Scottish Independence – Future Spending Choices

As set out in the Scottish Government report *Outlook for Scotland's Public Finances and the Opportunities of Independence* , the public finances figures that Scotland is projected to inherit upon independence will broadly match the UK's in 2016-17, with public sector debt falling as a share of GDP as summarised in the table below[1].

Public Finance Summary: Scotland and UK 2016-17

	Scotland (Per Capita Share)	Scotland (Historic Share)	Scotland (Zero Share)	UK
Current Budget Balance				
£ Billions	-£1.6	-£0.8	+£4.0	-£17 to -£40
% GDP	-0.9%	-0.5%	+2.5%	-2.2% to -0.9%
Net Fiscal Balance				
£ Billions	-£4.7	-£3.9	+£1.0	-£45 to -£68
% GDP	-2.8%	-2.4%	+0.6%	-3.7% to -2.4%
Public Sector Net Debt				
£ Billions	£120	£109	£0	£1,497 to £1,522
% GDP	74%	64%	0%	80% to 78%

Analysis assigns Scotland an illustrative geographical share of North Sea tax receipts and GDP. Estimates of North Sea revenues are taken from Scottish Government Oil and Gas Analytical Bulletin. Scotland's historic share of UK public sector debt is calculated with reference to Scotland's historic contribution to the UK public sector finances since 1980-81. The proportion of UK public sector debt which is assigned to Scotland affects the country's annual fiscal position via the associated expenditure on debt interest payments.

Public Spending Post 2016-17

A key economic advantage of independence is that future Scottish governments would have the opportunity to match their spending and tax policies to the preferences and priorities of the people of Scotland. This means they could, within an overall commitment to fiscal responsibility, provide a credible and sustainable alternative to the current UK Government's fiscal strategy.

As an illustration of the impact that different spending choices would have, the chart overleaf demonstrates how Scotland's net fiscal balance could evolve in future years under different illustrative assumptions about the level of nominal growth in non-debt interest current spending in 2017-18 and 2018-19.[2]

The current Scottish Government's preference is for growth of around 3% in 2017-18 and 2018-19. This contrasts with the current UK Government's preference for growth closer to 1% (i.e. a real terms cut). The Scottish Government's approach would still be sustainable as it would ensure that public sector debt continued to fall as a share of GDP. It would also be consistent with any reasonable requirements of a Sterling Area monetary union and would demonstrate the government's commitment to supporting growth over the long term.

[1] The range provided for the UK public finances takes as its lower bound the estimates published by the Office for Budget Responsibility in their March 2014 Economic and Fiscal Outlook. The upper bound is based on an illustrative estimate of the public finance plans set out by the Official Opposition based on analysis originally published by HM Treasury. Further information on this calculation is provided in Box 3.3 of the *Outlook for Scotland's Public Finances* paper

[2] The projections are based on the assumption that Scotland continues to meet the cost of a historic share of UK debt interest payments. They should be seen as illustrative rather than an exhaustive list of the potential spending choices that will be available for future Scottish administrations. See pages 26 to 31 of the *Outlook for Scotland's Public Finances* paper for a further discussion.

As an illustration, such investment could allow a future Scottish Government to

- Support infrastructure investment - every £100 million in capital investment is estimated to support 1,400 jobs across Scotland. It would also provide the infrastructure to underpin future growth in Scotland thus benefiting the economy (and the public finances) over the longer term.

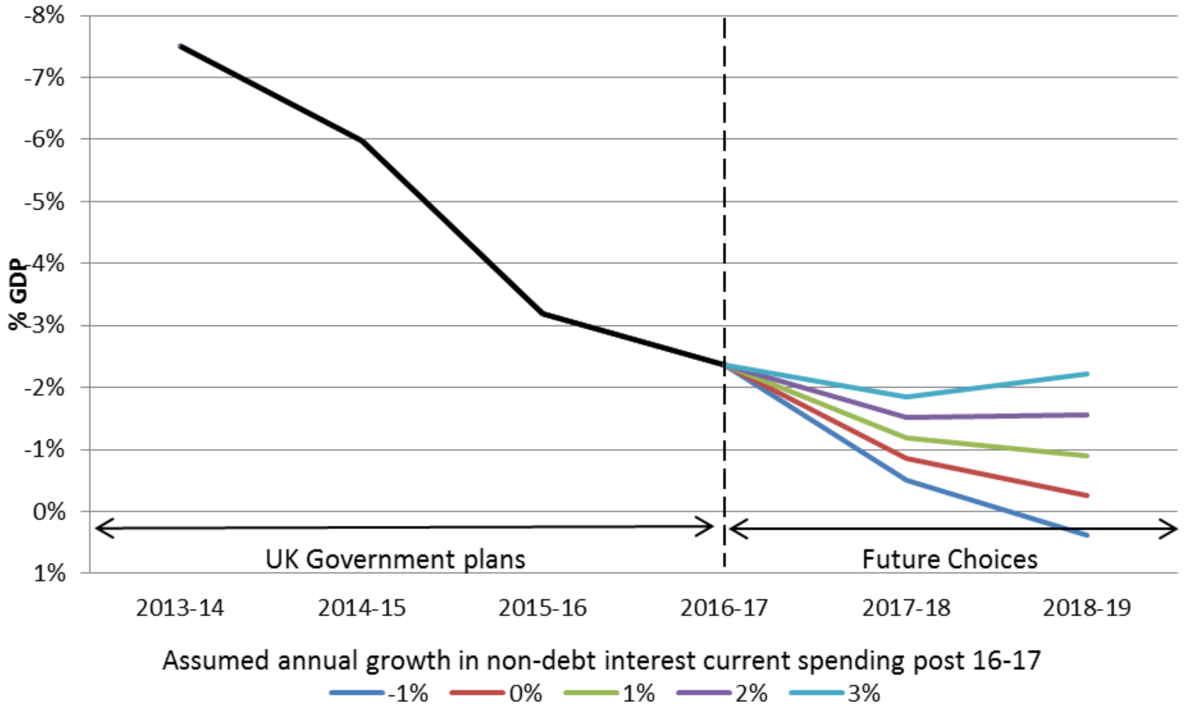
- Support the delivery of a transformational expansion of childcare, helping to increase labour market participation. This would have positive impacts for the Scottish economy and tax revenues in the long run. For example, if Scottish female labour market activity rates increased to Swedish levels, it is estimated that this could increase output by 1.7% (£2.2 billion) and tax revenues by 1.5% (£700 million) per annum.

- Prioritise resources to support the most vulnerable in society. Due, in part, to the UK Government's welfare changes the number of people in Scotland living in relative poverty has increased by 110,000 over the past year, including an additional 30,000 children and 10,000 pensioners.

- Alongside providing additional resources to invest in public services measures could also be taken to boost competitiveness by using the tax system, such as a carefully targeted reduction in corporation tax and/or reliefs and allowances to support businesses. Over the long-term, a three percentage point reduction in corporation tax is estimated to boost employment by 27,000 jobs, and increase output and investment in the economy.

Such a list is not exhaustive and a number of positive and constructive alternative priorities are possible. It does however illustrate what the benefits of independence could look like in terms of prioritising investment in improving the economic outcomes for the people of Scotland[3].

Scotland – Net Fiscal Balance (2013-14 to 2018-19)



Source: Scottish Government analysis

[3] The Scottish Government report - *Building Security and Creating Opportunity: Economic Policy Choices in an Independent Scotland* sets out the range of levers that would be available to future Scottish governments under independence, and how they could be used to build a fairer and more resilient economy. http://www.scotland.gov.uk/Publications/2013/11/2439/downloads