The Scottish Government

TOP SECRET

The truth about taxes, spending and oil in a separate Scotland.

What follows is a confidential memo to the Scottish Cabinet from John Swinney. You can read the contents for yourself but we have added notes throughout to help you understand what each paragraph means for an independent Scotland.

They did not want the Scottish people to see this but we think that Scots need the full facts so that we can make an informed decision at the referendum.

What the SNP say privately that they won't tell us in public:

- That their budget plans are based on oil and that it is both volatile and declining. Privately they acknowledge this but publically they pretend it will pay for everything.
- That Scotland would start life saddled with debt. Again, the SNP pretend there would be no difficult decision to cut the debt in an independent Scotland but privately they admit it.
- They are planning for public sector job cuts, cuts to old age pension and admit that no additional public spending would be possible. In public they promise everything to everyone, in private their plans are very different.
- That increased volatility means more risks on welfare and pressures from an ageing population. In public they play politics with welfare, in private they are looking for cuts.
- That the rest of the UK would have an effective veto on Scotland's budget. In public they attack Westminster, in private they admit their plans would give Scots less power.
- That Scotland would face huge costs in setting up a separate state, including £600m for a new tax service. In public they claim Scotland would save money on administration. In private they admit the costs would be huge.
- That Scotland would have to spend less on defence. Publicly this week the nationalists have attacked the UK for not increasing the number of troops based in Scotland by a large enough number. In private they are planning big cuts.

The following pages are taken from the secret Scottish Government paper. Read for yourself and see what they say behind the closed doors of the cabinet room.

5. The focus of this paper is the fiscal dynamics of an independent Scotland. All independent nations address these issues – getting the balance right between our revenues, which will be subject to more volatility in future as the block grant approach comes to an end, and our expenditure, where we will have more opportunities for innovation and prioritisation but also more responsibility, for example for benefits and for defence.

6. Scotland has nothing to fear and everything to gain in grasping these opportunities – but we need to understand the implications and take a 'whole of government' view so that our compelling narrative sets these important issues in the context of how we will manage them in an independent Scotland.

7. In particular, different demands and priorities may emerge from our consideration of constitutional opportunities across government, and we will want to consider these in the light of the whole canvas. In charting our way forward, and in anticipation of external challenge on the public finances and affordability, we should explore the issues sooner rather than later and develop strong, well-founded positions. This will enable us to demonstrate that the Scotland we want to see can be delivered through sound, practical and competent management of the public finances embracing both our existing devolved spending programmes and our tax and benefits regime.

8. The first section of this paper assesses the public finances, looking at the key challenges, risks and opportunities from a position of reasonable knowledge and certainty about trends and spending up to 2016-17, and beyond that to a period where there is a wider spread of possible economic and fiscal conditions. This section provides important financial context for colleagues' papers setting out the opportunities and challenges flowing from constitutional change. The second section of this paper sets out our emerging thinking on Scotland's future macroeconomic architecture and the institutional framework.

Section 1 - Financial Overview

Forward Look – expenditure

9. The period to 2016-17 is dominated by the fiscal consolidation being pursued by the UK Government, the scale and duration of which is unprecedented. By 2016-17, spending cuts and tax rises implemented by the UK Government will total £123 billion, equivalent to 8% of GDP.

10. The implications for Scotland are significant. In cash terms, the Scottish Government's DEL (Departmental Expenditure Limit) budget will fall from £29.2 billion in 2010-11 to £28.3 billion in 2011-12, before slowly rising to £28.7 billion in 2014-15. Whilst the Scottish DEL budget will rise slightly between 2011-12 and 2014-15, inflationary pressures mean that the purchasing power of our budget will be reduced. In real terms (i.e. adjusted for inflation), the Scottish Government's DEL budget will decrease by 11.1% in real terms between 2010-11 and 2014-15.

11. This is a challenge that we have found ways to manage and we have made our difficult choices in setting out spending plans through to 2014-15. The UK Budget 2012 has indicated that budget pressures will continue beyond this Spending

5. Acknowledges that outside of the UK Scottish budget will be more volatile...

Review. Unless there are further reductions in welfare budgets, UK resource and capital DEL are set to reduce by an average of 3.8% and 2.7% a year respectively in real terms over 2015-16 and 2016-17. The reductions would be greater if welfare budgets were reduced, a scenario which cannot be ruled out this stage. Although precise figures will not be confirmed until the next UK Spending Review, this means that real spending power will continue to fall until 2016-17 as Scotland's budget is pegged to that of the UK through the Barnett formula. Although the powers in the Scotland Act will provide us with the ability to raise additional revenues from 2015, our approach at this point should be to develop taxes that support economic growth, rather than explicitly raise additional revenue.

Forward Look – Government Expenditure and Revenue Scotland (GERS)

12. Using the forecasts of the UK public finances published by the Office for Budget Responsibility (OBR) at the March 2012 UK Budget it is possible to project forward the estimates of Scotland's public finances in Government Expenditure & Revenue Scotland (GERS) to 2016-17. The projections take into account all tax revenues raised in Scotland and all expenditures undertaken for the benefit of Scotland. This includes all spending by the Scottish Government and Local Authorities, UK Government spending on the Social Security system in Scotland and a population share of UK wide public services such as defence and UK debt interest payments. Detailed GERS projections are set out in Annex A.

13. Chart 1 shows Scotland's net fiscal balance in cash terms from 2010-11 to 2016-17. This measures the difference between the total tax receipts raised in Scotland, including a geographical share of North Sea revenue, and the total public spending undertaken on behalf of Scotland. Chart 2 shows the net fiscal balances for Scotland and the UK as a share of GDP.

14. Including a geographical share of North Sea revenues, both Scotland and the UK are expected to run a net fiscal deficit in each of the years to 2016-17. Before 2016-17, Scotland is projected to have a smaller deficit, as a share of GDP, than the UK. However, in 2016-17, OBR forecasts suggest that Scotland would have a marginally larger net fiscal deficit than the UK.

Chart 1 – Net Fiscal Balance: Scotland (£ Billions)

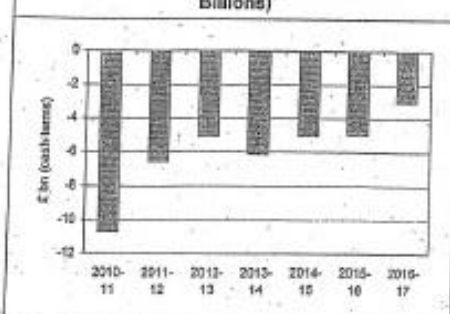
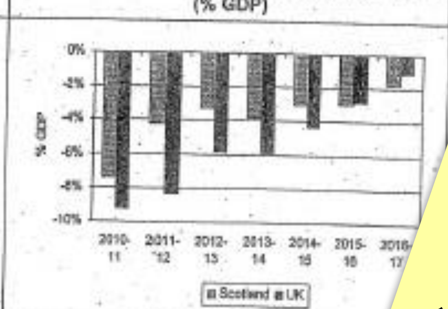


Chart 2 – Net Fiscal Balance: Scotland and UK (% GDP)



Figures for 2010/11 are from GERS. Figures from 2011/12 onwards are projections.

14. Today they claim that Scotland is better off than UK. They admit internally that we'd soon be worse-off

15. The forecast change in Scotland's fiscal position relative to the UK over the period to 2016-17 reflects the fact that the OBR expect North Sea receipts, which account for a larger share of total tax revenue in Scotland than in the UK, to fall in cash terms by 50% between 2011-12 and 2016-17. There is however a high degree of uncertainty around future North Sea revenues, reflecting considerable volatility in production and oil prices.

Forecast Expenditure on public sector debt and interest

16. Meeting interest payments on inherited debt will be a significant feature of Scotland's budget after independence. A shared understanding of the issues is therefore important. The position following independence will of course depend on negotiations with the UK Government. This section concentrates on the position to 2016-17. The OBR forecast that, as a share of GDP, UK public sector net debt will peak in 2014-15 at 78.0 per cent. By 2016-17, UK public sector net debt is forecast to be 75.8 per cent of GDP (£1.5 trillion).

17. Scotland's population share of UK public sector net debt in 2016/17 would be worth £122 billion, equivalent to approximately 70 per cent of Scottish GDP in this year. As a share of GDP, Scotland's population share of UK net debt is lower than the equivalent UK figure. This is because, when North Sea production is included, Scotland's share of UK GDP exceeds its share of the UK population.

18. In GERS, Scotland is assigned a population share of the interest payments that the UK Government pays each year on its debt. As public sector debt is projected to increase over the next five years, there is a corresponding increase in interest payments. As illustrated in Chart 6, Scotland's population share of debt interest payments is projected to rise from £3.7 billion in 2010-11 to £5.2 billion in 2016-17. This represents a 40 per cent rise in cash terms, mirroring the growth in overall UK debt interest payments. As a share of total public spending for Scotland, debt interest payments are projected to rise from 6 per cent to 8 per cent between 2010-11 and 2016-17.

Chart 3 – Public Sector Debt Interest Payments: Scotland (£ Billions)

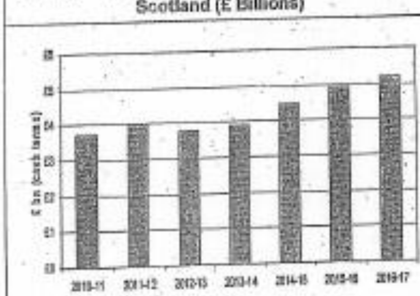
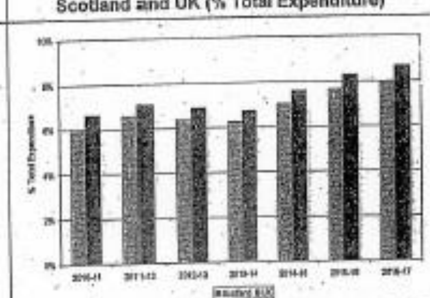


Chart 4 – Public Sector Debt Interest Payments: Scotland and UK (% Total Expenditure)



Scotland is assigned a population share of UK public sector debt interest payments. Figures to 2010/11 are from GERS. Figures from 2011/12 onwards are projections

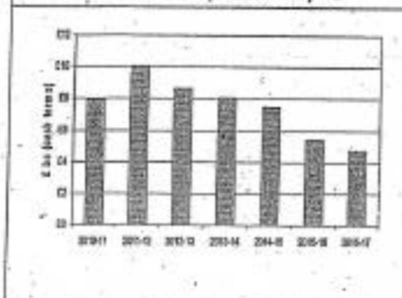
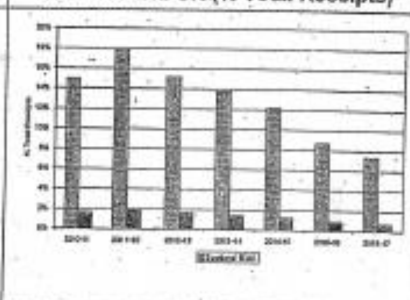
16. Scotland would start life as a separate country burdened by debt. No analysis of the interest rates we would face.

Scottish Tax Receipts

19. As the composition of onshore tax receipts is very similar in Scotland and the UK as a whole, Scotland's share of total onshore tax receipts is assumed to remain largely unchanged at between 8.2 per cent and 8.3 percent of the UK total. This is broadly in line with Scotland's share of the UK population (between 8.3 per cent and 8.4 per cent).

20. North Sea tax revenues are a key source of tax receipts in Scotland. Based on the OBR's forecasts, Scotland's geographic share of North Sea tax receipts is expected to increase from £8.0 billion in 2010-11 to £10.1 billion in 2011-12. It is then forecast to fall to £4.8 billion in 2016/17, as outlined in paragraph 12. Including North Sea receipts, Scotland's share of UK tax receipts is projected to fall from 9.6 per cent in 2011-12 to 8.8 per cent in 2016-17.

21. North Sea tax receipts account for a much larger share of tax receipts in Scotland than in the UK as a whole, as Chart 6 illustrates. Over the period 2011-12 to 2016-17 as a whole, the North Sea is expected to account for 13 per cent of Scottish tax receipts.

Chart 5 – North Sea Tax Receipts: Scotland (£ Billions)	Chart 6 – North Sea Tax Receipts: Scotland and UK (% Total Receipts)
	

Figures to 2010-11 are from GERS. Figures from 2011-12 onwards are projections. Scotland's geographical share of UK North Sea receipts is assumed to remain constant at 90% between 2011-12 and 2016-17. This is in line with the average geographical share between 2006-07 and 2010-11

22. North Sea tax receipts have been more volatile than onshore receipts. Forecasts of North Sea tax receipts have also been subject to larger year on year revisions than onshore forecasts. For example, the March 2011 UK Budget forecast that the North Sea would generate £61.3 billion in tax revenues between 2011-12 and 2015-16. By Budget 2012 these forecasts had been revised down to £44.1 billion, a reduction of £17.2 billion (28%). These downward revisions were attributed to production being lower than previously envisaged and higher operating and exploration costs.

23. Given the relative importance of North Sea revenues to Scotland's public finances, these downward revisions have resulted in a deterioration in the outlook for Scotland's public finances. Scotland's forecast cumulative net fiscal deficit between

20. Today the trumpet 9.9% figure, they know in private that is going down to 8.8%.

22. A key point. The SNP know that oil revenue is going down but refuse to say so publicly.

2011-12 and 2015-16 has <u>more than doubled</u> from £12 billion to £28 billion as a result of the revisions to North Sea revenue over the past 12 months. This high level of volatility creates considerable uncertainty in projecting forward Scotland's fiscal position. The OBR forecasts set out alongside the UK's March budget have not been seriously challenged by the industry or by independent commentators. Such volatility also means that outturn North Sea receipts can also be <u>higher</u> than forecast. For example at Budget 2009, the UK Government forecast that the North Sea would generate £20 billion in tax receipts between 2009/10 and 2011/12. Outturn receipts over this period were ultimately £26.5 billion.

24. In an independent Scotland this will have important implications for budget setting and estimating public sector borrowing requirements. Careful consideration will need to be given to managing this revenue source while ensuring effective and competent oversight of public finances over time. One approach is to reduce dependence on oil revenues to support annual expenditure budgets, by using oil revenues to accumulate an oil fund. However this would, on present assumptions about on-shore tax revenues, require some downward revision in current spending.

<u>Borrowing</u>

25. In an independent Scotland we will have full borrowing powers which will give us scope to decide on the scale of our capital programme, and to manage fluctuations in the public finances. Borrowing levels and resultant debt are key issues in achieving a balanced fiscal approach, and I will look to the Fiscal Commission to develop principles and guidelines on borrowing.

<u>Financial overview - conclusions</u>

26. The forward projections of the likely overall fiscal envelope provide a challenging context. However by 2016-17 the Scottish public finances are expected to have returned to a sustainable position with tax receipts broadly matching public spending and public sector net debt slowly declining as a share of GDP.

27. From 2017-18 onwards public spending is therefore expected to grow in line with the economy. This would imply real terms growth in Scottish public spending of between 1.5% and 2% a year. There will therefore be some opportunities to provide additional resources to priority areas. However, there are also inherent real terms cost pressures within public sector budgets. One of these – debt repayments - I have already set out. There is also likely to be an increase in the real terms cost of providing <u>existing</u> public services in Scotland after 2016-17. <u>We will need to be mindful that these pressures could reduce the resources available to provide additional public services.</u>

28. Real terms increases in the cost of providing existing public services can be expected to occur for two reasons. Firstly, in the long run, wages generally rise in real terms, reflecting the growth in GDP per person. Whilst the Scottish public sector may be able to limit individual pay increases over the short term and constrain total increases in paybill costs through management of the size of the workforce, in the long run public sector wages will have to grow at a similar rate to private sector salaries to ensure that appropriate staff can be recruited and retained.

23. Oil is VOLATILE and Scotland would be dependent on it – what they know privately but won't say publically.

24. Volatile oil revenues implies public spending reductions.

27. What SNP Ministers won't tell you – they are planning for public sector job cuts.

29. Secondly, demographic pressures will increase the demand for existing public services, particularly but not exclusively in health. Spending on state pensions and public sector pensions is also driven by demographics, and is set to rise. All things being equal, this means that some budgets will have to rise in real terms simply to ensure that demand for existing public services can be met. We can meet some of this pressure through policy choices, improved efficiency and preventative spend. We must drive these programmes forward now to ensure that long term cost pressures can be addressed early.

30. An important consequence of independence is that responsibility for benefits and welfare will be discharged in Scotland in response to Scottish conditions and priorities. While expenditure on welfare benefits is influenced by demand, especially recently when the Scottish economy was in recession, demographics is an important factor within this for Scotland given the aging profile of our population. At present HM Treasury and DWP absorb the risk of growth in demand in the widest sense and therefore all associated costs. In future we will assume responsibility for managing such pressure. This will imply more volatility in overall spending than at present, especially as there is little we can do from a public policy perspective in the short to medium term to manage Scotland's demographic position. Of course I recognise that volatility cuts both ways – offering the possibility of cost reductions. I think we should be wary, however, of assuming savings can be found quickly - the fact remains that careful management will be important.

31. In an independent future we will of course have access to all economic levers to promote growth. As with other nations, Scotland would rely entirely on its economic performance to drive public sector revenues: revenue growth would depend on economic growth. This also implies a degree of uncertainty in revenue and therefore in the public finances, requiring a higher level of resilience and innovative planning. The direct relationship between economic growth and public revenues also emphasises the central importance of sustainable economic growth a[s] a policy objective not only to provide employment and incomes, but to generate th[e] tax revenues necessary to support quality public services and investment in infrastructure.

32. As papers come forward to Cabinet on the opportunities in portfolio areas arising from constitutional reform, I encourage colleagues to demonstrate how their policy proposals will contribute to economic performance and therefore to the public finances, so helping forward both sustainable economic growth and the innovative public services that all want to see.

Section 2: Macroeconomic Architecture and Institutional Framework

33. Crucial to ensuring Scotland's economy and public finances remain on a sustainable footing, is the need to establish a credible macroeconomic framework for an independent Scotland. Independence provides the opportunity to tailor this framework and associated institutions to meet the needs of the Scottish economy.

34. The Scottish Government has already articulated a strong and coherent economic narrative in favour of maintaining Sterling following independence through entering a formal monetary union with the rest of the UK. There are clear benefits to Scotland from entering this formal monetary union, such as promoting price and

20. We face greater pressures from ageing population that the rest of the UK

30. Privately the SNP acknowledge how the UK carries this risk for Scotland, publicly they deny it.

financial stability and facilitating intra-UK trade. In addition, it will preserve the highly integrated UK financial services industry.

35. An independent Scotland in a formal monetary union would have the fiscal and wider economic policy freedom to tailor policies to enhance the performance of the Scottish economy. Scotland would decide on the best overall fiscal stance which is appropriate for the Scottish economy, whilst ensuring that it remained in line with any agreements for the monetary union.

36. As part of the broader Constitutional Reform work, each work stream is considering the fiscal and economic opportunities available to an independent Scotland. Decisions over changes to specific taxes, expenditure or wider economic policies, will need to be taken within the overall context of ensuring Scotland's finances remain on a sustainable footing.

37. As with any new structure, there are a number of practical issues in establishing a Sterling Zone and the frameworks needed to ensure its successful operation. The Scottish Government therefore set up the Fiscal Commission Working Group on 25 February 2012 to oversee the detailed technical work officials are taking forward to establish the monetary and fiscal architecture for Scotland post-independence.

38. The Working Group is a sub-group of the Council of Economic Advisers and consists of Professors Joseph Stiglitz, Andrew Hughes Hallett, Jim Mirrlees and Frances Ruanne.

39. The Working Group will also support the engagement with key business institutions and external experts to help develop the Scottish Government's proposals. The Scottish Government has already had informal meetings with officials at the Bank of England and a number of the major Scottish financial institutions to discuss the practicalities of an independent Scotland operating within a Sterling Zone. These discussions will continue and will help build on the economic proposals already outlined by the Scottish Government. I will also ask that officials supporting the Working Group ensure that other ministerial interests are factored in. For example, I expect that the Working Group will consider the affordability of state pensions as its work on fiscal sustainability proceeds. Our fiscal rules will also need to take into account the issue of how Scotland funds counter-cyclical expenditure (with welfare, specifically payments to those who become unemployed, being probably the biggest component of this).

40. Work is already underway to examine how other countries arrange their macroeconomic framework and we continue to explore what would be the most efficient institutional structure for an independent Scotland.

41. Part of this work will consider not only the Scottish Government's approach to taxation, but also the most appropriate and efficient way of collecting and administering taxation in an independent Scotland.

42. The decision around what currency an independent Scotland will use enables us to move forward to develop and articulate a clear picture of the future macroeconomic framework and the financial and economic functions that we will

35. This is Swinney in private admitting that London would have a veto on an indy Scotland's budget.

39. Privately they are discussing cutting old age pensions to pay for independence.

have to discharge in an independent Scotland. There will be a wide range of new functions that we will have to competently discharge from tax policy development and sovereign debt management, through to economic and financial regulation.

43. Undoubtedly there will be a cost associated with setting up and running the necessary institutions and in some cases these are likely to be significant. Initial work has shown that we will have a number of choices around how we set-up and design our economic and financial institutions based around best practice and degree of Ministerial control. I have been clear that we will need to focus on the functions rather than looking at the institutions. This will provide opportunities to think creatively an innovatively around the way we design institutions to ensure that they will be as efficient and low cost as possible using new technology and an enhanced digital service.

44. One of the largest institutional costs will be that of tax collection and administration. I set out during my statement to Parliament on [23] May our vision for the future of taxation in Scotland, and the principles which would govern decisions over the setting and administering of tax in Scotland.

45. The Scottish Government will build on this work to develop proposals, drawing on international best practice, for a modern and efficient tax system for an independent Scotland. Taking Ireland and New Zealand as examples of international best practice, tax authority running costs in Ireland are approximately £320m a year – approximately 1.15% of the total revenue raised, while in New Zealand they are approximately £350m, about 1.25% of total revenue raised. Tax revenues in Scotland are approximately £50bn. Corresponding annual costs of tax administration in Scotland would on this basis be expected to lie in the region of £575m to £625m.

46. We will continue to develop our understanding of the choices to be made in developing Revenue Scotland, a modern, efficient tax administration. I will also make sure that my officials continue to work with those in the welfare workstream, so that we can explore the possibility of a combined tax and benefits service in the more medium term. Our present experience of collecting non-domestic rates and council tax in Scotland is relevant, and our preparations for collecting the taxes devolved in the Scotland Act are also helpful in this regard.

47. It is clear that clarity and simplicity in taxes help reduce the cost of administration. So too does a public climate that regards tax avoidance as unacceptable – costs of ensuring compliance are less, and the 'tax gap' between the amount of tax estimated as being due and that actually collected is minimised. New Zealand offers a particularly useful example in this respect. Use of on-line systems for data gathering and cross-checking, and for interacting with taxpayers, is also important in improving efficiency, and we should pursue an approach based on 'digital first'.

48. In operational terms, international best practice is that tax authorities should be under the day to day control of appointed officials so as to distance Ministers from the affairs of individual tax payers or groups of taxpayers. This is a principle that I will wish to follow in Scotland also. Ministers would of course retain oversight of and responsibility for tax policy, the level of tax revenues required, the direction of tax

43. Obviously true but the nationalists have always talked down the costs of setting up a new state.

45. £600million plus to set up Scottish Tax service. More than DOUBLE our share of HMRC costs in GERS.

administration as a whole, and issues such as efficiency targets and overall levels service to taxpayers.

49. Work is currently underway in Finance and OCEA to build a comprehensive overview of the institutions, costs and staff numbers which I will draw together and provide an update to Cabinet on in June. As part of this work I will also be looking to my officials to provide an overview on the skills we will need to maintain our new institutional framework.

Conclusion

50. **I invite colleagues to note:**

- **The dynamic environment of public finances including potential volatility in Scottish revenues in future;**
- **The impact of additional spending responsibilities, and the pressures likely to bear on public spending after 2016;**
- **The likely broad position on debt and debt servicing;**
- **The importance of ensuring that our constitutional reform policy options demonstrate how they will contribute to sustainable economic growth and thus support the revenues available for public services;**
- **The work under way on our macroeconomic and fiscal framework - and the new institutions we will require to establish to discharge effectively our new responsibilities – including the major new task of tax administration.**

Further information on the four largest elements of reserved spending for Scotland is provided below.

- Social Protection: The largest component of social protection is spending on the UK social security system. The estimate of reserved spending on social protection in 2010-11 reflects the benefit payments received by Scottish residents. The projections from 2011-12 onwards assume Scotland's share of the UK social security spending remains constant at its 2010-11 level. The forecasts take into account the impact of all the changes to the benefit and pension system announced to date[1].

- Debt Interest: Scotland is assigned a per capita share of UK debt interest payments. As such the estimates do not reflect Scotland's historic fiscal position.

- Defence: Scotland is assigned a per capita share of UK defence spending. This represents the cost of defence activities undertaken by the UK Government <u>for</u> Scottish residents. Historically defence spending <u>in</u> Scotland has been lower than Scotland's population share of the UK defence budget. I have made clear to the Defence Workstream that a much lower budget must be assumed.

- International Services: This covers spending on international aid and overseas representation. Scotland is assigned a population share of UK spending on both categories. Scotland's notional share of the UK's EU contributions is included in the 'other' reserved spending category. The projections assume that the UK achieves its target of increasing overseas aid to 0.7% of GNI from 2013 and that spending is maintained at this level in future. This target is shared by all EU15 members with agreement that it will be reached by 2015. If Scotland wished to maintain the UK Government's overseas aid commitment then it would also have to spend the equivalent of 0.7% of GNI on overseas aid.

Publicly SNP claim we'll have 15000 soldiers, keep bases open, etc. Not possible if defence spending cut.

[1] The estimates of reserved social protection expenditure include the additional costs incurred through introducing the Universal Credit. These set up costs are expected to be £1.8 billion in 2015-16 and £2.5 billion in 2016-17. A population share has been assigned to Scotland in the above analysis. Potential savings accrued through from the universal credit have not been included as these are not expected to occur until post-2016-17.

ANNEX A

CONSTITUTIONAL REFORM: PUBLIC FINANCE AND MACRO-ECONOMIC POLICY

Table A1 provides the forecasts of tax receipts and total public sector expenditure for Scotland which underpin the projections of Scotland's public finances in section 1 of this cabinet paper. The net fiscal balances for Scotland and the UK, expressed as a percentage of GDP, are provided in Table A2.

Table A1 – Net Fiscal Balance: Scotland 2010-11 to 2016-17 (£ Millions)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Total Expenditure	63,807	62,890	61,966	64,983	66,142	66,923	67,924
Total Revenue	53,128	56,372	56,897	58,872	61,137	61,958	64,867
Net Fiscal Balance	-10,679	-6,518	-5,069	-6,121	-5,005	-4,965	-3,057

Figures for 2011-12 onwards are forecasts. They are subject to uncertainty and should be treated with caution when taken to the nearest million.

Table A2 – Net Fiscal Balance: Scotland 2010-11 to 2016-17 (% of GDP)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Scotland	-7.4%	-4.2%	-3.3%	-3.8%	-3.0%	-3.0%	-1.8%
UK	-9.2%	-8.3%	-5.8%	-6.9%	-4.3%	-2.8%	-1.1%

Table A3 provides detailed information on the spending projections which underpin the GERS forecasts provided in section 1 of this Cabinet Paper.

Table A3 - Total Expenditure: Scotland 2010-11 to 2016-17 (£ Millions)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Devolved Spending	35,935	33,369	33,946	34,201	34,522	34,481	34,670
Health	10,772	10,133	10,332	10,456	10,636	10,513	10,662
Education	8,030	7,495	7,820	7,691	7,753	7,733	7,707
Social Protection	5,180	4,986	5,246	5,354	5,427	5,455	5,508
Public Order and Safety	2,443	2,262	2,320	2,342	2,360	2,354	2,385
Transport	2,669	2,351	2,329	2,301	2,327	2,312	2,337
Other	6,862	6,121	6,100	6,056	6,119	6,064	6,141
Reserved Spending	25,899	27,082	25,458	28,088	28,887	29,628	30,280
Social Protection (Social Security System)	15,887	16,127	14,761	17,172	17,437	17,804	18,163
Debt Interest	3,700	3,978	3,777	3,888	4,459	4,905	5,182
Defence	3,265	4,106	3,971	3,957	3,944	3,921	3,927
International Services	746	773	782	962	932	927	928
Other	2,059	2,099	2,167	2,120	2,085	2,071	2,079
Accounting Adjustment	2,182	2,440	2,862	2,704	2,792	2,844	2,874
Total	63,807	62,890	61,966	64,983	66,142	66,923	67,924

Figures for 2011-12 onwards are forecasts. They are subject to uncertainty and should be treated with caution when taken to the nearest million.

The projections include the effect of the UK Government's decision to transfer the Royal Mail's historic pension deficit, plus a share of its pension fund's assets, into the public sector. The transfer of assets is recorded as a negative expenditure in the Social Protection spending category in 2012-13. The subsequent increase in public sector pension payments is included as a positive expenditure in the Social Protection category. A population share is assigned to Scotland.

The analysis of public sector expenditure in GERS focuses on Total Expenditure on Services. This is consistent with the departmental budget framework. In the UK public finances the principle measure of public sector expenditure is Total Managed Expenditure (TME). An accounting adjustment is included in GERS to reconcile the estimates of TES and TME for Scotland.

Table A4 provides detailed information on the revenue projections which underpin the GERS forecasts provided in section 1 of this Cabinet Paper.

Table A4 - Current Revenue: Scotland 2010-11 to 2016-17

	(£ million)						
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Income tax	10,634	10,761	10,957	11,699	12,740	13,655	14,631
Corporation tax (excl North Sea)	3,114	2,833	3,182	3,217	3,377	3,582	3,911
Capital gains tax	244	276	249	322	368	427	492
Other taxes on income and wealth	362	487	559	575	599	599	591
National insurance contributions	8,018	8,352	8,646	9,113	9,612	10,227	10,860
VAT	8,660	9,822	10,216	10,565	10,977	11,388	11,825
Fuel duties	2,339	2,293	2,327	2,396	2,463	2,566	2,668
Stamp duties	595	566	593	652	735	816	898
Tobacco duties	965	1,019	1,061	1,051	1,082	1,083	1,115
Alcohol duties	896	931	967	1,015	1,062	1,117	1,163
Betting and gaming and duties	113	169	179	211	221	242	242
Air passenger duty	183	227	243	252	277	294	327
Insurance premium tax	210	252	243	252	260	260	209
Landfill tax	99	115	123	132	145	161	167
Climate change levy	61	64	73	128	164	183	201
Aggregates levy	54	43	43	45	47	49	51
Inheritance tax	169	173	179	185	191	197	209
Vehicle excise duty	470	473	481	473	473	473	473
Non-domestic rates	1,891	1,909	2,039	2,176	2,249	2,273	2,403
Council tax	1,986	2,032	2,055	2,160	2,266	2,362	2,464
Other taxes, royalties and adjustments	694	366	452	617	650	685	713
Interest and dividends	183	239	393	427	521	709	923
Gross operating surplus	2,934	2,888	2,827	2,931	3,047	3,163	3,291
Rent and other current transfers	396	113	158	158	156	158	160
Total current revenue (excluding North Sea revenue)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
North Sea revenue	7,951	10,060	8,640	8,100	7,470	5,400	4,770
Total current revenue (including North Sea revenue)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Figures for 2011-12 onwards are forecasts. They are subject to uncertainty and should be treated with caution when taken to the nearest million.

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