HM Government

United Kingdom, united future: Conclusions of the Scotland analysis programme

June 2014

ISBN 978-1-4741-0613-9

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United Kingdom, united future: Conclusions of the Scotland analysis programme

Presented to Parliament
by the Chief Secretary to the Treasury
by Command of Her Majesty
June 2014

Cm 8869

This publication is available at www.gov.uk/government/publications

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Print ISBN 9781474106139
Web ISBN 9781474106146

Printed in the UK by The Williams Lea Group on behalf of the Controller of
Her Majesty's Stationery Office

ID SGD004743 06/14

Printed on paper containing 75% recycled fibre content minimum.

Contents

Summary

For three hundred years, Scotland has flourished as part of the United Kingdom. With England, Wales and Northern Ireland, Scotland has played its part in the world's greatest family of nations, and makes an enormous contribution to the political life and economic prosperity of the UK.

The UK is a success story whose achievements demonstrate the immense power of working together. The UK gives Scotland the best of both worlds – the security of a larger state and the distinctiveness of a smaller nation. Scotland has the protection that comes with being part of a major global player, but Scottish people still decide what happens in Scottish hospitals, schools and police stations. Scotland retains its own unique identity that is cherished and admired the world over, while also being part of something bigger.

"Together, we created world class institutions like the NHS and the BBC. When Europe faced its darkest hour, we stood together as a beacon of hope. We pull together in this United Kingdom. When one of us needs help, we are there for each other. When poverty and disaster strikes around the world we are there offering aid... We want Scotland to stay... Together we are a United Kingdom with a united future"

Rt Hon David Cameron MP, Prime Minister, May 2014

The referendum asks people in Scotland to make a crucial decision: whether to remain in the UK, or to become a separate state, permanently.

The UK Government believes that there are many reasons why Scotland should stay in the UK. But it also believes in Scotland's right to make its own choice on 18 September 2014.

The UK Government has set out to provide voters in Scotland with the relevant facts to inform their historic decision. The Scotland analysis programme has examined how Scotland contributes to and benefits from being part of the UK, and how the rest of the UK benefits from its partnership with Scotland.

The work is comprehensive, based on expert legal opinion and robust publicly available data. It has been informed by professionals in their fields – particularly those in Scotland.

This paper sets out the programme's key conclusions, showing that **Scotland is better off as part of the UK, now and in the future:**

- **The best of both worlds.** With a strong Scottish Parliament, Scotland can make its own decisions in devolved areas, while sharing risks and resources with the other parts of the UK. More than 200 UK public institutions serve people in Scotland, underpinned by shared principles and values. If Scotland votes for independence this will come to an end. Scotland will leave the UK and become a new, separate state.
- **The advantages of the pound.** As part of the UK, Scotland has one of the oldest and most stable currencies in the world, supported by the UK's strong political union. It would not be possible to recreate today's arrangements if that political union did not exist. That is why all three of the largest political parties in the UK have ruled out sharing the pound or the Bank of England in a formal currency union.
- **Lower taxes, higher public spending.** A great weight of evidence says that Scotland's finances are stronger as part of the UK. Independent experts agree that the UK offers people in Scotland lower taxes and higher public spending than would be possible in an independent Scotland. HM Treasury estimates that this is worth £1,400 per person per year for each person in Scotland. The government of an independent Scotland would exercise additional responsibilities, but it would also have to choose whether to raise taxes, or cut public services, or both.

Scotland's economy and public spending

- **Stronger finances as part of the UK:** staying in the larger UK economy helps to ensure stable funding for public services in Scotland. Scotland's deficit (shortfall between what it spends and what it raises in tax each year) is higher than the UK as a whole. In 2016/17, the proposed year of independence, experts like the Institute for Fiscal Studies estimate the Scottish deficit will be more than 5 per cent of its economy – more than twice the deficit expected for the whole of the UK in the same year.
- **North Sea oil and gas:** revenues from North Sea oil and gas are subject to sudden change and will ultimately decline. Since 2010, the independent Office for Budget Responsibility has revised down these revenues by £21 billion. But instead of needing to cut spending in response, the Scottish Government has benefited from an additional £2.2 billion, provided by the UK Government.
- **Ageing population:** pensioners make up nearly 20 per cent of Scotland's population, placing pressures on age-related spending and affecting levels of economic growth and tax revenues. Over the next 20 years, an independent Scotland's extra spending on pensioners would rise to around £1.4 billion higher per year.
- **The UK Dividend:** taken together, HM Treasury estimates that the benefit of stronger finances as part of the UK saves each person in Scotland the equivalent of at least £1,400 per year, meaning lower taxes and better public services. Independence would mean leaving the UK's stronger public finances and managing challenges separately, with potential higher taxes and cuts to public services as a result.

Scottish businesses and jobs

- **Borderless trade:** many thousands of Scottish jobs are connected to trade with England, Wales and Northern Ireland. Scottish businesses trade more with the rest of the UK than with the rest of the world combined. Putting an international border between Scotland and the UK would slow growth just as the economy is beginning to take off.
- **A world class financial sector:** Scotland's financial sector is large, with assets totalling more than twelve times the size of an independent Scotland's economy. This would make Scotland more vulnerable to financial shocks without the security and support of the UK's larger economy, strong institutions or credible reputation in financial markets.
- **Lower cost of borrowing:** the UK's reputation contributes to its lower cost of borrowing. HM Treasury estimates that as part of the UK, mortgage interest costs are up to £1,700 lower on the first year of repayments alone for a 75 per cent loan-to-value mortgage on the average Scottish house.
- **Energy bills:** the energy market in Great Britain is ten times larger than Scotland's alone, so costs are spread across 30 million households and businesses. Staying in the UK would keep future energy bills for Scottish households up to £189 a year lower.

Scotland's place in the world

- **Overseas reach:** the UK's extensive overseas network promotes Scottish businesses and products all over the world, and protects Scottish people when they travel.
- **EU membership:** an independent Scotland would need to apply to join the EU. The rules under which it might join are not a matter for Scotland to decide, or negotiate with the UK. All 28 Member States would need to agree the terms of Scotland's membership in what would be a complex, lengthy process and Scotland could not expect to retain the same terms of membership as the UK.
- **Favourable terms:** Scotland benefits from the UK's terms of EU membership: keeping the UK pound; maintaining a separate free travel area; and retaining a rebate that saves more than £3 billion a year on payments to the EU. The UK Government estimates that as part of the UK, over the next seven years, Scotland saves at least £750 per household on the costs of EU membership.
- **Defence and security:** defence is one of the largest employers in Scotland, supporting around 12,600 highly-skilled industry jobs. Scotland is an integral part of the UK's defence and security arrangements – defending shared airspace, patrolling the surrounding seas and helping to protect everyone in the UK against threats.

The chapters to follow cover:

Chapter 1 – Benefits of the UK: why Scotland currently has the best of both worlds; how devolution will continue to deliver for Scotland; and how independence would change Scotland's relationship with the continuing UK;

Chapter 2 – Currency, businesses and jobs: Scotland's economic performance in the UK; the benefits of the pound and wider UK economy for Scotland; and how Scotland's key sectors thrive within the UK;

Chapter 3 – Affordability of public services: the UK's stable funding for public services in Scotland, and how independence could affect Scotland's choices; the UK Dividend for every person in Scotland;

Chapter 4 – Personal finances: how being part of the UK helps keep taxes, the cost of borrowing and consumer bills lower than they would otherwise be; and

Chapter 5 – Place in the world: how the UK delivers for Scotland on the world stage; the costs and terms of replicating the UK's favourable terms of EU membership; our shared borders, international networks, defence and security.

Annex A: the Scotland analysis programme and a guide to other UK Government resources

Annex B: references and further reading best of both worlds

Scottish businesses trade more with the UK than with the rest of the world

Promotes Scottish business around the world

UK Dividend: £1400 per person better off every year as part of the UK

greatest family of nations for 300 years

pooled risks shared benefits

200+ public institutions serve Scottish people

keep the £

Scottish public spending 10% higher than UK average since devolution

Sources

1. *Scotland analysis: Devolution and the implications of Scottish independence*, HMG, February 2013
2, 6 & 9. *Scotland analysis: Macroeconomic and fiscal performance*, HMG, September 2013
3. *Scotland analysis: EU and international issues*, HMG, January 2014
4. *Scotland analysis: Fiscal policy and sustainability*, HMG, May 2014
7. *UK public bodies that operate in Scotland*, HMG, 2013
8. *Scotland analysis: Assessment of a sterling currency union*, HMG, February 2014

Chapter 1: Benefits of the UK

1.1 People do not always agree with the policy decisions taken on their behalf by any government – whether that be the UK Government or the Scottish Government. But what is at stake in the referendum is not the policy of any single government, or political party.

1.2 People in Scotland are being asked to decide whether a government in Edinburgh should take over all of Scotland's affairs and whether Scotland should no longer have any stake in, or representation at, the UK Parliament. Independence would remove Scotland from the UK, and devolution would stop.

Scotland has the best of both worlds

1.3 Scotland has always maintained its own distinctive identity, legal and education systems, and other aspects of civic life. Since 1999, the Scottish Parliament and successive Scottish governments have had full decision making powers on a range of domestic policy areas.

1.4 These areas include health, education, law and justice, local policing and prisons, local government, housing and regeneration, economic development, local transport, farming, sport and the arts. As part of the UK, Scottish governments have used this flexibility to deliver services in Scotland to suit local circumstances.

Health Services in Scotland

There is a separate National Health Service for each part of the UK. The NHS in Scotland has been the responsibility of the Scottish Parliament and the Scottish Government since 1999.

It is already the case that the Scottish Government and NHS Scotland take decisions to protect and improve the health of the Scottish population, directing local services and allocating resources to meet specific Scottish health needs.

People in Scotland also have the advantage of UK-wide health infrastructure, including:

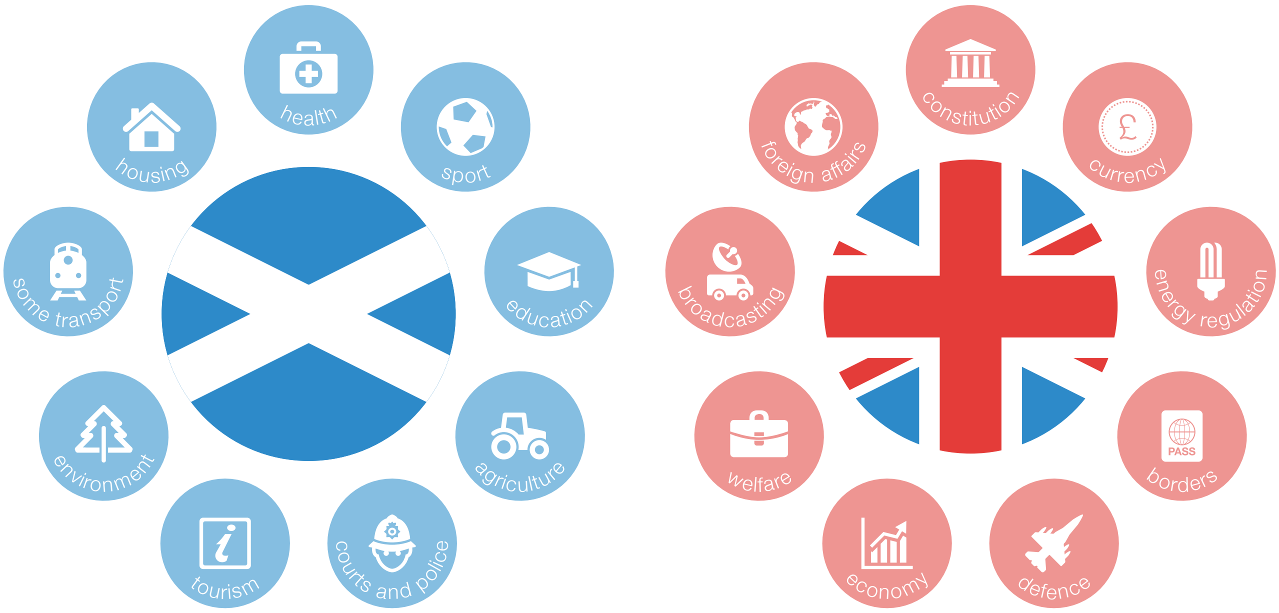
- The organ allocation programme organised by NHS Blood and Transplant;
- Medicines licensing; and
- Regulation of health professionals.

In addition, NHS Scotland is also able to commission health services for people in Scotland from healthcare providers elsewhere in the UK.

These arrangements help ensure patients can receive the best possible care, no matter where they live.

Source: Department of Health

Examples of devolved and reserved powers



1.5 Decisions in the remaining reserved areas are overseen by the UK Parliament. It is made up of 650 representatives from all four nations of the UK, including 59 from Scotland.

1.6 There are good reasons why some policies are reserved and decisions taken collectively; to guarantee safety and security, represent the UK's interests in the world, and ensure economic prosperity. Welfare, pensions and many taxes are collected and provided at the UK level so that all parts of the UK share risks and support one another. Money is allocated on the basis of need, wherever people live.

1.7 Scotland, with two governments working in its interests, each in areas best suited to their role, has the best of both worlds. Devolution allows decisions to be made which reflect local circumstances in key areas, bringing government closer to people in Scotland. At the same time, devolution allows collaboration with the other parts of the UK where it makes sense to work together and share risks.

1.8 Devolved responsibility[1] is matched with spending power:

- around 60 per cent of Scotland's public spending is controlled by the Scottish Parliament and Scottish Government; and
- the Scotland Act 2012 contained the greatest devolution of financial power since 1707, giving the Scottish Parliament the power to introduce new taxes, set a Scottish rate of income tax, and fund a third of its spending.

Devolution will continue to deliver for Scotland

1.9 All three of the largest political parties in the UK have already committed to enhancing Scotland's devolution settlement.

[1] A detailed list of devolved powers is available online at: www.gov.uk/devolution-settlement-scotland

"All the mainstream pro-UK parties believe in further devolution… We want to make the Scottish Parliament more responsible for the money it spends – these are real powers with real consequences… Scotland can have the best of both worlds; a strong and responsible Scottish Parliament underpinned by the security of the whole United Kingdom."

Rt Hon David Cameron MP, Prime Minister, June 2014

"A Scottish Parliament that doesn't just spend the cheque handed over from Westminster, but which has the power to raise the majority of its budget too – creating greater accountability and the power to affect radical change."

Rt Hon Nick Clegg MP, Deputy Prime Minister, March 2014

"…a new Scotland Act… [including] far reaching powers over income tax, housing benefit and the work programme. Not powers for the sake of it, but powers for a purpose."

Rt Hon Ed Miliband MP, Leader of the Opposition, May 2014

Scotland shares over 200 public institutions as part of the UK

1.10 The UK's public institutions serve all UK citizens. They work to ensure safety and security; to sustain economic growth; to deliver the fair collection and distribution of resources across the UK; to represent the UK in the world and protect individual citizens abroad; to promote culture and the arts and develop world class athletes.

1.11 The UK's public institutions are also underpinned by shared principles and values. The UK's state pension has the same value wherever people live. Citizens can seek medical assistance from a hospital anywhere in the UK. The BBC's mission to inform, educate and entertain sees 95 per cent of Scottish audiences making use of its services every week. The UK's Research Councils fund ground-breaking study, wherever that work takes place. The 'six days a week, one price goes anywhere' postal service serves remote communities, just as it does urban areas.

1.12 In the event of independence, expert legal opinion is clear that Scotland would become a new state in the international community. The UK (comprising England, Wales and Northern Ireland) would continue, and retain the UK's current rights and obligations.

1.13 If people in Scotland vote to leave the UK, they will be voting to leave its supporting institutions and public bodies. These would operate on behalf of the continuing UK, and could not be shared without the agreement of the other parts of the continuing UK.

1.14 It is possible for independent states to cooperate. The UK currently does this with states like Ireland, where immigration policy is aligned to reduce border controls. It also works with states across the EU to help businesses to trade more easily.

1.15 However, the UK does not share public services, tax administration, pension systems or its currency arrangements with any other state. There are no states in existence that provide their neighbours with shared access to their public institutions on the scale the Scottish Government are promising on behalf of the continuing UK.

1.16 Cooperation between states is profoundly different from being part of one state. Where it is in both states' interests to work together, it requires close co-operation, agreement on aims, and significant compromises. Agreement would not be automatic, and the continuation of current arrangements cannot be guaranteed.

1.17 For example, because all the evidence shows that a currency union wouldn't work for either an independent Scotland or the continuing UK, all three of the largest political parties in the UK have made clear that there will be no agreement to share the pound and Bank of England.

Sources: *UK public bodies that operate in Scotland*, HMG, 2013; *National Accounts Sector Classifications – Classifications Update*, ONS, May 2014

Chapter 2:
Currency, businesses and jobs

2.1 Scotland is one of the wealthiest parts of the UK. As part of the UK, Scotland's economic growth per head has been similar to the UK average over the last 50 years, and levels of economic activity in Edinburgh, Glasgow and Aberdeen are close to that of London.

2.2 As part of the UK, Scotland's economy and employment rate has out-performed many small independent European states. And as a result of being part of the UK and the pound, Scotland was less affected by the financial crisis than many of its European counterparts.

2.3 This economic performance is supported by Scotland's place in the wider UK economy. Goods, services and people are able to move freely throughout the UK. Shared regulations, institutions, infrastructure and a single labour market help Scottish businesses to trade more with the other parts of the UK than with the rest of the world combined.

2.4 Strong Scottish sectors – including financial services, defence and energy – provide hundreds of thousands of jobs in Scotland. These sectors rely on the UK market:

- the energy sector is supported by 30 million customers and investment across the whole of the UK;
- the Scottish financial sector estimates that as many as nine out of ten of its customers are in the rest of the UK; and
- the defence sector depends on UK Government procurement.

The benefits of the UK economy

The pound

2.5 Scotland is part of one of the world's oldest, most stable and successful currencies – the pound. The only way to keep the pound as it is now is to stay in the UK.

2.6 The Governor of the Bank of England, among others, has set out the challenges of creating a successful currency union. The euro area's difficulties during the financial crisis (including the instability in Ireland, Greece and Cyprus), and the reforms it is being forced to put in place, show the substantial challenges of making currency union work. A currency union works best when there is political, economic and fiscal union. This would not be the case under independence.

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2.7 A currency union between the continuing UK and an independent Scotland would make Scotland's economic policy dependent on another country, in which it has no longer any say or representation. It would severely limit an independent Scotland's ability to protect its businesses and people in the event of a shock to the Scottish economy that did not also affect the continuing UK.

2.8 The continuing UK would be expected to act as a safety net for Scotland's banking sector, which is very large, or for Scotland itself. Scotland's much smaller economy would mean that the continuing UK could not expect the same support from Scotland. These risks would far outweigh any benefits to Scotland, or the UK.

2.9 This is why the UK's three largest political parties have ruled out sharing the pound as part of a currency union:

"It would cost jobs and cost money. It wouldn't provide economic security for Scotland or for the rest of the UK… sharing the pound is not in the interests of either the people of Scotland or the other parts of the UK."

Rt Hon George Osborne MP, Chancellor of the Exchequer, February 2014

"Separation would already be the riskiest and most uncertain step our country has ever taken. To take that step and then give up control over interest rates, exchange rates, and freedom over tax and spending policy would leave an independent Scotland hugely exposed to economic shocks but without any of the economic levers to manage a response."

Rt Hon Danny Alexander MP, Chief Secretary to the Treasury, February 2014

"It would repeat the mistakes of the euro area…you'd be trying to negotiate a monetary union as Scotland is pulling away from the UK… Scotland will not keep the pound if Scotland chooses independence."

Rt Hon Ed Balls MP, Shadow Chancellor, February 2014

Scotland's currency choice

The pound works for Scotland as part of the UK because ...	Sharing a currency between two separate states will not work because ...
Similar economies: Scotland and the UK have both grown at similar levels – around 2% per head – over the last 50 years	Divergent economies: an independent Scotland's economy would be very different. For example, because of its dependence on North Sea oil and gas and as a result of different policies to the UK
Integrated economies: two-thirds of Scottish exports go to England, Wales and Northern Ireland – more than the rest of the world combined	Reduced trade: an international border would reduce the level of trade between Scotland and the rest of the UK
Secure banks: in 2008, for example, the UK provided Scottish-based banks with support worth more than twice Scotland's national income	Exposure to foreign banks: taxpayers in the UK would be exposed to bailing out banks in a separate country
Shared fiscal arrangements: the UK currently shares tax revenues and public spending across the country	No risk sharing: an independent Scotland would be a different tax jurisdiction with different tax policy

Sources: *Scotland analysis: Assessment of a sterling currency union*, HMG, February 2014; *Scotland analysis: Macroeconomic and fiscal performance*, HMG, September 2013

2.10 Alternative currency options for an independent Scotland would be to:

- **Join the euro:** a condition of joining the EU is that new member states also join the euro. Since the euro was launched, all new EU Member States have agreed to join. For Scotland to avoid doing so, all 28 EU Member States would need to agree.
- **Adopt the pound without a formal agreement:** also known as 'sterlingisation', an independent Scotland could import pounds from the UK into Scotland in the same way as Panama uses the US dollar and Montenegro uses the euro. Scotland would have no say over interest rates to support its economy, no central bank to bail out financial institutions in times of crisis, or to back Scotland's mortgages, savings and pensions.
- **A new Scottish currency:** a new central bank would have to be established and all the pounds in circulation would have to be replaced. This would take time, and impose significant costs on Scotland. Investors prefer established, stable currencies, so they could choose to move their money elsewhere. Using different currencies would reduce trade with the continuing UK.

2.11 None of the alternatives are as strong as the currency that Scotland has now, as part of the UK.

A borderless UK

2.12 International evidence shows that it is easier for two regions of the same country to do business than it is for two different countries. Economists call this the 'border effect'. It occurs even when there is no physical border between states and where trade agreements are in place.

2.13 While the EU single market attempts to minimise the barriers to trade between states, overall it is less complete and well-integrated than the UK's domestic market. Barriers to trade remain between EU Member States. A single market between two separate states is not the same as a fully integrated domestic market.

2.14 Within the UK, shared regulations, institutions, infrastructure and a single labour market help businesses to trade more easily.

2.15 The ability to trade freely between Scotland and the other parts of the UK, with no border effect, is estimated to be worth an average of £2,000 per Scottish household because two thirds of all Scottish trade is with the UK. Similarly, it is worth £100 per UK household each year because 10 per cent of UK trade is with Scotland.

Integration of Scotland and the UK

Sources: *Scotland analysis: Macroeconomic and fiscal performance*, HMG, September 2013; *Scotland analysis: Business and microeconomic framework*, HMG, July 2013

"With non-oil exports to [the continuing UK] accounting for around nearly one-third of total Scottish GDP, the potential impacts of border effects on business are substantial."

Weir Group/Oxford Economics, April 2014

"It is likely that we would have to deal with significant additional administration cost and complexity in our UK operations, which we currently run as a completely integrated unit, sharing fleet and people without impediment."

Aggreko, March 2014

"It would put a pause on everything. If we have differences on VAT, currency, it just puts everything into hibernation as we try to figure out what it will mean."

Sir Ian Cheshire, Chief Executive, Kingfisher, May 2014

Scotland's key sectors thrive as part of the UK economy

2.16 The sheer scale of the UK – over 60 million people, and nearly 5 million businesses – means that, across the UK's single market, costs are lower and there is more choice than if Scotland's five and a half million people and over 320,000 businesses were to stand alone.

2.17 Many thousands of jobs are connected to trade with the UK. Scotland's key sectors currently have easy access to the majority of their customers in the rest of the UK, minimising the cost of doing business and helping to protect Scottish jobs.

Energy

2.18 The energy market in Great Britain is ten times larger than Scotland's, and costs are spread across 30 million households and businesses.

2.19 The size of the UK economy, the integrated market, its regulatory regimes and the scale of financial support provided to the oil and gas and low carbon sectors provide the conditions for business to invest in the energy industries across the whole of the UK. It also provides an attractive environment for investment, and makes it easier and cheaper to achieve the UK's energy goals.

2.20 North Sea oil and gas has been a major contributor to the UK's energy supply and the UK economy. It has brought jobs and investment, including supporting the direct and indirect employment of at least 450,000 people in the UK.

2.21 The UK Government is committed to maximising the benefit of North Sea oil and gas for the UK economy, through tax incentives to support extraction, and certainty on decommissioning relief worth £20 billion. This provides certainty on the levels of tax relief companies will get on the cost of making platforms, pipelines and other facilities safe once they are no longer in use. On decommissioning relief alone, an independent Scotland would have to invest around £3,800 per head – over ten times more than when costs are spread across the UK – to match the £20 billion the UK Government has already committed.

"We have a lot of people in Scotland. We have a lot of investments in Scotland... These are quite big uncertainties for us and at the moment we're continuing to invest at a pace…but it's a question mark. I think all businesses have a concern."

Bob Dudley, Chief Executive, BP, February 2014

2.22 Scotland's low carbon energy sector is also thriving. As part of the UK, Scotland benefits from: the UK-wide approach to meeting renewable energy targets; financial support provided by all UK energy bill payers; a range of grants and research funding; and an active UK Government promoting the industry at home and abroad.

2.23 UK consumers' energy bills support renewable generators. Scotland receives almost 30 per cent of the total UK funding available. This is a considerable amount given Scotland only accounts for around 10 per cent of electricity sales in the UK.

2.24 The joint resources of Scotland, England and Wales support investment in networks, small-scale renewables and supporting consumers in remote areas. Scottish consumers and businesses continue to benefit from sharing costs across a larger, integrated market.

Financial services

2.25 The size of Scotland's financial sector and its historic strength and specialism helps to create wealth and jobs in Scotland. It supports more than 200,000 jobs in Scotland – more than 8 per cent of Scottish employment.

2.26 Being part of the larger UK market gives regulators, firms and individuals confidence in managing funding and risks across a larger population. More firms and greater competition provides customers across the UK with a far greater choice of financial products at a lower cost.

"It is worth noting that Scotland is, in itself, a relatively small market; most providers of financial services in Scotland serve the market that is the UK as a whole and, in some cases, 90 per cent or more of their customers are outside Scotland."

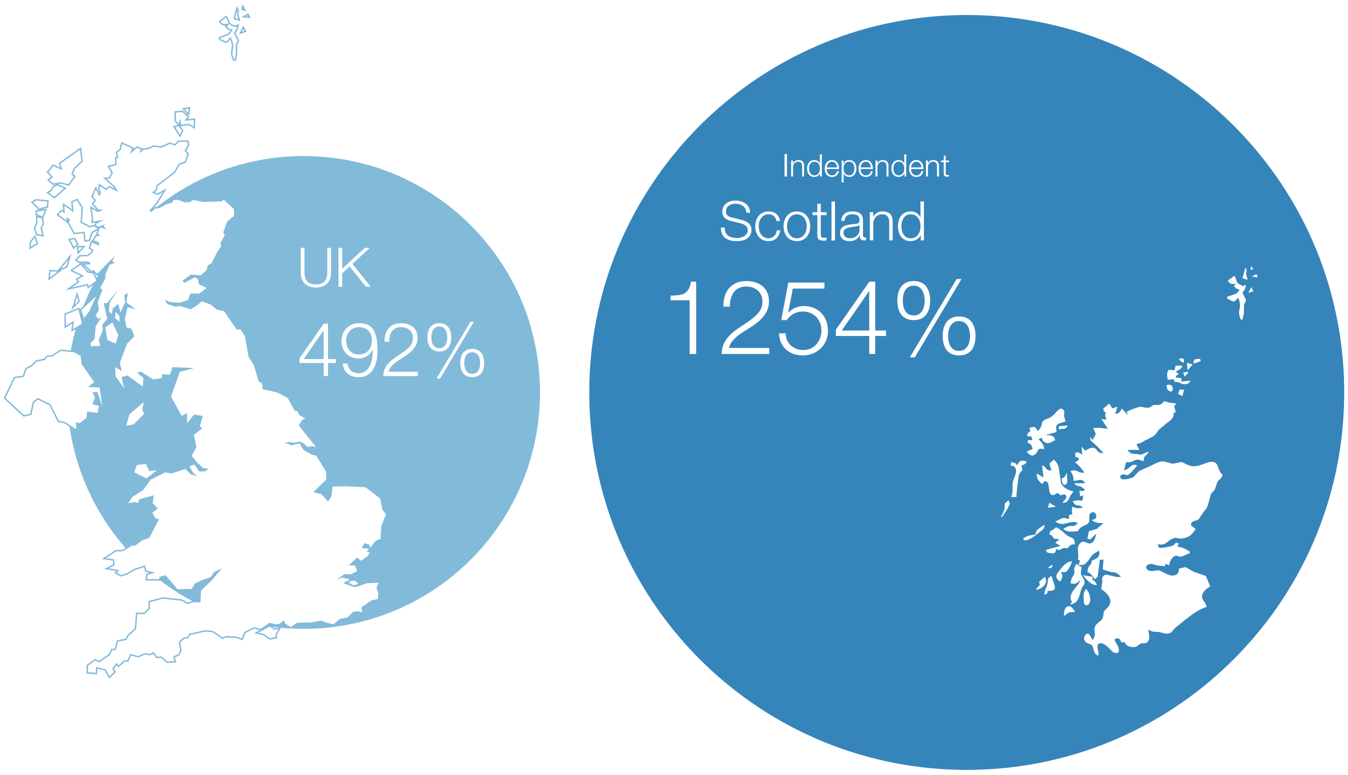
Owen Kelly, Scottish Financial Enterprise, November 2012

2.27 International investors value the fact that large financial firms based in Scotland are part of the UK-wide regulatory framework. This single regulatory framework could not continue if Scotland became independent.

2.28 The Scottish banking sector would be exceptionally large compared to the size of an independent Scotland's economy, making it more vulnerable to financial shocks. The assets of the whole UK banking sector (including Scotland's banks) are around five times the size of the UK's economy. By contrast, Scottish banks have assets totalling more than twelve times the size of Scotland's economy.

2.29 The UK Government was able to support the large Scottish banking sector during the financial crisis. This was only possible due to the scale of the UK, the strength of UK institutions and the UK's credibility in financial markets. The support package to Scottish banks totalled more than twice the size of Scotland's national income in 2008.

Banking sector assets as a proportion of GDP



Source: *Scotland analysis: Financial services and banking*, HMG, May 2013

2.30 An independent Scotland's financial sector would have to change: firms would either face higher costs and the challenges of holding on to the majority of their customers in the continuing UK; or, firms would choose to relocate. Either scenario is likely to make the Scottish financial sector smaller and could put Scottish jobs at risk.

"We have started work to establish additional registered companies to operate outside Scotland into which we could transfer part of our operations if it was necessary."

Standard Life, February 2014

Defence

2.31 Defence is one of the largest employers in Scotland. There are currently around 11,000 UK Armed Forces personnel and 4,000 civilian personnel located within Scotland. The number of armed forces personnel is set to rise to 12,500 by 2020. HM Naval Base Clyde, in Argyll and Bute, is the largest employment site in Scotland, with 6,700 military and civilian jobs, increasing to 8,200 by 2022.

2.32 The wider defence industry employs around 12,600 highly skilled people across the country. The scale of UK defence spending is a key factor in sustaining defence and other industries across the UK. Many prime contractors of the UK Ministry of Defence (MOD) have sites in Scotland, including Babcock, BAE Systems, Rolls-Royce, Selex ES, Thales, Raytheon and QinetiQ.

"As a company with a large footprint in Scotland, the possible changes to Scotland's financial and regulatory environment following a vote for independence create additional risk and uncertainty for our business"

Babcock, March 2014

2.33 Other than procurement activity undertaken during the World Wars, the UK has not had a complex warship built outside its borders since the start of the 20th Century. The UK Government is committed to using the strengths of UK industry in this specialist area.

2.34 Defence companies based in Scotland would no longer be eligible for contracts that the UK chose not to open up to other states for national security reasons. Where companies could continue to compete they would be pitching for business in a competitive international market dominated by the world's major economic powers.

2.35 The MOD is the primary customer for the shipbuilding industry in Scotland. Scottish yards have a major part in building and assembling the Royal Navy's Queen Elizabeth Class aircraft carriers. As of January 2014, the MOD had spent £2.3 billion on work billed to the programme at BAE Systems on the Clyde and Babcock at Rosyth, with around 4,000 jobs directly linked to the programme.

2.36 Scotland's defence industry would face lower demand at home for defence goods, and would no longer benefit from the support to exports provided by the UK's international defence engagement and reputation.

"Unless an independent Scottish government could provide equivalent type orders, we would be greatly reduced or completely finished as a shipbuilding industry... Export work in the defence industry only complements the core work. The core work in the UK always has been and will be MOD contracts."

Duncan McPhee, Unite Senior Shop Steward, BAE Systems, Scotstoun, January 2013

320,000+ businesses in Scotland are part of the UK single market

energy costs spread across 30m households and businesses

the MOD is Scotland's biggest shipbuilding customer

UK government committed £20bn for decommissioning relief

200,000 jobs supported by financial services

Scotland's financial services industry estimates that as many as 9 out of 10 of its customers are in other parts of the UK

North Sea oil and gas has supported at least 450,000 jobs in the UK

defence industry provides 12,600 jobs

around 4,000 jobs linked to building aircraft carriers at Rosyth

Sources

1. *Scotland analysis: Business and microeconomic framework*, HMG, July 2013
2, 4 & 7. *Scotland analysis: Energy*, HMG, April 2014
3, 8 & 9. *Scotland analysis: Defence*, HMG, October 2013
5 & 6. *Scotland analysis: Financial services and banking*, HMG, May 2013

Chapter 3:
Affordability of public services

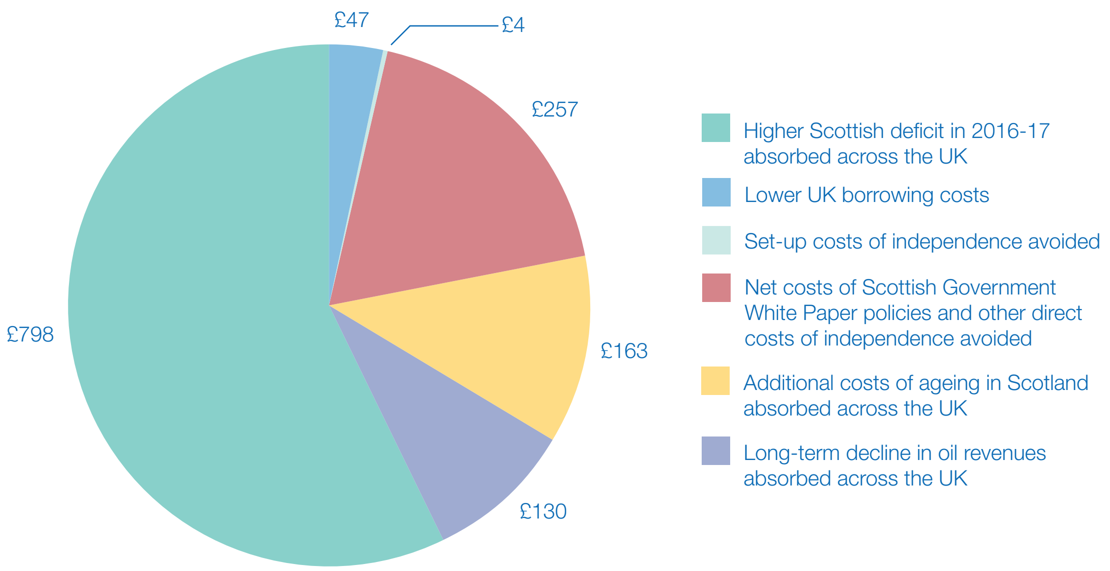
3.1 The UK is a successful economic union because currency and monetary policy, taxation, spending and financial stability policy are coordinated across the UK. If one part of the UK faces a challenge – from a fall in tax revenues, pressure on public spending or a temporary increase in unemployment – the impact and the cost of dealing with it is shared across all parts of the UK.

3.2 Major tax revenues are pooled within the UK and public spending in Scotland remains stable, despite a volatile revenue stream from North Sea oil and gas.

The UK Dividend

3.3 As part of the UK, Scotland can continue to have a lower tax burden or higher spending than it would have under independence. This UK Dividend is estimated to be worth £1,400 per person in Scotland in each year from 2016/17 onwards.

The UK Dividend of £1,400 per person in Scotland explained



Source: HM Treasury calculations, consistent with Chart 2.C in *Scotland Analysis: Fiscal policy and sustainability*. Numbers do not sum due to rounding.

3.4 The majority of the dividend comes from higher public spending in Scotland, sharing the UK's overall tax take, and sharing the costs of an ageing population.

3.5 The dividend includes avoiding the direct costs that would come with independence: higher interest rates; the costs of setting up new institutions, and the costs of funding policies set out by the Scottish Government in *Scotland's Future*.

3.6 To date, the Scottish Government has provided no detailed figures to explain how an independent Scotland would deal with these challenges and offset the loss of the UK Dividend.

3.7 To maintain similar levels of taxation over the next 20 years, an independent Scotland would need to reduce public spending by 11 per cent. This is equivalent to almost two-thirds of Scotland's health spending.

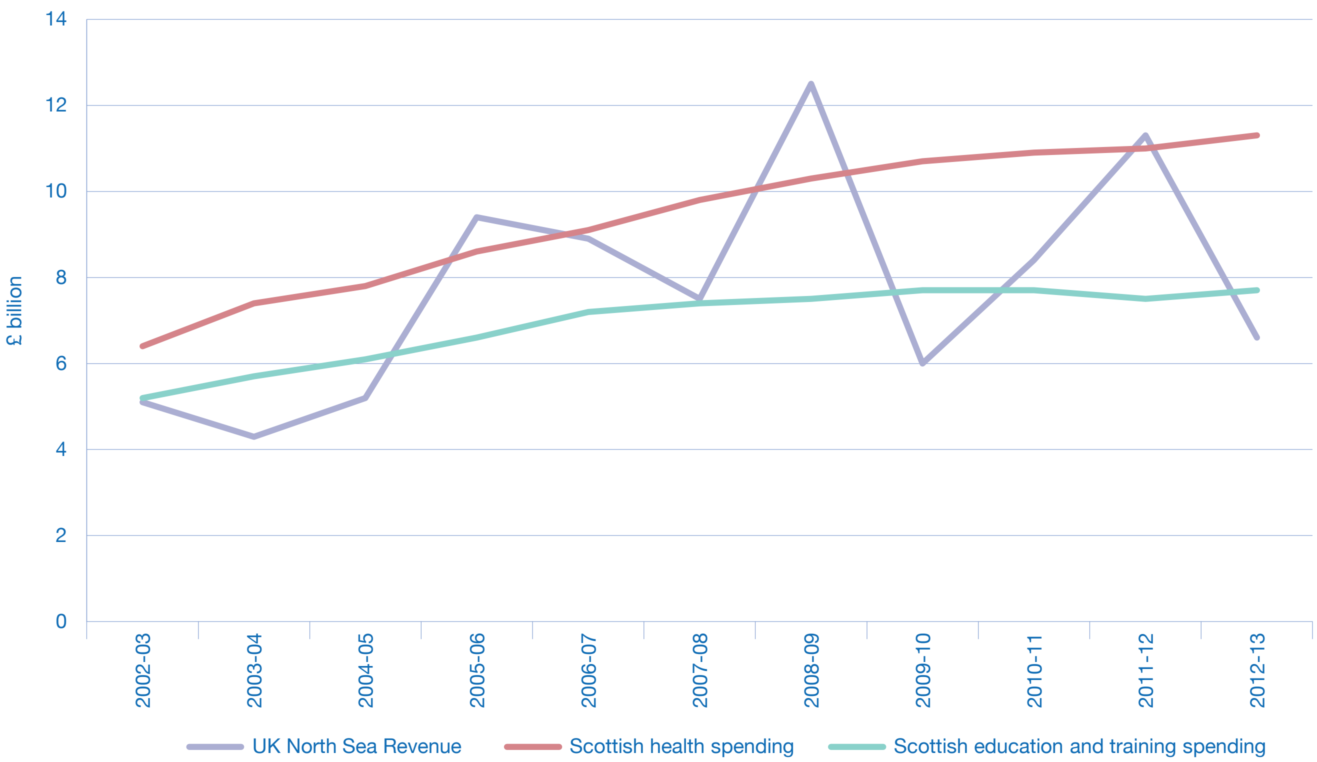
3.8 This chapter sets out more detail on how Scotland's public finances would be affected by independence.

The UK provides more funding for public spending than Scotland raises in tax

3.9 Public spending in Scotland has been around 10 per cent higher per person than the UK average since 1998. In 2012/13, public spending in Scotland was more than £10 billion greater than the total taxes raised in Scotland, even including a geographical share of oil revenues.

3.10 In the event of independence, all public spending in Scotland would have to be funded from taxation of people and businesses in Scotland, or from higher borrowing.

North Sea oil and gas revenues, education and health spending



Source: Government Expenditure and Revenue Scotland, Scottish Government, March 2014: HM Treasury calculations

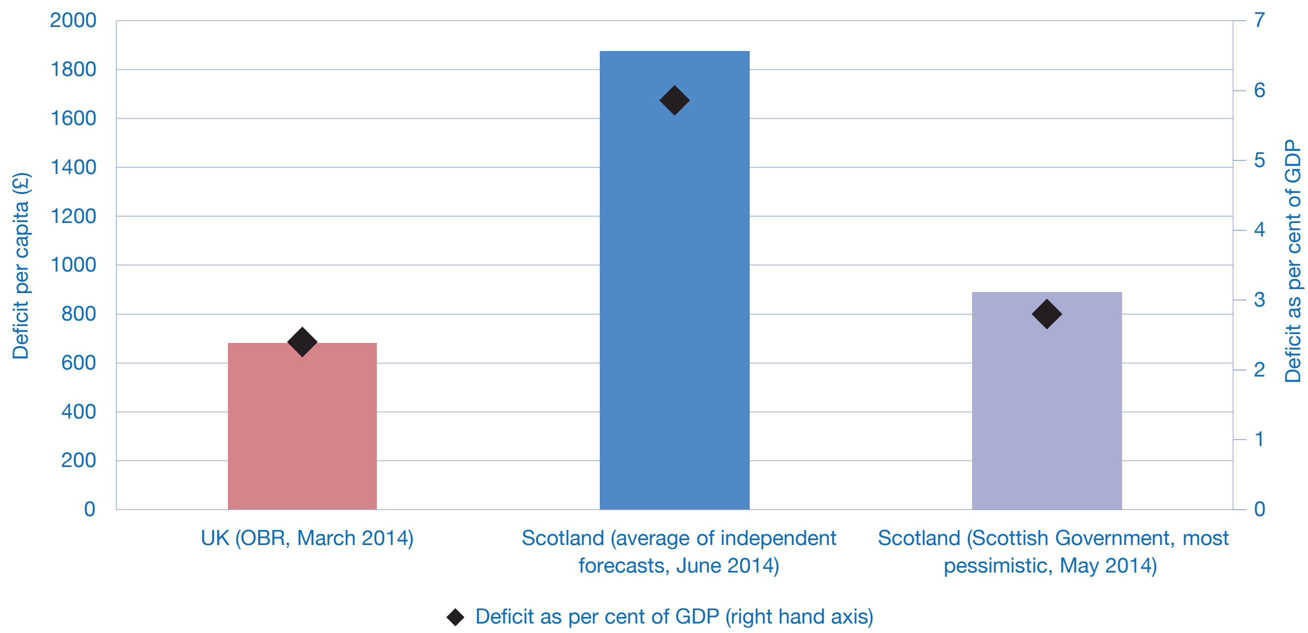
3.11 The Scottish Government has proposed that Scotland's first year of independence would be 2016/17. Several independent experts forecast Scotland's deficit (the difference between what Scotland spends and what it earns in tax each year) to be more than 5 per cent of its GDP in 2016/17. As set out in the chart below, this is more than twice the difference expected in the UK in the same year.

3.12 Based on the International Monetary Fund's latest forecasts, an independent Scotland would have the second highest deficit of any advanced economy.

3.13 While an independent Scotland could try to borrow money from other states or financial institutions to cover any shortfall in its income, this would increase Scotland's debts and could cause investors to question the sustainability of Scotland's finances.

3.14 Independent experts estimate that an independent Scotland would borrow at higher interest rates than the rest of the UK.[1] An independent Scotland would first have to build its credibility, and its credit rating, in order to convince the world's financial markets that it could repay those debts.

Forecasts of the Scottish deficit in 2016/17



Source: HM Treasury. Average of independent forecasts calculated on the basis of independent forecasts produced by: BNP Paribas (5.7, 2014); Citi (5.5, 2014); CPPR (5.5, 2014); and Moody's (7.1, 2014)

[1] See Chapter 4 for more information on borrowing costs.

The costs of a new state

3.15 As set out in Chapter 1, an independent Scotland would need to create or restructure a wide-ranging set of public institutions. The Scottish Government has given few details on how it expects an independent Scotland's public institutions would operate or how much they would cost to establish and run.

3.16 One independent estimate, looking at Quebec, suggested that institutional restructuring there could cost between 0.4 per cent and one per cent of GDP. One per cent of GDP would be equivalent to £1.5 billion for Scotland, or £4 of the £1,400 UK Dividend.

3.17 Whatever the costs of creating and running a separate state are, they will be additional to present Scottish spending and will add to the challenges a separate Scotland would face. It is likely that these costs would have to be met by cutting other public services or raising more taxes.

3.18 These costs would be in addition to the costs of any new policies the government of an independent Scotland introduced. Three of the current Scottish Government's proposals in *Scotland's Future* alone had an estimated additional cost of £1.6 billion per year.

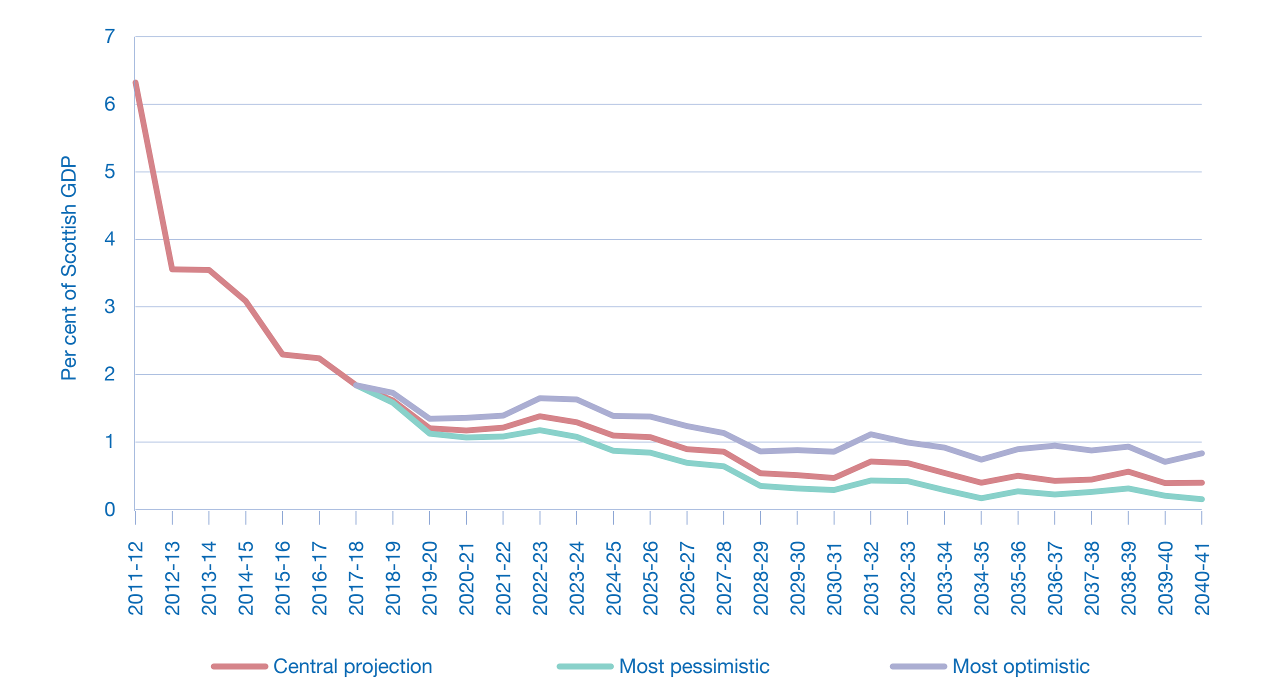
The UK shields Scotland from sudden changes in its revenues

3.19 Scotland's public finances would rely on its share of North Sea oil and gas revenues, which are subject to sudden change and will ultimately decline. In the last year alone, the independent Office for Budget Responsibility (OBR) has revised down oil and gas revenues by £8 billion over the next five years.

3.20 In total, since 2010 the OBR has revised down the UK's oil and gas tax revenues by £21 billion. Because the UK can absorb these risks, public spending was

Oil and gas revenues over the long term

North Sea oil and gas production is expected to decline. This reduces the tax revenues that an independent Scotland would be heavily reliant upon to fund public spending in future.



Source: Office for Budget Responsibility, Fiscal sustainability report, July 2013 not cut in response. In fact, HM Treasury allocated an additional £2.2 billion to the Scottish Government.

3.21 The Scottish Government has proposed trying to smooth the impact on its public finances by establishing an oil fund. But because public spending in Scotland is higher than what is raised in tax, all the revenues from a geographical share of North Sea oil and gas would be needed to pay for current public services.

3.22 Any money allocated to an oil fund would mean further significant cuts to public spending or tax increases.

Could Scotland afford to maintain current levels of public spending?

3.23 In an independent Scotland, the combination of declining oil and gas revenues and changing demograhics would make current levels of spending unsustainable without very large tax rises.

3.24 The size and age distribution of a country's population affect its public finances. Taxes paid by the working population support higher health and education costs in early life, and increased dependence on public services in later life.

3.25 The proportion of Scotland's elderly population is expected to increase more rapidly than the UK's, increasing pressures on age-related spending as well as decreasing future growth and tax revenues. The working age population is expected to decline by over 6 per cent, compared with a small increase in the UK as a whole.

3.26 The Scottish Government have suggested that inward migration could help to offset these costs of ageing. The level of migration needed to achieve this would be high – equivalent to adding the current population of Edinburgh within 20 years.

3.27 The decline in oil revenues and an ageing population, as well as the direct costs from independence (such as setting up new institutions and borrowing at a higher interest rate) mean that independence would result in much higher debt for Scotland than for the UK as a whole. In contrast, if Scotland remains part of the UK, the UK's fiscal union can continue to share these challenges across the UK.

Pensions

A larger pensioner population means higher spending on pensioner benefits. A larger proportion of pensioners in Scotland relative to the UK which would put more pressure on an independent Scotland's public finances.

To help mitigate the impact of the UK's demographic changes on the public finances the UK Government has legislated various measures, including increasing the State Pension Age to 67 by 2028.

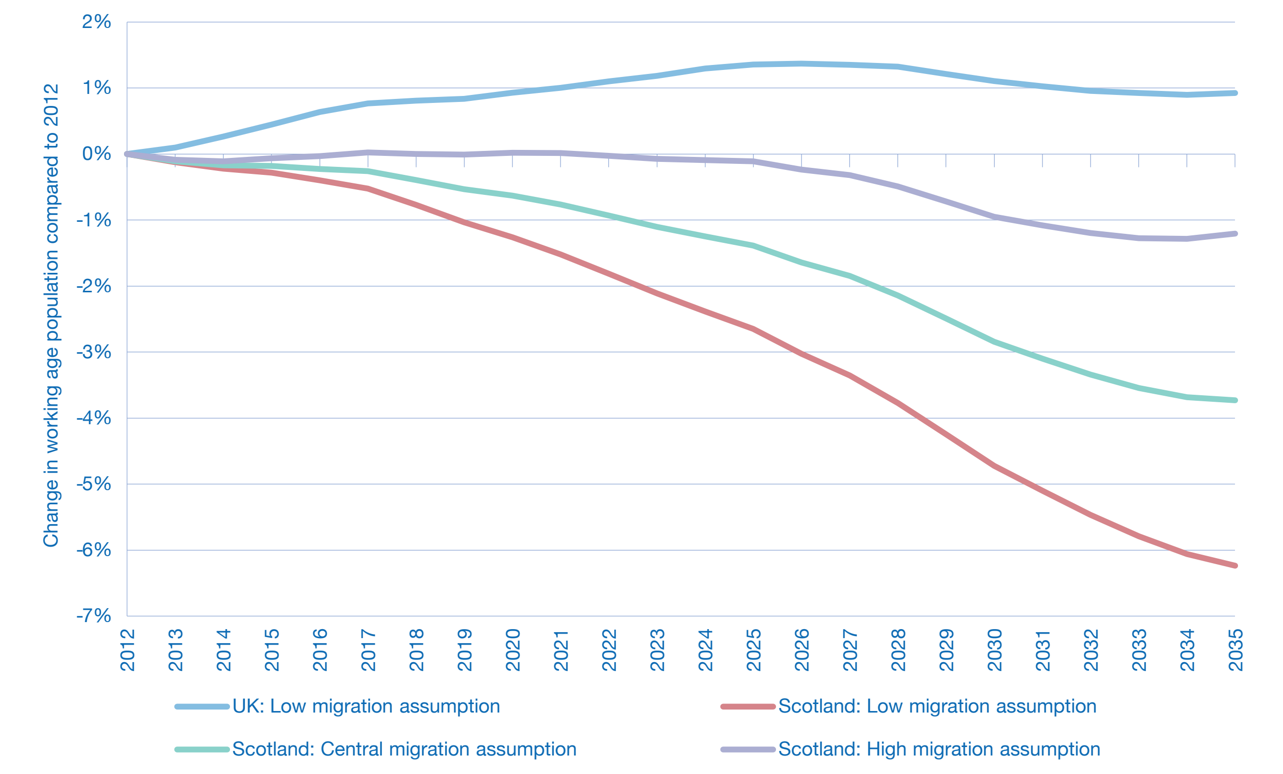
In contrast, the current Scottish Government has said that in the event of independence it would consider delaying the State Pension age increase to 67. Such a delay would cost around £6 billion between 2026-27 and 2035-36 in extra pension costs. It could also lead to lower Scottish GDP, as people leave the labour market earlier than they would otherwise have done.

Those changes, and policy commitments by the current Scottish Government would mean that over the next 20 years, an independent Scotland's spending on pensioners would rise to around £1.4 billion higher per year in today's terms.

Some proportion of the liabilities for public service pension schemes would also become the responsibility of an independent Scottish state, with estimates suggesting the total liability figure could be in the region of £100 billion.

70 per cent of pension products bought by people in Scotland are from firms based in other parts of the UK. Protecting and regulating pensions, supporting automatic-enrolment schemes, delivering similar systems to a much smaller population and disentangling UK state pensions from those of an independent Scotland would be costly.

Working-age population in Scotland and the UK



Source: Office for National Statistics

The chart above shows that the working-age population is expected to fall in all three different possible paths for international migration to Scotland based on the ONS's population forecasts. It is expected to rise in the UK as a whole, even on the low migration assumption.

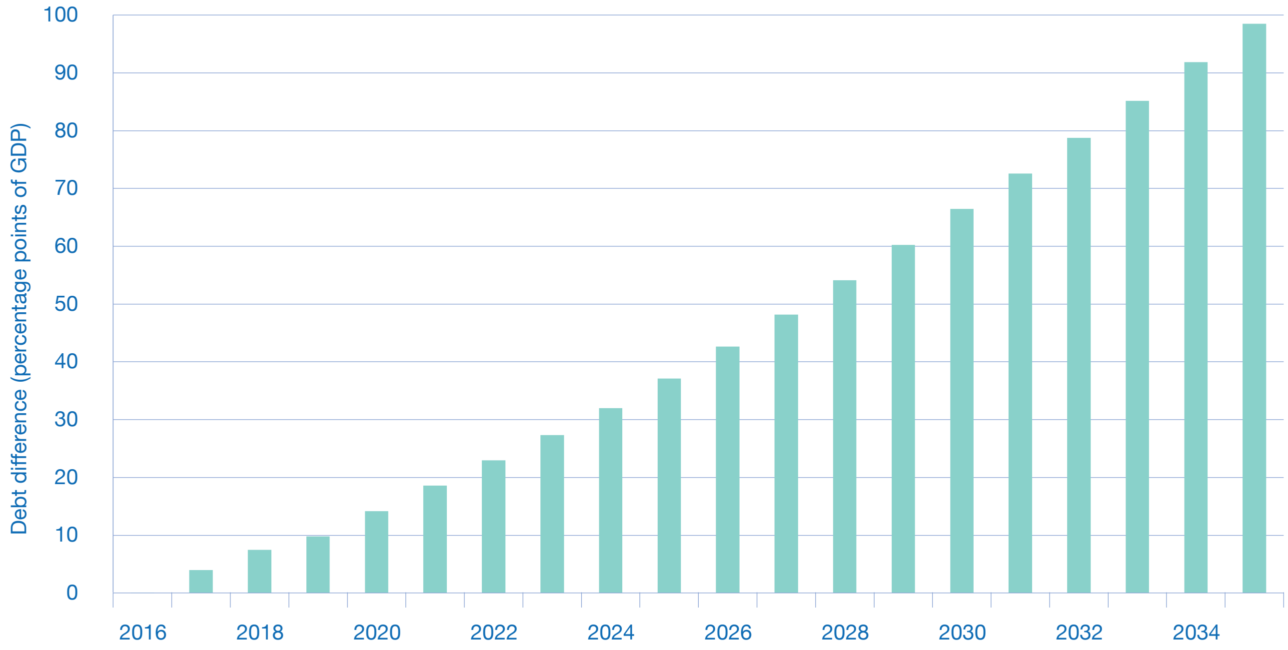
Would Scotland's debt be sustainable?

3.28 In the event of independence, the size of Scotland's debt in relation to the size of its economy is projected to be almost 100 percentage points of GDP higher than the UK's in 20 years' time.

3.29 In the event of independence, each person in Scotland would face lower public spending and higher taxes worth £1,400 per person every year to prevent this increase in debt. Without such policy action, a debt burden of this size would have to be addressed by future Scottish generations through eventual cuts to public spending or tax increases.

3.30 The Scottish Government has argued that instead of cutting spending or increasing taxes, these challenges could be addressed by increasing economic growth. This would require growth in an independent Scotland to be over 50 per cent higher on average, every year, over the first 20 years of independence. This would be greater than anything Austria, Belgium, Canada, Denmark, France, Finland, Germany, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland, or the USA has achieved over the last 20 years.

Forecasts for the debt difference between an independent Scotland and the UK



Source: HM Treasury

Scandinavian levels of public services

3.31 In *Scotland's Future*, the current Scottish Government used Norway and Denmark as examples of "fairer societies… able to provide more targeted support for families with children and better levels of care for older citizens, and deliver measures to boost their economies, support higher standards of living and create more jobs."

3.32 As shown in the table below, these countries support higher levels of spending partly through setting higher tax rates.

	VAT standard rate (%)	Corporation tax main rate (%)
Norway	25.0	27.0
Denmark	25.0	24.5
Sweden	25.0	22.0
Finland	24.0	24.5
UK	20.0	21.0

Source: KPMG tax rates table, retrieved May 2014. The UK main rate of Corporation tax is being reduced to 20 per cent from April 2015

3.33 Tax revenues in Norway, Denmark, Finland and Sweden average 46 per cent of GDP, which is substantially higher than the 38 per cent of GDP that Scotland currently generates. Despite the ambition of the current Scottish Government to provide Scandinavian levels of public services, *Scotland's Future* actually committed to cutting both corporation tax and air passenger duty.

Chapter 4: Personal finances

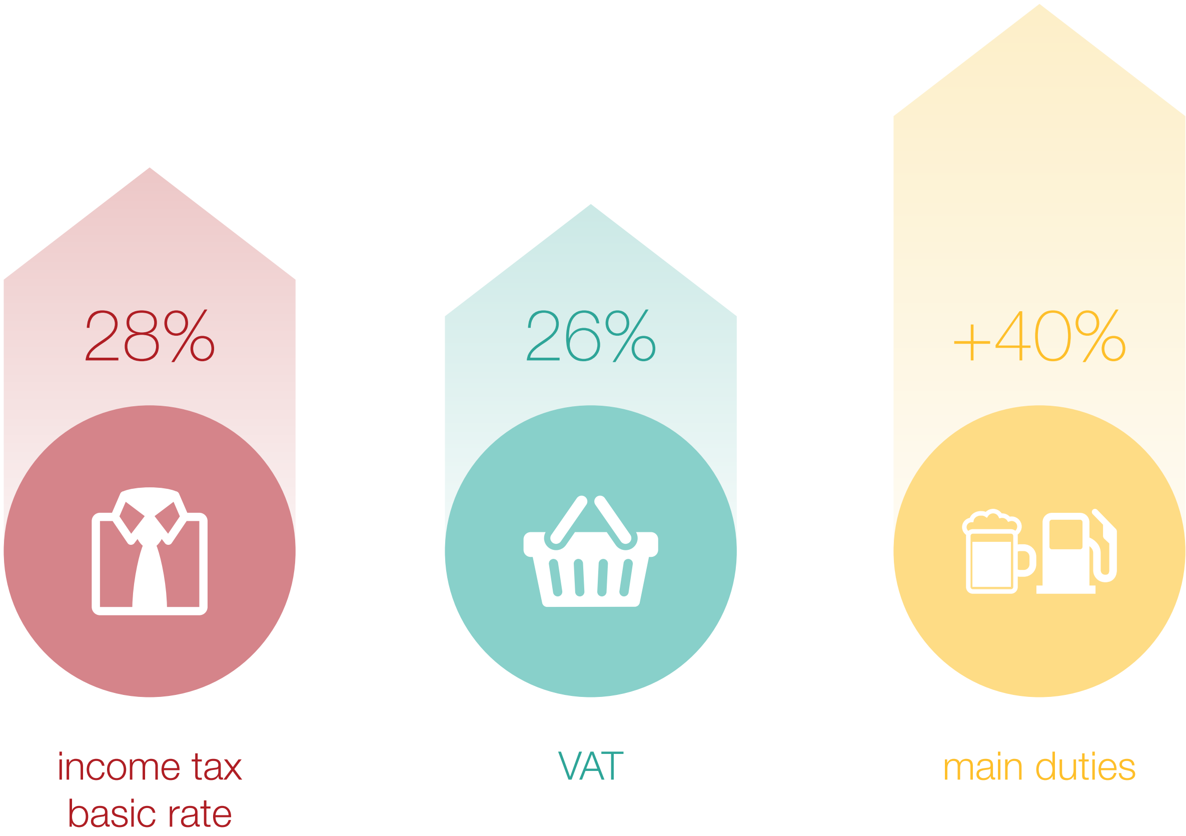
4.1 The UK has credible public finances and is able to borrow at a low cost. This helps to keep interest rates across the economy down, making mortgages and other financial products cheaper.

4.2 Consumers in the UK can access a larger range of goods and services at lower prices because of the the scale of the UK market.

The tax bill

4.3 As described in Chapter 3, an independent Scotland is likely to have to make difficult choices to offset the loss of the UK Dividend. This suggests that if the government of an independent Scotland chose to maintain public services at similar levels, they would need to raise taxes.

Increasing onshore tax revenues



Source: *Scotland analysis: Fiscal policy and sustainability*, HMG, May 2014

4.4 The UK Government estimates that in order to provide similar levels of public services over the next 20 years, Scotland would need to increase all onshore tax revenues by 13 per cent. This would be equivalent to setting a 28 per cent basic rate of income tax, a 26 per cent standard rate of VAT, and increasing the main duties (on alcohol, tobacco, fuel and vehicles) by almost 40 per cent.

The cost of borrowing

4.5 Scotland would need to enter international financial markets and borrow – i.e. sell its own debt – for the first time. Selling debt. is harder when there is not a well established, large market for the debt. Potential buyers would find it difficult to trade. With no track record of repaying its debts, Scotland would face higher borrowing costs than the rest of the UK.

4.6 Economists at the National Institute of Economic and Social Research (NIESR) have estimated that independent Scottish interest rates could be up to 1.65 percentage points higher than the UK's. This would increase the cost of paying for Scotland's borrowing but is also likely to be passed on to consumers in the form of higher interest payments on mortgages.

4.7 Using this estimate, HM Treasury analysis suggests that as part of the UK mortgage costs are up to £1,700 lower on the first year of repayments alone for a 75 per cent loan-to-value ratio mortgage on the average Scottish house.

"Potential increased risk would probably mean an independent Scotland incurring higher mortgage rates, putting upward pressure on household finances"

Faisal Choudhry, Associate Director, Savills, March 2014

Financial products

4.8 The UK's large, single market provides customers with greater choice and competition, and allows households and businesses to access financial products and services throughout the whole UK. An international border may lead to less choice and competition.

Banking, mortgages and insurance

More firms and greater competition provides customers with a better choice of products at a lower cost. Separate regulatory and tax structures could impact on personal finances:

Mortgages: it is rare for mortgages to be sold across borders given the complications of operating across the differing tax, regulatory and legal systems of different states. Less competition could also increase the price of mortgages in Scotland.

Bank accounts: where a large number of financial transactions take place across an international border, and particularly in different currencies, this can create additional costs on both sides. For example, almost 97 per cent of all cash withdrawals within the UK are free of charge, but consumers can face increased costs when using banking services cross-border.

Savings: 48 per cent of adults in Scotland currently have an Individual Savings Account (ISA), which attract UK tax relief. Savings products are currently regulated, taxed and marketed on a common UK-wide basis, but this market would be broken up across separate financial jurisdictions. UK ISAs would cease to be available to Scottish savers in their current form.

4.9 The UK has established effective arrangements for protecting consumers of financial services, and deposits and savings in bank accounts. Customers benefit from consistent standards and fair treatment across the whole of the UK, and the Financial Services Compensation Scheme (FSCS) compensates eligible depositors, investors and insurance policyholders if a firm fails. This means that savings in any UK bank or building society are protected by a guarantee of up to £85,000.

4.10 The FSCS is funded through charges on the banks and financial firms that it covers, and backed by the UK Government. As part of the UK, this risk is shared across more firms. A Scotland-only scheme would cover fewer firms, and would be dominated by two large banks.

4.11 If one of those banks were to fail any similar scheme would struggle to compensate savers. To offer the same level of protection to Scottish institutions and consumers as the UK currently does, the government of an independent Scotland would have to guarantee deposits equivalent to the size of its economy. This is a much larger proportion than in the UK as a whole.

Consumer bills

Energy

4.12 The UK Government is working hard to reduce energy bills for householders and businesses, recognising the pressures created by rising bills.

4.13 In the event of independence, the costs of supporting Scottish energy infrastructure investment, social programmes to support remote consumers and Scotland's growing renewable energy sector would fall on Scottish bill payers alone.

4.14 Sharing these costs across the whole of Great Britain helps to keep future energy bills for Scottish households between £38 and £189 lower by 2020.

Shopping

4.15 Although firms would be expected to continue to compete on prices, some supermarket firms have identified that there is a higher cost of doing business in Scotland. They have stated further that if Scotland were independent, these higher costs may be passed on to supermarket bills in Scotland rather than being shared across all UK consumers as they are now. Higher costs could arise due to differences in geography, tax, or regulation. These differences could also affect firms' willingness to invest in Scotland.

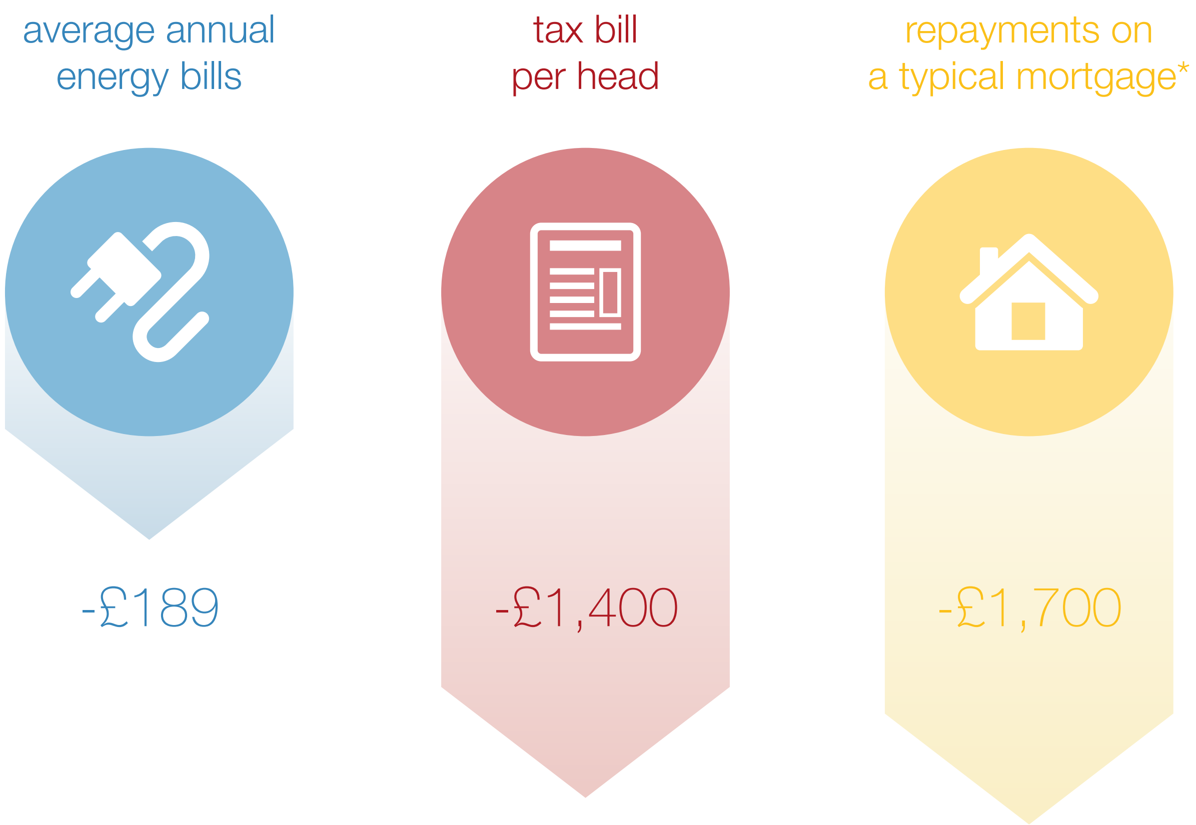
"Already it costs more money to get groceries to people in Scotland, our taxes are higher and our margins are lower. Our systems are set up for one single UK market. These are not arguments for or against independence, but a simple recognition of the costs that change would bring."

Andy Clarke, Chief Executive, Asda, December 2013

"Scotland is very sparsely populated and retailers carry that extra distribution cost out of the centre. If those costs are isolated to Scotland only, it will just push up the prices in Scotland and lower prices in England."

John Fingleton, former Chief Executive, UK Office of Fair Trading, February 2014

Lower bills as part of the UK



Sources: *Scotland analysis: Energy*, HMG, April 2014; *Scotland analysis: Fiscal policy and sustainability,* HMG, May 2014; Chief Secretary to the Treasury Danny Alexander evidence to Scottish Parliament's Economy, energy and tourism Committee, February 2014
* decreased repayments in the first year on a 75% loan-to-value mortgage on the average Scottish house

4.16 On joining the EU Scotland would not be able to control all of its tax rates: for example, general rules on VAT would apply. The UK has negotiated a number of exceptions from the general VAT rules. If Scotland was not able to negotiate similar arrangements, a minimum of 5 per cent VAT would need to be charged on goods and services that are currently zero rated, which could increase the prices paid by consumers.

"…a new Member State's VAT rates have to comply upon joining the EU with the EU legislation which currently lays down the obligation of applying a standard VAT rate (currently of at least 15 per cent), and the option to apply one or two reduced VAT rates set no lower than 5 per cent for a certain limited list of supplies."

European Commission, April 2014

"Independence would also be likely to lead to an increase in costs for Scottish consumers on children's clothing, new dwellings and food in shops – all areas on which the UK currently enjoys exemptions or lower rates of VAT than usually allowed under EU rules."

Confederation of British Industry, March 2014

Postal services and communications

4.17 The UK's postal services are used by millions of people and businesses every day. The UK's universal postal service provides for the same standards of service throughout the UK, which means that the cost of posting a letter is the same across the UK. Over 90 per cent of Scottish rural or small businesses use or rely on the universal service.

4.18 Creating a border for mail would impact postal operators, as well as the businesses and consumers that use their services on both sides of the border. If post could not move freely across the border, it may cost operators more and take them longer to deliver.

4.19 The price that consumers pay to post letters and parcels would be affected. UK consumers currently pay more to send post to Dublin than they do to Belfast.

4.20 The UK Government has committed to provide funding (£415 million in 2013/14) to maintain a network of at least 11,500 branches that meets strict access criteria which ensures, for example, that over 99 per cent of the national population live within three miles of a post office.

4.21 Scotland has a large number of people living in rural areas where managing mobile networks and communications infrastructure is more expensive. Scotland has a higher proportion of rural areas than the UK as a whole so maintaining these services could result in higher costs.

Chapter 5:
Place in the world

5.1 The UK has a unique and historic role in world affairs. On behalf of its citizens it pursues its international interests, enhancing the UK's security and prosperity and promoting its shared values. The UK is the second largest aid donor in the world. Its collective influence and reach is helping to end extreme poverty, saving lives during humanitarian crises and making vital contributions to peacekeeping missions.

5.2 The UK is a permanent member of the UN Security Council, a leading member of the EU and a founder member of the North Atlantic Treaty Organisation (NATO). It is the only state in the world that is a member of these organisations, as well as the G7, G8, G20 and the Commonwealth.

5.3 As a new, separate state, Scotland would have to apply to join these international organisations, and it would not qualify to be a member of all of them in its own right. It would also need to align its international policy with the policies of the organisations it sought to join, or negotiate to secure specific terms of membership.

5.4 For example, all 28 NATO Allies have agreed that NATO will remain a nuclear alliance. The current Scottish Government's policy of seeking to join NATO whilst expressing opposition to nuclear weapons would be likely to make it more difficult to join.

EU membership and costs

5.5 In the EU, the UK currently has the equal highest number of votes in the European Council and the third largest European Parliament delegation. The UK uses its influence on behalf of all its citizens and delivers on a whole host of issues of particular interest to people and businesses in Scotland, such as budget contributions, fisheries, agricultural subsidies and Structural Funds. Scotland's interests are represented at all levels, in discussions and negotiations from its position within the UK.

5.6 The EU is a treaty-based organisation and the UK – not its constituent nations – is the contracting party to the Treaties of the EU. The UK's EU membership would continue on existing terms in the event of Scottish independence. That includes the important opt-outs the UK has secured, allowing it to keep the pound and control of its borders and immigration policy, as well its rebate from the EU budget.

5.7 By contrast, since an independent Scotland would be a new state, it would have to go through an accession process to become a member of the EU. It would also have to enter into negotiations on the terms of its membership. It cannot be assumed that Scotland would be able to negotiate the favourable terms of EU membership which the UK enjoys.

"The treaties of the European Union apply only and exclusively to member states that have agreed to them and ratified them. If a region or territory of a member state breaks away and becomes a new independent country they will become a third country, with respect to the EU, and its treaties won't apply to them."

Mariano Rajoy, Prime Minister of Spain, November 2013

5.8 The terms of EU membership that the Scottish Government has said they would wish to secure, most notably on currency and travel, are at odds with the EU's own rules on membership. This is likely to make negotiations more difficult, and less likely to be completed quickly. It could not be guaranteed that Scotland's negotiations would be completed within the current Scottish Government's stated 18-month timeframe for joining the EU.

5.9 The terms of EU membership also require complete agreement from all 28 Member States – it would only take one state to object for the process to be held up. Some Member States may be unwilling to grant special opt-outs to Scotland on measures which they have had to adopt themselves. Others have their own independence movements to consider, which will influence how they view Scotland's membership of the EU.

"Accession to the European Union will have to be approved by all other member states of the European Union… it will be extremely difficult to get the approval of all the other member states to have a new member coming from one member state."

Jose Manuel Barroso, President,
European Commission, February 2014

5.10 Each member state has to pay to be a member of the EU. Scotland would be a net contributor, and would have to pay a lot more for its membership than it does as part of the UK. The UK has successfully negotiated EU budget terms

On joining the EU an independent Scotland would have to negotiate the terms of its membership

As part of the UK Scotland benefits from the UK rebate of **over £3bn** per year from the EU Budget

As part of the UK Scotland will save between around **£750 and £1470** per household on the cost of its EU membership, from 2014 to 2020

Source: *Scotland analysis: EU and international issues*, HMG, January 2014 that mean it gets a rebate of over £3 billion a year. This is a substantial reduction in the UK's contribution to the EU budget, because the UK receives a lot less than it pays in compared to other Member States.

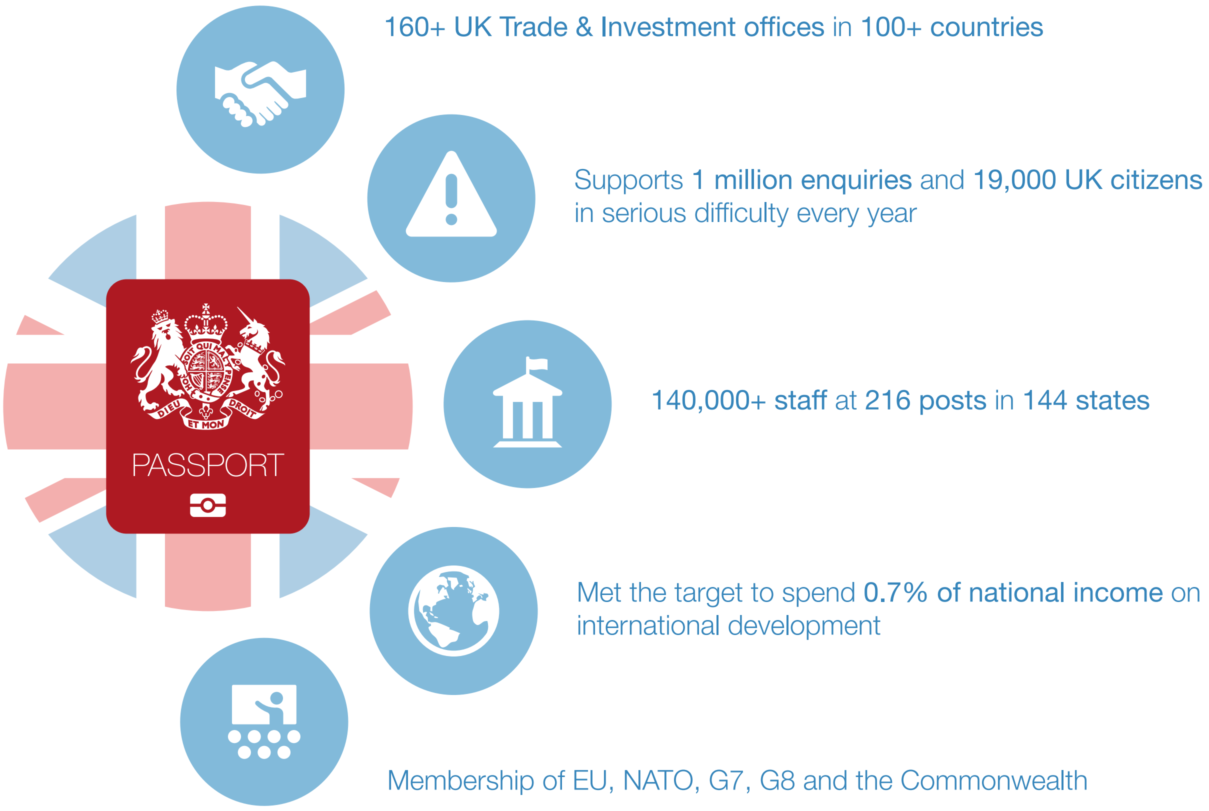
5.11 After a lengthy transition, Scotland may receive more funding for some specific EU budget items, but any gain would be outweighed by losing the benefit of the UK's rebate. In fact, like all other Member States, it would have to contribute to the UK's rebate, not benefit from it.

5.12 At the moment, as part of the UK, Scotland gets the benefits of the next seven years of EU membership at a discount. Each Scottish household's net contribution to the EU budget is between around £750 and £1,470 lower over the next seven years than it would be if Scotland were an independent state.

Citizenship

5.13 The government of an independent Scotland would have to decide who could become, or would be required to become, a Scottish citizen. The current Scottish Government has proposed that all British citizens habitually resident in Scotland will be considered Scottish citizens, and that Scottish-born British citizens currently living outside of Scotland will also be considered Scottish citizens.

5.14 British citizens living outside the UK cannot pass their British nationality on more than one generation. The children of British citizens living in an independent Scotland would, under current rules, be British citizens. Their children and subsequent generations would not automatically be.



Source: *Scotland analysis: EU and international issues*, HMG, January 2014

Supporting businesses and travellers abroad

5.15 The UK's diplomatic network employs over 14,000 people and works internationally to promote and protect the economic interests of businesses based in Scotland – for example defending Scotch whisky against counterfeits, discriminatory or excessive taxation, trade barriers and other restrictions.

5.16 Scottish businesses benefit from the active support of UK Trade & Investment's (UKTI's) more than 160 offices in more than 100 countries. Additional targeted support for Scottish exports is currently delivered through a partnership between UKTI and Scottish Development International (SDI), which has 26 offices in 15 countries outside the UK.

5.17 On receiving an investment enquiry, UKTI considers locations throughout the UK which might interest the investor. If one or more of these locations is in Scotland, UKTI draws this to SDI's attention and can help SDI make the case for the investment to go to Scotland. Of 111 Scottish foreign direct investment projects recorded by UKTI in 2012/13, UKTI was involved in 84. Of those, 64 were in partnership with SDI.

5.18 Scottish businesses now have the best of both worlds: access to UKTI's expertise and global reach, alongside the Scotland-specific focus of SDI. Businesses in an independent Scotland would lose access to UKTI and the political weight the UK uses to champion them.

"The Scottish Government White Paper envisages a network of 70 to 90 overseas missions, but we export to around 200 markets. A diplomatic network with the necessary geographic footprint, expertise, and influence to provide commercial and political support globally will continue to be essential."

Scotch Whisky Association, May 2014

Consular support

The extent of the UK's connections overseas – particularly trading relationships and family ties – means that the UK maintains one of the most extensive and effective consular networks of any country in the world. They work for the protection of British citizens visiting or living overseas, dealing with around one million enquiries from members of the public each year:

- The UK has consular representation at 216 posts in 144 states
- There are more than 800 staff working on consular issues at any one time in the UK and abroad, serving British citizens who find themselves in difficulty
- This is supplemented by over 230 Honorary Consuls, and 160 other staff, trained in crisis management, ready to be deployed at any moment in response to a crisis

An independent Scotland would be responsible for its citizens in any country where it had representation of any kind. It is likely, at least in the short term, that citizens of an independent Scotland would depend on other states for consular assistance.

Secure and open borders

5.19 By pooling security spending and working to protect one international border, every part of the UK benefits equally from every pound spent. Preventing drugs, firearms or other illegal goods from being shipped through the Port of Dover, flown to Glasgow Airport or driven across Northern Ireland's land border benefits people across the UK.

5.20 Scotland's boundaries with the other parts of the UK are not international borders. Travel inside the UK does not require identification documents or customs inspections. UK law allows police officers from one part of the UK to arrest a criminal in another part of the UK.

5.21 The boundaries between an independent Scotland and the UK would be very different. They would become international borders and both states would have to establish systems and processes for managing them. The continuing UK and its institutions would no longer have responsibility for or powers to manage Scotland's borders. Scotland would manage its migration and borders policies separately from the continuing UK.

5.22 One way of reducing border controls is to cooperate with neighbouring states. This would limit Scotland's ability to pursue different migration and border policies as it would need to cooperate with the international groups or borderless travel areas it sought to join.

5.23 For example, Scotland could seek to join the Common Travel Area (CTA) and cooperate on border policies to allow free movement between Scotland and the other parts of the UK, the Republic of Ireland, the States of Jersey and Guernsey and the Isle of Man. Membership of the CTA would have to be negotiated.

5.24 However, Scotland could be required to join the EU's Schengen area. Since 1999, new EU Member States have been required to join this area as part of their terms of EU membership. States that join protect a single shared external border, rather than the borders between each individual state, to create a borderless travel area.

5.25 The two areas do not overlap. The UK and the other members of the CTA are not members of the Schengen area. An independent Scotland would not be able to join both, and would have to choose which was in its national interest.

Would border controls be necessary?

The Scottish Government has said that it would want an independent Scotland to: join the Common Travel Area (CTA); opt-out of membership of the EU's Schengen area; and pursue a more open migration policy in order to increase the Scottish population.

- If an independent Scotland joined the CTA, but pursued a very different immigration policy, this could put the CTA arrangements under strain. The other members of the CTA may decide that controls are necessary in order to stop people travelling illegally from Scotland into other CTA states.
- If an independent Scotland had to join the EU's Schengen area, it could not join the CTA. Instead, it would have to establish land, sea and air borders with states outside the Schengen area, including the continuing UK.

Travel between an independent Scotland and the continuing UK might require people to carry passports or some other agreed form of identification.

5.26 There would be new complexities, even if border controls were not necessary. For example, officers of the Police Service of Northern Ireland and An Garda Síochána have no powers of arrest across the UK's land border with the Republic of Ireland. Although some EU Member States allow neighbouring police services to follow suspects across borders in 'hot pursuit', the UK is not party to these arrangements.

Defence and security

5.27 The UK Government defends the whole of the UK and all its citizens equally, acting on behalf of people in England, Scotland, Wales and Northern Ireland, as well as the Overseas Territories and UK citizens abroad. Scotland plays an integral part in all aspects of the UK's defence. Leaving the UK would have profound consequences for the national security of both Scotland and the rest of the UK.

5.28 As part of the UK, Scotland benefits from the full range of UK defence capabilities and activities. These defend UK airspace, patrol the surrounding seas and help to protect everyone in the UK against threats. They also contribute to operations around the world, including in fragile states, to support the prevention of conflict and respond to humanitarian crises. The scale and quality of the UK's capabilities mean that it is able to make a real difference, which smaller states find more difficult to achieve.

5.29 Scotland also benefits from the UK's national security agencies, such as MI5, MI6 and GCHQ, working together to protect British citizens at home, overseas and online. Creating independent defence capabilities and armed forces would not be as simple as transferring units or assets to Scotland. The defence sites currently in Scotland would not necessarily fit with an independent Scotland's future defence needs. Many critical functions could not be split, and it may be more difficult for Scotland to sustain levels of investment at existing bases which are currently geared towards support for very specific capabilities.

5.30 More broadly, the UK is one of NATO's largest contributors in terms of personnel, resources and leadership, and as a result is well positioned to shape the current and future thinking of the Alliance, and to benefit from the collective security it provides.

Annex A:
Scotland analysis programme

Led by UK Government civil servants and informed by expert and legal opinion and scrutiny, the Scotland analysis programme has examined how Scotland contributes to and benefits from being part of the UK, and how the rest of the UK benefits from its partnership with Scotland.

This is the fifteenth paper in the Scotland analysis programme, and draws together the conclusions of the fourteen previous papers in the series:

Scotland analysis: Devolution and the implications of Scottish independence

Scotland analysis: Currency and monetary policy

Scotland analysis: Financial services and banking

Scotland analysis: Business and microeconomic framework

Scotland analysis: Macroeconomic and fiscal performance

Scotland analysis: Defence

Scotland analysis: Security

Scotland analysis: Science and research

Scotland analysis: EU and international issues

Scotland analysis: Borders and citizenship

Scotland analysis: Assessment of a sterling currency union

Scotland analysis: Energy

Scotland analysis: Work and pensions

Scotland analysis: Fiscal policy and sustainability

Each of the papers is available to view or download online at: www.gov.uk/scotlandanalysis

'In the Know', a series of accessible factsheets produced by HM Government based on the Scotland analysis programme and information from independent third parties, is available to view or download online at: www.gov.uk/government/collections/scottish-independence-referendum-factsheets

Annex B: Further reading

Chapter 1: Benefits of the UK

Devolution Settlement: Scotland, GOV.UK, February 2014

Scotland analysis: Devolution and the implications of Scottish independence, HM Government, February 2013

Scotland Act 2012

Prime Minister's comments on the Strathclyde Commission, Rt Hon David Cameron MP, June 2014

Speech to the Scottish Liberal Democrat spring conference, Rt Hon Nick Clegg MP, March 2014

Miliband announces contract with the people of Scotland, Rt Hon Ed Miliband MP, May 2014

UK public bodies that operate in Scotland, HM Government, June 2013

National Accounts Sector Classification, Classification Update, Office for National Statistics, May 2014

Scotland analysis: Work and pensions, HM Government, April 2014

Scotland analysis: Science and research, HM Government, November 2013

Opinion: Referendum on the Independence of Scotland – International Law Aspects, Professor James Crawford SC and Professor Alan Boyle, February 2013

Scotland's Future: your guide to an independent Scotland, Scottish Government, November 2013

Scotland analysis: Borders and citizenship, HM Government, January 2014

Scotland analysis: Business and microeconomic framework, HM Government, July 2013

Scotland analysis: Fiscal policy and sustainability, HM Government, May 2014

Scotland analysis: Assessment of a sterling currency union, HM Government, February 2014

Chapter 2: Businesses and jobs

Scotland analysis: Macroeconomic and fiscal performance, HM Government, September 2013

Scotland analysis: Business and microeconomic framework, HM Government, July 2013

Scotland analysis: Energy, HM Government, April 2014

Scotland analysis: Financial services and banking, HM Government, May 2013

Scotland analysis: Defence, HM Government, October 2013

Scotland analysis: Assessment of a sterling currency union, HM Government, February 2014

Scotland analysis: Currency and monetary policy, HM Government, April 2013

Speech at lunch hosted by the Scottish Council for Development and Industry, Mark Carney, January 2014

Letter to the Chancellor of the Exchequer, Sir Nicholas Macpherson, February 2014

Speech on the prospect of a currency union with an independent Scotland, Rt Hon George Osborne MP, February 2014

Statement on the prospect of a currency union with an independent Scotland, Rt Hon Danny Alexander MP, February 2014

Ed Balls on the Scottish pound, interview with Rt Hon Ed Balls MP, The Telegraph, February 2014

The potential implications of independence for businesses in Scotland, Weir Group/Oxford Economics, April 2014

Results for the twelve months ended 31 December 2013, Aggreko, March 2014

Sir Ian Cheshire warns over Scottish independence, The Telegraph, May 2014

Economic Report 2013, Oil and Gas UK, July 2013

BP boss warns of 'uncertainties' due to Scottish vote, bbc.co.uk, February 2014

Scottish independence and financial services – an industry observer's perspective, Owen Kelly, Scottish Financial Enterprise, November 2012

Customer statement: Scottish Referendum, Standard Life, February 2014

Scottish independence: Rosyth owner Babcock raises "Yes" vote concerns, bbc.co.uk, March 2014

The Referendum on Separation for Scotland: Separation shuts shipyards, Scottish Affairs Committee, January 2013

Chapter 3: Affordability of public services

Scotland analysis: Fiscal policy and sustainability, HM Government, May 2014

Scotland's Future: your guide to an independent Scotland, Scottish Government, November 2013

Government Expenditure and Revenue Scotland 2012-13, Scottish Government, March 2014-06-12

Summary of forecasts of the Scottish deficit in the proposed year of independence, HM Treasury, March 2013

Scotland analysis: Macroeconomic and fiscal performance, HM Government, September 2013

Scotland analysis: Business and microeconomic framework, HM Government, July 2013

New IMF forecasts show that an independent Scotland would have one of the highest deficits of all advanced economies, HM Treasury, April 2014

Treasury analysis shows £1.6 billion funding gap in Scottish independence White Paper, HM Treasury, December 2013

Budget 2014, HM Treasury, March 2014

Scotland's oil fund to 'be established on independence', Scottish Government, October 2013

Fiscal sustainability report, Office for Budget Responsibility, July 2013

Scotland analysis: Work and pensions, HM Government, April 2014

National Population Projections, 2012-based Statistical Bulletin, Office for National Statistics, November 2013

The road to secession: Estimating the costs of independence in advanced industrial states, Professor Robert Young, December 2013

Unfunded commitments in 'Scotland's Future', HM Treasury, December 2013

Chapter 4: Personal Finances

Scotland analysis: Fiscal policy and sustainability, HM Government, May 2014

Scotland analysis: Macroeconomic and fiscal performance, HM Government, September 2013

Scotland analysis: Business and microeconomic framework, HM Government, July 2013

Scotland analysis: Financial services and banking, HM Government, May 2013

Scotland's currency options, National Institute of Economic and Social Research, September 2013

Evidence to the Scottish Parliament's Economy, Energy and Tourism Committee, Rt Hon Danny Alexander MP, February 2014

New warning over mortgage rates under independence, Herald Scotland, March 2014

Scotland's pensions future: What pensions arrangements would Scotland need? Institute of Chartered Accountants Scotland, April 2013

Scotland analysis: Energy, HM Government, April 2014

Answer given by Mr Füle on behalf of the Commission (E-001825/2014), European Parliament, April 2014

The Scottish Government's plans for independence: An analysis from business, Confederation of British Industry, March 2014

Agenda: The large retail levy just does not add up for our customers or for us, Herald Scotland, December 2013

Retailers review Scottish pricing ahead of independence vote, Financial Times, February 2014

Chapter 5: Place in the world

Scotland analysis: EU and international issues, HM Government, January 2014

Scotland's Future: your guide to an independent Scotland, Scottish Government, November 2013

Scottish independence: Barroso says joining EU would be 'difficult', bbc.co.uk, February 2014

Speech at the launch of Scotland analysis: EU and international issues, Rt Hon Danny Alexander MP, January 2014

Scotland analysis: Business and microeconomic framework, HM Government, July 2013

Scotch Whisky Association Annual Review 2013, Scotch Whisky Association, May 2014

Scotland analysis: Borders and citizenship, HM Government, January 2014

Scotland analysis: Security, HM Government, October 2013

Scotland analysis: Defence, HM Government, October 2013