

Press Release: 24th August 2016

Government Expenditure and Revenue Scotland (GERS) 2015-16

The Scottish Government today published the latest edition of GERS, covering the years 2011-12 to 2015-16.

KEY POINTS

Scottish Fiscal Balance (2015-16)

- Scotland's overall (including North Sea revenues and capital spending) fiscal balance has worsened for the second consecutive year.
- The key reason for this worsening has been the disappearance of North Sea related revenues, which have declined from being the largest contributor to overall Scottish revenues in 2008-09 (£12.5 billion) to almost nothing (£0.1 billion) (see Chart 1).

Scottish Fiscal Balance relative to the UK (2015-16)

- Scotland's fiscal deficit is around £1,600 per head higher than the UK's. This is composed of revenues being £400 per head lower and expenditure being £1,200 per head higher (see Charts 2-4).

Fiscal Position Post 2015-16

- Projecting forward the future fiscal position of Scotland is complicated by both the impact of Brexit and by the Scottish Government's control of Income Tax from 2017, as opposed to the past difficulty of forecasting erratic North Sea oil tax revenues.
- However, Scotland's fiscal position relative to the UK can be forecast with greater certainty and is likely to remain at around the current level, i.e around 5.5% of GDP worse off than the UK's.

Update on Scottish Independence Referendum White Paper Numbers

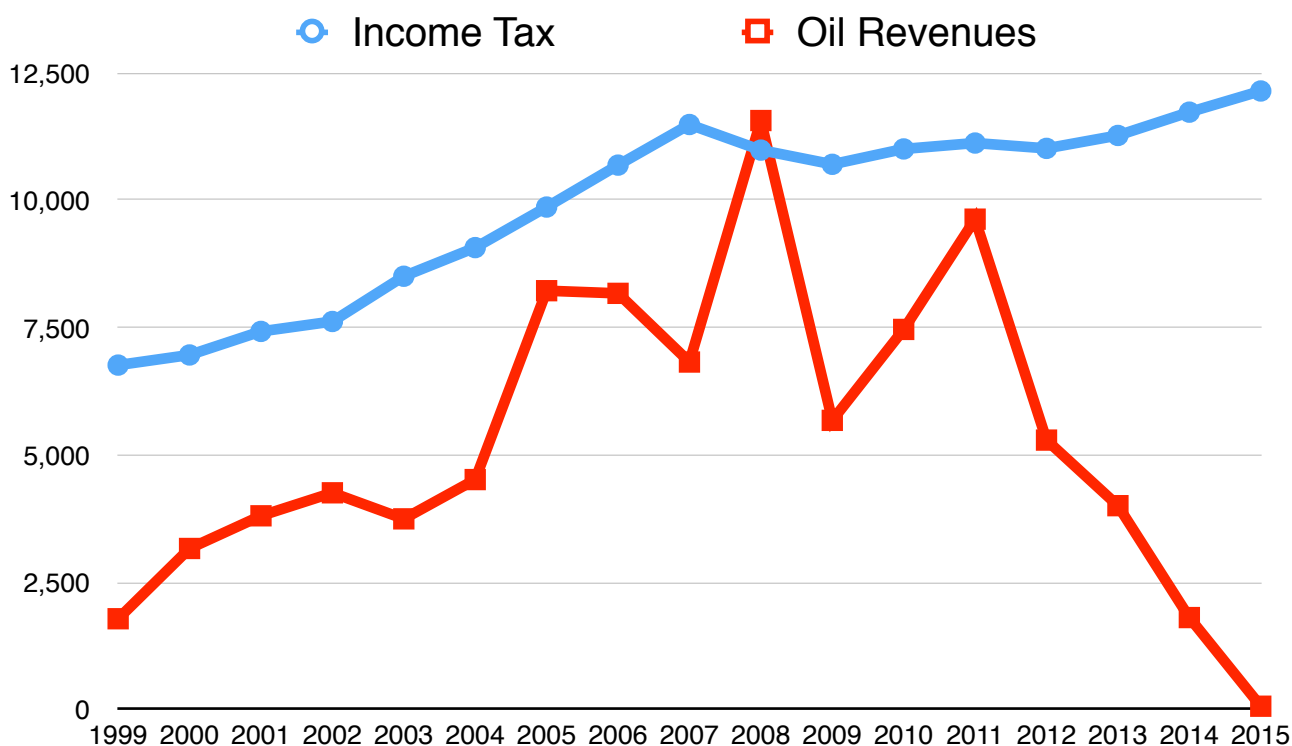
- Key claims from the 2013 White Paper that, compared to the UK, Scotland: contributes more tax per head; has stronger public finances; and has much higher GDP per head, are all out of date, with the reverse now being true in most cases (see Section 4 and Chart 5 for more details).

1. Scotland's fiscal balance, 2011-12 to 2015-16

The main points of interest to emerge from this year's GERS are:

- **Scotland's overall fiscal balance** worsened in 2015-16 over 2014-15, moving from a deficit of £14.3 billion to one of £14.8 billion;
- This deterioration came about through an improvement in Scotland's onshore balance being more than offset by a decline in North Sea revenues, which fell from £2.3 billion in 2014-15 to £0.1 billion in 2015-16;
- In contrast, the **UK's overall fiscal balance** improved in 2015-16;
- **Relative to the UK**, Scotland had a higher deficit than the UK in 2015-16. This contrasts with high North Sea revenue years, such as 2008-09 and 2011-12 when Scotland was in a relatively better position. Since 2011-12 Scotland's fiscal deficit, as a % of GDP, has risen from 5.7% to 9.5% in 2015-16, while the UK's has fallen from 7.1% to 4%;
- **Over the 5 years** shown in GERS, Scotland had, on average, a worse fiscal deficit position than the UK;
- In terms of **Revenues**, the largest contributor remains Income Tax (£12 billion). Post devolution, the only time this has not been the case was 2008-09, when oil revenues contributed the most. Chart 1 shows the contrasting fortunes of these two sources of revenue since then;
- In terms of **Expenditure**, the areas of highest spend are Social Protection (£24 billion) and Health (£12 billion), which together account for just over half the total spend.

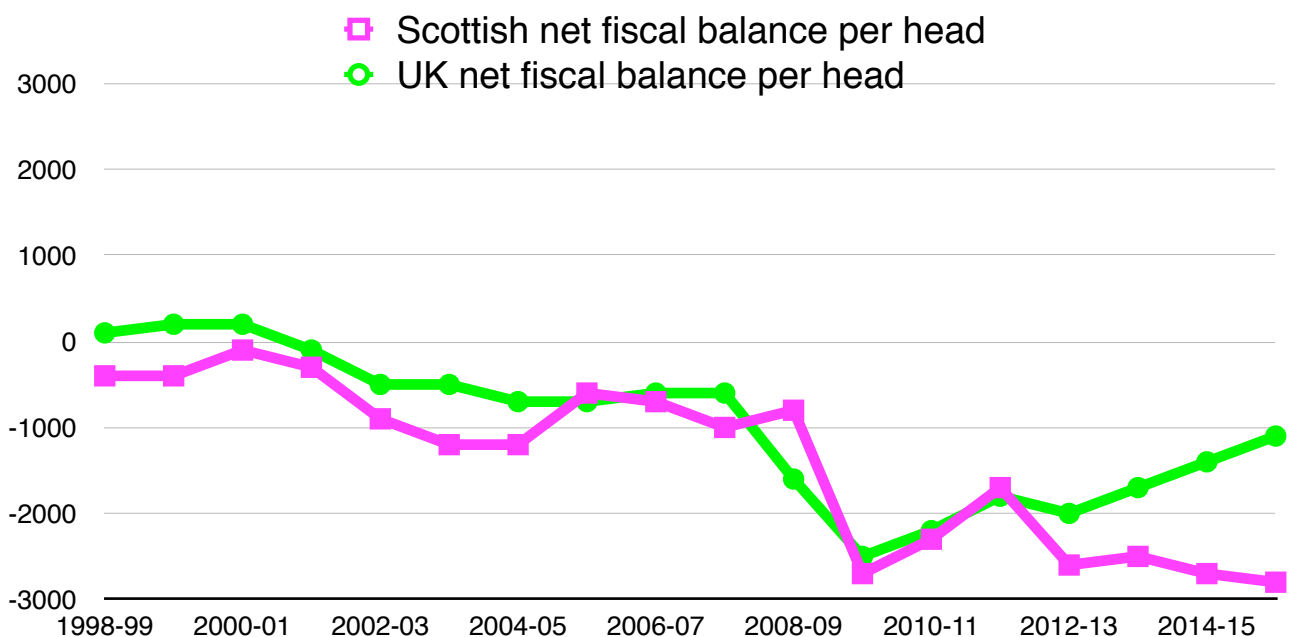
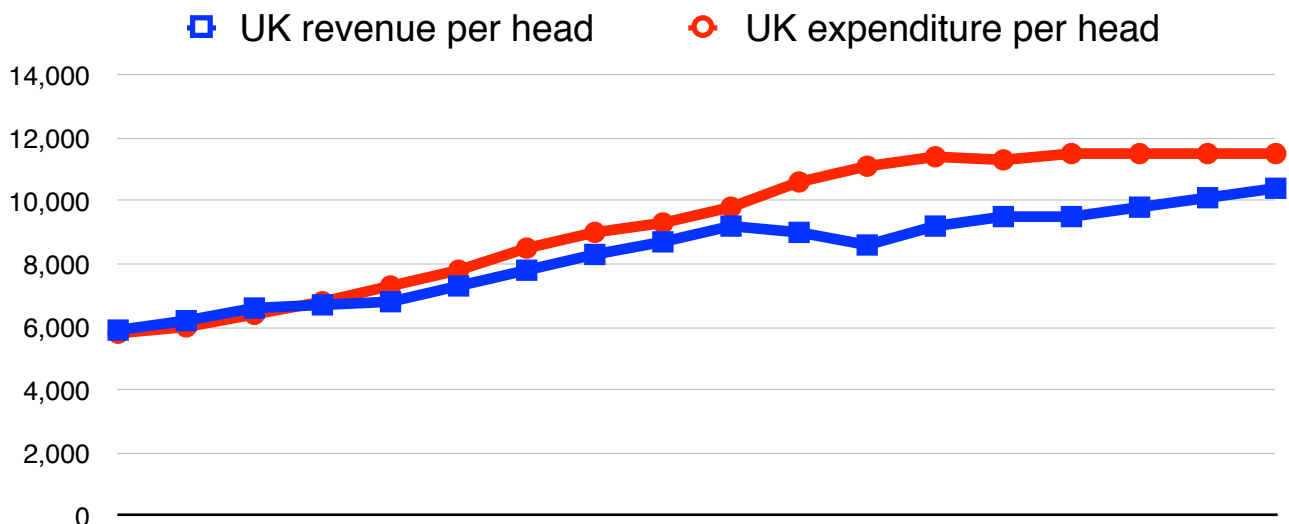
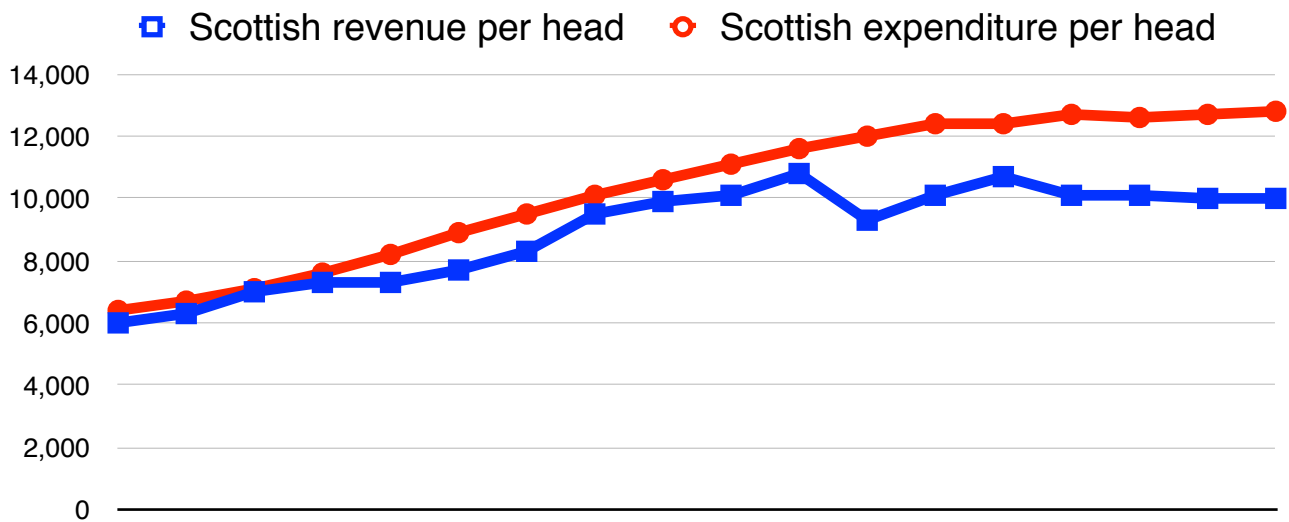
Chart 1: Scottish Income Tax and North Sea revenues, 1998-99 to 2015-16



Source: QNAS August 2016

Notes: i) data shown is for financial years, i.e. 1998 = 1998/99; ii) oil revenues are a geographical share of the UK total.

Charts 2, 3 and 4: Scottish and UK, Revenues, Expenditure and Balances, per head



2. Principal revisions from GERS 2015-16

Unlike past years the main revisions to GERS this year were relatively minor.

Slightly lower expenditure for years to 2014-15 are now estimated, resulting in an improvement in the fiscal balance of around £0.5 billion in 2013-214 and 2014-15.

3. Scotland's fiscal balance, post 2015-16

There is an increased degree of difficulty in trying to forecast Scotland's future fiscal balance due to:

- economic and fiscal uncertainty in relation to the impact of the Brexit vote;
- the Scottish Government's greater control of Income Tax powers.

(Note: One further interesting uncertainty is how tax treatment of North Sea operating companies will affect the distribution of tax receipts and repayments in the future. At present the Office for Budget Responsibility (OBR) estimate that there will be small negative North Sea receipts (i.e. repayments) in every year up to 2020-21, although it is unclear how much, if any, of this would be apportioned to Scotland.)

As a result no forecasts of Scotland's fiscal position have been made at this time. What can be said, with a greater degree of confidence, is that the **relative** difference between the fiscal positions of Scotland and the UK is likely to remain at around the level seen in 2015-16. That is, with Scotland being relatively worse off by 5.5% of GDP or £1,600 per head, due to the effective demise, now and into the future, of the North Sea as a source of tax revenue for both Scotland and the UK.

4. Update on Scottish Independence Referendum White Paper ('Scotland's Future') Numbers

The White Paper of November 2013 incorporated some numbers that were at the core of the discussion over Scotland's economic and fiscal strength post independence. The following analysis looks at how some of these numbers have changed since, using the latest edition of GERS and National Accounts statistics, also published today. (Note all data for Scotland includes a geographic share of North Sea revenues or GDP.)

White Paper

- In **2011/12**, Scottish tax receipts per head were £1,700 **higher** than the equivalent UK figure (*NOTE: this figure has since been revised down to £1,200 in the latest GERS*).
- In the 5 year period to 2011/12, Scotland's public finances were **stronger** than the UK's by almost £2,400 per head (*NOTE: this figure has since been revised such that Scottish finances are now thought to have been stronger by only £200 per head over this period*).
- In terms of GDP per head, Scotland ranks 8th out of 34 OECD member countries and is almost 20% **higher** than the UK.

Latest data:

- In **2015/16**, Scottish tax receipts per head were £400 **lower** than the equivalent UK figure.
- In the 5 year period to 2015/16, Scotland's public finances were **weaker** than the UK's by almost £4,300 per head.

- In terms of GDP per head, Scotland ranks 15th out of 35 OECD member countries and is now only 1% **higher** than the UK.

Why has this happened and does it matter?

In each case, the significant shift in Scotland's relative position can be put down to the decline in North Sea related activity or profits. The answer to the question of 'does it matter' is different depending on which statistic is being considered.

With regards to **GDP per head**, the answer is largely **No**, it is unlikely to have a very large effect. The reason for this is because much of North Sea activity was undertaken by overseas owned companies and was often staffed by non Scots. As a result, lost profits would largely have ended up outside Scotland anyway and far fewer employees have been lost than would have been the case if 10% of the onshore economy had been lost over the past four years. (Note: this result would have been explicit in Scottish GNI figures, which take into account such international movement in profits, but no such figures are currently published for Scotland. For more detail on this subject, and on why GDP is not a very good standard for measuring the performance of the Scottish economy, see <http://fiscalaffairsscotland.co.uk/wp-content/uploads/2015/04/Scottish-GDP-revised-data.pdf> .)

With regards to **public finances**, the answer is largely **Yes**, it has a big impact on Scotland's fiscal balance, as GERS illustrates. While big swings in Scotland's position relative to the UK have been seen before, this time is different. UK (and Scottish) oil revenues have effectively fallen to zero, due to a combination of on-going falling output and a big drop in prices since 2014. As a result, tax revenues have disappeared and are not expected to return. Even if the price of oil revived to \$100 a barrel, analysis by both the Scottish and UK Government's suggests that Scottish North Sea receipts would amount to no more than £2.8 billion a year (up to 2019-20), substantially down on past peaks.

Difficult choices would inevitably be involved for an independent Scotland to regain the fiscal ground lost as a result of the decline of North Sea revenues, but it is by no means an impossible task. An earlier Scottish Trends paper highlighted how this might be done (see <http://scottishtrends.co.uk/wp-content/uploads/2016/06/2nd-referndum.pdf>) .

Quotes:

John McLaren: *“Like the UK, Scotland's fiscal position remains heavily in the red in 2015-16. However, due to the disappearance of oil revenues, Scotland's position has notably worsened since 2013-14, while the UK's has slowly improved.*

Future figures are difficult to predict due to the uncertainty surrounding the impact of Brexit on the economy and public finances, although the effective demise of the North Sea as a source of tax revenues means that Scotland fiscal position relative to the UK is likely to remain weaker.”

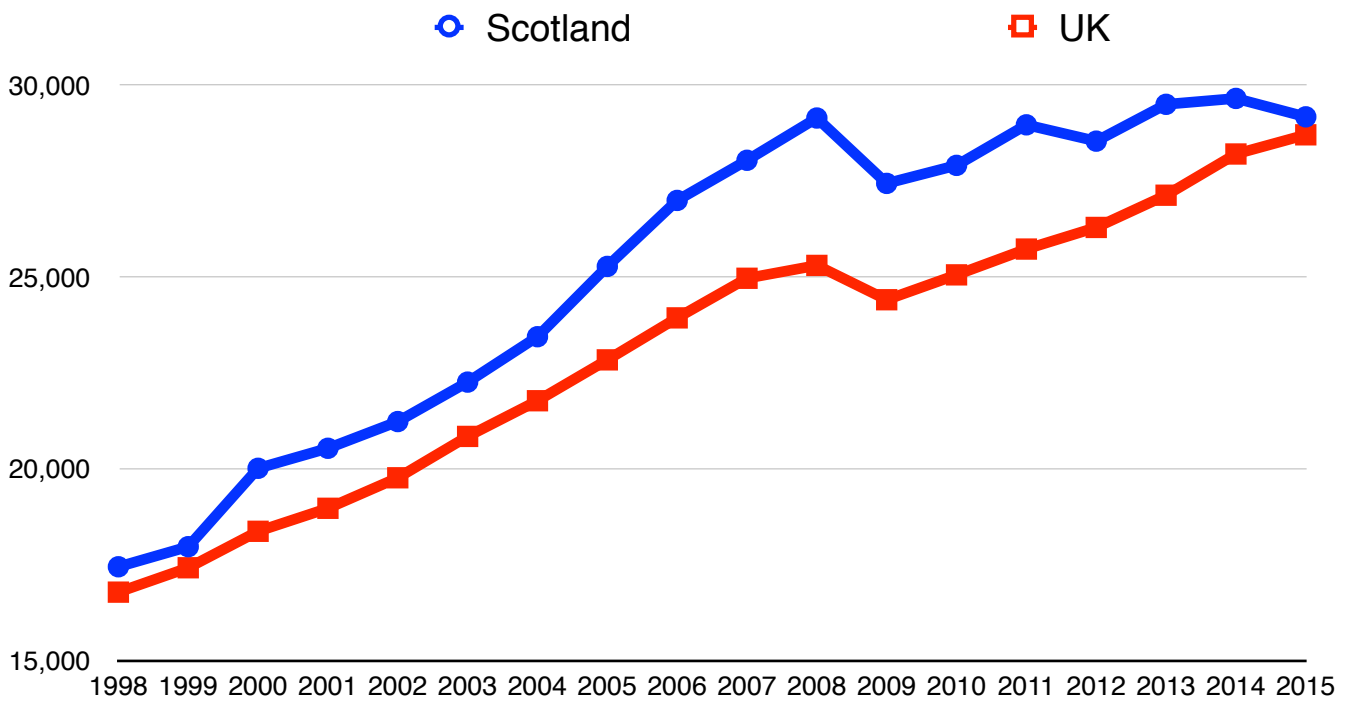
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Chart 5: GDP per head, Scotland (inc. a geographic share of North Sea) and the UK



Sources: QNAS, August 2016; ONS.