

GOVERNMENT  
EXPENDITURE & REVENUE  
SCOTLAND 2015-16

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## SUMMARY

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- Government Expenditure and Revenue Scotland (GERS) is a National Statistics publication. It is assessed by the independent UK Statistics Authority to ensure that it meets the Code of Practice for Official Statistics.
- The report estimates the contribution of revenue raised in Scotland towards the goods and services provided for the benefit of Scottish residents under the current constitutional arrangements. The estimates are consistent with the UK Public Sector Finances published in July 2016 by the Office for National Statistics (ONS).
- Following a user consultation, the publication has been brought forward by seven months to August to provide more timely estimates of Scotland's public sector finances. This follows efforts in previous years to reduce the time lag in publishing the report, and means that GERS is now published more than 10 months earlier than it was in 2012, and 16 months earlier than it was before 2008. Accelerating the publication schedule involves changes to the expenditure methodology which are discussed in Chapter 3.
- The UK Statistics Authority has confirmed that the release of GERS at this time is consistent with the requirements of the Code of Practice to release statistical reports as soon as they are judged ready, according to a published timetable that takes account of user needs, without being influenced by non-statistical matters. This helps ensure that there is no opportunity, or perception of opportunity, for the release to be withheld or delayed.
- The ONS reclassified English Housing Associations (HAs)<sup>1</sup> into the public sector on 30 October 2015. In 2015-16, this increased UK public sector revenue by £6.9 billion and UK expenditure by £10.8 billion, resulting in a £3.9 billion increase in the UK net fiscal deficit. A similar impact is seen in earlier years. Scotland is apportioned none of this additional revenue or expenditure in GERS. The ONS have not yet announced a decision on the classification of Scottish Housing Associations. Further information on the impact of the change on the UK figures is available in Chapters 1 and 3.
- In order to answer some of the most common queries the Scottish Government receives about GERS, a "Frequently Asked Questions" box has been added to the document, Box S.1.
- 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@gov.scot](mailto:economic.statistics@gov.scot).

### Scotland's revenue and expenditure

- Table S.1 shows two of the estimates of Scotland's public sector revenue presented in GERS: (i) excluding North Sea revenue, and (ii) including an illustrative geographical share of North Sea revenue. Estimates including a population share of North Sea revenue are available in the main chapters.
- Scotland's estimated non-North Sea revenue in 2015-16 was £53.7 billion. As a percentage of GDP, non-North Sea revenues increased to 36.5% in 2015-16, the highest level since 2007-08, before the financial crisis.

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<sup>1</sup> The term Housing Associations is used to refer to private registered providers of social housing. This is consistent with the terminology used by the Office for Budget Responsibility in their Economic and Fiscal Outlooks.

- Non-North Sea revenue in Scotland grew by 3.7% in 2015-16, similar to that for the UK as a whole, 3.8%.
- Including an illustrative geographical share of the North Sea, total Scottish revenue increased 0.3% between 2014-15 and 2015-16. This is lower than the growth in non-North Sea revenue, reflecting the decline in UK North Sea revenue, which fell from £2.3 billion in 2014-15 to £76 million in 2015-16.
- The increase in Scottish revenue as a percentage of GDP is smaller when including the North Sea, as Scottish North Sea GDP declined by 24% in 2015-16. The fall in North Sea revenue and GDP occurred because relatively high operating costs and falling prices have reduced North Sea profits and therefore GDP.

**Table S.1: Total Revenue: 2011-12 to 2015-16**

|   | £ million                       |         |         |         |         |
|---|---------------------------------|---------|---------|---------|---------|
|   | 2011-12                         | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
| Scotland – Excluding North Sea revenue                      | 47,328                          | 48,192  | 50,054  | 51,765  | 53,689  |
| Scotland – Including North Sea revenue (geographical share) | 56,961                          | 53,498  | 54,053  | 53,567  | 53,748  |
|   | <b>As % of UK total revenue</b> |         |         |         |         |
| Scotland – Excluding North Sea revenue                      | 8.0%                            | 8.0%    | 8.0%    | 7.9%    | 7.9%    |
| Scotland – Including North Sea revenue (geographical share) | 9.5%                            | 8.8%    | 8.6%    | 8.2%    | 7.9%    |
|   | <b>As % of GDP</b>              |         |         |         |         |
| Scotland – Excluding North Sea revenue                      | 36.4%                           | 36.1%   | 35.7%   | 35.8%   | 36.5%   |
| Scotland – Including North Sea revenue (geographical share) | 37.2%                           | 35.1%   | 34.1%   | 34.0%   | 34.3%   |
| UK – including all North Sea revenue                        | 36.7%                           | 36.0%   | 35.9%   | 35.7%   | 36.1%   |

Note: Scotland as a % of UK is lower than previously published for all years shown here by around 0.1 - 0.2 percentage points due to the inclusion of English HAs in the UK figure, which increases UK revenue.

- Table S.2 below shows estimates of revenue per person for Scotland and the UK. Excluding North Sea revenue, revenue per person in Scotland is lower than in the UK by approximately £400 per year.
- Including an illustrative geographical share of North Sea revenue, the difference between revenue per person in Scotland and the UK is quite variable. In the latest year, including an illustrative geographical share of North Sea revenue, revenue per person was £400 lower than the UK average. Note that UK revenue in all years has been increased by approximately £100 per person compared to estimates in previous editions of GERS, due to the reclassification of English housing associations.

**Table S.2: Revenue per person: Scotland and UK 2011-12 to 2015-16**

|  | £ per person |         |         |         |         |
|--|--------------|---------|---------|---------|---------|
|  | 2011-12      | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
| <b>Scotland</b>                                  |              |         |         |         |         |
| Excluding North Sea revenue                      | 8,900        | 9,100   | 9,400   | 9,700   | 10,000  |
| Including North Sea revenue (geographical share) | 10,700       | 10,100  | 10,100  | 10,000  | 10,000  |
| <b>UK</b>  |              |         |         |         |         |
| Excluding North Sea revenue                      | 9,300        | 9,400   | 9,800   | 10,100  | 10,400  |
| Including North Sea revenue                      | 9,500        | 9,500   | 9,800   | 10,100  | 10,400  |
| <b>Difference (Scotland minus UK)</b>            |              |         |         |         |         |
| Excluding North Sea revenue                      | -400         | -400    | -400    | -400    | -400    |
| Including North Sea revenue (geographical share) | 1300         | 500     | 300     | -100    | -400    |

Note: Figures rounded to nearest £100

## Summary

- Table S.3 below shows estimates of total managed expenditure for Scotland and the UK, the principle measure of overall public spending in the UK public sector finances. Scotland's share of UK expenditure is relatively stable over the period, at around 9.1%. This is slightly lower than previously estimated in GERS as UK spending has been revised up due to the inclusion of English housing associations.
- Expenditure as a share of GDP including an illustrative geographical share of the North Sea increased in 2015-16. This reflects the decline in North Sea GDP discussed above.

**Table S.3: Public Sector Total Managed Expenditure: 2011-12 to 2015-16**

|  | 2011-12            | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|--|--------------------|---------|---------|---------|---------|
| Scotland - £ millions                              | 65,758             | 67,495  | 67,035  | 67,879  | 68,581  |
| Share of UK (%) <sup>1</sup>                       | 9.2%               | 9.2%    | 9.1%    | 9.1%    | 9.1%    |
|  | <b>As % of GDP</b> |         |         |         |         |
| Scotland - excluding North Sea                     | 50.6%              | 50.5%   | 47.9%   | 46.9%   | 46.6%   |
| Scotland - including geographic share of North Sea | 42.9%              | 44.3%   | 42.3%   | 43.1%   | 43.7%   |
| UK – including all North Sea                       | 43.8%              | 43.2%   | 41.8%   | 40.7%   | 40.1%   |

Note: Scottish public expenditure in 2012-13 is higher by £788 million due to the transfer of the Royal Mail Pension Plan into the public sector. This is a population share of a £9.5 billion increase in UK expenditure.

- Table S.4 below shows estimated expenditure per person for Scotland and the UK. Expenditure for Scotland has been consistently higher per person than the UK average over the period. Note that UK expenditure in all years has been increased by approximately £100 per person, compared to estimates in previous editions of GERS, due to the inclusion of English housing associations.

**Table S.4: Total Managed Expenditure per person: Scotland and UK 2011-12 to 2015-16**

|                                       | <b>£ per person</b> |         |         |         |         |
|---------------------------------------|---------------------|---------|---------|---------|---------|
|                                       | 2011-12             | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
| Scotland                              | 12,400              | 12,700  | 12,600  | 12,700  | 12,800  |
| UK                                    | 11,300              | 11,500  | 11,500  | 11,500  | 11,500  |
| <i>Difference (Scotland minus UK)</i> | 1,100               | 1,200   | 1,100   | 1,100   | 1,200   |

Note: 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 revenue and current expenditure. It measures the degree to which taxpayers meet the cost of paying for day-to-day public services, excluding capital investment. It is shown in Table S.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 in Scotland is typically six to seven percentage points larger. In 2015-16, the Scottish non-North Sea current budget balance improved by 0.6 percentage points, whilst the UK improved by 0.9 percentage points. When including the North Sea, the movement in Scotland's current budget balance is more variable, and does not follow the same pattern as the UK. Between 2014-15 and 2015-16, Scotland's current budget balance including the North Sea revenue worsened by 0.7 percentage points, reflecting the decline in North Sea revenue and GDP in this year.

**Table S.5: Current Budget Balance: Scotland and UK 2011-12 to 2015-16**

|   | (£ million)    |                |                |                |                |
|---|----------------|----------------|----------------|----------------|----------------|
|   | 2011-12        | 2012-13        | 2013-14        | 2014-15        | 2015-16        |
| Scotland - Excluding North Sea                      | -15,186        | -15,008        | -14,015        | -13,333        | -12,688        |
| Scotland - Including North Sea (geographical share) | -5,553         | -9,703         | -10,015        | -11,531        | -12,628        |
| <i>UK</i>   | <i>-81,426</i> | <i>-84,681</i> | <i>-72,008</i> | <i>-56,925</i> | <i>-41,498</i> |
|   | As % of GDP    |                |                |                |                |
| Scotland - Excluding North Sea                      | -11.7%         | -11.2%         | -10.0%         | -9.2%          | -8.6%          |
| Scotland - Including North Sea (geographical share) | -3.6%          | -6.4%          | -6.3%          | -7.3%          | -8.1%          |
| <i>UK</i>   | <i>-5.0%</i>   | <i>-5.0%</i>   | <i>-4.1%</i>   | <i>-3.1%</i>   | <i>-2.2%</i>   |

- 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 S.6 below.

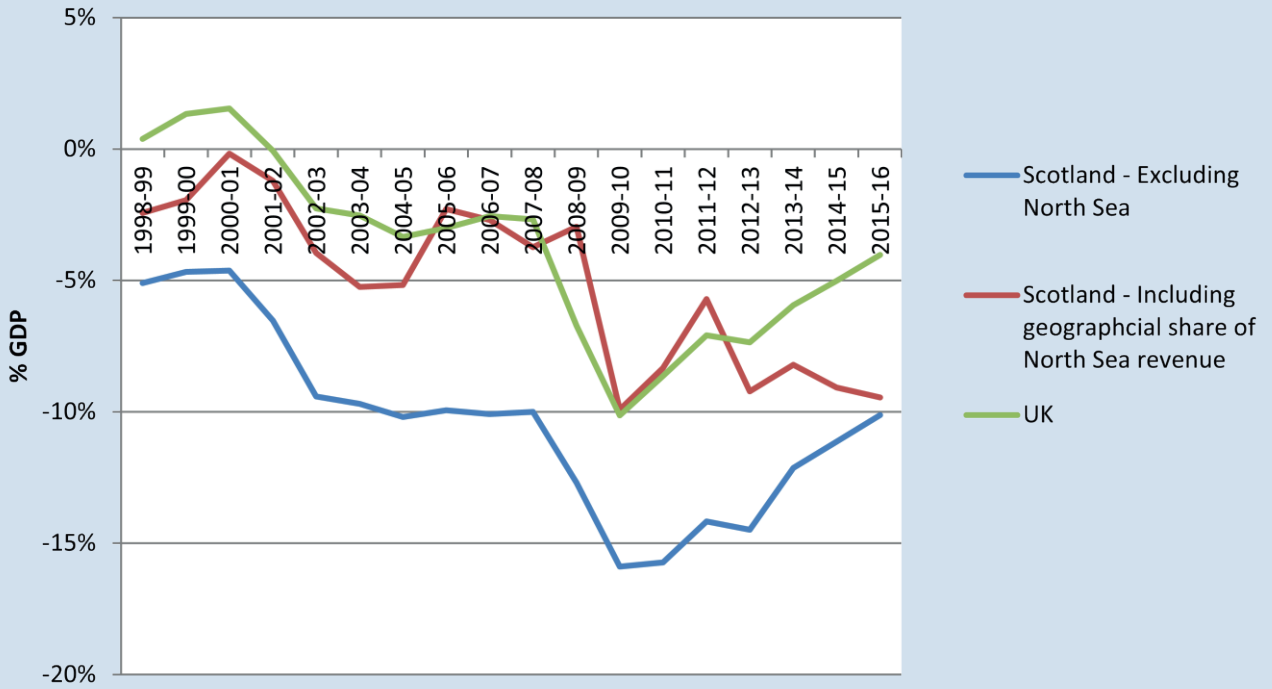
**Table S.6: Net Fiscal Balance: Scotland and UK 2011-12 to 2015-16**

|   | £ million       |                 |                 |                |                |
|---|-----------------|-----------------|-----------------|----------------|----------------|
|   | 2011-12         | 2012-13         | 2013-14         | 2014-15        | 2015-16        |
| Scotland - Excluding North Sea                      | -18,430         | -19,303         | -16,981         | -16,114        | -14,892        |
| Scotland - Including North Sea (geographical share) | -8,797          | -13,997         | -12,982         | -14,311        | -14,833        |
| <i>UK</i>   | <i>-115,546</i> | <i>-123,216</i> | <i>-103,933</i> | <i>-91,668</i> | <i>-75,320</i> |
|   | As % of GDP     |                 |                 |                |                |
| Scotland - Excluding North Sea                      | -14.2%          | -14.5%          | -12.1%          | -11.1%         | -10.1%         |
| Scotland - Including North Sea (geographical share) | -5.7%           | -9.2%           | -8.2%           | -9.1%          | -9.5%          |
| <i>UK</i>   | <i>-7.1%</i>    | <i>-7.3%</i>    | <i>-5.9%</i>    | <i>-5.0%</i>   | <i>-4.0%</i>   |

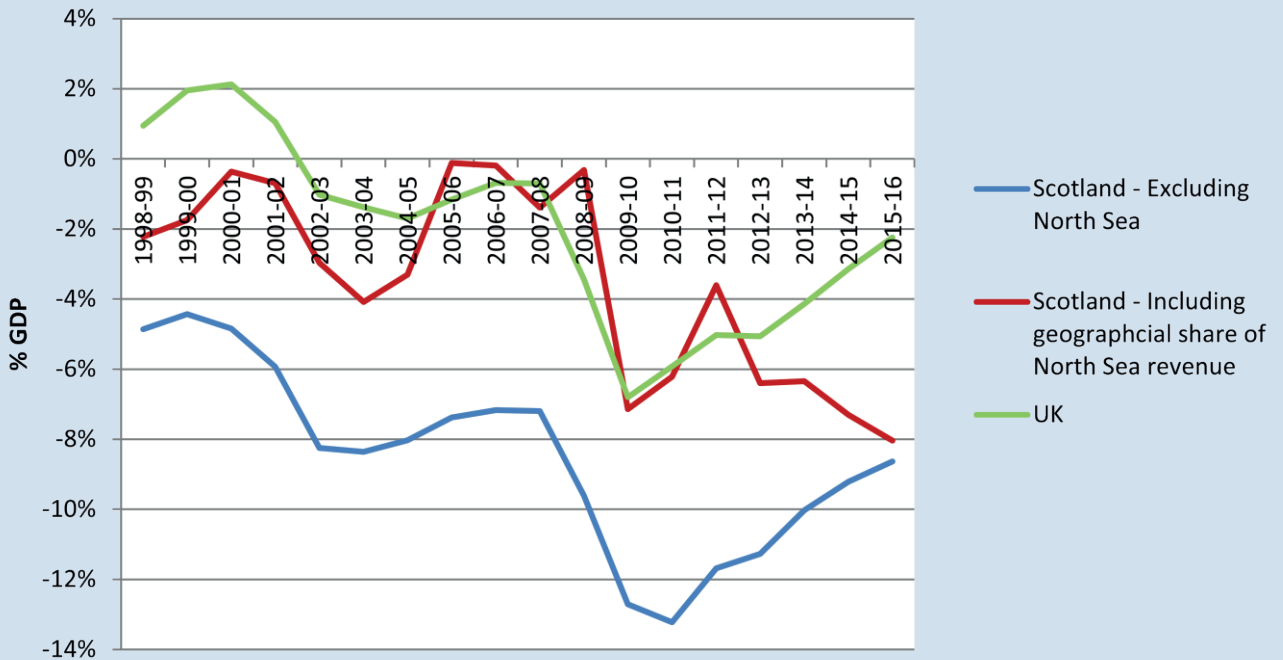
- The net fiscal balance tends to move in the same way as the current budget balance, but is approximately 2 percentage points larger when expressed as a share of GDP. This reflects the fact that capital spending is relatively stable as a share of total spending over time.
- The charts overleaf show the estimates of the current budget balance and net fiscal balance for Scotland and the UK since 1998-99. Consistent with other economic statistics, all tables in the accompanying spreadsheets contain figures back to 1998-99.



### Net Fiscal Balance: Scotland & UK 1998-99 to 2015-16



### Current Budget Balance: Scotland & UK 1998-99 to 2015-16



**Box S.1: GERS Frequently Asked Questions**

The Scottish Government receives many questions from users about GERS. Below is a summary of some of the most frequently asked questions and their answers.

**Q: Is GERS a description of the whole Scottish economy?**

A : No. GERS reports only on public sector revenue and expenditure. Although these may be affected by economic performance, GERS does not directly report on Scotland's wider economy. If users are interested in the measurement of the economy as a whole, they should examine other economic statistics products, such as the quarterly Gross Domestic product figures ([www.gov.scot/gdp](http://www.gov.scot/gdp)) or Quarterly National Accounts Scotland (QNAS, [www.gov.scot/snap](http://www.gov.scot/snap)). These publications provide real terms growth in the economy, and GDP in cash or nominal terms and its components.

**Q: Who produces GERS?**

A: GERS is produced by Scottish Government statisticians. It is designated as a National Statistics product, which means that it is produced independently of Scottish Ministers and has been assessed by the UK Statistics Authority as being produced in line with the Code of Practice for Official Statistics. This means the statistics have been found to meet user needs, to be methodologically sound, explained well and produced free of political interference.

**Q: How do you decide on changes that are made to GERS?**

A: In line with the Code of Practice for Official Statistics, changes are only made to GERS after consultation and discussion with users. This includes discussion at the annual Scottish Economic Statistics Consultation Group,<sup>2</sup> which brings together users of economic statistics from industry, academia and the wider public sector. An annual consultation exercise, open to all, is also carried out every year to allow all users of GERS to comment on planned and suggested changes to GERS.

**Q: Do you use company headquarters to assign corporation tax or taxes like VAT?**

A: Corporation tax on trading profits is estimated on a company-by-company basis, depending on the economic activity each company has in Scotland, not location of company headquarters. VAT is a consumption tax, and is therefore estimated based on purchases that are made in Scotland, rather than the location of a company's head office.

**Q: How do taxes from the whisky industry feature in the GERS estimates?**

A: Like any industry, the whisky industry's activity in Scotland generates tax revenue through a range of sources, such as corporation tax on profits, income tax and national insurance contributions on staff earnings, and non-domestic rates payments on business premises. These are all captured in the estimates of Scottish public sector receipts reported in GERS.

In addition, whisky consumed in the UK is subject to VAT and alcohol duty. This is assigned to Scotland on the basis of how much is consumed in Scotland. Whisky which is exported does not generate UK VAT or alcohol duty. There is no export duty in the UK.

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<sup>2</sup> <http://www.gov.scot/Topics/Statistics/Browse/Economy/ScotStat/Meetings>

**Q: What are Accounting Adjustments and why do they feature in the GERS estimates?**

A: Accounting adjustments are used to present revenue and expenditure on a National Accounts basis, the international reporting standards used by governments. They normally reflect non-cash items, such as depreciation or pensions liabilities. In general, these adjustments do not affect the net fiscal balance or current budget balance, as they are added to both revenue and expenditure. In 2015-16, accounting adjustments added £4.3 billion to the estimate of Scottish public sector revenue and £3.9 billion to the estimate of Scottish public sector spending. Comparable accounting adjustments are also contained in the estimates of UK public sector spending and revenue. For more information on accounting adjustments and where they appear in the revenue tables, see Table A.10.

**Q: Is spending that does not occur in Scotland included in the estimates of Scottish public spending?**

A: GERS aims to capture all spending that benefits the residents of Scotland. This means it assigns Scotland a share of some expenditure which takes place outside Scotland. It also means that it does not assign to Scotland expenditure which occurs in Scotland but benefits non-Scottish residents.

For example, expenditure on embassies occurs outside Scotland, but provides benefits to Scottish residents and companies, such as Scottish tourists requiring consular services. As such, Scotland is allocated a population share of this expenditure in GERS. Likewise, spending on museums in Scotland benefits visitors from the rest of the UK, so not all of this spending is assigned to Scotland in GERS

**Q: Why does GERS refer to public sector revenues rather than taxes?**

A: Public sector revenue covers all income received by the public sector. Although this is mostly taxes, there are some forms of revenue which are not taxes. These include income made by public corporations, such as Scottish Water, or dividend income from companies in which the government holds shares.

# PREFACE

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This report is the twenty-third in the series of official published estimates of expenditure and revenue balances of the public sector in Scotland.

GERS is classified as National Statistics and produced in accordance with the principles of the Code of Practice for Official Statistics. More information about National Statistics, including the latest assessment report on GERS (number 274), is available on the UK Statistics Authority website.<sup>3</sup>

The GERS content and methodology is continually reviewed in conjunction with users. The latest consultation about this edition of GERS was carried out between May and July 2016. An initial response was published in July 2016, and a more detailed response has been published alongside this publication.<sup>4</sup>

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@gov.scot](mailto:economic.statistics@gov.scot)

## What Questions Does GERS Address?

GERS 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 public services that were consumed?
3. To what extent did the revenues raised cover the costs of these public services?

## Revenue

Public sector revenue is estimated where a financial burden is imposed on residents and enterprises *in* Scotland.

Under current UK budgetary accounting procedures, separate figures for each country and region of the UK are not available for most revenues. As a result, Scottish public sector revenue is estimated by considering each revenue stream separately. Where Scottish data are unavailable, GERS estimates revenue using a set of apportionment methodologies, refined over a number of years following consultation with and feedback from users.

The methodology note on the GERS website provides a detailed discussion of the methodologies and datasets used.<sup>5</sup>

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<sup>3</sup> <http://www.statisticsauthority.gov.uk/>

<sup>4</sup> <http://www.gov.scot/Topics/Statistics/Browse/Economy/GERS/GERSConsultation2016>

<sup>5</sup> <http://www.gov.scot/Topics/Statistics/Browse/Economy/GERS/Methodology>

## Expenditure

Public sector expenditure is estimated on the basis of spending incurred *for* the benefit of residents of Scotland. That is, a particular public sector expenditure is apportioned to a region if the benefit of the expenditure is thought to accrue to residents of that region.

This is a different measure from total public expenditure *in* Scotland. For most expenditure, spending *for* or *in* Scotland will be similar. 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 expenditure. 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. Where there are differences between the *for* and *in* approaches, GERS estimates Scottish expenditure using a set of apportionment methodologies, refined over a number of years following consultation with and feedback from users.

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.

The methodology note on the GERS website provides a detailed discussion of the methodologies and datasets used to undertake this task.<sup>6</sup>

## The Data Sources

The source of the revenue data in GERS is ONS's Public Sector Finances, which provides disaggregated figures relating to UK public sector revenue.<sup>7</sup>

The primary data sources used to estimate Scottish public sector expenditure in GERS are HM Treasury's Public Expenditure Statistical Analyses<sup>8</sup> and the supporting Country and Regional Analysis (CRA).<sup>9</sup>

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).<sup>10</sup>

## 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

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

<sup>7</sup> The latest Public Sector Finances dataset is available from

<http://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/previousReleases>. As this dataset is updated monthly and subject to minor revision, figures in future data releases may differ from those used in this report.

<sup>8</sup> <https://www.gov.uk/government/collections/public-expenditure-statistical-analyses-pesa>

<sup>9</sup> <https://www.gov.uk/government/statistics/country-and-regional-analysis-2015>

<sup>10</sup> <http://www.gov.scot/snap>

statistics providing a consistent time series of Scotland's public sector finances from 1998-99 to 2015-16.

The Scottish Government, other devolved administrations, and HMRC are committed to working together to reconcile, and where possible, align methodologies for estimating receipts for the countries and regions of the UK. Further details on this work can be seen in Box 1.1 in Chapter 1.

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

## Comparisons to other countries and regions of the UK

In the last two editions of GERS, experimental statistics of comparisons to other parts of the UK have been included for both revenue and expenditure. These are not included in this edition of GERS as, due to the earlier publication timetable, data are not available to produce figures for 2015-16 for each country and region of the UK. Comparative estimates for 2014-15 are available in last year's GERS. The ONS ran a consultation on producing public sector finances estimates for the UK country and regions earlier in the year. The report of this consultation has been published,<sup>11</sup> and as a result, ONS intend to produce initial estimates during the course of 2017.

## International comparisons

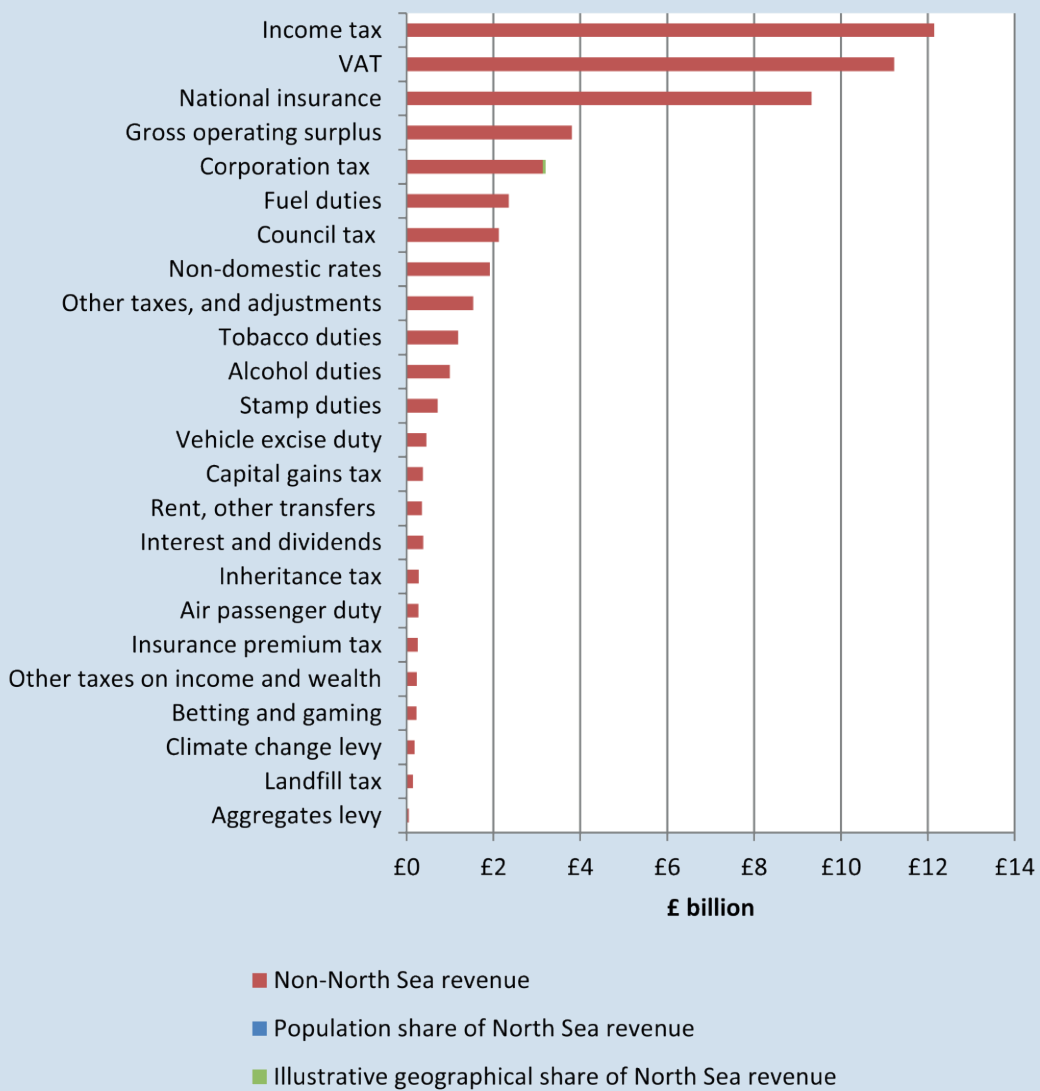
The Scotland figures in the main tables in GERS are produced to be comparable to the UK figures presented in the ONS Public Sector Finances and the OBR Economic and Fiscal Outlook. These report for the public sector as a whole on a financial year basis. In contrast, international organizations such as the European Commission and the International Monetary Fund (IMF) report countries' finances on a calendar year basis and for the government sector only. Figures for Scotland on this basis are available in Table A.4.

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<sup>11</sup> <https://www.ons.gov.uk/aboutus/whatwedo/statistics/consultationsandsurveys/allconsultationsandsurveys/consultationoncountryandregionalpublicsectorfinances>

# CHAPTER 1: PUBLIC SECTOR REVENUE

## Total Public Sector Revenue: Scotland 2015-16



# 1

## PUBLIC SECTOR REVENUE

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### Introduction

This chapter provides detailed estimates of Scottish 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 revenue receivable from Scotland. GERS therefore uses a number of different methodologies to apportion revenue to Scotland. These methods are discussed in the methodology paper on the GERS website.<sup>12</sup>

Following the implementation of the Scotland Act 2012 and Scotland Act 2016, an increasing amount of revenue is set to be devolved to the Scottish Parliament, whereby direct Scottish measures of these revenues will be available. The first revenues which have been devolved are landfill tax and property transaction taxes, with Scottish revenue collected for these taxes from 2015-16 onwards. Chapter 4 provides more information on current and future devolved taxes.

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. Table A.5 in Annex A provides analysis of the confidence intervals around revenue estimates based on survey data.

### Estimated Revenue 2015-16

Table 1.1 highlights estimated public sector revenue in Scotland and the preliminary outturn data for the UK in 2015-16. 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. In order to report revenue on a National Accounts basis, the international reporting standards used by governments, a number of accounting adjustments are included in the total revenue estimate. These are primarily symmetric adjustments that also form part of expenditure, and therefore have little impact on the net fiscal balance.

Unlike the expenditure accounting adjustments, which are shown in a separate expenditure line, the revenue accounting adjustments are included within different revenue lines, as is set out in Table A.9 in Annex A. In order to aid transparency, a revenue accounting adjustments line has been added to the tables in this chapter. This is a sub-total of revenue, and does not add to the revenue totals reported in the tables.

Total public sector non-North Sea current revenue in Scotland was estimated to be £53.7 billion in 2015-16. This is equivalent to 7.9% of UK total non-North Sea current revenue which is 0.3 percentage points lower than Scotland's share of the UK population.<sup>13</sup>

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<sup>12</sup> <http://www.gov.scot/Topics/Statistics/Browse/Economy/GERS>

<sup>13</sup> Scotland's share of the UK population in 2015-16 was 8.2%. Excluding extra-regio activity, Scotland's share of UK GVA was 7.8% (National Records of Scotland (NRS), Quarterly National Accounts Scotland and UK Economic Accounts).



# 1 Public Sector Revenue

In general, Scotland's share of most large revenues is close to either its population or GVA share. However, there are some exceptions to this, discussed below.

**Table 1.1: Current Revenue: Scotland and UK 2015-16**

|  | Scotland      |                                  | UK             | Scotland as % of UK |
|--|---------------|----------------------------------|----------------|---------------------|
|  | £million      | % of total non-North Sea revenue | £ million      |                     |
| Income tax   | 12,151        | 22.6%                            | 168,094        | 7.2%                |
| Corporation tax (excluding North Sea)                      | 3,130         | 5.8%                             | 42,888         | 7.3%                |
| Capital gains tax  | 375           | 0.7%                             | 7,107          | 5.3%                |
| Other taxes on income and wealth                           | 234           | 0.4%                             | 2,791          | 8.4%                |
| National insurance contributions                           | 9,323         | 17.4%                            | 113,440        | 8.2%                |
| VAT  | 11,228        | 20.9%                            | 130,414        | 8.6%                |
| Fuel duties  | 2,354         | 4.4%                             | 27,621         | 8.5%                |
| Stamp duties <sup>1</sup>                                  | 716           | 1.3%                             | 14,662         | 4.9%                |
| Tobacco duties   | 1,189         | 2.2%                             | 9,106          | 13.1%               |
| Alcohol duties   | 996           | 1.9%                             | 10,702         | 9.3%                |
| Betting and gaming duties                                  | 225           | 0.4%                             | 2,153          | 10.5%               |
| Air passenger duty   | 275           | 0.5%                             | 3,040          | 9.1%                |
| Insurance premium tax                                      | 258           | 0.5%                             | 3,714          | 7.0%                |
| Landfill tax   | 147           | 0.3%                             | 1,044          | 14.2%               |
| Climate change levy  | 186           | 0.3%                             | 1,875          | 9.9%                |
| Aggregates levy  | 53            | 0.1%                             | 348            | 15.3%               |
| Inheritance tax  | 278           | 0.5%                             | 4,720          | 5.9%                |
| Vehicle excise duty  | 456           | 0.9%                             | 5,922          | 7.7%                |
| Non-domestic rates <sup>2</sup>                            | 1,916         | 3.6%                             | 26,798         | 7.2%                |
| Council tax  | 2,122         | 4.0%                             | 29,122         | 7.3%                |
| Other taxes, royalties and adjustments <sup>3</sup>        | 1,535         | 2.9%                             | 17,077         | 9.0%                |
| Interest and dividends                                     | 382           | 0.7%                             | 6,202          | 6.2%                |
| Gross operating surplus                                    | 3,802         | 7.1%                             | 44,761         | 8.5%                |
| <i>Of which, English Housing Associations</i>              | -             | 0.0%                             | 6,847          | 0.0%                |
| Rent and other current transfers                           | 356           | 0.7%                             | 4,030          | 8.8%                |
| <b>Total current revenue (excluding North Sea revenue)</b> | <b>53,689</b> | <b>100%</b>                      | <b>677,631</b> | <b>7.9%</b>         |
| <i>Of which: revenue accounting adjustments</i>            | 4,295         | 8.0%                             | 47,530         | 9.0%                |
| North Sea Revenue  |               |                                  |                |                     |
| Population share   | 6             |                                  | 76             | 8.2%                |
| Geographical share   | 60            |                                  | 76             | 78.5%               |
| <b>Total current revenue (including North Sea revenue)</b> |               |                                  |                |                     |
| <b>Population share</b>                                    | <b>53,695</b> |                                  | <b>677,707</b> | <b>7.9%</b>         |
| <b>Geographical share</b>                                  | <b>53,748</b> |                                  | <b>677,707</b> | <b>7.9%</b>         |

<sup>1</sup> Includes Land and Buildings Transaction Tax, which replaced UK Stamp Duty Land Tax in Scotland from 1 April 2015.

Figures for this tax are shown separately in Chapter 4.

<sup>2</sup> Excludes non-domestic rates that local authorities pay themselves.

<sup>3</sup> This group includes some 11 separate revenues (as set out in the detailed methodology paper on the GERS website). It also contains an accounting adjustment to align the revenue estimates to those in the July 2016 UK Public Sector Finances Statistical Bulletin. This adjustment is apportioned to Scotland on a population share basis.

Revenues where Scotland's share of UK revenue is relatively low are those associated with property or assets, such as stamp duties, capital gains tax, and inheritance tax. This reflects the fact that properties and assets in Scotland tend to have lower prices than the UK average.<sup>14</sup>

Revenues where Scotland has a relatively large share include gross operating surplus (GOS), which is the operating (or trading) surpluses (or losses) of public bodies. Scotland is estimated to generate approximately 8.5% of UK public sector GOS, slightly higher than Scotland's population share. Scotland's GOS includes Scottish Water, which is a large contributor to UK public corporations' GOS. The equivalent water companies in England and Wales are outside the public sector and hence do not contribute to UK GOS.<sup>15</sup> Scotland's estimated share of UK GOS is lower in this edition of GERS. This is due to the inclusion of English housing associations in the UK figure, as illustrated in Table 1.1.

Scotland tends to also have relatively high shares of duties associated with tobacco and alcohol. This reflects the greater incidence of smoking in Scotland,<sup>16</sup> and also the fact that Scotland has higher consumption of spirits than the rest of the UK.<sup>17</sup>

Table 1.2 below provides a time series of Scotland's share of the largest UK revenues.

| <b>Table 1.2: Non-North Sea Current Revenue: Scotland as share of UK</b> |                        |             |             |             |             |
|--|------------------------|-------------|-------------|-------------|-------------|
|  | per cent of UK revenue |             |             |             |             |
|  | 2011-12                | 2012-13     | 2013-14     | 2014-15     | 2015-16     |
| Income Tax   | 7.4%                   | 7.3%        | 7.2%        | 7.2%        | 7.2%        |
| Corporation tax (excl North Sea)   | 7.3%                   | 7.3%        | 7.2%        | 7.3%        | 7.3%        |
| National insurance contributions   | 8.1%                   | 8.2%        | 8.2%        | 8.2%        | 8.2%        |
| VAT  | 8.5%                   | 8.5%        | 8.6%        | 8.6%        | 8.6%        |
| Local authority revenue  | 7.8%                   | 7.5%        | 7.3%        | 7.2%        | 7.2%        |
| All other revenue  | 8.6%                   | 8.4%        | 8.3%        | 8.2%        | 8.1%        |
| <b>Total current non-North Sea revenue</b>                               | <b>8.0%</b>            | <b>8.0%</b> | <b>8.0%</b> | <b>7.9%</b> | <b>7.9%</b> |
| <i>Excluding English HAs</i>   | <i>8.1%</i>            | <i>8.1%</i> | <i>8.1%</i> | <i>8.0%</i> | <i>8.0%</i> |

Note: Local authority revenue consists of non-domestic rates and council tax

<sup>14</sup> <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/articles/earlyindicatorestimatesfromthewealthandassetssurvey/2015-11-10>

<sup>15</sup> A more detailed discussion of GOS is provided in the detailed revenue methodology paper on the GERS website.

<sup>16</sup> <http://www.ons.gov.uk/ons/rel/ghs/opinions-and-lifestyle-survey/adult-smoking-habits-in-great-britain--2013/stb-opn-smoking-2013.html>

<sup>17</sup> <https://www.gov.uk/government/statistics/family-food-2014>

## Box 1.1: 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 apportionment methodologies, refined over a number of years following consultation with, and feedback from, users.

Further work in this area is also being undertaken by the Office for National Statistics (ONS). The ONS ran a consultation on producing public sector finances estimates for the UK country and regions earlier in the year. The report of this consultation has been published,<sup>18</sup> and as a result, ONS intend to produce initial estimates during the course of 2017.

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 2014-15 were published in October 2015.

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 gross VAT receipts are shown before the deduction of government VAT refunds, whilst HMRC figures present net VAT receipts after the deduction of these refunds. For other taxes, notably revenues from oil and gas production, there are methodological differences between the two publications.

HMRC and the devolved administrations are working together to reconcile, and where possible align, methodologies for estimating tax receipts for the UK countries and regions. 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.

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. In 2012-13 and 2014-15, the difference in non-North Sea revenue is primarily due to taxes where GERS has taken on data updates that were not available when HMRC published in October 2015. These include updates to estimates of income tax, national insurance contributions, and VAT.

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<sup>18</sup> <https://www.ons.gov.uk/aboutus/whatwedo/statistics/consultationsandsurveys/allconsultationsandsurveys/consultationoncountryandregionalpublicsectorfinances>

| <b>Estimates of Total Scottish Revenues 2011-12 to 2015-16</b> |                  |                |                |                |                |
|--|------------------|----------------|----------------|----------------|----------------|
|  | <b>£ million</b> |                |                |                |                |
|  | <b>2011-12</b>   | <b>2012-13</b> | <b>2013-14</b> | <b>2014-15</b> | <b>2015-16</b> |
| Cash estimates: non-North Sea revenues                         |                  |                |                |                |                |
| GERS   | 47,328           | 48,192         | 50,054         | 51,765         | 51,639         |
| HMRC <sup>1</sup>  | 47,165           | 47,777         | 49,542         | 51,313         | n/a            |
| <b>Difference</b>  | <b>163</b>       | <b>416</b>     | <b>512</b>     | <b>452</b>     | <b>n/a</b>     |
| <b>Difference (% GDP)</b>                                      | <b>0.1%</b>      | <b>0.3%</b>    | <b>0.4%</b>    | <b>0.3%</b>    | <b>n/a</b>     |
| Cash estimates: geographical share of North Sea revenues       |                  |                |                |                |                |
| GERS   | 9,633            | 5,306          | 3,999          | 1,802          | 60             |
| HMRC <sup>1</sup>  | 9,055            | 4,887          | 3,793          | 1,678          | n/a            |
| <b>Difference</b>  | <b>578</b>       | <b>419</b>     | <b>206</b>     | <b>125</b>     | <b>n/a</b>     |
| <b>Difference (% GDP)</b>                                      | <b>0.4%</b>      | <b>0.3%</b>    | <b>0.1%</b>    | <b>0.1%</b>    | <b>n/a</b>     |
| Share of UK total: non-North Sea revenues                      |                  |                |                |                |                |
| GERS   | 8.0%             | 8.0%           | 8.0%           | 7.9%           | 7.9%           |
| HMRC <sup>1</sup>  | 8.0%             | 7.9%           | 7.9%           | 7.9%           | n/a            |
| <b>Difference (% point)</b>                                    | <b>0.0%</b>      | <b>0.0%</b>    | <b>0.0%</b>    | <b>0.0%</b>    | <b>n/a</b>     |
| Share of UK total: geographical share of North Sea revenues    |                  |                |                |                |                |
| GERS   | 87.9%            | 85.1%          | 84.0%          | 80.0%          | 78.5%          |
| HMRC   | 82.6%            | 78.4%          | 79.6%          | 74.5%          | n/a            |
| <b>Difference (% point)</b>                                    | <b>5.3%</b>      | <b>6.7%</b>    | <b>4.3%</b>    | <b>5.5%</b>    | <b>n/a</b>     |

<sup>1</sup> 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, 2011-12 to 2015-16

Table 1.4 overleaf shows estimated current revenue in Scotland and the UK between 2011-12 and 2015-16. Current non-North Sea revenue in Scotland is estimated to have grown by 13.4% between 2011-12 and 2015-16 in nominal terms, less than for the UK as a whole (15.1%). This difference primarily reflects the fact that capital gains tax, stamp duties, and inheritance tax have 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.

Table 1.3 shows estimates of revenue per person for Scotland and the UK between 2011-12 and 2015-16. Excluding North Sea revenue, revenue per person in Scotland has been lower than in the UK by approximately £400 per year. Including an illustrative geographical share of North Sea revenue, revenue per person in Scotland is lower than the UK average in 2015-16 by £400. Prior to 2014-15, Scottish revenue per person including North Sea revenue has been higher than in the UK as a whole, with the difference being quite variable.

## 1 Public Sector Revenue

The inclusion of English Housing Associations in the UK figures broadly increases revenue per person for the UK by £100 a year.

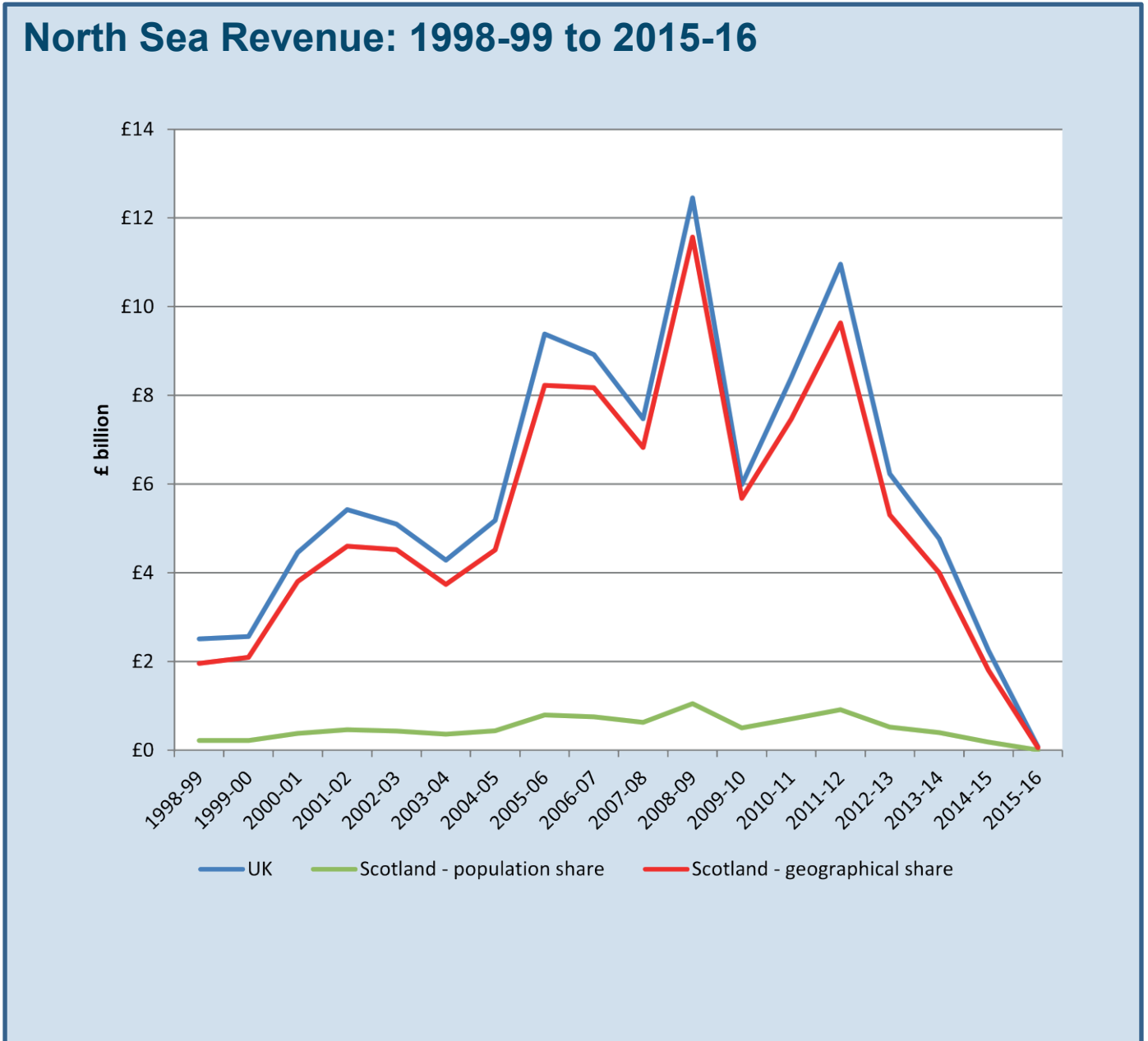
| <b>Table 1.3: Current Revenue Per Person: Scotland and UK 2011-12 to 2015-16</b> |                     |                |                |                |                |
|--|---------------------|----------------|----------------|----------------|----------------|
|  | <b>£ per person</b> |                |                |                |                |
|  | <b>2011-12</b>      | <b>2012-13</b> | <b>2013-14</b> | <b>2014-15</b> | <b>2015-16</b> |
| <b>Scotland</b>  |                     |                |                |                |                |
| Excluding North Sea revenue  | 8,900               | 9,100          | 9,400          | 9,700          | 10,000         |
| Including North Sea revenue (population share)                                   | 9,100               | 9,200          | 9,500          | 9,700          | 10,000         |
| Including North Sea revenue (geographical share)                                 | 10,700              | 10,100         | 10,100         | 10,000         | 10,000         |
| <b>UK</b>  |                     |                |                |                |                |
| Excluding North Sea revenue  | 9,300               | 9,400          | 9,800          | 10,100         | 10,400         |
| Including North Sea revenue  | 9,500               | 9,500          | 9,800          | 10,100         | 10,400         |
| <b>Difference (Scotland minus UK)</b>  |                     |                |                |                |                |
| Excluding North Sea revenue  | -400                | -400           | -400           | -400           | -400           |
| Including North Sea revenue (population share)                                   | -400                | -400           | -400           | -400           | -400           |
| Including North Sea revenue (geographical share)                                 | 1,300               | 500            | 300            | -100           | -400           |

<sup>1</sup> Figures rounded to nearest £100

Table 1.4: Current Revenue: Scotland and UK 2011-12 to 2015-16

|  | £ million     |               |               |               |               |                |                |                |                |                |
|--|---------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|
|  | Scotland      |               |               |               |               | UK             |                |                |                |                |
|  | 2011-12       | 2012-13       | 2013-14       | 2014-15       | 2015-16       | 2011-12        | 2012-13        | 2013-14        | 2014-15        | 2015-16        |
| Income tax   | 11,127        | 11,022        | 11,277        | 11,735        | 12,151        | 151,262        | 150,713        | 156,009        | 162,342        | 168,094        |
| Corporation tax (excluding North Sea)                    | 2,430         | 2,557         | 2,571         | 2,920         | 3,130         | 33,287         | 35,040         | 35,716         | 39,987         | 42,888         |
| Capital gains tax  | 277           | 321           | 240           | 293           | 375           | 4,336          | 3,926          | 3,907          | 5,559          | 7,107          |
| Other taxes on income and wealth                         | 238           | 253           | 329           | 215           | 234           | 2,901          | 3,121          | 4,119          | 2,654          | 2,791          |
| National insurance contributions                         | 8,271         | 8,588         | 8,826         | 9,067         | 9,323         | 101,597        | 104,483        | 107,306        | 110,260        | 113,440        |
| VAT  | 9,516         | 9,750         | 10,364        | 10,733        | 11,228        | 112,057        | 114,428        | 120,167        | 124,846        | 130,414        |
| Fuel duties  | 2,275         | 2,257         | 2,289         | 2,314         | 2,354         | 26,798         | 26,571         | 26,881         | 27,155         | 27,621         |
| Stamp duties   | 511           | 464           | 662           | 735           | 716           | 8,919          | 9,140          | 12,481         | 13,779         | 14,662         |
| Tobacco duties   | 1,208         | 1,278         | 1,242         | 1,211         | 1,189         | 9,878          | 9,590          | 9,556          | 9,251          | 9,106          |
| Alcohol duties   | 969           | 946           | 972           | 961           | 996           | 10,180         | 10,139         | 10,308         | 10,449         | 10,702         |
| Betting and gaming duties                                | 122           | 122           | 173           | 185           | 225           | 1,221          | 1,228          | 1,645          | 1,776          | 2,153          |
| Air passenger duty                                       | 228           | 244           | 270           | 290           | 275           | 2,637          | 2,818          | 3,003          | 3,205          | 3,040          |
| Insurance premium tax                                    | 204           | 202           | 211           | 206           | 258           | 3,002          | 3,033          | 3,018          | 2,973          | 3,714          |
| Landfill tax   | 131           | 139           | 150           | 147           | 147           | 1,075          | 1,116          | 1,179          | 1,125          | 1,044          |
| Climate change levy                                      | 63            | 61            | 117           | 161           | 186           | 678            | 663            | 1,200          | 1,626          | 1,875          |
| Aggregates levy  | 48            | 43            | 44            | 55            | 53            | 283            | 261            | 294            | 357            | 348            |
| Inheritance tax  | 170           | 175           | 210           | 229           | 278           | 2,955          | 3,150          | 3,541          | 3,879          | 4,720          |
| Vehicle excise duty                                      | 477           | 481           | 488           | 458           | 456           | 5,930          | 6,003          | 6,121          | 5,910          | 5,922          |
| Non-domestic rates                                       | 1,954         | 1,930         | 1,932         | 1,914         | 1,916         | 23,950         | 25,047         | 25,885         | 26,267         | 26,798         |
| Council tax  | 1,919         | 1,940         | 1,963         | 2,011         | 2,122         | 25,925         | 26,306         | 27,528         | 28,304         | 29,122         |
| Other taxes, royalties and adjustments                   | 1,038         | 1,143         | 1,290         | 1,441         | 1,535         | 11,948         | 13,073         | 14,348         | 16,188         | 17,077         |
| Interest and dividends                                   | 478           | 455           | 418           | 374           | 382           | 6,176          | 6,091          | 6,151          | 6,012          | 6,202          |
| Gross operating surplus                                  | 3,528         | 3,489         | 3,695         | 3,696         | 3,802         | 39,839         | 41,555         | 43,137         | 44,139         | 44,761         |
| Of which: English HAs                                    | 0             | 0             | 0             | 0             | 0             | 4,859          | 5,601          | 6,045          | 6,521          | 6,847          |
| Rent and other current transfers                         | 148           | 331           | 323           | 414           | 356           | 1,768          | 3,877          | 3,717          | 4,648          | 4,030          |
| <b>Total current revenue excluding North Sea</b>         | <b>47,328</b> | <b>48,192</b> | <b>50,054</b> | <b>51,765</b> | <b>53,689</b> | <b>588,602</b> | <b>601,372</b> | <b>627,216</b> | <b>652,691</b> | <b>677,631</b> |
| <b>Of which: revenue accounting adjustments</b>          | <b>3,754</b>  | <b>3,844</b>  | <b>3,979</b>  | <b>4,042</b>  | <b>4,295</b>  | <b>41,321</b>  | <b>42,522</b>  | <b>44,112</b>  | <b>45,426</b>  | <b>47,530</b>  |
| Population share of North Sea revenue                    | 917           | 519           | 395           | 186           | 6             | 10,957         | 6,234          | 4,764          | 2,252          | 76             |
| Geographical share of North Sea revenue                  | 9,633         | 5,306         | 3,999         | 1,802         | 60            | 10,957         | 6,234          | 4,764          | 2,252          | 76             |
| <b>Total revenue (incl pop share North Sea revenue)</b>  | <b>48,245</b> | <b>48,712</b> | <b>50,449</b> | <b>51,951</b> | <b>53,695</b> | <b>599,559</b> | <b>607,606</b> | <b>631,980</b> | <b>654,943</b> | <b>677,707</b> |
| <b>Total revenue (incl geog share North Sea revenue)</b> | <b>56,961</b> | <b>53,498</b> | <b>54,053</b> | <b>53,567</b> | <b>53,748</b> | <b>599,559</b> | <b>607,606</b> | <b>631,980</b> | <b>654,943</b> | <b>677,707</b> |

# CHAPTER 2: NORTH SEA REVENUE



# 2

## NORTH SEA REVENUE

In GERS, the term North Sea is used to refer to all offshore oil and gas activity. North Sea revenue in GERS comes from four sources: petroleum revenue tax, corporation tax, licence fees, and the emissions trading scheme.

Table 2.1 shows the revenue raised from each component of North Sea revenue since 2011-12. UK North Sea revenue was £11.0 billion in 2011-12, but has been declining since, due to lower production, rising expenditure, and, since 2014-15, lower oil prices.

North Sea revenue is subject to annual fluctuations and is 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. Most of these factors have been acting to reduce revenue in recent years, with lower oil prices in particular having an impact over the past two years. The average monthly Brent crude oil price fell by nearly 36% over 2015-16. UK Crude oil and natural gas liquid production was however 18% higher in 2015-16 compared to 2014-15, while gas production increased by 9% over the same period. Operating expenditure fell by 15% in 2015, while investment fell by 22% over the same period.

The March 2016 Budget also saw the Supplementary Charge being halved to 10%, while Petroleum Revenue Tax (PRT) was reduced from 35% to 0%, having been reduced from 50% in the March 2015 Budget. As shown in Table 2.1, PRT receipts are now negative. This reflects the fact that, although companies no longer pay PRT, they can still claim refunds on PRT paid in previous years against current trading losses and decommissioning spending. As a result PRT receipts will only be negative in the future under the current tax regime.

Estimates of the share of revenue from the EU emissions trading scheme arising in the North Sea are produced by the Scottish Government based on UK allowance data received from the Scottish Environment Protection Agency.

**Table 2.1: Composition of North Sea Revenue: UK 2011-12 to 2015-16**

|                                   | £ million     |              |              |              |           |
|-----------------------------------|---------------|--------------|--------------|--------------|-----------|
|                                   | 2011-12       | 2012-13      | 2013-14      | 2014-15      | 2015-16   |
| Licence fees                      | 67            | 69           | 71           | 70           | 72        |
| North Sea corporation tax         | 8,840         | 4,412        | 3,556        | 2,073        | 538       |
| Petroleum revenue tax             | 2,032         | 1,737        | 1,118        | 77           | -562      |
| Emissions trading scheme revenues | 18            | 16           | 19           | 32           | 28        |
| <b>Total</b>                      | <b>10,957</b> | <b>6,234</b> | <b>4,764</b> | <b>2,252</b> | <b>76</b> |

### Scotland's Share of North Sea Revenue

In the ONS Regional Accounts, the UK Continental Shelf is included as a separate region of the UK (the extra-regio 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. A zero share



2. A population share
3. An illustrative geographical share

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 2.2 provides an estimate of Scotland's share of North Sea revenue under this approach.

|  | £ million   |             |             |             |             |
|--|-------------|-------------|-------------|-------------|-------------|
|  | 2011-12     | 2012-13     | 2013-14     | 2014-15     | 2015-16     |
| Total North Sea revenue                          | 10,957      | 6,234       | 4,764       | 2,252       | 76          |
| Scotland's population share                      | 917         | 519         | 395         | 186         | 6           |
| <b>Scotland's share of North Sea revenue (%)</b> | <b>8.4%</b> | <b>8.3%</b> | <b>8.3%</b> | <b>8.3%</b> | <b>8.2%</b> |

### An Illustrative Geographical Share

An alternative approach is to apportion a geographical 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. 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.

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.<sup>19</sup> The researchers base the Scottish boundary 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. Production, costs and revenue are allocated on a field by field basis to either the rest of the UK or Scotland using this boundary.

Further detail on the methodology used to estimate Scotland's illustrative geographical share of North Sea receipts is available at:

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

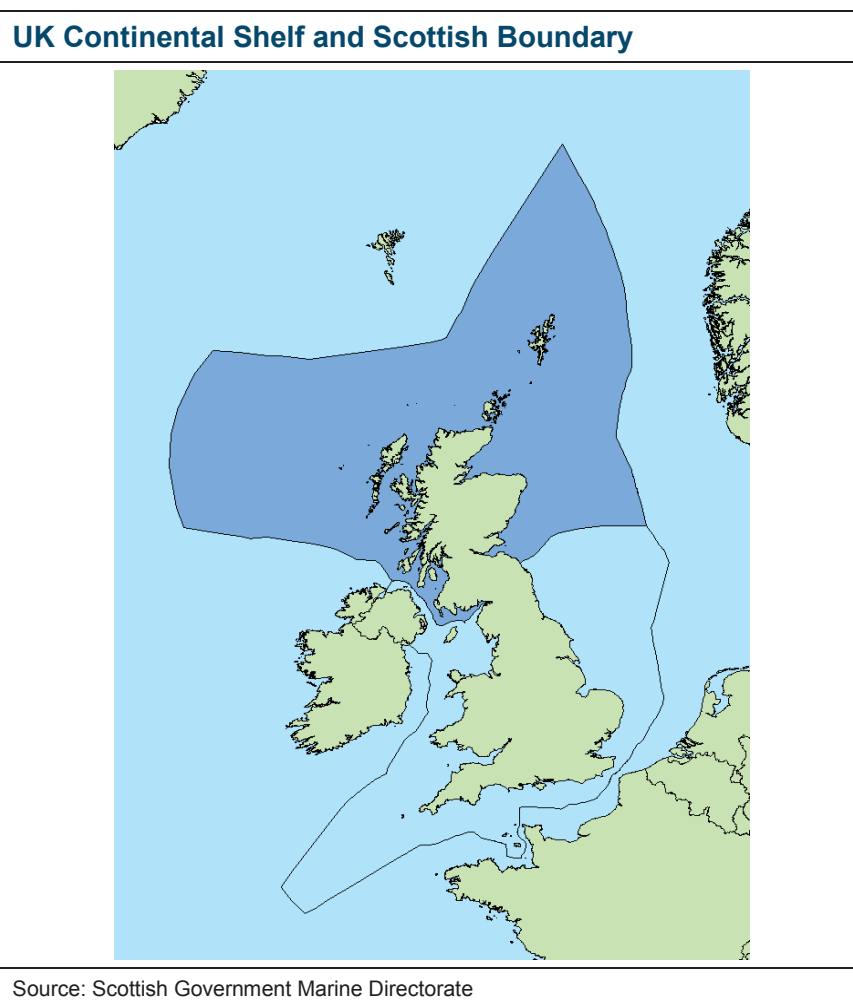
Table 2.3 shows Scotland's illustrative geographical share of UK North Sea revenue. Scotland's share declined into 2014-15, reflecting the fact that an increase in capital expenditure in this year was concentrated within the Scottish share of the North Sea. This higher level of investment reduces the estimated share of Scottish tax liabilities.

<sup>19</sup> [http://aura.abdn.ac.uk/bitstream/2164/2956/1/Kemp\\_70.pdf](http://aura.abdn.ac.uk/bitstream/2164/2956/1/Kemp_70.pdf)

**Table 2.3: Geographical Share of North Sea Revenue: Scotland 2011-12 to 2015-16**

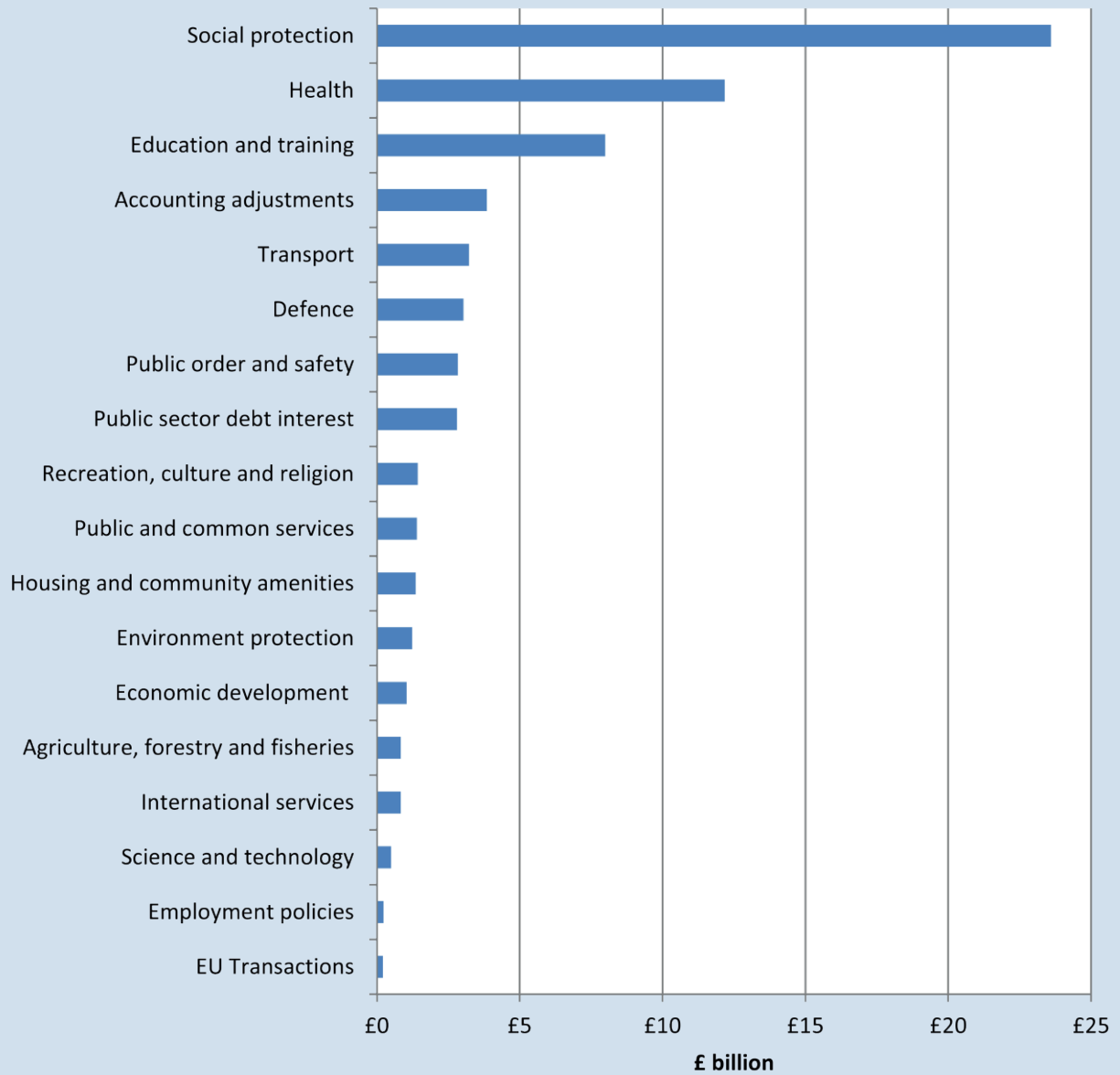
|   | £ million    |              |              |              |              |
|---|--------------|--------------|--------------|--------------|--------------|
|   | 2011-12      | 2012-13      | 2013-14      | 2014-15      | 2015-16      |
| Total North Sea revenue                                 | 10,957       | 6,234        | 4,764        | 2,252        | 76           |
| Scotland's geographical share                           | 9,633        | 5,306        | 3,999        | 1,802        | 60           |
| <b>Scotland's percentage share of North Sea revenue</b> | <b>87.9%</b> | <b>85.1%</b> | <b>84.0%</b> | <b>80.0%</b> | <b>78.5%</b> |

Scotland's estimated geographical share of the North Sea sector, used in this report, is highlighted in the figure below. Demarcation by the median line is highlighted by the dark shaded area.



# CHAPTER 3: PUBLIC SECTOR EXPENDITURE

## Total Public Sector Expenditure: Scotland 2015-16



# 3

## PUBLIC SECTOR EXPENDITURE

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### Introduction

This chapter provides detailed estimates of public sector expenditure for Scotland. Expenditure is shown by type of spend, using a presentation based on the UN's Classification of the Functions of Government (COFOG). Further information is provided in the Glossary in Annex D. Current and capital expenditure are shown separately.

The primary data sources used to estimate Scottish public sector expenditure in GERS are HM Treasury's Public Expenditure Statistical Analyses<sup>20</sup> and the supporting Country and Regional Analysis (CRA).<sup>21</sup>

This edition of GERS sees a change in methodology to allow earlier estimates of expenditure to be produced. Whilst expenditure for years prior to 2014-15 continues to be based on the CRA, the 2015-16 estimate is primarily based on data from the Scottish Government accounts system combined with data from HM Treasury's Public Expenditure Statistical Analyses.<sup>22</sup> Further information on the methodological change is set out in the detailed expenditure methodology paper available at the link below.

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

The presentation of EU Transactions has also changed in this edition of GERS, to align the publication with the presentation used by HM Treasury in Public Expenditure Statistical Analyses. Previously EU Transactions in GERS were included as part of the accounting adjustments line. They are now shown separately.

The EU Transactions line in the tables below shows contributions to the EU, less funding received from the EU by the public sector. Funding received primarily consists of common agricultural policy payments and European regional development funding. The one contribution to the EU which is not included in the EU Transactions line is the traditional own resource contribution. This covers EU customs duties collected by the UK and transferred to the EU. As these are EU duties, neither the revenue nor expenditure is included in the UK Public Sector Finances. However, it is normally included in estimates of the UK's total contribution to the EU budget. This is discussed in Box 3.2.

In order to present expenditure figures on a National Accounts basis, the international reporting standards used by governments, a number of accounting adjustments are included in total expenditure. These are primarily symmetric adjustments that also form part of revenue, and therefore have little impact on the net fiscal balance. Further information is set out in Annex A.

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<sup>20</sup> <https://www.gov.uk/government/collections/public-expenditure-statistical-analyses-pesa>

<sup>21</sup> <https://www.gov.uk/government/statistics/country-and-regional-analysis-2015>

<sup>22</sup> <https://www.gov.uk/government/statistics/public-expenditure-statistical-analyses-2016>

## Recent Statistical Classification Decisions

On 30 October 2015, the ONS announced that private providers of registered social housing in England, which includes many housing associations, have been reclassified from the private sector to the public sector. This increases UK capital expenditure (currently included as an accounting adjustment) and UK public sector debt interest in current expenditure. None of this expenditure is apportioned to Scotland in GERS. As a result, Scotland's share of total UK public sector debt interest is lower than a population share in this edition of GERS, as Scotland is apportioned only a population share of UK public sector debt interest excluding English Housing Associations.

The ONS decision only affects bodies in England, and the UK Government has stated its intention to change legislation in this area to return them to the private sector.<sup>23</sup> The ONS is currently reviewing the classification of similar bodies in the devolved administrations, with a decision expected later this year. The tables in Chapter 1 show the broad impact on UK revenues as a result of this decision.

As discussed in GERS 2014-15 the ONS reclassified the Special Purpose Vehicle set up to deliver the Aberdeen Western Periphery Route into the public sector. This expenditure has not yet been incorporated into the ONS Public Sector Finances, and as such is not included in either the Scottish or UK expenditure totals in GERS. The treatment of this expenditure is discussed in the Expenditure Accounting Adjustments section in Annex A.

In December 2013, the ONS announced that Network Rail had been reclassified into the public sector. In previous editions of GERS, Network Rail expenditure had been included in the accounting adjustments line. In this edition of GERS, it is included in the accounting adjustments for years 2014-15 and earlier, but included in transport spending in 2015-16. This causes an increase in Other UK Government transport spending in 2015-16, as shown in Table 3.8, with a corresponding reduction in Other UK Government accounting adjustments.

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<sup>23</sup> <https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Lords/2015-11-02/HLWS274/>

## Public Sector Expenditure

Total public sector expenditure for Scotland in 2015-16 is estimated to be £68.6 billion. This is shown by spending category in Table 3.1. This was equivalent to 9.1% of total UK public sector expenditure, shown in Table 3.2.

|                                     | Scotland      |                        |
|-------------------------------------|---------------|------------------------|
|                                     | £ million     | % of total expenditure |
| General public services             |               |                        |
| Public and common services          | 1,395         | 2.0%                   |
| International services              | 839           | 1.2%                   |
| Public sector debt interest         | 2,802         | 4.1%                   |
| Defence                             | 3,030         | 4.4%                   |
| Public order and safety             | 2,834         | 4.1%                   |
| Economic affairs                    |               |                        |
| Enterprise and economic development | 1,042         | 1.5%                   |
| Science and technology              | 499           | 0.7%                   |
| Employment policies                 | 228           | 0.3%                   |
| Agriculture, forestry and fisheries | 839           | 1.2%                   |
| Transport                           | 3,226         | 4.7%                   |
| Environment protection              | 1,233         | 1.8%                   |
| Housing and community amenities     | 1,363         | 2.0%                   |
| Health                              | 12,176        | 17.8%                  |
| Recreation, culture and religion    | 1,430         | 2.1%                   |
| Education and training              | 7,990         | 11.7%                  |
| Social protection                   | 23,591        | 34.4%                  |
| EU transactions                     | 211           | 0.3%                   |
| Accounting adjustments              | 3,854         | 5.6%                   |
| <b>Total Expenditure</b>            | <b>68,581</b> | <b>100%</b>            |

Total public sector expenditure for Scotland is estimated to have increased to £68.6 billion in 2015-16, an increase of 1.0% compared to 2014-15. UK public expenditure grew at a similar rate, 0.9%.

|                             | £ million     |               |               |               |               |                |                |                |                |                |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|
|                             | Scotland      |               |               |               |               | UK             |                |                |                |                |
|                             | 2011-12       | 2012-13       | 2013-14       | 2014-15       | 2015-16       | 2011-12        | 2012-13        | 2013-14        | 2014-15        | 2015-16        |
| Current                     | 58,734        | 59,560        | 60,213        | 60,961        | 61,958        | 645,965        | 656,120        | 666,426        | 673,287        | 679,528        |
| Capital                     | 7,024         | 7,935         | 6,822         | 6,917         | 6,623         | 69,140         | 74,702         | 69,487         | 73,324         | 73,499         |
| <b>Total</b>                | <b>65,758</b> | <b>67,495</b> | <b>67,035</b> | <b>67,879</b> | <b>68,581</b> | <b>715,105</b> | <b>730,822</b> | <b>735,913</b> | <b>746,611</b> | <b>753,027</b> |
| <i>Of which English HAs</i> | 0             | 0             | 0             | 0             | 0             | 9,412          | 8,705          | 9,654          | 10,245         | 10,800         |

Table 3.3 shows the split of total expenditure between current and capital for Scotland. The capital spending share is quite variable between 2011-12 and 2015-16. This reflects a number of factors, such as the transfer of the Royal Mail Pension Plan into the public sector in 2011-12.

### 3 Public Sector Expenditure

**Table 3.3: Current and Capital Expenditure (% of Total Expenditure): Scotland**

|         | per cent |         |         |         |         |
|---------|----------|---------|---------|---------|---------|
|         | 2011-12  | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
| Current | 89.3%    | 88.2%   | 89.8%   | 89.8%   | 90.3%   |
| Capital | 10.7%    | 11.8%   | 10.2%   | 10.2%   | 9.7%    |

Table 3.4 below shows estimates of Scottish and UK public sector expenditure as a share of GDP. This provides an illustration of the relative size of public spending between countries and over time. It is not an estimate of the contribution of public spending to the economy as much of this spending consists of transfers from government to individuals and businesses. Excluding North Sea GDP, public spending in Scotland has been declining, as a share of GDP, since 2011-12. This follows the same trend for the UK as a whole. Including a geographical share of North Sea GDP, public spending as a share of GDP has increased over the five years since 2011-12, reflecting the fall in North Sea GDP over this period.

**Table 3.4: Total Managed Expenditure as a Share of GDP**

|   | per cent of GDP |         |         |         |         |
|---|-----------------|---------|---------|---------|---------|
|   | 2011-12         | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
| <b>Scottish TME as a Share of GDP:</b>        |                 |         |         |         |         |
| Excluding North Sea GDP                       | 50.6%           | 50.5%   | 47.9%   | 46.9%   | 46.6%   |
| Including population share of North Sea GDP   | 49.7%           | 49.8%   | 47.2%   | 46.4%   | 46.3%   |
| Including geographical share of North Sea GDP | 42.9%           | 44.3%   | 42.3%   | 43.1%   | 43.7%   |
| <b>UK TME as a share of GDP:</b>              |                 |         |         |         |         |
| 100% of North Sea GDP                         | 43.8%           | 43.2%   | 41.8%   | 40.7%   | 40.1%   |

Table 3.5 shows estimated total public sector expenditure for Scotland and the UK per person. Since 2011-12, spending per head in Scotland has been between 9.7% and 10.8% higher than the UK average. Around one percentage point of this difference is due to water and sewerage services being provided by the public sector in Scotland, and therefore included in Scottish expenditure, whilst in England and Wales they are operated by the private sector and therefore excluded from UK expenditure. Tables 3.6 and 3.7 show current, capital, and total expenditure for Scotland and the UK respectively.

**Table 3.5: Total Expenditure Per Person**

|   | £ per person |              |              |              |              |
|---|--------------|--------------|--------------|--------------|--------------|
|   | 2011-12      | 2012-13      | 2013-14      | 2014-15      | 2015-16      |
| Scotland  | 12,400       | 12,700       | 12,600       | 12,700       | 12,800       |
| UK  | 11,300       | 11,500       | 11,500       | 11,500       | 11,500       |
| <i>Difference (Scotland minus UK)</i>               | <i>1,100</i> | <i>1,200</i> | <i>1,100</i> | <i>1,100</i> | <i>1,200</i> |
| <i>Relative Expenditure for Scotland (UK = 100)</i> | <i>109.9</i> | <i>110.8</i> | <i>109.7</i> | <i>109.9</i> | <i>110.5</i> |

Note: Figures rounded to the nearest £100

**Box 3.1 Social protection spending in Scotland**

Social protection spending is the largest single spending line in GERS, and covers a range of different spend types.

The largest spending element within social protection is expenditure on the state pension by the Department for Work and Pensions (DWP). This is followed by DWP's spending on other social security such as disability and incapacity related benefits, income support, jobseekers allowance, and housing benefit. Tax credits and child benefit are part of HMRC spending, which also includes universal credit. Scottish Government social security spend includes the Scottish Welfare Fund, Council Tax Reduction Scheme, and Scottish Government expenditure on Discretionary Housing Payments, all of which are administered by Local Authorities.

Some UK social security expenditure, mostly associated with the state pension, is paid to non-UK residents. Scotland is allocated a population share of this expenditure in GERS.

**Social protection spending for Scotland (£ million)**

|  | 2011-12       | 2012-13       | 2013-14       | 2014-15       | 2015-16       |
|--|---------------|---------------|---------------|---------------|---------------|
| <b>Social security spending in Scotland</b>              |               |               |               |               |               |
| State pension  | 6,328         | 6,791         | 7,051         | 7,324         | 7,552         |
| Housing benefit  | 1,728         | 1,789         | 1,770         | 1,776         | 1,772         |
| Other DWP social security                                | 5,749         | 5,795         | 5,621         | 5,659         | 5,734         |
| HMRC child benefit and tax credits                       | 3,173         | 3,134         | 3,019         | 2,957         | 2,917         |
| Scottish Government social security                      | 418           | 408           | 409           | 412           | 401           |
| <b>Social security spending in Scotland</b>              | <b>17,396</b> | <b>17,917</b> | <b>17,461</b> | <b>17,716</b> | <b>17,975</b> |
| Share of benefit spending outside UK and corporate spend | 479           | 518           | 458           | 545           | 665           |
| <b>Other social protection</b>                           |               |               |               |               |               |
| Public sector pensions                                   | 732           | 866           | 881           | 961           | 961           |
| Social care for the elderly                              | 2,096         | 2,249         | 2,263         | 2,230         | 2,304         |
| Other  | 954           | 916           | 1,265         | 1,451         | 1,686         |
| <b>Total social protection</b>                           | <b>21,657</b> | <b>22,465</b> | <b>22,328</b> | <b>22,903</b> | <b>23,591</b> |

Other social protection spending consists primarily of Local Authority expenditure on social care to families and children.

A more detailed breakdown of social security spending is published by DWP, available at the link below.

<https://www.gov.uk/government/collections/benefit-expenditure-tables>

**Spending by different parts of the Public Sector**

Table 3.8 below provides a breakdown of Scottish expenditure by the Scottish Government, Local Authorities and Public Corporations and Other UK Government departments.



### 3 Public Sector Expenditure

**Table 3.6: Total Expenditure: Scotland 2011-12 to 2015-16**

|                                     | £ million     |               |               |               |               |              |              |              |              |              |               |               |               |               |               |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|
|                                     | Current       |               |               |               |               |              | Capital      |              |              |              |               |               | Total         |               |               |
|                                     | 2011-12       | 2012-13       | 2013-14       | 2014-15       | 2015-16       | 2011-12      | 2012-13      | 2013-14      | 2014-15      | 2015-16      | 2011-12       | 2012-13       | 2013-14       | 2014-15       | 2015-16       |
| General public services             |               |               |               |               |               |              |              |              |              |              |               |               |               |               |               |
| Public and common services          | 1,288         | 1,149         | 1,268         | 1,275         | 1,204         | 181          | 145          | 201          | 199          | 191          | 1,470         | 1,294         | 1,469         | 1,474         | 1,395         |
| International services              | 597           | 598           | 761           | 692           | 675           | 50           | 46           | 52           | 177          | 164          | 647           | 644           | 813           | 869           | 839           |
| Public sector debt interest         | 3,520         | 3,146         | 3,071         | 2,760         | 2,802         | 0            | 0            | 0            | 0            | 0            | 3,520         | 3,146         | 3,071         | 2,760         | 2,802         |
| Defence                             | 2,412         | 2,260         | 2,286         | 2,270         | 2,295         | 821          | 766          | 734          | 765          | 735          | 3,233         | 3,026         | 3,020         | 3,035         | 3,030         |
| Public order and safety             | 2,666         | 2,652         | 2,413         | 2,679         | 2,740         | 216          | 204          | 139          | 123          | 93           | 2,883         | 2,857         | 2,552         | 2,802         | 2,834         |
| Economic affairs                    |               |               |               |               |               |              |              |              |              |              |               |               |               |               |               |
| Enterprise and economic development | 592           | 696           | 803           | 736           | 790           | 250          | 244          | 196          | 182          | 253          | 842           | 941           | 999           | 919           | 1,042         |
| Science and technology              | 31            | 20            | 24            | 45            | 113           | 342          | 308          | 370          | 389          | 386          | 373           | 329           | 394           | 434           | 499           |
| Employment policies                 | 281           | 244           | 320           | 296           | 226           | 8            | 7            | 7            | 3            | 2            | 289           | 251           | 327           | 299           | 228           |
| Agriculture, forestry and fisheries | 826           | 770           | 795           | 740           | 694           | 146          | 152          | 168          | 196          | 145          | 972           | 922           | 962           | 936           | 839           |
| Transport                           | 1,456         | 1,544         | 1,565         | 1,335         | 1,442         | 1,266        | 1,429        | 1,355        | 1,470        | 1,784        | 2,721         | 2,973         | 2,920         | 2,805         | 3,226         |
| Environment protection              | 922           | 888           | 909           | 941           | 945           | 234          | 299          | 363          | 299          | 288          | 1,156         | 1,187         | 1,271         | 1,241         | 1,233         |
| Housing and community amenities     | 218           | 75            | 123           | 125           | 211           | 1,506        | 1,541        | 1,527        | 1,575        | 1,151        | 1,724         | 1,616         | 1,649         | 1,700         | 1,363         |
| Health                              | 10,469        | 10,657        | 10,866        | 11,145        | 11,658        | 644          | 682          | 635          | 487          | 518          | 11,113        | 11,339        | 11,501        | 11,633        | 12,176        |
| Recreation, culture and religion    | 1,177         | 1,290         | 1,203         | 1,430         | 1,166         | 339          | 332          | 243          | 194          | 264          | 1,516         | 1,622         | 1,446         | 1,624         | 1,430         |
| Education and training              | 6,854         | 6,867         | 6,920         | 6,981         | 7,246         | 688          | 655          | 636          | 634          | 744          | 7,542         | 7,522         | 7,555         | 7,615         | 7,990         |
| Social protection                   | 21,592        | 22,379        | 22,310        | 22,868        | 23,527        | 65           | 87           | 18           | 35           | 64           | 21,657        | 22,466        | 22,328        | 22,903        | 23,591        |
| EU Transactions                     | -83           | 158           | 120           | 250           | 211           | 0            | 0            | 0            | 0            | 0            | -83           | 158           | 120           | 250           | 211           |
| Accounting adjustments              | 3,914         | 4,166         | 4,457         | 4,392         | 4,013         | 270          | 1,037        | 179          | 189          | -159         | 4,184         | 5,202         | 4,636         | 4,582         | 3,854         |
| <b>Total</b>                        | <b>58,734</b> | <b>59,560</b> | <b>60,213</b> | <b>60,961</b> | <b>61,958</b> | <b>7,024</b> | <b>7,935</b> | <b>6,822</b> | <b>6,917</b> | <b>6,623</b> | <b>65,758</b> | <b>67,495</b> | <b>67,035</b> | <b>67,879</b> | <b>68,581</b> |

Table 3.7: Total Expenditure: UK 2011-12 to 2015-16

|                                     | £ million      |                |                |                |                |               |               |               |               |               |                |                |                |                |                |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|
|                                     | Current        |                |                |                |                |               | Capital       |               |               |               |                |                | Total          |                |                |
|                                     | 2011-12        | 2012-13        | 2013-14        | 2014-15        | 2015-16        | 2011-12       | 2012-13       | 2013-14       | 2014-15       | 2015-16       | 2011-12        | 2012-13        | 2013-14        | 2014-15        | 2015-16        |
| General public services             |                |                |                |                |                |               |               |               |               |               |                |                |                |                |                |
| Public and common services          | 10,091         | 9,722          | 9,502          | 9,891          | 10,336         | 1,415         | 1,586         | 1,825         | 1,775         | 1,510         | 11,506         | 11,308         | 11,327         | 11,666         | 11,846         |
| International services              | 7,138          | 7,177          | 9,170          | 8,357          | 8,157          | 593           | 546           | 621           | 2,133         | 1,978         | 7,731          | 7,723          | 9,791          | 10,490         | 10,135         |
| Public sector debt interest         | 44,476         | 40,354         | 39,703         | 36,473         | 36,724         | 0             | 0             | 0             | 0             | 0             | 44,476         | 40,354         | 39,703         | 36,473         | 36,724         |
| Defence                             | 28,854         | 27,142         | 27,564         | 27,443         | 27,772         | 9,801         | 9,198         | 8,838         | 9,240         | 8,876         | 38,655         | 36,340         | 36,402         | 36,683         | 36,648         |
| Public order and safety             | 30,486         | 29,861         | 28,296         | 28,370         | 28,818         | 1,585         | 1,410         | 1,258         | 1,251         | 1,367         | 32,071         | 31,271         | 29,554         | 29,621         | 30,185         |
| Economic affairs                    |                |                |                |                |                |               |               |               |               |               |                |                |                |                |                |
| Enterprise and economic development | 3,395          | 4,079          | 4,517          | 4,215          | 4,606          | 1,376         | 942           | 1,178         | 862           | 723           | 4,771          | 5,021          | 5,695          | 5,077          | 5,329          |
| Science and technology              | 370            | 272            | 363            | 496            | 836            | 3,253         | 3,061         | 3,838         | 3,983         | 3,951         | 3,623          | 3,333          | 4,201          | 4,479          | 4,787          |
| Employment policies                 | 3,143          | 2,786          | 3,573          | 3,115          | 2,393          | 84            | 79            | 77            | 32            | 21            | 3,227          | 2,865          | 3,650          | 3,147          | 2,414          |
| Agriculture, forestry and fisheries | 5,507          | 4,970          | 4,962          | 4,690          | 4,121          | 270           | 307           | 409           | 516           | 421           | 5,777          | 5,277          | 5,371          | 5,206          | 4,542          |
| Transport                           | 8,197          | 7,675          | 7,666          | 6,616          | 10,825         | 11,216        | 10,864        | 11,414        | 13,683        | 17,236        | 19,413         | 18,539         | 19,080         | 20,299         | 28,061         |
| Environment protection              | 7,743          | 7,376          | 7,608          | 7,813          | 8,037          | 2,757         | 3,288         | 3,575         | 3,753         | 3,572         | 10,500         | 10,664         | 11,183         | 11,566         | 11,609         |
| Housing and community amenities     | 2,725          | 3,088          | 2,987          | 2,855          | 2,992          | 7,428         | 6,869         | 6,820         | 7,340         | 7,019         | 10,153         | 9,957          | 9,807          | 10,195         | 10,011         |
| Health                              | 115,347        | 117,944        | 121,968        | 127,651        | 133,018        | 5,907         | 6,358         | 7,421         | 6,402         | 5,685         | 121,254        | 124,302        | 129,389        | 134,053        | 138,703        |
| Recreation, culture and religion    | 9,634          | 10,666         | 9,573          | 10,425         | 9,379          | 2,854         | 2,044         | 1,837         | 2,022         | 2,048         | 12,488         | 12,710         | 11,410         | 12,447         | 11,427         |
| Education and training              | 77,120         | 76,007         | 76,508         | 76,299         | 75,908         | 9,359         | 8,219         | 8,838         | 9,450         | 8,117         | 86,479         | 84,226         | 85,346         | 85,749         | 84,025         |
| Social protection                   | 244,248        | 252,988        | 254,373        | 261,015        | 263,819        | 596           | 450           | -402          | -107          | 332           | 244,844        | 253,438        | 253,971        | 260,908        | 264,151        |
| EU transactions                     | 4,311          | 6,705          | 7,210          | 6,225          | 7,671          | 0             | 0             | 0             | 0             | 0             | 4,311          | 6,705          | 7,210          | 6,225          | 7,671          |
| Accounting adjustments              | 43,180         | 47,308         | 50,883         | 51,338         | 44,116         | 10,646        | 19,481        | 11,940        | 10,989        | 10,643        | 53,826         | 66,789         | 62,823         | 62,327         | 54,759         |
| <b>Total</b>                        | <b>645,965</b> | <b>656,120</b> | <b>666,426</b> | <b>673,287</b> | <b>679,528</b> | <b>69,140</b> | <b>74,702</b> | <b>69,487</b> | <b>73,324</b> | <b>73,499</b> | <b>715,105</b> | <b>730,822</b> | <b>735,913</b> | <b>746,611</b> | <b>753,027</b> |

### 3 Public Sector Expenditure

**Table 3.8: Total Expenditure: Scottish Government, Local Authorities, Public Corporations, and Other UK Government: Scotland 2011-12 to 2015-16**

|                                     |  | £ million  |               |               |               |               |                     |               |               |               |               |               |               |               |               |               |
|-------------------------------------|--|--|---------------|---------------|---------------|---------------|---------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                     |  | Scottish Government, LAs and Public Corporations |               |               |               |               | Other UK Government |               |               |               |               | Total         |               |               |               |               |
|                                     |  | 2011-12  | 2012-13       | 2013-14       | 2014-15       | 2015-16       | 2011-12             | 2012-13       | 2013-14       | 2014-15       | 2015-16       | 2011-12       | 2012-13       | 2013-14       | 2014-15       | 2015-16       |
| General public services             |  |  |               |               |               |               |                     |               |               |               |               |               |               |               |               |               |
| Public and common services          |  | 989  | 855           | 1,016         | 1,009         | 964           | 481                 | 439           | 453           | 465           | 431           | 1,470         | 1,294         | 1,469         | 1,474         | 1,395         |
| International services              |  | 0  | 0             | 0             | 0             | 0             | 647                 | 644           | 813           | 869           | 839           | 647           | 644           | 813           | 869           | 839           |
| Public sector debt interest         |  | 0  | 0             | 0             | 0             | 0             | 3,520               | 3,146         | 3,071         | 2,760         | 2,802         | 3,520         | 3,146         | 3,071         | 2,760         | 2,802         |
| Defence                             |  | 3  | 3             | 3             | 3             | 0             | 3,230               | 3,023         | 3,016         | 3,032         | 3,030         | 3,233         | 3,026         | 3,020         | 3,035         | 3,030         |
| Public order and safety             |  | 2,601  | 2,597         | 2,307         | 2,567         | 2,605         | 282                 | 260           | 245           | 235           | 229           | 2,883         | 2,857         | 2,552         | 2,802         | 2,834         |
| Economic affairs                    |  |  |               |               |               |               |                     |               |               |               |               |               |               |               |               |               |
| Enterprise and econ development     |  | 773  | 743           | 782           | 743           | 773           | 69                  | 197           | 217           | 175           | 270           | 842           | 941           | 999           | 919           | 1,042         |
| Science and technology              |  | 5  | 5             | 5             | 5             | 5             | 368                 | 324           | 390           | 430           | 494           | 373           | 329           | 394           | 434           | 499           |
| Employment policies                 |  | 0  | 0             | 0             | 0             | 0             | 289                 | 251           | 327           | 299           | 228           | 289           | 251           | 327           | 299           | 228           |
| Agriculture, forestry and fisheries |  | 961  | 912           | 948           | 918           | 824           | 11                  | 11            | 15            | 18            | 15            | 972           | 922           | 962           | 936           | 839           |
| Transport                           |  | 2,573  | 2,804         | 2,750         | 2,623         | 2,799         | 148                 | 169           | 170           | 181           | 427           | 2,721         | 2,973         | 2,920         | 2,805         | 3,226         |
| Environment protection              |  | 935  | 944           | 1,013         | 950           | 958           | 221                 | 242           | 259           | 291           | 275           | 1,156         | 1,187         | 1,271         | 1,241         | 1,233         |
| Housing and community amenities     |  | 1,724  | 1,616         | 1,649         | 1,700         | 1,363         | 0                   | 0             | 0             | 0             | 0             | 1,724         | 1,616         | 1,649         | 1,700         | 1,363         |
| Health                              |  | 10,916   | 11,184        | 11,354        | 11,483        | 12,002        | 197                 | 155           | 147           | 149           | 173           | 11,113        | 11,339        | 11,501        | 11,633        | 12,176        |
| Recreation, culture and religion    |  | 1,088  | 1,119         | 1,066         | 1,142         | 1,004         | 428                 | 504           | 380           | 482           | 426           | 1,516         | 1,622         | 1,446         | 1,624         | 1,430         |
| Education and training              |  | 7,519  | 7,503         | 7,541         | 7,587         | 7,971         | 23                  | 19            | 14            | 28            | 19            | 7,542         | 7,522         | 7,555         | 7,615         | 7,990         |
| Social protection                   |  | 5,300  | 5,513         | 5,481         | 5,659         | 5,805         | 16,356              | 16,953        | 16,848        | 17,244        | 17,785        | 21,657        | 22,466        | 22,328        | 22,903        | 23,591        |
| EU transactions                     |  | 0  | 0             | 0             | 0             | 0             | -83                 | 158           | 120           | 250           | 211           | -83           | 158           | 120           | 250           | 211           |
| Accounting adjustments              |  | 3,660  | 3,680         | 3,743         | 3,647         | 3,465         | 523                 | 1,522         | 893           | 934           | 389           | 4,184         | 5,202         | 4,636         | 4,582         | 3,854         |
| <b>Total</b>                        |  | <b>39,046</b>                                    | <b>39,477</b> | <b>39,658</b> | <b>40,036</b> | <b>40,536</b> | <b>26,712</b>       | <b>28,018</b> | <b>27,377</b> | <b>27,842</b> | <b>28,045</b> | <b>65,758</b> | <b>67,495</b> | <b>67,035</b> | <b>67,879</b> | <b>68,581</b> |

### Box 3.2: Scotland's Notional Contributions to the European Union Budget

As a member of the European Union (EU) the UK contributes to the EU budget and receives funding from the EU via a number of programmes.

As discussed at the beginning of this Chapter, the EU Transactions lines in the tables above are produced on a National Accounts basis, and exclude traditional own resource contributions to the EU. These are normally included when reporting on the UK's net contribution to EU budgets. The tables in this box show net payments to the EU including these contributions.

Although contributions to the EU are made by the public sector, funding from the EU is received by both public and non-public sector bodies. Both the EU Transactions line in the above tables and the figures in this box report only on transactions with the EU by the public sector, in common with the presentation used by HM Treasury. EU payments to Higher Education Institutions, which are not part of the public sector, are discussed further below.

#### Funding the EU Budget

There are three key sources of funding for the EU, which come from each member state:

- Traditional own resource (TOR) - Agriculture duties and customs duties levied on agriculture and non-agriculture products from outside the EU.
- VAT based own resource – Calculated as a percentage of countries' VAT tax base.
- Gross National Income (GNI) based own resource – Calculated as a percentage of countries' GNI. This is the EU's single largest source of revenue.

#### UK Correction (Rebate, or Abatement)

Since 1985, the UK has received a rebate. The UK rebate is broadly equal to 66% of the UK's net contribution (in the previous year). Further detail is available from HM Treasury's European Union Finances 2015 publication.

<https://www.gov.uk/government/statistics/european-union-finances-2015>

#### Scotland's contribution to the EU Budget

Scotland does not contribute directly to the EU budget. In this analysis, Scotland is therefore assigned a share of the UK's contribution based on various apportionment methodologies. Scotland's share of the UK's GNI based contribution is estimated using the ratio of Scottish to UK GDP, both including and excluding the North Sea (the non-North Sea share is used in headline GERS estimates). VAT based own resource is assigned to Scotland using Scotland's share of UK VAT receipts, and a population share is used to assign TOR.

#### Receipts from the EU

Receipts received from the EU are broken down into two categories: public sector receipts and external assistance. Scottish public sector receipts reflect expenditure specifically for Scotland as reported in the Scottish Government's Consolidated Accounts, and include as payments under the Common Agricultural Policy, European Structural Funds, and European Regional Development Funding.

The EU's external assistance budget provides aid to states outside the EU. A share of this

### 3 Public Sector Expenditure

expenditure is attributed to the UK based on its contribution to the EU budget. This is shown in the other attributed costs line in the tables below. A population share of this expenditure is assigned to Scotland.

#### UK's Net Contribution to the EU

Two measures are generally used to illustrate the UK's net contribution to the EU:

- The primary measure is the UK's net contribution to the EU budget – this is calculated as the difference between the UK's gross contribution to the EU budget (less the rebate) and public sector EU receipts.
- A secondary measure is the UK's net payment to EU institutions - this is equal to the UK's net contribution to the EU Budget less its share of the EU's external assistance aid budget.

The table below sets out the latest UK figures, as contained in Table C.1 of Public Expenditure Statistical Analyses, published July 2016.

| <b>UK: Transactions with the institutions of the EU, 2011-12 to 2015-16</b> |                  |                |                |                |                |
|---|------------------|----------------|----------------|----------------|----------------|
|   | <b>£ million</b> |                |                |                |                |
|   | <b>2011-12</b>   | <b>2012-13</b> | <b>2013-14</b> | <b>2014-15</b> | <b>2015-16</b> |
| GNI based contribution  | 11,218           | 12,303         | 13,845         | 14,154         | 12,570         |
| UK abatement  | -3,516           | -3,172         | -4,130         | -4,811         | -4,068         |
| VAT-based contribution to the EU  | 2,276            | 2,398          | 2,163          | 2,316          | 2,751          |
| <b>Expenditure transfers to the EU</b>                                      | <b>9,978</b>     | <b>11,529</b>  | <b>11,879</b>  | <b>11,658</b>  | <b>11,253</b>  |
| Receipts to cover collection costs of TOR                                   | -735             | -720           | -733           | -743           | -771           |
| TOR   | 2,940            | 2,891          | 2,933          | 3,006          | 3,085          |
| <b>Gross contribution to the EU budget</b>                                  | <b>12,184</b>    | <b>13,699</b>  | <b>14,079</b>  | <b>13,921</b>  | <b>13,567</b>  |
| Public sector EU receipts   | -4,771           | -4,022         | -3,856         | -4,690         | -2,811         |
| <b>Net contributions to the EU budget</b>                                   | <b>7,413</b>     | <b>9,678</b>   | <b>10,223</b>  | <b>9,231</b>   | <b>10,756</b>  |
| less other attributed costs   | 163              | 82             | 79             | 0              | 0              |
| <b>Net payments to EU institutions</b>                                      | <b>7,250</b>     | <b>9,595</b>   | <b>10,143</b>  | <b>9,231</b>   | <b>10,756</b>  |

Source: Public Expenditure Statistical Analyses (July 2016), Table C.1  
<https://www.gov.uk/government/statistics/public-expenditure-statistical-analyses-2016>

### Scotland's Net Contribution to the EU

Estimates are provided for Scotland in the table below, showing the GNI contribution assigned using Scotland's share excluding and including the North Sea. As discussed at the beginning of this Chapter, the difference between Scotland's net payments to EU institutions (based on GDP excluding the North Sea) in the table below and the EU Transactions line in Tables 3.6 and 3.8 is Scotland's share of UK TOR.

#### Scotland: Estimated transactions with the institutions of the EU 2011-12 to 2015-16

|   | £ million    |              |              |              |              |
|---|--------------|--------------|--------------|--------------|--------------|
|   | 2011-12      | 2012-13      | 2013-14      | 2014-15      | 2015-16      |
| GNI based contribution (GDP exc North Sea (NS))         | 893          | 972          | 1,102        | 1,116        | 984          |
| GNI based contribution (GDP inc NS)                     | 1,053        | 1,110        | 1,243        | 1,211        | 1,046        |
| UK abatement (Population share)                         | -294         | -264         | -343         | -398         | -335         |
| VAT-based payments to the EU                            | 193          | 204          | 187          | 199          | 237          |
| <b>Expenditure transfers to the EU (GDP exc NS)</b>     | <b>792</b>   | <b>912</b>   | <b>946</b>   | <b>917</b>   | <b>885</b>   |
| <b>Expenditure transfers to the EU (GDP inc NS)</b>     | <b>953</b>   | <b>1,050</b> | <b>1,087</b> | <b>1,012</b> | <b>948</b>   |
| Receipts to cover collection costs of TOR               | -61          | -60          | -61          | -61          | -64          |
| TOR   | 246          | 241          | 244          | 249          | 254          |
| <b>Gross contribution to the EU budget (GDP exc NS)</b> | <b>976</b>   | <b>1,093</b> | <b>1,128</b> | <b>1,104</b> | <b>1,076</b> |
| <b>Gross contribution to the EU budget (GDP inc NS)</b> | <b>1,137</b> | <b>1,230</b> | <b>1,270</b> | <b>1,200</b> | <b>1,138</b> |
| Public sector EU receipts                               | -800         | -687         | -758         | -606         | -610         |
| <b>Net contributions to the EU budget (GDP exc NS)</b>  | <b>176</b>   | <b>406</b>   | <b>370</b>   | <b>498</b>   | <b>465</b>   |
| <b>Net contributions to the EU budget (GDP inc NS)</b>  | <b>337</b>   | <b>543</b>   | <b>512</b>   | <b>594</b>   | <b>528</b>   |
| less other attributed costs                             | 14           | 7            | 7            | 0            | 0            |
| <b>Net payments to EU institutions (GDP exc NS)</b>     | <b>163</b>   | <b>399</b>   | <b>364</b>   | <b>498</b>   | <b>465</b>   |
| <b>Net payments to EU institutions (GDP inc NS)</b>     | <b>323</b>   | <b>537</b>   | <b>505</b>   | <b>594</b>   | <b>528</b>   |

### EU Payments to Higher Education Institutions

This box has covered the transactions that the Scottish and UK public sector has with the EU. However, the EU also makes payments to bodies outside the public sector, such as Higher Education Institutions (HEIs), which are considered private sector not-for-profit institutions. The Higher Education Statistics Agency (HESA) produces statistics on these payments. These payments are not included in the tables shown above as they are not transactions with the public sector and are therefore out of the scope of public sector finances.

Payments to HEIs from the EU include:

### 3 Public Sector Expenditure

- Payments from EU government bodies
- Payments from EU-based charities through an open competitive process
- Payments from EU industry, commerce and public corporations
- Payments from other EU bodies

To illustrate the size of these payments, the table below shows research grants and contracts income from the EU to HEIs for Scotland and the UK for academic years 2010-11 to 2014-15, which is the latest year for which figures are available. This spending is outside the public sector, and therefore has no impact on the figures reported in GERS.

#### EU Payments to Higher Education Institutions, Academic Year 2010-11 to 2014-15

|          | £ million |         |         |         |         |
|----------|-----------|---------|---------|---------|---------|
|          | 2010-11   | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
| Scotland | 64.1      | 74.7    | 81.4    | 88.8    | 94.1    |
| UK       | 513.0     | 599.7   | 690.3   | 789.2   | 836.1   |

Note: The academic year runs from 1 August to 31 July

These figures have been reproduced with the permission of the Higher Education Statistics Agency (HESA). More details on these statistics can be found on the HESA website ([www.hesa.ac.uk](http://www.hesa.ac.uk)).

#### Box 3.3: Private Finance Initiative and Non-Profit Distributing Financing support for Public Private Partnerships (PPPs)

This box gives an introduction to Public Private Partnerships (PPPs) and the funding models that have been used in Scotland. It also breaks down unitary charge payments by scheme type, by type of procuring authority and by the sector of the project.

The recent GERS consultation highlighted user interest in data on PPPs, and the Private Finance Initiative (PFI) funding model. Following this response, the information previously provided in Table A.11 in GERS 2014-15 has been expanded in this box to provide more detail on the unitary charge payments associated with PPPs. This analysis uses sources of publically available data, all brought together into an accompanying spreadsheet for users to examine further if they wish. The spreadsheet is available from the GERS website: <http://www.gov.scot/Topics/Statistics/Browse/Economy/GERS/RelatedAreas>

##### Introduction to PFI, PPPs, and NPD

Public Private Partnerships (PPPs) 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.

The Private Finance Initiative (PFI) used to be the UK's preferred form of PPP. In Scotland, the Non-Profit Distributing (NPD) model has been the Scottish Government's preferred procurement option since 2007. For more information on these schemes, and the data sources used in this box, please see the Scottish Government website:

<http://www.gov.scot/Topics/Government/Finance/18232/12308>

### Unitary Charge Payments

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. It is worth emphasising that these payments are already fully reflected in the GERS spending figures. In addition, the table below includes Ministry of Defence projects in Scotland which are procured by and entirely funded by the Ministry of Defence. Scotland is assigned a population share of this expenditure in GERS. Unitary charge payments cover repayment of capital, interest payments and in some cases service charge payments. Figures are shown here for the years 2011-12 to 2015-16 to be consistent with other tables in this report. The underlying spreadsheets on the GERS website have data covering the period back to 1998-99 as well as estimated payments into the 2040s. Additional information about the individual procuring authority (e.g. individual local authority and health board information) and comparisons with the UK are also provided.

| <b>Unitary charge payments, 2011-12 to 2015-16</b> |                   |                |                |                |                |
|--|-------------------|----------------|----------------|----------------|----------------|
|  | <b>£ millions</b> |                |                |                |                |
|  | <b>2011-12</b>    | <b>2012-13</b> | <b>2013-14</b> | <b>2014-15</b> | <b>2015-16</b> |
| <b>By scheme type</b>                              |                   |                |                |                |                |
| Private Finance Initiative                         | 889               | 924            | 944            | 969            | 1,004          |
| Non-Profit Distributing models <sup>1</sup>        | 39                | 52             | 55             | 59             | 75             |
| <b>Total Unitary Charge payments</b>               | <b>928</b>        | <b>977</b>     | <b>999</b>     | <b>1,028</b>   | <b>1,079</b>   |
| <b>By procuring authority</b>                      |                   |                |                |                |                |
| Further Education                                  | 2                 | 2              | 2              | 2              | 10             |
| Local Government                                   | 459               | 478            | 488            | 496            | 508            |
| NHS  | 200               | 227            | 235            | 242            | 249            |
| Other Scottish Government                          | 105               | 105            | 109            | 118            | 136            |
| Ministry of Defence                                | 22                | 23             | 22             | 24             | 25             |
| Scottish Water                                     | 139               | 142            | 143            | 146            | 151            |
| <b>Total Unitary Charge payments</b>               | <b>928</b>        | <b>977</b>     | <b>999</b>     | <b>1,028</b>   | <b>1,079</b>   |
| <b>By sector of project</b>                        |                   |                |                |                |                |
| Energy   | 4                 | 4              | 4              | 5              | 5              |
| Further Education                                  | 2                 | 2              | 2              | 2              | 10             |
| Health   | 200               | 227            | 235            | 242            | 249            |
| IT   | 1                 | 1              | -              | -              | -              |
| Ministry of Defence                                | 22                | 23             | 22             | 24             | 25             |
| Offices  | 3                 | 3              | 3              | 3              | 3              |
| Police   | 4                 | 4              | 4              | 4              | 4              |
| Prisons  | 47                | 45             | 46             | 49             | 49             |
| Schools  | 419               | 436            | 446            | 453            | 465            |
| Transport  | 71                | 75             | 78             | 84             | 102            |
| Waste  | 154               | 157            | 158            | 162            | 168            |
| <b>Total Unitary Charge payments</b>               | <b>928</b>        | <b>977</b>     | <b>999</b>     | <b>1,028</b>   | <b>1,079</b>   |
| <i>UK Total Unitary Charge Payments</i>            | <b>8,504</b>      | <b>9,257</b>   | <b>9,740</b>   | <b>10,189</b>  | <b>10,545</b>  |
| <i>Scotland as % UK</i>                            | 10.9%             | 10.6%          | 10.3%          | 10.1%          | 10.2%          |

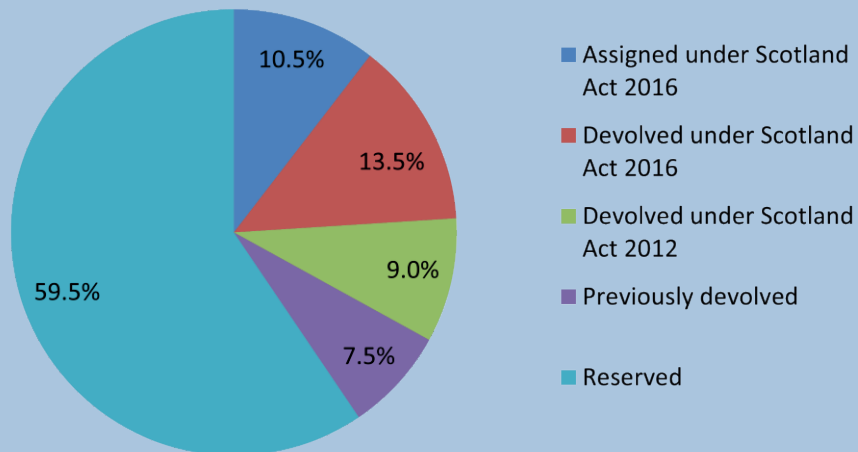
Note: Non-profit distributing models includes projects delivered by the hub model and projects commissioned prior to 2010. Further detail is available at: <http://www.gov.scot/Topics/Government/Finance/18232/12308>

Source: HM Treasury and Scottish Government figures. See the accompanying spreadsheet for full details of all sources

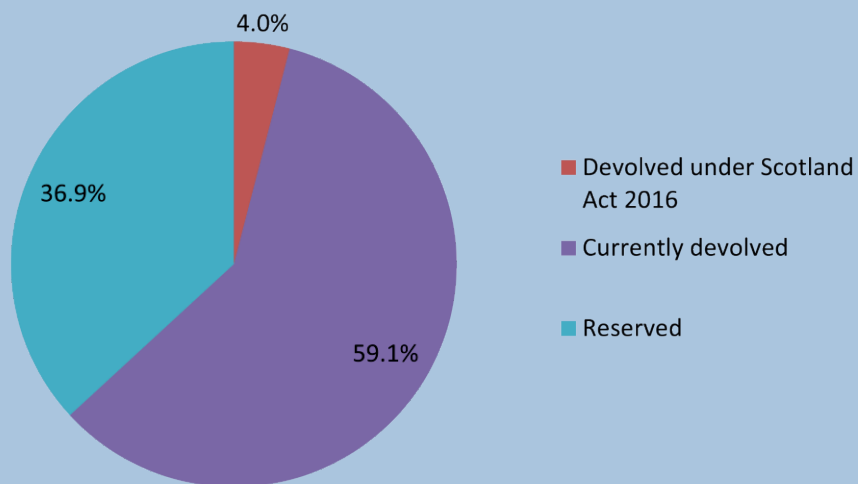


# CHAPTER 4: DEVOLVED REVENUE & EXPENDITURE

## Devolved and Reserved Revenue in Scotland 2015-16



## Devolved and Reserved Expenditure in Scotland 2015-16



# 4

## DEVOLVED REVENUE AND EXPENDITURE

### Introduction

This chapter sets out the amount of public sector revenue and expenditure currently devolved and how this has changed with the implementation of the Scotland Act 2012 and will change with the implementation of the Scotland Act 2016.

### Devolved Revenues

The table below set out revenue raised in Scotland from taxes devolved to the Scottish Parliament prior to implementation of Scotland Act 2012.

|                    | £ million    |              |              |              |              |
|--------------------|--------------|--------------|--------------|--------------|--------------|
|                    | 2011-12      | 2012-13      | 2013-14      | 2014-15      | 2015-16      |
| Council Tax        | 1,919        | 1,940        | 1,963        | 2,011        | 2,122        |
| Non Domestic Rates | 1,954        | 1,930        | 1,932        | 1,914        | 1,916        |
| <b>Total</b>       | <b>3,873</b> | <b>3,870</b> | <b>3,895</b> | <b>3,925</b> | <b>4,038</b> |

The table below shows the estimated historical revenues from the taxes devolved under the Scotland Act 2012.

|  | £ million |         |         |         |         |
|--|-----------|---------|---------|---------|---------|
|  | 2011-12   | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
| Scottish Rate of Income Tax Liabilities (devolved from 2016-17) <sup>1</sup> | 4,267     | 4,273   | 4,288   | 4,449   | 4,277   |
| Land and Buildings Transaction Tax (devolved from 2015-16) <sup>2</sup>      | 275       | 283     | 389     | 478     | 416     |
| Landfill tax (devolved from 2015-16)   | 131       | 139     | 150     | 147     | 147     |

Source: HMRC, OBR

Notes: <sup>1</sup> 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 1.1.

<sup>2</sup> Figures for years prior to 2015-16 are for UK stamp duty on property, which Land and Building Transaction Tax replaced.

The table below shows the estimated historical revenues from the taxes devolved under the Scotland Act 2016, following the recommendations of the Smith Commission.

|   | £ million |         |         |         |         |
|---|-----------|---------|---------|---------|---------|
|   | 2011-12   | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
| Air Passenger Duty (devolved from 2018-19)                                  | 228       | 244     | 270     | 290     | 275     |
| Aggregates Levy (date of devolution to be decided)                          | 48        | 43      | 44      | 55      | 53      |
| Non-savings and non-dividend income tax liabilities (devolved from 2017-18) | 10,584    | 10,489  | 10,881  | 11,004  | 11,214  |

Note: this table shows Scottish non-savings and non-dividends 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 1.1.

The Scotland Act 2016 assigns the Scottish Government receipts from the first 10p of the standard rate of VAT and the first 2.5p of the reduced rate of VAT in Scotland.

## 4 Devolved Revenue and Expenditure

Table 4.4 shows the VAT that would be assigned to Scotland under this approach. 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 4.4 shows the estimated VAT which would be assigned to Scotland on both a gross and net basis. VAT assigned to the Scottish Government would likely be reported on a net basis in budget documents.

| <b>Table 4.4: VAT Assignment: Scotland 2011-12 to 2015-16</b> |                  |                |                |                |                |
|---|------------------|----------------|----------------|----------------|----------------|
|   | <b>£ million</b> |                |                |                |                |
|   | <b>2011-12</b>   | <b>2012-13</b> | <b>2013-14</b> | <b>2014-15</b> | <b>2015-16</b> |
| Gross VAT (from 2019-20)                                      | 4,758            | 4,875          | 5,182          | 5,367          | 5,614          |
| Net VAT (from 2019-20)  | 4,108            | 4,228          | 4,571          | 4,756          | 4,982          |

Note: Assigned VAT receipts are 50% of total receipts in all years.

Further information on the planned devolution of revenue to the Scottish Government is available in the fiscal framework agreement between the Scottish and UK Governments.<sup>24</sup> The net impact on Scottish Government funding will depend in part on how the block grant received by the Scottish Government is adjusted to reflect the devolution of new revenue streams. This adjustment will be based in part on the relative growth in tax per head for each devolved tax in Scotland and the rest of the UK. Table 4.5 below shows tax per head for Scotland and the rest of the UK for each of the relevant taxes.

| <b>Table 4.5: Devolved revenue per head: Scotland and rest of UK</b> |                     |                |                |                |                |                   |                |                |                |                |
|--|---------------------|----------------|----------------|----------------|----------------|-------------------|----------------|----------------|----------------|----------------|
|  | <b>£ per person</b> |                |                |                |                |                   |                |                |                |                |
|  | <b>Scotland</b>     |                |                |                |                | <b>Rest of UK</b> |                |                |                |                |
|  | <b>2011-12</b>      | <b>2012-13</b> | <b>2013-14</b> | <b>2014-15</b> | <b>2015-16</b> | <b>2011-12</b>    | <b>2012-13</b> | <b>2013-14</b> | <b>2014-15</b> | <b>2015-16</b> |
| Income tax   | 1,996               | 1,973          | 2,040          | 2,055          | 2,086          | 2,306             | 2,302          | 2,366          | 2,373          | 2,399          |
| VAT  | 897                 | 917            | 972            | 1,002          | 1,045          | 883               | 895            | 932            | 961            | 996            |
| APD  | 43                  | 46             | 51             | 54             | 51             | 41                | 44             | 46             | 49             | 46             |
| LBTT   | 52                  | 53             | 73             | 89             | 77             | 101               | 113            | 151            | 173            | 178            |
| Landfill tax   | 25                  | 26             | 28             | 27             | 27             | 16                | 17             | 17             | 16             | 15             |
| AL   | 9                   | 8              | 8              | 10             | 10             | 4                 | 4              | 4              | 5              | 5              |

Notes: Income tax refers to non-savings non-dividend income tax liabilities

APD: air passenger duty

LBTT: Land and Buildings Transaction Tax for Scotland, compared to LBTT and stamp duties on property for the UK

AL: aggregates levy

<sup>24</sup> Under the Fiscal Framework Agreement, the block grant adjustment will effectively be determined by the indexed per capita method until March 2022. Under this approach, the block grant adjustment will increase in line with the percentage growth in tax receipts per head in the UK, multiplied by Scottish population growth. The net impact on the Scottish Government budget will therefore depend on the relative growth in tax per head for each devolved tax in Scotland and the rest of the UK. The agreement is available at the link below.

<https://www.gov.uk/government/publications/the-agreement-between-the-scottish-government-and-the-united-kingdom-government-on-the-scottish-governments-fiscal-framework>

## Devolved Social Security

The table below shows the expenditure in Scotland from social security benefits devolved to the Scottish Parliament prior to implementation of Scotland Act 2016.

|   | £ million  |            |            |            |            |
|---|------------|------------|------------|------------|------------|
|   | 2011-12    | 2012-13    | 2013-14    | 2014-15    | 2015-16    |
| Council Tax Reduction <sup>1</sup>          | 384        | 379        | 360        | 344        | 332        |
| Scottish Welfare Fund <sup>2</sup>          | 34         | 29         | 29         | 36         | 33         |
| Discretionary Housing Payments <sup>3</sup> | -          | -          | 20         | 35         | 38         |
| <b>Total</b>                                | <b>418</b> | <b>408</b> | <b>409</b> | <b>415</b> | <b>370</b> |

Notes: <sup>1</sup> Council tax reduction replaced council tax benefit administered by the Department for Work and Pensions in 2013-14

<sup>2</sup> Figures for years prior to 2013-14 are for Community Care Grants and Crisis Loans components of the Social Fund, which the Scottish Welfare Fund Replaced

<sup>3</sup> Discretionary housing payments in this table only includes spending by the Scottish Government and excludes Department for Work and Pensions spending

The table below shows the latest available figures for social security benefits devolved to the Scottish Government under the Scotland Act 2016.

|  | £ million    |              |              |              |              |
|--|--------------|--------------|--------------|--------------|--------------|
|  | 2011-12      | 2012-13      | 2013-14      | 2014-15      | 2015-16      |
| Disability Living Allowance                                | 1,372        | 1,450        | 1,473        | 1,465        | 1,399        |
| Attendance Allowance                                       | 481          | 489          | 481          | 485          | 487          |
| Carer's Allowance  | 153          | 169          | 182          | 203          | 224          |
| Winter Fuel Payment  | 188          | 187          | 186          | 184          | 180          |
| Personal Independence Payment                              | -            | -            | 20           | 164          | 315          |
| Industrial Injuries Disablement Benefit                    | 88           | 89           | 89           | 89           | 91           |
| Severe Disablement Allowance                               | 97           | 97           | 91           | 77           | 49           |
| Discretionary Housing Payments                             | 3            | 4            | 18           | 15           | 13           |
| Cold Weather Payment                                       | 2            | 8            | 1            | 7            | 3            |
| Funeral Payment  | 4            | 4            | 4            | 4            | 4            |
| Sure Start Maternity Grant                                 | 4            | 3            | 3            | 3            | 3            |
| <b>Total expenditure on social security to be devolved</b> | <b>2,392</b> | <b>2,501</b> | <b>2,548</b> | <b>2,695</b> | <b>2,768</b> |

<sup>1</sup> Discretionary Housing Payments above only includes spending by the Department for Work and Pensions, and excludes spending by the Scottish Government

The fiscal framework agreement discussed above also covers the devolution of social security expenditure to the Scottish Government. The Scotland Act 2016 sets out that the final impact on the Scottish Government budget of devolution of these benefits will be determined through an adjustment to the Scottish block grant. As with devolved revenue, the adjustment made to the Scottish Government's budget to reflect this additional spending responsibility will depend in part on the relative growth in expenditure per head for each newly devolved benefit in Scotland and the rest of the UK. Table 4.8 below shows expenditure per head for each of the relevant benefits for Scotland and the rest of Great Britain.

## 4 Devolved Revenue and Expenditure

**Table 4.8: Devolved social security expenditure per head: Scotland and rest of GB**

|  | £ per person |         |         |         |         |            |         |         |         |         |
|--|--------------|---------|---------|---------|---------|------------|---------|---------|---------|---------|
|  | Scotland     |         |         |         |         | Rest of GB |         |         |         |         |
|  | 2011-12      | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2011-12    | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
| Disability living allowance            | 259          | 273     | 276     | 274     | 260     | 199        | 212     | 216     | 214     | 203     |
| Attendance allowance                   | 91           | 92      | 90      | 91      | 91      | 87         | 88      | 86      | 86      | 86      |
| Carer's allowance                      | 29           | 32      | 34      | 38      | 42      | 28         | 31      | 33      | 37      | 40      |
| Winter fuel payment                    | 35           | 35      | 35      | 34      | 34      | 35         | 35      | 34      | 34      | 33      |
| Personal Independence Payments         | -            | -       | 4       | 31      | 59      | 0          | 0       | 3       | 24      | 46      |
| Industrial Injuries disability benefit | 17           | 17      | 17      | 17      | 17      | 14         | 15      | 14      | 14      | 14      |
| Severe disablement allowance           | 18           | 18      | 17      | 14      | 9       | 14         | 14      | 14      | 12      | 7       |
| Discretionary housing payments         | 0            | 1       | 3       | 3       | 2       | 0          | 1       | 3       | 3       | 2       |
| Cold weather payment                   | 0            | 2       | 0       | 1       | 1       | 2          | 2       | 0       | 0       | 2       |
| Funeral expenses payments              | 1            | 1       | 1       | 1       | 1       | 1          | 1       | 1       | 1       | 1       |
| Sure Start maternity grant             | 1            | 1       | 1       | 0       | 1       | 1          | 1       | 1       | 1       | 0       |

## Summary of current and proposed devolved powers

The table below shows estimates of devolved receipts and expenditure under the Scotland Act 2012 and the Scotland Act 2016.

| <b>Table 4.9: Fiscal powers before and after Scotland Act 2016, 2015-16 (£ million)</b> |   |                                    |
|---|---|------------------------------------|
|   | <b>Before<br/>Scotland Act<br/>2016</b> | <b>After Scotland<br/>Act 2016</b> |
| Non Saving Non Dividend Income Tax Liabilities (devolved from 2016-17)                  | 4,277                                   | 11,214                             |
| Stamp Duties (Land and Buildings) (devolved from 2015-16)                               | 416                                     | 416                                |
| Air Passenger Duty (devolved from 2018-19)  |   | 275                                |
| Landfill Tax (devolved from 2015-16)  | 147                                     | 147                                |
| Aggregates Levy (date to be decided)  |   | 53                                 |
| Non-domestic Rates  | 1,916                                   | 1,916                              |
| Council Tax   | 2,122                                   | 2,122                              |
| <b>Total devolved revenues</b>  | <b>8,878</b>                            | <b>16,144</b>                      |
| <b>Devolved revenue as % of non-North Sea Scottish revenue</b>                          | <b>17%</b>                              | <b>30%</b>                         |
| <b>as % of revenue incl geographical share of North Sea revenue<sup>1</sup></b>         | <b>17%</b>                              | <b>30%</b>                         |
| Assigned VAT <sup>2</sup> (assigned from 2019-20)                                       |   | 5,614                              |
| <b>Total devolved and assigned revenues</b>   | <b>8,878</b>                            | <b>21,758</b>                      |
| <b>Devolved and assigned revenue as % of non-North Sea Scottish revenue</b>             | <b>17%</b>                              | <b>41%</b>                         |
| <b>as % of revenue incl geographical share of North Sea revenue<sup>1</sup></b>         | <b>17%</b>                              | <b>40%</b>                         |
| Devolved expenditure excluding housing benefit <sup>3</sup> (HB)                        | 38,764                                  | 41,532                             |
| <b>Devolved revenue as % of estimated devolved expenditure excl HB</b>                  | <b>23%</b>                              | <b>39%</b>                         |
| <b>Devolved and Assigned revenue as % of estimated devolved expenditure excl HB</b>     | <b>23%</b>                              | <b>52%</b>                         |
| Devolved expenditure including housing benefit <sup>3</sup>                             | 40,536                                  | 43,304                             |
| <b>Devolved revenue as % of estimated devolved expenditure incl HB</b>                  | <b>22%</b>                              | <b>37%</b>                         |
| <b>Devolved and Assigned revenue as % of estimated devolved expenditure incl HB</b>     | <b>22%</b>                              | <b>50%</b>                         |

<sup>1</sup> 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.

<sup>2</sup> Assigned VAT is shown 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 Table A.9. In this case, devolved revenue as a share of estimated devolved expenditure would be 40% excluding housing benefit and 38% including housing benefit. Other Scotland Bill 2015-16 percentages are unchanged.

<sup>3</sup> In GERS and the CRA, housing benefit is included in Scottish Local Government spending, as they make the payments to recipients, although it is set centrally and funded by the Department for Work and Pensions. Depending on definitions adopted, it could either be excluded or included in devolved expenditure. GERS presents both approaches.

# A

## SUPPLEMENTARY TABLES

This section presents supplementary tables on public sector revenue and expenditure in Scotland.

Table A.1 below shows the population figures used in calculating per head estimates in GERS.

| <b>Table A.1: Financial Year Population Estimates (thousands)</b> |             |             |             |             |             |
|---|-------------|-------------|-------------|-------------|-------------|
|   | 2011-12     | 2012-13     | 2013-14     | 2014-15     | 2015-16     |
| Scotland  | 5,303       | 5,317       | 5,333       | 5,354       | 5,375       |
| UK  | 63,390      | 63,805      | 64,228      | 64,725      | 65,226      |
| <b>As % of UK total</b>   | <b>8.4%</b> | <b>8.3%</b> | <b>8.3%</b> | <b>8.3%</b> | <b>8.2%</b> |

Note: Financial year estimates are calculated as the weighted average of the relevant mid-year estimates. I.e., the 2015-16 population is estimated as three-quarters of the 2015 population plus one quarter of the 2016 population.

Table A.2 below shows the relationship between revenue, current expenditure, and the current budget balance, and then the transition from the current budget balance to the net fiscal balance.

| <b>Table A.2: Current and Capital Budgets: Scotland</b>                        |                  |              |              |              |              |
|--|------------------|--------------|--------------|--------------|--------------|
|  | <b>£ million</b> |              |              |              |              |
|  | 2011-12          | 2012-13      | 2013-14      | 2014-15      | 2015-16      |
| <b>Current Budget</b>  |                  |              |              |              |              |
| Current revenue  |                  |              |              |              |              |
| Excluding North Sea revenue  | 47,328           | 48,192       | 50,054       | 51,765       | 53,689       |
| Including North Sea revenue (population share)                                 | 48,245           | 48,712       | 50,449       | 51,951       | 53,695       |
| Including North Sea revenue (geographical share)                               | 56,961           | 53,498       | 54,053       | 53,567       | 53,748       |
| Current expenditure  | 58,734           | 59,560       | 60,213       | 60,961       | 61,958       |
| Capital consumption  | 3,780            | 3,641        | 3,856        | 4,137        | 4,418        |
| <b>Balance on current budget</b><br>(surplus is positive, deficit is negative) |                  |              |              |              |              |
| Excluding North Sea revenue  | -15,186          | -15,008      | -14,015      | -13,333      | -12,688      |
| Including North Sea revenue (population share)                                 | -14,269          | -14,489      | -13,619      | -13,147      | -12,681      |
| Including North Sea revenue (geographical share)                               | -5,553           | -9,703       | -10,015      | -11,531      | -12,628      |
| <b>Capital Budget</b>  |                  |              |              |              |              |
| Capital expenditure  | 7,024            | 7,935        | 6,822        | 6,917        | 6,623        |
| Capital consumption  | -3,780           | -3,641       | -3,856       | -4,137       | -4,418       |
| <b>Net Investment</b>  | <b>3,244</b>     | <b>4,294</b> | <b>2,966</b> | <b>2,780</b> | <b>2,205</b> |
| <b>Net Fiscal Balance (surplus is positive, deficit is negative)</b>           |                  |              |              |              |              |
| Excluding North Sea revenue  | -18,430          | -19,303      | -16,981      | -16,114      | -14,892      |
| Including North Sea revenue (population share)                                 | -17,513          | -18,783      | -16,586      | -15,927      | -14,886      |
| Including North Sea revenue (geographical share)                               | -8,797           | -13,997      | -12,982      | -14,311      | -14,833      |

**GDP**

Table A.3 below provides the financial year GDP estimates used in GERS.

| <b>Table A.3: Scottish GDP including and excluding North Sea GDP</b> |                  |                |                |                |                |
|--|------------------|----------------|----------------|----------------|----------------|
|  | <b>£ million</b> |                |                |                |                |
|  | <b>2011-12</b>   | <b>2012-13</b> | <b>2013-14</b> | <b>2014-15</b> | <b>2015-16</b> |
| Scottish GDP   |                  |                |                |                |                |
| Excluding North Sea and share of UK extra-regio                      | 130,031          | 133,565        | 140,055        | 144,809        | 147,072        |
| Including North Sea (population share)                               | 132,443          | 135,584        | 142,062        | 146,259        | 148,258        |
| Including North Sea (geographical share)                             | 153,285          | 152,309        | 158,291        | 157,502        | 156,784        |
| UK GDP   | 1,634,025        | 1,690,042      | 1,759,560      | 1,836,159      | 1,879,653      |

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

Note: Scottish GDP including a geographical share of the North Sea also includes a population share of UK overseas public administration and defence activity. Table E in Quarterly National Accounts Scotland provides a more detailed breakdown.

**General Government estimates**

The headline GERS figures cover the whole of the public sector. As such, they include revenue and expenditure associated with public corporations such as Scottish Water and the Bank of England. They are on a financial year basis.

When conducting international comparisons, bodies such as the European Commission and the IMF present figures on a calendar year basis and covering only general government; i.e., excluding public corporations. In order to help comparisons with such figures, the table below presents the GERS results on this basis. As revenue and expenditure are primarily estimated on a financial year and public sector basis, the calendar year estimates below are illustrative and have been derived by apportioning the main GERS estimates.

The figures below are consistent with the figures that ONS publish in Table M1 of their bulletin: EU Government deficit and debt as reported to the European Commission, as published on 15 July 2016 available at the link below:

<https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicspending/bulletins/ukgovernmentdebtanddeficitforeurostatmaast/jantomar2016>



**Table A.4: Calendar year general government estimates: Scotland and UK**

|  | £ million       |                 |                 |                 |                |
|--|-----------------|-----------------|-----------------|-----------------|----------------|
|  | 2011            | 2012            | 2013            | 2014            | 2015           |
| <b>Revenue</b>                                   |                 |                 |                 |                 |                |
| Non-North Sea revenue                            | 46,038          | 46,877          | 50,071          | 50,791          | 52,807         |
| North Sea revenue (per person share)             | 848             | 670             | 437             | 265             | 40             |
| North Sea revenue (geographical share)           | 8,999           | 6,864           | 4,497           | 2,566           | 386            |
| <b>UK</b>  | <b>585,347</b>  | <b>593,156</b>  | <b>629,936</b>  | <b>641,319</b>  | <b>666,166</b> |
| <b>Expenditure</b>                               |                 |                 |                 |                 |                |
| Scotland   | 65,234          | 67,517          | 66,297          | 67,638          | 67,880         |
| <b>UK</b>  | <b>709,235</b>  | <b>731,540</b>  | <b>728,317</b>  | <b>743,147</b>  | <b>745,407</b> |
| <b>Net Fiscal Balance</b>                        |                 |                 |                 |                 |                |
| Excluding North Sea revenue                      | -19,196         | -20,640         | -16,225         | -16,847         | -15,073        |
| Including North Sea revenue (per capita share)   | -18,347         | -19,970         | -15,788         | -16,582         | -15,034        |
| Including North Sea revenue (geographical share) | -10,197         | -13,777         | -11,729         | -14,281         | -14,688        |
| <b>UK</b>  | <b>-123,888</b> | <b>-138,384</b> | <b>-98,381</b>  | <b>-101,828</b> | <b>-79,274</b> |
|  |                 |                 | <b>% of GDP</b> |                 |                |
| Excluding North Sea revenue                      | -14.8%          | -15.6%          | -11.7%          | -11.7%          | -10.3%         |
| Including North Sea revenue (per capita share)   | -13.9%          | -14.9%          | -11.2%          | -11.4%          | -10.2%         |
| Including North Sea revenue (geographical share) | -6.6%           | -9.1%           | -7.5%           | -9.0%           | -9.4%          |
| <b>UK</b>  | <b>-7.6%</b>    | <b>-8.3%</b>    | <b>-5.7%</b>    | <b>-5.6%</b>    | <b>-4.2%</b>   |

**Note:** As figures above are on a calendar year basis, the North Sea revenue figures differ from those shown in Chapter 2. They are consistent with those shown in Table J of Quarterly National Accounts Scotland 2016Q1 (<http://www.gov.scot/topics/statistics/browse/economy/QNA2016Q1>)

## Confidence intervals

A number of the revenues in GERS are based on survey estimates. As such, they have an associated statistical uncertainty. The table below presents the 95% confidence intervals associated with these revenues. Other revenues are based on administrative data, or modelled data for which confidence intervals are not available. Estimates are not presented for these revenues. Expenditure is primarily based on administrative data, and therefore confidence intervals are not presented for expenditure.

Although tobacco duties and alcohol duties are both based on the Living Costs and Food Survey, the confidence interval for alcohol is larger. This is because the methodology for calculating alcohol duties uses more disaggregate survey data to reflect the different levels of duty, and revenue, received from different types of alcohol. This lower level survey data has a correspondingly larger uncertainty.

**Table A.5: Confidence intervals around survey based apportionments: Scotland**

|  | £ million        |                 |                 |               |                |
|--|------------------|-----------------|-----------------|---------------|----------------|
|  | Central estimate | 95% lower bound | 95% upper bound | Range         | Range (%)      |
| Income tax                               | 12,151           | 12,029          | 12,272          | +/-122        | +/-1.0%        |
| National insurance contributions         | 9,323            | 9,230           | 9,416           | +/-93         | +/-1.0%        |
| VAT                                      | 11,228           | 10,981          | 11,475          | +/-247        | +/-2.2%        |
| Tobacco duties                           | 1,189            | 1,169           | 1,209           | +/-20         | +/-1.7%        |
| Alcohol duties                           | 996              | 916             | 1,076           | +/-80         | +/-8.0%        |
| Betting and gaming and duties            | 225              | 222             | 228             | +/-3          | +/-1.4%        |
| Insurance premium tax                    | 258              | 253             | 263             | +/-5          | +/-2.0%        |
| <b>Total survey based apportionments</b> | <b>35,370</b>    | <b>34,800</b>   | <b>35,940</b>   | <b>+/-570</b> | <b>+/-1.6%</b> |

## Amendments to the Country and Regional Analysis database

A number of significant improvements have been made to the HM Treasury Country and Regional Analysis (CRA) database in recent years to apportion expenditure more accurately to countries and regions of the UK. While many anomalies in previous editions of the CRA have been addressed and are now reflected in both CRA 2015 and this GERS report, a small number of supplementary amendments to the CRA 2015 dataset are made in producing GERS. The aim of these refinements is to ensure that the public sector expenditure figure for Scotland captures as accurately as possible expenditure for the benefit of Scottish residents.

The amendments made to the CRA in producing this edition of GERS are shown in Table A.6. They are discussed in the detailed expenditure methodology paper available at <http://www.gov.scot/Topics/Statistics/Browse/Economy/GERS/Methodology>.

In 2014-15, UK capital expenditure in the CRA associated with the London Olympics is negative. This is because the capital receipts associated with the sale of the former Olympic Village were greater than new investment, and so net capital expenditure is negative.

In GERS, Scotland is allocated none of the capital expenditure associated with the London Olympics. As the default approach to London Olympics expenditure would be to apportion Scotland a population share of the negative UK expenditure in 2014-15 recorded in the CRA database, apportioning Scotland a zero share increases Scottish expenditure.

**Table A.6: Amendments to Estimates of Total Public Sector Expenditure on Services from CRA 2015**

|                             | £ million   |             |             |             |          |
|-----------------------------|-------------|-------------|-------------|-------------|----------|
|                             | 2011-12     | 2012-13     | 2013-14     | 2014-15     | 2015-16  |
| Nuclear-related expenditure | -139        | -164        | -174        | -179        | -        |
| London Olympics             | -55         | -43         | -1          | 19          | -        |
| Pensions revisions          | -17         | -17         | -18         | -19         | -        |
| Other minor revisions       | -9          | -33         | -30         | -50         | -        |
| <b>Total</b>                | <b>-220</b> | <b>-256</b> | <b>-224</b> | <b>-228</b> | <b>-</b> |

Note: Amendments do not include EU Transactions

As the CRA for 2015-16 is not yet published, there are no formal amendments to individual spending lines. The 2014-15 adjustments are in effect carried forward into 2015-16, adjusted

for the spending of the responsible department. Further detail is provided in the expenditure methodology note.

### Expenditure accounting adjustments

Spending in GERS is based on the HM Treasury Total Expenditure on Services (TES) concept, which accounts for around 90% of total spending. Accounting adjustments are used to move from TES to Total Managed Expenditure (TME), the primary measure of public spending used in the UK Public Sector Finances. As discussed in Chapter 1, for the majority of these adjustments, accompanying adjustments are included in revenue estimates, and therefore do not affect the net fiscal balance or current budget balance. This is shown in more detail in Table A.9.

In order to present Scottish Government and Local Government spending on a TME basis in GERS, it is necessary to allocate different parts of the accounting adjustments to either the Scottish Government or other UK Government departments. Currently, capital consumption (excluding that associated with Network Rail), VAT refunds, the subsidy to the Housing Revenue Account, and Local Authority Pensions are allocated to the Scottish Government or Scottish Local Government. Other elements are allocated to other UK Government departments operating in Scotland.

Table A.7 below shows the accounting adjustments applied to UK spending in GERS to move from TES to TME. Table A.8 shows the adjustments for Scotland. As discussed in Chapter 3, the ONS has reclassified the Special Purpose Vehicle set up to deliver the Aberdeen Western Peripheral Route (AWPR) to be part of the public sector. Decisions on the bodies set up to deliver the Edinburgh Royal Hospital for Sick Children and the Dumfries and Galloway Royal Infirmary are expected later this year. These are all projects being delivered by the Scottish Government non-profit distributing (NPD) model.

Since the ONS decision on the AWPR, the Scottish Government has begun recording spending for all three projects on the UK Government's accounting system. As such, expenditure associated with all three projects is included in the TES measure used by HM Treasury in their Public Expenditure Statistical Analyses publication. However, ONS have not yet incorporated any expenditure associated with the projects into their estimate of TME in the UK Public Sector Finances. For the AWPR, the ONS is waiting for a final decision as to whether the expenditure will be counted as government expenditure or public corporation spending. For the health projects, no ONS decision has been made on their classification, and as such the Scottish Government has pre-empted the ONS by reporting them within its spending.

As the ONS do not currently include the AWPR or health projects expenditure in the Public Sector Finances, the expenditure is not included in total expenditure for either Scotland or the UK in GERS, and is removed as part of the TES to TME accounting adjustments. As all the expenditure is associated with the Scottish Government, this has a relatively greater impact on Scottish expenditure.

As discussed in Chapter 3, Network Rail expenditure from 2015-16 is now included within the transport spending line, and as such accounting adjustments are no longer required.

**Table A.7: Expenditure Accounting Adjustment: UK**

|  | £ million     |               |               |               |               |
|--|---------------|---------------|---------------|---------------|---------------|
|  | 2011-12       | 2012-13       | 2013-14       | 2014-15       | 2015-16       |
| UK total managed expenditure (TME)   | 715,105       | 730,822       | 735,913       | 746,611       | 753,027       |
| UK total expenditure on services (TES)   | 661,279       | 664,033       | 673,090       | 684,284       | 698,268       |
| <b>UK accounting adjustment</b>  | <b>53,826</b> | <b>66,789</b> | <b>62,823</b> | <b>62,327</b> | <b>54,759</b> |
| <b>of which current expenditure:</b>   |               |               |               |               |               |
| Central government capital consumption   | 16,671        | 17,129        | 17,583        | 17,952        | 18,414        |
| Local government capital consumption   | 9,030         | 9,547         | 10,072        | 10,570        | 11,045        |
| Current VAT refunds  | 11,663        | 11,522        | 11,557        | 11,434        | 11,790        |
| Imputed subsidy from Local Authorities to the Housing Revenue Account <sup>1</sup> | 441           | 354           | 530           | 776           | 476           |
| Imputed flows for Renewable Obligation Certificates <sup>2</sup>                   | 1,471         | 1,966         | 2,532         | 3,064         | 3,900         |
| Local authority pensions   | 1,881         | 1,966         | 1,862         | 1,900         | 1,900         |
| Network Rail   | 2,640         | 2,810         | 2,615         | 2,402         | 0             |
| British Transport Police Service Agreements  | 264           | 221           | 279           | 238           | 145           |
| Current expenditure residual   | -881          | 1,793         | 3,853         | 3,002         | -3,554        |
| <b>of which capital expenditure:</b>   |               |               |               |               |               |
| Capital VAT refunds  | 2,222         | 2,137         | 2,089         | 2,168         | 2,236         |
| Network Rail   | -451          | -321          | 2,405         | -501          | 0             |
| Royal Mail Pension Plan  | 0             | 9,460         | 0             | 0             | 0             |
| English Housing Associations   | 7,001         | 6,097         | 6,950         | 7,100         | 7,900         |
| Crossrail  | 517           | 1,205         | 1,123         | 1,082         | 829           |
| Scottish NPD projects  | 0             | 0             | 0             | -128          | -364          |
| Capital expenditure residual   | 1,358         | 903           | -627          | 1,268         | 42            |

<sup>1</sup> The 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).

<sup>2</sup> Renewable 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.

| <b>Table A.8: Expenditure Accounting Adjustment: Scotland</b>                      |                  |                |                |                |                |
|--|------------------|----------------|----------------|----------------|----------------|
|  | <b>£ million</b> |                |                |                |                |
|  | <b>2011-12</b>   | <b>2012-13</b> | <b>2013-14</b> | <b>2014-15</b> | <b>2015-16</b> |
| Scottish total managed expenditure (TME)   | 65,758           | 67,495         | 67,035         | 67,879         | 68,581         |
| Scottish total expenditure on services (TES)                                       | 61,574           | 62,293         | 62,399         | 63,297         | 64,727         |
| <b>Scottish accounting adjustment</b>  | <b>4,184</b>     | <b>5,202</b>   | <b>4,636</b>   | <b>4,582</b>   | <b>3,854</b>   |
| <b>Percentage of UK accounting adjustment</b>                                      | <b>7.8%</b>      | <b>7.8%</b>    | <b>7.4%</b>    | <b>7.4%</b>    | <b>7.0%</b>    |
| <b>Of which current expenditure:</b>   |                  |                |                |                |                |
| Central government capital consumption   | 1,374            | 1,349          | 1,441          | 1,394          | 1,467          |
| Local government capital consumption   | 882              | 948            | 992            | 1,043          | 1,089          |
| Current VAT refunds  | 1,092            | 1,092          | 1,035          | 1,027          | 1,062          |
| Imputed subsidy from Local Authorities to the Housing Revenue Account <sup>1</sup> | 35               | 28             | 41             | 61             | 37             |
| Imputed flows for Renewable Obligation Certificates <sup>2</sup>                   | 175              | 233            | 300            | 364            | 463            |
| Local authority pensions   | 171              | 173            | 169            | 176            | 176            |
| Network Rail   | 237              | 175            | 135            | 60             | 0              |
| British Transport Police Service Agreements  | 23               | 19             | 24             | 20             | 12             |
| Current expenditure residual   | -74              | 149            | 320            | 249            | -293           |
| <b>Of which capital expenditure:</b>   |                  |                |                |                |                |
| Capital VAT refunds  | 208              | 202            | 187            | 195            | 201            |
| Network Rail   | -50              | -30            | 45             | 19             | 0              |
| Royal Mail Pension Plan  | 0                | 788            | 0              | 0              | 0              |
| English Housing Associations   | 0                | 0              | 0              | 0              | 0              |
| Crossrail  | 0                | 0              | 0              | 0              | 0              |
| Scottish NPD projects  | 0                | 0              | 0              | -128           | -364           |
| Capital expenditure residual   | 112              | 76             | -53            | 104            | 3              |

<sup>1, 2</sup> See notes to Table A.7

The table below shows which parts of the Scottish expenditure accounting adjustments are included as revenues, and where they appear in the revenue tables.

**Table A.9: Accounting Adjustments, Revenue and Expenditure: Scotland, 2015-16**

|   | Expenditure AA | Revenue AA   | Revenue line                            |
|---|----------------|--------------|---|
| <b>Of which current expenditure:</b>                                  |                |              |   |
| Central government capital consumption                                | 1,467          | 1,467        | Gross operating surplus                 |
| Local government capital consumption                                  | 1,089          | 1,089        | Gross operating surplus                 |
| Current VAT refunds   | 1,062          | 1,062        | VAT                                     |
| Imputed subsidy from Local Authorities to the Housing Revenue Account | 37             | -            | n/a                                     |
| Imputed flows for Renewable Obligation Certificates                   | 463            | 463          | Other taxes, royalties, and adjustments |
| Local authority pensions  | 176            | -            | n/a                                     |
| British Transport Police Service Agreements                           | 12             | 12           | Other taxes, royalties, and adjustments |
| Current expenditure residual  | -293           | -            | n/a                                     |
| <b>Of which capital expenditure:</b>                                  | 0              |              |   |
| Capital VAT refunds   | 201            | 201          | VAT                                     |
| Network Rail  | 0              | -            | n/a                                     |
| Royal Mail Pension Plan   | 0              | -            | n/a                                     |
| English Housing Associations  | 0              | -            | n/a                                     |
| Crossrail   | 0              | -            | n/a                                     |
| Scottish NPD projects   | -364           | -            | n/a                                     |
| Capital expenditure residual  | 3              | -            | n/a                                     |
| <b>Total accounting adjustments</b>                                   | <b>3,854</b>   | <b>4,295</b> |   |

## Reconciliation to published Scottish Government and Scottish Local Government budgets

There are a number of differences between the figures for spending by Scottish Government and Local Authorities presented in Table 3.8 and figures presented in Scottish Government budgets and Scottish Local Government Finance Statistics. The key differences relate to accounting treatments, particularly of pensions, VAT refunds, and depreciation.

GERS uses National Accounts principles, which show pensions expenditure as the difference between monies paid into the pension fund and monies paid out, and which shows gross expenditure before VAT refunds. Depreciation in GERS is based on the concept of capital consumption, which uses estimates of the value of assets used to provide services in terms of current asset values.

In contrast, budget documents use financial accounting principles, which include a measure of future liabilities of pension funds, and which shows net expenditure after VAT refunds. Depreciation is based on historical asset prices.

A more detailed description of the differences is provided in Box 5.2 of GERS 2014-15. <http://www.gov.scot/Publications/2015/03/1422/8>

Table A.10 below shows the reconciliation of published Scottish Government and Scottish Local Government Finance figures to the figures published in the CRA and GERS. This shows figures for 2014-15 rather than 2015-16, as this is the latest year for which published accounts were available for both the Scottish Government and Scottish Local Government. 2015-16 figures in GERS are based on provisional outturn estimates.

**Table A.10: Reconciliation of published budget documents to GERS expenditure Table 3.8**

|   | £ billion<br>2014-15 |
|---|----------------------|
| <b>Scottish Government</b>  |                      |
| Published Scottish Government budget <sup>1</sup>   | 36.4                 |
| Spending by Audit Scotland and Scottish Parliament  | 0.1                  |
| Public corporation capital spending   | 0.5                  |
| Timing differences  | 0.1                  |
| <b>Total Scottish Government and public corporation (PC) expenditure</b>                    | <b>37.1</b>          |
| <b>Adjustments to align budget to CRA measure of spending</b>                               |                      |
| Grants to other public sector bodies (e.g. local government)                                | -10.1                |
| Pensions  | -3.4                 |
| Depreciation  | -0.8                 |
| Financial transactions associated with student loans and public corporations                | -0.4                 |
| Adjustments to move from spend 'in' Scotland to spend 'for' Scotland <sup>2</sup>           | -0.1                 |
| Other   | 0.2                  |
| <b>Final Scottish Government and PC expenditure on services for Scotland</b>                | <b>22.0</b>          |
| <b>Scottish Local Government</b>  |                      |
| Published Local Government gross current expenditure <sup>3</sup>                           | 12.5                 |
| Income excluding grants from Central Government <sup>4</sup>                                | -2.0                 |
| Housing benefit   | 1.8                  |
| Published Local Government gross capital expenditure <sup>5</sup>                           | 2.2                  |
| Income from sales of capital assets <sup>6</sup>  | -0.1                 |
| <b>Final Scottish Local Government expenditure on services for Scotland</b>                 | <b>14.4</b>          |
| <b>Scottish Government, PC, &amp; Local Government expenditure on services for Scotland</b> | <b>36.4</b>          |
| <b>National Accounts adjustments<sup>7</sup></b>  |                      |
| Capital consumption   | 2.3                  |
| VAT refunds   | 1.2                  |
| Other accounting adjustments  | 0.0                  |
| <b>Final Scottish Government, PC, &amp; Scottish Local Government TME</b>                   | <b>40.0</b>          |

<sup>1</sup> Scottish Government Draft Budget 2016-17 Annex G

<sup>2</sup> These are adjustments made to Scottish Government spending in HM Treasury's CRA publication. They primarily relate to spending on museums and pensions, to reflect where spending undertaken by the Scottish Government benefits residents from the rest of the UK.

<sup>3</sup> Scottish Local Government Finance Statistics 2014-15, Annex B. Total General Fund (excluding the Housing Revenue Account and trading with the public) employee costs, operating costs, and support services costs, less recharges

<sup>4</sup> As Note 2. Total General Fund (excluding the Housing Revenue Account and trading with the public) income less government grants

<sup>5</sup> As Note 2. All services total gross capital expenditure (Annex H)

<sup>6</sup> As Note 2. Total capital receipts from sales of assets (Annex I)

<sup>7</sup> See Table A.8

# B REVISIONS

This section presents revisions from the previous GERS 2014-15 publication.

## Revisions to Non-North Sea Revenue Estimates from GERS 2014-15

Table B.1 summarises the revisions in this edition of GERS to total non-North Sea revenue.

| <b>Table B.1: Revision to Estimates of Total Non-North Sea Revenue</b> |                  |                |                |                |
|--|------------------|----------------|----------------|----------------|
|  | <b>£ million</b> |                |                |                |
|  | <b>2011-12</b>   | <b>2012-13</b> | <b>2013-14</b> | <b>2014-15</b> |
| <b>Scotland</b>  |                  |                |                |                |
| Estimates published in GERS 2014-15                                    | 47,246           | 48,276         | 50,051         | 51,639         |
| Estimates published in GERS 2015-16                                    | 47,328           | 48,192         | 50,054         | 51,765         |
| <b>Revision</b>  | <b>82</b>        | <b>-84</b>     | <b>3</b>       | <b>126</b>     |
| <b>UK</b>  |                  |                |                |                |
| Estimates published in GERS 2014-15                                    | 583,267          | 596,299        | 620,853        | 645,764        |
| Estimates published in GERS 2015-16                                    | 588,602          | 601,372        | 627,216        | 652,691        |
| <b>Revision</b>  | <b>5,335</b>     | <b>5,073</b>   | <b>6,363</b>   | <b>6,927</b>   |
| <b>Revision excluding English HAs</b>                                  | <b>476</b>       | <b>-528</b>    | <b>318</b>     | <b>406</b>     |
| <b>Scotland/UK ratio</b>   |                  |                |                |                |
| Estimates published in GERS 2014-15                                    | 8.1%             | 8.1%           | 8.1%           | 8.0%           |
| Estimates published in GERS 2015-16                                    | 8.0%             | 8.0%           | 8.0%           | 7.9%           |
| <b>Revision (% point)</b>  | <b>-0.1%</b>     | <b>-0.1%</b>   | <b>-0.1%</b>   | <b>-0.1%</b>   |

Revisions to Scottish estimates can stem from three sources: revisions to UK totals; revisions to apportionment data; and updated apportionment methodologies. There have been no methodological changes to revenue in GERS 2015-16. The net effect of all of the changes has been to increase the estimate of public sector revenue in Scotland by £126 million, an increase of 0.2%. The UK estimate has been revised by £6.9 billion, reflecting the reclassification of Housing Associations which increases UK gross operating surplus and interest and dividends.

The UK total for rent and other current transfers has been revised up in all periods, and this is the main driver of revisions to Scottish revenue in 2011-12. Revisions in 2012-13 and 2013-14 reflect ONS revisions to public corporation gross operating surplus to better align with data from the Whole of Government Accounts.

The revisions to 2014-15 revenue are shown in Table B.2 below. Most revisions are minor and reflect revisions to UK totals. However, Scottish national insurance contributions have been revised up by £98 million, reflecting updated Scottish data received from HMRC.



**Table B.2: Revision to Estimates of Public Sector Revenue: Scotland and UK 2014-15**

|  | £ million  |              | %           |             |
|--|------------|--------------|-------------|-------------|
|  | Scotland   | UK           | Scotland    | UK          |
| Income tax                             | 0          | 0            | 0.0%        | 0.0%        |
| Corporation tax (excluding North Sea)  | 0          | 0            | 0.0%        | 0.0%        |
| Capital gains tax                      | 0          | 0            | 0.1%        | 0.0%        |
| Other taxes on income and wealth       | 0          | 0            | 0.0%        | 0.0%        |
| National insurance contributions       | 98         | 0            | 1.1%        | 0.0%        |
| VAT                                    | -1         | 0            | 0.0%        | 0.0%        |
| Fuel duties                            | 20         | 0            | 0.9%        | 0.0%        |
| Stamp duties                           | 0          | 0            | 0.0%        | 0.0%        |
| Tobacco duties                         | 0          | 0            | 0.0%        | 0.0%        |
| Alcohol duties                         | 0          | 0            | 0.0%        | 0.0%        |
| Betting and gaming and duties          | 0          | 0            | 0.0%        | 0.0%        |
| Air passenger duty                     | -19        | 0            | -6.1%       | 0.0%        |
| Insurance premium tax                  | 0          | 0            | 0.1%        | 0.0%        |
| Landfill tax                           | 0          | 0            | -0.3%       | 0.0%        |
| Climate change levy                    | -2         | 0            | -1.4%       | 0.0%        |
| Aggregates levy                        | 1          | 0            | 2.3%        | 0.0%        |
| Inheritance tax                        | 0          | 0            | -0.2%       | 0.0%        |
| Vehicle excise duty                    | 2          | 0            | 0.3%        | 0.0%        |
| Non-domestic rates                     | -1         | 106          | -0.1%       | 0.4%        |
| Council tax                            | 3          | 0            | 0.2%        | 0.0%        |
| Other taxes, royalties and adjustments | -10        | -134         | -0.7%       | -0.8%       |
| Interest and dividends                 | 0          | 251          | -0.1%       | 4.4%        |
| Gross operating surplus                | 11         | 6,446        | 0.3%        | 17.1%       |
| Rent and other current transfers       | 24         | 258          | 6.2%        | 5.9%        |
| <b>Total revision</b>                  | <b>126</b> | <b>6,927</b> | <b>0.2%</b> | <b>1.1%</b> |

## Revisions to North Sea Revenue Estimates from GERS 2014-15

Table B.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 are mostly unchanged apart from revisions to 2012-13. This reflects updated assessments issued by HMRC.

**Table B.3: Revisions to North Sea Revenue: 2011-12 to 2014-15**

|   | £ million |           |          |           |
|---|-----------|-----------|----------|-----------|
|   | 2011-12   | 2012-13   | 2013-14  | 2014-15   |
| <b>Scotland (illustrative geographical share)</b> |           |           |          |           |
| Estimates published in GERS 2014-15               | 9,633     | 5,289     | 3,999    | 1,804     |
| Estimates published in GERS 2015-16               | 9,633     | 5,306     | 3,999    | 1,802     |
| <b>Revision</b>                                   | <b>0</b>  | <b>17</b> | <b>0</b> | <b>-2</b> |
| <b>UK</b>   |           |           |          |           |
| Estimates published in GERS 2014-15               | 10,957    | 6,215     | 4,764    | 2,254     |
| Estimates published in GERS 2015-16               | 10,957    | 6,234     | 4,764    | 2,252     |
| <b>Revision</b>                                   | <b>0</b>  | <b>19</b> | <b>0</b> | <b>-2</b> |

A discussion of revisions to all taxes between 2011-12 and 2014-15 is provided in the GERS 2015-16 Revenue Methodology note available on the GERS website.

## Revisions to Expenditure Estimates from GERS 2014-15

Table B.4 sets out the changes in estimates of public expenditure in Scotland and the UK between this report and GERS 2014-15. These reflect revisions to Scottish Government and Scottish Local Government spending data, revisions to UK spending totals, revisions to the GERS methodology and revisions to the data sources used to apportion expenditure to Scotland. Revisions to public expenditure that can be traced to changes to the total expenditure on services (TES) measure are specified separately.

In 2016, HM Treasury have incorporated a number of definitional changes which affect the size of the TES to TME accounting adjustment. For education, student loans impairments were previously included in TES spending, but were removed as part of the TES to TME adjustments. They have now been removed from TES, and so the TES to TME adjustments are no longer required. This change reduces Scottish education spending by £50 million in 2014-15. For social protection, some expenditure associated with personal tax credits was included as part of the TES to TME adjustment. This has now been included within social protection TES, so again a TES to TME adjustment is no longer required. This change increases Scottish social protection spending by £191 million in 2014-15.

Total public sector expenditure has been revised down for Scotland in all years. This generally reflects improvements to the estimation of the TES to TME accounting adjustments. Previously, spending associated with Crossrail in London was not separately identified within the accounting adjustments, meaning that Scotland was apportioned a population share of the spend. This spend is now separated out, and none of the expenditure is apportioned to Scotland, reducing Scottish expenditure in all years.

**Table B.4: Revisions to Estimates of Total Managed Expenditure: 2011-12 to 2014-15**

|   | £ million    |              |              |              |
|---|--------------|--------------|--------------|--------------|
|   | 2011-12      | 2012-13      | 2013-14      | 2014-15      |
| <b>Scotland</b>   |              |              |              |              |
| Estimates published in GERS 2014-15                               | 66,125       | 67,746       | 67,482       | 68,377       |
| Estimates published in GERS 2015-16                               | 65,758       | 67,495       | 67,035       | 67,879       |
| <b>Revision</b>   | -367         | -251         | -447         | -498         |
| Of which revisions to TES   | 571          | 185          | 274          | 37           |
| Of which revisions to TES to TME accounting adjustment            | -938         | -436         | -721         | -535         |
| <b>UK</b>   |              |              |              |              |
| Estimates published in GERS 2014-15                               | 707,742      | 722,081      | 726,506      | 737,119      |
| Estimates published in GERS 2015-16                               | 715,105      | 730,822      | 735,913      | 746,611      |
| <b>Revision</b>   | 7,363        | 8,741        | 9,407        | 9,492        |
| Of which revisions to TES   | 8,355        | 4,663        | 4,100        | 8,838        |
| Of which English Housing Associations                             | 9,412        | 8,705        | 9,654        | 10,245       |
| Of which revisions to TES to TME accounting adjustment (excl HAs) | -10,404      | -4,627       | -4,347       | -9,591       |
| <b>Scotland/UK Ratio</b>  |              |              |              |              |
| Estimates published in GERS 2014-15                               | 9.3%         | 9.4%         | 9.3%         | 9.3%         |
| Estimates published in GERS 2015-16                               | 9.2%         | 9.2%         | 9.1%         | 9.1%         |
| <b>Revision (% point)</b>   | <b>-0.1%</b> | <b>-0.1%</b> | <b>-0.2%</b> | <b>-0.2%</b> |

## B Revisions

The table below shows the revisions to spend in 2014-15 by function, and by Scottish Government, Local Government, and Public Corporations. UK public sector debt interest has been revised up due to the inclusion of English Housing Associations in the UK total. This has no effect on the Scottish estimate.

In 2014-15, revisions primarily reflect revisions to Scottish Local Government expenditure, which has been revised down by £307 million following the move from provisional outturn budget estimates to final outturn estimates. The main revisions occur to spending on social protection (-£130 million), housing and community amenities (-£104 million), education and training (-£53 million), environment protection (-£67 million), and public and common services (+£58 million).

Scottish Government expenditure for 2014-15 has been revised up by approximately £90 million. This primarily reflects the inclusion of expenditure associated with NPD projects into transport TES. As shown in Table A.8, this increase is currently offset as part of the accounting adjustments.

Excluding spending moved from the accounting adjustments to TES, Other UK Government expenditure in Scotland has been revised down by approximately £70 million. This primarily reflects down revisions to UK spending for science and technology, defence, international services, and public and common services.

**Table B.5: Revisions to Estimates of Public Sector Expenditure: Scotland and UK 2014-15**

|                                     | £ million               |                           |             | %            |              |             |
|-------------------------------------|-------------------------|---------------------------|-------------|--------------|--------------|-------------|
|                                     | Scotland                |                           |             | UK           | Scotland     | UK          |
|                                     | Scottish Govt, LAs, PCs | Other UK Govt departments | Total       |              |              |             |
| <b>General public services</b>      |                         |                           |             |              |              |             |
| Public and common services          | 57                      | -14                       | 43          | -65          | 3.0%         | -0.6%       |
| International services              | 0                       | -27                       | -27         | -333         | -3.0%        | -3.1%       |
| Public sector debt interest         | 0                       | 0                         | 0           | 3,145        | 0.0%         | 9.4%        |
| Defence                             | 0                       | 16                        | 16          | 199          | 0.5%         | 0.5%        |
| Public order and safety             | -1                      | 0                         | -1          | -288         | -0.1%        | -1.0%       |
| <b>Economic affairs</b>             |                         |                           |             |              |              |             |
| Enterprise and economic development | -63                     | 0                         | -62         | 313          | -6.3%        | 6.6%        |
| Science and technology              | 2                       | -44                       | -43         | -461         | -9.0%        | -9.3%       |
| Employment policies                 | 0                       | 0                         | 0           | -7           | -0.1%        | -0.2%       |
| Agriculture, forestry and fisheries | 40                      | 0                         | 40          | 35           | 4.5%         | 0.7%        |
| Transport                           | 31                      | 0                         | 32          | -337         | 1.1%         | -1.6%       |
| Environment protection              | -66                     | 0                         | -66         | -115         | -5.1%        | -1.0%       |
| Housing and community amenities     | -104                    | 0                         | -104        | -480         | -5.8%        | -4.5%       |
| Health                              | 41                      | 0                         | 42          | -72          | 0.4%         | -0.1%       |
| Recreation, culture and religion    | 2                       | 0                         | 2           | 455          | 0.1%         | 3.8%        |
| Education and training              | -76                     | 0                         | -76         | 1,344        | -1.0%        | 1.6%        |
| Social protection                   | -129                    | 191                       | 62          | 3,003        | 0.3%         | 1.2%        |
| EU Transactions <sup>1</sup>        | 0                       | 183                       | 183         | 2,502        | 272.7%       | 67.2%       |
| Accounting adjustments              | -59                     | -477                      | -535        | 3,156        | -9.3%        | 5.1%        |
| <b>Total revision</b>               | <b>-327</b>             | <b>-172</b>               | <b>-498</b> | <b>9,492</b> | <b>-0.3%</b> | <b>1.3%</b> |

<sup>1</sup> Scottish EU Transactions in 2014-15 have been revised up by £183 million, 7.3% of the UK revision. This reflects the move to bring VAT-based payments to the EU into from the accounting adjustments into the EU Transactions line, as part of the implementation of ESA10. As the previous Scottish figure for 2014-15 is relatively close to zero (£67 million) the percentage change in the UK.

## Revisions to Estimates of Capital Consumption from GERS 2014-15

Table B.6 sets out the changes to estimates of capital consumption in Scotland and the UK between this report and GERS 2014-15. 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.

| <b>Table B.6: Revisions to capital consumption: 2011-12 to 2014-15</b> |           |             |             |           |
|--|-----------|-------------|-------------|-----------|
|  | £ million |             |             |           |
|  | 2011-12   | 2012-13     | 2013-14     | 2014-15   |
| <b>Scotland</b>  |           |             |             |           |
| Estimates published in GERS 2014-15                                    | 3,783     | 3,741       | 4,070       | 4,143     |
| Estimates published in GERS 2015-16                                    | 3,780     | 3,641       | 3,856       | 4,137     |
| <b>Revision</b>  | <b>-3</b> | <b>-100</b> | <b>-214</b> | <b>-6</b> |

Capital consumption in 2012-13 and 2013-14 has been revised down reflecting revisions to Scottish public corporation gross operating surplus in these years. This reflects refinements to the compilation methodologies used by ONS for a number of public corporations, as discussed in the revisions to gross operating surplus.

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.

## Revisions to Fiscal Aggregates from GERS 2014-15

Table B.7 shows revisions to the current budget balance from the previous publication of GERS. In general, both the UK and Scotland's current budget balances have improved in all years apart from 2012-13. This reflects the revisions to expenditure discussed above, combined with the final implementation of expenditure reclassification from current to capital associated with the European System of Accounts 2010. The final implementation has resulted in a larger amount of defence spend being reclassified from current to capital, improving the current budget balance.

**Table B.7: Revisions to Estimates of the Current Budget Balance: 2011-12 to 2014-15**

|  | £ million |         |         |         |
|--|-----------|---------|---------|---------|
|  | 2011-12   | 2012-13 | 2013-14 | 2014-15 |
| <b>Estimates published in GERS 2014-15</b>                 |           |         |         |         |
| Excluding North Sea revenue                                | -15,339   | -14,911 | -14,332 | -13,741 |
| Including North Sea revenue (per capita share)             | -14,423   | -14,393 | -13,936 | -13,555 |
| Including North Sea revenue (geographical share)           | -5,707    | -9,622  | -10,332 | -11,937 |
| UK   | -83,473   | -84,760 | -73,754 | -59,777 |
| <b>Estimates published in GERS 2015-16</b>                 |           |         |         |         |
| Excluding North Sea revenue                                | -15,186   | -15,008 | -14,015 | -13,333 |
| Including North Sea revenue (per capita share)             | -14,269   | -14,489 | -13,619 | -13,147 |
| Including North Sea revenue (geographical share)           | -5,553    | -9,703  | -10,015 | -11,531 |
| UK   | -81,426   | -84,681 | -72,008 | -56,925 |
| <b>Difference (£ million) (positive shows improvement)</b> |           |         |         |         |
| Excluding North Sea revenue                                | 153       | -97     | 317     | 408     |
| Including North Sea revenue (per capita share)             | 154       | -96     | 317     | 408     |
| Including North Sea revenue (geographical share)           | 154       | -81     | 317     | 406     |
| UK   | 2,047     | 79      | 1,746   | 2,852   |

Table B.8 shows revisions to the net fiscal balance from the previous publication of GERS. For Scotland, the revisions pattern is similar to that for the current budget balance. For the UK, the reclassification of English housing associations into the public sector has worsened the net fiscal balance in all years.

**Table B.8: Revisions to Estimates of the Net Fiscal Balance: 2011-12 to 2014-15**

|  | £ million |          |          |         |
|--|-----------|----------|----------|---------|
|  | 2011-12   | 2012-13  | 2013-14  | 2014-15 |
| <b>Estimates published in GERS 2014-15</b>                 |           |          |          |         |
| Excluding North Sea revenue                                | -18,879   | -19,470  | -17,431  | -16,738 |
| Including North Sea revenue (per capita share)             | -17,963   | -18,952  | -17,036  | -16,551 |
| Including North Sea revenue (geographical share)           | -9,247    | -14,181  | -13,432  | -14,934 |
| UK   | -113,518  | -119,567 | -100,889 | -89,101 |
| <b>Estimates published in GERS 2015-16</b>                 |           |          |          |         |
| Excluding North Sea revenue                                | -18,430   | -19,303  | -16,981  | -16,171 |
| Including North Sea revenue (per capita share)             | -17,513   | -18,783  | -16,586  | -15,985 |
| Including North Sea revenue (geographical share)           | -8,797    | -13,997  | -12,982  | -14,369 |
| UK   | -115,546  | -123,216 | -103,933 | -91,668 |
| <b>Difference (£ million) (positive shows improvement)</b> |           |          |          |         |
| Excluding North Sea revenue                                | 449       | 167      | 450      | 567     |
| Including North Sea revenue (per capita share)             | 450       | 169      | 450      | 566     |
| Including North Sea revenue (geographical share)           | 450       | 184      | 450      | 565     |
| UK   | -2,028    | -3,649   | -3,044   | -2,567  |

In addition to revisions to the fiscal aggregates in cash terms, there are also changes to the fiscal aggregates expressed as a share of GDP due to revisions to GDP estimates. These are shown in Tables B.9 and B.10 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 would generally have improved by between 0.2% points and 0.5% points in all years. This reflects upward revisions to the nominal value of GDP in all years made in the latest Quarterly

National Accounts Scotland, following the annual publication of updated Supply and Use Tables for 1998-2013 in July.

The revision to GDP is primarily due to improvements to data sources and methods for estimating imputed rental, in line with similar developments in the UK. As a result of this, Scotland's share of UK GDP has been revised up. This means that revisions to GDP in Scotland have a greater impact on fiscal aggregates than for the UK as a whole.

**Table B.9: Impact of Revisions to GDP on Estimates of the Current Budget Balance**

|  | 2011-12                   | 2012-13 | 2013-14 | 2014-15 |
|--|---------------------------|---------|---------|---------|
| <b>Estimates published in GERS 2014-15</b>             | <b>% of GDP</b>           |         |         |         |
| Excluding North Sea revenue                            | -12.0%                    | -11.5%  | -10.6%  | -9.8%   |
| Including North Sea revenue (population share)         | -11.0%                    | -10.9%  | -10.2%  | -9.5%   |
| Including North Sea revenue (geographical share)       | -3.7%                     | -6.5%   | -6.7%   | -7.8%   |
| <b>UK</b>  | -5.2%                     | -5.1%   | -4.2%   | -3.3%   |
| <b>GERS 2014-15 estimate with latest GDP estimates</b> | <b>% of GDP</b>           |         |         |         |
| Excluding North Sea revenue                            | -11.8%                    | -11.2%  | -10.2%  | -9.5%   |
| Including North Sea revenue (population share)         | -10.9%                    | -10.6%  | -9.8%   | -9.3%   |
| Including North Sea revenue (geographical share)       | -3.7%                     | -6.3%   | -6.5%   | -7.6%   |
| <b>UK</b>  | -5.1%                     | -5.0%   | -4.2%   | -3.3%   |
| <b>Change (positive denotes improvement)</b>           | <b>% point difference</b> |         |         |         |
| Excluding North Sea revenue                            | 0.2%                      | 0.3%    | 0.4%    | 0.3%    |
| Including North Sea revenue (population share)         | 0.2%                      | 0.3%    | 0.3%    | 0.3%    |
| Including North Sea revenue (geographical share)       | 0.0%                      | 0.2%    | 0.2%    | 0.2%    |
| <b>UK</b>  | 0.1%                      | 0.1%    | 0.0%    | 0.0%    |

**Table B.10: Impact of Revisions to GDP on Estimates of the Net Fiscal Balance**

|  | 2011-12                   | 2012-13 | 2013-14 | 2014-15 |
|--|---------------------------|---------|---------|---------|
| <b>Estimates published in GERS 2014-15</b>             | <b>% of GDP</b>           |         |         |         |
| Excluding North Sea revenue                            | -14.7%                    | -15.0%  | -12.9%  | -11.9%  |
| Including North Sea revenue (population share)         | -13.8%                    | -14.3%  | -12.4%  | -11.6%  |
| Including North Sea revenue (geographical share)       | -6.1%                     | -9.5%   | -8.8%   | -9.7%   |
| <b>UK</b>  | -7.0%                     | -7.2%   | -5.8%   | -4.9%   |
| <b>GERS 2014-15 estimate with latest GDP estimates</b> | <b>% of GDP</b>           |         |         |         |
| Excluding North Sea revenue                            | -14.5%                    | -14.6%  | -12.4%  | -11.6%  |
| Including North Sea revenue (population share)         | -13.6%                    | -14.0%  | -12.0%  | -11.3%  |
| Including North Sea revenue (geographical share)       | -6.0%                     | -9.3%   | -8.5%   | -9.5%   |
| <b>UK</b>  | -6.9%                     | -7.1%   | -5.7%   | -4.9%   |
| <b>Change (positive denotes improvement)</b>           | <b>% point difference</b> |         |         |         |
| Excluding North Sea revenue                            | 0.2%                      | 0.4%    | 0.5%    | 0.3%    |
| Including North Sea revenue (population share)         | 0.2%                      | 0.3%    | 0.4%    | 0.3%    |
| Including North Sea revenue (geographical share)       | 0.1%                      | 0.2%    | 0.3%    | 0.2%    |
| <b>UK</b>  | 0.1%                      | 0.1%    | 0.1%    | 0.0%    |

# C

## LIST OF ABBREVIATIONS

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|       |   |
|-------|---|
| CRA   | Country and Regional Analysis                 |
| COFOG | Classification of the Functions of Government |
| DECC  | Department of Energy and Climate Change       |
| DWP   | Department for Work and Pensions              |
| ESA10 | European System of Accounts 2010              |
| 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                        |
| IMF   | International Monetary Fund                   |
| NPD   | Non-Profit Distributing                       |
| NHS   | National Health Service                       |
| NRS   | National Records of Scotland                  |
| OBR   | Office for Budget Responsibility              |
| ONS   | Office for National Statistics                |
| PFI   | Private Finance Initiative                    |
| PPP   | Public Private Partnership                    |
| PSAT2 | Public Sector Accounts Table 2                |
| QNAS  | Quarterly National Accounts Scotland          |
| SNAP  | Scottish National Accounts Project            |
| TES   | Total Expenditure on Services                 |
| TME   | Total Managed Expenditure                     |
| UK    | United Kingdom                                |
| UN    | United Nations                                |
| VAT   | Value Added Tax                               |

# D

## GLOSSARY

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**Accounting Adjustment:** the adjustment required to reconcile Total Expenditure on Services provided in the CRA with Total Managed Expenditure. The largest element of the accounting adjustment is capital consumption.

**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. It is a National Accounts concept similar to the concept of depreciation in financial accounts.

**Capital Expenditure:** includes capital formation, the net acquisition of land, expenditure on capital grants, and the value of assets acquired under finance leases. Under ESA10 it also includes most research and development expenditure. 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 the executive agencies or other bodies controlled by central government.

**Classification of the Functions of Government:** the functions in GERS are based on the UN's Classification of the Functions of Government (COFOG). The tables are consistent with UN COFOG level 1, with additional detail provided for general public services and economic affairs. Further detail is provided in Public Expenditure Statistical Analyses.

**Country and Regional Analysis (CRA):** the primary source of outturn data on 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 and interest and dividends payable by public corporations to the private sector and abroad. Public sector current expenditure is 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. It 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.

**EU Transactions:** EU transactions cover public sector transactions with the EU, excluding those associated with customs duties. It does not include any transactions between the EU and private bodies.



**Extra-regio:** the part of UK economic activity that is not allocated to a specific region. Extra-regio includes 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:** 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.

**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 (see ESA10).

**Net Fiscal Balance:** the difference between estimated total public sector spending for Scottish residents and estimated total public sector revenue raised in Scotland.

**Net Investment:** public sector capital expenditure, net of capital consumption.

**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 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.

**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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