

## Size of Scotland's banking sector

### UK Government Analysis overstates the size of Scotland's banking sector

- UK Government analysis, published in May 2013<sup>1</sup>, estimated the size of UK and Scottish banking sector. The clear, but implicit, conclusion was that the banking sector poses a substantial risk to an independent Scotland:

	Value of Assets (£)	Value of Assets (% of GDP)
Scottish Banking Assets	£1.89 trillion	1,254%
UK Banking Assets	£ 7.45 trillion	492% (of total UK GDP)

- These issues are complex. It is clear however, that such figures are backward looking and rely upon a number of challengeable assumptions.
- To obtain a figure close to £1.89 trillion, a large proportion of the assets 'allocated' to Scotland inflate any reasonable assessment of the size of the banking sector of an independent Scotland.

### The calculations for Scotland depend critically on what is allocated as 'Scottish financial services'.

- For example, published accounts show that the RBS 'markets division' (including its London-based investment banking arm) accounted for more than half of the total near £1.3 trillion RBS Group assets in 2012.
- Inclusion of a substantial amount of such activities – despite their location and soon to be 'ring-fenced' nature – is clearly pivotal in obtaining a total figure in excess of 1,000% for Scotland.
- Interpretation of other elements of the banking sector are also important. For example, following the merger of Bank of Scotland and Halifax in 2001, all Halifax assets became part of a single consolidated balance sheet for Bank of Scotland Plc – as part of the HBOS Group Reorganisation Act. This is despite key headquarter functions remaining in Halifax. Moreover, BOS Plc is now part of Lloyds – based in London.

### Measures of the contribution of financial services (including banking) to the economy, such as GVA, reflect the genuine economic footprint of the industry.

- The size of the Scottish financial services sector as a proportion of the onshore Scottish economy is around 8 per cent – similar to the UK – and smaller than the UK at 6.7 per cent when a geographical share of oil and gas output is included.
- In contrast, London accounts for around 50% of UK financial services GVA.
- In addition, in 2010, Scotland accounted for 7.1 per cent of UK financial services GVA, below a per capita share.
- Such issues are perhaps clearly summarised by the fact that in a recent experimental series of tax revenue statistics, HMRC estimated Scotland's share of the Bank Levy (a charge on the balance sheets of banks) to be 7.3 per cent of the UK total<sup>2</sup>. This is in sharp contrast to the near 25 per cent which would be required to be consistent with this earlier analysis by HM Treasury.

**Current regulatory reforms will break the link between key elements of bank balance sheets and taxpayers. For example, in response to the recommendations of the Vickers report, the Banking Reform Bill will separate the more risky element of banks from their traditional retail based functions by 2019.**

<sup>1</sup> Scotland analysis: Financial Services and Banking, UK Government, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/200491/scotland\\_analysis\\_financial\\_services\\_and\\_banking\\_200513.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/200491/scotland_analysis_financial_services_and_banking_200513.pdf)

<sup>2</sup> See Table 14 - <http://www.hmrc.gov.uk/statistics/receipts/disagg-method.pdf>