Economic PERSPECTIVE

SCOTLAND'S PUBLIC FINANCES FROM GOSCHEN TO BARNETT

by Professor Gavin McCrone*

I. INTRODUCTION

As this paper is being written, the election of the Scottish Parliament is only a matter of weeks away, yet there still appears to be a poor understanding, not only in the public mind, but probably in that of many politicians that hope to be elected, of how Scotland's public finances will operate. The White paper says that 'Scotland will continue to benefit from an appropriate share of United Kingdom public expenditure' and that the present block arrangements will remain in place adjusted annually by the Barnett formula.[1] This is usually taken to mean that expenditure will continue to be based on need. But how does the formula work and has it resulted in a provision of expenditure based on need? Will it do so in the future? Few people could produce creditable answers to these questions.

Identifiable public expenditure in Scotland in 1996/97 was £24.7 billion of which £14.9 billion came within the Secretary of State's responsibility.[2] The Scottish block comprised £13.8 billion of this and it is only to this latter figure that the Barnett formula is applied. There will be some adjustment to the block to reflect the new administration's responsibilities but this is not expected to alter its size significantly. The Scotland Act also gives the new Parliament the power to vary the standard rate of income tax upwards or downwards by 3 pence in the £; but this power does not apply to lower or higher rates of income tax, nor does it apply to savings or dividend income. The power is therefore modest and its scope restricted. The Financial Statement and Budget Report (March 1999) estimates that a 1p variation would yield about £230 million. The full use of the power would therefore give the Parliament the ability to raise or forego £690 million per annum. At its maximum, therefore, this only amounts to about 5 per cent of expenditure on the block.

There are those who have argued that, rather than be so heavily dependent financially on Westminster, Scotland should simply fund its expenditure from its own tax revenue, whether it remains within the UK or becomes independent.[3] But how many people understand what that implies? Are there presently net fiscal transfers to Scotland from the rest of the United Kingdom or vice versa? Meanwhile in England an awareness has grown that Scotland appears to receive higher public expenditure per head, and this has given rise to calls for a revision to the Barnett formula, calls that have been supported by Lord Barnett himself. The resulting controversy has left many people extremely confused; yet the success of devolution will in the end depend heavily on financial arrangements that are seen to be flexible and fair, not only to Scotland but to other parts of the UK as well.

Fiscal transfers between regions in a modern state are of course to be expected, where there is a uniform system of taxation and a commitment to comparable standards of service. Expenditure is unrelated to tax revenue raised in a particular area: the balance between the two is generally regarded as unimportant, and statistics to discover how the two relate to each other seldom exist. Nevertheless the popular press sometimes refer to such transfers as subsidies. That is inappropriate. Whichever the direction of the transfers, they arise not from a conscious

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[1]Scottish Office (1997), *Scotland's Parliament,* Cm 3658, Edinburgh: HMSO, p. 21-22.

[2]Scottish Office (1998), *Government Expenditure and Revenue in Scotland 1996/97,* Glasgow, p 9; and Scottish Office and HM Treasury (1998), *Serving Scotland's Needs: The Government's Expenditure Plans,* CM 3914, London: HMSO, p, 13. For simplicity this article will refer throughout to identifiable public expenditure. The definition does however change slightly between the different periods. The definition used by the Treasury in the 1990s for General Government Expenditure (GGE) covers capital and current expenditure by central government and local authorities and grants subsidies and government loans to nationalised industries.

[3]This line has been frequently argued in *The Scotsman* newspaper as well, of course, by the SNP.

decision to subsidise anything but from the automatic operation of the tax system and national public expenditure decisions; and it cannot be assumed that, were they to end, the net contributor areas would be able to save the full amount for other purposes. Most likely all areas would suffer to some extent if they had to be self-sufficient. In the UK, to take just one example, Scotland provides services such as places at universities and medical schools which go far beyond the needs of the Scottish population and which would have to be provided elsewhere if they were not available in Scotland.

Scotland's GDP per head in 1996, the latest year for which figures are available, was 99 per cent of the United Kingdom average (both figures excluding income from the Continental Shelf), having risen from 88 per cent in the 1960s.[4] Over the last decade it has fluctuated between 95 and 100 per cent. From being one of the less well off parts of the United Kingdom, Scotland's position has therefore improved so that its GDP per head is now above that of many English regions as well as Wales and Northern Ireland. The figures for personal disposable income after tax give a similar result.[5] This has led some commentators and MPs to argue that the system of allocating public expenditure to Scotland should be revised. But even if differences in income do not warrant a fiscal transfer to Scotland, that is of no relevance to expenditure if the latter is to be related to agreed needs.

The purpose of this article is to explain Scotland's financial arrangements starting with an examination of how they have developed over the last century. Information is brought together from a variety of sources, some long since neglected. This leads on to an analysis of the present situation and what it implies for the new Parliament. The article will conclude with some thoughts on the way forward.

II. EXPENDITURE AND REVENUE FROM GOSCHEN TO CATTO: 1889-1952

In his budget speech of 1888 the Chancellor of the Exchequer, Mr G. J. Goschen, set out what became known as the Goschen Formula.[6] This was to provide funding to England, Scotland and Ireland according to the ratios 80, 11 and 9 respectively. No mention is made of Wales, either in the formula or the subsequent published statistics, Wales being treated for this purpose as if it were part of England. The aim was to relieve ratepayers of some of the burden of local expenditure. The proceeds of the wheel tax and the horse tax were to be allocated to the three countries for this purpose and half of the revenue from probate duty distributed according to the formula. But the formula came to be used more generally to apportion Government support for local authorities, especially as regards expenditure on education. For Scotland it became enshrined in statute and continued in use right up to 1958, by which time it was well out of date. This formula is now part of the folklore on this subject in Scotland, but it should be noted that it never applied to the whole of locally identifiable public expenditure in Scotland.

Mr Goschen explained in his speech how the formula was derived: 'I propose...to give each country a share of it (i.e. probate duty) in proportion to the general contributions of that country to the Exchequer. This division is, if anything, a little too favourable to Ireland, as its contributions are in reality 8.7 per cent; but I have felt obliged to give the benefit of the doubt to the poorer country'.[7] Many people have mistakenly assumed that it was based on population; but, if that had been so, it would have been wide of the mark. Against the 80, 11 and 9 ratios, England's population as a percentage of the UK was 76.5, Scotland's 10.7 and Ireland's 12.8 at the time the formula was devised.[8] While Scotland's share was fairly close to its population ratio, therefore, England's was higher and Ireland's substantially lower. As the years went by and the ratio of Scottish population to that of England declined, Scotland's share became increasingly generous in comparison with a strict population ratio and by the time the formula was abolished it was seriously out of date.

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[4]McCrone, G. (1969) *Scotland's Future*, Oxford: Blackwell; and (1965) *Scotland's Economic Progress 1951-1960*, London: George Allen and Unwin; for current figures see *Scottish Economic Bulletin*, HMSO, Edinburgh, twice yearly.

[5]Scottish Office (1998), *Scottish Economic Bulletin*, No. 57, Table 8.1 and 8.2.

[6]Hansard (1888), Vol.CCXXIV, March 26, Col. 300-302, London: Cornelius Buck.

[7]Ibidem, Col. 301. In 1889/90 the respective shares of the three countries in UK tax revenue were: England 80.45; Scotland 10.89; and Ireland 8.65 - see (1891) *Financial Relations - England, Scotland and Ireland*, HC paper 329, HMSO

[8]*Annual Abstract of Statistics*, London, HMSO.

Following this speech, an annual Financial Relations Return was published.[9] This provides figures for each of the three countries contributions to UK revenue and locally identifiable public expenditure, with the balance forming contributions to 'imperial expenditure', later referred to as 'general expenditure' (i.e. expenditure on items such as the armed forces, forces pensions, foreign representation and interest on the National Debt, which cannot be apportioned to individual countries of the UK). This corresponds to what is now called 'non-identifiable expenditure and other expenditure'. These returns were published annually from 1889/90 to 1920/21, when what is now the Irish Republic seceded from the Union. Subsequent Returns were made for 1924/25 and 1931/32 and then, as a result of the work of the Catto Committee, for 1952/53.[10] In addition Professor A D Campbell, in commenting on the work of the Catto Committee, has provided his own estimates for 1928/29, 1938/39, 1944/45 and 1948/49.[11] There is therefore a fairly comprehensive analysis of both revenue and expenditure broken down by country for the first half of the century. Table 1 summarises the results by showing the figures at approximately five yearly intervals.

These figures show that for Scotland up to 1920/21, contributions to revenue and shares of identifiable expenditure were roughly equal to its population share. This means that its contribution to 'imperial expenditure' also approximately accorded with population share. During these years England consistently contributed more than its population share of revenue and received less than its share of identifiable expenditure; Ireland contributed much less and received much more than its population share, especially in the later years when its contribution to imperial services was sometimes negative, the revenue contributed being insufficient even to cover identifiable expenditure.

This may seem surprising in the light of the Goschen formula. But the formula was only intended to cover part of locally identifiable expenditure, and education expenditure, the main component, was still quite modest. It did not cover the large expenditure on law and order in Ireland, where the Royal Irish Constabulary was a central government responsibility. With public expenditure amounting to only 10 per cent of GDP compared with around 40 per cent now and no welfare state, less than 40 per cent of the total was locally identifiable, the greater part of it, over 60 per cent, being spent on 'imperial services'. A high proportion of expenditure on these items, usually in excess of 50 per cent and rising to over 80 per cent during the First World War remains a feature of the statistics right up to the time of the Catto Committee in the 1950s, when it still accounted for 51 per cent of the total. This was a consequence of the high National Debt after the Second World War, which reached 250 per cent of GDP in the late 1940s, and high defence expenditure in the early 1950s as a result of the Korean war.[12]

After 1922 the figures relate to Great Britain only. They show Scotland's identifiable expenditure per head rising from 112 in 1928/29 to 119 per cent of the GB average by 1938/39, then coming down in the Second World War and rising again to 119 per cent in 1952/53. The contribution to revenue falls dramatically to only 79 per cent of the GB average per head in the slump of the 1930s but recovers to 93 per cent by 1952/53. During this period, therefore, for the first time, a substantial gap arose between the proportions Scotland contributed in revenue and received in identifiable expenditure. The 1930s depression, which hit central Scotland very hard, was undoubtedly the main reason for this. But the rise in public expenditure per head compared with England may also have been a consequence of the Goschen formula becoming increasingly out of step with the population ratio: by 1938 Scotland's population had fallen to 10.8 per cent of England's, while the 11/80 formula is equivalent to 13.75 per cent.

No attempt is made in these Returns to estimate, even in a rough way, where the large non-identifiable portion of expenditure is actually spent. This point is taken up by Campbell, and will also arise later in commenting on more recent figures.[13] In theory, especially when this portion is so large, Scotland could be receiving more than its share of identifiable expenditure but still suffering a deflationary fiscal impact overall, if the bulk of the remainder was disbursed outside Scotland. Campbell makes some

[9] *Financial Relations Return,* Annual from 1891, London, HMSO.
[10] *Scottish Financial and Trade Statistics,* (Report of the Catto Committee), Cmd 8609, Edinburgh, HMSO and (1954) *Revenue and Expenditure (England, Wales and Scotland) 1952-53,* Cmd 9051, Edinburgh HMSO.
[11] Campbell, A. D. (1954) *The Catto Return,* Scottish Journal of Political Economy.
[12] figures obtained from the Bank of England.
[13] Campbell, A. D. *op. cit.*

estimates of the position in the years after World War 2 to apportion a Scottish share of debt interest and war pensions, for both of which it was likely to be quite high, and relies on alternative assumptions for the remainder. This enabled him to conclude that, with the possible exception of some of the immediate post-war years, there was no evidence that the fiscal operations of the United Kingdom had an exceptional deflationary impact on Scotland.

III. FROM CATTO TO BARNETT: THE 1960S AND 1970S

For these two decades information is less comprehensive than for the first half of the century, but it is possible to piece together a reasonably consistent picture. Estimates of Scotland's fiscal balance were first made by the present author for the calendar year 1967 and subsequently adjusted to the fiscal year 1967/68 to compare with official figures published by the Treasury for that year. The SNP also published figures for that year.[14] Some estimates were also prepared within Government for 1971/72 but were never published. Figures for identifiable public expenditure, but only covering those services proposed in the 1970s for devolution and without any estimates of revenue, were provided for a run of years by the Royal Commission on the Constitution (Kilbrandon Commission) and by the Treasury's Needs Assessment Study of 1979.[15]

Locally Identifiable Public Expenditure in the 1960s and 1970s

The figures published by the Kilbrandon Commission and in the Treasury's Needs Assessment Study (NAS) cover the period between 1959/60 and 1977/78.[16] The coverage is, however, narrower than the whole of locally identifiable public expenditure, since they are concerned only with expenditure on the services proposed for devolution in the 1970s and therefore exclude agriculture, industry, the universities and social security. Their coverage of services is not exactly the same and they are therefore not quite comparable but they both show Scotland's public expenditure per head on this range of services above that of England throughout this period. The NAS figures are given in Table 2 and show Scotland's public expenditure per head only slightly above England's in 1959/60 but rising to a peak of 30 per cent above by the end of the 1960s, thereafter falling but rising again to 28 per cent above in 1977/78.

The peak in the 1960s may be due to some sort of delayed effect of the Goschen formula, which had only recently ceased to apply, but it was probably, in part at least, also a consequence of undertakings in the White Papers of 1963 and 1965 on Scotland and the North East of England. These were intended to promote economic development and explicitly pledged that infrastructure investment would be above population share.[17] The Kilbrandon Report gives 1968/69 figures for Wales and the English regions as well: as might be expected, these vary too, from Wales, 19 per cent, and the North of England, 14 per cent above, to the West Midlands, 6 per cent below the English average (Table 3).

Estimates of Scotland's Fiscal Balance

Any studies that attempt to estimate the fiscal balance, whether undertaken by Government or individual researchers, has to make use of figures of varying quality. While information on locally identifiable public expenditure, being based on actual spend, must be regarded as reasonably firm, that for non-identifiable expenditure can only be attributed to individual countries using an arbitrary ratio, such as population, GDP or some other relevant measure. There are problems also with revenue, since many taxes are not collected in the parts of the country where the economic activity takes place. The figures are therefore estimates that rely on assumptions and sometimes on sample surveys or on figures collected for other purposes. Different

[14]McCrone, G. (1969) *Scotland's Future,* Oxford, Blackwell, pp. 53-66; HM Treasury (1969), *Estimates of Central Government Revenue and Expenditure Attributable to Scotland 1967-68: A Scottish Budget,* London; and my own article (1969) published by *The Scotsman* (October 30th) under the title *Scottish Budget: Deficit Could Be £220 million*, in which I compare my own estimates adjusted to the fiscal year 1967/68 with those of the Treasury and the SNP.

[15]*Report of the Royal Commission on the Constitution 1969-73 Vol. 1.* Cmnd 5460, London: HMSO, pp. 178-180; and HM Treasury (1979), *Needs Assessment Study-Report,* London, pp. 5 and 6.

[16]Cmnd 5460, op. cit. and HM Treasury (1979), op. cit.

[17](1963) *Central Scotland: A Programme for Development and Growth,* Cmnd 2188, Edinburgh: HMSO and *The North East: A Programme for Development and Growth,* Cmnd 2206, London: HMSO. (1965) *The Scottish Economy 1965-1970,* Cmnd 2864, Edinburgh: HMSO.

assumptions can produce different results, and if one is sufficiently cavalier, almost any result can be obtained. It is this that has led to so much controversy. In assessing the results, therefore, a judgement must be made of the realism or otherwise of the assumptions on which they are based.

All of these studies, however, show locally identifiable public expenditure per head in Scotland well above the average for the UK; and, therefore, even more above the average for England. Revenue, on the other hand, except in the SNP estimates, was well below the UK average per head, an unsurprising result since GDP per head was also below the UK average in the mid 1960s.[18] There was some disagreement on the detail: I gave a higher estimate for revenue than the Treasury. In my view the latter underestimated receipts from income taxes because they relied on a sample survey of incomes by the Inland Revenue, which seemed hard to reconcile with the Inland Revenue's own full personal income census of a few years earlier. This had given Scotland a higher share both of income and tax revenue. I also gave higher figures for corporation tax because I attributed it in accordance with the share of gross trading profits in my estimates of Scotland's GDP, for which at that time there were no official estimates.[19]

To get an overall fiscal balance or 'budget', it is of course also necessary to allocate non-identifiable expenditure, which amounted to about 23 per cent of total expenditure in the UK for 1967/68. This was apportioned by alternative ratios of population, GDP or some other measure of Scottish income.

Table 4 gives my estimates and those of the Treasury for 1967/68. The Treasury figures show a deficit on current and capital account combined of £271 million (allocating non-identifiable expenditure by population) or £206 million (using a 7.7 per cent 'income' ratio for non-identifiable expenditure).[20] After including loans to public corporations and local authorities, this leaves an overall borrowing requirement of £466 million or £398 million.

My estimates, even with higher figures for revenue from income and corporation taxes, and allocating non-identifiable expenditure alternatively by population and GDP shares, still showed an overall central government deficit of £217-179m respectively and a borrowing requirement of £412-374 million. For comparison Scotland's population share of the UK borrowing requirement in that year would only have been £125 million.

The SNP figures were substantially higher than those of the Treasury or myself for income tax, corporation tax and taxes on expenditure, giving a total for revenue £115 million higher than the Treasury and £55 million above my estimate. On the expenditure side, all of the items were lower, particularly defence and interest on the National Debt, giving a total £174 million lower than the Treasury. But it is not possible to discover how these figures were derived or to probe the assumptions on which they were based.

1971/72 was of interest because it was a year in which the United Kingdom's fiscal balance was strong, with a surplus on current account and an overall central government borrowing requirement of only £515 million. The unpublished estimates showed unsurprisingly that Scotland's position would also have been stronger than in 1967/68 with the current account virtually in balance, but still with a substantial borrowing requirement on capital account making up a disproportionate part of the United Kingdom total.

While these estimates necessarily have their deficiencies, the general conclusion, unless one accepts the SNP figures, must be that Scotland was proportionately more heavily in deficit than the United Kingdom as a whole; and if it had been required to live within its own means the borrowing requirement would have been too high to be sustainable. This was primarily because identifiable public expenditure per head was substantially above the UK average; and no plausible assumptions for the attribution of the 23 per cent non-identifiable expenditure brought the combined total close to the UK level. But in these years revenue per head below the UK average also contributed to the deficit.

IV. THE BARNETT YEARS SINCE 1979

The Needs Assessment Study

The purpose of this study, which was led by the Treasury but with Scottish Office participation, was to prepare for the scheme of devolution as set out in the Scotland Act of 1978. It was recognised that there were a

[18]McCrone, G. (1969), *Scotland's Future*, op. cit. p. 20.
[19]A fuller explanation of the differences is given in my article for *The Scotsman*, op. cit.
[20]If my argument on income tax revenue is accepted this ratio is also, of course, too low

range of factors that justified higher expenditure per head in Scotland than in England: the poor health record, especially in the west of Scotland; the relatively large school population and greater numbers of school leavers going on to further education; the high proportion of social housing; and geographical sparsity of population, which raised the cost of providing most services in rural areas. The study therefore attempted to provide an analysis on which rational decisions about the appropriate level of expenditure could be based.

There are, of course, difficulties in this kind of assessment. To assess need is no straightforward task, leaving much room for judgement. Inevitably there will be differences of view and the final result will subjective. Some commentators argue that it is too unsatisfactory to be worth doing. But, if that view is taken, there is no other rational basis on which differences in levels of public expenditure between the countries and regions of the UK may be justified.[21] In the event only in health was there a significant difference between the Scottish Office and other Departments on the group. One must therefore conclude that, imperfect though it may be, the results were probably as good as could be achieved.

The conclusion was that for 1976/77 expenditure per head in Scotland 16 per cent above the English level on services then proposed for devolution could be justified, but this compared with an actual figure for that year of 22 per cent. The breakdown of expenditure is given in TABLE 5, which shows that in all the main categories, except law and order, Scottish expenditure per head exceeded that in England. The actual exceeded the assessed level in health, education and environment but was below the assessed level in roads and transport and was approximately the same in housing.

The Barnett Formula

The Needs Assessment Study was not acted upon, but a new formula, which came to be known as the Barnett formula, after the then Chief Secretary to the Treasury, was devised as a means of allocating to Scotland and Wales an appropriate share of any *change* in public expenditure. It was intended that this arrangement would be temporary, until a more sophisticated method incorporating assessed needs could be devised. Its purpose was to avoid having to negotiate expenditure item by item with the Treasury by substituting an automatic means of allocating additional resources. It would also give the proposed Assemblies freedom to decide spending in accordance with their own priorities. Following the change of Government in 1979, the 1978 Scotland Act was repealed, but the formula was seen to have advantages of simplicity and flexibility and therefore came to be applied to the main block of the Secretary of State's expenditure. It has never applied to spending on agriculture, which, although a Scottish Office responsibility, is dependant mainly on decisions taken on the Common Agricultural Policy, and only after some years was it extended to include spending on industry. Nor does it apply, of course, to other items of identifiable expenditure, such as social security, for which the Secretary of State is not responsible.

In contrast with what seems to be popular belief, no attempt was made to base the Barnett formula on need, despite the findings of the Needs Assessment Study. It was intended solely as a means of allocating *marginal* changes in expenditure in accordance with population. When the formula was introduced, therefore, the Scottish block was to get 10/85 (or 11.79 per cent) and the Welsh block 5/85 of the change (whether an increase or a decrease) in comparable English expenditure. For programmes where England and Wales were taken together, the Scottish fraction was 10/90.

Revisions to the Formula

There have been several adjustments to the formula since its original introduction. Even at the start, 10/85 or 11.79 per cent was slightly out of date as a population ratio. Revised figures for Scotland's population in 1979 showed it to have fallen to 11.1 per cent of England's, and by 1992, with the population ratio still falling, the gap had widened further. This led to the 'Portillo recalibration', named after the then Chief Secretary, which reduced Scotland's share from 11.79 to 10.66 per cent of any change in England's expenditure on comparable items. More recently, as Scotland's share of total UK population continues to decline, the White Paper on Scotland's Parliament has made it clear that the formula will be updated regularly to reflect the actual population ratio; and in response to pressure from English MPs, Mr Alastair

[21]Midwinter, A. (1998) *Government Expenditure and Revenue in Scotland: Accounting for the Fiscal Deficit in 1996-97*, Fraser of Allander Quarterly Economic Commentary Vol, 24. No 1.

Darling as Chief Secretary gave a commitment that it would be revised annually.[22]

How does one square such a formula with repeated claims by Ministers that Scotland gets a share of public expenditure appropriate to her needs? Although the 1979 Needs Assessment Study was put on one side, it probably did give both Ministers and officials the clear impression at the end of the 1970s that Scotland was relatively well provided for; and that, if the Barnett formula produced some convergence, one could allow that process to go some way before worrying that needs were inadequately covered. Indeed the distribution of public expenditure throughout the United Kingdom, it was probably thought, would be easier to defend if some convergence took place.

It is nevertheless a matter of arithmetic, as Professor Neil Kay has pointed out, that if the formula is applied strictly, so that Scotland gets the same increases *per head* as England, as is the intention from now on, this will amount to a smaller *percentage* increase in Scotland's baseline expenditure than that of England, simply because the baseline is higher.[23] This would mean that if, say, England gets, say, a 3 per cent uplift to cover inflation, the consequent Scottish uplift, being less than 3 per cent, would be below the rate of inflation and therefore a cut in real terms. This he has termed the 'Barnett squeeze'.

The Formula in Practice 1979-97

The Barnett formula has now been in operation for nearly 20 years. One might therefore have expected it to have had this effect by now and to have produced some convergence in Scottish and English expenditure per head. But Table 6 shows that for identifiable public expenditure convergence has only occurred to a very modest degree. Identifiable expenditure per head as a percentage of the United Kingdom average was 119 in 1996/97 compared with 124 in 1987/88; it fell to a low point of 114 in 1991/92, but has risen again since then, though falling very slightly in the last year. This is equivalent to £777 per head or an aggregate of just over £4 billion, in 1996/97 (Table 7). Table 8 shows that Scottish spending is above UK levels per head for all major services. The difference is very small in law and order and in culture, media and sport. It is largest, not surprisingly in agriculture, fisheries, food and forestry and in housing (because of the large public sector housing stock); but in the two biggest programmes, health and education, it is 19 per cent and 26 per cent above UK levels respectively.

This situation clearly calls for some explanation if, under the Barnett formula, Scotland has, at least for that part of public expenditure that comprises the block, been supposedly getting only its population share of any UK increases in expenditure. The gap is still substantially greater than what was shown to be justified for services proposed for devolution at the time of the Needs Assessment Study.

The block, of course, only accounts for 56 per cent of identifiable public expenditure in Scotland and it is to it that the formula applies. It would be possible for the formula to be bringing about convergence in block expenditure but be offset by increased spending on non-block items. Unfortunately it is not easy to compare the block with appropriate English or UK figures, because they are not published. But by subtracting from identifiable expenditure social security and agriculture, fisheries, food and forestry, which are the main services outside the block, one can get an approximation.[24] Spending on the remaining services was 30 per cent above English levels in 1996/96 and 24 per cent above the UK, an even larger gap than for identifiable expenditure as a whole, because although spending on agriculture in Scotland is 85 per cent above the UK level, that on social security, by far the largest non-block service, is only 9 per cent above (see Table 8). Although high, this is a considerable reduction compared with 1986/87, when it was 41 per cent above England and 32 per cent above the UK.[25] It seems fair therefore to conclude that the formula did indeed bring about some convergence in block expenditure but that this has been masked by an opposite movement in

[22]Cm. 3658, op. cit. p. 22. Mr Darling's commitment, which was to take effect from 1999, was made to the House of Commons Treasury Select Committee and reported in *The Scotsman* of 15th December 1997.

[23]Kay, N. (1998) *The Scottish Parliament and the Barnett Formula,* Fraser of Allander Quarterly Economic Commentary, Vol. 24. No. 1.

[24]HM Treasury (1998), *Public Expenditure: Statistical Analyses 1998-99,* Cm 3901: HMSO, supplemented by Scottish Office (annual), *Government Expenditure and Revenue in Scotland,* SOEID: Glasgow.

[25]Figures are taken from HM Treasury (annual), *Public Expenditure Analyses,* Cmnd 9428, Cm 1920 and Cm 9301, London: HMSO.

non-block identifiable expenditure, in particular social security. Social security spending is of course applied on a uniform basis throughout the UK and variations between the constituent countries simply depend on the incidence of unemployment, pensioners and poverty at a particular time.

Nevertheless one would perhaps have expected the Barnett formula to have produced more marked convergence with effects that were quite evident by now in identifiable expenditure as a whole. There are some possible explanations:

- The Barnett formula, as explained above, was above the true population share when it was introduced in 1979 and became progressively more so until the 1992 Portillo recalibration; thereafter it got out of date again and only in the White Paper has it been proposed to adjust it to the population ratio regularly.

- The last twenty years, with a few exceptions, have been years of tight public expenditure restraint and fairly low inflation; clearly that gives the formula, which applies only to changes, little to bite on.

- Until 1985, the formula applied to *real* increases only, the Treasury otherwise rolling forward the figures from one year to another with an inbuilt allowance for inflation.

- And finally, the formula has occasionally been bypassed either because a pay award, for example in the health service, has been funded centrally, or because Secretaries of State have been successful in advocating exceptional treatment.[26]

Whatever the reasons, the outlook for devolution is hardly reassuring. With a Barnett formula recalibrated regularly for changes in population, it is likely to bite much harder in the future; and with a Scottish administration that may sooner or later be of a different political complexion from the Government at Westminster, the environment may be less favourable to the pleading of exceptional factors than it has been in the past. Moreover, whereas past negotiations took place in confidence between Ministers in the same government, in future they are likely to be conducted much more publicly. Already public opinion in England is more aware than it has been hitherto that Scotland appears to get a favourable deal, and demands are likely to become increasingly insistent for the level of spending either to be justified or brought down to average UK levels.

Yet from the Scottish point of view even the strict application of the formula resulting in a 'Barnett squeeze', let alone any more drastic revision, is hardly a propitious basis on which to launch a major constitutional reform; and the taxation power available to the Scottish Parliament is so modest that, even if used to offset this squeeze, it could easily be exhausted in a couple of years.

Scotland's Fiscal Balance

Faced with this situation there are those that argue, and not only the SNP or in the context of full independence, that the best solution would be to give the Scottish Parliament much greater fiscal autonomy so that it funded its expenditure from Scottish tax revenue. This would certainly remove what could become a major area of dispute between Holyrood and Westminster. While superficially attractive, however, this approach does not offer a solution. Indeed a move to self-financing would be likely to precipitate a more abrupt crisis than a gradual squeeze towards convergence produced by the strict application of the Barnett formula.

The figures for Table 9 are largely taken from *Government Expenditure and Revenue in Scotland (GERS)*.[27] They are the only official estimates, but figures have also been published by the SNP.[28] Both sets of figures have been subjected to widespread criticism.

As in the earlier estimates of Scotland's fiscal balance the figures are of varying quality and many are estimates. This is true particularly for revenue. On the expenditure side, those for identifiable expenditure are robust; but, as

[26]Heald, D. (1994), *Territorial Public Expenditure in the United Kingdom,* Public Administration, 72, pp. 147-175 *and* Bell, D. , S. Dow, D. King and N. Massie (1996), *Financing Devolution,* Hume Papers, Vol 4, No. 2, p. 25ff.

[27]Scottish Office (annual), *Government Expenditure and Revenue in Scotland,* Glasgow: Economic Advice and Statistics Division.

[28] SNP (1996), *Scotland Pays Her Way,* Edinburgh. Rather surprisingly, although this publication also gives figures for 1996/97 it appeared 2 years before the official Scottish Office figures and before the publication of the Treasury's figures on identifiable expenditure for that year.

before, non-identifiable and much of 'other expenditure' can only be allocated by making assumptions about an appropriate share of what is inherently an indivisible service. The assumptions used in *GERS* apply Scotland's population share to defence and foreign representation and the non-oil GDP share (which now differs very little from the population share) to interest on the national debt. Some commentators have tried to focus instead on where the expenditure actually takes place. This is an important but different question, since what Scotland would have to pay for are services carried out on her behalf, wherever that might be. As it turns out, at least as regards defence, analysis in *GERS* shows that it does not make very much difference.[29]

The Table shows that Scotland's revenue, excluding oil revenues, is approximately equal to its 8.7 per cent share of the UK population. Expenditure, on the other hand, is 10.1 per cent of the UK total, principally because identifiable expenditure at 10.4 is well above the population share. The result, before including revenue from the Continental Shelf, is a substantial deficit of £7.1 billion.
The picture is incomplete, however, without a share of oil and gas revenues, since these are part of UK public sector income, and so much of the oil is in fields off the Scottish coast. In the past the SNP have based their estimates on a 90 per cent share of the revenue accruing to Scotland. Division of the North Sea is, of course a complex matter and negotiations could turn out to be disputatious and lengthy. The Government in *GERS* is more cautious and shows the effect of including oil and gas revenues on various assumptions varying between 0 and 100 per cent.

Since the publication of *GERS* detailed research by Professor Alex Kemp of Aberdeen University, in which he applies the international rules for division of offshore waters and has analysed the financial circumstances of fields in the North Sea, has enabled this problem to be tackled with much greater confidence and authority.[30] Kemp finds that the Scottish share depends not only on how the dividing line is drawn between England and Scotland, but also on the price of oil. Since much of the northern North Sea is very deep and the fields there are more costly to develop, when the oil price falls the profit and therefore the tax revenue from these fields falls more than for those that are in shallower water to the south. In the past, when the oil price was high and revenues were very large, as they were in the early 1980s, the Scottish share of tax revenue was also very high, over 90 per cent, and probably yielding in excess of £10 billion a year in the peak years of 1984/85 and 1985/86. At that time on any reasonable assumptions Scotland was making a sizeable net contribution to the UK exchequer. But with the much lower price now prevailing, not only are UK revenues much less than in the early 1980s, despite similar levels of production, but the Scottish share is also less. For 1996/97 the share was 80.25 per cent and with an oil price that has fallen further since then, it will be even lower in subsequent years.

The appropriate Scottish share of revenue from oil and gas is therefore £2.9 billion for 1996/97, and its inclusion in Scotland's fiscal balance sheet leaves an overall borrowing requirement of £3.8 billion. To express this as a proportion of Scottish GDP, however, it is also necessary to add to the normal Scottish figure a similar share of the GDP arising from the Continental Shelf. This increases Scotland's GDP by about 20 per cent, or £11.0 billion, to £65.4 billion, against which the borrowing requirement amounts to 5.8 per cent. In 1996/97 the UK's borrowing requirement was 3.0 per cent of GDP and it has fallen since then to only 0.1 per cent in 1997/98. Under the rules established by the Maastricht Treaty for Economic and Monetary Union, 3 per cent is the maximum permitted deficit for members, unless there are exceptional circumstances. It is clear therefore that, if Scotland had to live within its own resources, a deficit of 5.8 per cent, especially at a relatively favourable point of the economic cycle, would be unsustainable. To reduce it to 3 per cent, tax increases, public expenditure cuts or a combination of the two would be required, amounting to at least £1.8 billion.

Before leaving this subject it is necessary to refer to some of the criticisms that have been made of the *GERS* figures. The most detailed critique is that by Cuthbert and Cuthbert.[31] They make a lot of points but their most

[29]see *GERS 1994-95*, pp. 18-20.
[30]Kemp, A. and L. Stephen (1999), *Expenditures In and Revenues From the UKCS: Estimating the Hypothetical Scottish Shares 1970-2000,* North Sea Oil Occasional Paper No. 70, University of Aberdeen: Department of Economics. The information in this publication was supplemented by a conversation with Professor Kemp.

[31]Cuthbert, J. and M. Cuthbert (1998), *A Critique of GERS,* Fraser of Allander Quarterly Economic Commentary, Vol. 24, No. 1.

important criticisms concern the estimates of income tax revenue and the net contribution to the budget of the European Union. As Table 9 shows, income tax revenue in Scotland is estimated at £5.5 billion, 8.0 per cent of the UK total. This is based on a sample survey and is perhaps suspiciously low, given that Scotland has 8.7 per cent of the UK population and a GDP per head only marginally below the UK average in 1996. But, even if Scotland had its full GDP share of the UK revenue from income tax, the difference compared with Table 9 would only be £440 million. Cuthbert and Cuthbert argue that the official figure understates the revenue by £270 million. The Scottish Office, however, believe their estimate, which is obtained from the Inland Revenue, to be robust and that the lower figure is accounted for by the distribution of income in Scotland, which differs considerably from the UK with significantly less taxpayers in the higher income bands.

On the contribution to the European Union the Cuthberts appear to have a valid point, but if one accepts it, one opens a can of worms. Under non-identifiable expenditure a figure is included for Scotland's share of the UK's net contribution based, according to the Cuthberts, on Scotland's share of non-oil GDP; they put this at £120 million. They argue that, because Scotland receives a high share of the total payments made to the UK both from the Common Agricultural Policy and the Structural Funds, Scotland's net contribution should be much less than the GDP share. But this would, of course, have repercussions. The United Kingdom receives, under the terms of the Fontainebleau agreement, a substantial rebate from the EU amounting to around £2 billion a year (2.9 billion ECU in 1996)[32]. This has the effect of reducing the UK's net contribution from about 0.5 to about 0.2 per cent of GNP. But the future of this rebate is in doubt because the EU budget is subject to renegotiation in 1999 and several other countries now have net contributions equal to or even exceeding, as a percentage of GNP, what the UK would pay without the rebate. If Scotland were a member of the EU in its own right, and particularly if it had a net contribution to the EU budget well below 0.5 per cent, the chances of it negotiating for itself a continuation of the Fontainebleau rebate must be considered negligible.

Scotland, Wales, Northern Ireland and the Regions of England Compared

This paper has been concerned mainly with the position of Scotland in relation to the UK as a whole. But levels of expenditure and the fiscal balance can both be seen in a better context if they are compared with the other countries and regions. Unfortunately the information available for the English regions is less comprehensive, but there is enough to give a general picture.

Table 10 shows identifiable public expenditure for the four countries and the English regions. The figures are not fully comparable because the Treasury is unable to allocate 11.2 per cent of the expenditure to the English regions that is allocated to the countries. The largest components of this 11.2 per cent are: social security; trade industry, energy, employment and training; and law, order and protective services. If this amount were distributed, it could increase the variation between the regional figures, though it is unlikely that the difference would be substantial.

Among the English regions, London has by far the highest expenditure per head, 125 per cent of the English all region average. The North is next at 113 and the North West, 106. All the other regions have below average expenditure, the South East and Eastern Region being particularly low at less than 90 per cent; the South East figure, however reflects a high level of capital receipts which reduce its requirement for funding.[33] Among the countries, Northern Ireland unsurprisingly has the highest expenditure per head, followed by Scotland and then Wales. If one ignores the problem of the unallocated portion, Scotland's public expenditure seems to be above the English average by much the same amount as London's. Wales's position is slightly ahead of the Northern Region.

However, a ranking by fiscal balance to show transfers is substantially different, since contributions to revenue will also vary between the countries and regions. If the accuracy of the figures for Scotland in *GERS* has attracted criticism, the information on the English regions is of course much less satisfactory. Nevertheless there are two studies which attempt this inter-country and

[32]HM Treasury (1998), *Chancellor of the Exchequer's Departments: Public Expenditure*, Cm 3917, London: HMSO pp. 128-138 and CEC (1998), *Financing the European Union: Commission Report on the Operation of the Own Resources System*, COM(1998)560 final, Brussels.

[33]HM Treasury (1998), *Public Expenditure: Statistical Analyses*, Cm 3901, p. 94.

inter-regional comparison.[34] The study by Blake refers to calendar year 1991 and is for current receipts and expenditure only, that by Blow and others is for 1992/93 and excludes Northern Ireland. The results are broadly comparable and those by Blow and others are given in Table 11. They both exclude the Continental Shelf and show that although Scotland has a higher public expenditure per head than Wales, the fiscal deficit is smaller because Scotland's contribution to revenue, which is very close to its population share, is much higher than that of Wales. Correcting for the Great Britain deficit, the result is a deficit for Scotland of about £574 per head, comparable with the figures in *GERS* for the same year. The deficit in Wales is £883 and in the Northern Region £381. From the Blake study we know that Northern Ireland has much the largest deficit, both because expenditure is highest and the contribution to revenue is well below the average. London and the South East are taken together and are the largest surplus region, because although expenditure is equal to the average the contribution to revenue is well above.

V. CONCLUSION

Whatever constitutional arrangement was in prospect for Scotland there would be a budgetary problem. Even were the Secretary of State system to continue, Scotland's higher level of identifiable public spending is now so well known in England that there would be pressure to reduce it, and the strict application of the Barnett formula would have the effect of bringing gradual but painful convergence. Devolution simply makes the problem more explicit: negotiations which were previously done in private between Ministers in the same Government will henceforth be much more public. And if at some time the party in power at Westminster is different from that at Holyrood, the pressure to bring convergence could intensify. Making Scotland self-financing offers no solution; it would merely make the crisis more immediate, because the present level of deficit, even including oil and gas revenues, is too high to be sustainable.

This situation is of long standing. From the time of Goschen until the early 1920s, Scotland was approximately in fiscal balance, contributing much the same proportion in revenue as it received in locally identifiable expenditure and making a contribution to 'imperial services' which broadly matched its population proportion. Despite the absence of a detailed analysis of the early 1980s, Scotland can fairly claim that, during those years when the oil price was high it was a net contributor to the United Kingdom budget; indeed a contributor on a substantial scale, if one assumes a proportion of North Sea oil revenues in line with Professor Kemp's analysis. But for most of the rest of the period there have been net fiscal transfers in Scotland's favour.

The main reason for this is that locally identifiable public expenditure per head in Scotland has been above, and sometimes substantially above, the United Kingdom average since the 1920s. This is in accordance with the principle that within a nation state public expenditure is based on need, not on revenue that is raised in the area concerned; but in the absence of an up to date needs assessment it is impossible to say whether this higher level accurately reflects need. The suspicion must be that it does more than this and in many areas provides a higher level of service. If so, there are several possible reasons: the generosity of the Goschen formula in its latter years; the decisions taken on Scottish regional development in the 1960s; the tendency in the past for the Barnett formula to be out of date as a ratio based on population; and, of course, the powerful advocacy of successive Secretaries of State when presenting Scotland's case. Similar fiscal transfers occur, of course, between the English regions and between the rest of the United Kingdom and Wales and Northern Ireland and there is no means of knowing how accurately they reflect need either. But devolution is going to put all of this into a new perspective, increasing the transparency. And the situation surely cannot last unless it can be justified.

Trying to find flaws in the statistics, as many commentators have done, does not seem to offer a way out. Scotland already contributes its population share of non-oil revenue and, with non-oil GDP slightly below the UK average per head, it is implausible to argue that it should be much higher. The 25 per cent of expenditure that is non-identifiable could be reduced, but only by adopting unrealistic assumptions. The problem lies with the identifiable expenditure which is 19 per cent above the UK average per head. If someone could find something wrong with these figures, they would be doing a great service, whatever

[3434]L. Blow, J. Hall and S. Smith (1996), *Financing Regional Government in Britain*, Institute of Fiscal Studies, Commentary No 54; and Neil Blake (1995), *The Regional Implications of Macroeconomic Policy*, Oxford Review of Economic Policy, Vol. 11 No. 2.

the constitutional arrangements, but they are the most robust figures in the whole of the fiscal balance sheet.

The key to this problem lies in assessment of need. If expenditure is related to need, that is the only basis on which it can be defended in the longer term; and Scotland's needs, for the reasons outlined, do justify a higher level of expenditure per head than in England. A needs assessment is liable to be contentious and it may bring results that would be unpalatable. Results would therefore only be acceptable if it was carried out not by a UK Government Department but by an independent body of the highest standing. It should cover not just Scotland but the other constituent countries of the UK and the English regions as well. Once the true position is established, a strategy would have to be devised for bringing expenditure into line with justified need at a pace that can be tolerated. The difficulties are considerable. But that is surely better than allowing a situation to continue which is liable to produce raucous discontent between the countries and regions of the UK and may eventually result in pressure to equalise far beyond what a needs assessment might indicate. It is essential to find a system that is fair and flexible, and is seen to be so. Without that the constitutional changes about to take effect will be subject to pressures which may in the end cause them to be undermined.

TABLE 1 PUBLIC REVENUE AND LOCALLY IDENTIFIABLE EXPENDITURE PER HEAD 1889-1952

UK average = 100	England		Scotland		Ireland	
	Rev	Exp	Rev	Exp	Rev	Exp
1889/90	106	95	97	94	65	134
1894/95	105	95	101	105	64	133
1900/01	105	94	100	98	65	145
1905/06	105	96	99	96	62	136
1909/10 -10/11*	105	92	98	105	61	162
1914/15	104	94	97	96	59	145
1920/21	105	97	108	109	49	121
GB average = 100						
1928/29	101	99	93	112		
1931/32	103	98	79	113		
1934/35	103	98	79	114		
1938/39	101	98	90	119		
1944/45	102	99	88	108		
1948/49	101	98	91	116		
1952/53	101	98	93	119		

* These two years are taken together because of the delay in passing the controversial Finance Bill of 1909.

Source: Financial Relations Returns 1889 - 1935
Report of the Committee on Scottish Financial and Trade Statistics (Catto Committee) Cmd 8609, 1952
Campbell, A.D. op. cit. for 1928/29,1938/39, 1944/45 and 1948/49
Revenue and Expenditure (England Scotland and Wales) 1952-53, Cmd 9051

TABLE 2 PUBLIC EXPENDITURE PER HEAD ON SERVICES PROPOSED FOR DEVOLUTION (as a percentage of expenditure in England)

	England	Scotland
1959-60	100	105
1962-63	100	118
1965-66	100	111
1968-69	100	134
1971-72	100	125
1974-75	100	118
1976-77	100	123
1977-78	100	128
1977-78 UK =100	95	121

Note: These figures are at 1975 prices and relate to the six major programmes proposed for devolution in the 1978 Scotland Act but have not been adjusted to separate out those parts of the programmes not to be devolved.

Source: HM Treasury (1979), *Needs Assessment Study.*

TABLE 3 EXPENDITURE PER HEAD BY REGION ON SERVICES POTENTIALLY SUITABLE FOR DEVOLUTION (as a percentage of expenditure in England 1968-69)

North	114
North West	102
Yorks and Humberside	102
West Midlands	94
East Midlands	94
East Anglia	99
South West	97
South East	100
England	100
Wales	119
Scotland	129

Note: These figures relate to services proposed for devolution in the Kilbrandon Report.

Source: Royal Commission on the Constitution 1969-73, Cmnd. 5460. HMSO, p.180.

TABLE 4 SCOTLAND'S FISCAL BALANCE 1967/68 (£ MILLION)

	Revenue			Expenditure	
Current	**Treasury**	**McCrone**	**Current**	**Treasury**	**McCrone**
Income taxes	292	331	Identified Exp	674	638
Corp. tax	88	104	Grants to LAs	170	178
Expenditure taxes	351	350			
Vehicle duty	21	22			
Employment tax	30	39	Defence	222/182	224/203
Nat. Insurance	175	185	External relations	20/16	31/28
Gross trading surp.	15	1	Debt interest	111/91	111/100
Rent & Interest	85	82	Other	4/3	36/33
Misc.	14	17			
Total current exp.	**1,071**	**1,131**	**Total current exp.**	**1201 /1136**	**1218 /1180**
			(Deficit on current	-130/-65	-87/-49)
Capital			**Capital**		
Taxes on capital	37	37	Identified exp	141	149
			Grants to LAs	19	18
			Grants to pub.cor	2	-
			Other at 9.4%	16	
Total capital rev	37	37	Total capital exp	178	167
			Deficit overall	-271/-206	-217/-179
TOTAL	**1,108**	**1,168**	**TOTAL**	**1,108**	**1,168**
			Loans to LAs	195	195
			Borrowing reqt.	466/398	412/374

Source: HM Treasury (1969), *A Scottish Budget.*
McCrone, G. (1969), *Scottish Budget,* The Scotsman, Oct. 30.

TABLE 5 NEEDS ASSESSMENT BY PROGRAMME 1976-77 (on services proposed for devolution) per head - England = 100

	Scotland (actual)	Scotland (assessed)
Health and social services	119	107
Education and libraries	116	107
Housing	129	130
Other environmental	141	133
Roads and transport	121	144
Law, order etc (exc. police)	93	108
TOTAL	**122**	**116**

Notes: The scheme for devolution in the 1978 Scotland Act did not include agriculture, much of trade and industry, social security, railways or police.

Source: HM Treasury (1979), *Needs Assessment Study.*

TABLE 6 SCOTTISH IDENTIFIABLE PUBLIC EXPENDITURE PER HEAD*

	UK =100	England = 100
1986/87	122	128
1987/88	124	130
1888/89	123	130
1989/90	119	124
1990/91	118	123
1991/92	114	118
1992/93	118	123
1993/94	119	124
1994/95	120	125
1995/96	120	125
1996/97	119	124

* Because of differences in definition figures for the first three years are not exactly comparable with other years and may be 1 or 2 per cent too high.

Source: *GERS*

TABLE 7 IDENTIFIABLE PUBLIC EXPENDITURE (£ per head)

	Actual	pop share	difference
1986/87	2,446	2,008	442
1989/90	2,939	2,477	462
1990/91	3,202	2,717	485
1991/92	3,502	3,072	430
1992/93	3,935	3,357	578
1993/94	4,213	3,568	645
1994/95	4,461	3,758	705
1995/96	4,614	3,889	725
1996/97	4,826	4,049	777

Source: *GERS*

TABLE 8 SCOTTISH IDENTIFIABLE PUBLIC EXPENDITURE PER HEAD BY PROGRAMME 1996/97

	£ million	UK = 100
Agriculture, fisheries, food, forestry	751	185
Trade, industry, energy, employment, training	869	139
Transport	1,022	127
Housing	575	162
Other environmental services	1,249	144
Law, order and protective services	1,450	101
Education	4,026	126
Culture, media, sport	267	103
Health and personal social services	5,225	119
Social security	9,142	109
Miscellaneous	172	
TOTAL	24,748	119

Source: *GERS*

TABLE 9 SCOTLAND'S FISCAL POSITION 1996/97

	EXPENDITURE			REVENUE	
	£bn	% UK		£bn	% UK
Identifiable	24.7	10.4	Income tax	5.5	8.0
Scottish Office	*14.9*				
Social Security	*9.1*		Nat. Insurance cont.	4.2	9.0
Non-identifiable	3.1	8.7	VAT	4.0	8.6
Defence	*1.9*	*8.7*			
Other expenditure	4.0	9.7	Local authority taxes	2.2	9.0
*Debt Interest**	*2.5*	*9.2*	All other revenue	8.7	9.1
Total	31.8	10.1	Total *(Deficit exc. oil & gas)*	24.7 *(7.1)*	8.7
Privatisation	-0.4	8.6	Oil & gas revenue Borrowing requirement (as % of GDP)	2.9 3.8 (5.8)	80.25
TOTAL EXPENDITURE	31.4	10.1	**TOTAL REVENUE**	31.4	10.1

* Debt interest includes apportioned interest on the National Debt at 8.6% of UK and the actual local authority debt interest at 33.1% of UK

Source: Government Expenditure and Revenue in Scotland 1996-1997
Kemp. A and L. Stephen, *Expenditures and Revenues for the UKCS.*

TABLE 10 IDENTIFIABLE PUBLIC EXPENDITURE PER HEAD BY REGION AND COUNTRY 1995/96

	£ per head	England = 100	UK=100
North East	3,814	113	
North West	3,578	106	
Yorks and Humberside	3,322	99	
East Midlands	3,101	92	
West Midlands	3,278	97	
South West	3,144	93	
Eastern	2,999	89	
London	4,228	125	
South East	2,975	88	
Total English Regions	3,374	100	
Unallocated	381		
England	3,754	100	96
Scotland	4,682	125	120
Wales	4,452	119	114
Northern Ireland	5,211	139	133

Source: HM Treasury (1998), *Public Expenditure: Statistical Analyses,* Cm 3901.

TABLE 11 FISCAL BALANCE PER HEAD BY REGION AND COUNTRY 1992-93

	Balance £	Balance £, GB=0
North	-810	-381
North West	-890	-461
Yorks and Humber	-496	-67
East Midlands	-112	+317
West Midlands	-826	-397
East Anglia	-47	+382
South West	-270	+159
London and South East	92	+521
Wales	-1,312	-883
Scotland	-1,003	-574
Great Britain	-429	0

Note: These figures exclude revenue from the Continental Shelf

Source: Blow, L, J. Hall and S. Smith (1996), *Financing Regional Government in Britain,* Institute of Fiscal Studies Commentary No. 54.