# ECONOMIC PERSPECTIVE

## THE SNP BUDGET FOR SCOTLAND - A COMMENT

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### 1. INTRODUCTION

The purpose of the note is to set out an assessment of the recently published SNP Budget programme, 'Yes We Can', SNP (1997). The essentials of the SNP budget calculations are set out in Table 1, the 'Original SNP Scenario' which sets out the impact of 3 distinguishable forces:-

The fiscal benefits to Scotland of breaking out of the United Kingdom. In the analysis, this is obscurely termed the 'Relative Fiscal Surplus with the UK (including North Sea Oil)'. In fact, it is or should be the borrowing/surplus implications of Scotland being an independent country following the same fiscal regime as the current UK government. Scotland is assumed to receive 90% of UK North Sea Oil Revenues. The SNP approach indicates that there will be a cumulative budget surplus of £10.7bn, allowing substantial debt repayment.

Gains from independence. The analysis argues that Scottish growth will be 0.4% per annum higher outside the union as compared with the status quo over the 4 year forecast horizon. The analysis is provided for the SNP by MacKay Consultants.

An expansionary Budget injecting a net £5.99bn into the Scottish economy over the 4 year forecast horizon and contributing to the higher growth forecast for the SNP by MacKay Consultants. This engenders a reduction in unemployment of 108,500 over 4 years, modest public expenditure savings and revenue gains and significant repayment of Scottish national debt. All of this is achieved with no serious inflationary consequences although Scottish inflation rises from 2.4% pa in 1997/98 to 3½%pa in both 1999/00 and 2000/01.

This paper will critically examine this set of assumptions and reassess the costs of separation within the framework employed by the SNP. Section 2 examines whether there will be gains from independence and re-estimates the SNP budget. In addition, we comment on the SNP view that Scotland has contributed £27bn to the UK exchequer since 1979. Section 3 assesses the view that there will be increased growth following independence. This is not the position that most economists would hold and the figures are reworked on the still optimistic basis that separation would be neutral with respect to economic activity. Section 4 provides an overview and sets out our conclusions.

### 2. SCOTLAND'S TRUE FISCAL POSITION

The coherence of the SNP budget relies on the estimates of the fiscal surplus/deficit arising from Scotland leaving the UK. In their analysis, the SNP use the 'relative fiscal surplus with the UK as the basis for their fiscal projection which is an inappropriate procedure. To establish this we set out how this magnitude is defined and measured. The 'relative fiscal surplus with the UK' is calculated through a 3 stage procedure.

First, Scotland's fiscal position is established on the basis that an independent Scotland follows the same expenditure and revenue policies as the UK government. These are set out in the Financial Statement and Budget Report (Redbook) 1997/98. The SNP approach is to assume that Scotland will account for 17.9% of the UK public sector deficit (excluding North Sea oil revenues and Privatisation Proceeds [PPs]). This yields a Scottish deficit, excluding oil, to which 90% of North Sea revenues and population share of UK Privatisation Proceeds can be added. It is estimated that this results in a cumulative surplus of £7bn over the 1997/98 to 2000/01 period. (SNP 1997:pp26).

Second, the SNP add in a population share of the UK public sector deficit. This procedure is employed to indicate "the extent to which Scotland's public finances are 'better off' than the

UK average" (ibid:pp26). This results in a cumulative surplus over the 4 year period of £2.5bn yielding a relative surplus of £9.5bn.

Third, the SNP adjust the Scottish share of the UK deficit to account for the fact that the Treasury estimate of 17.9% is "a gross underestimate of the revenues raised from Scotland and an overestimate of spending in Scotland" (ibid:pp27). This yields a further cumulative surplus of £1.2bn and results in a cumulative overall budget surplus of £10.7bn over the 1997/98 to 2000/01 period.

Whilst it is possible to question aspects of all 3 elements, we will concentrate on the use of a constant share of the UK deficit as a forecasting device and the addition of population share of the UK public sector deficit.

**a) Use of a constant 17.9% share of the UK deficit in forecasting Scotland's Fiscal Position.**

The source of the 17.9% share of the UK deficit is a Parliamentary answer provided by the Treasury which adjusts and updates the 17.1% share estimated in by Scottish Office economists in Government Expenditure and Revenue in Scotland: 1994/95 (GERS) (HMSO October 1996). However, use of such a number to project Scotland's fiscal position backwards and forwards is a flawed and erroneous procedure.

Assessments of the Scottish public finances in the 1990s have been made by PIEDA (1992), Stevens (1995), and Scottish Office (1995,1996). These conclude that Scotland's share of UK expenditure is significantly above it's revenue share. This suggests that Scotland has a *structural deficit*. Thus, if the UK deficit falls to zero, as projected by the Treasury, Scotland would still have a budget deficit. UK spending and revenue would be equal but Scotland's share of expenditure would still be above it's share of revenue. For example, in the recent GERS document, Scotland accounts for 10¼% of UK expenditure and 8.9% of UK revenues, excluding North Sea revenue. Thus, Scotland would have a deficit equivalent to 1.35% of UK revenue or expenditure if the UK books balanced.

If Scotland has a structural deficit, the Scottish share of the UK General Government Borrowing Requirement (GGBR) should rise as the UK GGBR falls towards a surplus. A recent parliamentary answer has set out Treasury and Scottish Office estimates of Scotland's share of the UK GGBR. These are presented in Appendix Table A6 and are obtained from Hansard, 21st March 1997, Col 969. This data highlights that Scotland's share of the UK GGBR (ex Oil and Privatisation receipts) rises sharply in 1987/88 and 1990/91 when the UK GGBR (exc Oil And PPs) was relatively small. This evidence strongly supports the yearly analyses which estimate that Scotland has a structural deficit. In addition, Scotland's share of the UK deficit is consistently above it's population share which is another indication that a structural deficit exists.

The SNP approach of rolling backwards and forwards Scotland's share of the UK deficit implicitly disinvents the fact that most independent analysts and official evidence suggests that we have a structural deficit with or without North Sea revenue. Under the SNP approach, if the UK deficit falls to zero then Scotland's share falls to zero and when the UK is in surplus, Scotland is in surplus. This flies in the face of all of the evidence on Scotland's financial position within the UK. In light of this, our analysis will estimate the deficit for the 1997-2001 period by using Scotland's 1994/95 share of UK revenue and expenditure, as set out in Government Expenditure and Revenue in Scotland 1994/95. (HMSO 1996).

Some in political and journalistic circles may complain that this is an acceptance of 'Tory fiddled figures'. However, such comments betray a woeful ignorance of the difference between civil servants and their political masters. The GERS analysis is conducted by Scottish Office economists and would be invariant as to whether it is Mr Forsyth, Mr Robertson, Mr Wallace or Mr Salmond in charge at St. Andrews House. It is a puerile slur on the professional integrity of government economists to suggest otherwise.

**b) Adding in a population share of the UK Public Sector Deficit.**

This is a wholly unwarranted procedure in the context of the present exercise. If one has estimates of Scotland's budget deficit and the UK is also in deficit, then adding in a population share of the UK deficit would provide some indication of the structural deficit. If the Scottish deficit is £5bn and population share of the UK deficit is £4m this suggests that Scotland has a structural deficit of £1m.

However, in assessing Scotland's fiscal prospects, the correct procedure is to establish estimates of the cost of supplying the public services enjoyed by the

Scottish people and the tax and other government revenues raised. This is what is achieved in the first step by use of a constant 17.9% share. Whilst adding back in population share of the UK deficit provides an estimate of how affordable the budget is relative to the UK, it is of little relevance to how much taxes or borrowing would actually have to rise to finance the financial programmes of an independent Scotland. It is the absolute surplus or deficit which is relevant for these calculations and not the relative surplus or deficit. For this reason, the favourable £2.5bn adjustment to Scotland's fiscal position is not warranted.

### c) The Absolute Fiscal Surplus

Table A1-A4 set out an analysis of the true Scottish fiscal position for the 1997/98 to 2000/01 period. To facilitate comparison with the SNP analysis, all data are in current prices. The UK expenditure and revenue figures in Table A1 are obtained from the 1997/98 'Redbook (HMSO Nov. 1996). UK North Sea Revenue and Privatisation Proceeds are obtained from Hansard, 6th February 1997, Col 682 and are consistent with the SNP assumptions. The SNP argues that Scotland's share of oil revenues for the 1997-2001 period is £13.7bn. (Ibid: pp27). This constitutes 90% of UK revenues which are thus estimated at £15.2bn which is identical to the UK Treasury forecasts.

Table A1 indicates that the overall UK GGBR declines rapidly over the period and moves into a £7bn surplus in 2000/01. Over the 4 year period, the cumulative UK GGBR, including oil revenues and pps, is estimated at £28.4bn. Table A2 presents the UK fiscal position excluding North Sea oil and privatisation proceeds. When these revenue sources are excluded, the UK GGBR rises sharply with a cumulative deficit of £49.1bn evident in the 1997-2001 period.

Table A3 sets out our estimates of Scottish revenue and expenditure, excluding oil receipts and privatisation proceeds. The Scottish expenditure and revenue figures are obtained by assuming that Scotland accounts for 10¼% of UK expenditure and 8.9% of UK revenues. This approach indicates that Scotland has a cumulative deficit of £21.6bn over the 4 year period. The less satisfactory SNP procedure of taking 17.9% of the UK total results in a cumulative deficit of £8.8bn.

Table A4 adds in 90% of UK oil revenues and population share of UK privatisation proceeds to the Scottish figures and indicates the fiscal consequences of separation on the public finances to be as follows

| Year | Deficit |
|---|---|
| 97/98 | £2.5bn |
| 98/99 | £2.1bn |
| 99/00 | £1.8bn |
| 00/01 | £1.0bn |
| Total | £7.4bn |

These deficits are an estimate of the fiscal consequences of breaking out of the UK and experiencing the same pattern of economic activity as would have occurred within the Union assuming that Scotland will be due 90% of UK oil revenues. They are based on the assumption that the Government of an independent Scotland pursues the same deflationary fiscal approach as that set out by the UK Conservative administration in the current Redbook. Over the 4 year forecast horizon, the estimated fiscal shortfall is equivalent to an average increase of circa 12½p on the standard rate of income tax in Scotland.

In order to provide the same level of service to the Scottish people and impose the same tax regime on the Scottish business and personal sectors as the former and present UK Government, an independent Scotland would require to borrow a cumulative total of £7.4bn. This contrasts markedly with estimates employing the SNP 17.9% approach. Using that procedure, we estimate that Scotland would have a cumulative surplus of £5.4bn which is lower than the SNP calculation that Scotland would derive a cumulative fiscal surplus of £7bn (op cit: pp26). This discrepancy may be due to the use of different projections of UK revenue and expenditure although the sources for both analyses appear to be the same. However, the key conclusion of this section is that, even with 90% of UK oil revenues, we would require to tax more or borrow more in order to consume the same level of public services that we are projected to receive inside the Union.

### d) Did Scotland have a Budget Surplus in the 1980s with a 90% share of UK oil revenues?

As a further exercise, we used the Treasury and Scottish Office estimates of the share of the UK GGBR (ex oil and privatisation proceeds) to project the Scottish fiscal deficit for the 1979/80 to 1994/95 period. The analysis is presented in Table A5. Estimates of the Scottish deficit for 1988/89 and 1989/90 are based on Scotland contributing population share of UK fiscal receipts (ex oil revenues) and 10¼% of UK public spending (ex privatisation receipts). After adding back 90% of oil revenues and population share of privatisation proceeds, Scotland is estimated to have a cumulative surplus of £6.6bn in current prices and £26.5bn in 1996/97 prices.

Table A6 sets out a similar analysis using a constant 17.9% share of the UK GGBR (ex oil and privatisation proceeds) in each year. After adding back Scotland's share of oil and privatisation revenues, a cumulative surplus of £11.2bn in current prices or £31.2bn in 1996/97 prices is obtained.

Recent work by Scottish office economists confirms that Scotland has experienced a real fiscal surplus of £31bn since 1979/80. We should be grateful to the SNP for teasing this information out of the 'Whitehall system'. However, we should be careful of both the small print and of the significance of such findings for the late 1990s and beyond.

It should be noted that, on either assessment, the cumulative surplus derives from the 1983/84 to 1985/86 period. If these years are excluded, then the cumulative surplus disappears. Second, Scotland has experienced a deficit in every year since 1990/91, even when 90% of oil revenues are included. Indeed, a deficit would occur in each year if Scotland retained all UK oil revenues. Although Scotland did contribute to the UK exchequer across the 1980's, the bulk of this contribution arises in a 3 year period when real oil prices were high and the petroleum revenue tax (PRT) take per barrel of oil was greater than at present. At present, oil revenues are modest at a time when oil and gas production in the North Sea is at record levels. The days of huge oil revenues are gone and realistic projections of the oil market suggest that we'll never see their like again.

Three further points can be made. First, the surpluses set out in Appendix Tables 5 and 6 across the 1980's relate to Scotland being part of the UK. In an independent Scotland, oil would be a significant part of GDP. Analysis of the regional accounts suggests that oil output as a share of Scottish GDP, including 90% of UK oil production would be as follows.

| Year | Oil output as a % of Scottish GDP, including oil |
|---|---|
| 1979 | 28.1 |
| 1980 | 35.0 |
| 1981 | 40.3 |
| 1982 | 41.7 |
| 1983 | 43.5 |
| 1984 | 46.8 |
| 1985 | 43.3 |
| 1986 | 24.0 |
| 1987 | 24.7 |
| 1988 | 17.3 |
| 1989 | 15.3 |
| 1990 | 14.9 |

It is highly likely that such an economy would have been subject to strong upward pressure on it's currency in the 1980-86 period when real oil prices were high. This would have crowded out domestic activity by making exports uncompetitive and imports relatively cheap. It is equally likely that the Scottish currency would have plummeted when the oil price collapsed in 1986.

It is likely that an independent Scotland would have contracted an acute form of 'Dutch disease' in the 1980's and that economic management would have been extremely difficult. A souring Scottish petro currency would have engendered both reduced non oil government revenue and increased government expenditure as non oil domestic output and employment fell. Thus, the surplus achieved as part of the UK currency area would not be achievable with a separate Scottish currency and the fiscal position would be more adverse than suggested by the favourable position inside the Union.

Second, the oil supported fiscal surpluses of the 1980's have been absorbed into the UK Treasury and used to support welfare spending. Outside the UK, these are a sunk cost to having belonged to the Union in that period. The only way this transfer of Scottish resources can be redeemed is by staying inside the UK and seeking to use this as an argument to protect Scotland's currently favourable expenditure settlement. Although it is possible to admire the way the SNP have dragged this assessment out of the UK Treasury via intrepid use of Parliamentary Questions, the SNP may have provided political ammunition to their opponents by exposing 31 billion good reasons for staying inside the Union.

Third, whilst the use of a constant 17.9% share of the UK GGBR (ex oil and privatisation receipts) may have provided a reasonable estimator of the underlying fiscal position between 1979-95, it is not appropriate for projecting across the 1997-2001 period. The true average deficit share would provide a correct measure of the cumulative budget if applied to the deficit for each year the average was derived from. This is an arithmetical truism. The SNP used a 17.9% figure supplied by the UK Treasury. The SNP results are accurate because 17.9% was close to the actual average deficit for the 1979-95 period. This does not mean that using such approach to predict a short period is a valid procedure.

This is because this approach ignores the strong evidence that Scotland has a structural deficit. In the forecast horizon, the UK GGBR is set to move into surplus. The structural deficit result means that Scottish share of the UK deficit would increase as the UK moves into balance. If and when the UK moves into surplus, Scotland would still experience a deficit until the UK surplus increased substantially. This is what happened in the late 1980s when the UK budget moved in and out of surplus, as set out in Table A5. In short, the fact that the SNP deficit share approach worked well for 1979-1995 does not mean that it is appropriate for the coming period. All the evidence points the other way!

### e) The Fiscal Implications of the SNP Budget.

Our assessment of the true fiscal implications of separation is plugged into the SNP budget projections and presented in Table 2, 'The Scottish Office Fiscal Balance Scenario'. This assumes that Scotland accounts for 8.9% of UK revenue (ex oil receipts) and 10.3% of UK spending (ex privatisation proceeds) and that 90% of projected UK oil revenue and population share of UK asset sales accrue to Scotland. In addition, we remove any interest savings from debt repayment as this simply won't happen. Over the 4 years, the bill for independence and the expansionary fiscal policy is estimated to be £11.7bn. On the assumption that this is borrowed at 4%, the resulting Scottish borrowing requirement is £12.0bn or an average of 20p on the standard rate of income tax over the 1997-2001 period.

As set out above, the SNP dispute the Scottish Office expenditure and revenue shares and estimate that this causes an inflation of the deficit by £1.2bn over 4 years. Without endorsing these calculations and as an exercise, we adjust our fiscal deficit to account for this. As you would expect, the cumulative deficit falls to £10.8bn which represents an average increase of 17.8p on the Scottish standard income tax rate.

## 3. QUESTIONING THE GROWTH ASSUMPTIONS

The SNP utilise an analysis by MacKay consultants which purports to show that Scottish growth will be faster after independence. Such a conclusion is a triumph of assertion over analysis. Whilst there may be modest gains from independence in terms of the media in Glasgow, the public and diplomatic sector in Edinburgh and the oil sector in Grampian, most of these gains are achievable inside the Union, given devolution. In the case of oil in Grampian, it is only recently that SNP leader, Alex Salmond, was arguing that such spin offs would arise if the UK Government dispersed a few civil servants to Aberdeen.

Whilst it is not necessary to have separation to realise such gains, most economists would argue that the costs and uncertainties of breaking out of the UK, establishing a Scottish currency and gaining credibility with the financial markets would far outweigh any benefits. When the original MacKay analysis was published by the SNP, such a view was put by Professor Anton Muscatelli of Glasgow University in an interview with Brian Taylor for Reporting Scotland. Professor Muscatelli is speaking for the majority of economists who would take the view that non oil Scottish GDP growth would be slower following independence compared with Scotland remaining part of the UK.

In addition, it is our view that the process of setting up a new state, complete with a separate currency would present problems that cannot be dealt with in existing models of the Scottish economy. For that reason, the Fraser of Allander Institute has always resisted doing such exercises on their suite of Scottish models. These models contain data and relationships based on Scotland being part of the UK currency area and would not handle well such a radical step as separation.

For the purposes of this paper, we next assume that independence and the fiscal stimulus proposed by the SNP has a neutral effect on Scottish growth and employment. We view this as a hopelessly optimistic scenario but will run with it. In terms of the SNP budget, this means that there will be no savings from reduced unemployment or no increased corporation tax revenues. In addition, one could adjust other personal and business tax projections to account for slower than forecast growth. However, we do not have knowledge of the assumptions used to derive the SNP estimates and, since the effects are small, we abstract from them.

The results of the neutral growth scenario are set out in Table 3. This indicates that the true bill for Scottish independence and the expansionary SNP budget is £13.1bn over 4 years. If this is borrowed for then a further £403.8m of interest payments (@4% pa) have to be found. Thus, the final cost of separation and the SNP fiscal measures would be a cumulative deficit of £13½bn which is equivalent to an average rise of 22.3p in the standard rate of income tax in Scotland. The adjustment for the dubious SNP view that the official expenditure and revenue estimates shortchange Scotland yields a deficit of £11.9 bn or 20¼p on the standard rate.

Clearly, our own view is that Scottish independence would lead to slower growth than otherwise over the 4 year horizon and beyond. The fiscal implications are more adverse than set out in the above scenario but we make no attempt to quantify this.

## 4. SUMMARY AND CONCLUSIONS

The analysis in this paper casts serious doubt on the coherence of the SNP budget for an independent Scotland and their assessment of our short run prospects. The affordability of their programme hangs round an estimate that Scotland presently has a fiscal surplus within the UK. The SNP approach to estimating our true budgetary position is flawed on 2 major counts.

First, the SNP use a 17.9% constant share of the projected UK fiscal deficit to establish Scotland's fiscal deficit. The approach is wrong because it assumes that, as the UK deficit falls to zero and moves into surplus, Scotland's fiscal deficit falls to zero and moves into surplus. This ignores a wealth of evidence from official independent sources that Scotland's share of UK spending is higher than our share of UK revenue and that Scotland has a *structural deficit*. Thus, as the UK public accounts move into balance and surplus, Scotland will still have a budget deficit. Projections of Scotland's fiscal position made using estimates of our UK revenue and expenditure share indicate that Scotland has a cumulative deficit of £7.4bn in the 1997-2001 period. This contrasts markedly with the SNP estimate of a £7bn surplus. By using an inappropriate forecasting method the SNP thus inflate Scotland's true fiscal position by £14.4bn, over the forecast horizon.

Second, the SNP inappropriately use a measure of Scotland's relative fiscal surplus with the UK as a basis for their budget projections. This approach is completely wrong because it is the absolute surplus or deficit which is relevant to the costing of our fiscal position post independence. The effect of this is to further and erroneously enhance our fiscal position by £2.5bn over the next 4 years.

Because of these flawed procedures and assumption, the SNP budget surplus within the UK is inflated by a total of £16.9bn. In addition, the SNP believe that a further £1.2bn should be added in because Scotland's budget deficit is overstated by the approach taken by the Scottish Office and Treasury. This is highly questionable. In all, the SNP budget forecast is grounded on a projection of Scotland's fiscal position which includes £18.1bn of revenue which quite simply does not exist. The fiscal bonanza that the SNP propose to shower on the Scottish people is due to inappropriate forecasting and public accounting procedures.

The nationalists may counter that their assumptions are as good as the method applied here. Given the scientific evidence available from official and other sources this is clearly not the case. The approach adopted in this paper better captures the underlying features of Scottish spending and tax revenues. However, both approaches are flawed but both are transparent and we would be prepared to respect the view of fellow economists and informed commentators as to which was more satisfactory. We have little doubt as to what the result of any canvas of opinion would be!

Post independence, if the SNP budget measures were pursued and if we managed to do as well as we would have done inside the Union, Scotland would have a minimum fiscal deficit in each of the 4 years in the 1997-2001 period of £3.0bn. Given other likely adverse consequences to separation, this is likely to be substantially higher. In either case, Scotland would not meet the Debt/GDP or PSBR/GDP criteria set down in the Maastricht Treaty. To take part in EMU, an independent

Scotland would be under pressure to scale down public spending and increase the tax burden on both the personal and corporate sector. It is evident that the budget proposed by the nationalists simply could not be pursued if an independent Scotland wished to prepare for EMU.

Our view is that post independence, Scotland would have initial annual budget deficits in the region of 7-10% of GDP. This is an obstacle to independence but is one which could be coped with given some fiscal pain. What we find questionable is the consistent attempts by the SNP to present separation as a no lose bet for Scotland. The true case for independence is that it would be difficult for us initially and that economic performance would suffer but that this has to be set against the possible long run political and economic benefits which may derive from our ability to pursue our own distinctive national policies.

However, in a world increasingly characterised by globalization, financial and political integration, it is far from clear that the scope to pursue independent monetary and fiscal policies designed to boost Scottish output and employment really exists. Separation does not result in windfall gains which allow the pursuit of enhanced supply side policies and better social provision. A devolved parliament would be both empowered and better placed financially to pursue the type of supply side policies which can improve our long run growth performance. With separation, there will be pain for very little additional long run gain.

Analysis of the SNP document indicates a desire to create a fairer society and more efficient and productive economy. These are commendable and noble objectives. However, to pretend that there are pots of money to throw at Scotland's manifest economic and social problems is clearly false. The SNP appear not to appreciate that such suspect analyses are liable to be construed by political opponents, with some justification, as a cruel charade perpetrated against the poor, the sick, the unemployed and the disadvantaged. In an independent Scotland, there will be little scope for the degree of public largesse proposed by the SNP.

This paper has sought to demonstrate that the SNP's view of our fiscal prospects is ludicrously optimistic and fatally flawed. The fact that we had a fiscal surplus in the 1980s does not mean that we will have such a boon at the end of the millennium and beyond. To maintain government spending and tax plans in the coming period we would engender annual deficits that 90% of oil revenues does not cover. Separation provides no economic and fiscal panacea. Oil revenue will endure for a long time but on a declining trend and would not be sufficient to ensure that we did not have to borrow more or tax more to enjoy the same level of public services that we would have enjoyed inside the Union. If we are to opt for independence then it will not be an easy ride and we should only do so with our eyes wide open. Suspect and inaccurate appraisals of our fiscal prospects are about as much use in the Scottish constitutional debate and to the Scottish people as a chocolate fireguard.

## 1/ Original SNP Scenario

| | Year 1 1997/98 | Year 2 1998/99 | Year 3 1999/2000 | Year 4 2000/01 | Cumulative Total |
|---|---|---|---|---|---|
| **Income Measures** | | | | | |
| **"Fair Taxation"** | **200.0** | **30.0** | **-40.0** | **-110.0** | **80.0** |
| **"Business Taxation"** | **-112.5** | **-205.0** | **-297.5** | **-390.0** | **-1005.0** |
| | | | | | |
| **Expenditure Measures** | | | | | |
| **"Enterprise Development"** | **265.0** | **360.0** | **455.0** | **655.0** | **1735.0** |
| **"Education & Training "** | **218.0** | **242.0** | **265.0** | **290.0** | **1015.0** |
| **"Social Justice"** | **415.0** | **444.0** | **475.0** | **504.0** | **1838.0** |
| **"Overseas Aid"** | **48.0** | **96.0** | **144.0** | **192.0** | **480.0** |
| | | | | | |
| **Balance of Income & Expenditure** | **-858.5** | **-1317.0** | **-1676.5** | **-2141.0** | **-5993.0** |
| | | | | | |
| **Additional Income Measures** | | | | | |
| | | | | | |
| **Relative Fiscal Surplus** | **1100.0** | **1800.0** | **2400.0** | **5400.0** | **10700.0** |
| ***Savings from Employment Growth*** | ***95.0*** | ***280.0*** | ***435.0*** | ***520.0*** | ***1330.0*** |
| **Increased Corporation Tax Revenues** | **0.0** | **10.0** | **45.0** | **80.0** | **135.0** |
| ***Defence Savings*** | ***55.0*** | ***55.0*** | ***55.0*** | ***55.0*** | ***220.0*** |
| **National Debt Reduction** | **0.0** | **21.3** | **65.3** | **135.0** | **221.5** |
| | | | | | |
| **Total Additional Income** | **1250.0** | **2166.3** | **3000.3** | **6190.0** | **12606.5** |
| | | | | | |
| **Debt Repayment (Final Balance)** | **391.5** | **849.25** | **1323.75** | **4049** | **6613.5** |

## 2/ Scottish Office Fiscal Balance Scenario

| | Year 1 1997/98 | Year 2 1998/99 | Year 3 1999/2000 | Year 4 2000/01 | Cumulative Total |
|---|---|---|---|---|---|
| Income Measures | | | | | |
| "Fair Taxation" | 200.0 | 30.0 | -40.0 | -110.0 | 80.0 |
| "Business Taxation" | -112.5 | -205.0 | -297.5 | -390.0 | -1005.0 |
| | | | | | |
| Expenditure Measures | | | | | |
| "Enterprise Development" | 265.0 | 360.0 | 455.0 | 655.0 | 1735.0 |
| "Education & Training " | 218.0 | 242.0 | 265.0 | 290.0 | 1015.0 |
| "Social Justice" | 415.0 | 444.0 | 475.0 | 504.0 | 1838.0 |
| "Overseas Aid" | 48.0 | 96.0 | 144.0 | 192.0 | 480.0 |
| | | | | | |
| Balance | -858.5 | -1317.0 | -1676.5 | -2141.0 | -5993.0 |
| | | | | | |
| Additional Income Measures | | | | | |
| | | | | | |
| Fiscal Deficit (present govt plans) | -2486.1 | -2120.1 | -1801.0 | -950.5 | -7357.7 |
| Savings from Employment Growth | 95.0 | 280.0 | 435.0 | 520.0 | 1330.0 |
| Increased Corporation Tax Revenues | 0.0 | 10.0 | 45.0 | 80.0 | 135.0 |
| Defence Savings | 55.0 | 55.0 | 55.0 | 55.0 | 220.0 |
| National Debt Reduction | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | | | | | |
| Total | -2336.1 | -1775.1 | -1266.0 | -295.5 | -5672.7 |
| | | | | | |
| Bill for Independence & Expanded Services | -3195 | -3092.1 | -2942.46 | -2436.5 | -11665.74 |
| | | | | | |
| Increased Interest Charges | 0.0 | -127.8 | -123.7 | -117.7 | -369.2 |
| | | | | | |
| Borrowing Requirement | -3194.6 | -3219.9 | -3066.1 | -2554.2 | -12034.9 |
| | | | | | |
| Tax Rate Equivalent | 21.0 | 21.2 | 20.2 | 16.8 | 19.8 |

## 3/ Scottish Office Neutral Growth Scenario

| | Year 1 1997/98 | Year 2 1998/99 | Year 3 1999/2000 | Year 4 2000/01 | Cumulative Total |
|---|---|---|---|---|---|
| Income Measures | | | | | |
| "Fair Taxation" | 200.0 | 30.0 | -40.0 | -110.0 | 80.0 |
| "Business Taxation" | -112.5 | -205.0 | -297.5 | -390.0 | -1005.0 |
| | | | | | |
| Expenditure Measures | | | | | |
| "Enterprise Development" | 265.0 | 360.0 | 455.0 | 655.0 | 1735.0 |
| "Education & Training " | 218.0 | 242.0 | 265.0 | 290.0 | 1015.0 |
| "Social Justice" | 415.0 | 444.0 | 475.0 | 504.0 | 1838.0 |
| "Overseas Aid" | 48.0 | 96.0 | 144.0 | 192.0 | 480.0 |
| | | | | | |
| Balance | -858.5 | -1317.0 | -1676.5 | -2141.0 | -5993.0 |
| | | | | | |
| Additional Income Measures | | | | | |
| | | | | | |
| Fiscal Deficit (present govt plans) | -2486.1 | -2120.1 | -1801.0 | -950.5 | -7357.7 |
| Savings from Employment Growth | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Increased Corporation Tax Revenues | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Defence Savings | 55.0 | 55.0 | 55.0 | 55.0 | 220.0 |
| National Debt Reduction | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | | | | | |
| Total | -2431.1 | -2065.1 | -1746.0 | -895.5 | -7137.7 |
| | | | | | |
| Bill for Independence & Expanded Services | -3290 | -3382.1 | -3422.46 | -3036.5 | -13130.74 |
| | | | | | |
| Increased Interest Charges | 0.0 | -131.6 | -135.3 | -136.9 | -403.8 |
| | | | | | |
| Borrowing Requirement | -3289.6 | -3513.7 | -3557.7 | -3173.4 | -13534.5 |
| | | | | | |
| Tax Rate Equivalent | 21.6 | 23.1 | 23.4 | 20.9 | 22.3 |

APPENDIX TABLES

**Table A1**
**UK Public Finances (including Oil Revenues & Privatisation Proceeds)**
**£bn**

| | United Kingdom | | | | |
|---|---|---|---|---|---|
| | General Government Expenditure (1) | General Government Revenue (1) | Borrowing Requirement | Privatisation Proceeds (PPs) (2) | Oil Revenues (2) |
| 97/98 | 319 | 299 | -19.6 | 2.0 | 4.1 |
| 98/99 | 327 | 315 | -12.0 | 1.5 | 3.9 |
| 99/00 | 336 | 333 | -3.8 | 1.0 | 3.6 |
| 00/01 | 345 | 352 | 7.0 | 1.0 | 3.6 |
| | 1327 | 1299 | -28.4 | 5.5 | 15.2 |

**(1) Source: Redbook, 1997/98, Table 4.1**
**(2) Source: Hansard, 6th February 1997, Cols 681,682**

**Table A2**
**UK Public Finances (ex Oil Revenues & Privatisation Proceeds)**
**£bn**

| | United Kingdom | | |
|---|---|---|---|
| | General Government Expenditure (ex PPS) | General Government Revenue (ex Oil Revenues) | Borrowing Requirement (ex Oil Revenues & PPs) |
| 97/98 | 321.0 | 295.3 | -25.7 |
| 98/99 | 328.5 | 311.1 | -17.4 |
| 99/00 | 337.5 | 329.1 | -8.4 |
| 00/01 | 346.0 | 348.4 | 2.4 |
| | 1333.0 | 1283.9 | -49.1 |

**Table A3**
**Scottish Public Finances (excluding Oil Revenues & Privatisation Proceeds)**
**£bn**

| | Scotland | | | |
|---|---|---|---|---|
| | General Government Expenditure (ex PPS) | General Government Revenue (ex Oil Revenues) | Borrowing Requirement (ex Oil Revenues & PPs) | SNP Estimate (17.9% of UK Borrowing Requirement ex Oil Revenues & PPs) |
| 97/98 | 32.7 | 26.4 | -6.4 | -4.6 |
| 98/99 | 33.5 | 27.8 | -5.8 | -3.1 |
| 99/00 | 34.5 | 29.4 | -5.1 | -1.5 |
| 00/01 | 35.4 | 31.1 | -4.3 | 0.4 |
| | 136.1 | 114.6 | -21.5 | -8.8 |

**Table A4**
**Scottish Public Finances (including Oil Revenues & Privatisation Proceeds)**
**£bn**

| | Scotland | | | | |
|---|---|---|---|---|---|
| | General Government Expenditure | General Government Revenue | Borrowing Requirement | SNP Estimate (17.9% of UK Borrowing Requirement including Oil Revenues & PPs) | Difference between estimates |
| 97/98 | 32.5 | 30.0 | -2.5 | -0.7 | -1.8 |
| 98/99 | 33.4 | 31.3 | -2.1 | 0.5 | -2.6 |
| 99/00 | 34.4 | 32.6 | -1.8 | 1.8 | -3.6 |
| 00/01 | 35.3 | 34.3 | -1.0 | 3.8 | -4.7 |
| | 135.6 | 128.3 | -7.4 | 5.4 | -12.7 |

APPENDIX TABLES

**Table A5**
**Scottish Public Finances**
**1979-1995**
**Calculations Using Treasury & FAI Estimates**

| | UK GGBR (ex Oil & Privatisation Receipts) £bn | Scotlands share (%) | Scottish Share of UK GGBR (ex PPs & Oil Revenues) £bn | Scottish Share of Privatisation Proceeds (PPs) £bn | 90% of North Sea Oil Revenues £bn | GGR (inc Oil Revenues & PPs) £bn | GGR (inc Oil Revenues & PPs) 96/97 prices £bn |
|---|---|---|---|---|---|---|---|
| | (1) | (2) | | (1) | (3) | | (4) |
| 79/80 | 13.2 | 15 | 2.0 | 0.1 | 2.1 | -0.2 | -0.6 |
| 80/81 | 17.5 | 17 | 3.0 | 0.1 | 3.3 | -0.4 | -0.9 |
| 81/82 | 13.5 | 12 | 1.6 | -1.8 | 5.9 | -2.5 | -5.0 |
| 82/83 | 15.9 | 17 | 2.7 | -2.1 | 7.0 | -2.2 | -4.2 |
| 83/84 | 19.8 | 15 | 3.0 | 0.1 | 7.9 | -5.0 | -9.1 |
| 84/85 | 23.3 | 13 | 3.0 | 0.2 | 10.8 | -8.0 | -13.6 |
| 85/86 | 20.9 | 14 | 2.9 | 0.2 | 10.2 | -7.5 | -12.2 |
| 86/87 | 14.1 | 21 | 3.0 | 0.4 | 4.3 | -1.7 | -2.8 |
| 87/88 | 7.8 | 50 | 3.9 | 0.5 | 4.1 | -0.7 | -1.1 |
| 88/89 | -1.5 | 0 | 1.1 | 0.5 | 2.9 | -2.3 | -3.2 |
| 89/90 | 0.0 | 0 | 2.0 | 0.3 | 2.2 | -0.5 | -0.6 |
| 90/91 | 7.1 | 57 | 4.0 | 0.4 | 2.1 | 1.5 | 1.9 |
| 91/92 | 22.8 | 22 | 5.0 | 0.7 | 0.9 | 3.4 | 3.9 |
| 92/93 | 47.3 | 17 | 8.0 | 0.7 | 1.2 | 6.1 | 6.8 |
| 93/94 | 53.5 | 17 | 9.1 | 0.5 | 1.1 | 7.5 | 8.0 |
| 94/95 | 45.8 | 17 | 7.8 | 0.6 | 1.4 | 5.8 | 6.1 |
| **Total** | | | | | | -6.6 | -26.5 |

(1) Source: Public Finance Trends 1996
(2) Source: Hansard 21 March 1997 Cols 968,969
(3) Source: Government Expenditure & Revenue in Scotland, 1994/95, Table 9, pp27
(4) Source: GDP Deflator derived from 1997/98 Redbook, Table 5A.1

APPENDIX TABLES

**Table A6**
**Scottish Public Finances**
**1979-1995**
**SNP Calculations**

| | UK GGBR (ex Oil & Privatisation Receipts) £bn | Scotlands share (@17.9%) | Scottish Share of Privatisation Proceeds (PPs) £bn | 90% of North Sea Oil Revenues £bn | GGR (inc Oil Revenues & PPs) £bn | GGR (inc Oil Revenues & PPs) 96/97 prices £bn |
|---|---|---|---|---|---|---|
| | (1) | (2) | (1) | (1) | (3) | (4) |
| 79/80 | 13.2 | 2.4 | 0.1 | 2.1 | 0.2 | 0.4 |
| 80/81 | 17.5 | 3.1 | 0.1 | 3.3 | -0.3 | -0.6 |
| 81/82 | 13.5 | 2.4 | -1.8 | 5.9 | -1.7 | -3.4 |
| 82/83 | 15.9 | 2.8 | -2.1 | 7.0 | -2.1 | -3.9 |
| 83/84 | 19.8 | 3.5 | 0.1 | 7.9 | -4.5 | -8.1 |
| 84/85 | 23.3 | 4.2 | 0.2 | 10.8 | -6.8 | -11.7 |
| 85/86 | 20.9 | 3.7 | 0.2 | 10.2 | -6.7 | -10.9 |
| 86/87 | 14.1 | 2.5 | 0.4 | 4.3 | -2.2 | -3.4 |
| 87/88 | 7.8 | 1.4 | 0.5 | 4.1 | -3.2 | -4.8 |
| 88/89 | -1.5 | -0.3 | 0.5 | 2.9 | -3.7 | -5.2 |
| 89/90 | 0.0 | 0.0 | 0.3 | 2.2 | -2.5 | -3.3 |
| 90/91 | 7.1 | 1.3 | 0.4 | 2.1 | -1.2 | -1.5 |
| 91/92 | 22.8 | 4.1 | 0.7 | 0.9 | 2.5 | 2.8 |
| 92/93 | 47.3 | 8.5 | 0.7 | 1.2 | 6.6 | 7.2 |
| 93/94 | 53.5 | 9.6 | 0.5 | 1.1 | 8.0 | 8.5 |
| 94/95 | 45.8 | 8.2 | 0.6 | 1.4 | 6.2 | 6.5 |
| total | | | | | -11.3 | -31.2 |

**(1) Source: Public Finance Trends 1996**
**(2) Source: Scottish Nationalist Party**
**(3) Source: Government Expenditure & Revenue in Scotland, 1994/95, Table 9, pp27**
**(4) Source: GDP Deflator derived from 1997/98 Redbook, Table 5A.1**