

(Press Release - 22nd August 2018)

Briefing Note: Government Expenditure and Revenue Scotland (GERS) 2018

The Scottish Government today published the latest edition of GERS, covering financial years 2013-14 to 2017-18.

This Briefing Note 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 2022-23.

KEY POINTS

- **Scotland's overall fiscal balance improved by £1 billion in 2017-18, from £-14.5 billion to £-13.5 billion, due entirely to an increase in North Sea tax revenues. However, revisions to earlier years means that the balance for 2016-17 worsened, by just over £1 billion.**
- **Relative to the size of the economy Scotland's deficit amounted to 7.9% of GDP (both including the North Sea) while the UK's amounted to 1.9% of GDP.**
- **This relatively poorer position can be explained by the facts that while Scotland's population share is 8.2% of the UK total, its share of onshore UK Revenues is below this (7.8%) and its share of UK Expenditure is above this (9.3%).**
- **The downward revisions to previous years are due to a lower share of onshore revenues being estimated, down from 8% to 7.8%. There is now a worrying trend of a declining Scottish share of UK revenues emerging.**
- **Looking forward it seems likely that Scotland's fiscal balance will hover around the £13.5 billion mark, although it will slowly decline as a share of GDP.**
- **However, this position very much depends on whether or not Scotland's share of UK revenues continues to decline and/or whether its share of UK expenditure rises.**
- **Future North Sea revenues are particularly uncertain at present, due to a fluctuating price.**
 - **The OBR estimate around £1 billion a year based on \$60 a barrel**
 - **If price of \$70 a barrel is maintained then this is likely to rise to £1.5 to £2 billion;**
 - **Such a figure is still well below the near £7 billion average seen over the period 2004-05 to 2012-13.**

Scotland's fiscal balance, 2013-14 to 2017-18 (see Table)

- Scotland's overall fiscal balance improved in 2017-18 over 2016-17, from a deficit of -£14.5 billion to -£13.4 billion. However, its onshore balance did not improve, staying at £-14.7 billion.
- The overall improvement came about through a rise in North Sea revenues, up from £0.3 billion in 2016-17 to £1.3 billion in 2017-18;
- Over the 5 years shown in GERS, Scotland had a notably worse fiscal deficit position (in terms of the size of the deficit as a share of GDP) than the UK in every year.
- Scotland's share of UK revenues has declined from 8.1% in 2013-14 to 7.8% in 2017-18. This decline is fairly widespread, including with respect to: Income Tax; National Insurance contributions and VAT.

Scotland's projected fiscal balance, 2018-19 to 2022-23 (see Table 2)

Projections of Scotland's overall fiscal balance beyond the years shown in GERS can be made using the following assumptions:

- UK onshore and offshore (North Sea) revenues and public expenditure totals are taken from the latest Office for Budget Responsibility (OBR) forecasts (March 2018);
- Scotland's share of UK onshore tax revenues is in line with recent years, 7.8%;
- Scotland's share of UK public expenditure is the average for the past 5 years, 9.2%;
- Scotland's share of North Sea revenues is approximated at 80%, based on recent year examples.

The main points of interest to emerge from these forecasts are:

- Scotland's overall fiscal balance is projected to remain around the £13.5 billion mark to 2022-23, equivalent to a slowly declining deficit as a % of GDP. However, this position very much depends on whether or not Scotland's share of UK revenues continues to decline and/or whether or not its share of UK expenditure rises (as it did in the year to 2017-18). The forecasts in Table 2 assume that Scotland's revenue share does not continue to fall and discounts the rise in the share of UK expenditure seen in 2017-18. If these assumptions turn out to be wrong then Scotland's fiscal balance would worsen.
- Relative to the UK, Scotland's fiscal position will remain significantly worse (in terms of the size of the deficit as a share of GDP) than the UK.

Future North Sea revenues remain highly uncertain. The estimates used in Table 2 are based on the latest Office for Budget Responsibility (OBR) forecasts (March 2018) which assume an oil price of around \$60 a barrel. However, the oil price is currently around \$70 a barrel and the Financial Times has estimated that at such a price UK North Sea revenues are likely to be around £2 billion a year. This is close to £1.2 to £1.7 billion range, also based on a \$70 a barrel, seen in the latest (June 2015) Scottish Government estimates.

Quote:

“While this years GERS shows a welcome improvement in Scotland's fiscal balance, it also shows some worrying new findings, including a declining share of UK revenues. If this persists then the recent improvement in the deficit may grind to a halt.”

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Table 1: Overall fiscal balance, Scotland and the UK, 2010-11 to 201415, £ million

	2013-14	2014-15	2015-16	2016-17	2017-18
SCOTLAND					
Onshore Revenues	51,089	52,959	53,942	56,608	58,630
- <i>share of UK revenues</i>	8.1%	8.0%	7.9%	7.8%	7.8%
Expenditure	67,767	68,640	69,492	71,354	73,398
- <i>share of UK expenditure</i>	9.2%	9.1%	9.2%	9.2%	9.3%
Onshore Fiscal Balance	-16,678	-15,681	-15,550	-14,746	-14,768
<i>% of GDP</i>	-11.9	-10.7	-10.5	-9.7	-9.5
Scottish North Sea revenues	3,446	1,377	50	266	1,327
- <i>share of UK Total</i>	77%	81%	-59%	740%	111%
Overall Fiscal Balance	-13,232	-14,304	-15,500	-14,480	-13,441
<i>% of GDP</i>	-8.3	-8.9	-9.7	-8.9	-7.9
UK Overall Fiscal Balance	-98,219	-90,491	-72,459	-45,686	-39,357
<i>% of GDP</i>	-5.5	-4.9	-3.8	-2.3	-1.9

Sources: GERS 2018, authors calculations.

Note: cumulative difference refers to the differential cumulated across the population of Scotland as a whole.

Table 2: Overall fiscal balance, Scotland and the UK, 2015-16 to 2019-20, £ million

	2018-19	2019-20	2020-21	2021-22	2022-23
SCOTLAND					
Onshore Revenues	60,442	62,345	64,264	66,043	68,305
- <i>share of UK revenues</i>	7.8%	7.8%	7.8%	7.8%	7.8%
Expenditure	74,787	76,728	78,531	80,353	82,616
- <i>share of UK expenditure</i>	9.2%	9.2%	9.2%	9.2%	9.2%
Onshore Fiscal Balance	-14,345	-14,383	-14,267	-14,310	-14,311
<i>% of GDP</i>	-8.9	-8.6	-8.2	-8.0	-7.7
Scottish North Sea revenues	720	640	800	640	720
- <i>share of UK North Sea revenues</i>	80%	80%	80%	80%	80%
Overall Fiscal Balance	-13,625	-13,743	-13,467	-13,670	-13,591
<i>% of GDP</i>	-7.7	-7.6	-7.2	-7.1	-6.8
UK Overall Fiscal Balance	-37,100	-33,900	-28,700	-25,900	-21,400
<i>% of GDP</i>	-1.8	-1.6	-1.3	-1.1	-0.9

Sources: Figures for the UK are taken from the latest OBR (March 2018) estimates, Scottish figures are derived using the 5 year average of Scottish shares of the UK totals taken from Table 1.