, income tax revenue was estimated at £11.4 billion – over a fifth 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 £10.1 billion in 2013-14 – 20.1% of total non-North Sea revenues. Further discussion of the VAT estimates for Scotland is provided in Box A.1 in Annex A. National insurance contributions represented the third largest source of revenue, accounting for 17.5% 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 corporations. It was the fourth largest revenue source in Scotland during 2013-14, generating approximately £4.0 billion in revenue, 8.0% of total non-North Sea revenue in Scotland. Scotland's relatively large share of 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.²¹

Corporation tax (excluding that from the North Sea) represented the fifth largest revenue source in Scotland in 2013-14 with receipts of £2.8 billion. This was equivalent to 5.6% of total non-North Sea current revenue.²²

After these five main categories, all other types of tax listed each individually accounted for 4.4% or less of total non-North Sea revenue in Scotland in 2013-14.

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 and additional 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 2009-10 and 2013-14. In each year during this period, total non-North Sea revenue in Scotland has accounted for between 8.1% and 8.2% of UK non-North Sea revenue, broadly in line with Scotland's share of the UK population.

²¹ A more detailed discussion of GOS is provided in the detailed revenue methodology paper on the GERS website.

²² 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 2009-10 to 2013-14

	(per cent of UK revenue)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Income tax	7.3%	7.2%	7.4%	7.3%	7.3%
Corporation tax (excluding North Sea revenue)	8.3%	7.8%	8.0%	8.0%	7.9%
National Insurance contributions	8.2%	8.2%	8.1%	8.1%	8.1%
Value added tax	8.6%	8.4%	8.4%	8.4%	8.4%
Local authority revenue ¹	7.8%	7.8%	7.7%	7.6%	7.3%
All other revenue	9.1%	8.8%	8.9%	9.0%	8.9%
Total non-North Sea current revenue	8.2%	8.1%	8.1%	8.1%	8.1%

1. Council tax and non-domestic rates

Box 3.1: Comparison between GERS and HMRC estimates

Any analysis of public sector receipts in Scotland relies on estimation, and as such alternative estimates are possible. As discussed in the Preface, GERS estimates revenue using a set of appropriate apportionment methodologies, refined over a number of years following consultation with and feedback from users.

Since 2013, HMRC have published estimates of the breakdown of taxes they collect in the four countries of the UK. The latest set of estimates for 2013-14 were published as official statistics in October 2014.

In most cases, the 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 deduction of government VAT refunds, whilst HMRC figures present VAT receipts after the deduction of VAT refunds. For other taxes, notably corporation tax and revenues from oil and gas production, there are methodological differences between the two 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 working together to reconcile, and where possible, align methodologies for estimating regional tax receipts. Estimates of VAT and fuel duty have been more closely aligned in this year's GERS publication. While some differences remain, the aim is to ensure a clear understanding of the reasons for any differences and highlight these to users and the impact that this may have on any results.

Much of the work to date has been to understand the differences in approach and to ensure users are properly informed of the differences and the implications of using the different sets of estimates. More work is planned over the next year to make further progress on this issue, updates of which will be published on the GERS website.

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.

Estimates of Total Scottish Tax Revenues 2009-10 to 2013-14					
	£ million				
	2009-10	2010-11	2011-12	2012-13	2013-14
Cash estimates: onshore revenues					
GERS	43,316	45,523	47,279	48,321	49,958
HMRC ¹	43,301	45,995	47,145	48,044	49,777
Difference	15	-472	134	277	181
Difference (% GDP)	0.0%	-0.4%	0.1%	0.2%	0.1%
Cash estimates: geographical share of North Sea revenues					
GERS	5,682	7,459	9,668	5,235	3,996
HMRC ¹	5,257	7,205	9,056	4,886	3,793
Difference	425	253	612	348	204
Difference (% GDP)	0.3%	0.2%	0.4%	0.2%	0.1%
Share of UK total: onshore revenues					
GERS	8.2%	8.1%	8.1%	8.1%	8.1%
HMRC ¹	8.2%	8.2%	8.1%	8.1%	8.0%
Difference (% point)	0.0%	-0.1%	0.0%	0.0%	0.0%
Share of UK total: geographical share of North Sea revenues					
GERS	94.8%	88.7%	88.2%	84.2%	83.8%
HMRC	87.7%	85.7%	82.6%	78.6%	79.6%
Difference (% point)	7.1%	3.0%	5.6%	5.6%	4.3%

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>

Estimated Revenue: Scotland and the UK, 2009-10 to 2013-14

Table 3.3 overleaf shows estimated current revenue in Scotland and the UK between 2009-10 and 2013-14. Current non-North Sea revenue in Scotland is estimated to have grown by 15.3% between 2009-10 and 2013-14 in nominal terms, less than for the UK as a whole (17.5%). This reflects the fact that income tax, onshore corporation tax, national insurance contributions, and VAT revenues have all grown more slowly in Scotland than in the UK. In general, revenue in Scotland would be expected to grow more slowly than in the UK as Scotland's population, and therefore tax base, has been growing more slowly.

3 Public Sector Revenue

Table 3.3: Current Revenue: Scotland and UK 2009-10 to 2013-14,

	(£ million)									
	Scotland					UK				
	2009-10	2010-11	2011-12	2012-13	2013-14	2009-10	2010-11	2011-12	2012-13	2013-14
Income tax	10,300	10,611	10,780	10,856	11,410	140,606	146,628	146,548	148,435	156,011
Corporation tax (excl North Sea)	2,542	2,728	2,646	2,799	2,817	30,558	35,134	33,207	34,958	35,651
Capital gains tax	163	201	274	320	243	2,504	3,589	4,336	3,926	3,907
Other taxes on income and wealth	182	341	244	259	334	2,037	6,050	2,901	3,115	4,118
National insurance contributions	7,911	7,968	8,266	8,501	8,730	96,638	97,747	101,597	104,483	107,306
VAT	7,326	8,366	9,386	9,569	10,060	84,825	99,523	112,067	114,465	120,226
Fuel duties	2,187	2,262	2,206	2,169	2,197	26,197	27,256	26,798	26,571	26,881
Stamp duties	517	577	511	464	639	7,904	8,931	8,919	9,140	12,481
Tobacco duties	1,028	1,055	1,207	1,283	1,258	9,462	9,305	9,878	9,590	9,556
Alcohol duties	891	912	970	941	961	9,246	9,434	10,180	10,139	10,308
Betting and gaming and duties	106	98	122	121	163	1,029	1,069	1,221	1,228	1,645
Air passenger duty	162	183	227	234	251	1,870	2,183	2,637	2,818	3,003
Insurance premium tax	165	173	204	201	201	2,262	2,509	3,002	3,033	3,018
Landfill tax	85	97	95	99	105	944	1,094	1,075	1,116	1,179
Climate change levy	61	61	63	61	120	687	660	678	663	1,200
Aggregates levy	49	55	48	44	50	276	294	283	261	294
Inheritance tax	206	175	170	214	240	2,431	2,722	2,955	3,150	3,541
Vehicle excise duty	466	470	477	481	488	5,692	5,789	5,930	6,003	6,121
Non-domestic rates	1,822	1,863	1,933	1,946	1,927	22,401	22,474	23,713	24,845	25,564
Council tax	1,894	1,901	1,914	1,929	1,941	25,203	25,706	25,925	26,285	27,533
Other taxes, royalties and adjustments	1,162	1,177	1,256	1,207	1,109	13,287	13,716	14,902	14,077	12,677
Interest and dividends	425	470	502	461	472	5,204	5,662	6,095	5,633	5,781
Gross operating surplus	3,522	3,654	3,654	3,853	3,972	34,353	35,133	36,098	37,687	38,281
Rent and other current transfers	141	124	125	308	272	1,656	1,501	1,505	3,602	3,161
Total current revenue (excluding North Sea revenue)	43,316	45,523	47,279	48,321	49,958	527,272	564,109	582,450	595,223	619,443
North Sea revenue										
Population share	503	705	917	518	396	5,991	8,406	10,958	6,214	4,766
Geographical share	5,682	7,459	9,668	5,235	3,996	5,991	8,406	10,958	6,214	4,766
Total current revenue (including North Sea revenue)										
Population share	43,819	46,227	48,196	48,838	50,354	533,263	572,515	593,408	601,437	624,209
Geographical share	48,998	52,981	56,947	53,555	53,954	533,263	572,515	593,408	601,437	624,209

Table 3.4 shows per person receipts for Scotland and the UK between 2009-10 and 2013-14.

Table 3.4: Current Revenue Per Person: Scotland and UK 2009-10 to 2013-14¹					
	2009-10	2010-11	2011-12	2012-13	2013-14
Scotland					
Excluding North Sea revenue	8,300	8,600	8,900	9,100	9,400
Including North Sea revenue (population share)	8,400	8,800	9,100	9,200	9,400
Including North Sea revenue (geographical share)	9,400	10,000	10,700	10,100	10,100
UK					
Excluding North Sea revenue	8,500	9,000	9,200	9,300	9,600
Including North Sea revenue	8,500	9,100	9,400	9,400	9,700
Difference (Scotland minus UK)					
Excluding North Sea revenue	-200	-300	-300	-200	-300
Including North Sea revenue (population share)	-200	-300	-300	-200	-300
Including North Sea revenue (geographical share)	800	900	1,400	600	400

¹ Figures rounded to nearest £100

Box 3.2: European System of Accounts (ESA10) changes to revenue

The move to report Scotland's public sector finances on an ESA10 basis has resulted in a number of changes to revenues. In general, these are accounting changes which increase both revenue and expenditure by equal amounts, leaving the overall fiscal position unchanged.

VAT: ESA10 changes the treatment of VAT based contributions to the EU. Previously, the VAT raised in the UK and paid to the EU was excluded from the UK public sector finances. Under ESA10, this VAT is now recorded as both a UK revenue and a UK payment to the EU. This increases UK VAT revenue by approximately £2 billion a year and estimated Scottish VAT revenue by approximately £200 million. A corresponding increase in expenditure is included within the expenditure accounting adjustment, leaving the net fiscal position unchanged.

Income tax: Previously, parts of the child tax credit and working tax credit schemes were treated as negative income tax receipts. Under ESA10, these schemes are now treated as a benefit expenditure. This increases UK revenue by approximately £2.7 billion in 2013-14, and estimated Scottish revenue by approximately £200 million. A corresponding increase in expenditure is included within the expenditure accounting adjustment, leaving the net fiscal position unchanged.

Council tax and non-domestic rates: Under ESA95, council tax and non-domestic rates were reported based on the expected amount of tax that would be collected, with written-off tax treated as a capital payment to households. Under ESA10, written-off tax is deducted from total tax. This change results in small reductions to both revenue and expenditure, but leaves the net fiscal position unchanged.

Gross operating surplus: For central and local government, gross operating surplus represents their capital consumption. As discussed in Box 5.1 spending on research and

development and single use military equipment has increased capital spending. This leads to a corresponding increase in capital consumption and gross operating surplus. UK revenue increases by approximately £10 billion in 2013-14, with Scottish revenue increasing by approximately £800 million. A corresponding amount of expenditure is included within the expenditure accounting adjustment, leaving the net fiscal position unchanged.

Rent: Under ESA95, revenue from the sale of 3G and 4G licenses in 2000 and 2013 was treated as the sale of a capital asset, which decreased net investment. Under ESA10, this revenue will be treated as rent, with the revenue spread over a 20 year period. This increases revenue in all years after 2000-01. UK revenue increases by approximately £1 billion a year, with Scottish revenue estimated to increase by approximately £80 million.

Network Rail: Under ESA10, Network Rail is now classified as part of central government, as its debt is explicitly guaranteed by the Department for Transport and there is a statutory obligation on government to protect rail services. These factors, which were not relevant in classifying bodies under ESA95, were judged by ONS to be sufficient evidence that Network Rail is controlled by government, and should therefore be included in government accounts.

Information on Network Rail's revenue and expenditure in Scotland has been taken from Network Rail's regulatory financial statements, which provides a breakdown of Network Rail's accounts across England and Wales, and Scotland. Scotland has also been apportioned a share of Network Rail's activity associated with the East Coast and West Coast Mainlines.

Including Network Rail increases UK central government operating surplus by approximately £4.6 billion, and estimated central government operating surplus in Scotland by approximately £350 million.

Box 3.3: Comparison of Scottish revenue estimates with other parts of the UK (Experimental Statistics)

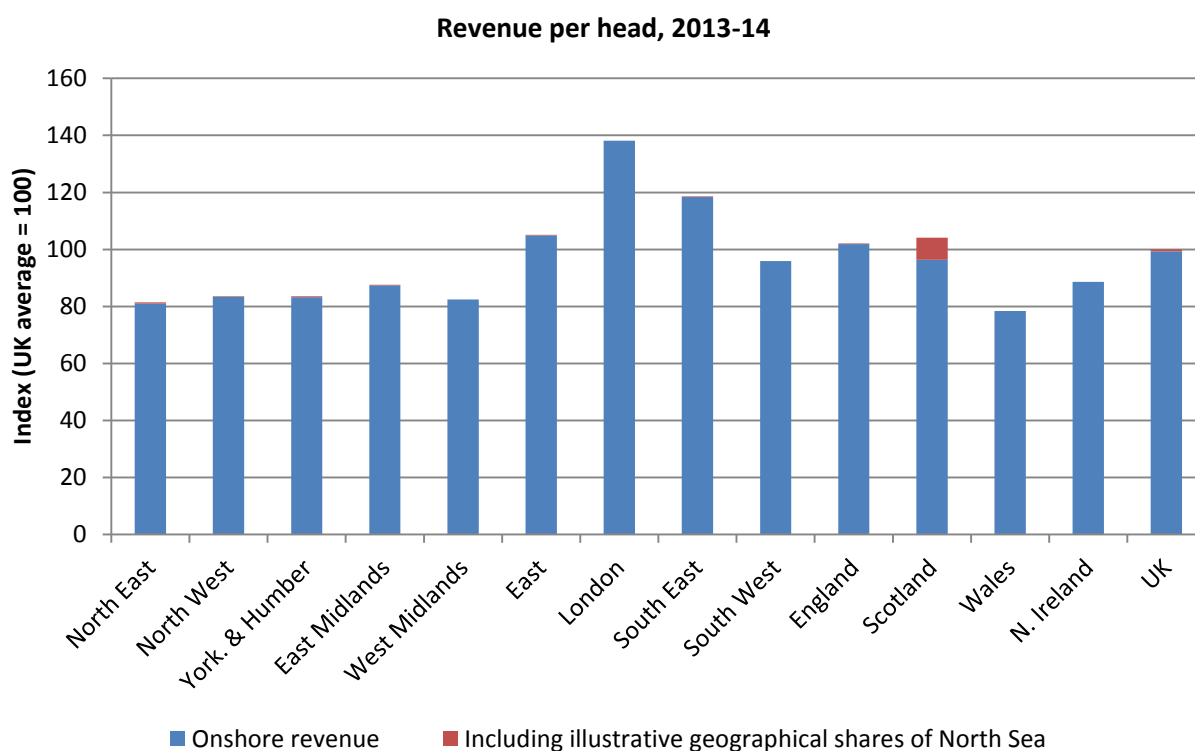
The recent GERS consultation and user requests throughout the year have highlighted an interest in comparing GERS figures to other countries and regions of the UK. HMRC produces tax revenue figures for Scotland, Wales, Northern Ireland and England. However, as discussed in Box 3.1, these are only for the taxes collected by HMRC and are not directly comparable to the GERS figures, which cover all UK revenues. In addition, the HMRC estimates do not provide a breakdown of tax receipts for the English regions.

The chart below provides experimental estimates of public sector receipts for each of the UK countries and regions using the GERS methodology. Full details of the methodology is available on the GERS website:

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

We welcome user feedback about this analysis, including comments on the methods used. As normal, please feedback to economic.statistics@scotland.gsi.gov.uk.

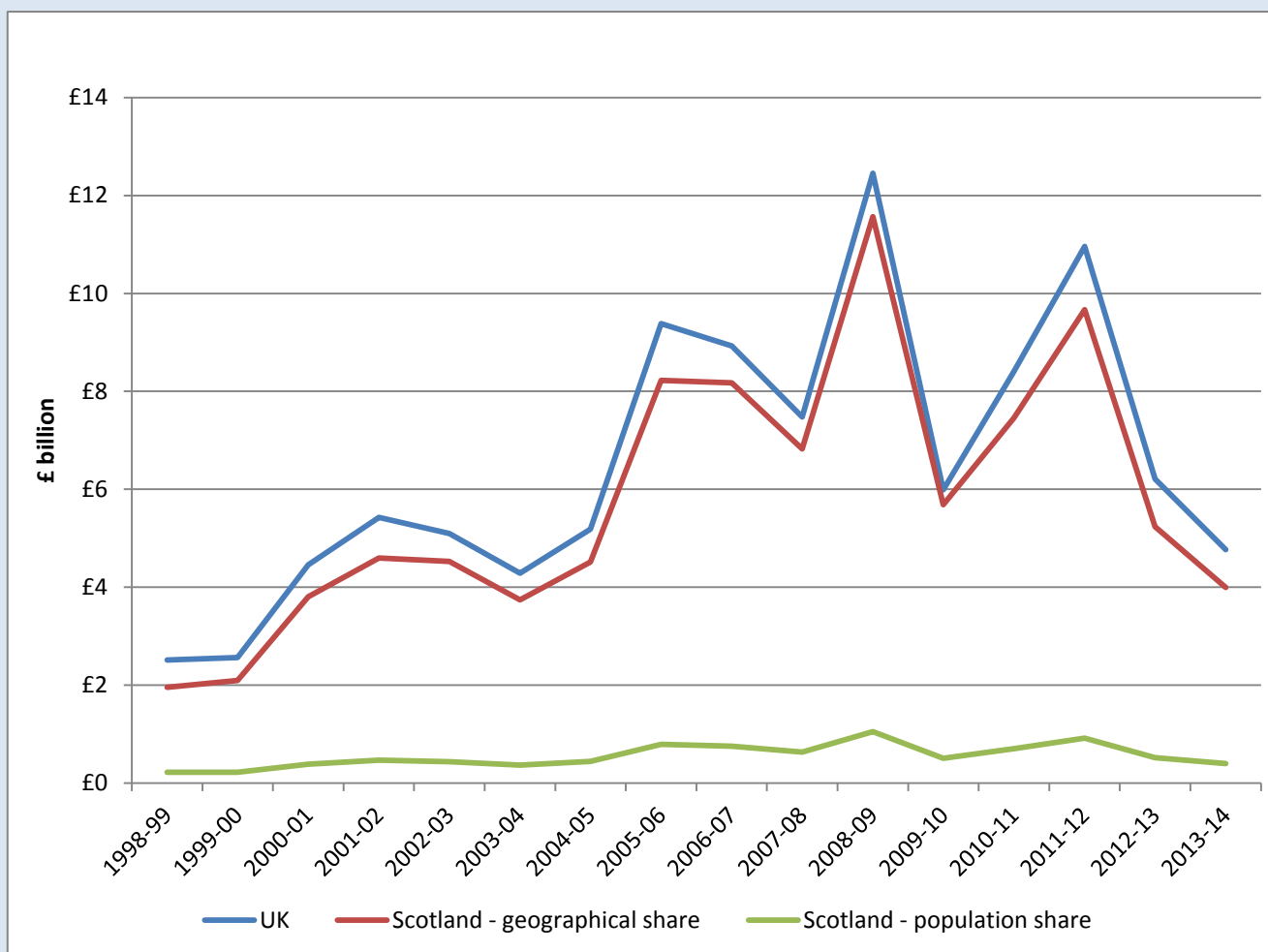
The chart below shows estimates of public sector revenue per head for each of the UK countries and regions relative to the UK average. Scotland is estimated to raise the fifth most onshore revenue per person of the UK regions. When an illustrative geographical share of North Sea revenue is included, tax revenue per person in Scotland is estimated to be the fourth highest of the UK countries and regions, behind London, the South East, and East England.



Note: Relative revenue per head when a population share of the North Sea is assigned to each country and region is the same as onshore revenue.

CHAPTER 4: NORTH SEA REVENUE

North Sea Revenue: 1998-99 to 2013-14



4 NORTH SEA REVENUE

Introduction

This chapter provides a discussion of North Sea revenue and sets out the methodologies adopted in this publication.²³

The North Sea Fiscal Regime

North Sea revenue in GERS comes from four sources: petroleum revenue tax, corporation tax, licence fees, and the emissions trading scheme.

For the period 2009-10 to 2013-14, 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 SC was increased from 20% to 32% in March 2011 resulting in an overall corporation tax rate (CT + SC) of 62% for 2013-14. The SC has been subsequently decreased to 30% in December 2014, which means the overall rate from this date is 60%.
3. **Licence Fees:** The UK Government grants licences for operators to "search and bore for and get"²⁴ 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.

Table 4.1 shows the levels of revenue raised from each component of North Sea revenue since 2009-10. As a result of the global economic downturn and the resulting fall in oil price, North Sea revenue was £6 billion in 2009-10. As wholesale oil and gas prices recovered, revenues rose in both 2010-11 and 2011-12. However, due to declining production and rising expenditure, North Sea revenue has decreased in both 2012-13 and 2013-14, with receipts decreasing 23% between 2012-13 and 2013-14. This decline in revenue occurred

²³ 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.

²⁴ Petroleum Act 1998 - http://www.opsi.gov.uk/ACTS/acts1998/ukpga_19980017_en_1

before the recent decline in the oil price. During 2013-14, the oil price averaged \$108 per barrel.

North Sea tax receipts are subject to annual fluctuations and are driven by a number of factors, including the oil price, the sterling dollar exchange rate, production, operating expenditure, capital investment, and the prevailing fiscal regime. The drivers of the decline in 2013-14 were rising operating costs and capital investment. Operating costs in the North Sea grew by approximately 11% between 2012-13 and 2013-14, whilst production fell by 3%. Capital investment in the North Sea increased by 12% between 2012-13 and 2013-14, which reduced companies' tax liabilities.

Table 4.1: Composition of North Sea Revenue: UK 2009-10 to 2013-14

	(£ million)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Licence fees	67	70	67	69	72
North Sea corporation tax	4,998	6,864	8,840	4,393	3,556
Petroleum revenue tax	923	1,458	2,032	1,737	1,118
Emissions trading scheme revenues	3	14	19	15	20
Total	5,991	8,406	10,958	6,214	4,766

Scotland's Share of North Sea Revenue

In the ONS Regional Accounts, the UK Continental Shelf (UKCS) is included as a separate region of the UK (the extra-region territory) and not allocated to specific geographic regions within the UK mainland. As such, an assumption as to Scotland's share of the North Sea needs to be made in GERS.

Three estimates of Scotland's share of North Sea revenue are adopted in the GERS report:

1. Zero share
2. A population share
3. An illustrative geographical share

As the situation under option 1 is the same as the revenue estimates for all non-North Sea revenues, the discussion below focuses on population and geographical shares.

Population Share

One interpretation of North Sea revenue is to view it as a non-identifiable UK revenue, in which case a population share may be apportioned to Scotland. Table 4.2 provides an estimate of Scotland's share of North Sea revenue under this approach.

Table 4.2: Population Share of North Sea Revenue: Scotland 2009-10 to 2013-14

	(£ million)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Total North Sea revenue	5,991	8,406	10,958	6,214	4,766
Scotland's population share	503	705	917	518	396
Scotland's share of North Sea revenue (%)	8.4%	8.4%	8.4%	8.3%	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 a 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 1999.²⁵ 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 Figure 4.1 overleaf. Demarcation by the median line is highlighted by the dark shaded area. 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.

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.²⁶

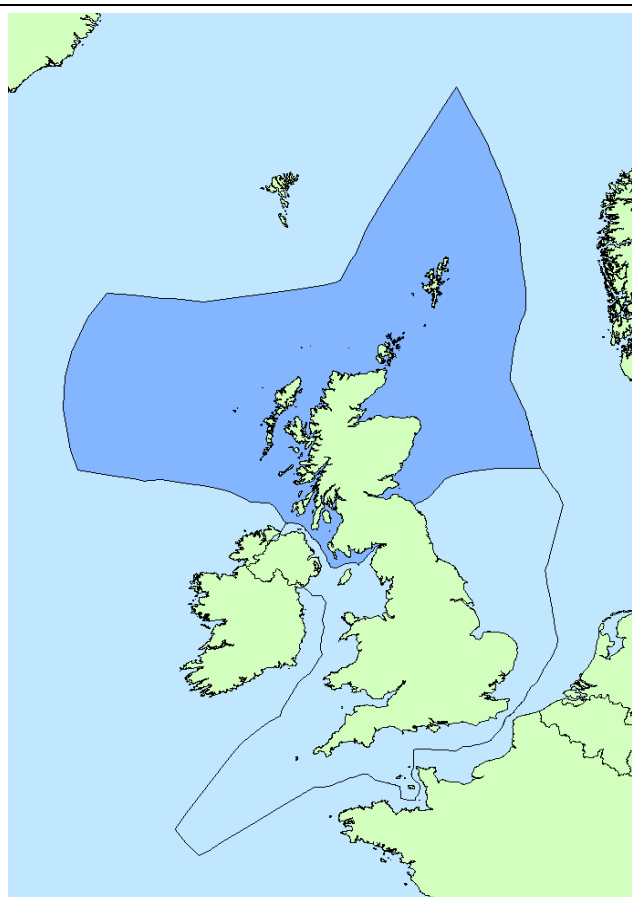
The model draws upon a database incorporating field and company level data for all of the UKCS that has been built up over a sustained number of years at the University of Aberdeen. Information on investment expenditures, operating costs, production, and decommissioning costs are incorporated in the database. Production data are consistent with DECC published field data.²⁷

²⁵ http://aura.abdn.ac.uk/bitstream/2164/2956/1/Kemp_70.pdf

²⁶ <https://www.gov.uk/government/collections/petroleum-revenue-tax-prt-and-government-revenues-from-uk-oil-and-gas-production>

²⁷ <https://www.gov.uk/oil-and-gas-uk-field-data>

Figure 4.1 UK Continental Shelf and Scottish Boundary



Source: Scottish Government Marine Directorate

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, research and development 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.

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 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 inform the experimental quarterly Oil & Gas statistical release, which is used to quality assure the model results.²⁸

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 were discussed with the Scottish Economic Statistics User Group's (SESCG) Oil and Gas sub-group in November 2014 and will be further discussed at SESCOG in March 2015.

Results

Kemp and Stephen's most recent analysis shows that Scotland's geographical share of oil production is estimated to have stood at 95.1% in 2013, while its geographical share of gas production is estimated to have stood at 48.0%. Scotland's share of total hydrocarbon production was 75.5% in 2013, down from 76.0% in 2012. The authors estimate that Scotland's illustrative geographical share of North Sea tax revenue was 83.9% in 2013. 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

²⁸ <http://www.gov.scot/Topics/Statistics/Browse/Economy/SNAP/expstats/oilandgas>

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 2012. This decline reflects two factors. Firstly, as outlined above, Scotland's share of overall production is estimated to have fallen between 2012 and 2013. 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 ETS receipts, it is possible to apportion the total UK revenue figure to Scotland. Table 4.3 provides estimates of Scotland's share of North Sea revenue using this methodology.²⁹ The estimates of Scotland's illustrative geographical share of North Sea revenue for the years 2009-10 to 2012-13 have been revised since the last edition of GERS. Further discussion of these revisions can be found in Annex C.

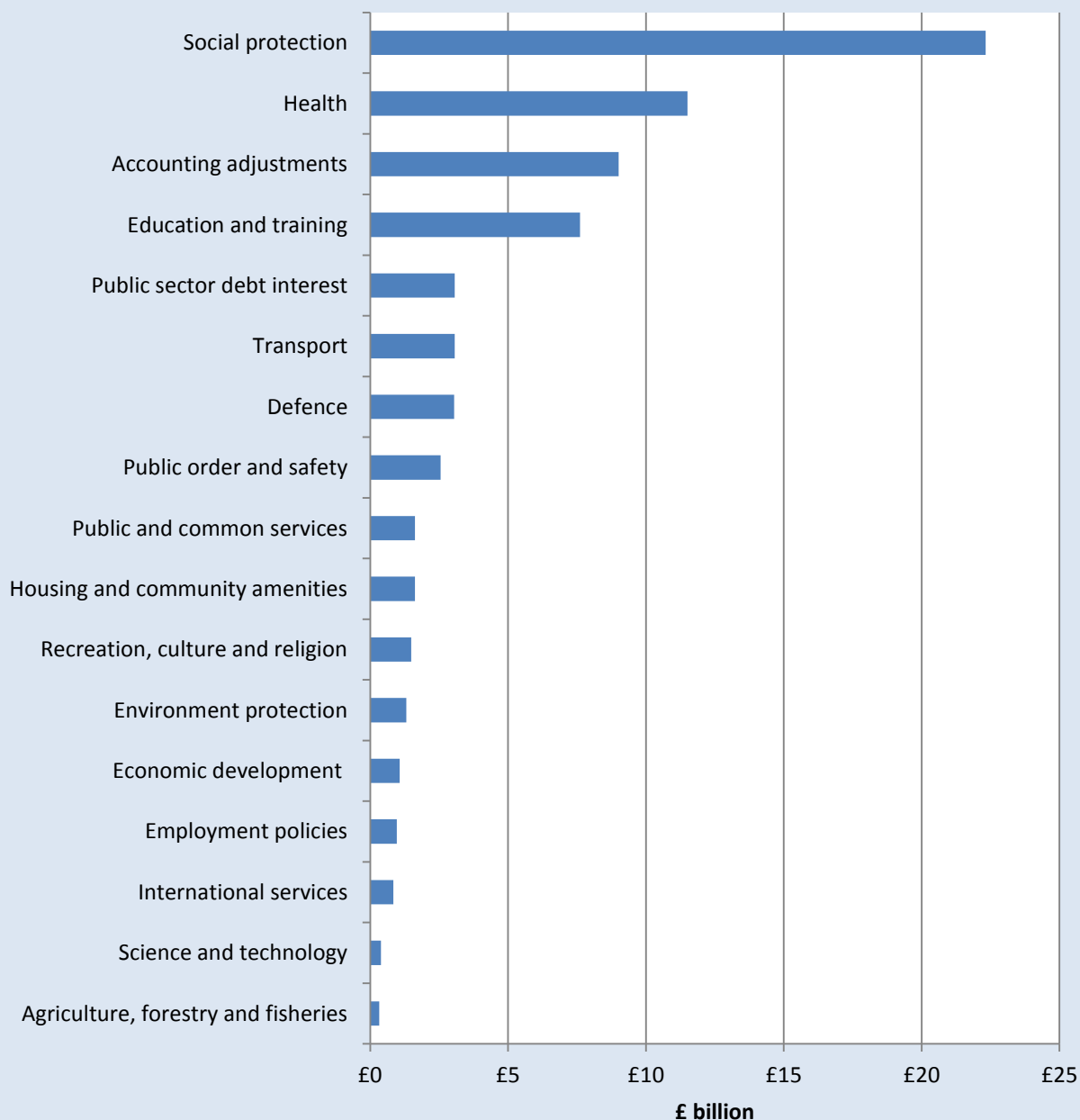
Table 4.3: Geographical Share of North Sea Revenue: Scotland 2009-10 to 2013-14

	(£ million)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Total North Sea revenue	5,991	8,406	10,958	6,214	4,766
Scotland's geographical share	5,682	7,459	9,668	5,235	3,996
Scotland's percentage share of North Sea revenue	94.8%	88.7%	88.2%	84.2%	83.8%

²⁹ 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.

CHAPTER 5: PUBLIC SECTOR EXPENDITURE

Total Public Sector Expenditure: Scotland 2013-14



Introduction

This chapter provides detailed estimates of public sector expenditure for Scotland.

The primary data source used to estimate Scottish public sector expenditure is the November 2014 Country and Regional Analysis (CRA) published by HM Treasury.³⁰ 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. 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.

Public Sector Expenditure

Total public sector expenditure for Scotland in 2013-14 is estimated to be £66.4 billion. This is shown by spending category in Table 5.1. This was equivalent to 9.2% of comparable total UK public sector expenditure, 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.

Box 5.1: European System of Accounts (ESA10) changes to expenditure

The move to reporting in line with ESA10 has resulted in some changes to expenditure. In general, these occur within the accounting adjustment, and offset changes made to the revenue side, as discussed in Box 3.2.

The main change to expenditure under ESA10 is the reclassification of spending on research and development and single use military expenditure as capital rather than current spending. This results in an increase in capital expenditure and corresponding reduction in current spending, leaving total expenditure unchanged. As the HM Treasury CRA database is still on an ESA95 basis, this change has been made for GERS by reclassifying all expenditure classed as research and development from current to capital. No adjustment has been made to single use military expenditure due to difficulty in identifying this spending within the CRA database. The CRA database will be updated to be on an ESA10 basis next year.

The other major change is the inclusion of Network Rail, as discussed in Box 3.2. Network Rail expenditure is included within the accounting adjustments. The inclusion of Network Rail increases UK current expenditure by £4.6 billion and UK net investment by £1.6 billion.

³⁰ Available from <https://www.gov.uk/government/publications/country-and-regional-analysis-2014> users should note that the spending category, 'EU Transactions' published in the CRA is contained in the Accounting Adjustments spending category in GERS.

As discussed in Box 3.2, Scotland's share of Network Rail's expenditure is estimated based on its regulatory financial statements. Network Rail's current expenditure for Scotland is estimated to be approximately £350 million, and net investment approximately £80 million.

Table 5.1: Total Expenditure: Scotland 2013-14		
	Scotland	
	£ million	% of total expenditure
General public services		
Public and common services	1,620	2.4%
International services	838	1.3%
Public sector debt interest	3,068	4.6%
Defence	3,025	4.6%
Public order and safety	2,557	3.9%
Economic affairs		
Enterprise and economic development	1,049	1.6%
Science and technology	333	0.5%
Employment policies	329	0.5%
Agriculture, forestry and fisheries	962	1.4%
Transport	3,049	4.6%
Environment protection	1,277	1.9%
Housing and community amenities	1,619	2.4%
Health	11,465	17.3%
Recreation, culture and religion	1,486	2.2%
Education and training	7,599	11.4%
Social protection	22,323	33.6%
Accounting adjustments	3,785	5.7%
Total Expenditure	66,388	100%

Total public sector expenditure for Scotland is estimated to have increased from £63.5 billion in 2009-10 to £66.4 billion in 2013-14, an increase of 4.5% in nominal terms. Over the same period, equivalent UK public sector expenditure increased by 5.1% in nominal terms. Much of growth of UK spending has occurred in debt interest expenditure, which has increased by 36% over the period as a result of increased borrowing since the beginning of the financial crisis and recession in 2008. As Scotland is apportioned a population share of this expenditure, which is lower than its overall expenditure share, this has contributed to expenditure in Scotland growing relatively more slowly than overall UK spending.

Table 5.2: Total Current and Capital Expenditure Scotland and UK 2009-10 to 2013-14

	(£ million)									
	Scotland					UK				
	2009-10	2010-11	2011-12	2012-13	2013-14	2009-10	2010-11	2011-12	2012-13	2013-14
Current	55,560	57,776	58,265	59,353	59,653	606,512	634,412	642,131	651,038	660,331
Capital	7,973	7,336	7,503	8,495	6,735	79,783	72,108	64,059	69,798	61,158
Total	63,533	65,112	65,768	67,848	66,388	686,295	706,520	706,190	720,836	721,489

Table 5.3 shows the share of total expenditure between current and capital for Scotland. Capital expenditure for Scotland is higher than in previous estimates as it incorporates definitional changes as a result of ESA10, discussed in Box 5.1. Capital expenditure in 2012-13 is higher due to the inclusion of one-off expenditure associated with the transfer of the Royal Mail Pension Plan.

Table 5.3: Current and Capital Expenditure (% of Total Expenditure): Scotland 2009-10 to 2013-14

	(per cent)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Current	87.5%	88.7%	88.6%	87.5%	89.9%
Capital	12.5%	11.3%	11.4%	12.5%	10.1%

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

Table 5.4: Total Managed Expenditure as a Share of GDP: 2009-10 to 2013-14

	(per cent of GDP)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Scottish TME as a Share of GDP:					
Excluding North Sea GDP	52.6%	53.1%	51.4%	52.3%	49.2%
Including population share of North Sea GDP	51.8%	52.1%	50.5%	51.6%	48.5%
Including geographical share of North Sea GDP	45.4%	44.9%	43.6%	46.1%	43.5%
UK TME as a share of GDP:					
Including 100% of North Sea GDP	45.7%	44.8%	43.4%	43.3%	41.6%

Tables 5.5 and 5.6 show current, capital, and total expenditure for Scotland and the UK respectively.

5 Public Sector Expenditure

Table 5.5: Total Expenditure: Scotland 2009-10 to 2013-14

	(£ million)														
	Current					Capital					Total				
	2009-10	2010-11	2011-12	2012-13	2013-14	2009-10	2010-11	2011-12	2012-13	2013-14	2009-10	2010-11	2011-12	2012-13	2013-14
General public services															
Public and common services	1,525	1,420	1,492	1,366	1,415	99	221	156	145	205	1,624	1,641	1,648	1,511	1,620
International services	548	608	616	617	787	50	62	50	45	51	598	670	666	662	838
Public sector debt interest	2,278	3,350	3,500	3,137	3,068	0	0	0	0	0	2,278	3,350	3,500	3,137	3,068
Defence	2,715	2,727	2,756	2,547	2,537	449	565	478	481	488	3,164	3,292	3,234	3,028	3,025
Public order and safety	2,441	2,562	2,668	2,654	2,415	257	244	198	196	142	2,698	2,806	2,866	2,850	2,557
Economic affairs															
Enterprise and economic development	688	475	610	712	810	698	274	249	243	239	1,386	749	859	955	1,049
Science and technology	0	0	0	0	0	287	274	305	281	333	287	274	305	281	333
Employment policies	332	417	282	261	321	10	9	8	8	8	342	426	290	269	329
Agriculture, forestry and fisheries	781	796	827	770	813	112	152	147	150	149	893	948	974	920	962
Transport	1,509	1,570	1,567	1,671	1,692	1,450	1,182	1,243	1,399	1,357	2,959	2,752	2,810	3,070	3,049
Environment protection	942	949	950	917	949	221	266	228	294	328	1,163	1,215	1,178	1,211	1,277
Housing and community amenities	257	292	228	165	194	1,713	1,328	1,397	1,446	1,425	1,970	1,620	1,625	1,611	1,619
Health	10,131	10,340	10,560	10,737	10,956	539	591	486	553	509	10,670	10,931	11,046	11,290	11,465
Recreation, culture and religion	1,216	1,179	1,209	1,311	1,253	297	274	334	327	233	1,513	1,453	1,543	1,638	1,486
Education and training	7,065	7,053	6,802	7,018	6,988	662	599	687	656	611	7,727	7,652	7,489	7,674	7,599
Social protection	19,894	20,524	21,036	22,201	22,288	111	93	64	84	35	20,005	20,617	21,100	22,285	22,323
Accounting adjustments	3,235	3,510	3,162	3,269	3,165	1,017	1,201	1,475	2,183	621	4,252	4,712	4,636	5,452	3,785
Total	55,560	57,776	58,265	59,353	59,653	7,973	7,336	7,503	8,495	6,735	63,533	65,112	65,768	67,848	66,388

Table 5.6: Total Expenditure: UK 2009-10 to 2013-14

	(£ million)														
	Current					Capital					Total				
	2009-10	2010-11	2011-12	2012-13	2013-14	2009-10	2010-11	2011-12	2012-13	2013-14	2009-10	2010-11	2011-12	2012-13	2013-14
General public services															
Public and common services	11,913	11,110	10,454	10,037	10,296	1,840	1,651	1,121	1,276	1,840	13,753	12,761	11,575	11,313	12,136
International services	6,536	7,257	7,361	7,407	9,474	596	743	591	546	620	7,132	8,000	7,952	7,953	10,094
Public sector debt interest	27,143	39,972	41,829	37,648	36,942	0	0	0	0	0	27,143	39,972	41,829	37,648	36,942
Defence	32,359	32,549	32,952	30,587	30,552	5,354	6,738	5,711	5,768	5,879	37,713	39,287	38,663	36,355	36,431
Public order and safety	31,409	31,005	30,498	29,902	28,642	2,709	2,010	1,537	1,398	1,523	34,118	33,015	32,035	31,300	30,165
Economic affairs															
Enterprise and economic development	5,126	2,792	3,256	3,933	4,224	7,110	2,023	1,595	939	1,051	12,236	4,815	4,851	4,872	5,275
Science and technology	0	0	0	0	0	3,552	3,406	3,564	3,599	4,440	3,552	3,406	3,564	3,599	4,440
Employment policies	3,953	4,602	3,171	2,986	3,583	145	94	84	100	76	4,098	4,696	3,255	3,086	3,659
Agriculture, forestry and fisheries	5,550	5,150	5,522	4,990	5,044	273	329	271	306	439	5,823	5,479	5,793	5,296	5,483
Transport	9,767	8,830	8,376	7,861	8,055	13,204	12,659	11,667	10,910	12,320	22,971	21,489	20,043	18,771	20,375
Environment protection	7,850	7,775	7,855	7,403	7,806	2,547	3,154	2,606	3,202	3,709	10,397	10,929	10,461	10,605	11,515
Housing and community amenities	4,014	3,215	2,730	3,173	3,143	12,330	9,904	7,318	6,776	8,592	16,344	13,119	10,048	9,949	11,735
Health	110,736	114,437	116,987	119,490	124,772	6,180	5,389	4,247	4,783	4,710	116,916	119,826	121,234	124,273	129,482
Recreation, culture and religion	10,253	10,244	9,693	10,726	9,343	2,926	2,718	2,818	2,004	2,324	13,179	12,962	12,511	12,730	11,667
Education and training	78,535	82,350	79,100	80,643	84,251	9,948	9,148	7,798	6,642	6,769	88,483	91,498	86,898	87,285	91,020
Social protection	221,948	229,379	239,401	250,046	251,552	1,053	1,017	596	428	-208	223,001	230,396	239,997	250,474	251,344
Accounting adjustments	39,420	43,744	42,949	44,205	42,653	10,018	11,122	12,536	21,123	7,074	49,438	54,867	55,485	65,328	49,727
Total	606,512	634,412	642,131	651,038	660,331	79,783	72,108	64,059	69,798	61,158	686,295	706,520	706,190	720,836	721,489

Table 5.7 shows estimated total public sector expenditure for Scotland and the UK on a per person basis from 2009-10 to 2013-14. The table also highlights the absolute per person difference between Scotland and the UK, and the relative difference between the two. Since 2009-10, public spending per head for Scotland has been between 9.9% and 13.0% higher than the UK average.

Table 5.7: Total Expenditure Per Person: Scotland and UK 2009-10 to 2013-14¹					
	2009-10	2010-11	2011-12	2012-13	2013-14
Scotland (£)	12,100	12,400	12,400	12,800	12,500
UK (£)	11,000	11,200	11,100	11,300	11,200
<i>Difference (Scotland minus UK) (£)</i>	<i>1,100</i>	<i>1,100</i>	<i>1,300</i>	<i>1,500</i>	<i>1,200</i>
<i>Relative Expenditure for Scotland (UK = 100)</i>	<i>110.2</i>	<i>109.9</i>	<i>111.3</i>	<i>113.0</i>	<i>110.8</i>

¹ Figures rounded to the nearest £100

There are a number of reasons why public expenditure per person 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.

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.

Table 5.8 below provides a breakdown of all expenditure in Scotland by the Scottish Government (including Local Authorities and Scottish Public Corporations) and Other UK Government departments. Unlike in previous editions of GERS, non-identifiable expenditure is also included to provide consistency with the figures in Table 5.4. Information previously provided in Tables 5.8 to 5.14 is available on the GERS website.

Box 5.2 provides a description of how the figures in Table 5.8 reconcile to published Scottish Government budgets and Scottish Local Authority accounts.

Table 5.8: Total Expenditure: Scotland 2009-10 to 2013-14

	(£ million)														
	Scottish Government, LAs, and Public Corporations					Other UK Government					Total				
	2009-10	2010-11	2011-12	2012-13	2013-14	2009-10	2010-11	2011-12	2012-13	2013-14	2009-10	2010-11	2011-12	2012-13	2013-14
General public services															
Public and common services	1,087	1,137	1,193	1,077	1,175	537	505	455	433	445	1,624	1,642	1,648	1,510	1,620
International services	0	0	0	0	0	599	670	665	662	838	599	670	665	662	838
Public sector debt interest	0	0	0	0	0	2,279	3,351	3,501	3,137	3,068	2,279	3,351	3,501	3,137	3,068
Defence	5	5	4	4	6	3,161	3,287	3,230	3,024	3,020	3,166	3,292	3,235	3,028	3,026
Public order and safety	2,359	2,561	2,581	2,589	2,310	340	246	285	262	248	2,699	2,808	2,866	2,851	2,558
Economic affairs										
Enterprise and econ development	835	752	782	759	834	551	-2	79	197	216	1,386	750	861	956	1,051
Science and technology	7	6	5	4	3	280	267	300	277	330	287	273	305	282	333
Employment policies	0	0	0	0	0	341	426	289	270	327	341	426	289	270	327
Agriculture, forestry and fisheries	868	924	962	911	947	25	24	12	9	16	893	947	975	920	963
Transport	2,757	2,583	2,651	2,907	2,874	203	169	158	163	175	2,960	2,752	2,810	3,070	3,049
Environment protection	978	986	956	968	1,008	187	231	221	243	268	1,165	1,217	1,178	1,211	1,277
Housing and community amenities	1,970	1,621	1,624	1,611	1,620	0	0	0	0	0	1,970	1,621	1,624	1,611	1,620
Health	10,545	10,789	10,916	11,184	11,354	125	141	131	108	112	10,670	10,930	11,046	11,292	11,465
Recreation, culture and religion	1,061	1,019	1,126	1,147	1,062	450	433	416	492	424	1,511	1,453	1,542	1,639	1,486
Education and training	7,702	7,629	7,463	7,654	7,580	25	24	25	19	18	7,727	7,652	7,488	7,673	7,597
Social protection	4,865	5,051	5,086	5,555	5,613	15,140	15,567	16,014	16,730	16,711	20,005	20,618	21,100	22,284	22,324
Accounting adjustments	4,034	4,740	5,143	5,108	4,427	219	-28	-507	345	-641	4,252	4,712	4,636	5,453	3,786
Total	39,070	39,804	40,493	41,477	40,813	24,463	25,308	25,274	26,371	25,575	63,533	65,112	65,768	67,848	66,388

Box 5.2: Reconciliation of published SG and LG budgets to GERS figures

There are a number of differences between the figures for spending by Scottish Government and Local Authorities presented in Table 5.8 and figures presented in Scottish Government budgets and Scottish Local Government Finance Statistics. These fall into three main categories:

Coverage differences

The GERS expenditure figures are based on HM Treasury's CRA publication. This includes spending associated with Audit Scotland and the Scottish Parliament, which is not included within the Scottish Government budget documents.

Accounting differences

Figures presented in GERS are on a National Accounts basis, whilst figures reported in budgets are on a resource accounting basis. The key differences relate to reporting of pensions and depreciation. On a National Accounts basis, pensions expenditure is reported as the difference between monies paid into the pension fund and monies paid out of the pension fund. On the resource accounts basis, a measure of future liabilities is also included. This is removed in the CRA.

National Accounts also uses a measure of capital consumption rather than depreciation. This represents the amount of services which are provided using existing capital assets. This is because, on a National Accounts basis, expenditure represents all services provided by the public sector. For example, even if the government were not to spend any monies on transport, there would still be transport services provided, as people are able to use the existing road network. The value of these services is represented by capital consumption. An equal and offsetting amount is included in gross operating surplus as a revenue, so the estimate of capital consumption does not affect the overall fiscal position.

In contrast, the depreciation reported in budgets is on a resource accounts basis, and will therefore be based on historical asset prices, rather than current asset values. This is removed as part of the CRA, although a National Accounts measure is not added in. GERS therefore adds in a measure of capital consumption based on data reported in ONS Regional Accounts.

GERS also adds in estimates of VAT refunds claimed by government departments in Scotland. On a National Accounts basis, expenditure is shown including VAT.

Finally, GERS includes implied subsidies relating to student loans by being issued at a lower interest rate, and the cost of rent rebates and subsidies paid to the Housing Revenue Account in Scotland.

Grants and transfers

Grants and transfers within the public sector are excluded from expenditure by government bodies. This avoids double counting of expenditure, as the grant will be used to fund expenditure by another body. Instead, the expenditure by the final body receiving the grant is included.

Other smaller differences between budgets and National Accounts concepts are set out in Annex E of HM Treasury's Public Expenditure and Statistics Analyses publication:

<https://www.gov.uk/government/statistics/public-expenditure-statistical-analyses-2014>

The table below shows the reconciliation of published Scottish Government and Scottish Local Government Finance figures to the figures published in the CRA and GERS. Annex B provides more detail of the accounting adjustments. The reconciliation is shown for 2012-13, the latest year for which final accounts were available for the compilation of the CRA.

Reconciliation of published budget documents to GERS expenditure Table 5.8 (£bn)

	2012-13
Scottish Government	
Published Scottish Government budget ¹	33.8
Spending by Audit Scotland and Scottish Parliament	+0.1
Total Scottish Government expenditure	33.9
Adjustments to align budget to CRA measure of spending	
Grants to other public sector bodies (e.g. local government)	-11.2
Pensions	-2.2
Depreciation	-0.6
Other	+0.3
Final Scottish Government expenditure from CRA	20.2
Scottish Local Government	
Published Local Government gross current expenditure ²	14.1
Income excluding grants from Central Government ³	-2.0
Housing benefit	+1.8
Published Local Government gross capital expenditure ⁴	2.5
Income from sales of capital assets ⁴	-0.1
Final Scottish Local Government expenditure from CRA	16.3
Scottish Government and Scottish Local Government from CRA	36.5
National Accounts adjustments⁵	
Capital consumption	+2.3
VAT refunds	+1.2
Student loan and Housing Revenue Account subsidy in Scotland	-0.1
Other accounting adjustments	+1.8
Final Scottish Government and Scottish Local Government TME	41.5

¹ Scottish Government Draft Budget 2015-16, Annex G

² Scottish Local Government Finance Statistics 2012-13, Annex B. Total General Fund (excluding the Housing Revenue Account and trading with the public) employee costs, operating costs, and support services costs.

³ As Note 2. Total General Fund (excluding the Housing Revenue Account and trading with the public) income less government grants

⁴ As Note 2. All services total gross capital expenditure (Annex H)

⁵ As Note 2. Total capital receipts from sales of assets (Annex I)

⁵ See Annex B

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 2009-10 and 2013-14 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.

Table 5.9: Public Sector Unitary Charge Expenditure in Scotland 2009-10 to 2013-14					
	(£ million)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Scottish Public Sector Unitary Charges ¹	707	789	866	902	922
Other UK Government Departments PFI Unitary Charges for Projects in Scotland	23	23	23	23	23
Total Unitary Charges in Scotland	758	848	928	978	999

Source: Scottish Government and HM Treasury Private Finance Initiative projects: 2014 Summary Data (December 2014).

¹ Includes both PFI and NPD figures.

Box 5.3: Comparisons of Scottish expenditure to other areas of the UK (Experimental Statistics)

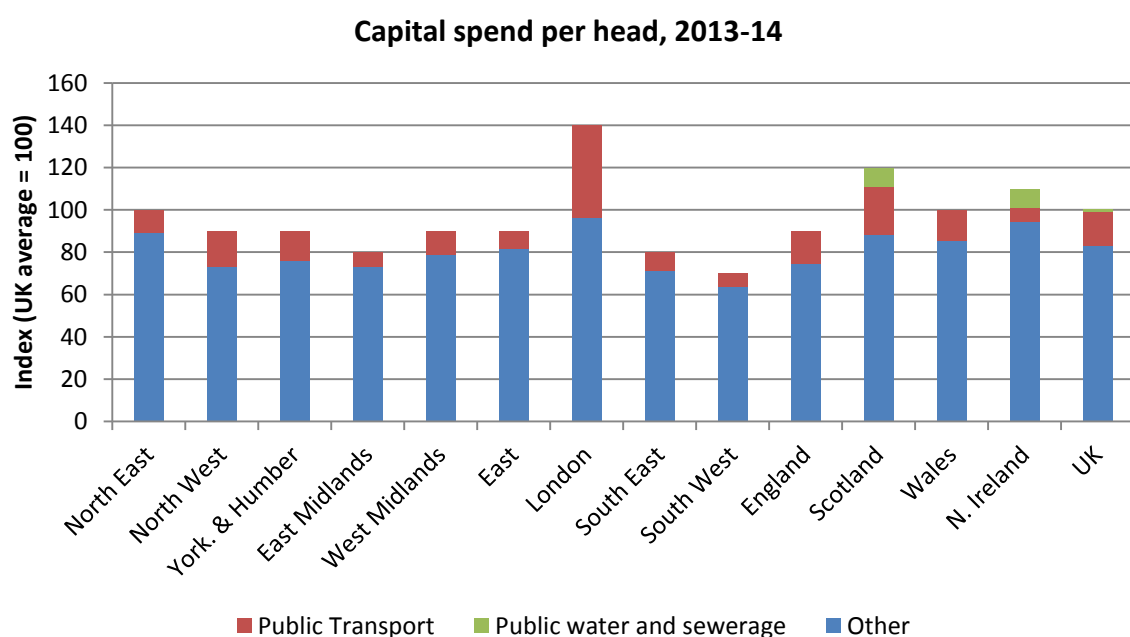
The recent GERS consultation and user requests throughout the year have highlighted an interest in comparing GERS figures to other countries and regions of the UK. The HM Treasury Country and Regional Analysis publication, which forms the basis of the expenditure estimates in GERS, contains expenditure figures for all countries and regions of the UK. However, in their published format these figures are not on a comparable basis to overall UK public sector expenditure figures and therefore GERS figures.

The chart below provides experimental estimates of public sector expenditure for each of the UK countries and regions. Full details of the methodology can be found at: <http://www.gov.scot/Topics/Statistics/Browse/Economy/GERS/RelatedAreas>

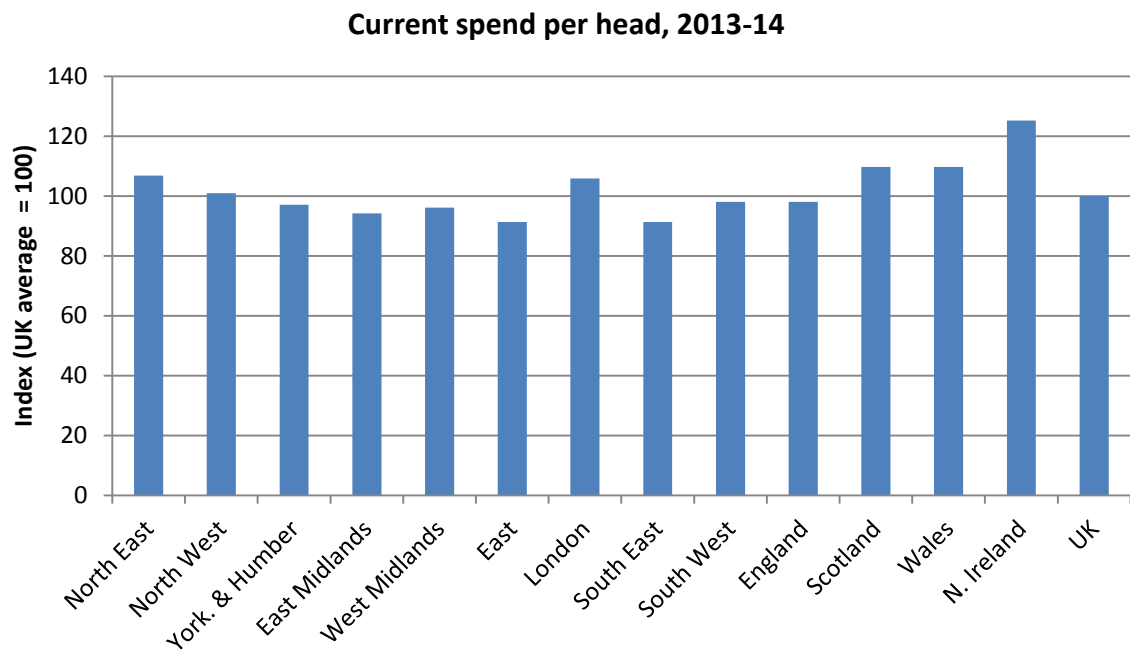
We welcome user feedback about this analysis, including comments on the methods used. As normal, please feedback to economic.statistics@scotland.gsi.gov.uk.

Overall, Scotland has the second highest spending per head of the UK countries and regions. The charts below show spending per head separately first for capital and then current spend relative to the UK average.

In most countries and regions capital spending accounts for approximately 10% of total expenditure. There is a large amount of variation in capital spending per head, with London receiving the highest. As shown in the chart, the higher levels of capital spending in London are due in part to capital expenditure on public transport, which includes spending on railways, the London Underground service, and buses. Spending in Scotland and Northern Ireland is also higher than other parts of the UK due in part to the fact that their water and sewerage services are provided by the public sector, rather than private companies. The fact that these services remain in the public sector in these countries also increases their public sector revenue. Scotland has the second highest level of capital expenditure per head of the UK countries and regions, even when spending on Scottish Water is excluded.



The chart below shows current expenditure per head. This accounts for around 90% of total expenditure. Spending in Scotland is the second highest of the UK countries and regions.



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 HMRC.

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 HMRC's estimates of the breakdown of taxes collected in Scotland 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.³¹

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 January 2015. An accounting adjustment is applied to both the expenditure and revenue totals so that both sides of the fiscal balance calculations are presented on a consistent basis. The revenue

³¹ <http://www.gov.scot/Topics/Statistics/Browse/Economy/GERS/Methodology>

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 2012-13. 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	Household VAT: Scotland's share of household expenditure Business and construction VAT: Scotland's share of UK less extra-regio GVA 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 ONS Regional Accounts Country and Regional Analysis, HM Treasury	Yes
Fuel duties	Scotland's share of road traffic fuel consumption	Fuel consumption statistics: DECC	Yes
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	No
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	No
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

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

Aggregates levy	Scotland's share of UK's aggregate production	United Kingdom Minerals Yearbook 2012: British Geological Survey	No
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	Yes
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 LG: Scottish/UK share of local government NMCC Public corporations – individual data for Scottish PCs – data for UK-wide PCs based on relevant industry GVA – and actual data for Local Authority housing rentals	CG: ONS Regional Accounts LG: ONS Regional Accounts PC: Supplied by Public Sector Finance team: ONS, and Regional Accounts: ONS	No
Rent and other current transfers (excluding oil royalties and licence fees)	Various (see web annex)	Various (see web annex)	No
North Sea revenue	See Chapter 4	See Chapter 4	No

Box A.1: Challenges of measuring sub-UK VAT receipts

Estimates of VAT raised in Scotland published in GERS and by HMRC are primarily based on household expenditure, estimated using the Living Cost and Food Survey (LCFS). This is the source used to assign estimated household VAT receipts, which account for about 70% of total receipts.

The sample of the LCFS in Scotland is currently around 500 households, out of a UK total of around 5,600. The relatively small sample size reflects the fact that the survey is highly resource intensive, as it involves staff visiting households to collect data face to face over a number of visits.

The table below compares the standard error of the survey estimates for Scotland and the UK, and shows the implied margin of error in the current estimates of VAT.

UK and Scotland standard errors from the LCFS

	Standard error	Total VAT (£m)	95% range (+/- £m)
UK	1.1%	120,226	1,780
Scotland – current sample, 1 year	3.2%	10,060	438
Scotland – current sample, 3 year pooled	1.8%	10,060	253

GERS and HMRC use 3-year pooled sample to estimate sub-UK payments of VAT.

Issues with the current approach*Timeliness and responsiveness*

The current survey results for Scotland are based on three year averages, to increase the sample size. This reduces the responsiveness of the estimates to changes in economic activity during a particular time period.

In addition, there is a lag in data becoming available. For example, 2013 data was published in December 2014, 11 months after the end of the year. Sub-UK data are currently not available in quarterly releases of LCFS data.

Tourism spend

The survey is based on UK household's expenditure. However, around 2.5% of UK household final consumption expenditure comes from non-resident households, i.e. tourists. This expenditure is not captured within the Living Cost and Food Survey. As such, the effect of large events held in Scotland which might be expected to increase Scottish VAT receipts, such as the Commonwealth Games, would not be captured in the current estimate.

Similarly, there is an issue around domestic tourism, and how much VAT is generated in Scotland as a result of tourists from the rest of the UK visiting Scotland and vice versa. The LCFS current assumes that all domestic spending occurs in the region where the respondent is resident.

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.³² Within this, UK Government departments and devolved administrations have allocated expenditure programmes to Scotland, Wales, Northern Ireland and the English regions.

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). 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)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Current	-30	-154	-82	-41	0
Capital	380	0	0	0	0
Total	350	-154	-82	-41	0

³² <https://www.gov.uk/government/publications/country-and-regional-analysis-2014>

Methodology for Estimating the Accounting Adjustment

Table B.1 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.1 is a balancing item. It does not report Scotland's total EU receipts or notional contribution.

Table B.1: Total Accounting Adjustment: Scotland and UK 2009-10 to 2013-14					
	(£ million)				
	2009-10	2010-11	2011-12	2012-13	2013-14
<u>Scotland</u>					
Public Sector Finances accounting adjustment	4,611	5,312	5,432	5,884	4,495
EU transactions	-359	-600	-796	-432	-710
Total Scottish accounting adjustment	4,252	4,712	4,636	5,452	3,785
<u>UK</u>					
Public Sector Finances accounting adjustment	48,534	51,239	53,450	61,021	44,679
EU transactions	904	3,628	2,035	4,307	5,048
Total UK accounting adjustment	49,438	54,867	55,485	65,328	49,727

The EU transaction line is estimated for Scotland using data from the Scottish Government Consolidated Accounts. This provides information on spending by the Scottish Government financed by the EU, such as the Common Agricultural Policy and European Structural Funds.

As discussed in Annex E of HM Treasury's Public Expenditure and Statistical Analyses,³³ under National Accounts classifications, these expenditures are reported as direct payments from the EU to enterprises and households, rather than being included within departmental budgets. In the transition to total managed expenditure, these spending lines are therefore included as negative spending, to remove them from departmental spending. As Scotland receives a relatively high share of this spending, particularly relating to the Common Agricultural Policy, these negative spending lines outweigh the estimated Scottish contribution to the EU, and so the overall EU transactions line for Scotland is negative.

Further information on how the public sector finances accounting adjustment line in Table B.1 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

³³ <https://www.gov.uk/government/statistics/public-expenditure-statistical-analyses-2014>

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 of TME.

UK Accounting Adjustment

The accounting adjustments required to reconcile UK TME and TES are set out in Table B.2.

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. Table B.2 shows the component disaggregation of the UK accounting adjustment.

Table B.2: Public Sector Finances Accounting Adjustment: UK 2009-10 to 2013-14

	(£ million)				
	2009-10	2010-11	2011-12	2012-13	2013-14
UK total managed expenditure (TME)	686,295	706,520	706,190	720,836	721,489
UK total expenditure on services (TES)	637,761	655,282	652,740	659,816	676,810
UK accounting adjustment	48,534	51,239	53,450	61,021	44,679
of which current expenditure:					
Central government capital consumption	14,895	15,790	16,607	17,126	17,440
Local government capital consumption	7,550	8,037	8,524	9,008	9,494
Current VAT refunds	9,374	11,095	11,672	11,553	11,607
VAT receipts paid to the EU	1,120	2,267	2,276	1,370	2,163
Student loans subsidy ¹	-1,401	-4,317	-2,300	-3,685	-6,302
Imputed subsidy from Local Authorities to the Housing Revenue Account ²	-1,357	-1,525	-894	-228	-228
Imputed flows for Renewable Obligation Certificates ³	1,119	1,283	1,471	2,170	2,529
Bank of England Asset Purchase Facility flows	-5,616	-7,720	-8,750	-12,058	-12,565
Royal Mail Pension Plan	0	0	0	9,460	0
Local authority pensions	1,611	1,826	1,881	1,966	1,862
Network Rail	4,240	4,537	4,378	4,679	4,574
Tax credits	5,600	5,540	4,714	2,982	2,744
Current expenditure residual	1,380	3,304	1,335	5,015	4,288
of which capital expenditure:					
Capital VAT refunds	1,820	2,064	2,223	2,143	2,098
Network Rail	-1,039	-1,114	-647	-406	1,627
Capital expenditure residual	9,238	10,172	10,960	9,927	3,348

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 2013-14 includes a timing adjustment. The TES figure used in GERS is consistent with the latest CRA analysis, which is from November 2014. The TME figure in GERS is consistent with the public sector finances statistical bulletin published in January 2015. In addition, the residual includes changes to TES not reflected in TME and to TME not reflected in TES in the years prior to 2013-14.

Scottish Accounting Adjustment

The accounting adjustment required to reconcile TES and TME for Scotland is set out in Table B.3.

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 have been used to estimate capital consumption for Scotland. This is

identical to the estimates of general government gross operating surplus on the revenue side. These two elements cancel out when calculating Scotland's net fiscal aggregates. The same is true for VAT refunds, Renewable Obligation Certificates, and the Housing Revenue Account. The figures for Scottish student loan subsidies are provided by HM Treasury. The current and capital residuals are allocated to Scotland on a spending share basis.

Table B.3: Public Sector Finances Accounting Adjustment: Scotland 2009-10 to 2013-14

	(£ million)				
	2008-09	2009-10	2010-11	2011-12	2012-13
Scottish total managed expenditure (TME)	63,533	65,112	65,768	67,848	66,388
Scottish total expenditure on services (TES)	58,922	59,800	60,335	61,963	61,894
Scottish accounting adjustment	4,611	5,312	5,432	5,884	4,495
Percentage of UK accounting adjustment	9.5%	10.4%	10.2%	9.6%	10.1%
Of which current expenditure:¹					
Central government capital consumption	1,281	1,336	1,398	1,393	1,433
Local government capital consumption	716	770	828	877	925
Current VAT refunds	831	964	1,010	1,001	1,012
VAT receipts paid to the EU	96	190	190	199	180
Student loans subsidy ²	-45	76	85	-124	-8
Imputed subsidy from Local Authorities to the Housing Revenue Account ³	-99	-112	-65	-21	-21
Imputed flows for Renewable Obligation Certificates ⁴	131	152	175	257	300
Bank of England Asset Purchase Facility flows	-472	-647	-732	-1,005	-1,044
Royal Mail Pension Plan	0	0	0	789	0
Local authority pensions	148	168	172	174	168
Network Rail	445	496	420	367	346
Tax credits	434	423	351	219	201
Current expenditure residual	125	295	126	363	382
Of which capital expenditure:					
Capital VAT refunds	161	179	192	186	183
Network Rail	-58	-42	-114	-51	84
Capital expenditure residual	913	1,064	1,396	1,259	354

¹ See notes to Table B.2

The elements of the accounting adjustment are also assigned to Scottish or other UK Government institutions. Local government capital consumption, the student loans subsidy, the housing revenue account subsidy, and local authority pensions adjustment are assigned to Scottish institutions. VAT receipts paid to the EU, Renewable Obligation Certificates, Bank of England Asset Purchase Facility flows, the Royal Mail Pension Plan, and tax credits are assigned to other UK Government institutions.

As the majority of VAT refunds are due to Local Government and as the majority of central government expenditure in Scotland (other than benefit expenditure by the Department for Work and Pensions, which will not attract VAT), is undertaken by the Scottish Government, all VAT refunds have been assigned to Scottish institutions. Similarly, the majority of capital expenditure in Scotland is undertaken by the Scottish Government, so all central government capital consumption has been assigned to Scottish institutions. Similar reasoning has been applied to the current and capital expenditure residuals. As some VAT

refunds, current expenditure, and capital spending in Scotland is attributable to other UK Government institutions, this will likely overstate the accounting adjustment assigned to Scottish institutions.

For Network Rail, all expenditure has been assigned to other UK Government institutions. As Network Rail expenditure in Scotland is in part financed by grants from the Scottish Government, this may underestimate the accounting adjustment assigned to Scotland.

Further work will be undertaken in future editions of GERS to refine the assignment of the accounting adjustment to Scottish and other UK Government institutions.

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 2014 and this GERS report, a small number of supplementary amendments to the CRA 2014 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.4 below. Table B.5 sets out in detail the sources of these revisions.

Table B.4: Summary of Amendments to Estimates of Total Public Sector Expenditure on Services from CRA 2014: Scotland 2009-10 to 2013-14

	(£ million)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Total Expenditure in Scotland (GERS)	63,533	65,112	65,768	67,848	66,388
PSF accounting adjustment	4,611	5,312	5,432	5,884	4,495
Total expenditure on services for Scotland (GERS)	58,922	59,800	60,336	61,964	61,893
Total expenditure for Scotland (CRA) ¹	59,206	60,115	60,711	62,381	62,327
Total revision to expenditure in Scotland	-284	-315	-375	-418	-435

¹ In this analysis, an estimate of total expenditure from the CRA has been calculated as the sum of all Scottish expenditure plus a proportion of non-identifiable expenditure and outside UK expenditures using the default apportionments set out in the detailed expenditure methodology paper on the GERS website.³⁴ This figure therefore excludes all amendments documented in this annex.

³⁴ <http://www.gov.scot/Topics/Statistics/Browse/Economy/GERS/Methodology>

Table B.5: Amendments to Estimates of Total Public Sector Expenditure on Services from CRA 2014: 2009-10 to 2013-14

	(£ million)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Nuclear-related expenditure	-112	-126	-131	-160	-164
Railways expenditure	0	-1	-2	-12	-13
London Olympics	-55	-38	-61	-61	-48
Pensions revisions	-4	-10	-14	-20	-32
Public sector debt interest	-10	2	3	1	-14
Other minor revisions	-103	-141	-171	-165	-164
Total	-284	-315	-375	-418	-435

Nuclear Decommissioning and Related Expenditures

In CRA 2014, 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, so nuclear decommissioning and associated expenditure is apportioned on a population basis.

Railways Expenditures

As discussed in previous editions of GERS,³⁶ railways expenditure is apportioned to Scotland on an *in* basis. This requires a number of modifications to the underlying CRA data which affected the expenditure by London and Continental Railways, and the Channel Tunnel Rail link. Previous adjustments made to Network Rail grants are no longer required following the incorporation of Network Rail into central government expenditure, as discussed in Boxes 3.2 and 5.1.

In this edition of GERS, a new adjustment has been introduced for expenditure relating to High Speed 2. Within the CRA this expenditure, which accounts for over £340 million in 2013-14, is classified as non-identifiable, meaning its benefits cannot be attributed to a particular region. Within GERS, the expenditure has been apportioned to Scotland in line with the regional breakdown of the benefits of High Speed 2 reported within *The Economic Case for HS2*, published by the Department for Transport.³⁷ This assigns Scotland 2% of the total expenditure.

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,³⁸ 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

³⁵ See Box 6.3 in GERS 2008-09: <http://www.gov.scot/Publications/2010/06/22160331/9>

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

³⁷ http://assets.hs2.org.uk/sites/default/files/inserts/S%26A%201_Economic%20case_0.pdf

³⁸ See Box 6.3 in GERS 2010-11: <http://www.gov.scot/Publications/2011/06/21144516/8>

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 2014, improvements were made to ensure that expenditure for the Scottish Office Pension Agency, NHS and Teacher pensions was allocated across the UK in line with recipients residency. This removes the need for the majority of previous adjustments to pensions within GERS. However, in keeping with the methodology from previous GERS, all expenditure by the Scottish Office Pension Agency outside the UK is apportioned to Scotland, rather than a population share as is standard for other outside UK expenditures.

Public Sector Debt Interest

The public sector debt interest payments in the CRA have been updated to be consistent with the Public Sector Finances published in January 2015.

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.

C REVISIONS

This section presents revisions from the previous GERS 2012-13 publication.

Revisions to Non-North Sea Revenue Estimates from GERS 2012-13

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 2009-10 to 2012-13 have been revised upward. This reflects upward revisions to UK receipts, primarily due to the incorporation of ESA10 changes as discussed in Box 3.2. This change was made in the ONS Public Sector Finances in September 2014.

Table C.1: Revisions to Estimates of Total Non-North Sea Public Sector Revenue: 2009-10 to 2012-13				
	(£ million)			
	2009-10	2010-11	2011-12	2012-13
Scotland				
Estimates published in GERS 2012-13	42,054	44,318	46,315	47,566
Estimates published in GERS 2013-14	43,316	45,523	47,279	48,321
Revision	1,262	1,204	964	755
UK				
Estimates published in GERS 2012-13	510,118	547,100	565,597	580,293
Estimates published in GERS 2013-14	527,272	564,109	582,450	595,223
Revision	17,154	17,009	16,853	14,931
Scotland/UK ratio				
Estimates published in GERS 2012-13	8.2%	8.1%	8.2%	8.2%
Estimates published in GERS 2013-14	8.2%	8.1%	8.1%	8.1%
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 £755 million and the estimate of UK tax revenue by £14.9 billion.

Table C.2: Revisions to Estimates of Public Sector Revenue: Scotland and UK 2012-13

	(£ million)		(%)	
	Scotland	UK	Scotland	UK
Income tax	-9	704	-0.1%	0.5%
Corporation tax (excluding North Sea)	-72	574	-2.5%	1.7%
Capital gains tax	28	0	9.5%	0.0%
Other taxes on income and wealth	-11	-7	-4.1%	-0.2%
National insurance contributions	-20	0	-0.2%	0.0%
VAT	222	2,393	2.4%	2.1%
Fuel duties	-89	0	-4.0%	0.0%
Stamp duties	-7	0	-1.6%	0.0%
Tobacco duties	155	0	13.7%	0.0%
Alcohol duties	-39	0	-4.0%	0.0%
Betting and gaming and duties	1	0	0.5%	0.0%
Air passenger duty	0	0	0.0%	0.0%
Insurance premium tax	-7	0	-3.1%	0.0%
Landfill tax	-1	0	-0.6%	0.0%
Climate change levy	-1	9	-2.1%	1.4%
Aggregates levy	-1	0	-2.2%	0.0%
Inheritance tax	-29	0	-12.1%	0.0%
Vehicle excise duty	0	0	0.0%	0.0%
Non-domestic rates	-35	-227	-1.8%	-0.9%
Council tax	-77	6	-3.8%	0.0%
Other taxes, royalties and adjustments	124	1,183	11.5%	9.2%
Interest and dividends	-161	-1,984	-25.9%	-26.0%
Gross operating surplus	606	10,096	18.7%	36.6%
Rent and other current transfers	180	2,184	140.5%	154.0%
Total revision	755	14,931	1.6%	2.6%

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 income tax, VAT, non-domestic rates, council tax, and rent and other current transfers reflect the impact of the ESA10 changes on revenue, as discussed in Box 3.2. These have increased revenue, but also have offsetting impacts on expenditure. Revisions to gross operating surplus also reflect ESA10 changes, but there are some non-ESA10 changes discussed below.

Revisions to onshore corporation tax for the UK reflect changes to the assessment of profits which fall within the UK Continental Shelf Ring Fence. In April 2014, HMRC published revisions to the estimates of offshore corporation tax, reflecting a reduction in the amount of profits which were assessed as occurring within the ring fence. This led to a corresponding increase in the amount of onshore profits, and therefore an increase in onshore corporation tax. For Scotland, this increase in onshore corporation tax has been offset by revisions to

ONS Regional Accounts, which have resulted in the estimate of profits being made in Scotland being revised down. This downward revision is in part related to the move to ESA10 for GDP, which as discussed in Chapter 1 has resulted in a smaller increase in profits in Scotland compared to the UK as a whole. This has led to a corresponding reduction in the amount of corporation tax assigned to Scotland.

Revisions to the Scottish estimate of fuel duty result from an updated methodology to apportion the UK estimate. Revenue from petrol and diesel are now apportioned separately.

Revisions to interest and dividends primarily reflect the incorporation of the Bank of England Asset Purchase Facility within estimates of public sector revenue. This is in line with the move to reduce the number of measures of UK public sector finances made by the ONS in September, following a review and consultation on their publication.

Revisions to gross operating surplus are primarily explained by ESA10 changes, as discussed in Box 3.2, which affects estimates of central government gross operating surplus. However, there have also been revisions to the apportionment of public corporations' gross operating surplus. Previously, this was all apportioned using corporation level gross trading surpluses, which excludes artistic originals. In this year's edition, public corporations' gross operating surplus associated with artistic originals is separated out and apportioned separately. This revenue is associated with BBC and Channel 4, and so Scotland is apportioned a population share. The remainder of gross operating surplus is apportioned as usual. This has reduced Scotland's estimated share of gross operating surpluses in the years to 2012-13.

Revisions to other taxes, royalties, and adjustments primarily reflect revisions to the UK estimates of revenue from renewable energy obligation certificates. These are imputed revenues, with offsetting expenditures, representing the cost to companies which are required to purchase certificates to meet the renewable energy obligation requirements.

Revisions to North Sea Revenue Estimates from GERS 2012-13

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.

Estimates of North Sea revenues in the UK for the years 2009-10 and 2010-11 are unchanged, whilst the figures for 2011-12 and 2012-13 been revised down as a result of downward revisions to North Sea corporation tax. This reflects a new method used by the HMRC to identify which parts of corporation tax receipts relate to operations within the UK Continental Shelf Ring Fence. Previously, HMRC waited until group payments had been distributed between companies and revised previous years data to reflect this. The new method means that this split is now estimated sooner, and should reduce future revisions. This change has reduced the estimate of company profits falling within the ring fence, resulting in a fall in North Sea corporation tax receipts in 2011-12 and 2012-13, and an increase in onshore corporation tax receipts at the UK level.³⁹

³⁹ See:

http://webarchive.nationalarchives.gov.uk/20140508003900/https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/306222/140424_UK_oil_and_gas_document_update_for_publication_in_April_2014.pdf

Table C.3: Revisions to UK North Sea Revenue: 2009-10 to 2012-13				
	(£ million)			
	2009-10	2010-11	2011-12	2012-13
Licence fees				
Estimates published in GERS 2012-13	67	70	67	69
Estimates published in GERS 2013-14	67	70	67	69
Revision	0	0	0	0
North Sea Corporation Tax				
Estimates published in GERS 2012-13	4,998	6,864	9,218	4,793
Estimates published in GERS 2013-14	4,998	6,864	8,840	4,393
Revision	0	0	-378	-400
Petroleum Revenue Tax				
Estimates published in GERS 2012-13	923	1,458	2,032	1,737
Estimates published in GERS 2013-14	923	1,458	2,032	1,737
Revision	0	0	0	0
Emissions Trading Scheme				
Estimates published in GERS 2012-13	3	14	19	33
Estimates published in GERS 2013-14	3	14	19	15
Revision	0	0	0	-19
Total revisions	0	0	-378	-419

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.

Table C.4: Revisions to geographical share of North Sea Revenue: 2009-10 to 2012-13				
	(£ million)			
	2009-10	2010-11	2011-12	2012-13
Estimates published in GERS 2012-13	94.8%	88.7%	88.2%	84.2%
Estimates published in GERS 2013-14	94.8%	88.7%	88.2%	84.2%
Difference (% point)	0.0%	0.1%	0.0%	0.1%

A discussion of revisions to all taxes between 2009-10 and 2012-13 is provided in the GERS 2013-14 Revenue Methodology note available on the GERS website.

Revisions to Expenditure Estimates from GERS 2012-13

Table C.5 sets out the changes in estimates of public expenditure in Scotland and the UK between this report and GERS 2012-13. 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 has been revised up for both Scotland and the UK in all years. This primarily reflects the changes associated with ESA10 discussed in Box 5.1, which increase both expenditure and revenue by a similar amount. Scotland's share of UK expenditure is unchanged in the years 2009-10 to 2011-12.

Expenditure in 2012-13 has been revised up for both Scotland and the UK by more than in other years. This reflects the incorporation of the Royal Mail Pension Plan into the expenditure estimates. This is in line with the move to reduce the number of measures of UK public sector finances made by the ONS in September, following a review and consultation on their publication. Under ESA10, the Royal Mail Pension Plan increases UK spending by £9.5 billion, and a population share is assigned to Scotland, increasing spending by around £800 million.

Table C.5: Revisions to Estimates of Total Managed Expenditure: 2009-10 to 2012-13

	(£ million)			
	2009-10	2010-11	2011-12	2012-13
Scotland				
Estimates published in GERS 2012-13	62,087	64,095	64,869	65,205
Estimates published in GERS 2013-14	63,533	65,112	65,768	67,848
Revision	1,446	1,017	899	2,643
Of which revisions to TES made in CRA 2014	216	215	129	655
UK				
Estimates published in GERS 2012-13	673,402	694,705	694,315	701,681
Estimates published in GERS 2013-14	686,295	706,520	706,190	720,836
Revision	12,893	11,815	11,875	19,155
Of which revisions to TES made in CRA 2014	1,719	2,012	1,795	-1,721
Scotland/UK Ratio				
Estimates published in GERS 2012-13	9.2%	9.2%	9.3%	9.3%
Estimates published in GERS 2013-14	9.3%	9.2%	9.3%	9.4%
Revision (% point)	0.0%	0.0%	0.0%	0.1%

In 2012-13, Scotland's expenditure in the CRA has been revised up by £655 million, whilst UK expenditure has been revised down, resulting in an increase in Scotland's share of UK spending. This reflects an upward revision of over £600 million to estimates of spending by Scottish Local Authorities made by HM Treasury in the 2014 CRA publication. This revision was caused by estimates of spending being replaced by outturn figures from Scottish Government Local Government Finance statistics, published in February 2014, thereby providing a more accurate figure.

This is a relatively large revision to estimates of Scottish spending. The Scottish Government and HM Treasury have worked together to ensure that the estimates in the 2014 CRA publication are consistent with the latest provisional local authority spending figures for Scotland, to ensure that future revisions are minimized.

Table C.6 shows a breakdown of the revisions by spending line for 2012-13. The downward revision to public sector debt interest represents the incorporation of the Bank of England Asset Purchase Facility within the expenditure estimates.

In general, Scottish revisions are in line with UK revisions. The exceptions are public and common services, public order and safety, and transport. These categories are revised up for Scotland, reflecting the revision to Scottish Local Authority spending in 2012-13 discussed above.

Table C.6: Revisions to Estimates of Public Sector Expenditure: Scotland and UK 2012-13

	(£ million)		(%)	
	Scotland	UK	Scotland	UK
General public services				
Public and common services	130	-363	9.4%	-3.1%
International services	-5	-59	-0.7%	-0.7%
Public sector debt interest	-883	-10,582	-22.0%	-21.9%
Defence	1	-10	0.0%	0.0%
Public order and safety	321	-164	12.7%	-0.5%
Economic affairs				
Enterprise and economic development	-94	-431	-9.0%	-8.1%
Science and technology	32	1	12.9%	0.0%
Employment policies	47	518	21.2%	20.2%
Agriculture, forestry and fisheries	3	-45	0.3%	-0.8%
Transport	291	-567	10.5%	-2.9%
Environment protection	1	-540	0.1%	-4.8%
Housing and community amenities	-17	-595	-1.0%	-5.6%
Health	6	-1	0.1%	0.0%
Recreation, culture and religion	84	-49	5.4%	-0.4%
Education and training	23	-166	0.3%	-0.2%
Social protection	-173	-1,730	-0.8%	-0.7%
Accounting adjustments	2,872	33,940	111.3%	108.1%
Total revision	2,643	19,155	4.1%	2.7%

Revisions to Estimates of Capital Consumption from GERS 2012-13

Table C.7 sets out the changes to estimates of capital consumption in Scotland and the UK between this report and GERS 2012-13. Capital consumption, which represents the capital stock consumed to provide services within the year, is included alongside current expenditure when calculating the current budget balance. It does not affect the estimate of the net fiscal balance.

As general government capital consumption forms part of gross operating surplus within public sector revenue, revisions to general government capital consumption do not affect the current budget balance. However, as public corporations are market bodies which have their own operating surplus from their market activities, which is not related to their capital consumption, revisions to public corporation capital consumption do affect the current budget balance.

As discussed in Boxes 3.2 and 5.1, under ESA10, capital consumption across the UK is higher. Scotland's share of capital consumption has also been revised up due to upward revisions to public corporation data. As Scotland has a relatively high share of public corporation capital consumption, this revision has a larger impact on Scotland's current budget balance than for the UK as a whole

Unlike for public corporations' expenditure and operating surplus, detailed capital consumption data are not available on a public corporation basis from the ONS, as they are not separately identified within their perpetual inventory model. The Scottish Government is investigating the potential to use public corporation data from the Whole of Government Accounts, which may provide a more stable estimate of Scottish public corporation capital consumption.

Table C.7: Revisions to capital consumption: 2009-10 to 2012-13

	(£ million)			
	2009-10	2010-11	2011-12	2012-13
Scotland				
Estimates published in GERS 2012-13	1,884	1,945	2,039	2,119
Estimates published in GERS 2013-14	3,789	3,777	3,746	3,818
Revision	1,905	1,832	1,707	1,699
UK				
Estimates published in GERS 2012-13	19,999	20,784	21,616	22,510
Estimates published in GERS 2013-14	30,562	31,859	33,198	34,247
Revision	10,563	11,075	11,582	11,737
Scottish Share of UK	(% of UK)			
Estimates published in GERS 2012-13	9.4%	9.4%	9.4%	9.4%
Estimates published in GERS 2013-14	12.4%	11.9%	11.3%	11.1%
Revision	3.0%	2.5%	1.9%	1.7%

Revisions to Fiscal Aggregates from GERS 2012-13

Table C.8 shows revisions to the current budget balance from the previous publication of GERS. Scotland's current budget balance has worsened in all years, whilst the UK has improved. For the UK, this reflects the ESA10 changes which reclassify current expenditure to capital expenditure, discussed in Box 5.2. These changes reduce current expenditure, and so the current budget balance improves. For Scotland, there are a number of reasons why the current budget balance does not improve.

Firstly, as discussed above, the increases in public corporation capital consumption have a larger impact in Scotland. In addition, in 2012-13, there are additional impacts of the downward revisions to North Sea revenue and upward revisions to local authority spending. A downward revision to North Sea revenue also occurred in 2011-12.

Secondly, in the years prior to 2012-13, Scotland's share of onshore tax revenue has been revised down. This reflects the downward revisions to the estimates of Scotland's share of onshore corporation tax and gross operating surplus as described above.

Table C.8: Revisions to Estimates of the Current Budget Balance: 2009-10 to 2012-13

	(£ million)			
	2009-10	2010-11	2011-12	2012-13
Estimates published in GERS 2012-13				
Excluding North Sea revenue	-15,235	-15,753	-14,632	-14,180
Including North Sea revenue (population share)	-14,732	-15,049	-13,684	-13,628
Including North Sea revenue (geographical share)	-9,556	-8,299	-4,632	-8,599
UK	-108,900	-100,546	-88,663	-91,930
Estimates published in GERS 2013-14				
Excluding North Sea revenue	-16,033	-16,030	-14,732	-14,851
Including North Sea revenue (population share)	-15,530	-15,325	-13,815	-14,334
Including North Sea revenue (geographical share)	-10,351	-8,571	-5,064	-9,616
UK	-103,811	-93,756	-81,921	-83,848
Difference (£ million) (positive shows improvement)				
Excluding North Sea revenue	-797	-277	-100	-671
Including North Sea revenue (population share)	-797	-277	-131	-706
Including North Sea revenue (geographical share)	-794	-272	-432	-1,018
UK	5,089	6,790	6,742	8,082

Table C.9 shows revisions to the net fiscal balance from the previous publication of GERS. In most years, the revisions pattern is similar to that for the current budget balance. However, in 2012-13 there has been a downward revision in the net fiscal balance for both Scotland and the UK. This primarily reflects the impact of the inclusion of the Royal Mail Pension Plan transfer, which increases UK capital expenditure by £9.5 billion. Scotland is assigned a population share of this, increasing capital expenditure by approximately £800 million.

Table C.9: Revisions to Estimates of the Net Fiscal Balance: 2009-10 to 2012-13

	(£ million)			
	2009-10	2010-11	2011-12	2012-13
Estimates published in GERS 2012-13				
Excluding North Sea revenue	-20,033	-19,777	-18,553	-17,639
Including North Sea revenue (population share)	-19,530	-19,072	-17,605	-17,087
Including North Sea revenue (geographical share)	-14,354	-12,322	-8,554	-12,058
UK	-157,293	-139,199	-117,382	-114,756
Estimates published in GERS 2013-14				
Excluding North Sea revenue	-20,217	-19,589	-18,489	-19,527
Including North Sea revenue (population share)	-19,714	-18,885	-17,572	-19,010
Including North Sea revenue (geographical share)	-14,535	-12,130	-8,821	-14,293
UK	-153,032	-134,005	-112,782	-119,399
Difference (£ million) (positive shows improvement)				
Excluding North Sea revenue	-184	187	65	-1,888
Including North Sea revenue (population share)	-184	187	33	-1,923
Including North Sea revenue (geographical share)	-181	192	-267	-2,235
UK	4,261	5,194	4,600	-4,643

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.10 and C.11 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 generally have improved since the previous publication. This reflects upward revisions to onshore GDP following the move to ESA10, as discussed in Chapter 1. However, the improvement is not as large as seen for the UK. This reflects downward revisions to Scottish GDP since that used in GERS 2012-13 on an ESA95 basis following the update of the Input-Output benchmark year from 2009 to 2011 in July 2014. These partially offset the upward ESA10 revisions in most years, and almost entirely offset them in 2010-11.

Table C.10: Impact of Revisions to GDP on Estimates of the Current Budget Balance: 2009-10 to 2012-13

	2009-10	2010-11	2011-12	2012-13
Estimates published in GERS 2012-13	(% of GDP)			
Excluding North Sea revenue	-13.1%	-12.9%	-11.6%	-11.2%
Including North Sea revenue (population share)	-12.5%	-12.1%	-10.7%	-10.6%
Including North Sea revenue (geographical share)	-7.1%	-5.7%	-3.1%	-5.9%
UK	-7.6%	-6.7%	-5.7%	-5.8%
GERS 2012-13 estimate with latest GDP estimates	(% of GDP)			
Excluding North Sea revenue	-12.6%	-12.8%	-11.4%	-10.9%
Including North Sea revenue (population share)	-12.0%	-12.0%	-10.5%	-10.4%
Including North Sea revenue (geographical share)	-6.8%	-5.7%	-3.1%	-5.8%
UK	-7.3%	-6.4%	-5.4%	-5.5%
Change (positive denotes improvement)	(% point difference)			
Excluding North Sea revenue	0.5%	0.02%	0.2%	0.3%
Including North Sea revenue (population share)	0.5%	0.01%	0.2%	0.3%
Including North Sea revenue (geographical share)	0.3%	0.00%	0.1%	0.1%
UK	0.4%	0.3%	0.3%	0.3%

Table C.11: Impact of Revisions to GDP on Estimates of the Net Fiscal Balance: 2009-10 to 2012-13

	2009-10	2010-11	2011-12	2012-13
Estimates published in GERS 2012-13	(% of GDP)			
Excluding North Sea revenue	-17.2%	-16.1%	-14.7%	-14.0%
Including North Sea revenue (population share)	-16.5%	-15.3%	-13.7%	-13.3%
Including North Sea revenue (geographical share)	-10.7%	-8.5%	-5.8%	-8.3%
UK	-11.0%	-9.3%	-7.6%	-7.3%
GERS 2012-13 estimate with latest GDP estimates	(% of GDP)			
Excluding North Sea revenue	-16.6%	-16.1%	-14.5%	-13.6%
Including North Sea revenue (population share)	-15.9%	-15.3%	-13.5%	-13.0%
Including North Sea revenue (geographical share)	-10.3%	-8.5%	-5.7%	-8.2%
UK	-10.5%	-8.8%	-7.2%	-6.9%
Change (positive denotes improvement)	(% point difference)			
Excluding North Sea revenue	0.6%	0.0%	0.2%	0.4%
Including North Sea revenue (population share)	0.6%	0.0%	0.2%	0.3%
Including North Sea revenue (geographical share)	0.4%	0.0%	0.1%	0.1%
UK	0.5%	0.4%	0.4%	0.4%

D

LIST OF ABBREVIATIONS

CG	Central Government
CRA	Country and Regional Analysis
CT	Corporation Tax
DECC	Department of Energy and Climate Change
DVLA	Driver and Vehicle Licensing Agency
DWP	Department for Work and Pensions
ESA10	European System of Accounts 2010
ETS	Emissions Trading Scheme
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
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
QNAS	Quarterly National Accounts Scotland
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

E

GLOSSARY

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.

Bank of England Asset Purchase Facility: the subsidiary of the Bank of England set up to improve purchase liquidity in credit markets. It purchases UK Government gilts as part of the UK Government's Quantitative Easing programme.

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 Balance: 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.

European System of Accounts 2010 (ESA10): 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. The previous version was ESA95.

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 CRA 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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