



Economic aspects of Scottish independence: public spending and revenue

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Much of the debate over Scottish independence has focused on levels of public spending, taxation and government borrowing. There are a number of different ways of measuring these. In particular, estimates of the amount of tax revenue raised in Scotland vary widely, depending on how North Sea oil and gas revenues are allocated. If the majority are allocated to Scotland, then Scotland's tax revenue is higher and its public finances appear healthier.

There are also a number of ways of looking at spending and these can give differing impressions of the level of public expenditure in Scotland. For example, public spending per head is higher in Scotland than the UK average but slightly lower as a share of GDP (if most GDP from the North Sea is allocated to Scotland).

This note tries to explain the range of statistics on public spending and revenue in Scotland and the UK. These reflect the current situation where Scotland is part of the UK. If Scotland were to become independent, it would be free to choose a different level of public spending and taxation and the picture could change. Nevertheless, the current level of spending and revenue provide a starting point for the debate.

Many of the statistics in this note are taken from the Scottish Government's publication [Government Expenditure and Revenue Scotland 2011-2012](#) (March 2013).

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1 Summary

- Statistics on public spending and revenue can be presented in a number of different ways which give contrasting pictures of Scotland's position relative to the UK as a whole.
- The allocation of North Sea oil and gas revenues between Scotland and the rest of the UK makes a big difference to estimates of government revenue raised in Scotland.
- Scotland's public spending per head is higher than the UK average. It is higher than all the English regions and Wales, but lower than Northern Ireland.
- Scotland accounted for 9.3% of UK public spending in 2011/12. This compares with 9.9% of revenue if a geographical share (around 90%) of receipts from the North Sea are allocated to Scotland or 8.2% of revenue if they are allocated in line with Scotland's share of the UK population.
- Public spending in Scotland is lower than the UK as a share of GDP if the majority of North Sea GDP is allocated to Scotland. If North Sea GDP is allocated in line with population, public spending is higher than the UK as a whole, as a share of GDP.
- North Sea revenues are volatile. Scotland's North Sea revenues have fluctuated between £11.8 billion and £5.9 billion over the last 5 years, if allocated on a geographical basis. North Sea receipts contributed between 12% and 21% of total Scottish revenue over this period, again assuming a geographical allocation.
- Forecasts of revenues from the North Sea are highly uncertain, as they depend on a wide range of factors. The Scottish Government's forecasts of North Sea revenue are more optimistic than those published by the Office for Budget Responsibility.
- Estimates of total Scottish revenue in 2011/12 from range from £46.3 billion if no North Sea revenue is allocated to Scotland, £47.2 billion if a population-based share is allocated to Scotland and £56.9 billion if a geographic share is allocated.
- On a per head basis, revenue raised in Scotland is slightly below the UK average if Scotland receives no North Sea revenue, or a share in line with its population. If the majority of North Sea revenue is allocated to Scotland, its revenues per head are nearly 19% higher than the UK average.

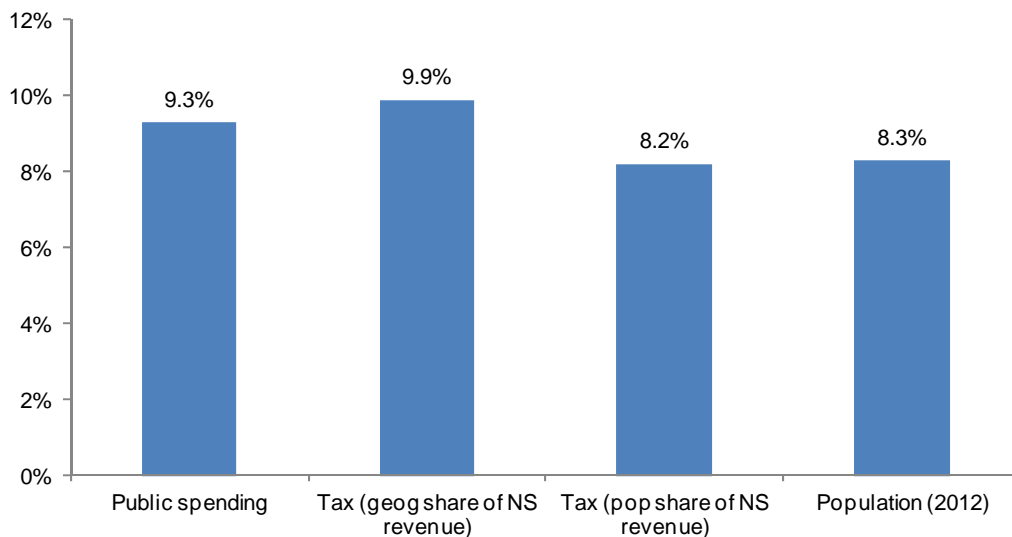
2 Public spending

2.1 Total public spending

Total public spending in Scotland was £64.5 billion in 2011/12, according to Scottish Government estimates.¹ This includes spending by the Scottish Government and Scottish local authorities but also spending by UK Government departments in Scotland. Benefit payments made by the Department for Work and Pensions to recipients in Scotland are therefore included in the £64.5 billion figure.

Public spending in Scotland accounted for 9.3% of the UK total in 2011/12. This is higher than Scotland's share of the UK population (8.3%).² Whether Scotland's share of UK public spending is higher than its share of tax revenue depends on the allocation of revenues from the North Sea. If a geographical share (94%) is allocated to Scotland, then its share of tax revenue is higher than its share of public spending (see chart below). If a population-based share (around 8%) of North Sea revenue is allocated to Scotland, its share of public spending is higher than its share of tax revenue.

Scotland's share of UK public spending, tax revenue and population, 2011/12



Sources: Scot Govt, ONS, GRO, NISRA

A common way comparing the scale of public spending between countries is to look at its share of GDP. This will be affected by how GDP arising from oil and gas activity is allocated. If most of this is allocated to Scotland, Scotland's GDP will be higher and public spending as a share of GDP will be lower.

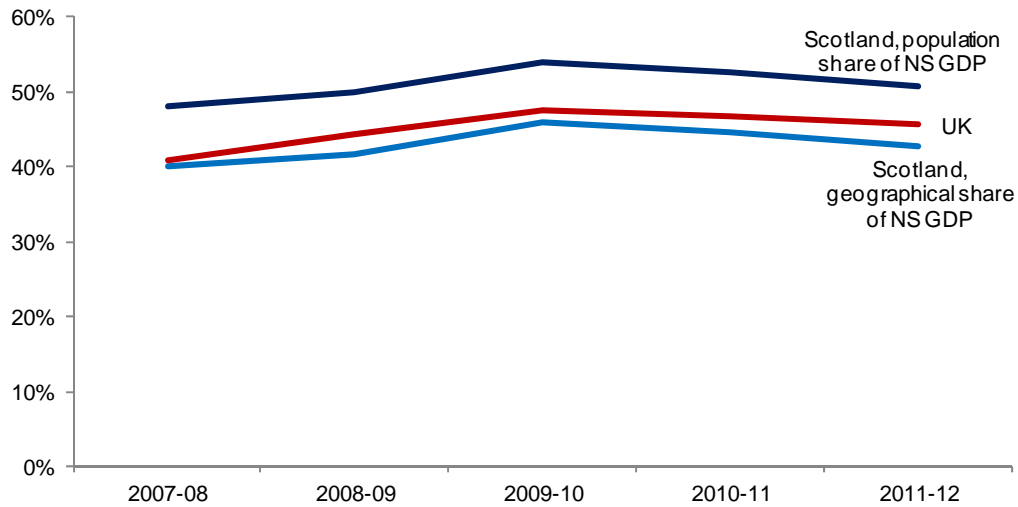
If a geographical share of North Sea GDP is allocated to Scotland, public spending in Scotland was 42.7% of GDP, lower than the 45.5% in the UK as a whole in 2011/12. The opposite is true, however, if a population-based share of North Sea GDP is allocated to Scotland. Under this assumption public spending in Scotland was 50.6% of GDP in 2011/12.³

¹ Scottish Government, *Government Expenditure and Revenue Scotland 2011-2012*, March 2013, Table 5.2. These figures include both identifiable and non-identifiable spending (see box for explanation of these terms).

² UK Government estimates, which look at identifiable spending only, are that public spending in Scotland was £53.9 billion in 2012/13, 9.6% of the UK total. Scotland's 8.3% share of UK population is based on mid-2012 population figures in Annex 1 of HM Treasury, *Country and Regional Analysis*, November 2013

³ Scottish Government, *Government Expenditure and Revenue Scotland 2011-2012*, March 2013, Box 2.3

Public spending in Scotland and UK, 2007/08 to 2011/12
% of GDP



Source: Scottish Government, Note: NS: North Sea

2.2 Public spending per head

Another way of comparing public spending is to look at its level per head of population. Both the Treasury and Scottish Government publish figures on this. These show higher per capita spending in Scotland than the UK as a whole. The Treasury's figures show a larger difference (of between 14% and 16% over the last five years) while the Scottish Government's figures show a smaller differential of between 10% and 14%. According to the Institute for Fiscal Studies, higher spending on public services, rather than benefits and tax credits, is the main reason for higher per capita public spending in Scotland.⁴

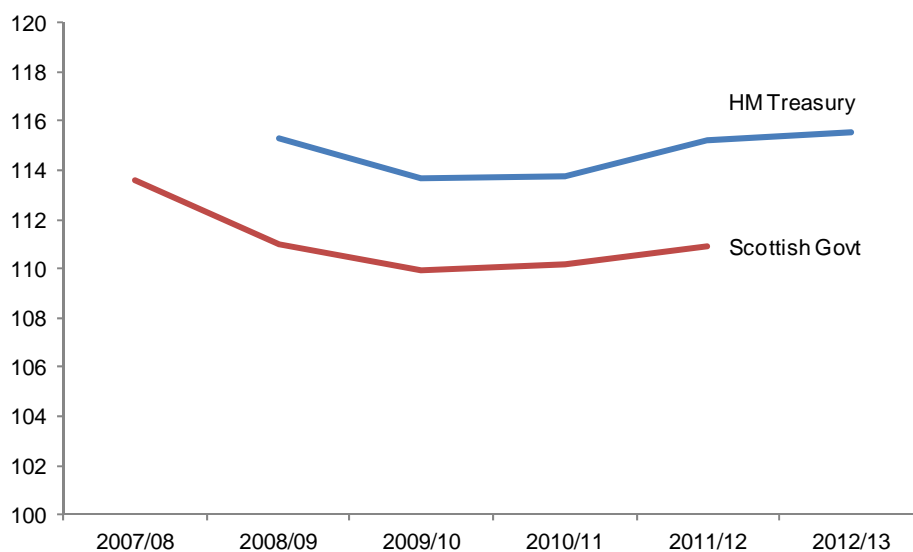
Differences between Scottish Government and UK Government public expenditure data

The Treasury and Scottish Government figures are compiled in different ways. In particular, the Treasury figures include only "identifiable" public spending. The Scottish Government figures include both "identifiable" and "non-identifiable" spending.

- **Identifiable spending** is that which can be identified as being spent to benefit the residents of a particular country or region of the UK. For example, benefit spending can clearly be allocated to the country or region where the recipient lives. Identifiable spending accounts for 86% of total public expenditure on services.
- **Non-identifiable spending** is that spending which is incurred for the UK as a whole, rather than residents of a particular country or region. The largest categories of non-identifiable spending are defence and interest payments on government debt. Non-identifiable spending accounts for 14% of total public expenditure on services.

⁴ IFS, *Fiscal sustainability in an independent Scotland*, November 2013, p10

**Public spending per head in Scotland relative to the UK
Index (UK = 100)**



Public spending per head in Scotland and UK, £

HM Treasury data (identifiable spending only)

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Scotland	..	9,394	9,913	9,944	9,941	10,152
UK	..	8,146	8,724	8,740	8,631	8,788
Scotland (Index UK = 100)	..	115	114	114	115	116

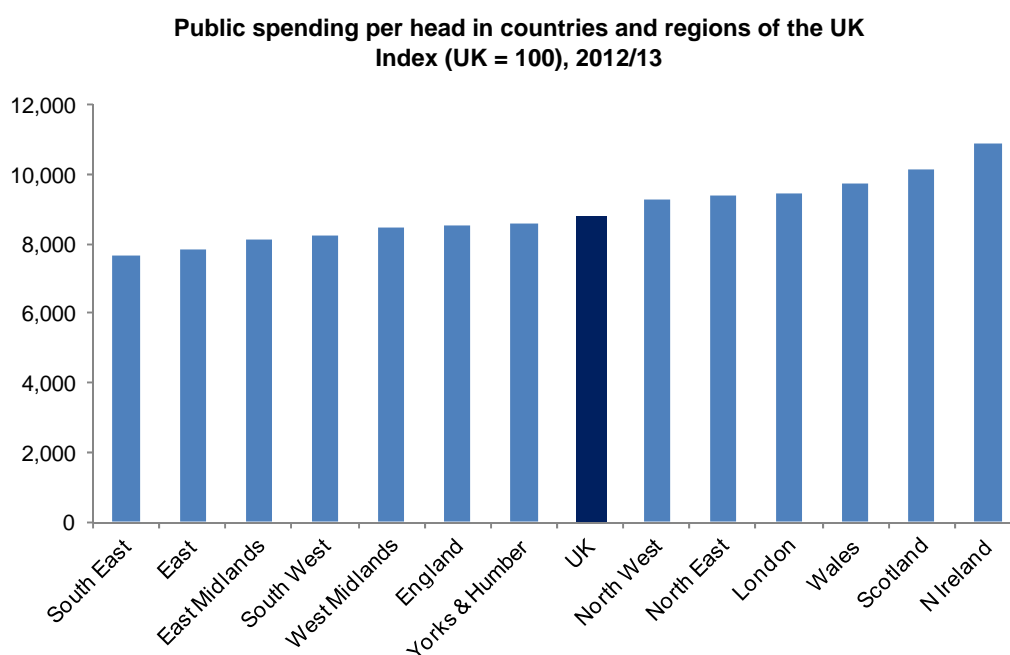
Scottish Government data (identifiable and non-identifiable spending)

	2007/08	2008/09	2009/10	2010/11	2011/12	
Scotland	10,786	11,302	11,829	12,133	12,134	..
UK	9,497	10,184	10,764	11,008	10,937	..
Scotland (Index UK = 100)	114	111	110	110	111	..

Source: Scottish Government, Government Expenditure and Revenue Scotland, 2013, Table 5.6
HM Treasury, Country and Regional Analysis, November 2013, Table A.2

2.3 Comparison with Wales, Northern Ireland and English regions

The chart below shows public spending per head in Wales, Northern Ireland and the English regions, as well as Scotland and the UK as a whole.⁵ The chart shows that public spending per head in Northern Ireland is higher than any other area of the UK. Spending in Wales is lower than in Scotland and Northern Ireland but higher than the rest of the UK. There is considerable variation in spending among the English regions. Public spending in the South East is 13% below the UK average. In London it is 7% above the UK average. Spending per head in all the English regions is lower than in Northern Ireland, Scotland and Wales.



Public spending per head by country and region, 2012/13 (a)

	£ per head	Index: UK identifiable expenditure = 100
North East	9,419	107
North West	9,252	105
Yorkshire and the Humber	8,610	98
East Midlands	8,118	92
West Midlands	8,498	97
East	7,865	89
London	9,435	107
South East	7,638	87
South West	8,219	94
England	8,529	97
Scotland	10,152	116
Wales	9,709	110
Northern Ireland	10,876	124
UK identifiable expenditure	8,788	100

Source: HM Treasury, Country and Regional Analysis, November 2013, Table A.2

Note: (a) identifiable public spending on services

⁵ The chart is based on HM Treasury data and shows identifiable public spending only.

There may be good reasons for higher levels of spending in Scotland. The Scottish Government put forward a number of arguments why public spending per head is higher in Scotland than the UK as a whole.⁶ These include:

- Scotland's lower population density increases the cost of providing the same level of public services. However, it could also be argued that other areas face their own cost pressures, such as the need to pay higher salaries in London.
- The public sector is larger in Scotland: for example, the water industry is publicly owned in Scotland (and therefore included in Scottish public expenditure) while in England the water industry is in the private sector.
- In some areas, there is a high level of demand for Scottish public services. For example, there is a net inflow of students to Scottish universities from other parts of the UK.
- Scotland has a greater need for some public services, such as health and housing, than other parts of the UK.

⁶ Scottish Government, *Government Expenditure and Revenue Scotland 2011-2012*, March 2013, p45

3 Revenue

Having examined public spending in the preceding section, we now turn to government revenue. This is highly centralised in the UK with the vast majority of tax revenue, including that raised in Scotland, being collected centrally by HM Revenue and Customs. The Scottish Parliament and local authorities currently have limited ability to raise revenue. The Scottish Parliament will gain more tax raising powers when the provisions of the Scotland Act 2012 come into force.

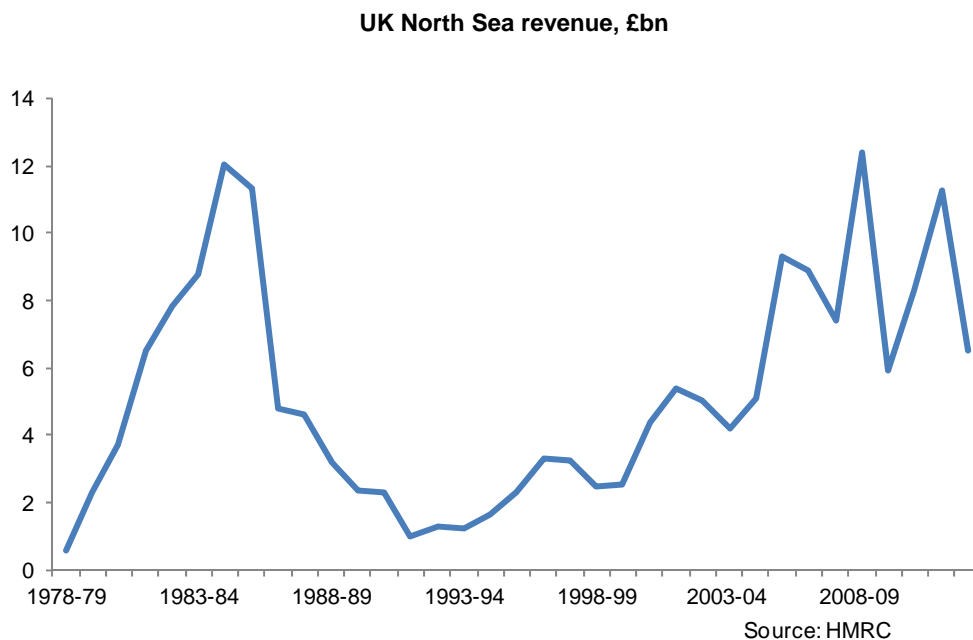
Nevertheless, it is possible to estimate the amount of tax raised in Scotland. For some taxes, such as stamp duty, this is relatively straightforward. For other taxes, such as corporation tax or excise duties, estimates are based on Scotland's share of profits or of spending on fuel, alcohol and tobacco.

A central issue is the allocation of government revenues from the North Sea. There are different approaches to deciding how these should be allocated which have very large implications for Scotland's public finances. North Sea revenues are discussed in the section below.

3.1 North Sea revenue

How large are North Sea revenues?

UK revenues from the North Sea were £6.5 billion in 2012/13, down from over £11 billion in 2011/12. For the UK as a whole, they accounted for around 1% of government receipts in 2012/13. Since 1999/00, North Sea revenues have averaged £6.9 billion a year. The chart below shows that revenue from the North Sea can fluctuate greatly from one year to the next. For example, revenues roughly halved between 2008/09 and 2009/10.



If Scotland were to vote for independence, the division of North Sea revenues would be one of the key areas of negotiation. In presenting statistics on these revenues, the Scottish Government has used three different ways of dividing them:

- Scotland receives **no revenues** from the North Sea

- Scotland receives a share based on its **population** (sometimes referred to as a **per capita** share): 8.4% in each of the five years from 2007/08 to 2011/12
- Scotland receives an “**illustrative geographical share**”: averaging 92.5% of the total between 2007/08 and 2011/12. This is based on the North Sea boundary between Scotland and the rest of the UK used for fishery demarcation purposes.

The effect of these different approaches to allocating North Sea revenue is shown in the table below. On a per capita basis, Scotland would have received around £940 million in 2011/12. This is equivalent to around £180 per head and North Sea revenue would have accounted for 2% of total Scottish revenues. With the much larger geographical share, total revenue would have been over £10 billion in 2011/12, equivalent to nearly £2,000 per head or 18.6% of total Scottish revenue. On this basis, North Sea revenues would have been the second largest source of revenue in Scotland, just lower than income tax which raised £10.8 billion in 2011/12.

Scotland's North Sea revenue, 2011/12

	Total North Sea revenue £ million	Revenue per head £	% of total Scottish revenue %
per capita share	942	178	2.0%
Geographical share	10,573	1,995	18.6%

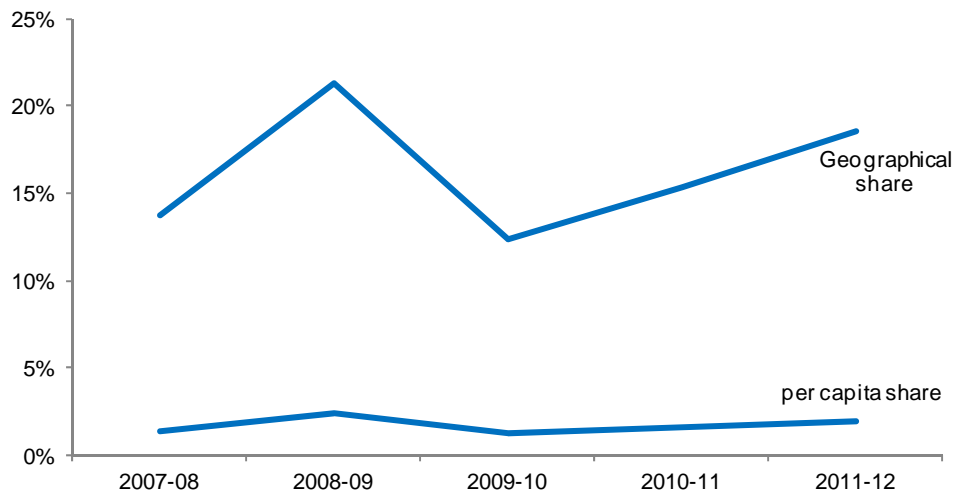
Sources: Scottish Government and Library calculations

As the chart below shows, North Sea revenues contribute a small and relatively stable share of Scottish revenues if allocated on a per capita basis. If allocated on a geographical basis, North Sea revenues contribute a much larger proportion of Scottish revenues. Furthermore, this proportion fluctuates considerably (between 12% and 21% between 2007/08 and 2011/12). In cash terms, Scotland’s North Sea revenues on a geographical basis increased by £4.6 billion in 2008/09 but fell by £5.8 billion the following year. To put these figures in context, total income tax revenues in Scotland were £10.8 billion in 2011/12 and VAT revenue was £9.6 billion.⁷ The Scottish Government recognises that the oil and gas sector is a significant source of revenue, but argues that oil and gas receipts account for a higher proportion of public sector revenue in some other countries. For example, in Norway oil and gas receipts have accounted for between 26% and 36% of total public sector revenue between 2007/08 and 2011/12.⁸

⁷ Scottish Government, *Government Expenditure and Revenue Scotland 2011-2012*, March 2013, Table 3.3

⁸ Scottish Government, *Scotland's Future*, November 2013, p598-99

North Sea revenues as a % of total Scottish revenues



Source: Scottish Govt

What are the forecasts for North Sea revenues?

The section above looked at North Sea revenues in recent years. An important issue is how great these revenues will be in the future. The Office for Budget Responsibility (OBR) forecasts UK North Sea revenues of £5.0 billion in 2013/14 falling to between £3.5 billion and £4.6 billion a year between 2014/15 and 2018/19.⁹ This is based on a fall in the oil price up to 2016/17 and the level of output staying constant at its 2013/14 level over the next five years. Forecasts of North Sea revenue are subject to considerable uncertainty as they depend on a range of factors, such as oil prices and exchange rates, which are themselves hard to predict. As with all forecasts, they are subject to revision. For example, between March and December 2013 the OBR cut its forecast of North Sea revenue in 2013/14 by £1.7 billion due in part to a fall in oil and gas production. Over the longer term, the OBR expect oil and gas receipts to fall but emphasise that the speed of the decline is very difficult to predict with confidence.¹⁰

The Scottish Government's has also published projections of North Sea revenue. Its White Paper on Scottish independence contains two scenarios. In the first scenario assumes production remains at current levels and the oil price is unchanged from its average level over the two years before March 2013. Under these assumptions, Scottish oil and gas receipts are forecast to be £6.8 billion in 2016/17. Under an alternative scenario, where there is an increase in production more in line with forecasts by the oil and gas industry, but at lower profitability, revenues could be £7.9 billion in 2016/17.¹¹ These figures compare with the OBR's forecast of £3.5 billion for the UK as a whole in 2016/17 (or £3.15 billion if 90% of this revenue is allocated to Scotland).

3.2 Total Scottish revenue

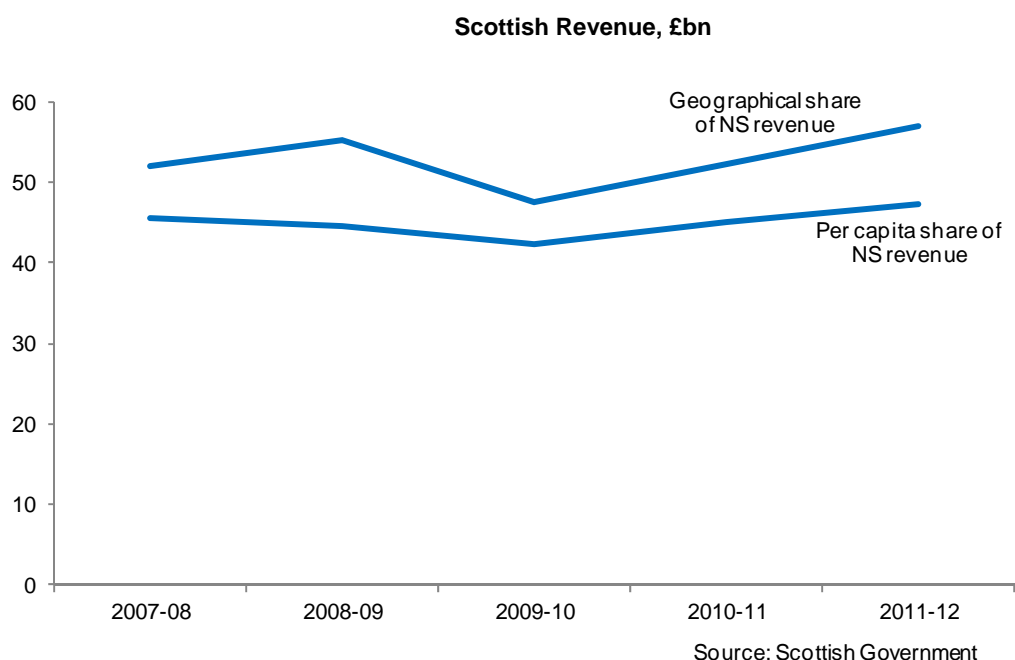
The chart and table below show estimates of the total amount of government revenue raised in Scotland. The total varies from £46.3 billion if no North Sea revenues are allocated to Scotland to £56.9 billion if a geographic share is allocated (see section 3.1 for an explanation

⁹ Office for Budget Responsibility, *Economic and fiscal outlook*, December 2013, Table 4.5

¹⁰ Office for Budget Responsibility, *Fiscal sustainability report*, July 2013, para 4.24

¹¹ Scottish Government, *Scotland's Future*, November 2013, p74

of different ways of allocating North Sea revenue). The main on-shore taxes are income tax (£10.8 billion), VAT (£9.6 billion) and national insurance contributions (£8.4 billion).¹²



Scottish revenue, 2011/12

	Total £ billion	Share of UK total %	per head £	UK revenue per head £
Excluding North Sea revenue	46.3	8.2%	8,735	8,871
Including per capita share of NS revenue	47.2	8.2%	8,913	9,049
Including geographic share of NS revenue	56.9	9.9%	10,730	9,049

Sources: Scottish Government and Library calculations

Per head of population, government revenue in Scotland is estimated to be between £8,700 and £10,700 depending on the allocation of North Sea revenue. Excluding North Sea revenue, or using a per capita share, revenue per head in Scotland is marginally below the UK average. Allocating a geographical share to Scotland, its revenues per head are 18.6% higher than the UK as a whole.

As a share of the UK total, Scotland's revenues account for 8.2% of the UK total if North Sea revenue is excluded or allocated on a per capita basis. This is similar to Scotland's share of UK population but lower than its share of public spending. If revenues are allocated on a geographical basis, Scotland accounts for 9.9% of total revenues – greater than its share of both population and spending.¹³

¹² Scottish Government, *Government Expenditure and Revenue Scotland 2011-2012*, March 2013, Table 3.1

¹³ HMRC has also produced estimates of the proportion of tax revenue raised in Scotland. These estimates give a similar picture to the Scottish Government estimates. HMRC's figures show that Scotland had an 8.0% share of revenues in 2011/12, if North Sea revenue is allocated on a per capita basis and 9.8% on a geographical basis. For 2012/13, the figures are 8.0% and 9.0%. These figures are only for taxes administered by HMRC and are "experimental statistics" – ie do not meet the standards required to be designated a National Statistic. Source: HMRC, *Disaggregation of HMRC tax receipts* 12 November 2013