

Press Release

Monthly Bulletin Supplement: Government Expenditure and Revenue Scotland (GERS) 2015

The Scottish Government today published the latest edition of GERS, covering the years 2009-10 to 2013-14.

The official aim of GERS is “*to enhance public understanding of fiscal issues in Scotland.*” It does this by estimating “*the contribution of revenue raised in Scotland towards the goods and services provided for the benefit of Scotland under the current constitutional arrangements.*”

This bulletin looks in brief at (i) the latest results for Scotland’s fiscal balance (i.e., tax revenues less public expenditure), (ii) what has changed relative to last year’s report and, (iii) projects forward Scotland’s absolute and relative (to the UK) fiscal balance position up to 2019-20.

While the referendum result makes Scotland’s fiscal position less critical when looking forward, there is still considerable interest in Scotland’s future funding settlement and this analysis helps better understand the potential implications of full fiscal autonomy.

It should be noted that under full, or near full, fiscal autonomy, the future projections of the fiscal balance shown here could be affected by changes in policy, either through the impact of a shift in Scotland’s growth rate or changes to tax and spend patterns. Indeed such affects might also be seen in light of the new Smith Commission powers that are due to be introduced. Key to assessing the likelihood of any such changes to the projections presented here is how and when they might make an impact. As we have little basis at present on which to provide alternative scenarios, the current outlook for both tax and spending is assumed to follow the known historic patterns.

Scotland’s fiscal balance, 2009-10 to 2013-14

The main points of interest to emerge from this year’s GERS are (see also Table 1):

- Scotland’s overall fiscal balance improved in 2013-14 over 2012-13, from a deficit of -£14.3 billion to -£12.4 billion;
- This came about through a considerable improvement in Scotland’s onshore balance being only partly offset by a decline in North Sea revenues, which fell from £5.2 billion in 2012-13 to £4.0 billion in 2013-14;
- The UK’s overall fiscal balance also improved in 2013-14;
- Relative to the UK, Scotland’s position can be considered in a number of ways. GERS shows it in terms of the fiscal balance as a % of GDP. It can also be illustrated on a per head of population basis;

- Under both relative measures Scotland had a relatively higher deficit than the UK in 2013-14. However, despite the decline in North Sea revenues recorded between 2012-13 and 2013-14, Scotland's fiscal balance position relative to the UK did not see a similar decline. This was due to a relative fall in Scotland's spending, in particular in relation to spending on health and education. The 2013-14 position contrasts with years when North Sea revenues were high, such as 2011-12, which resulted in Scotland having a relatively better fiscal balance compared to the UK;
- Over the 5 years shown in GERS, Scotland had, on average, a slightly worse fiscal deficit position than the UK.

Principal revisions from GERS 2014

The main changes to GERS this year relate to:

- revisions to North Sea revenues, based on revised HMRC data, which have slightly worsened Scotland's fiscal balance;
- changes in methodology by the UK Office for National Statistics (ONS) that have resulted in revisions to a number of data series used in GERS, including expenditure, revenues and GDP;
- updates to the spending data by Local Authorities in 2012-13, that replaced estimates with actual out-turns.

In addition, GERS continues to show two different estimates of Scotland's geographic share of North Sea revenues, one based on Kemp & Stephens analysis and one on HMRC analysis, as the discrepancy has yet to be resolved. The main analysis shown here follows GERS using the Kemp & Stephens analysis. If the alternative HMRC estimates were used, over the five years shown in the latest GERS, Scotland's geographic share would average 83% rather than 88%, equivalent to just over £300 million a year in lower revenues.

The net impact of these changes has not seriously altered previous estimates of Scotland's overall fiscal balance position, except for 2012-13. In that year Scotland's deficit is now estimated to be over £2 billion higher than it was in the previous GERS. This was in large part due to the upwards revisions to public spending in that year outstripping those made to revenues. An increase in the UK's deficit was also recorded in 2012-13 but not on the same scale as for Scotland.

Due to the extent of the revisions made in this edition of GERS, all years back to 1998-99 have been re-estimated. These revisions do not change the general pattern seen over the years covered.

Scotland's fiscal balance, 2014-15 to 2019-20

Projections of Scotland's overall fiscal balance beyond the years shown in GERS can be made based on a set of assumptions (1), principally that:

- UK onshore revenues and public expenditure totals are taken from the latest Office for Budget Responsibility (OBR) forecasts (December 2014), as such, they are in line with the UK government's continuing policy of fiscal rebalancing led by real terms cuts in services;
- Scotland's share of UK onshore tax revenues remains in line with the average calculated for recent years, at 8.1%;
- Scotland's share of UK public expenditure remains in line with the average calculated for recent years, at 9.3%;

- Scotland's share of North Sea revenues remains in line with the average calculated for recent years, at 88%;
- overall UK North Sea tax revenues for 2015-16 are estimated based on 10 months of known outcome data whilst forecasts beyond that are based on the latest OBR projections (i.e., December 2014).

Based on these assumptions, then the main points of interest to emerge from analysis of post GERS years are (see also Table 2):

- Scotland's overall fiscal balance is projected to worsen in 2014-15, over 2013-14, from -£12.4 billion to -£13.9 billion. This is due to a further decline in North Sea revenues for 2013-14, largely based on actual, (i.e., out-turn) figures. Thereafter Scotland's overall fiscal balance is set to improve, roughly in line with the onshore fiscal balance.
- Under both relative measures Scotland continues to have a higher deficit than the UK. Again, Scotland's relative position further worsens in 2014-15, but thereafter remains largely the same. Hence, while the UK, on current plans, returns to surplus by 2018-19, Scotland remains in deficit up to the end of the forecast period (ie, to 2019-20).

The Scottish government publishes, on an occasional basis, a variety of scenarios for future North Sea-related tax revenues. So far, the OBR's projection (as used in Table 2) has been at the bottom of this range. Since the Scottish government's last set of scenario projections, most of the main assumptions used (e.g., the OBR's projections of revenues, oil price estimates that feed into DECC's assumptions on the future oil price (by the IEA and the EIA) and Oil & Gas UK's projection of production) have been revised down, in some cases considerably. This suggests a lower range (for example, than the £3.2 to 8.0 billion for 2018-19) is likely to emerge in any forthcoming update.

Post the UK Budget of 18th March 2015 we will be revising the estimates of future fiscal balances for Scotland and the UK up to 2019-20. A further update will also be made available once the Scottish government updates its projections of future North Sea revenues.

Note

(1) As with most forecasts made by the OBR, the projections shown here give specific values for each fiscal measure, year-by-year. Clearly in each case (e.g. onshore revenues, offshore revenues and expenditure etc) a variety of out-turns are possible. However, the degree of complexity this would introduce can detract from the overall message that is being presented. Nonetheless it should be remembered that the estimates shown are simply indicative of the likely out-turn.

Quotes:

John McLaren: *“Like the UK, Scotland’s fiscal position remains heavily in the red in 2013-14. However, despite declining oil revenues, it has improved in comparison to 2012-13. As oil revenues are likely to see another substantial fall in 2014-15, we may see Scotland’s position worsen this year and it seems likely to remain, relatively, worse than the UK’s up to 2019-20.”*

Jo Armstrong: *“It remains difficult to predict Scotland’s future fiscal position due to uncertainties over oil revenues and the future of the Barnett formula. At present most scenarios point to downside risks for Scotland as oil production stubbornly refuses to halt its downward trend and any future revision to the Barnett formula is likely to work against Scotland.”*

Contact details

John McLaren m: 07429 508 596
e: john.mclaren@btinternet.com

Jo Armstrong m: 07740 440 766
e: jo@jo-armstrong.co.uk

Charity details

Fiscal Affairs Scotland SCIO

SC044827

Website: fiscalaffairsscotland.co.uk

Table 1: Overall fiscal balance, Scotland and the UK, 2009-10 to 2013-14, £ million

	2009-10	2010-11	2011-12	2012-13	2013-14	Annual average
SCOTLAND						
Onshore Revenues	43,316	45,523	47,279	48,321	49,958	
- <i>share of UK revenues</i>	8.2%	8.1%	8.1%	8.1%	8.1%	8.1%
Expenditure	63,533	65,112	65,768	67,848	66,388	
- <i>share of UK expenditure</i>	9.3%	9.2%	9.3%	9.4%	9.2%	9.3%
Onshore Fiscal Balance	-20,217	-19,589	-18,489	-19,527	-16,430	
Total UK North Sea revenues	5,991	8,406	10,958	6,214	4,766	
Scottish North Sea revenues	5,682	7,459	9,668	5,235	3,996	
- <i>share of UK Total</i>	94.8%	88.7%	88.2%	84.2%	83.8%	88%
Overall Fiscal Balance	-14,535	-12,130	-8,821	-14,292	-12,434	
UK						
Overall Fiscal Balance	-153,032	-134,005	-112,782	-119,399	-97,280	
Overall Fiscal Balance as % of GDP						
Scotland	-10.4	-8.4	-5.9	-9.7	-8.1	
UK	-10.2	-8.5	-6.9	-7.2	-5.6	
Difference	-0.2	0.1	1.0	-2.5	-2.5	-0.4
Overall Fiscal Balance £ per head						
Scotland	-2,798	-2,323	-1,664	-2,689	-2,334	
UK	-2,458	-2,135	-1,782	-1,874	-1,517	
Scotland minus UK	-341	-188	118	-815	-816	-408
Cumulative Difference (£, million)	-1,769	-980	624	-4,332	-4,349	-1,965

Sources: GERS 2015, Fiscal Affairs Scotland

Table 2: Overall fiscal balance, Scotland and the UK, 2014-15 to 2018-19, £ million

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
SCOTLAND						
Onshore Revenues(i)	52,193	54,230	57,096	59,587	62,193	64,961
Expenditure(i)	68,403	69,228	69,294	69,721	71,020	72,375
Onshore Fiscal Balance	-16,210	-15,018	-12,199	-10,134	-8,827	-7,414
Total UK North Sea revenues	2,600	2,200	2,400	2,600	3,100	2,700
Scottish North Sea revenues(i)	2,287	1,936	2,111	2,287	2,727	2,375
Overall Fiscal Balance	-13,923	-13,082	-10,087	-7,846	-6,100	-5,039
UK						
Overall Fiscal Balance	-91,500	-75,900	-40,900	-14,600	4,000	23,100
Overall Fiscal Balance as % GDP						
Scotland	-8.8	-8.0	-6.0	-4.5	-3.4	-2.7
UK	-5.0	-4.0	-2.1	-0.7	0.2	1.0
Difference	-3.8	-4.0	-3.9	-3.8	-3.6	-3.7
Overall Fiscal Balance £ per head						
Scotland	-2,604	-2,438	-1,873	-1,451	-1,124	-924
UK	-1,418	-1,169	-626	-222	60	346
Difference	-1,186	-1,270	-1,247	-1,229	-1,184	-1,271
Cumulative Difference (£, million)	-6,473	-6,924	-6,841	-6,780	-6,586	-7,065

Sources: Figures for the UK are taken from the latest OBR (December 2014) estimates, Scottish figures are derived using the average Scottish shares of the UK totals taken from Table 1.

(i) shares used are 8.2%, 9.25% and 89% respectively.