



BRIEFING PAPER

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Scotland: Public spending and revenue

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Summary

Public spending and taxation in Scotland was a hotly debated issue in the run up to the Scottish independence referendum, and has remained of interest since. A range of statistics exist on the subject: here we look at what these say and how they are measured.

Spending and revenue

The Scottish Government estimates that total public spending in Scotland was £73.4 billion in 2017/18, equivalent to £13,530 per head. This estimate covers all public spending in Scotland: it includes spending by the Scottish Government and Scottish local authorities, but also spending by UK Government departments 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.

Government revenue is highly centralised in the UK with the vast majority of tax revenue, including much of that raised in Scotland, being collected centrally by HM Revenue and Customs. Despite this it is possible to estimate the amount of tax raised in Scotland. The size of the estimate depends on how North Sea oil and gas revenues are allocated to Scotland. The Scottish Government estimates that around £59 billion-£60 billion of revenues were raised in Scotland in 2017/18, equivalent to approximately £10,800-£11,050 per head.

Scotland accounted for 9.3% of UK public spending and around 8% of UK revenues in 2017/18.

Fiscal deficit

In 2017/18, Scotland's net fiscal deficit – the difference between estimated revenues and public spending – ranges from 9.5% of GDP if North Sea oil and gas are excluded, to 7.9% of GDP if North Sea revenues are shared on a geographical basis, according to where the oil and gas fields are located. This compares with a UK fiscal deficit of 1.9% of GDP.

North Sea revenues

In recent years, falls in the oil price combined with high levels of investment and rising decommissioning costs have resulted in North Sea revenues falling to the lowest levels since records began in 1968/69.

Two approaches are taken to allocating North Sea oil and gas revenues to Scotland. One approach shares the revenues between Scotland and the rest of the UK on a population basis: this is often described as a per capita share. The other approach shares the revenues on a geographical basis according to where the oil and gas fields are located.

The allocation of North Sea oil and gas revenues between Scotland and the rest of the UK make a difference to estimates of government revenue raised in Scotland. Allocated to Scotland on a geographical basis, North Sea revenues in 2017/18 are estimated to be £1.3 billion; allocated on a population basis, they are estimated to be £98 million.

North Sea revenues are volatile. If allocated on a geographical basis, Scotland's North Sea revenues have fluctuated between £4.6 billion and £50 million over the last 6 years; contributing between 8.7% and 0.1% of total Scottish revenue over this period.

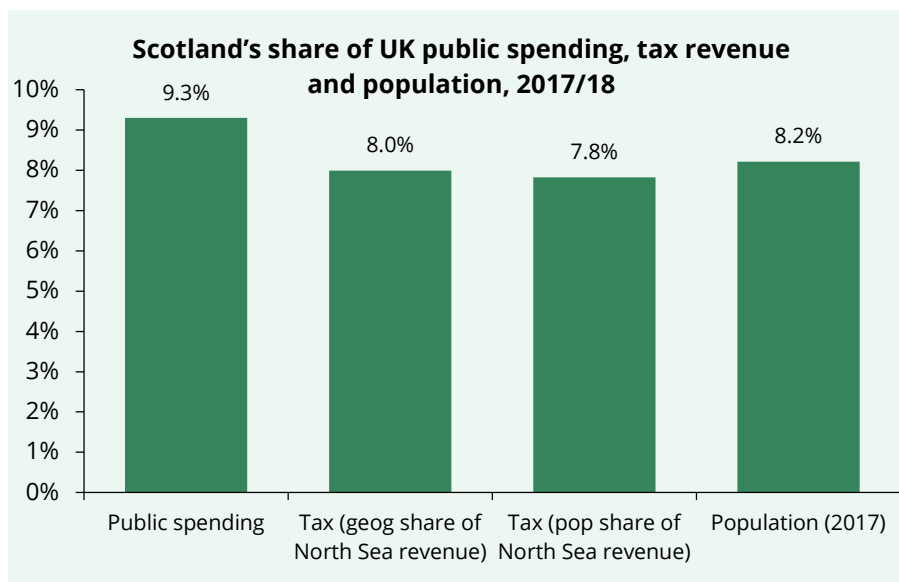
Most of the statistics in this note are taken from the Scottish Government's publication [Government Expenditure and Revenue Scotland 2017-2018](#) (August 2018).

1. Public spending

1.1 Total public spending

Total public spending in Scotland was £73.4 billion in 2017/18, 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 £73.4 billion figure.

Public spending in Scotland accounted for 9.3% of the UK total in 2017/18. This is higher than Scotland's share of the UK population (8.2%).² Scotland's share of public spending is higher than its share of tax revenue whether revenues from the North Sea are allocated on a geographical share or population based share. See [section 2.2](#) for definitions of these two approaches for allocating North Sea revenues between Scotland and the UK.



A common way of comparing the scale of public spending between countries is to look at it as a 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.

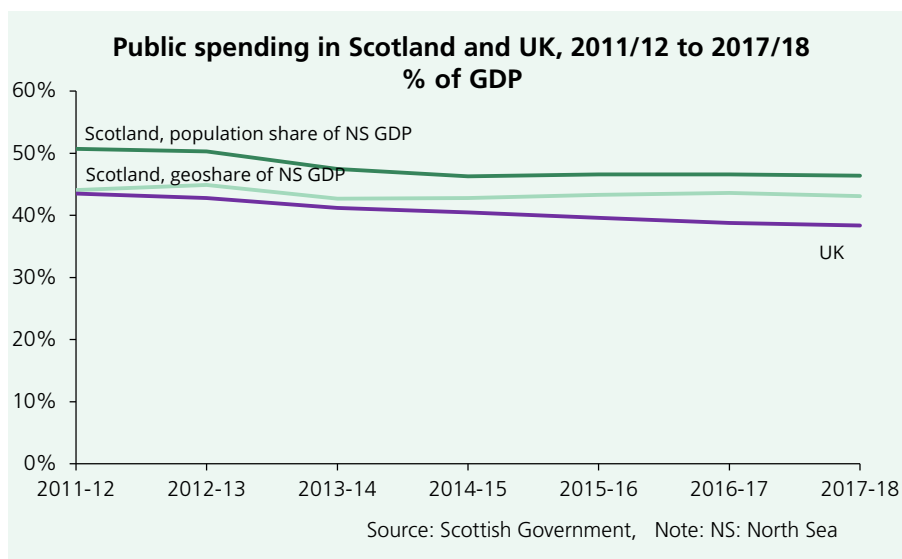
If a geographical share of North Sea GDP is allocated to Scotland, public spending in Scotland was 43.1% of GDP, higher than the 38.4% in the UK as a whole in 2017/18. A greater difference is seen if a population-based share of North Sea GDP is allocated to Scotland. Under this

¹ Scottish Government, [Government Expenditure and Revenue Scotland 2017-2018](#), August 2018, Table 3.1. These figures include both identifiable and non-identifiable spending (see box for explanation of these terms).

² HM Treasury estimates, which look at identifiable spending only, are that public spending in Scotland was £57.6 billion in 2016/17, 9.2% of the UK total. Scotland's 8.2% share of UK population is based on ONS mid-2011 population figures accessed from www.nomisweb.com.

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assumption public spending in Scotland was 46.4% of GDP in 2017/18.³



1.2 Public spending per head

Another way of comparing public spending is to look at its level per head of population. The Treasury, Office for National Statistics (ONS) and Scottish Government all publish figures on this. Each source reports higher per capita spending in Scotland than the UK as a whole. The Treasury's figures show a larger difference – of between 15% and 16% in recent years⁴ – while the Scottish Government's and the ONS' figures show a smaller differential of between 11% and 13%. 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.⁵

Box 1: Differences between Scottish Government and UK Government public expenditure data

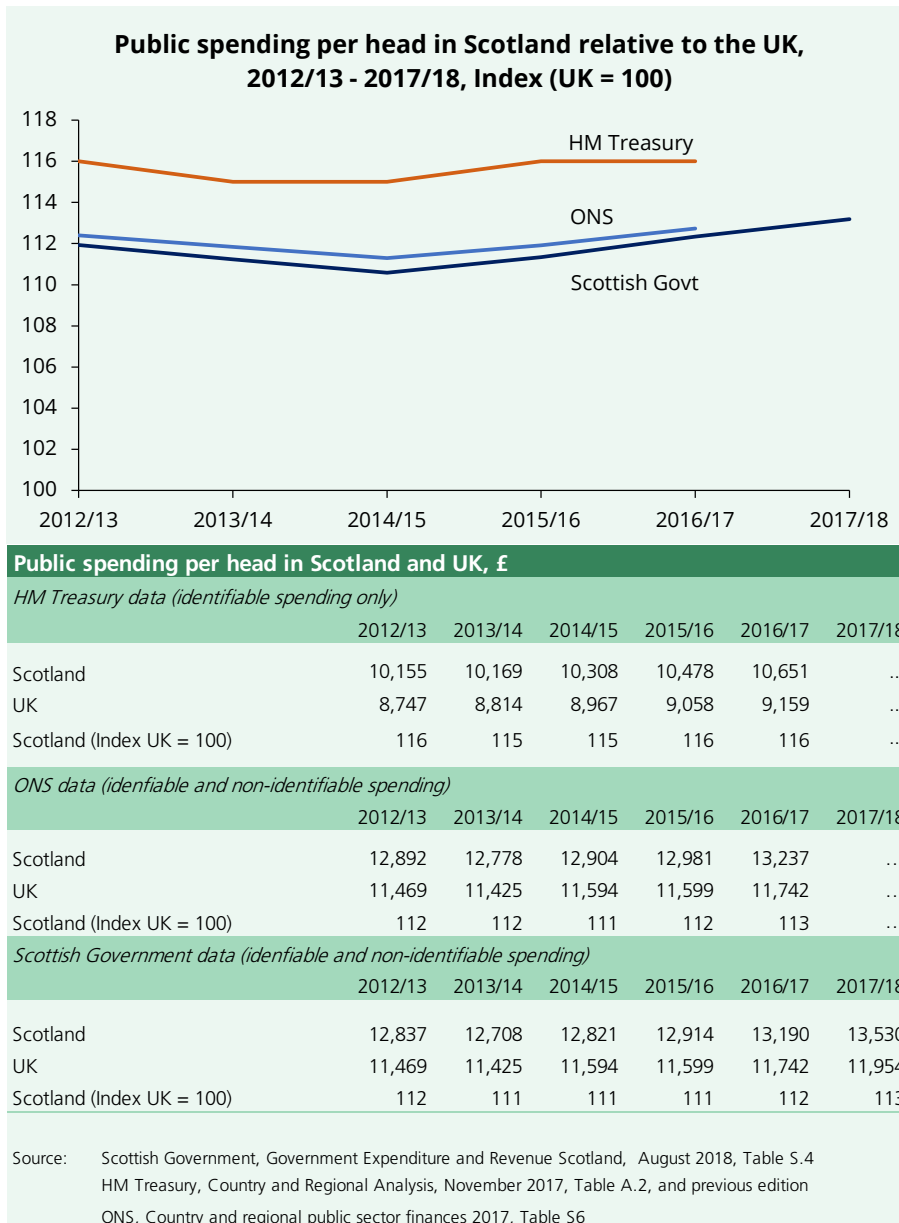
The Treasury, ONS and Scottish Government figures are compiled in different ways. In particular, the Treasury figures include only "identifiable" public spending. The Scottish Government and ONS figures include both "identifiable" and "non-identifiable" spending.

- 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 88% 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 12% of total public expenditure on services.

³ Scottish Government, [Government Expenditure and Revenue Scotland 2017-2018](#), August 2018, Table 3.4

⁴ HM Treasury, Country and regional analysis: 2017, [Table A.2](#), and previous edition

⁵ IFS, [Fiscal sustainability in an independent Scotland](#), November 2013, p10



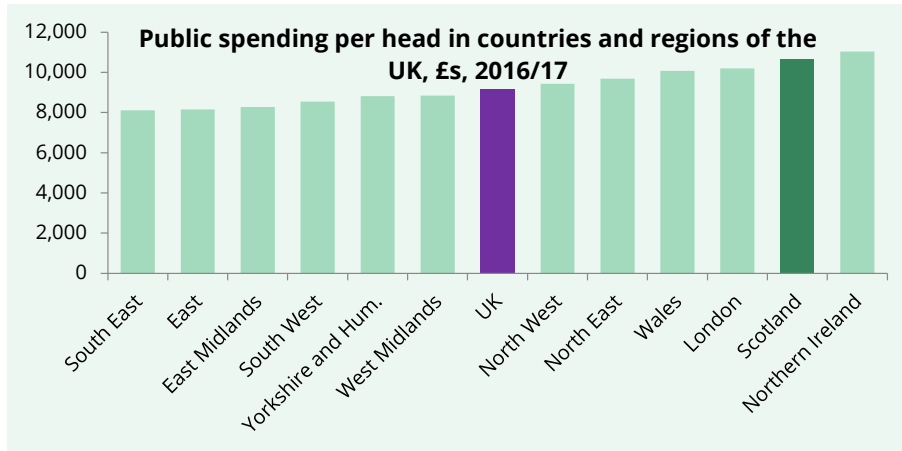
1.3 Comparison with Wales, Northern Ireland and English regions

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.⁶ The chart shows that public spending per head in Northern Ireland is higher than in any other area of the UK in 2016/17. Spending in Wales is lower than in Scotland and Northern Ireland but higher than the UK average. There is considerable variation in spending among the English regions. Public spending in the South East is 11% below the UK

⁶ The chart is based on HM Treasury data and shows identifiable public spending only. The ONS have estimated total public spending per region and country (identifiable and non-identifiable) in their [Country and regional public sector finances](#) release.

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average. In London it is 11% above the UK average – spending per head is higher in London than in Wales.



There may be good reasons for higher levels of spending in Scotland. The Scottish Government has put forward a number of arguments why public spending per head is higher in Scotland than the UK as a whole.⁷ 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.

⁷ Scottish Government, [Government Expenditure and Revenue Scotland 2013-2014](#), March 2015, page 58

Public spending per head by country and region, 2016/17 (a)		
	£ per head	Index: UK identifiable expenditure = 100
North East	9,680	106
North West	9,429	103
Yorkshire and the Humber	8,810	96
East Midlands	8,282	90
West Midlands	8,846	97
East	8,155	89
London	10,192	111
South East	8,111	89
South West	8,549	93
England	8,898	97
Scotland	10,651	116
Wales	10,076	110
Northern Ireland	11,042	121
UK identifiable expenditure	9,159	100

Source: HM Treasury, Country and Regional Analysis Table A.2
Note: (a) identifiable public spending on services

2. Revenue

Government revenue is highly centralised in the UK with most tax revenue, including that raised in Scotland, being collected centrally by HM Revenue and Customs.

The Scottish Parliament has received and will receive more tax raising powers from provisions in the [Scotland Act 2012](#) and [Scotland Act 2016](#). The Scotland Act 2012 devolved stamp duty land tax, landfill tax and part of income tax to the Scottish Parliament. The Scotland Act 2016 devolves air passenger duty, aggregates levy, more income tax and assigns some VAT revenues. Once all revenue raising powers of the Acts come into force the Scottish Parliament will raise around 50% of its budget from devolved or assigned revenues.^{8,9}

Despite tax revenues largely being centralised, it is possible to estimate the amount of tax raised in Scotland. For some taxes, such as air passenger 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.

There are different approaches to deciding how North Sea revenues are allocated to Scotland. In previous years, when North Sea revenues were larger, their allocation had important implications for Scotland's public finances. North Sea revenues are discussed in [section 2.2](#).

2.1 Total Scottish Revenue

The table and chart below show estimates of the total amount of government revenue raised in Scotland. How North Sea revenues are allocated to Scotland makes a difference to the figures (see [section 2.2](#) for an explanation of different ways of allocating North Sea revenue).

Scottish revenue, 2017/18				
	Total £ billion	Share of UK total %	per head £	UK revenue per head £
Excluding North Sea revenue	58.6	7.8%	10,808	11,340
Including per capita share of NS revenue	58.7	7.8%	10,826	11,358
Including geographic share of NS revenue	60.0	8.0%	11,052	11,358

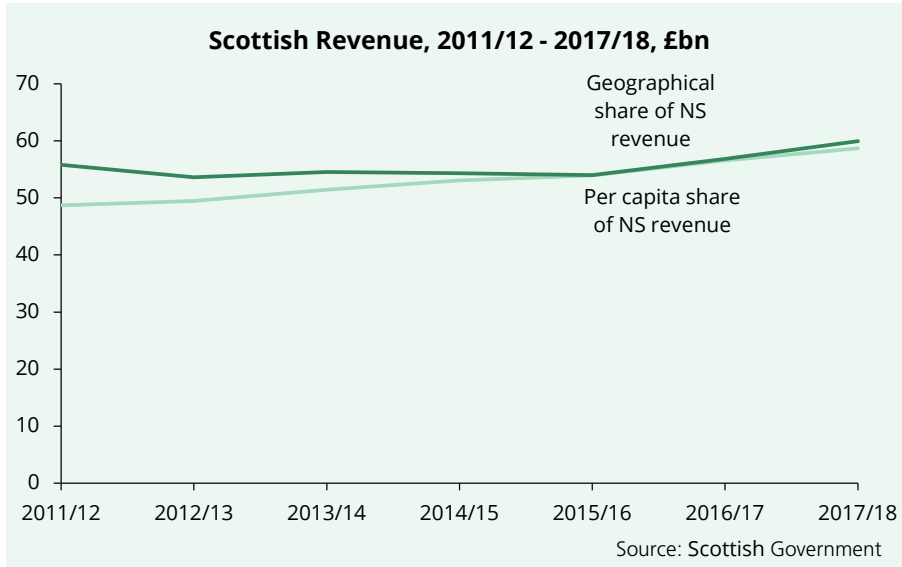
Sources: Scottish Government, GERS, Table 1.1 and Table 1.3

The main on-shore taxes are income tax (£12.5 billion), national insurance contributions (£10.6 billion) and VAT (£10.1 billion).¹⁰

⁸ Scottish Government. [Government Expenditure & Revenue Scotland 2017-18](#), August 2018, Table 4.8

⁹ The Library note [Devolution of financial powers to the Scottish Parliament: recent developments](#) provides further detail.

¹⁰ Scottish Government, [Government Expenditure and Revenue Scotland 2017-2018](#), August 2018, Table 1.1



Government revenue in Scotland is estimated to be around £10,800 per head if North Sea revenues are allocated on a per capita basis or £11,050 per person if allocated on a geographical basis. Revenue per head in Scotland is below the UK average.

Scotland's revenues account for 7.8% of UK revenues whether North Sea revenue is excluded or allocated on a per capita basis. Scotland's revenues account for 8.0% of UK revenues if North Sea revenues are allocated on a geographical basis. This is slightly lower than Scotland's share of UK population and lower still than its share of public spending.¹¹

2.2 North Sea Revenue

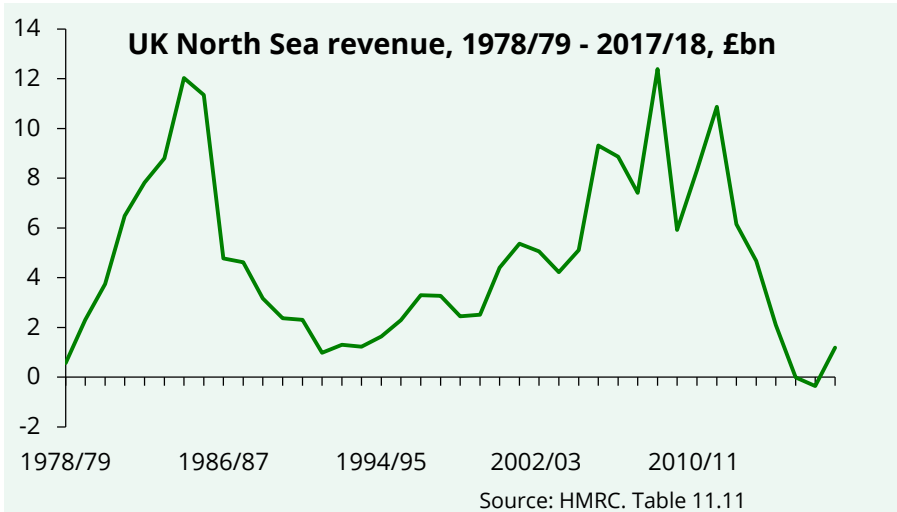
How large are North Sea revenues?

In recent years, falls in the oil price combined with high levels of investment and rising decommissioning costs have resulted in North Sea revenues falling to the lowest levels since records began in 1968/69.¹² UK revenues from North Sea were slightly negative in 2015/16 and 2016/17, as investment and decommissioning costs were greater than the revenues brought in. In 2017/18, North Sea revenues were £1.2 billion – no longer negative.

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.

¹¹ HMRC has also produced estimates of the proportion of tax revenue raised in Scotland. HMRC's figures show that Scotland had a 7.6% share of revenues in 2016/17 if North Sea revenue is allocated on a geographical basis or 7.7% if allocated on a population basis. 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](#), October 2017

¹² HMRC. [Statistics of Government revenues from UK oil and gas production](#), September 2018



Scotland's share

The Scottish Government has used three different ways of dividing North Sea Revenues:

- Scotland receives **no revenues** from the North Sea
- Scotland receives a share based on its **population** (sometimes referred to as a **per capita** share): 8.2% in 2017/18
- Scotland receives an **"illustrative geographical share"**: averaging 81% of the total between 2010/11 and 2014/15. This is based on the North Sea boundary between Scotland and the rest of the UK used for fishery demarcation purposes. In 2016/17 and 2017/18 Scotland's geographical share was over 100%. This is because some elements of the UK revenues were negative, and Scotland had a smaller share of these elements.

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 £98 million in 2017/18. This is equivalent to around £18 per head and North Sea revenue would have accounted for 0.2% of total Scottish revenues.

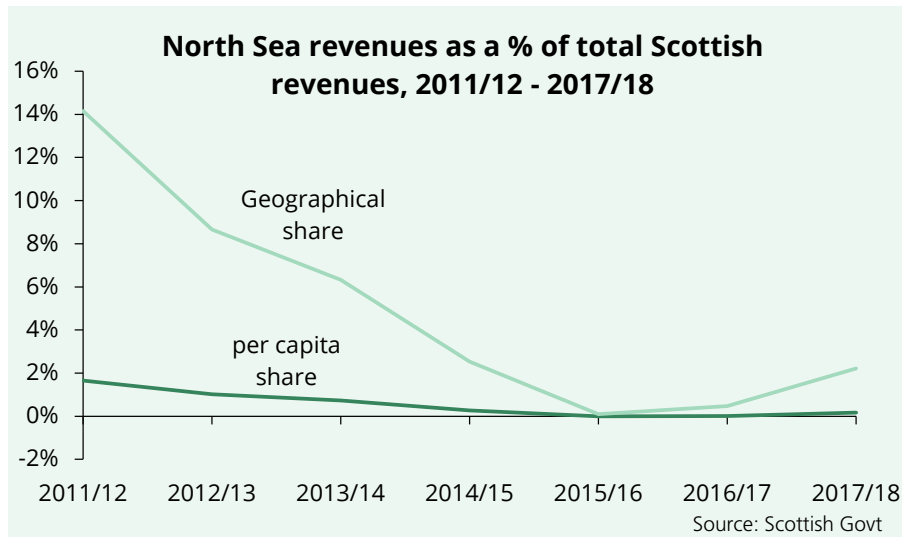
With the much larger geographical share, total revenue would have been close to £1,330 million (£1.3 billion) in 2017/18, equivalent to £245 per head or 2.2% of total Scottish revenue.

Scotland's North Sea revenue, 2017/18			
	Total North Sea revenue £ million	Revenue per head £	% of total Scottish revenue %
per capita share	98	18	0.2%
Geographical share	1,327	245	2.2%

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 contribute a more volatile, and at times large, proportion of Scottish revenues.

In cash terms, Scotland’s North Sea revenues on a geographical basis fell from £7,902 million (£7.9 billion) in 2011/12 to £50 million in 2015/16. They have since increased and in 2017/18 were estimated to be £1,327 million (£1.3 billion). The £7.9 billion raised from North Sea revenues in 2011/12 made it the fourth largest revenue in Scotland in that year. In 2017/18 North Sea revenues, allocated on a geographical basis, were the tenth largest revenue in Scotland.



Current revenues: Geographical and per capita share of North Sea Revenues, Scotland, 2017/18

Geographical share		Per capita share of North Sea revenue			
	£ million	%			
Income tax (gross of tax credits)	12,544	20.9%	Income tax (gross of tax credits)	12,544	21.4%
National insurance contributions	10,592	17.7%	National insurance contributions	10,592	18.0%
Value added tax	10,146	16.9%	Value added tax	10,146	17.3%
Gross operating surplus	4,625	7.7%	Gross operating surplus	4,625	7.9%
Onshore Corporation tax	3,930	6.6%	Onshore Corporation tax	3,930	6.7%
Non-domestic rates	2,774	4.6%	Non-domestic rates	2,774	4.7%
Fuel duties	2,361	3.9%	Fuel duties	2,361	4.0%
Council tax	2,261	3.8%	Council tax	2,261	3.8%
Other taxes	1,742	2.9%	Other taxes	1,742	3.0%
North sea revenue	1,327	2.2%	VAT refunds	1,245	2.1%
VAT refunds	1,245	2.1%	Alcohol duties	1,122	1.9%
Alcohol duties	1,122	1.9%	Tobacco duties	972	1.7%
Tobacco duties	972	1.6%	Environmental levies	752	1.3%
Environmental levies	752	1.3%	Scottish Land & Buildings transaction t	546	0.9%
Scottish Land & Buildings transaction tax	546	0.9%	Vehicle excise duties	503	0.9%
Vehicle excise duties	503	0.8%	Insurance premium tax	408	0.7%
Insurance premium tax	408	0.7%	Other receipts	373	0.6%
Other receipts	373	0.6%	Capital gains tax	341	0.6%
Capital gains tax	341	0.6%	Interest and dividends	339	0.6%
Interest and dividends	339	0.6%	Reserved stamp duties	317	0.5%
Reserved stamp duties	317	0.5%	Inheritance tax	311	0.5%
Inheritance tax	311	0.5%	Air passenger duty	275	0.5%
Air passenger duty	275	0.5%	Scottish landfill tax	149	0.3%
Scottish landfill tax	149	0.2%	North sea revenue	98	0.2%

Source: Scottish Government

What are the forecasts for North Sea revenues?

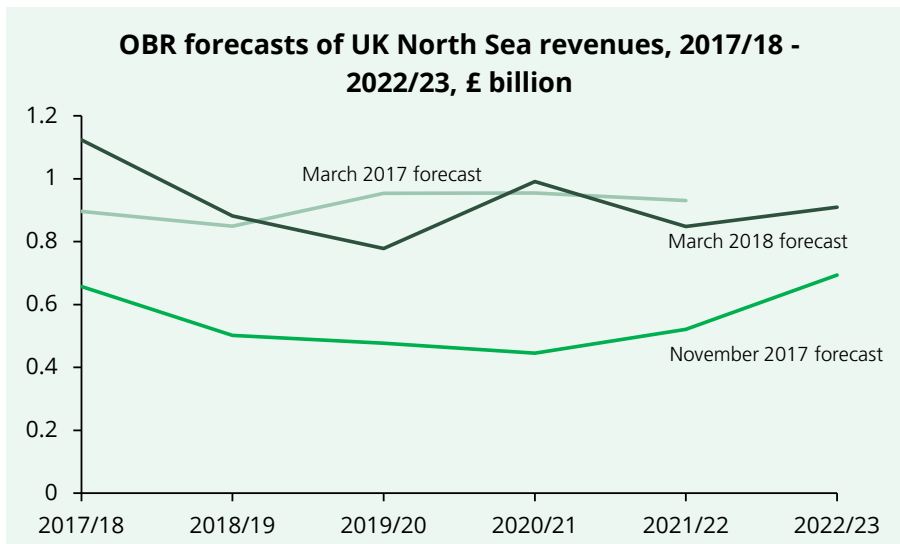
The section above looked at North Sea revenues in recent years. An important issue is the size of these revenues in the future. The Office for Budget Responsibility (OBR) – the UK’s fiscal watchdog – produces forecasts of UK North Sea revenues. The Scottish Government previously

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produced projections of Scottish North Sea Revenues – its [last projection was published](#) in June 2015.¹³

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.

The OBR forecasts that UK North Sea revenues will be close to or below £1 billion a year for the rest of the current forecast period, up to and including 2022/23.¹⁴



¹³ Scottish Government, [Oil and Gas Analytical Bulletin](#) - June 2015

¹⁴ OBR, [EFO](#), March 2018, Table 4.6

3. Fiscal balances

Having examined public spending and revenues we can now bring these together to consider Scotland's overall fiscal position. The Scottish Government's data allows us to consider the current budget position and the net fiscal position.

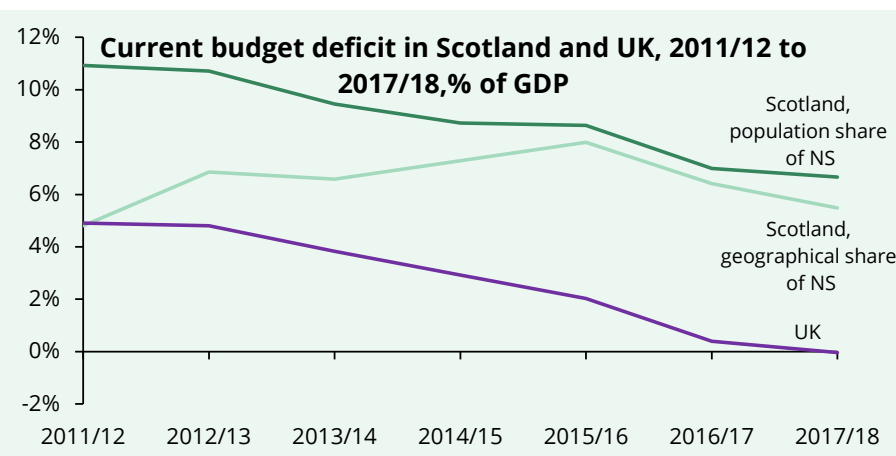
3.1 Current budget deficit

The current budget is the difference between current revenue and current spending. It doesn't include investment spending and measures the degree to which taxpayers meet the cost of paying for the services provided to them.

Scotland's current budget deficit in 2017/18 ranges from 6.8% of GDP excluding the North Sea to 5.5% of GDP with a geographical share of the North Sea allocated to Scotland. In 2017/18 the UK's current budget was in surplus, just.

Current budget deficit in Scotland and UK, 2017/18		
	£ billion	% GDP
Scotland		
Excluding North Sea	10.6	6.8%
Including North Sea (population share)	10.5	6.7%
Including North Sea (geographical share)	9.3	5.5%
UK	-1.3	-0.04%

source: Scottish Government, Government Expenditure and Revenue Scotland, August 2018, Table S.5, Table A.2, Table A.3



3.2 Net fiscal deficit

The fiscal deficit is the difference between all public spending (including investment spending) and revenues.

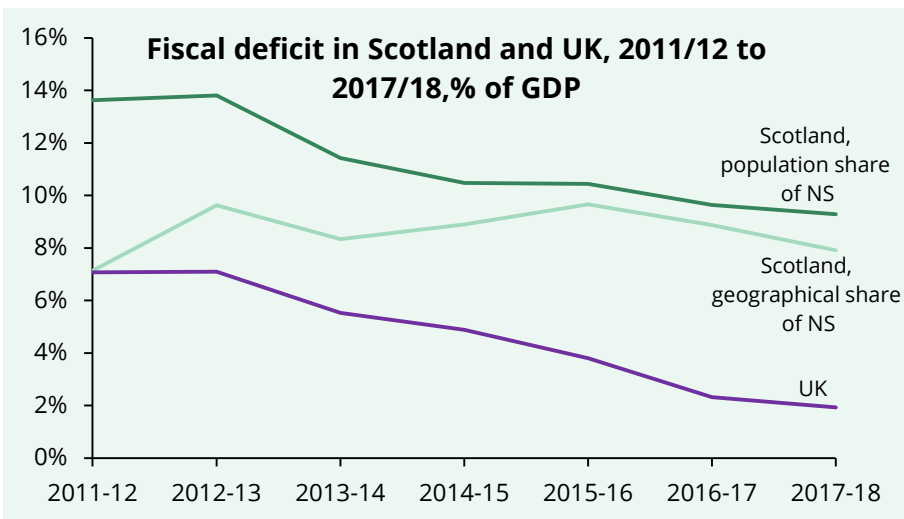
Scotland's fiscal deficit in 2017/18 ranges from 9.5% of GDP if the North Sea is excluded, to 7.9% of GDP if a geographic share of the North Sea is allocated to Scotland. This compares with a UK fiscal deficit of 1.9% of GDP.

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Fiscal deficit in Scotland and UK, 2017/18

	£ billion	% GDP
Scotland		
Excluding North Sea	14.8	9.5%
Including North Sea (population share)	14.7	9.3%
Including North Sea (geographical share)	13.4	7.9%
UK	39.4	1.9%

source: Scottish Government, Government Expenditure and Revenue Scotland, August 2018, Table S.6, Table A.2, Table A.3



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