

# GERS 2016-17

— *A Common Weal Analysis* —

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**COMMON WEAL POLICY**

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# Preface

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Modest estimates by Common Weal show that an independent Scotland could be better off to the tune of at least £7.5 billion in comparison to the figures in the GERS paper published today.

As the GERS paper mentioned on several occasions the statistics are estimation of the financial management of the Scottish economy as a region within the United Kingdom, where most of the economic power currently lies. Common Weal calculates that the very act of Scottish Independence would boost tax revenue by at least £7.5 billion per year.

## Key Points

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- The UK is a deeply unequal union and London continues to capture a greater and greater proportion of the wealthy of the state to the detriment of everywhere else.
- Scotland's offshore economy continues to shrink even whilst offshore tax revenue has risen slightly
- However the growth in Scotland's onshore economy more than offsets this loss.
- Relative low collection of direct tax revenue such as income tax and capital gains taxes remains an indicator of the economic inequalities of the UK.
- Whereas relatively high rates of collection of alcohol and tobacco revenue may be an ongoing indicator of higher stress and lower well-being in Scotland. This should be subject of further study.
- Scotland's share of the UK's debt interest payments now stand at £3.25 billion per year; more than the entire transport budget.
- Whilst GERS itself does not illustrate an independent Scotland's finances, Common Weal has produced metrics which allow it to be estimated.
- The creation of formerly reserved government departments like the civil service, Central Bank and others will create thousands of jobs in Scotland and create more than £1.3 billion in revenue per year.
- Even assuming defence spending is maintained, basing more of it in Scotland would create additional tax revenue of at least £200 million per year.
- An allocation of debt and assets based on historical precedents would save Scotland around £2.5 billion per year in debt interest repayments.
- A more efficient approach to tax and customs would eliminate major flaws in the UK system and could help close the UK's £120 billion per year tax gap. Even just a third of Scotland's "share" of this gap would be worth £3.5 billion in revenue.

# Introduction

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The annual Government Expenditure and Revenue Scotland figures (GERS) have been released. These figures track the notional financial situation of Scotland which, due to the ongoing constitutional debate in Scotland, have been the subject of fairly intense scrutiny in recent years. This year in particular, some attention has been paid to the methodology underpinning how the figures are calculated and what relevance they may or may not have towards an understanding of the finances of an independent Scotland.

## Background to GERS

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GERS was originally developed in the early 1990s by John Major's Conservative government in response to the then debate over devolution. It had been originally conceived as a method of deliberately showing how poor Scotland's finances were and, thus, why it was better off not controlling its own affairs. Since then, and particularly since the 2007 SNP government, the GERS figures have undergone substantial adjustment in their methodology. They are now generally taken to be a much better indicator of Scotland's financial position as a devolved region within the United Kingdom. Emphatically however, they do not – on their own – provide a substantial indicator of Scotland's fiscal position as an independent country.

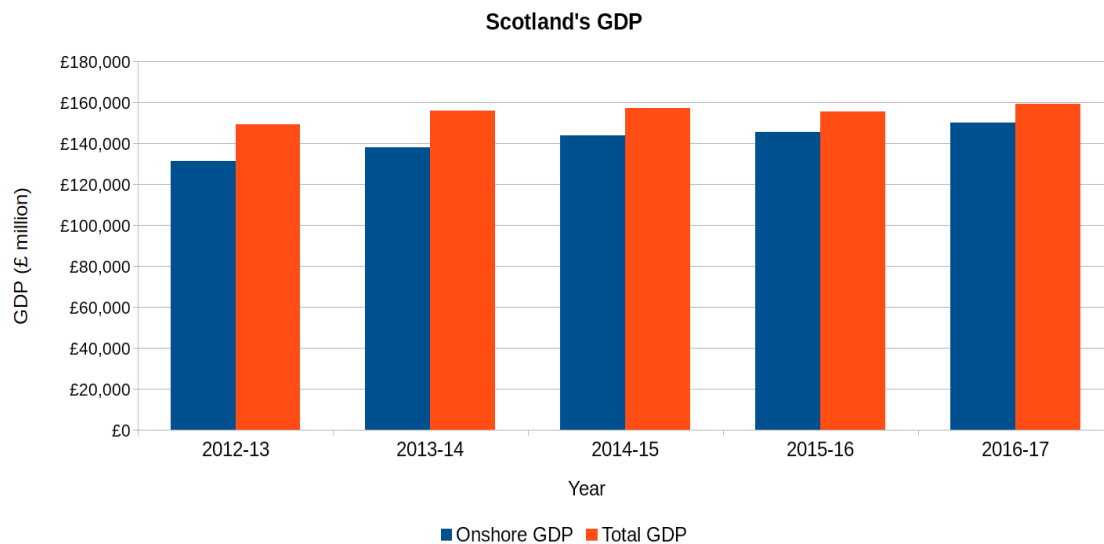
## Headline Figures

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Scotland's notional deficit has reduced from £14,546 million in 2015-16 (calculated using a geographic share of oil revenue) to £13,257 million in 2016-17. The UK's deficit over the same period changed from £72,199 million to £46,215 million. These figures represent 8.3% of GDP and 2.4% of GDP respectively.

Scotland's Gross Domestic Product (GDP) increased from £155,632 million in 2015-16 to £159,389 million in 2016-17. This is despite a decrease in the offshore component of GDP from £9.982 million to £9.364 million. Whilst it should be said that the offshore GDP decrease is a lot less than has been the case in previous years, there may be evidence of a kind of inverted "Dutch Disease" in the Scottish economy whereby the lower oil revenues and lower economic activity in the oil sector are offset by lower fuel and heating prices which allow for greater economic growth elsewhere (table overleaf).

Scotland's population continues to increase (reaching a record 5.405 million people), it continues to decline slightly with respect to the UK figure (largely due to increased levels of immigration in England) and now stands at 8.2% of the UK total which may have implications for those taxes which are assigned based on population.



## Key Revenue Figures

Whilst Scottish tax receipts have never been higher than this year, they still lag in some respects with the UK. Direct taxes like income tax is lower by £1.7 billion than would be the case based on Scotland’s population “share” of UK taxes whilst capital gains is lower by £637 million. This is largely due to lower pay in Scotland compared to areas like the south of England. However, consumption taxes like VAT are above Scotland’s population share of the UK’s figure by around £187 million. The reason for this is the relative regressiveness of consumption taxes. VAT is charged on many goods and services which are purchased frequently by people no matter their income but someone earning, say, five times as much money as another is less likely to spend five times as much on goods (they might, for example, spend more money on a more expensive fridge, but aren’t likely to buy five fridges).

One indirect indicator of the health and wellbeing of Scotland’s economy are the receipts for alcohol and tobacco duties. Scotland tends to drink and smoke more than our counter-parts in the rest of the UK (although we also tend to drink more spirits like whisky which attracts higher duties) and the level of revenue rose sharply in the years after the 2008 financial crisis which may be an indicator of increased stress among the population. This has tended to level out over the past few years and this year there has been a sharp drop in the collection of tobacco duties. However, this sharp decline may be due to the rise in the prevalence of alternative modes of consuming nicotine such as “vaping”.

Finally, the oil revenue continues to remain low although the £208 million accrued this year is significantly larger than the £56 million gained last year. Of note, the figures for UK oil revenue (including Scotland) were only £84 million which indicates that oil revenues outside of Scotland were negative.

## Expenditure

Social protection spending in Scotland continue to rise as the demographic effects of an ageing population continues to progress. Almost all of the increase in social protection spending comes from the state pension and social care for the elderly. However, this remains a largely reserved issue and will do even after the delivery of the latest batch of newly devolved powers to the Scottish Government. Whilst Holyrood may be able to increase or top-up protections which are still being squeezed by Austerity and it may be able to create new social protection

payments, it still remains unclear if the government and the people will be willing to tolerate new or increased taxes to pay for them.

Payments for the controversial PFI and NPD finance systems made headlines last year when they cost Scotland £1,068 million last year to service. This figure has increased slightly this year to £1,126 million but otherwise, there is little there to which attention could be drawn. Public sector debt interest continues to increase and Scotland is now charged more than £3.2 billion to service the UK's debt of more than £1.7 trillion. This is now more than the entire transport budget for Scotland.

## Beyond GERS

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No serious economist now claims that GERS itself presents a projection of an independent Scotland's finances. They are designed solely to illustrate Scotland's situation as a region of the United Kingdom. Not only does independence offer Scotland the opportunity to do things different with tax and spending but it also allows Scotland to change the shape and size of its economy to better suits its needs. More importantly, independence itself changes the shape of Scotland in fundamental ways.

Last year, Common Weal produced a report titled Beyond GERS which attempted to identify and quantify some of these changes. For instance, much of the civil service which runs Scotland, especially the reserved powers, are administered from Whitehall, London. Other government functions such as the Central Bank and the DVLA are also run almost entirely outside Scotland. An independent Scotland would need to replicate or replace these civil servant positions and other reserved spending which would result in around £2.3 billion worth of highly skilled public service jobs being created in Scotland. This could result in up to an additional £1.3 billion in tax revenue alone.

Defence is another sector in which Scotland's finances would be improved by independence. Even in a scenario where spending remained equal to its current level of £3.05 billion, Scotland could ensure that more of that defence money was spent inside Scotland rather than on foreign bases and adventures (presumably, the money used to pay for Trident and other unnecessary equipment would be redeployed to better use). Again, the economic impact of supplying more jobs in Scotland would improve our finances by around £200 million per year.

Debt and asset allocation would be an important part of independence negotiations but prior precedent laid out in Common Weal's paper Claiming Scotland's Assets indicates that the UK is likely to lay claim to the full proportion of the UK's debt in return for a guarantee of "continuing state" status. Even after any borrowing required to build new infrastructure in Scotland this would reduce Scotland's debt liabilities by around £2.5 billion per year.

Finally, a rationalisation of many of the UK's poorly implemented policies will have substantial financial effect for Scotland. Again, Common Weal has produced detailed analysis of failings in the UK system such as its stripping away of borders and customs checks, resulting in billions of losses in tariffs and the loss of direct tax income which has come from the gutting of HMRC's ability to collect and audit taxation. Tax expert Richard Murphy has estimated that the UK loses around £120 billion per year due to these impacts. If Scotland can redesign these departments and recover just a third of our "share" of this lost income, it could be worth more than £3.5 billion per year.

Taking these identified estimates alone could reduce Scotland's deficit by more than half to around £7.5 billion and clearly demonstrates the opportunity of independence.

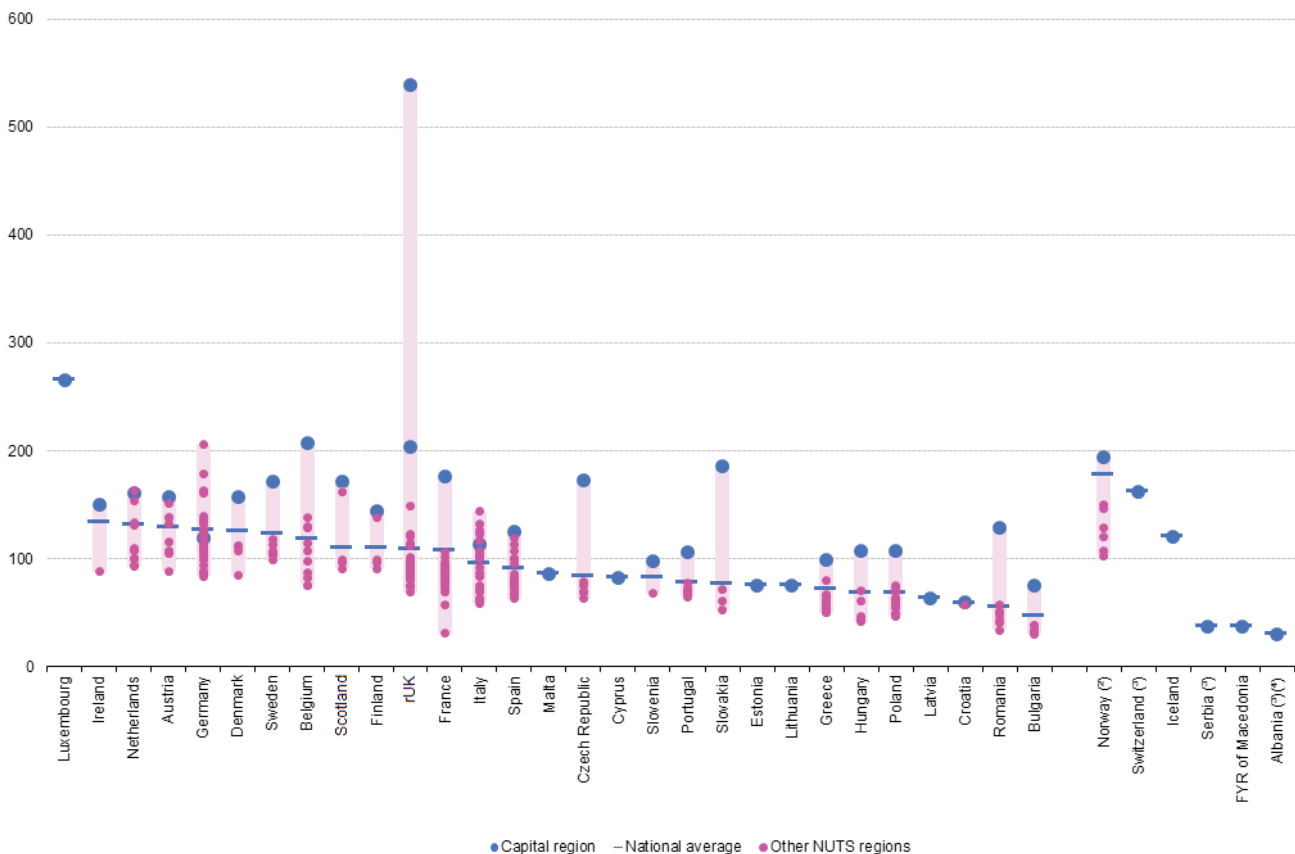
# Conclusion

The GERS figures this year are perhaps not quite as exciting as they have been in previous years and people on both sides of Scotland’s constitutional debate will no doubt find some figures to attack and adopt. However it cannot be emphasised strongly enough that they only provide a very limited snapshot of what Scotland looks like within the UK so where issues arise, it is perhaps towards the UK that people should take more issue.

The UK has never been more deeply unequal geographically. Whilst Scotland is often mentioned in the context of being “below the UK average” it is worth realising that at much as that is true, it is also the third richest region of the UK after London and the South East. That Scotland is “below average” is simply a reflection of how much of the UK’s wealth has been sucked into London.

A recent study by the EU of the regional wealth of its member nations found that the UK was a significant outlier compared to other nations. In most other nations, the capital city is the richest region of the country but only in the UK is the difference so stark.

*GDP/Capita in regions of the EU (EU average = 100)*



(\*) The light lilac shaded area shows the range of the highest to lowest region for each country. The blue bar shows the national average. The blue circle shows the capital city region. The lilac circles show the other regions. Liechtenstein, Montenegro and Turkey; not available.  
 (\*) 2013.  
 (\*) National data.  
 (\*) Provisional.

When Scotland is disaggregated from this data, we see that it looks far more like Finland than it does, say, Greece. Questions such as how the UK deals with its growing geographic inequalities are becoming increasingly urgent and it is in this light that the future of Scotland and its finances should be considered.

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