

(Press Release - 10 March 2016)

Brief Analysis of the latest ‘Government Expenditure and Revenue Scotland 2014-15’ (GERS) publication

Key points

- **Scotland’s overall fiscal balance worsened in 2014-15 over 2013-14, due to falling North Sea tax revenues. This is in contrast to the improvement seen in the UK’s fiscal balance for the same year.**
- **In 2015-16, it is highly likely that Scotland’s fiscal balance will not improve, again due to falling North Sea oil revenues. Beyond 2015-16 it will start to improve, in line with the UK’s rebalancing, up to 2020-21.**
- **However, Scotland’s fiscal position is estimated to remain in deficit, to the tune of £9 billion by 2019-20 (just under 5% of GDP), by which time the UK as a whole will be in surplus.**
- **With a second referendum on independence being mooted in the event of the UK voting to leave the EU, details on how any such deficit might be accommodated remains a relevant issue and concern.**

Background

GERS estimates the contribution of revenue raised in Scotland towards the cost of goods and services provided for the benefit of Scotland under the current constitutional arrangements. In other words, it looks at the difference between what is raised in taxes and what is spent on public services, given the current patterns of tax and spend. As such it can be seen as a measure of affordability of the current level of public services.

Scotland’s fiscal balance out-turns, 2010-11 to 2014-15 (see Table 1)

- Scotland’s overall fiscal balance worsened in 2014-15 over 2013-14, from a deficit of -£13.4 billion to -£14.9 billion;
- This came about as a result of a decline in North Sea revenues, which fell from £4 billion in 2013-14 to £1.8 billion in 2014-15;
- Relative to the UK, Scotland had a higher deficit in 2014-15, equivalent to about £1,400 per person (see GERS, Tables E.2 and E.4);
- Over the 5 years shown in GERS, Scotland had a notably worse fiscal deficit position than the UK in every year bar 2011-12.

Scotland's projected fiscal balance, 2015-16 to 2020-21 (see Table 2)

- Scotland's overall fiscal balance is not expected to improve in 2015-16, due to declining North Sea revenues offsetting the improvement in the onshore balance. Thereafter, the fiscal balance is expected to improve in line with the UK.
- By 2019-20 the Office for Budget Responsibility (OBR) forecast the UK fiscal balance to be in surplus. At the same point the Scottish fiscal balance is projected to be in deficit by around £9 billion.
- Table 2 uses the OBR's projections for North Sea oil revenue forecasts. The Scottish Government also publishes North Sea tax projections using a range of scenarios. Most of these scenarios apply an oil price of \$75 a barrel, which increases future annual revenues to as high as £1.7 billion by 2019-20. The most optimistic scenario, which assumes an oil price of \$100 a barrel, leads to £2.8 billion of oil revenues by 2019-20. Hence, even using the Scottish Government's more optimistic future oil scenarios results in a Scottish deficit of over £6 billion in 2019-20.

On-going Relevance

With the North Sea now largely irrelevant (in terms of tax receipts) and so the future Scottish position less susceptible to large erratic shifts in oil revenues, the projections shown in Table 2 give a fairly good idea of Scotland's underlying fiscal balance position.

Table 2 shows that when the UK returns to balance (in 2019-20) Scotland is still around £9 billion in deficit (just under 5% of GDP).

A deficit of this size roughly equates to the UK's fiscal position as recently as 2014-15, so clearly such a position is manageable, although that does not mean it is an easy place to be, as on-going austerity shows.

Moving to a position of fiscal balance (be it current balance, excluding investment, or overall balance) would require substantial tax rises or spending cuts. This may be do-able, but the, largely unexplored, question remains - how might it actually be done?

With a second referendum on independence being mooted in the event of the UK voting to leave the EU, details on how any such deficit might be accommodated remains a relevant issue and concern.

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Table 1: Fiscal balance out-turns, Scotland and the UK, 2010-11 to 2014-15, £ billion

	2010-11	2011-12	2012-13	2013-14	2014-15	(average)
SCOTLAND						
Onshore revenues	45.5	47.2	48.3	50.1	51.6	
- share of UK revenues	8.1%	8.1%	8.1%	8.1%	8.0%	(8.1%)
Expenditure	65.7	66.1	67.7	67.5	68.4	
- share of UK expenditure	9.3%	9.3%	9.4%	9.3%	9.3%	(9.3%)
Onshore fiscal balance	-20.2	-18.9	-19.5	-17.4	-16.7	
North Sea revenues	7.5	9.6	5.3	4	1.8	5.6
- share of UK Total	89%	88%	85%	84%	80%	(85%)
Overall fiscal balance	-12.7	-9.2	-14.2	-13.4	-14.9	
UK overall fiscal balance	-135	-114	-120	-101	-89	
Fiscal balance, £ per head						
Scotland	-2,434	-1,745	-2,669	-2,521	-2,792	
UK	-2,147	-1,794	-1,877	-1,574	-1,379	
Scotland - UK	-287	49	-792	-947	-1,413	-678
Cumulative Difference, £,bn	-1.5	0.3	-4.2	-5.0	-7.6	-3.6

Sources: GERS 2016; authors calculations

Note: 'Cumulative Difference' equates to the per head differential cumulated over the entire population.

Table 2: Fiscal balance projections, Scotland and the UK, 2015-16 to 2020-21, £ billion

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	(average)
SCOTLAND							
Onshore revenues	55.2	58.6	61.6	64.5	67.3	70.6	
- share of UK revenues	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	(8.1%)
Expenditure	70.3	71.9	73.2	74.5	76.4	79.7	
- share of UK expenditure	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%	(9.3%)
Onshore fiscal balance	-15	-13.3	-11.7	-10	-9.1	-9.1	
North Sea revenues	0.1	0.1	0.1	0.1	0.2	0.3	0.1
- share of UK Total	85%	85%	85%	85%	85%	85%	(85%)
Overall fiscal balance	-15	-13.3	-11.6	-9.9	-8.9	-8.9	
UK overall fiscal balance	-74	-50	-25	-5	10	15	
Fiscal balance, £ per head							
Scotland	-2,789	-2,465	-2,113	-1,836	-1,640	-1,632	
UK	-1,129	-761	-376	-69	151	218	
Scotland - UK	-1,660	-1704	-1737	-1767	-1791	-1850	-1,752
Cumulative Difference, £,bn	-8.9	-9.2	-9.4	-9.6	-9.7	-10.1	-9.5

Sources: OBR (Economic and Fiscal Outlook, November 2015); authors calculations

Notes:

- (1) 'Cumulative Difference' equates to the per head differential cumulated over the entire population;
- (2) Scottish Onshore and North Sea Revenues and Expenditure totals are derived by applying the average Scottish share over the 5 year GERS period to the UK totals.