

GOVERNMENT  
EXPENDITURE & REVENUE  
SCOTLAND 2016-17

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AUGUST 2017



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# SUMMARY

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## Introduction

- Government Expenditure and Revenue Scotland (GERS) addresses three questions about Scotland's public sector accounts under the current constitutional arrangements:
  - What revenues were raised in Scotland?
  - How much did the country pay for the public services that were consumed?
  - To what extent did the revenues raised cover the costs of these public services?
- 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 estimates in GERS are consistent with the UK Public Sector Finances published in July 2017 by the Office for National Statistics (ONS). 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).

## Recent changes to GERS

- A number of methodological and presentational changes have been introduced in the publication this year. These include changes to the methodologies used to estimate a number of taxes. These were consulted on with the Scottish Economic Statistics Consultation Group (SESCG) and formed part of a wider public consultation. The changes are discussed in the main chapters of the publication, and are summarized in the Scottish Government response to the consultation.<sup>1</sup>
- The ONS has reclassified Scottish, Welsh, and Northern Irish housing associations<sup>2</sup> into the public sector, bringing the devolved administrations into line with the treatment applied in England since 2015. On average, the change increases Scottish public sector revenue by around £360 million a year and public sector expenditure by £530 million a year. This produces a small deterioration in the Scottish net fiscal balance since 2008-09. The changes to the treatment of housing associations elsewhere in the UK similarly impacted on the overall UK net fiscal balance.

## Scotland's revenue

- Table S.1 shows two estimates of Scotland's public sector revenue: (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 2016-17 was £57.7 billion. As a percentage of GDP, non-North Sea revenues increased to 38.5%.
- Non-North Sea revenue in Scotland grew by 6.1% in 2016-17, similar to that for the UK as a whole, 6.2%. This relatively strong growth is driven by increased national insurance contributions and corporation tax revenue. The increase in national insurance

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<sup>1</sup> <http://www.gov.scot/Topics/Statistics/Browse/Economy/GERS/GERSConsultation2017>

<sup>2</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.

contributions reflects the impact of policy change, such as the abolition of the contracting out rebate, whilst the increase in corporation tax in part reflects weaker business investment, which reduces tax-deductible allowances.

- Including an illustrative geographical share of the North Sea, total Scottish revenue was £58.0 billion, an increase of 6.3% between 2015-16 and 2016-17. This is faster than the growth in non-North Sea revenue, reflecting the increase in Scottish North Sea revenue, which grew from £56 million in 2015-16 to £208 million in 2016-17. This is the first time that Scottish North Sea receipts have increased since 2011-12. Although Scottish North Sea receipts increased, Scottish North Sea GDP continued to decline.
- Scotland's non-North Sea revenue was 8.0% of total UK revenue in 2016-17.

<b>Table S.1: Total Revenue: 2012-13 to 2016-17</b>					
	<b>£ million</b>				
	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
Scotland – Excluding North Sea revenue	48,912	50,805	52,640	54,446	57,743
Scotland – Including North Sea revenue (geographical share)	53,556	54,252	54,014	54,501	57,952
	<b>As % of UK total revenue</b>				
Scotland – Excluding North Sea revenue	8.1%	8.1%	8.0%	8.0%	8.0%
Scotland – Including North Sea revenue (geographical share)	8.8%	8.6%	8.2%	8.0%	8.0%
	<b>As % of GDP</b>				
Scotland – Excluding North Sea revenue	37.2%	36.8%	36.6%	37.4%	38.5%
Scotland – Including North Sea revenue (geographical share)	35.9%	34.8%	34.4%	35.0%	36.4%
<i>UK – including all North Sea revenue</i>	<i>36.1%</i>	<i>36.1%</i>	<i>35.8%</i>	<i>36.2%</i>	<i>37.0%</i>

- 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 the UK average by £349 in 2016-17, and has been consistently lower by around £300 in earlier years.
- 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 £312 lower than the UK average.

<b>Table S.2: Revenue per person: Scotland and UK 2012-13 to 2016-17</b>					
	<b>£ per person</b>				
	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
<b>Scotland</b>					
Excluding North Sea revenue	9,199	9,527	9,832	10,118	10,684
Including North Sea revenue (geographical share)	10,072	10,174	10,089	10,129	10,722
<b>UK</b>					
Excluding North Sea revenue	9,467	9,808	10,134	10,451	11,033
Including North Sea revenue	9,562	9,879	10,160	10,450	11,035
<b>Difference (Scotland minus UK)</b>					
Excluding North Sea revenue	-268	-281	-302	-333	-349
Including North Sea revenue (geographical share)	511	295	-71	-321	-312

## Summary

### Scotland's expenditure

- Table S.3 below shows estimates of total managed expenditure for Scotland and the UK, the measure of overall public spending in the UK public sector finances. Expenditure increased from £69.0 billion in 2015-16 to £71.2 billion in 2016-17. Scotland's share of UK expenditure is relatively stable over the period, at around 9.2%.
- Expenditure as a share of GDP excluding the North Sea increased in Scotland in 2016-17, whilst falling in the UK. In part, this reflects weaker nominal GDP growth in Scotland. However, spending growth in Scotland has also been higher than the UK as a whole, primarily driven by increased spending by Local Government in Scotland and Scottish public corporations.
- Expenditure as a share of GDP including an illustrative geographical share of the North Sea increased slightly more than as a share of Scottish GDP excluding the North Sea in 2016-17. This reflects the decline in North Sea GDP discussed above.

	2012-13	2013-14	2014-15	2015-16	2016-17
Scotland - £ millions	68,094	67,581	68,487	69,048	71,209
Share of UK (%)	9.3%	9.2%	9.1%	9.2%	9.2%
	<b>As % of GDP</b>				
Scotland - excluding North Sea	51.8%	49.0%	47.6%	47.4%	47.5%
Scotland - including geographic share of North Sea	45.6%	43.4%	43.6%	44.4%	44.7%
UK – including all North Sea	43.3%	41.9%	41.0%	40.0%	39.4%

- Table S.4 below shows estimates of expenditure per person for Scotland and the UK. Expenditure for Scotland has been consistently higher per person than the UK average over the period. The increase in expenditure per person in Scotland in 2016-17 primarily reflects increases in capital expenditure in Scotland, driven by increased spending by Local Government in Scotland and Scottish housing associations.

	<b>£ per person</b>				
	2012-13	2013-14	2014-15	2015-16	2016-17
Scotland	12,807	12,673	12,792	12,832	13,175
UK	11,472	11,468	11,618	11,555	11,739
<i>Difference (Scotland minus UK)</i>	<i>1,334</i>	<i>1,205</i>	<i>1,174</i>	<i>1,277</i>	<i>1,437</i>

### 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 therefore excludes public sector capital investment. 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 around 6 percentage points larger. In 2016-17, the Scottish current budget balance excluding the North Sea improved by 1.7 percentage points, the same as for the UK. 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. However, between 2015-16 and 2016-17 Scotland's current budget balance including the North Sea revenue also improved by 1.7 percentage points.

**Table S.5: Current Budget Balance: Scotland and UK 2012-13 to 2016-17**

	£ million				
	2012-13	2013-14	2014-15	2015-16	2016-17
Scotland - Excluding North Sea	-14,796	-13,792	-12,989	-11,983	-9,776
Scotland - Including North Sea (geographical share)	-10,153	-10,345	-11,615	-11,927	-9,568
<i>UK</i>	-82,786	-70,094	-57,440	-40,491	-8,053
	As % of GDP				
Scotland - Excluding North Sea	-11.3%	-10.0%	-9.0%	-8.2%	-6.5%
Scotland - Including North Sea (geographical share)	-6.8%	-6.6%	-7.4%	-7.7%	-6.0%
<i>UK</i>	-4.9%	-4.0%	-3.1%	-2.1%	-0.4%

- 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.

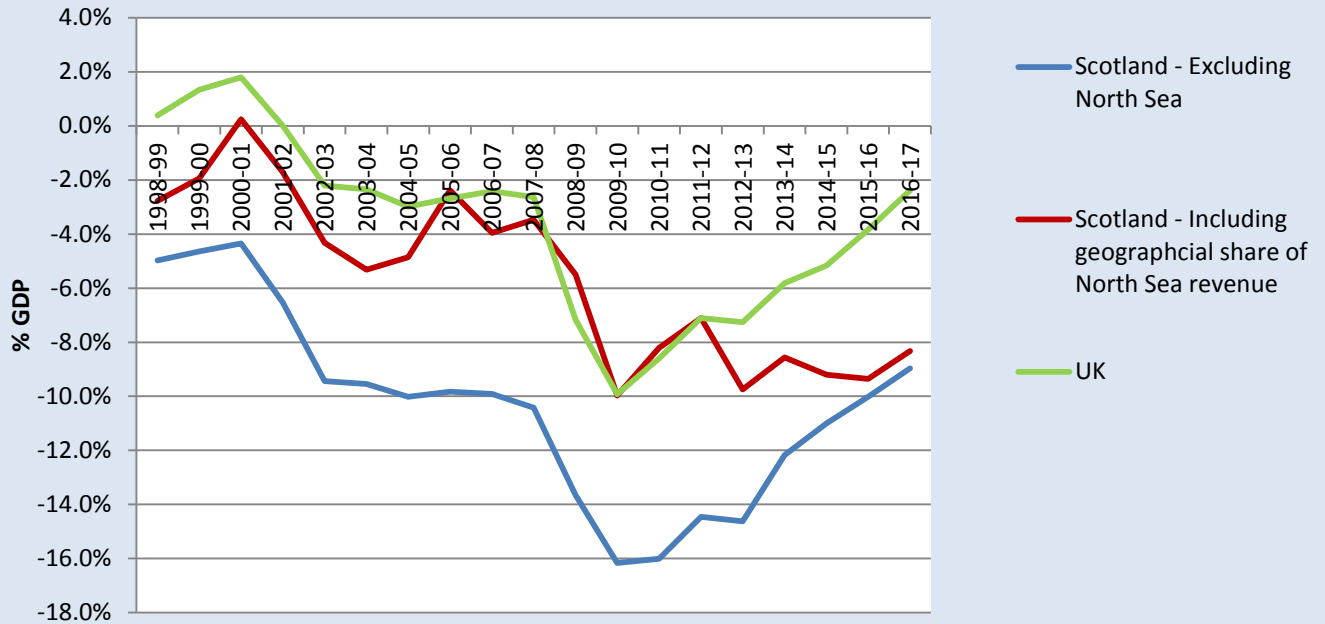
**Table S.6: Net Fiscal Balance: Scotland and UK 2012-13 to 2016-17**

	£ million				
	2012-13	2013-14	2014-15	2015-16	2016-17
Scotland - Excluding North Sea	-19,181	-16,776	-15,847	-14,602	-13,465
Scotland - Including North Sea (geographical share)	-14,538	-13,329	-14,473	-14,546	-13,257
<i>UK</i>	-121,904	-102,074	-94,388	-72,119	-46,215
	As % of GDP				
Scotland - Excluding North Sea	-14.6%	-12.2%	-11.0%	-10.0%	-9.0%
Scotland - Including North Sea (geographical share)	-9.7%	-8.6%	-9.2%	-9.3%	-8.3%
<i>UK</i>	-7.2%	-5.8%	-5.1%	-3.8%	-2.4%

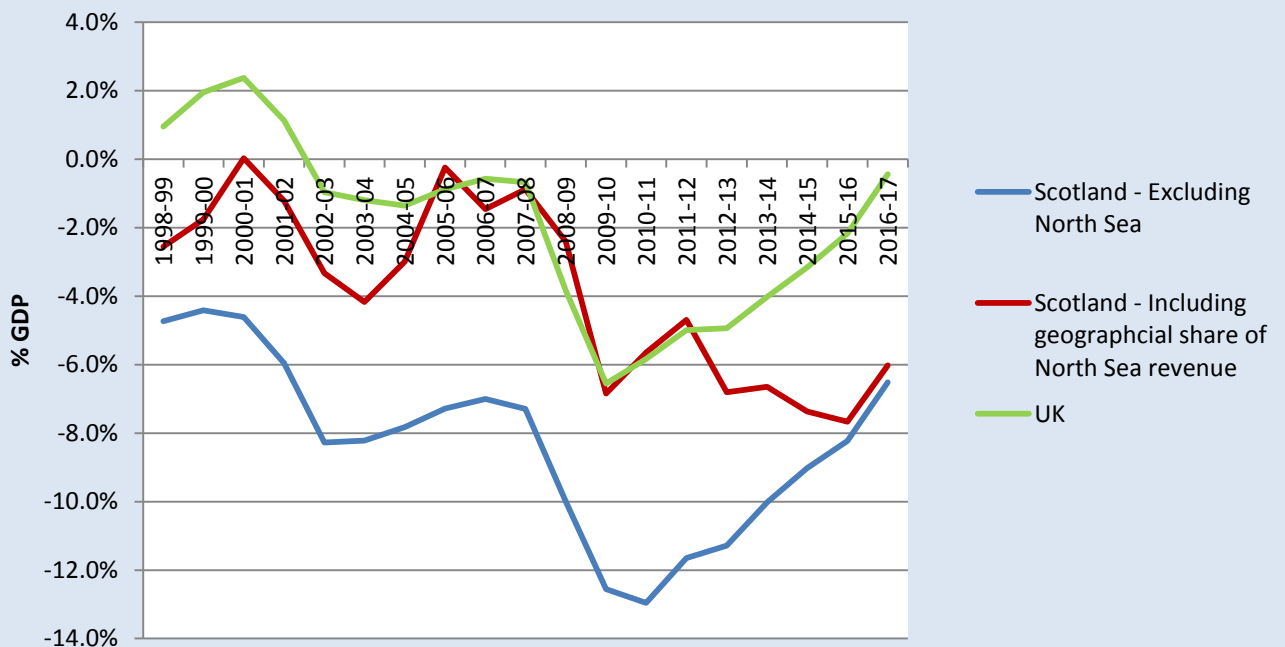
- The net fiscal balance tends to move in the same way as the current budget balance, but is approximately 2 percentage points larger when expressed as a share of GDP. This reflects the fact that capital spending is relatively stable as a share of total spending over time.
- The charts overleaf show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



### Net Fiscal Balance: Scotland & UK 1998-99 to 2016-17



### Current Budget Balance: Scotland & UK 1998-99 to 2016-17



**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 estimates of real terms growth in the economy, and GDP in cash or nominal terms and its components.

**Q: What is the public sector?**

The public sector contains all government bodies, and all bodies which are controlled by government. This includes publicly controlled businesses, such as Scottish Water or the Bank of England. Following recent decisions by the ONS, housing associations are now included in the public sector. In GERS, the Scottish Government, Scottish Local Authorities, and the public corporations they control, such as Scottish Water and Scottish housing associations, are all considered to be Scottish bodies. All other UK public sector bodies are described as 'Other UK Government bodies'.

**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>3</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.

<sup>3</sup> <http://www.gov.scot/Topics/Statistics/Browse/Economy/ScotStat/Meetings>

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.

**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 2016-17, accounting adjustments added £4.3 billion to the estimate of Scottish public sector revenue and £5.1 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.9.

**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. This year's edition of GERS provides a breakdown of revenue into tax and non-tax categories.

# PREFACE

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This report is the twenty-fourth 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>4</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 June and July 2017. The Scottish Government response has been published alongside this publication.<sup>5</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>6</sup>

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<sup>4</sup> <http://www.statisticsauthority.gov.uk/>

<sup>5</sup> <http://www.gov.scot/Topics/Statistics/Browse/Economy/GERS/GERSConsultation2017>

<sup>6</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>7</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>8</sup>

The primary data sources used to estimate Scottish public sector expenditure in GERS are Scottish Government accounting data, and HM Treasury's Public Expenditure Statistical Analyses<sup>9</sup> and the supporting Country and Regional Analysis (CRA).<sup>10</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>11</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>7</sup> <http://www.gov.scot/Topics/Statistics/Browse/Economy/GERS/Methodology>

<sup>8</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>9</sup> <https://www.gov.uk/government/collections/public-expenditure-statistical-analyses-pesa>

<sup>10</sup> <https://www.gov.uk/government/statistics/country-and-regional-analysis-2016>

<sup>11</sup> <http://www.gov.scot/snap>

statistics providing a consistent time series of Scotland's public sector finances from 1998-99 to 2016-17.

The Office for National Statistics published their first estimate of regional public sector finances in May 2017. The Scottish Government, other devolved administrations, ONS, 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

Comparisons of Scottish revenue and expenditure with other parts of the UK are no longer included in GERS, as due to the earlier publication timetable data are not available to produce figures for 2016-17 for each country and region of the UK. Users who are interested in these comparisons are advised to use the Country and Regional Public Sector Finances publication published by the ONS. A comparison between the ONS and GERS figures for Scotland is provided in Box 1.1.

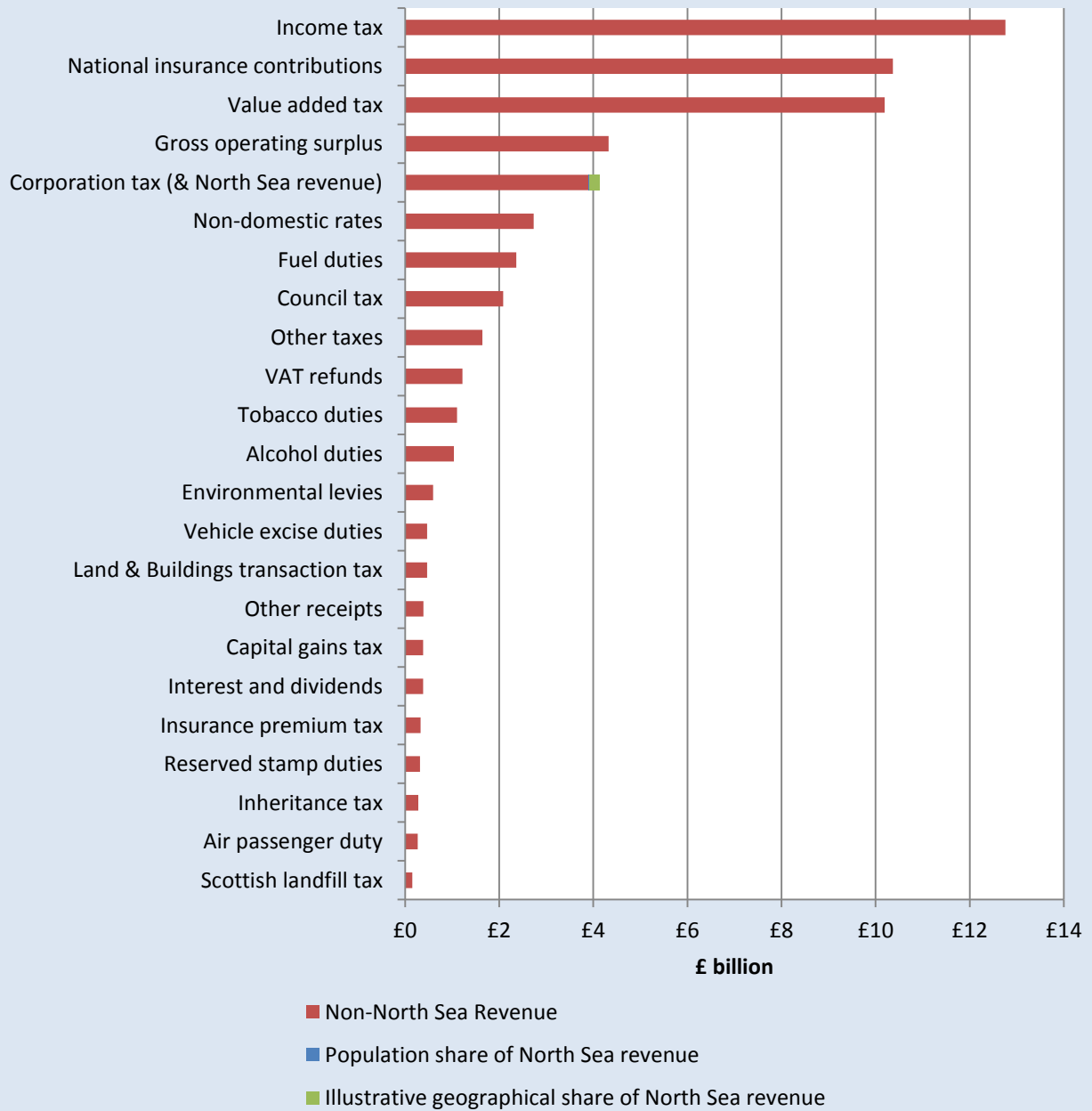
<https://www.ons.gov.uk/releases/countryandregionalpublicsectorfinances>

## 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.

# CHAPTER 1: PUBLIC SECTOR REVENUE

## Total Public Sector Revenue: Scotland 2016-17



# 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 being devolved to the Scottish Parliament, and direct Scottish measures of these revenues will be available. To date, landfill tax, property transaction taxes, and some powers over income tax have been devolved. 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.

### Changes to revenue presentation in GERS 2016-17

Following the recent user consultation, the presentation of revenues has been changed in GERS 2016-17 to align more closely with the presentation used by the Office for Budget Responsibility in its Economic and Fiscal Outlook report.

These changes are purely presentational, and the estimate of total revenue is unaffected. The main changes relate to the presentation of income tax, corporation tax, and VAT. For income tax and corporation tax, elements of revenues which were previously reported as 'other taxes on income and wealth' are now incorporated into these lines, and the 'other taxes on income and wealth' line has been removed. VAT is now split into two lines: VAT, which represents the net cash received by government, and VAT refunds, which represents the value of VAT refunds paid to government departments and local government. In the public finances, these refunds are recorded as both a revenue and expenditure, and so do not affect the net fiscal balance. These changes are discussed in more detail in the consultation document, available at:

<http://www.gov.scot/Topics/Statistics/Browse/Economy/GERS/GERSConsultation2017>

Another change introduced in this year's GERS is the reporting of tax and non-tax revenue separately. This follows requests from a number of users for this breakdown. Non-tax revenues are primarily non-cash accounting adjustments in gross operating surplus, and the operating surplus of public corporations such as Scottish Water. These are discussed in more detail below.

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



## Estimated Revenue 2016-17

Table 1.1 reports estimated public sector revenue in Scotland and the preliminary outturn data for the UK in 2016-17. 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. Income tax, national insurance contributions, and value added tax account for around two thirds of total non-North Sea revenue. 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.

Table 1.1: Revenue: Scotland and UK 2016-17				
	Scotland		UK	Scotland as % of UK
	£ million	% of total non-North Sea taxes	£ million	
Income tax	12,760	24.2%	175,923	7.3%
National insurance contributions	10,367	19.7%	125,937	8.2%
Value added tax	10,193	19.4%	121,520	8.4%
Corporation tax (excluding North Sea)	3,908	7.4%	55,211	7.1%
Fuel duties	2,362	4.5%	27,936	8.5%
Non-domestic rates	2,732	5.2%	29,319	9.3%
Council tax	2,082	4.0%	30,525	6.8%
VAT refunds	1,220	2.3%	13,735	8.9%
Capital gains tax	381	0.7%	8,704	4.4%
Inheritance tax	280	0.5%	4,908	5.7%
Reserved stamp duties	317	0.6%	15,208	2.1%
Scottish Land & Buildings transaction tax	466	0.9%	466	100.0%
Scottish landfill tax	149	0.3%	149	100.0%
Air passenger duty	264	0.5%	3,228	8.2%
Tobacco duties	1,100	2.1%	8,681	12.7%
Alcohol duties	1,038	2.0%	11,117	9.3%
Insurance premium tax	330	0.6%	4,809	6.9%
Vehicle excise duties	466	0.9%	5,997	7.8%
Environmental levies	591	1.1%	5,195	11.4%
Other taxes <sup>1</sup>	1,643	3.1%	19,469	8.4%
<b>Total Non-North Sea taxes</b>	<b>52,652</b>	<b>100%</b>	<b>668,037</b>	<b>7.9%</b>
<b>North Sea taxes</b>				
Population share	7		84	8.2%
Geographical share	208		84	247.9% <sup>2</sup>
<b>Other revenue</b>				
Interest and dividends	381		6,256	6.1%
Gross operating surplus	4,322		47,618	9.1%
Other receipts	388		2,401	16.2%
<b>Total revenue</b>				
<b>Excluding North Sea</b>	<b>57,743</b>		<b>724,312</b>	<b>8.0%</b>
<b>Including population share of the North Sea</b>	<b>57,750</b>		<b>724,396</b>	<b>8.0%</b>
<b>Including illustrative geographical share of the North Sea</b>	<b>57,952</b>		<b>724,396</b>	<b>8.0%</b>
<i>of which: revenue accounting adjustments</i>	4,263		48,839	8.7%

<sup>1</sup> A description of the other taxes line is provided in the detailed methodology paper on the GERS website.

<sup>2</sup> As the receipts for UK Petroleum Revenue Tax are negative, the Scottish share appears unusually high in 2016-17. This is discussed in more detail in Chapter 2.

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 is shown at the bottom of Table 1.1 and 1.4. This is a sub-total of revenue, and does not add to the revenue totals reported in these tables.

Total public sector non-North Sea current revenue in Scotland was estimated to be £57.7 billion in 2016-17. This is equivalent to 8.0% of UK total non-North Sea current revenue which is 0.2 percentage points lower than Scotland's share of the UK population.<sup>13</sup> 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.

Revenues where Scotland's share of UK revenue is relatively low are those associated with property or assets, such as capital gains tax (4.4%), and inheritance tax (5.7%). This reflects the fact that properties and assets in Scotland tend to have lower prices than the UK average.<sup>14</sup> Scotland also has a relatively low share of interest and dividend income. This reflects the fact that the Scottish Government receives proportionally less income from student loans, as the use of such loans is lower in Scotland.

Revenues where Scotland has a relatively large share include non-domestic rates (9.3%), and gross operating surplus (GOS), which is the surpluses (or losses) of public corporations. Scotland is estimated to generate approximately 9.1% of UK public sector GOS, 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 has increased compared to the figures published in GERS 2015-16 due to the inclusion of Scottish housing associations.

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> Scotland also has a relatively high share of 'other receipts', as for the UK this line nets out refunds of non-domestic rates paid by local authorities. Due to the different structure of reporting non-domestic rates in Scotland, these refunds are not separated out for Scotland.

Table 1.2 below provides a time series of Scotland's share of the largest UK revenues. Although Scotland's share of the larger taxes has been relatively stable over time, Scotland's share of other revenue has been declining. To a degree, this reflects the increasing importance of taxes such as capital gains tax and property taxes in the UK public sector finances, where Scotland has a lower share.

<sup>13</sup> Scotland's share of the UK population in 2016-17 was 8.2%. Excluding extra-regio activity, Scotland's share of UK GVA was 7.7% (National Records of Scotland (NRS), Quarterly National Accounts Scotland and UK Economic Accounts).

<sup>14</sup> <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/adhocs/005933householdliabilitiesandassetsfromthewealthandassetssurvey2012to2014>

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

<sup>16</sup> <https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthandlifeexpectancies/bulletins/adultsmokinghabitsingreatbritain/2016>

<sup>17</sup> <https://www.gov.uk/government/statistics/family-food-2015>

**Table 1.2: Non-North Sea Revenue: Scotland as share of UK**

	per cent of UK revenue				
	2012-13	2013-14	2014-15	2015-16	2016-17
Income Tax	7.3%	7.2%	7.3%	7.3%	7.3%
Corporation tax (excl North Sea)	7.0%	7.0%	7.3%	7.1%	7.1%
National insurance contributions	8.2%	8.2%	8.2%	8.2%	8.2%
Value added tax	8.3%	8.5%	8.4%	8.4%	8.4%
Local authority revenue	8.2%	8.0%	8.1%	8.0%	8.0%
All other revenue	8.9%	8.8%	8.6%	8.5%	8.4%
<b>Total current non-North Sea revenue</b>	<b>8.1%</b>	<b>8.1%</b>	<b>8.0%</b>	<b>8.0%</b>	<b>8.0%</b>

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

## Estimated Revenue: Scotland and the UK, 2012-13 to 2016-17

Table 1.4 overleaf shows estimated current revenue in Scotland and the UK between 2012-13 and 2016-17. Non-North Sea revenue in Scotland is estimated to have grown by 18.1% between 2012-13 and 2016-17 in nominal terms, less than for the UK as a whole (19.9%). Around a third of the difference is due to slower growth in capital gains tax in Scotland. More generally, the difference reflects the fact that Scotland's population, and therefore its tax base, has grown more slowly than in the UK as a whole.

Table 1.3 shows estimates of revenue per person for Scotland and the UK between 2012-13 and 2016-17. Excluding North Sea revenue, revenue per person in Scotland has been lower than in the UK by approximately £300 per year. Including an illustrative geographical share of North Sea revenue the difference is more variable.

**Table 1.3: Revenue Per Person: Scotland and UK 2012-13 to 2016-17**

	£ per person				
	2012-13	2013-14	2014-15	2015-16	2016-17
<b>Scotland</b>					
Excluding North Sea revenue	9,199	9,527	9,832	10,118	10,684
Including North Sea revenue (population share)	9,293	9,597	9,858	10,117	10,685
Including North Sea revenue (geographical share)	10,072	10,174	10,089	10,129	10,722
<b>UK</b>					
Excluding North Sea revenue	9,467	9,808	10,134	10,451	11,033
Including North Sea revenue	9,562	9,879	10,160	10,450	11,035
<b>Difference (Scotland minus UK)</b>					
Excluding North Sea revenue	-268	-281	-302	-333	-349
Including North Sea revenue (population share)	-268	-281	-302	-333	-349
Including North Sea revenue (geographical share)	511	295	-71	-321	-312

**Box 1.1: Comparison between GERS and ONS 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.

The Office for National Statistics (ONS) now publishes public sector finances for the countries and regions of the UK. The first estimates covering the period to 2015-16 were published earlier in 2017. Further information, including details of the ONS methodology, is available at:

<https://www.ons.gov.uk/releases/countryandregionalpublicsectorfinances>

In most cases, the estimates in GERS and the ONS publication are very similar. For some taxes, notably capital gains tax and air passenger duty, there are methodological differences between the two publications. ONS, 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. For capital gains tax, the ONS uses estimates covering only individuals reported on an accruals basis, whilst GERS uses estimates covering individuals and trusts reported on a cash basis. For air passenger duty, GERS uses a bottom up estimate of Scottish receipts based on Scottish Civil Aviation Authority data, whilst the ONS use a top-down apportionment using UK data. Together, these two differences result in the estimates of Scottish receipts in GERS being £119 million lower in 2015-16 than estimated by the ONS, and explain the majority of the overall difference between the publications.

The table below compares the estimates in GERS with those published by ONS. For Non-North Sea taxes; the difference between the ONS and GERS is largely due to air passenger duty and capital gains tax as discussed above. The differences in other Non-North Sea receipts are primarily due to using different data sources for government gross operating surplus. This is an accounting adjustment which is included as both a revenue and expenditure, and so makes no difference to estimates of the net fiscal balance. Following the alignment of North Sea methodologies, discussed in more detail in Chapter 2, estimates are now largely identical.

**Estimates of Total Scottish Revenues 2012-13 to 2016-17**

	£ million				
	2012-13	2013-14	2014-15	2015-16	2016-17
<b>Non-North Sea taxes</b>					
GERS	44,161	45,917	47,678	49,450	52,652
ONS	44,197	45,983	47,770	49,565	n/a
<b>Difference</b>	<b>-36</b>	<b>-66</b>	<b>-92</b>	<b>-115</b>	<b>n/a</b>
<b>Other Non-North Sea receipts</b>					
GERS	4,751	4,887	4,961	4,996	5,091
ONS	4,867	5,045	5,265	5,348	n/a
<b>Difference</b>	<b>-116</b>	<b>-158</b>	<b>-304</b>	<b>-352</b>	<b>n/a</b>
<b>Geographical share of North Sea revenues</b>					
GERS	4,643	3,448	1,374	56	208
ONS	4,640	3,446	1,373	52	n/a
<b>Difference</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>4</b>	<b>n/a</b>

# 1 Public Sector Revenue

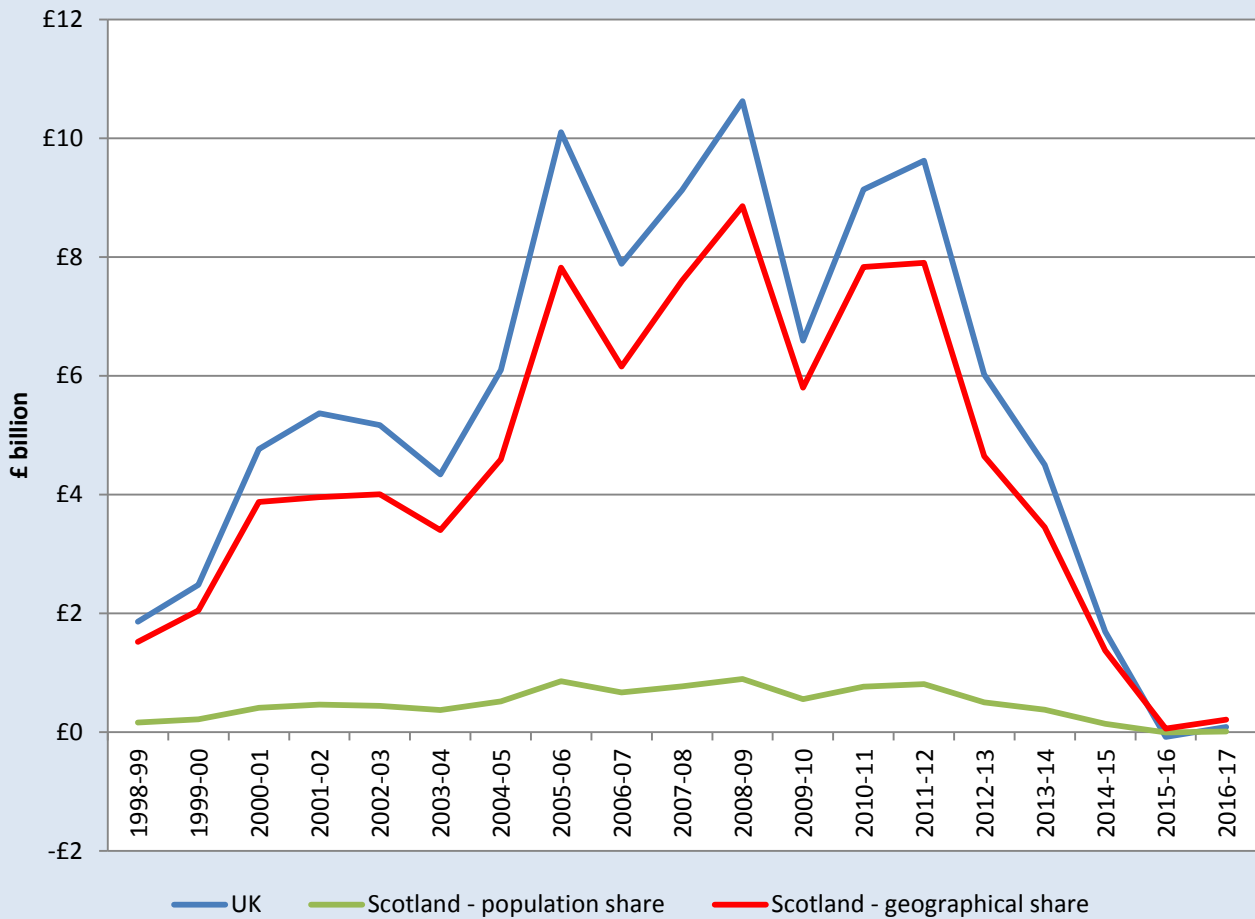
**Table 1.4: Revenue: Scotland and UK 2012-13 to 2016-17**

	£ million									
	Scotland					UK				
	2012-13	2013-14	2014-15	2015-16	2016-17	2012-13	2013-14	2014-15	2015-16	2016-17
Income tax	11,145	11,393	11,866	12,247	12,760	152,296	157,623	163,622	168,880	175,923
National insurance contributions	8,581	8,798	9,077	9,383	10,367	104,483	107,306	110,260	114,061	125,937
Value added tax	8,332	9,077	9,325	9,780	10,193	100,769	106,521	111,244	116,502	121,520
Corporation tax (excluding North Sea)	2,627	2,682	3,084	3,207	3,908	37,607	38,332	42,523	45,290	55,211
Fuel duties	2,257	2,290	2,310	2,333	2,362	26,571	26,881	27,155	27,621	27,936
Non-domestic rates	2,347	2,367	2,511	2,579	2,732	26,301	27,111	27,500	28,710	29,319
Council tax	1,938	1,964	1,995	2,047	2,082	26,139	27,355	28,128	28,989	30,525
VAT refunds	1,279	1,202	1,192	1,245	1,220	13,659	13,646	13,602	14,012	13,735
Capital gains tax	318	238	291	310	381	3,926	3,907	5,559	7,083	8,704
Inheritance tax	175	207	222	269	280	3,150	3,541	3,879	4,712	4,908
Reserved stamp duties	464	661	741	279	317	9,140	12,481	13,779	13,756	15,208
Scottish Land & Buildings transaction tax	0	0	0	425	466	0	0	0	425	466
Scottish landfill tax	0	0	0	147	149	0	0	0	147	149
Air passenger duty	213	225	243	247	264	2,818	3,003	3,205	3,040	3,228
Tobacco duties	1,281	1,232	1,170	1,155	1,100	9,590	9,556	9,251	9,106	8,681
Alcohol duties	946	972	961	996	1,038	10,139	10,308	10,449	10,697	11,117
Insurance premium tax	203	211	204	256	330	3,033	3,018	2,973	3,717	4,809
Vehicle excise duties	481	488	458	458	466	6,003	6,121	5,910	5,922	5,997
Environmental levies	269	343	406	507	591	2,464	3,128	3,657	4,526	5,195
Other taxes	1,306	1,568	1,623	1,579	1,643	14,969	17,601	18,346	19,138	19,469
<b>Total Non-North Sea taxes</b>	<b>44,161</b>	<b>45,917</b>	<b>47,678</b>	<b>49,450</b>	<b>52,652</b>	<b>553,057</b>	<b>577,439</b>	<b>601,042</b>	<b>626,334</b>	<b>668,037</b>
<b>North Sea taxes</b>										
Population share of North Sea revenue	502	374	140	-7	7	6,020	4,499	1,691	-80	84
Illustrative geographical share of North Sea revenue	4,643	3,448	1,374	56	208	6,020	4,499	1,691	-80	84
<b>Other receipts</b>										
Interest and dividends	488	465	394	418	381	6,365	6,471	6,352	6,593	6,256
Gross operating surplus	3,885	4,057	4,082	4,170	4,322	42,261	43,808	45,033	46,349	47,618
Other receipts	378	366	485	408	388	2,385	2,264	3,482	2,602	2,401
<b>Total revenue (excl North Sea revenue)</b>	<b>48,912</b>	<b>50,805</b>	<b>52,640</b>	<b>54,446</b>	<b>57,743</b>	<b>604,069</b>	<b>629,982</b>	<b>655,909</b>	<b>681,878</b>	<b>724,312</b>
<b>Total revenue (incl pop share North Sea revenue)</b>	<b>49,414</b>	<b>51,178</b>	<b>52,780</b>	<b>54,439</b>	<b>57,750</b>	<b>610,089</b>	<b>634,481</b>	<b>657,600</b>	<b>681,798</b>	<b>724,396</b>
<b>Total revenue (incl geog share North Sea revenue)</b>	<b>53,556</b>	<b>54,252</b>	<b>54,014</b>	<b>54,501</b>	<b>57,952</b>	<b>610,089</b>	<b>634,481</b>	<b>657,600</b>	<b>681,798</b>	<b>724,396</b>
<i>Of which, revenue accounting adjustment</i>	3,790	3,938	3,956	4,114	4,263	42,522	44,112	45,433	47,496	48,839



# CHAPTER 2: NORTH SEA REVENUE

## North Sea Revenue: 1998-99 to 2016-17



# 2

## NORTH SEA REVENUE

### Introduction

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

In February 2017, the ONS changed the reporting of corporation tax to move to an accruals basis. This change aims to better reflect the time at which the economic activity relating to the tax receipts took place, in accordance with the principles of the European System of National Accounts (ESA 2010). Following a public consultation, this change has also been made to the reporting of North Sea revenue in GERS. This change applies from 2000-01 onwards. The main impact of the change is to shift revenue between years, smoothing the profile of revenue. Although there are some larger changes in individual years, overall as a result of the change total North Sea corporation tax revenue between 2000-01 and 2016-17 has been revised by around £100m, or 0.1%. The changes are discussed in more detail in a methodology note available on the ONS website.<sup>18</sup>

Table 2.1 shows the revenue raised from each component of North Sea revenue since 2012-13. UK North Sea revenue was £6.0 billion in 2012-13, but has declined since, due to lower production, rising expenditure, and, since 2014-15, lower oil prices. UK North Sea revenue was £84 million in 2016-17. In order to align the presentation of revenue with that used by the OBR, revenue from the emissions trading scheme is no longer presented here, but is now included in the 'other taxes' line.

**Table 2.1: Composition of North Sea Revenue: UK 2012-13 to 2016-17**

	£ million				
	2012-13	2013-14	2014-15	2015-16	2016-17
Licence fees	69	71	70	72	72
North Sea corporation tax	4,214	3,310	1,544	410	661
Petroleum revenue tax	1,737	1,118	77	-562	-649
<b>Total</b>	<b>6,020</b>	<b>4,499</b>	<b>1,691</b>	<b>-80</b>	<b>84</b>

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.

During 2016-17, the oil price averaged \$48.5. This represents a slight increase from \$47.3 in the previous year but is still significantly lower than its level in 2013-14 (\$107.6).<sup>19</sup> However, as most North Sea operators sell their oil in dollars, the decline in the sterling dollar exchange rate, which was on average 12% lower in 2016-17 compared to 2015-16 will have provided a boost to the sterling value of their production.<sup>20</sup>

<sup>18</sup> <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/articles/improvementsstoaccrualsmethodologyforcorporationtaxbankcorporationtaxsurchargeandthebanklevy/2017>

<sup>19</sup> <https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=RBRT&f=M>

<sup>20</sup> <https://www.gov.uk/government/publications/exchange-rates-for-customs-and-vat-yearly>



## 2 North Sea Revenue

North Sea production remained broadly stable in 2016-17 compared to 2015-16, with gas production up 2%<sup>21</sup> while crude oil and natural gas liquid production fell by 0.6%.<sup>22</sup> This followed increases in production in 2015-16.

In 2016 total expenditure on the UK continental shelf continued to fall, reducing a further 19% compared to 2015. This was primarily due to lower investment, which fell by 26%, but there were also falls in operating costs and exploration expenditure. In contrast, there was an increase in decommissioning expenditure, which rose by 34% to £1.2 billion, although remained below its 2014 peak of £1.7 billion.<sup>23</sup>

Significant changes were made to the fiscal regime in the March 2015 and 2016 Budgets, including the Supplementary Charge being halved to 10%, and Petroleum Revenue Tax (PRT) progressively being reduced from 50% to 0%.

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.

### 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 shown in GERS:

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				
	2012-13	2013-14	2014-15	2015-16	2016-17
Total North Sea revenue	6,020	4,499	1,691	-80	84
Scotland's population share	502	374	140	-7	7
<b>Scotland's share of North Sea revenue (%)</b>	<b>8.3%</b>	<b>8.3%</b>	<b>8.3%</b>	<b>8.2%</b>	<b>8.2%</b>

<sup>21</sup> <https://www.gov.uk/government/statistics/gas-section-4-energy-trends>

<sup>22</sup> <https://www.gov.uk/government/statistics/oil-and-oil-products-section-3-energy-trends>

<sup>23</sup> <https://www.ogauthority.co.uk/data-centre/data-downloads-and-publications/ukcs-income-and-expenditure/>

## 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 uses the share reported in the ONS Country and Regional Public Sector Finances publication. This is a change from previous years' methodology, which drew upon academic research carried out by Professor Alex Kemp and Linda Stephen from the University of Aberdeen.

The methodological change follows a recommendation from the UK Statistics Authority report on GERS to review and reduce the differences between the GERS and HMRC estimates. Following this recommendation, the Scottish Government and HMRC have been working to compare their estimates across a range of variables such as production of crude oil, non-gaseous liquids, and natural gas; sales revenue; operating expenditure; and capital and decommissioning expenditure. Professor Alex Kemp has also been involved in this process. As well as comparing the results from the two models, the Scottish Government has produced its own estimates of Scotland's share of North Sea revenue. This has built upon the work estimating oil and gas production, income, and expenditure published as part of the Scottish National Accounts Project.

As a result of this work, a number of differences have been identified between the models. Firstly, the estimates use different data, with HMRC analysis based on administrative tax data and Professor Kemp's based on self-reported company data. The main modelling difference relates to the level at which tax liability is estimated. Professor Alex Kemp estimates the tax liability at the field level, whilst HMRC and the Scottish Government estimate the tax liability at company level. Other differences between the models, such as differences between prices, were found to have little impact on the overall tax share. From an analytical perspective, estimating corporation tax liabilities at the company level more closely reflects the reality of how the tax is paid. Using the HMRC data for PRT also reduces the need for estimation, as this tax is now based entirely on administrative data.

Following this work, the changes were consulted on with the Scottish Economic Statistics Consultation Group (SESCG) and also through a public consultation. Both were supportive of the change. Further details of the changes, including comparisons of the different model outputs, is provided in the GERS Consultation documents.<sup>24</sup>

The estimate continues to be based 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.

One impact of the methodological change is the ability to provide a greater disaggregation of North Sea revenues, which previously were estimated as a single block. Table 2.3 shows Scotland's illustrative geographical share of UK North Sea revenue, broken down by licence fees, corporation tax, and petroleum revenue tax. In 2015-16 and 2016-17, Scotland's illustrative geographical North Sea revenues are estimated to be higher than the UK total. This reflects the fact that the Scotland's share of petroleum revenue tax, which is currently negative, is lower than its share of corporation tax.

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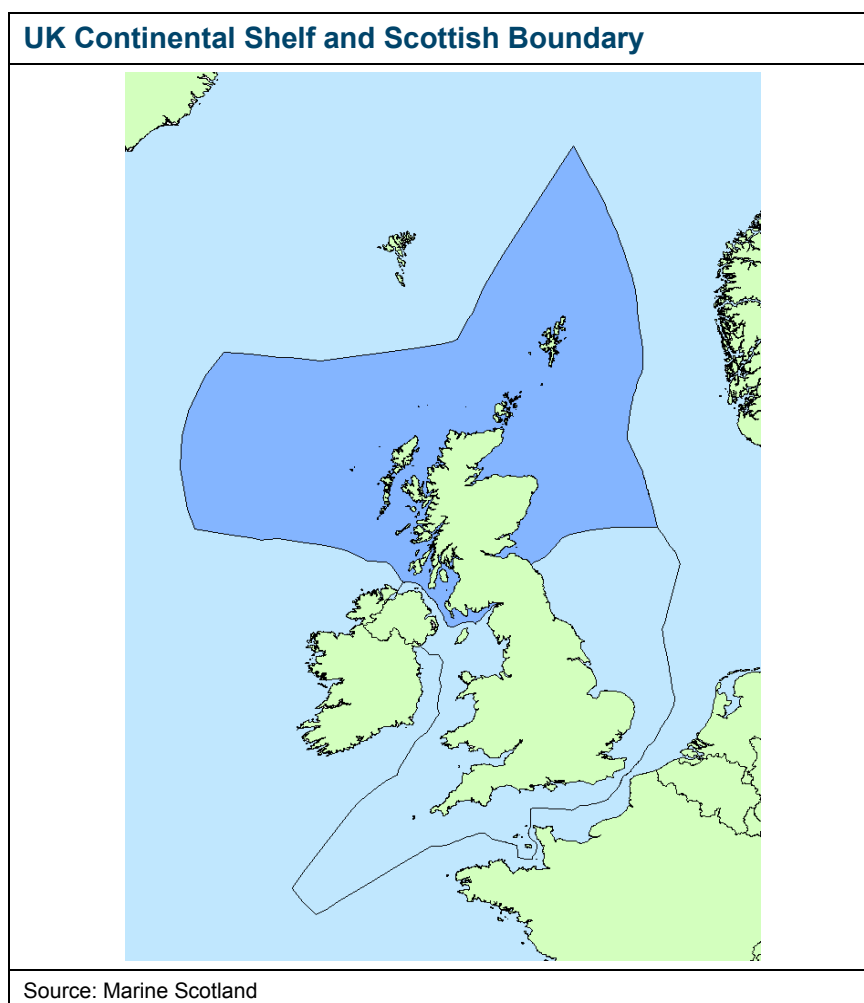
<sup>24</sup> <http://www.gov.scot/Topics/Statistics/Browse/Economy/GERS/GERSConsultation2017>

## 2 North Sea Revenue

**Table 2.3: Geographical Share of North Sea Revenue: Scotland 2012-13 to 2016-17**

	£ million				
	2012-13	2013-14	2014-15	2015-16	2016-17
<b>UK revenue</b>	<b>6,020</b>	<b>4,499</b>	<b>1,691</b>	<b>-80</b>	<b>84</b>
Licence fees	69	71	70	72	72
North Sea corporation tax	4,214	3,310	1,544	410	661
Petroleum revenue tax	1,737	1,118	77	-562	-649
<b>Scottish geographical revenue</b>	<b>4,643</b>	<b>3,448</b>	<b>1,374</b>	<b>56</b>	<b>208</b>
Licence fees	57	58	58	59	59
North Sea corporation tax	3,485	2,718	1,269	335	540
Petroleum revenue tax	1,101	672	47	-338	-390
<b>Scottish share of UK</b>	<b>77.1%</b>	<b>76.6%</b>	<b>81.3%</b>	<b>-69.6%</b>	<b>247.9%</b>
Licence fees	82.7%	82.1%	82.2%	81.6%	81.6%
North Sea corporation tax	82.7%	82.1%	82.2%	81.7%	81.6%
Petroleum revenue tax	63.4%	60.1%	61.3%	60.1%	60.1%

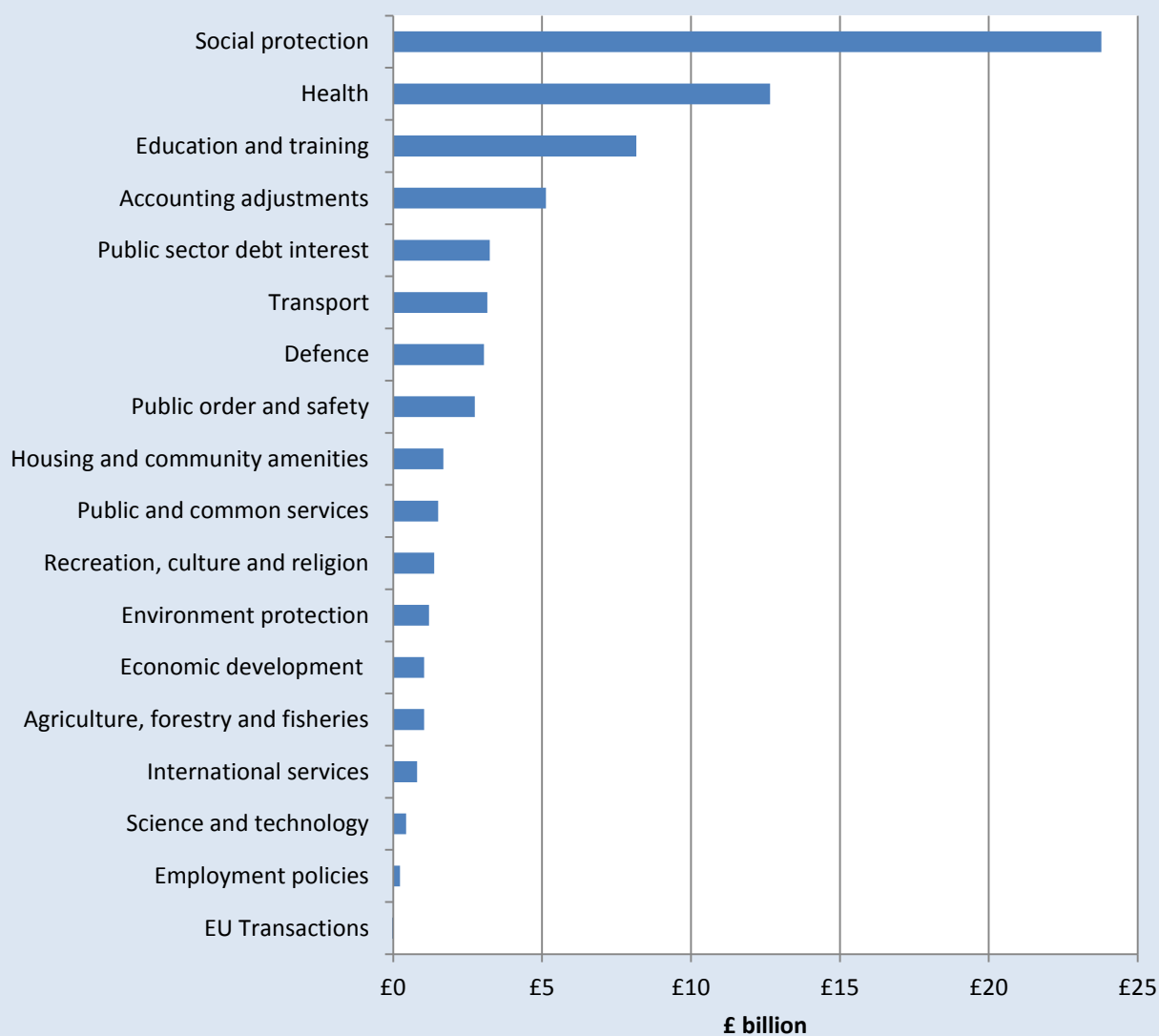
Scotland's estimated geographical share of the North Sea sector, used in this report, is highlighted in the figure below.





# CHAPTER 3: PUBLIC SECTOR EXPENDITURE

## Total Public Sector Expenditure: Scotland 2016-17



# 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 Scottish Government spending reported on the UK Government's public spending system, OSCAR, and HM Treasury's Public Expenditure Statistical Analyses (PESA)<sup>25</sup> and the supporting Country and Regional Analysis (CRA).<sup>26</sup>

Spending by the Scottish Government is provided directly by the Scottish Government Directorate for Financial Management. Scottish Local Government spending in all years is taken from HM Treasury's PESA publication. Spending by other UK government departmental spending is based on PESA for 2016-17 and on the CRA, for earlier years. Further information on the methodology is set out in the expenditure methodology paper available at the link below.

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

The EU Transactions line in the tables below shows Scotland's contribution to the EU, less funding received from the EU by the public sector. Funding received primarily consists of common agricultural 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. As a result, users looking for an estimate of Scotland's estimated contribution to the EU should use the figures reported separately 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.

### Recent Statistical Classification Decisions

On 29 September 2016, the ONS announced that registered social landlords in Scotland, often referred to as housing associations, and their counterparts in the other devolved administrations, have been reclassified from the private sector to the public sector. The English bodies had been classified in the same way in October 2015. This change increases capital expenditure, and this is currently included in the accounting adjustment line. It also increases public sector debt interest in current expenditure, which now includes expenditure on repayments of loans by housing associations.

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<sup>25</sup> <https://www.gov.uk/government/collections/public-expenditure-statistical-analyses-pesa>

<sup>26</sup> <https://www.gov.uk/government/statistics/country-and-regional-analysis-2016>

## Public Sector Expenditure

Total public sector expenditure for Scotland in 2016-17 is estimated to be £71.2 billion, an increase of 3.1% from 2015-16, compared to growth of 2.2% for the UK as a whole. This was equivalent to 9.2% of total UK public sector expenditure. This is shown by spending category in Table 3.1.

	Scotland	
	£ million	% of total expenditure
General public services		
Public and common services	1,512	2.1%
International services	810	1.1%
Public sector debt interest	3,249	4.6%
Defence	3,053	4.3%
Public order and safety	2,747	3.9%
Economic affairs		
Enterprise and economic development	1,041	1.5%
Science and technology	441	0.6%
Employment policies	227	0.3%
Agriculture, forestry and fisheries	1,037	1.5%
Transport	3,163	4.4%
Environment protection	1,208	1.7%
Housing and community amenities	1,685	2.4%
Health	12,657	17.8%
Recreation, culture and religion	1,375	1.9%
Education and training	8,162	11.5%
Social protection	23,782	33.4%
EU transactions	-66	-0.1%
Accounting adjustments	5,126	7.2%
<b>Total Expenditure</b>	<b>71,209</b>	<b>100%</b>

Table 3.2 below shows growth in current and capital spend in Scotland by organization in 2016-17, compared to the UK. Although spending increased faster in Scotland than the UK as a whole in 2016-17, spending by the Scottish Government has grown in line with that of other UK Government bodies.

The main difference between Scottish and UK spending is seen in capital spending, particularly that by public corporations and local government. This reflects a number of factors.

Firstly, it reflects an increase in capital expenditure by housing associations (see Table A.8). This is estimated to have increased by £412 million, and accounts for around 40% of the increase in capital spending. This size of increase reflects the fact that capital spending by housing associations was relatively low by historic standards in 2015-16. Overall, Scottish housing associations' capital expenditure in 2016-17 is now £168 million higher than it was in 2014-15.

Secondly, it reflects an increase in Scottish local government capital spending. This increased by £359 million (20.8%) in 2016-17, primarily financed by increased local government borrowing. This accounts for around a third of the increase in the capital spending.

The remainder of the increase in capital spending is largely due to capital spend by Scottish Water, which rose by £160 million, accounting for 15% of the increase in capital spending. Other capital spending by the Scottish Government also increased by £125 million, of which £50 million was associated with the greater use of Scottish Government borrowing powers.

**Table 3.2: Expenditure growth: 2015-16 to 2016-17 (£ million)**

	Scotland			UK growth
	2015-16	2016-17	Growth	
<b>Current expenditure</b>	<b>62,135</b>	<b>63,188</b>	<b>1.7%</b>	<b>1.3%</b>
Scottish Government	23,387	23,922	2.3%	2.3%
Local Government	12,360	12,425	0.5%	-0.4%
Public Corporations	-	-	-	-
Other UK Government bodies	26,387	26,841	1.7%	1.8%
<b>Capital expenditure</b>	<b>6,913</b>	<b>8,021</b>	<b>16.0%</b>	<b>10.6%</b>
Scottish Government	1,982	2,107	6.3%	6.3%
Local Government	1,727	2,086	20.8%	4.9%
Public Corporations	1,011	1,563	54.7%	20.6%
Other UK Government bodies	2,193	2,264	3.2%	9.5%
<b>Total expenditure</b>	<b>69,048</b>	<b>71,209</b>	<b>3.1%</b>	<b>2.2%</b>
Scottish Government	25,369	26,029	2.6%	2.6%
Local Government	14,087	14,511	3.0%	0.1%
Public Corporations	1,011	1,563	54.7%	20.6%
Other UK Government bodies	28,581	29,105	1.8%	2.4%

Notes:

1. Public corporation line for Scotland shows spending by Scottish public corporations only. UK figure shows spending by all public corporations
2. Scottish public corporations have no current expenditure as this is netted off against their income to provide their gross operating surplus in the revenue calculations. Within the CRA, interest expenditure by public corporations is recorded as spending by HM Treasury.
3. Spend by Other UK Government department for Scotland and the UK are not directly comparable, as spending for the UK as a whole it includes spending on functions which are devolved to the Scottish Government.

Table 3.3 shows the split of total expenditure between current and capital for Scotland. The capital spending share has increased in 2016-17, driven by the factors discussed above. The capital spending share is also relatively high in 2012-13, due to the one-off transfer of the Royal Mail Pension Plan into the public sector.

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

	per cent				
	2012-13	2013-14	2014-15	2015-16	2016-17
Current	87.8%	89.6%	89.6%	90.0%	88.7%
Capital	12.2%	10.4%	10.4%	10.0%	11.3%

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 sector spending as a share of GDP has increased for the first time since 2012-13, having previously been on a downward trend. Public sector spending as a share of GDP in the UK has continued to decline. This divergence in part reflects the higher spending growth in Scotland, but primarily reflects weaker GDP growth in Scotland. If Scottish GDP had grown in line with UK GDP, spending as a share of GDP excluding the North Sea would have fallen to 47.2% in 2016-17.



### 3 Public Sector Expenditure

Including a geographical share of North Sea GDP, public spending as a share of GDP has been increasing since 2013-14 in Scotland, reflecting the fall in North Sea GDP over this period.

<b>Table 3.4: Total Managed Expenditure as a Share of GDP</b>					
	per cent of GDP				
	2012-13	2013-14	2014-15	2015-16	2016-17
<b>Scottish TME as a Share of GDP:</b>					
Excluding North Sea GDP	51.8%	49.0%	47.6%	47.4%	47.5%
Including population share of North Sea GDP	51.0%	48.3%	47.1%	47.0%	47.1%
Including geographical share of North Sea GDP	45.6%	43.4%	43.6%	44.4%	44.7%
<b>UK TME as a share of GDP:</b>					
100% of North Sea GDP	43.3%	41.9%	41.0%	40.0%	39.4%

Table 3.5 shows total public sector expenditure per person for Scotland and the UK. Since 2012-13, spending per head in Scotland has been between 10.1% (in 2014-15 ) and 12.2% (in 2016-17) higher than the UK average. Slightly less than 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.

<b>Table 3.5: Total Expenditure Per Person</b>					
	£ per person				
	2012-13	2013-14	2014-15	2015-16	2016-17
Scotland	12,807	12,673	12,792	12,832	13,175
UK	11,472	11,468	11,618	11,555	11,739
<i>Difference (Scotland minus UK)</i>	<i>1,334</i>	<i>1,205</i>	<i>1,174</i>	<i>1,277</i>	<i>1,437</i>
<i>Difference between Scottish and UK</i>	<i>11.6%</i>	<i>10.5%</i>	<i>10.1%</i>	<i>11.0%</i>	<i>12.2%</i>

**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)**

	2012-13	2013-14	2014-15	2015-16	2016-17
<b>Social security spending in Scotland</b>					
State pension	6,791	7,051	7,324	7,560	7,749
Housing benefit	1,789	1,770	1,776	1,772	1,733
Other DWP social security	5,796	5,622	5,686	5,789	5,804
HMRC child benefit and tax credits and universal credit	3,097	2,960	2,914	2,869	2,938
Scottish Government social security	408	421	415	402	398
<b>Social security spending in Scotland</b>	<b>17,881</b>	<b>17,825</b>	<b>18,115</b>	<b>18,392</b>	<b>18,622</b>
Share of benefit spending outside UK and corporate spend	508	449	559	604	665
<b>Other social protection</b>					
Net public sector pensions	874	875	966	951	876
Social care for the elderly	2,249	2,263	2,296	2,300	2,297
Other	924	925	931	1,122	1,321
<b>Total social protection</b>	<b>22,437</b>	<b>22,337</b>	<b>22,867</b>	<b>23,369</b>	<b>23,782</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, Scottish local government and public corporations, and other UK government bodies.

### 3 Public Sector Expenditure

**Table 3.6: Total Expenditure: Scotland 2012-13 to 2016-17**

	£ million														
	Current					Capital					Total				
	2012-13	2013-14	2014-15	2015-16	2016-17	2012-13	2013-14	2014-15	2015-16	2016-17	2012-13	2013-14	2014-15	2015-16	2016-17
General public services															
Public and common services	1,138	1,239	1,261	1,265	1,232	169	234	227	250	279	1,308	1,473	1,489	1,515	1,512
International services	598	762	692	697	738	46	52	177	163	72	644	813	868	861	810
Public sector debt interest	3,396	3,331	3,061	3,093	3,249	0	0	0	0	0	3,396	3,331	3,061	3,093	3,249
Defence	2,259	2,290	2,272	2,293	2,294	771	734	765	729	759	3,030	3,024	3,037	3,021	3,053
Public order and safety	2,644	2,410	2,692	2,748	2,666	201	137	122	74	81	2,844	2,547	2,814	2,822	2,747
Economic affairs															
Enterprise and economic development	704	816	765	805	807	247	194	186	134	233	952	1,010	951	940	1,041
Science and technology	23	26	51	103	95	298	365	366	388	345	321	391	416	491	441
Employment policies	239	307	280	218	222	7	6	3	2	5	246	314	283	220	227
Agriculture, forestry and fisheries	762	784	727	686	810	156	171	200	138	227	919	956	928	824	1,037
Transport	1,545	1,568	1,340	1,624	1,564	1,437	1,361	1,475	1,444	1,599	2,982	2,929	2,815	3,069	3,163
Environment protection	887	916	940	927	893	299	366	308	311	315	1,186	1,282	1,248	1,237	1,208
Housing and community amenities	75	123	125	160	200	1,436	1,407	1,423	1,406	1,486	1,511	1,529	1,548	1,567	1,685
Health	10,658	10,870	11,146	11,612	12,045	685	637	489	571	613	11,343	11,506	11,635	12,183	12,657
Recreation, culture and religion	1,286	1,202	1,371	1,116	1,076	336	248	190	239	300	1,623	1,450	1,561	1,354	1,375
Education and training	6,866	6,923	6,979	7,107	7,288	656	636	634	732	874	7,522	7,558	7,614	7,839	8,162
Social protection	22,350	22,318	22,833	23,302	23,710	87	19	34	68	72	22,437	22,337	22,867	23,369	23,782
EU Transactions	167	121	237	266	-66	0	0	0	0	0	167	121	237	266	-66
Accounting adjustments	4,179	4,524	4,580	4,113	4,365	1,485	484	536	265	761	5,664	5,008	5,116	4,379	5,126
<b>Total</b>	<b>59,778</b>	<b>60,532</b>	<b>61,353</b>	<b>62,135</b>	<b>63,188</b>	<b>8,316</b>	<b>7,050</b>	<b>7,134</b>	<b>6,913</b>	<b>8,021</b>	<b>68,094</b>	<b>67,581</b>	<b>68,487</b>	<b>69,048</b>	<b>71,209</b>

Table 3.7: Total Expenditure: UK 2012-13 to 2016-17

	£ million														
	Current					Capital					Total				
	2012-13	2013-14	2014-15	2015-16	2016-17	2012-13	2013-14	2014-15	2015-16	2016-17	2012-13	2013-14	2014-15	2015-16	2016-17
General public services															
Public and common services	9,607	9,359	9,689	9,827	10,059	1,575	1,816	1,761	1,366	3,045	11,182	11,175	11,450	11,193	13,104
International services	7,174	9,167	8,355	8,450	8,941	546	621	2,133	1,979	871	7,720	9,788	10,488	10,429	9,812
Public sector debt interest	40,719	40,086	36,978	37,483	39,375	0	0	0	0	0	40,719	40,086	36,978	37,483	39,375
Defence	27,102	27,571	27,460	27,796	27,800	9,238	8,834	9,238	8,831	9,200	36,340	36,405	36,698	36,627	37,000
Public order and safety	29,896	28,345	29,235	28,928	28,993	1,410	1,258	1,252	1,279	1,128	31,306	29,603	30,487	30,207	30,121
Economic affairs															
Enterprise and economic development	4,057	4,495	4,196	4,629	4,245	942	1,178	862	673	1,560	4,999	5,673	5,058	5,302	5,805
Science and technology	272	363	496	875	389	3,054	3,831	3,976	3,944	3,506	3,326	4,194	4,472	4,819	3,895
Employment policies	2,799	3,579	3,125	2,406	2,399	79	77	32	22	60	2,878	3,656	3,157	2,428	2,459
Agriculture, forestry and fisheries	4,977	4,969	4,696	4,075	4,778	307	409	517	395	567	5,284	5,378	5,213	4,470	5,345
Transport	7,675	7,666	6,617	9,765	10,133	12,605	13,196	15,354	18,012	19,483	20,280	20,862	21,971	27,777	29,616
Environment protection	7,376	7,608	7,813	7,959	7,405	3,288	3,575	3,753	3,676	3,854	10,664	11,183	11,566	11,635	11,259
Housing and community amenities	3,221	3,150	3,077	2,977	3,096	6,878	6,832	7,358	7,053	7,471	10,099	9,982	10,435	10,030	10,567
Health	117,944	121,968	127,651	132,663	138,816	6,358	7,421	6,402	5,836	5,524	124,302	129,389	134,053	138,499	144,340
Recreation, culture and religion	10,666	9,573	10,427	9,226	9,287	2,044	1,837	2,022	1,670	2,339	12,710	11,410	12,449	10,896	11,626
Education and training	75,773	76,040	75,604	75,468	77,104	8,219	8,838	9,450	9,319	10,070	83,992	84,878	85,054	84,787	87,174
Social protection	252,999	254,363	261,016	264,663	263,882	450	-393	-111	316	414	253,449	253,970	260,905	264,979	264,296
EU transactions	6,705	7,210	6,225	7,671	4,725	0	0	0	0	0	6,705	7,210	6,225	7,671	4,725
Accounting adjustments	47,508	51,262	53,598	47,457	50,016	18,530	10,451	11,731	7,228	10,076	66,038	61,713	65,329	54,685	60,092
<b>Total</b>	<b>656,470</b>	<b>666,774</b>	<b>676,258</b>	<b>682,318</b>	<b>691,443</b>	<b>75,523</b>	<b>69,781</b>	<b>75,730</b>	<b>71,599</b>	<b>79,168</b>	<b>731,993</b>	<b>736,555</b>	<b>751,988</b>	<b>753,917</b>	<b>770,611</b>

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**Table 3.8: Total Expenditure: Scottish Government, Local Authorities, Public Corporations, and Other UK Government: Scotland 2012-13 to 2016-17**

	£ million														
	Scottish Government, LAs and Public Corporations					Other UK Government					Total				
	2012-13	2013-14	2014-15	2015-16	2016-17	2012-13	2013-14	2014-15	2015-16	2016-17	2012-13	2013-14	2014-15	2015-16	2016-17
General public services															
Public and common services	859	1,021	1,014	1,048	1,027	448	452	475	467	484	1,308	1,473	1,489	1,515	1,512
International services	0	0	0	0	0	644	813	868	861	810	644	813	868	861	810
Public sector debt interest	0	0	0	0	0	3,396	3,331	3,061	3,093	3,249	3,396	3,331	3,061	3,093	3,249
Defence	3	3	3	4	4	3,027	3,021	3,034	3,017	3,049	3,030	3,024	3,037	3,021	3,053
Public order and safety	2,597	2,307	2,567	2,592	2,515	248	240	247	230	232	2,844	2,547	2,814	2,822	2,747
Economic affairs															
Enterprise and econ development	744	782	743	632	712	208	228	208	308	328	952	1,010	951	940	1,041
Science and technology	0	0	0	0	0	321	391	416	491	441	321	391	416	491	441
Employment policies	0	0	0	0	0	246	314	283	220	227	246	314	283	220	227
Agriculture, forestry and fisheries	916	952	922	819	1,021	2	4	5	5	16	919	956	928	824	1,037
Transport	2,804	2,750	2,623	2,318	2,372	178	179	192	751	792	2,982	2,929	2,815	3,069	3,163
Environment protection	943	1,013	950	949	935	242	270	298	288	273	1,186	1,282	1,248	1,237	1,208
Housing and community amenities	1,511	1,529	1,548	1,567	1,685	0	0	0	0	0	1,511	1,529	1,548	1,567	1,685
Health	11,184	11,354	11,483	12,002	12,508	159	152	151	180	149	11,343	11,506	11,635	12,183	12,657
Recreation, culture and religion	1,119	1,066	1,142	999	979	504	384	419	355	397	1,623	1,450	1,561	1,354	1,375
Education and training	7,504	7,541	7,587	7,814	8,156	18	17	27	25	6	7,522	7,558	7,614	7,839	8,162
Social protection	5,513	5,481	5,658	5,731	5,669	16,924	16,857	17,209	17,638	18,114	22,437	22,337	22,867	23,369	23,782
EU transactions	0	0	0	0	0	167	121	237	266	-66	167	121	237	266	-66
Accounting adjustments	4,187	4,156	4,256	3,992	4,520	1,477	851	860	386	606	5,664	5,008	5,116	4,379	5,126
<b>Total</b>	<b>39,885</b>	<b>39,956</b>	<b>40,497</b>	<b>40,467</b>	<b>42,103</b>	<b>28,209</b>	<b>27,625</b>	<b>27,990</b>	<b>28,581</b>	<b>29,105</b>	<b>68,094</b>	<b>67,581</b>	<b>68,487</b>	<b>69,048</b>	<b>71,209</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 2016 publication.

<https://www.gov.uk/government/statistics/european-union-finances-2016>

#### 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 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 expenditure is attributed to the UK based on its contribution to the EU budget. This is shown

### 3 Public Sector Expenditure

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 2017.

<b>UK: Transactions with the institutions of the EU, 2012-13 to 2016-17</b>					
	<b>£ million</b>				
	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
GNI based contribution	12,303	13,845	14,154	12,570	11,440
UK abatement	-3,172	-4,130	-4,811	-4,068	-4,757
VAT-based contribution to the EU	2,398	2,163	2,316	2,751	2,477
<b>Expenditure transfers to the EU</b>	<b>11,529</b>	<b>11,879</b>	<b>11,658</b>	<b>11,253</b>	<b>9,160</b>
Receipts to cover collection costs of TOR	-720	-733	-743	-771	-357
TOR	2,891	2,933	3,006	3,085	3,377
<b>Gross contribution to the EU budget</b>	<b>13,699</b>	<b>14,079</b>	<b>13,921</b>	<b>13,567</b>	<b>12,180</b>
Public sector EU receipts	-4,022	-3,856	-4,690	-2,811	-4,079
<b>Net contributions to the EU budget</b>	<b>9,678</b>	<b>10,223</b>	<b>9,231</b>	<b>10,756</b>	<b>8,102</b>
less other attributed costs	82	79	-	-	-
<b>Net payments to EU institutions</b>	<b>9,595</b>	<b>10,143</b>	<b>9,231</b>	<b>10,756</b>	<b>8,102</b>

Source: Public Expenditure Statistical Analyses (July 2017), Table C.1

<https://www.gov.uk/government/statistics/public-expenditure-statistical-analyses-2017>

**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  
2012-13 to 2016-17**

	£ million				
	2012-13	2013-14	2014-15	2015-16	2016-17
GNI based contribution (GDP exc North Sea (NS))	963	1,083	1,107	983	874
GNI based contribution (GDP inc NS)	1,087	1,226	1,212	1,037	932
UK abatement (Population share)	-264	-343	-398	-336	-390
VAT-based payments to the EU	201	185	195	232	209
<b>Expenditure transfers to the EU (GDP exc NS)</b>	<b>900</b>	<b>925</b>	<b>904</b>	<b>880</b>	<b>692</b>
<b>Expenditure transfers to the EU (GDP inc NS)</b>	<b>1,024</b>	<b>1,068</b>	<b>1,009</b>	<b>934</b>	<b>751</b>
Receipts to cover collection costs of TOR	-60	-61	-61	-64	-29
TOR	241	244	249	254	278
<b>Gross contribution to the EU budget (GDP exc NS)</b>	<b>1,080</b>	<b>1,108</b>	<b>1,091</b>	<b>1,071</b>	<b>941</b>
<b>Gross contribution to the EU budget (GDP inc NS)</b>	<b>1,205</b>	<b>1,250</b>	<b>1,196</b>	<b>1,125</b>	<b>1,000</b>
Public sector EU receipts	-666	-737	-606	-551	-729
<b>Net contributions to the EU budget (GDP exc NS)</b>	<b>415</b>	<b>371</b>	<b>485</b>	<b>520</b>	<b>212</b>
<b>Net contributions to the EU budget (GDP inc NS)</b>	<b>539</b>	<b>513</b>	<b>590</b>	<b>574</b>	<b>271</b>
less other attributed costs	-7	-7	0	0	0
<b>Net payments to EU institutions (GDP exc NS)</b>	<b>408</b>	<b>365</b>	<b>485</b>	<b>520</b>	<b>212</b>
<b>Net payments to EU institutions (GDP inc NS)</b>	<b>532</b>	<b>507</b>	<b>590</b>	<b>574</b>	<b>271</b>

Note: As set out in the footnotes to the expenditure table, the net payments to EU institutions figure does not have the same definition as EU transactions presented there: as TOR is collected on behalf of the EU, it is not considered a transaction of the UK Government in the official public sector finances. Therefore to get to EU Transactions from the figure above, TOR must be subtracted.

**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 2011-12 to 2015-16, 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 2011-12 to 2015-16

	£ million				
	2011-12	2012-13	2013-14	2014-15	2015-16
Scotland	74.7	81.4	88.8	94.1	97.4
UK	599.7	690.3	789.2	836.1	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. This analysis uses sources of publicly available data, all brought together into an accompanying spreadsheet. 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 2012-13 to 2016-17 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.

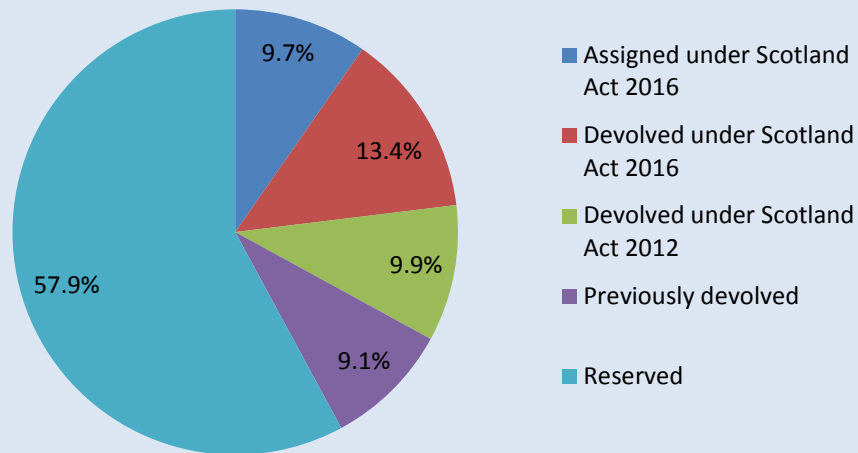
<b>Scotland: Unitary charge payments, 2012-13 to 2016-17</b>					
	£ million				
	2012-13	2013-14	2014-15	2015-16	2016-17
<b>By scheme type</b>					
Private Finance Initiative	924	944	979	995	1,009
Non-Profit Distributing models <sup>1</sup>	52	55	59	73	117
<b>Total Unitary Charge payments</b>	<b>977</b>	<b>999</b>	<b>1,038</b>	<b>1,069</b>	<b>1,126</b>
<b>By procuring authority</b>					
Further Education	2	2	2	10	27
Local Government	478	488	497	507	522
NHS	227	235	242	247	261
Other Scottish Government	105	109	127	136	139
Ministry of Defence	23	22	24	21	25
Scottish Water	142	143	146	146	151
<b>Total Unitary Charge payments</b>	<b>977</b>	<b>999</b>	<b>1,038</b>	<b>1,069</b>	<b>1,126</b>
<b>By sector of project</b>					
Energy	4	4	5	5	5
Further Education	2	2	2	10	27
Health	227	235	242	247	261
IT	1	-	-	-	-
Ministry of Defence	23	22	24	21	25
Offices	3	3	3	3	3
Police	4	4	4	4	4
Prisons	45	46	49	49	47
Schools	436	446	454	462	479
Transport	75	78	93	104	107
Waste	157	158	162	163	168
<b>Total Unitary Charge payments</b>	<b>977</b>	<b>999</b>	<b>1,038</b>	<b>1,069</b>	<b>1,126</b>
<i>UK Total Unitary Charge Payments</i>	<i>9,257</i>	<i>9,744</i>	<i>10,206</i>	<i>10,465</i>	<i>10,361</i>
<i>Scotland as % UK</i>	<i>10.5%</i>	<i>10.2%</i>	<i>10.2%</i>	<i>10.2%</i>	<i>10.9%</i>

<sup>1</sup> 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>

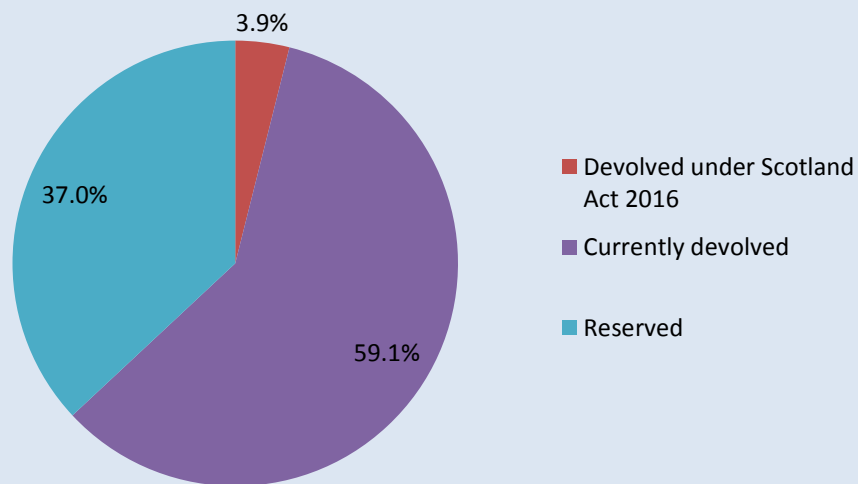
Source: HM Treasury and Scottish Government figures. See the accompanying spreadsheet for full details of all sources

# CHAPTER 4: DEVOLVED REVENUE & EXPENDITURE

## Devolved and Reserved Revenue in Scotland 2016-17



## Devolved and Reserved Expenditure in Scotland 2016-17



# 4

## DEVOLVED TAXES AND EXPENDITURE

### Introduction

Following the implementation of the Scotland Act 2012 and Scotland Act 2016, the powers of the Scottish Parliament over taxation and expenditure in Scotland are changing. This chapter sets out the amount of public sector revenue and expenditure currently devolved and how this will change with the implementation of the Scotland Act 2016.

### Devolved Taxation

The table below sets out revenue raised in Scotland from taxes currently devolved to the Scottish Parliament. Devolved tax revenues increased from £5.2 billion in 2015-16 to approximately £10 billion in 2016-17, largely reflecting the devolution of the Scottish Rate of Income Tax in 2016-17.

	£ million				
	2012-13	2013-14	2014-15	2015-16	2016-17
Council tax	1,938	1,964	1,995	2,047	2,082
Non-domestic rates	2,347	2,367	2,511	2,579	2,732
Land and buildings transaction tax (devolved from 2015-16)	-	-	-	425	466
Scottish landfill tax (devolved from 2015-16)	-	-	-	147	149
Scottish Rate of Income Tax Liabilities (devolved from 2016-17) <sup>1</sup>	-	-	-	-	4,600
<b>Total devolved taxes</b>	<b>4,285</b>	<b>4,331</b>	<b>4,506</b>	<b>5,198</b>	<b>10,029</b>

<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.

Further devolution of taxes is due to continue in the next few years, following the Scotland Act 2016. As these taxes are not yet devolved, the table below shows the estimated historical revenues from these taxes

	£ million				
	2012-13	2013-14	2014-15	2015-16	2016-17
Non-savings and non-dividend income tax liabilities (devolved from 2017-18)	10,489	10,881	11,004	11,160	11,313
Air passenger duty (devolved from 2018-19)	213	225	243	247	264
Aggregates levy (date of devolution to be decided)	43	44	55	53	59

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.

As well as devolving tax powers to the Scottish Government, the Scotland Act 2016 allows for the first 10p of the standard rate of VAT receipts and the first 2.5p of the reduced rate of VAT receipts in Scotland to be assigned to the Scottish Government, from 2019-20.

Table 4.3 shows the VAT that would have been assigned to Scotland under this approach.

## 4 Devolved Revenue and Expenditure

**Table 4.3: VAT Assignment: Scotland 2012-13 to 2016-17**

	£ million				
	2012-13	2013-14	2014-15	2015-16	2016-17
VAT assignment (from 2019-20)	4,166	4,538	4,663	4,890	5,097

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

Further information on the planned devolution of taxes to the Scottish Government is available in the fiscal framework agreement between the Scottish and UK Governments.<sup>27</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 4.4 below shows tax per head for Scotland and the rest of the UK for each of the relevant taxes. Whilst there are differences in growth in individual taxes between Scotland and the rest of the UK, over the five years to 2016-17, total devolved tax revenue per head in both Scotland and the rest of the UK have grown by 11%.

**Table 4.4: Devolved revenue per head: Scotland and rest of UK**

	£ per person									
	Scotland					Rest of UK				
	2012-13	2013-14	2014-15	2015-16	2016-17	2012-13	2013-14	2014-15	2015-16	2016-17
Income tax	1,973	2,040	2,055	2,074	2,093	2,302	2,366	2,373	2,418	2,454
VAT	783	851	871	909	943	790	827	858	891	924
APD	40	42	45	46	49	45	47	50	47	49
LBTT	53	74	92	80	88	113	152	175	174	189
Landfill tax	27	29	28	27	28	17	17	16	15	14
AL	8	8	10	10	11	4	4	5	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>27</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.

Table 4.5: Social security devolved prior to Scotland Act 2016					
	£ million				
	2012-13	2013-14	2014-15	2015-16	2016-17
Council Tax Reduction <sup>1</sup>	379	360	344	332	327
Scottish Welfare Fund <sup>2</sup>	29	29	36	33	35
Discretionary Housing Payments <sup>3</sup>	-	32	35	37	36
<b>Total</b>	<b>408</b>	<b>421</b>	<b>415</b>	<b>402</b>	<b>398</b>

Notes: <sup>1</sup> Figures for 2013-14 show council tax benefit administered by the Department for Work and Pensions

<sup>2</sup> Figures for 2012-13 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 which are due to be devolved to the Scottish Government under the Scotland Act 2016.

Table 4.6: Devolved social security under Scotland Act 2016					
	£ million				
	2012-13	2013-14	2014-15	2015-16	2016-17
Disability Living Allowance	1,450	1,473	1,473	1,399	1,208
Attendance Allowance	489	481	485	487	487
Carer's Allowance	169	182	203	222	234
Winter Fuel Payment	187	186	184	181	180
Personal Independence Payment	-	20	164	318	547
Industrial Injuries Disablement Benefit	89	88	89	87	87
Severe Disablement Allowance	97	91	77	51	26
Discretionary Housing Payments <sup>1</sup>	4	18	15	13	15
Cold Weather Payment	8	1	7	3	1
Funeral Payment	4	4	4	3	3
Sure Start Maternity Grant	3	3	3	3	2
<b>Total expenditure on social security to be devolved</b>	<b>2,500</b>	<b>2,547</b>	<b>2,704</b>	<b>2,767</b>	<b>2,790</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 GB.

Table 4.7 below shows expenditure per head for each of the relevant benefits for Scotland and the rest of Great Britain. For the majority of social security, expenditure per head is higher in Scotland than the rest of Great Britain, although overall the rate of growth in expenditure per head has been faster in the rest of Great Britain since 2012-13.

**Table 4.7: Devolved social security expenditure per head: Scotland and rest of GB**

	£ per person									
	Scotland					Rest of GB				
	2012-13	2013-14	2014-15	2015-16	2016-17	2012-13	2013-14	2014-15	2015-16	2016-17
Disability living allowance	273	276	275	260	224	212	216	215	204	177
Attendance allowance	92	90	91	91	90	88	86	86	86	86
Carer's allowance	32	34	38	41	43	31	33	37	40	42
Winter fuel payment	35	35	34	34	33	35	34	34	33	32
Personal Independence Payments	0	4	31	59	101	0	2	24	46	79
Industrial Injuries disability benefit	17	17	17	16	16	14	14	14	14	13
Severe disablement allowance	18	17	14	9	5	14	14	11	7	4
Discretionary housing payments	1	3	3	2	3	1	3	3	3	3
Cold weather payment	2	0	1	1	0	2	0	0	0	0
Funeral expenses payments	1	1	1	1	1	1	1	1	1	1
Sure Start maternity grant	1	1	1	1	0	1	1	1	0	0

Note: An error was identified in the Personal Independence Payments figures in this table, which was corrected on 1<sup>st</sup> September 2017. No other figures or tables in the publication are affected by this change.

## Summary of current and proposed devolved powers

The table below shows estimates of devolved receipts and expenditure before and after the implementation of the Scotland Act 2016.

<b>Table 4.8: Fiscal powers before and after Scotland Act 2016, 2016-17 (£ million)</b>		
	<b>Before Scotland Act 2016</b>	<b>After Scotland Act 2016</b>
Non Saving Non Dividend Income Tax Liabilities (devolved from 2016-17)	4,600	11,313
Stamp Duties (Land and Buildings) (devolved from 2015-16)	466	466
Air Passenger Duty (devolved from 2018-19)		264
Landfill Tax (devolved from 2015-16)	149	149
Aggregates Levy (date to be decided)		59
Council Tax	2,082	2,082
Non-domestic Rates	2,732	2,732
<b>Total devolved taxes</b>	<b>10,029</b>	<b>17,065</b>
<b>Devolved taxes 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>29%</b>
Assigned VAT <sup>2</sup> (assigned from 2019-20)		5,097
<b>Total devolved and assigned taxes</b>	<b>10,029</b>	<b>22,162</b>
<b>Devolved and assigned taxes as % of non-North Sea Scottish revenue</b>	<b>17%</b>	<b>38%</b>
<b>as % of taxes incl geographical share of North Sea revenue<sup>1</sup></b>	<b>17%</b>	<b>38%</b>
Devolved expenditure including housing benefit <sup>3</sup> (HB)	42,103	44,893
<b>Devolved taxes as % of estimated devolved expenditure incl HB</b>	<b>24%</b>	<b>38%</b>
<b>Devolved and Assigned taxes as % of estimated devolved expenditure incl HB</b>	<b>24%</b>	<b>49%</b>

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

<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 39% 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.



# 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>					
	2012-13	2013-14	2014-15	2015-16	2016-17
Scotland	5,317	5,333	5,354	5,381	5,405
UK	63,805	64,228	64,725	65,245	65,648
<b>As % of UK total</b>	<b>8.3%</b>	<b>8.3%</b>	<b>8.3%</b>	<b>8.2%</b>	<b>8.2%</b>

Note: Financial year estimates are calculated as the weighted average of the relevant mid-year estimates. I.e., the 2014-15 population is estimated as three-quarters of the 2014 population plus one quarter of the 2015 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>					
	£ million				
	2012-13	2013-14	2014-15	2015-16	2016-17
<b>Current Budget</b>					
Current revenue					
Excluding North Sea revenue	48,912	50,805	52,640	54,446	57,743
Including North Sea revenue (population share)	49,414	51,178	52,780	54,439	57,750
Including North Sea revenue (geographical share)	53,556	54,252	54,014	54,501	57,952
Current expenditure	59,778	60,531	61,352	62,135	63,188
Capital consumption	3,931	4,066	4,276	4,294	4,331
<b>Balance on current budget</b> (surplus is positive, deficit is negative)					
Excluding North Sea revenue	-14,796	-13,792	-12,989	-11,983	-9,776
Including North Sea revenue (population share)	-14,295	-13,419	-12,849	-11,990	-9,769
Including North Sea revenue (geographical share)	-10,153	-10,345	-11,615	-11,927	-9,568
<b>Capital Budget</b>					
Capital expenditure	8,316	7,049	7,134	6,913	8,021
Capital consumption	-3,931	-4,066	-4,276	-4,294	-4,331
<b>Net Investment</b>	<b>4,385</b>	<b>2,984</b>	<b>2,858</b>	<b>2,619</b>	<b>3,689</b>
<b>Net Fiscal Balance (surplus is positive, deficit is negative)</b>					
Excluding North Sea revenue	-19,181	-16,776	-15,847	-14,602	-13,465
Including North Sea revenue (population share)	-18,680	-16,403	-15,707	-14,609	-13,458
Including North Sea revenue (geographical share)	-14,538	-13,329	-14,473	-14,546	-13,257

**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>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
Scottish GDP					
Excluding North Sea and share of UK extra-regio	131,466	137,889	144,000	145,650	150,025
Including North Sea (population share)	133,388	139,827	145,454	146,824	151,127
Including North Sea (geographical share)	149,303	155,765	157,063	155,632	159,389
UK GDP	1,690,042	1,759,560	1,834,812	1,885,846	1,955,442

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 International Monetary Fund (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.

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

	£ million				
	2012	2013	2014	2015	2016
<b>Revenue</b>					
Non-North Sea revenue	46,519	49,996	51,010	53,003	55,781
North Sea revenue (per person share)	47,063	50,402	51,233	53,007	55,752
North Sea revenue (geographical share)	51,582	53,726	53,105	53,168	55,658
<b>UK</b>	<i>593,864</i>	<i>631,784</i>	<i>643,872</i>	<i>667,571</i>	<i>703,706</i>
<b>Expenditure</b>					
Scotland	67,767	66,506	67,725	68,385	70,340
<b>UK</b>	<i>731,663</i>	<i>728,093</i>	<i>746,436</i>	<i>748,931</i>	<i>760,732</i>
<b>Net Fiscal Balance</b>					
Excluding North Sea revenue	-21,248	-16,510	-16,715	-15,382	-14,559
Including North Sea revenue (per capita share)	-20,705	-16,104	-16,491	-15,377	-14,588
Including North Sea revenue (geographical share)	-16,186	-12,780	-14,620	-15,217	-14,682
<b>UK</b>	<i>-137,799</i>	<i>-96,309</i>	<i>-102,564</i>	<i>-81,360</i>	<i>-57,026</i>
			<b>As % of GDP</b>		
Excluding North Sea revenue	-16.3%	-12.1%	-11.7%	-10.6%	-9.8%
Including North Sea revenue (per capita share)	-15.7%	-11.7%	-11.4%	-10.5%	-9.7%
Including North Sea revenue (geographical share)	-10.9%	-8.3%	-9.2%	-9.8%	-9.3%
<b>UK</b>	<i>-8.2%</i>	<i>-5.5%</i>	<i>-5.6%</i>	<i>-4.3%</i>	<i>-2.9%</i>

**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 2017Q1 (<http://www.gov.scot/topics/statistics/browse/economy/QNA2017Q1>)

## 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	12,760	12,543	12,976	+/-217	+/-1.7%
National insurance contributions	10,367	10,190	10,543	+/-176	+/-1.7%
VAT	10,193	9,969	10,418	+/-224	+/-2.2%
Tobacco duties	1,100	1,081	1,118	+/-19	+/-1.7%
Alcohol duties	1,038	955	1,121	+/-83	+/-8.0%
Betting and gaming and duties	223	220	226	+/-3	+/-1.4%
Insurance premium tax	330	324	337	+/-7	+/-2.0%
<b>Total survey based apportionments</b>	<b>36,011</b>	<b>35,282</b>	<b>36,740</b>	<b>+/-729</b>	<b>+/-2.0%</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 2016 and this GERS report, a small number of supplementary amendments to the CRA 2016 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>.

A new amendment is made to the CRA in GERS 2016-17, relating to Network Rail expenditure. Through discussions with HM Treasury and the Department for Transport, it has been identified that Network Rail spending for Scotland is being underestimated in the CRA for 2015-16, following the incorporation of Network Rail into central government. An upwards adjustment is therefore made to the Scottish figures in GERS, to bring total spend into line with figures reported for Scotland by the Office of Road and Rail.<sup>28</sup>

As the CRA for 2016-17 is not yet published, there are no formal amendments to individual spending lines in 2016-17. The 2015-16 adjustments are in effect carried forward into 2016-17, adjusted for the spending of the responsible department. Further detail is provided in the expenditure methodology note.

In addition to the amendments to the CRA, there are amendments to the estimates of spending in 2016-17 from those published in PESA. This is to bring the increase in Scottish local government capital spending in line with the provisional outturn estimates published in July 2017.<sup>29</sup> These adjustments are additional to those that would be carried forward from the CRA.

<sup>28</sup> <http://orr.gov.uk/statistics/published-stats/uk-rail-industry-financial-information/uk-rail-industry-financial-information-2015-16>

<sup>29</sup> <http://www.gov.scot/Topics/Statistics/Browse/Local-Government-Finance/Publications/CPOBE>

**Table A.6: Amendments to Estimates of Total Public Sector Expenditure on Services from CRA 2016**

	£ million				
	2012-13	2013-14	2014-15	2015-16	2016-17
<b>Amendments from the CRA</b>					
Nuclear-related expenditure	-160	-162	-167	-163	-
London Olympics	-43	-1	-17	0	-
Pensions revisions	-18	-19	-20	-20	-
Network Rail	0	0	0	422	-
Other minor revisions	-41	-48	-81	-56	-
<b>Amendments from PESA</b>					
Local Government spending	-	-	-	-	-224
<b>Total CRA amendments</b>	<b>-261</b>	<b>-231</b>	<b>-285</b>	<b>182</b>	<b>-</b>
<b>Total PESA amendments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-224</b>

Note: Amendments do not include EU Transactions

## 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.10.

In order to present Scottish Government and Scottish 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 bodies. Currently, capital consumption, VAT refunds, the subsidy to the Housing Revenue Account, Local Authority Pensions, and Scottish housing associations are allocated to the Scottish Government or Scottish local government. Other elements are allocated to other UK Government bodies 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.

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

	£ million				
	2012-13	2013-14	2014-15	2015-16	2016-17
UK total managed expenditure (TME)	731,993	736,555	751,988	753,917	770,611
UK total expenditure on services (TES)	665,955	674,842	686,659	699,232	710,519
<b>UK accounting adjustment</b>	<b>66,038</b>	<b>61,713</b>	<b>65,329</b>	<b>54,685</b>	<b>60,092</b>
<b>of which current expenditure:</b>					
Central government capital consumption	17,129	17,583	17,944	18,347	18,687
Local government capital consumption	9,547	10,072	10,585	11,092	11,600
Current VAT refunds	11,514	11,640	11,537	11,862	11,819
Imputed subsidy from Local Authorities to the Housing Revenue Account <sup>1</sup>	354	530	484	700	1,165
Imputed flows for Renewable Obligation Certificates <sup>2</sup>	1,966	2,532	3,064	3,900	4,672
Local authority pensions	1,911	1,997	1,908	1,953	2,280
Network Rail	581	357	1,002	0	0
British Transport Police Service Agreements	221	279	238	145	145
Current expenditure residual	4,285	6,272	6,835	-542	-352
<b>of which capital expenditure:</b>					
Capital VAT refunds	2,145	2,006	2,065	2,150	1,916
Network Rail	965	2,730	2,261	0	0
Royal Mail Pension Plan	9,460	0	0	0	0
Housing associations	6,011	6,721	7,549	5,599	7,325
Capital expenditure residual	-50	-1,006	-144	-521	835

<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>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
Scottish total managed expenditure (TME)	68,094	67,581	68,487	69,048	71,209
Scottish total expenditure on services (TES)	62,430	62,574	63,372	64,669	66,082
<b>Scottish accounting adjustment</b>	<b>5,664</b>	<b>5,008</b>	<b>5,116</b>	<b>4,379</b>	<b>5,126</b>
<b>Percentage of UK accounting adjustment</b>	<b>8.6%</b>	<b>8.1%</b>	<b>7.8%</b>	<b>8.0%</b>	<b>8.5%</b>
<b>Of which current expenditure:</b>					
Central government capital consumption	1,318	1,421	1,337	1,301	1,332
Local government capital consumption	941	992	1,044	1,094	1,144
Current VAT refunds	1,078	1,025	1,011	1,054	1,050
Imputed subsidy from Local Authorities to the Housing Revenue Account <sup>1</sup>	28	41	38	55	91
Imputed flows for Renewable Obligation Certificates <sup>2</sup>	233	300	364	463	554
Local authority pensions	169	182	177	180	211
Network Rail	36	18	24	0	0
British Transport Police Service Agreements	18	23	20	12	12
Current expenditure residual	357	521	566	-45	-29
<b>Of which capital expenditure:</b>					
Capital VAT refunds	201	177	181	191	170
Network Rail	48	74	-100	0	0
Royal Mail Pension Plan	788	0	0	0	0
Housing associations	452	318	468	118	522
Capital expenditure residual	-4	-85	-13	-44	69

<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.

<b>Table A.9: Accounting Adjustments, Revenue and Expenditure: Scotland, 2016-17</b>			
	<b>Expenditure AA</b>	<b>Revenue AA</b>	<b>Revenue line</b>
	<b>£ million</b>		
<b>Of which current expenditure:</b>			
Central government capital consumption	1,332	1,332	Gross operating surplus
Local government capital consumption	1,144	1,144	Gross operating surplus
Current VAT refunds	1,050	1,050	VAT
Imputed subsidy from Local Authorities to the Housing Revenue Account	91	-	n/a
Imputed flows for Renewable Obligation Certificates	554	554	Other taxes, royalties, and adjustments
Local authority pensions	211	-	n/a
British Transport Police Service Agreements	12	12	Other taxes, royalties, and adjustments
Current expenditure residual	-29	-	n/a
<b>Of which capital expenditure:</b>			
Capital VAT refunds	170	170	VAT
Network Rail	0	-	n/a
Royal Mail Pension Plan	0	-	n/a
Housing associations	522	-	n/a
Capital expenditure residual	69	-	n/a
<b>Total accounting adjustments</b>	<b>5,126</b>	<b>4,263</b>	

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## 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 2013-14.  
<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 2015-16 rather than 2016-17, as this is the latest year for which published accounts were available for both the Scottish Government and Scottish local government. 2016-17 figures in GERS are based on provisional outturn estimates.



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

	<b>£ billion</b>
	<b>2015-16</b>
<b>Scottish Government</b>	
Published Scottish Government budget <sup>1</sup>	36.9
Spending by Audit Scotland and Scottish Parliament	0.1
Public corporation capital spending	0.3
Timing differences	0.0
<b>Total Scottish Government expenditure</b>	<b>37.3</b>
<b>Adjustments to align budget to CRA measure of spending</b>	
Grants to other public sector bodies (e.g. local government)	-10.8
Pensions	-3.1
Depreciation	-0.8
Financial transactions associated with student loans and public corporations	-0.5
Adjustments to move from spend 'in' Scotland to spend 'for' Scotland <sup>2</sup>	-0.1
Other	-0.2
<b>Final Scottish Government expenditure on services for Scotland</b>	<b>21.8</b>
<b>Scottish Local Government</b>	
Published Local Government gross current expenditure <sup>3</sup>	12.7
Income excluding grants from Central Government <sup>4</sup>	-2.0
Housing benefit	1.7
Published Local Government gross capital expenditure <sup>5</sup>	2.3
Income from sales of capital assets <sup>6</sup>	-0.2
<b>Final Scottish Local Government expenditure on services for Scotland</b>	<b>14.6</b>
<b>Scottish Government &amp; Local Government expenditure on services for Scotland</b>	<b>36.5</b>
<b>National Accounts adjustments<sup>7</sup></b>	
Capital consumption	2.4
VAT refunds	1.2
Other accounting adjustments	0.4
<b>Final Scottish Government and Scottish Local Government TME</b>	<b>40.5</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 2015-16, Annex B. Total General Fund (excluding the Housing Revenue Account and trading with the public) employee costs, operating costs, and support services costs after statutory adjustments, less recharges

<sup>4</sup> As Note 3. Total General Fund (excluding the Housing Revenue Account and trading with the public) income less government grants

<sup>5</sup> As Note 3. All services total gross capital expenditure (Annex G)

<sup>6</sup> As Note 3. Total capital receipts from sales of assets (Annex I)

<sup>7</sup> See Table A.9

# B REVISIONS

This section presents revisions from the previous GERS 2015-16 publication.

## Revisions to Non-North Sea Revenue Estimates from GERS 2015-16

Table B.1 summarises the revisions in this edition of GERS to total non-North Sea revenue. Revisions to Scottish estimates can stem from three sources: revisions to UK totals; revisions to apportionment data; and updated apportionment methodologies. The only methodological changes to non-North Sea revenue in GERS 2016-17 relates to air passenger duty, and the main source of revisions is revisions to UK totals. The main revision to apportionment data relates to corporation tax.

There are three major revisions to UK revenue totals from GERS 2015-16. These reflect the adoption of changes that ONS have made to the reporting of the UK public finances over the past year. Firstly, the reclassification of housing associations in Scotland and the other devolved administrations into the public sector leads to an increase in revenue for Scotland and the UK in all years since 2008-09. Secondly, the ONS has changed the reporting of corporation tax, both onshore and offshore, moving from reporting cash revenue to reporting accruals. This in general revises up corporation tax in all years, although it has been revised down in 2007-08 and 2008-09. Finally, the ONS has corrected the estimates for non-domestic rates figures for Scotland and Wales in the UK public sector finances, which leads to upward revisions for Scotland and the UK since 2009-10.

<b>Table B.1: Revision to Estimates of Total Non-North Sea Revenue</b>				
	<b>£ million</b>			
	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
<b>Scotland</b>				
Estimates published in GERS 2015-16	48,192	50,054	51,765	53,689
Estimates published in GERS 2016-17	48,912	50,805	52,640	54,446
<b>Revision</b>	<b>720</b>	<b>751</b>	<b>875</b>	<b>757</b>
<i>Of which, non-domestic rates</i>	417	435	597	663
<i>Of which, housing associations</i>	363	366	469	477
<i>Of which, corporation tax</i>	-6	35	95	11
<b>UK</b>				
Estimates published in GERS 2015-16	601,372	627,216	652,691	677,631
Estimates published in GERS 2016-17	604,069	629,982	655,909	681,878
<b>Revision</b>	<b>2,697</b>	<b>2,766</b>	<b>3,218</b>	<b>4,247</b>
<i>Of which, non-domestic rates</i>	-135	-163	-156	523
<i>Of which, housing associations</i>	727	692	932	962
<i>Of which, corporation tax</i>	1,537	1,561	1,592	1,509
<b>Scotland/UK ratio</b>				
Estimates published in GERS 2015-16	8.0%	8.0%	7.9%	7.9%
Estimates published in GERS 2016-17	8.1%	8.1%	8.0%	8.0%
<b>Revision (% point)</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.1%</b>

The net effect of all of the changes has been to increase the estimate of public sector revenue in Scotland by £757 million in 2015-16, an increase of 1.4%. This is primarily driven by the revisions to non-domestic rates and the reclassification of housing associations. The UK estimate has been revised up by £4.2 billion. The increase in estimated Scottish corporation tax is proportionately smaller than for the UK as a whole, reflecting revisions to

## B Revisions

the apportionment data made by HMRC. This change allocates interest income to the location of a company's head office, rather than allocating it to regional branches.

The revisions to individual revenue lines for 2015-16 are shown in Table B.2 below. As discussed in Chapter 1, there have been changes to the presentation of revenues in GERS 2016-17 to better align with the presentation used by the Office for Budget Responsibility (OBR). The revisions below are shown on a like-for-like basis, using the latest presentation.

Other than the revisions discussed above, most revisions are minor and reflect revisions to UK totals (the revision to housing associations is reflected in gross operating surplus). However, there are a number of revisions that reflect updates to apportionment data. The differential movement in income tax reflects the latest Survey of Personal Incomes data, and the downward revision to VAT and other indirect taxes reflects the latest Living Costs and Food survey data. The revisions to capital gains tax and inheritance tax reflect updated data for Scotland from HMRC. Finally, the revisions to air passenger duty reflect a refined methodology to better account for different class of tickets and exempt passengers.

**Table B.2: Revision to Estimates of Public Sector Revenue: Scotland and UK 2015-16**

	£ million		%	
	Scotland	UK	Scotland	UK
Income tax	8	-447	0.1%	-0.3%
National insurance contributions	60	621	0.6%	0.5%
Value added tax	-185	114	-1.9%	0.1%
Corporation tax (excluding North Sea)	0	1,509	0.0%	3.4%
Fuel duties	-21	0	-0.9%	0.0%
Non-domestic rates	663	523	34.6%	1.9%
Council tax	-75	-133	-3.5%	-0.5%
VAT refunds	-18	-14	-1.4%	-0.1%
Capital gains tax	-65	-24	-17.3%	-0.3%
Inheritance tax	-9	-8	-3.2%	-0.2%
Reserved stamp duties	-21	-490	-6.9%	-3.4%
Scottish Land & Buildings transaction tax	9	9	2.1%	2.1%
Scottish landfill tax	0	0	0.0%	0.0%
Air passenger duty	-28	0	-10.2%	0.0%
Tobacco duties	-34	0	-2.9%	0.0%
Alcohol duties	0	-5	0.0%	0.0%
Insurance premium tax	-2	3	-0.8%	0.1%
Vehicle excise duties	2	0	0.5%	0.0%
Environmental levies	-3	-37	-0.5%	-0.8%
Other taxes	20	686	1.3%	3.7%
<b>Total Non-North Sea taxes</b>	<b>301</b>	<b>2,307</b>	<b>0.6%</b>	<b>0.4%</b>
Other Revenue				
Interest and dividends	36	391	9.4%	6.3%
Gross operating surplus	368	1,588	9.7%	3.5%
Other receipts	52	-39	14.6%	-1.5%
<b>Total non-North Sea revenue</b>	<b>757</b>	<b>4,247</b>	<b>1.4%</b>	<b>0.6%</b>

## Revisions to North Sea Revenue Estimates from GERS 2015-16

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 revised down in all years shown. This reflects the move by the ONS from reporting corporation tax on a cash basis to an accruals basis, discussed in Chapter 2. There are upward revisions to North Sea corporation tax in earlier years. In addition, the Scottish share of North Sea revenue has been revised down in 2012-13 and 2013-14 and up in 2014-15 and 2015-16, reflecting the alignment with the estimates used by the ONS in their recent Country and Regional Public Sector Finances publication. This change follows a public consultation, and is discussed in more detail in the GERS 2016-17 Consultation Response.<sup>30</sup>

<b>Table B.3: Revisions to North Sea Revenue: 2012-13 to 2015-16</b>				
	<b>£ million</b>			
	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
<b>Scotland (illustrative geographical share)</b>				
Estimates published in GERS 2015-16	5,306	3,999	1,802	60
Estimates published in GERS 2016-17	4,643	3,448	1,374	56
<b>Revision</b>	<b>-663</b>	<b>-551</b>	<b>-428</b>	<b>-4</b>
<i>of which, methodology change</i>	<i>-480</i>	<i>-332</i>	<i>21</i>	<i>118</i>
<b>UK</b>				
Estimates published in GERS 2015-16	6,234	4,764	2,252	76
Estimates published in GERS 2016-17	6,020	4,499	1,691	-80
<b>Revision</b>	<b>-214</b>	<b>-265</b>	<b>-561</b>	<b>-156</b>

A discussion of revisions to all taxes between 2012-13 and 2015-16 is provided in the GERS 2016-17 Revenue Methodology note available on the GERS website.

<sup>30</sup> <http://www.gov.scot/Topics/Statistics/Browse/Economy/GERS/GERSConsultation2017>

## Revisions to Expenditure Estimates from GERS 2015-16

Table B.4 sets out the changes in estimates of public expenditure in Scotland and the UK between this report and GERS 2015-16. 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.

Total public sector expenditure has been revised up for Scotland in all years. This primarily reflects the incorporation of housing associations into the public sector. Other factors affecting spend in all years include: improved estimates associated with Network Rail; improved treatment of student loan impairments; and improved estimates of Scottish Water capital spend.

<b>Table B.4: Revisions to Estimates of Total Managed Expenditure: 2012-13 to 2015-16</b>				
	£ million			
	2012-13	2013-14	2014-15	2015-16
<b>Scotland</b>				
Estimates published in GERS 2015-16	67,495	67,035	67,879	68,581
Estimates published in GERS 2016-17	68,094	67,581	68,487	69,048
<b>Revision</b>	599	546	608	467
<i>Of which revisions to TES</i>	137	175	75	-58
<i>Of which, housing associations (HAs)</i>	693	567	745	400
<i>Of which revisions to accounting adjustment (excl HAs)</i>	10	53	65	407
<b>UK</b>				
Estimates published in GERS 2015-16	730,822	735,913	746,611	753,027
Estimates published in GERS 2016-17	731,993	736,555	751,988	753,917
<b>Revision</b>	1,171	642	5,377	890
<i>Of which revisions to TES</i>	1,922	1,752	2,375	964
<i>Of which housing associations (HAs)</i>	-1,353	-1,573	-1,028	-3,602
<i>Of which revisions to accounting adjustment (excl HAs)</i>	-665	-881	2,553	2,227
<b>Scotland/UK Ratio</b>				
Estimates published in GERS 2015-16	9.2%	9.1%	9.1%	9.1%
Estimates published in GERS 2016-17	9.3%	9.2%	9.1%	9.2%
<b>Revision (% point)</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.0%</b>	<b>0.1%</b>

The table below shows the revisions to spend in 2015-16 by function, and by Scottish Government, Scottish local government, Scottish public corporations, and Other UK government bodies. Overall, Scottish spend in 2015-16 has been revised up by £467 million. This is primarily driven by the incorporation of Scottish housing associations into the public sector, which increase total spend by £400 million, in the form of increased public sector debt interest payments, and additional capital expenditure, which is currently reported in accounting adjustments.

Scottish local government spending has been revised down by £404 million as part of the move from provisional to final outturn.

Scottish Government spending on transport has been revised down by £451 million. This primarily reflects the a transfer of reporting of Network Rail spending from the Scottish Government to the Department for Transport, with a largely offsetting increase in other UK

government spending. Scottish Government accounting adjustments have been revised up by £409 million, primarily reflecting the removal of £364 million negative adjustments associated with Scottish Non-Profit Distributing Programme projects, which was discussed in more detail in GERS 2015-16.

Scottish public corporation spending has been revised up by £446 million. This reflects three factors. Spending by local authorities on housing, which is conducted by public corporations, has been revised up as part of the move from provisional to final outturn accounts. There is also a revision to Scottish Water capital spending, which was previously reported on a regulatory accounts basis, and has now been changed to be reported on an IFRS basis. Further detail on the differences is available from Scottish Water's Annual Report and Accounts.<sup>31</sup> Finally, the incorporation of Scottish housing associations into the figures increases spend by £118 million.

Other UK government bodies' expenditure in Scotland has been revised up by £536 million, primarily reflecting the transfer of reporting of Network Rail spend to the Department for Transport. In addition to this, there is an increase in public sector debt interest associated with housing associations, which consistent with the CRA is presented as spending by HM Treasury. There are a number of smaller revisions, which reflect the incorporation of data from the Country and Regional Analysis 2015-16 publication.

**Table B.5: Revisions to Estimates of Public Sector Expenditure: Scotland and UK 2015-16**

	£ million					
	Scotland					UK
	Scottish Government	Local Government	Scottish Public Corporations	Other UK Government Bodies	Total	
<b>General public services</b>						
Public and common services	7	78	0	36	120	-653
International services	0	0	0	21	21	294
Public sector debt interest	0	0	0	291	291	759
Defence	0	4	0	-12	-8	-21
Public order and safety	-13	0	0	2	-11	22
<b>Economic affairs</b>						
Enterprise and economic development	37	-178	0	38	-103	-27
Science and technology	-5	0	0	-4	-8	32
Employment policies	0	0	0	-8	-8	14
Agriculture, forestry and fisheries	2	-7	0	-11	-16	-72
Transport	-451	-30	0	324	-157	-284
Environment protection	1	-10	0	13	4	26
Housing and community amenities	-1	-123	328	0	204	19
Health	0	0	0	7	7	-204
Recreation, culture and religion	0	-4	0	-71	-76	-531
Education and training	-97	-60	0	6	-151	762
Social protection	0	-74	0	-147	-221	828
EU Transactions	0	0	0	54	54	0
Accounting adjustments	409	0	118	-3	524	-74
<b>Total revision</b>	<b>-111</b>	<b>-404</b>	<b>446</b>	<b>536</b>	<b>467</b>	<b>890</b>
<i>Of which, HAs</i>	<i>0</i>	<i>0</i>	<i>118</i>	<i>282</i>	<i>400</i>	<i>-3,602</i>

<sup>31</sup> <http://www.scottishwater.co.uk/about-us/publications/annual-reports>

## Revisions to Estimates of Capital Consumption from GERS 2015-16

Table B.6 sets out the changes to estimates of capital consumption in Scotland and the UK between this report and GERS 2015-16. 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: 2012-13 to 2015-16</b>				
	£ million			
	2012-13	2013-14	2014-15	2015-16
<b>Scotland</b>				
Estimates published in GERS 2015-16	3,641	3,856	4,137	4,418
Estimates published in GERS 2016-17	3,931	4,066	4,276	4,294
<b>Revision</b>	<b>290</b>	<b>210</b>	<b>139</b>	<b>-124</b>

In general, capital consumption in all years has been revised up, reflecting the incorporation Scottish housing associations into the public sector, which increases estimates in all years since 2008-09. However, the estimate for 2015-16 has been revised down, due to downward revisions to central government capital consumption following the latest data from ONS Regional Accounts.

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 2015-16

Table B.7 shows revisions to the current budget balance from the previous publication of GERS. The UK current budget balances has improved in all years apart from 2014-15, whilst the Scottish current budget balance excluding the North Sea has improved in all years. This reflects a number of factors. Firstly, it reflects the incorporation of Scottish housing associations into the public sector, which increases revenue by more than current expenditure. This has a relatively larger effect on the Scottish figures than the UK figures. Secondly, the upward revisions to non-domestic rates also improve the current budget balance. For the current budget balance including a geographical share of the North Sea, the downward revision to North Sea revenues discussed above offset these positive impacts between 2012-13 and 2014-15.

**Table B.7: Revisions to Estimates of the Current Budget Balance: 2012-13 to 2015-16**

	£ million			
	2012-13	2013-14	2014-15	2015-16
<b>Estimates published in GERS 2015-16</b>				
Excluding North Sea revenue	-15,008	-14,015	-13,333	-12,688
Including North Sea revenue (per capita share)	-14,489	-13,619	-13,147	-12,681
Including North Sea revenue (geographical share)	-9,703	-10,015	-11,531	-12,628
UK	-84,681	-72,008	-56,925	-41,498
<b>Estimates published in GERS 2016-17</b>				
Excluding North Sea revenue	-14,796	-13,792	-12,989	-11,983
Including North Sea revenue (per capita share)	-14,295	-13,419	-12,849	-11,990
Including North Sea revenue (geographical share)	-10,153	-10,345	-11,615	-11,927
UK	-82,786	-70,094	-57,440	-40,491
<b>Difference (£ million) (positive shows improvement)</b>				
Excluding North Sea revenue	212	223	344	705
Including North Sea revenue (per capita share)	194	200	298	691
Including North Sea revenue (geographical share)	-450	-330	-84	701
UK	1,895	1,914	-515	1,007

Table B.8 shows revisions to the net fiscal balance from the previous publication of GERS. The revisions pattern is quite similar to that for the current budget balance.

**Table B.8: Revisions to Estimates of the Net Fiscal Balance: 2012-13 to 2015-16**

	£ million			
	2012-13	2013-14	2014-15	2015-16
<b>Estimates published in GERS 2015-16</b>				
Excluding North Sea revenue	-19,303	-16,981	-16,114	-14,892
Including North Sea revenue (per capita share)	-18,783	-16,586	-15,927	-14,886
Including North Sea revenue (geographical share)	-13,997	-12,982	-14,311	-14,833
UK	-123,216	-103,933	-91,668	-75,320
<b>Estimates published in GERS 2016-17</b>				
Excluding North Sea revenue	-19,181	-16,776	-15,847	-14,602
Including North Sea revenue (per capita share)	-18,680	-16,403	-15,707	-14,609
Including North Sea revenue (geographical share)	-14,538	-13,329	-14,473	-14,546
UK	-121,904	-102,074	-94,388	-72,119
<b>Difference (£ million) (positive shows improvement)</b>				
Excluding North Sea revenue	122	205	267	290
Including North Sea revenue (per capita share)	103	183	220	277
Including North Sea revenue (geographical share)	-541	-347	-162	287
UK	1,312	1,859	-2,720	3,201

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 fiscal aggregates in cash terms, previous estimates would generally have worsened by around 0.2 percentage points in 2012-13 and 2014-15, although less in more recent years. This reflects downward revisions to the nominal value of GDP in these years made in the latest Quarterly National Accounts Scotland, following the annual publication of updated Supply and Use Tables for 1998-2014 in July.



## B Revisions

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 down. 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**

	2012-13	2013-14	2014-15	2015-16
<b>Estimates published in GERS 2015-16</b>	<b>% of GDP</b>			
Excluding North Sea revenue	-11.2%	-10.0%	-9.2%	-8.6%
Including North Sea revenue (population share)	-10.7%	-9.6%	-9.0%	-8.6%
Including North Sea revenue (geographical share)	-6.4%	-6.3%	-7.3%	-8.1%
<b>UK</b>	-5.0%	-4.1%	-3.1%	-2.2%
<b>GERS 2015-16 estimate with latest GDP estimates</b>	<b>% of GDP</b>			
Excluding North Sea revenue	-11.4%	-10.2%	-9.3%	-8.7%
Including North Sea revenue (population share)	-10.9%	-9.7%	-9.0%	-8.6%
Including North Sea revenue (geographical share)	-6.5%	-6.4%	-7.3%	-8.1%
<b>UK</b>	-5.0%	-4.1%	-3.1%	-2.2%
<b>Change (positive denotes improvement)</b>	<b>% point difference</b>			
Excluding North Sea revenue	-0.2%	-0.2%	-0.1%	-0.1%
Including North Sea revenue (population share)	-0.2%	-0.2%	0.0%	-0.1%
Including North Sea revenue (geographical share)	-0.1%	-0.1%	0.0%	0.0%
<b>UK</b>	0.0%	0.0%	0.0%	0.0%

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

	2012-13	2013-14	2014-15	2015-16
<b>Estimates published in GERS 2015-16</b>	<b>% of GDP</b>			
Excluding North Sea revenue	-14.5%	-12.1%	-11.1%	-10.1%
Including North Sea revenue (population share)	-13.9%	-11.7%	-10.9%	-10.0%
Including North Sea revenue (geographical share)	-9.2%	-8.2%	-9.1%	-9.5%
<b>UK</b>	-7.3%	-5.9%	-5.0%	-4.0%
<b>GERS 2015-16 estimate with latest GDP estimates</b>	<b>% of GDP</b>			
Excluding North Sea revenue	-14.7%	-12.3%	-11.2%	-10.2%
Including North Sea revenue (population share)	-14.1%	-11.9%	-10.9%	-10.1%
Including North Sea revenue (geographical share)	-9.4%	-8.3%	-9.1%	-9.5%
<b>UK</b>	-7.3%	-5.9%	-5.0%	-4.0%
<b>Change (positive denotes improvement)</b>	<b>% point difference</b>			
Excluding North Sea revenue	-0.2%	-0.2%	-0.1%	-0.1%
Including North Sea revenue (population share)	-0.2%	-0.2%	-0.1%	-0.1%
Including North Sea revenue (geographical share)	-0.2%	-0.1%	0.0%	0.0%
<b>UK</b>	0.0%	0.0%	0.0%	0.0%

# C

## LIST OF ABBREVIATIONS

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CRA	Country and Regional Analysis
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
PSAT2	Public Sector Accounts Table 2
QNAS	Quarterly National Accounts Scotland
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.

**Accruals:** the accounting convention whereby an expenditure or revenue is recorded at the time when it has been incurred or earned rather than when the money is paid or received.

**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.

**Classifications 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. It is consistent with the UN's System of National Accounts 2008.

**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

**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 expenditure in the UK public finances.

**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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