

Press Release 3rd July 2008

CPPR 2010 project

**FULL ANALYSIS OF GOVERNMENT EXPENDITURE AND
REVENUES IN SCOTLAND (GERS) 2006-07 PUBLICATION**

At the time of publication of last weeks GERS report, CPPR was only able to offer a brief response on the main findings. We have now had time to analyse the document in full and this briefing is available from the CPPR website at www.cppr.ac.uk.

Rather than repeat the Executive Summary points from last week, this release highlights below some of the main issues that have arisen as a result of the full analysis of the new publication.

MAIN POINTS

1. The first fundamental review of GERS since it achieved National Statistics status in 2005 has resulted in a number of methodology changes but none of these have radically altered the results of the analysis of Scotland's fiscal balance. Scotland still has a substantial non-oil deficit (around £10bn) and a balance including North Sea revenues that varies significantly in line with these extra revenues.
2. In the latest year (2004-05) for which there is data from both this edition of GERS and the previous edition, there has been a £2.2bn reduction in the non-oil deficit (moving from -£11.2bn to -£9bn). £1.3bn of this revision came from the review of methodology and £0.9bn from data revisions that would have occurred in the normal course of updating GERS.
3. The introduction of a current fiscal balance, now shown along side the total fiscal balance, is a welcome addition but should not divert attention from the principle sign of healthy public finances. In the end, funding needs to be found for both current and capital expenditure. It is not credible to sustain a significant long-term total fiscal deficit, hence the use by the EU and most individual countries of the total fiscal balance as the indicator of choice in this field.
4. Updated information on North Sea revenues, and Scotland's hypothetical share of these, is also very welcome. The new analysis by Kemp and Stephen gives an interesting insight into past and possible future production and revenue shares and levels. Their analysis illustrates the likely difficulty of Scotland's building up any 'Oil Fund' similar to Norway's, unless (i) prices remain very high (much higher than in the Kemp and Stephens 'high price' scenario), or (ii) the non-oil deficit is narrowed allowing for more North Sea revenues to be saved rather than used to balance the books.

5. The information contained in GERS gives a good grounding for discussion of Scottish public finances matters leading up to the proposed 2010 referendum. It highlights the large gap in funding, excluding potential North Sea revenues, under existing tax and spend policies affecting Scotland. It also highlights the pivotal role of North Sea revenues in how to close this gap and/or how to potentially invest some of these funds for future years.

FURTHER WORK

The latest edition of GERS highlights that there are still some areas of uncertainty where greater effort by government statisticians and economists is needed in order to confirm the findings and/or explain why they might be as they are. These include:

- further clarification of Scotland's low share of UK income tax revenues
- further work on Scotland's share of North sea revenues based on differing circumstances
- Scotland's share of UK corporation tax revenues
- Scotland's share of VAT revenues

A whole separate issue, for anyone advocating independence or Full Fiscal Autonomy, is clarification over how to run Scottish public finances under these circumstances. In particular, further clarification is required on how to most prudently use variable North Sea resources and what level of debt Scotland could, or should, sustain.

TOWARDS 2010 - THE BIGGER PICTURE

CPPR will continue to provide commentary on publications and other issues that are important to informing the debate around the intended 2010 referendum. Later this month we will be publishing a Briefing Note on North Sea Oil and Gas issues.

Report authors comments

John McLaren, co-author of the report, said "*The advances made in this new edition of GERS are to be welcomed and should provoke vigorous debate prior to the next edition which may well be the last one prior to a referendum on independence or greater fiscal powers.*"

Co-author Jo Armstrong highlighted that "*The update of work on Scotland's potential share of North Sea revenues is timely and is an excellent starting point for further analysis of this crucial area in the 2010 debate.*"

Director of CPPR Richard Harris commented that "*CPPR is determined to make every effort to open up the debate on Scotland's economic and public finances options under full independence or full fiscal autonomy prior to any referendum.*"

To this end we will continue to publish relevant papers to enhance informed commentary and welcome any feedback on these publications .’

The full report is attached and will be available on the CPPR website very shortly (see <http://www.cppr.ac.uk/centres/cppr/project2010/>).

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