

The Government's fiscal policy objectives are:

- over the medium term, to ensure sound public finances and that spending and taxation impact fairly within and between generations; and
- over the short term, to support monetary policy and, in particular, to allow the automatic stabilisers to help smooth the path of the economy.

Chapter 2 sets out the action the Government is taking to achieve these goals. This chapter presents more detailed information on the fiscal projections, consistent with the *Code for Fiscal Stability*.

## INTRODUCTION

**C.1** This chapter explains the latest public finance outturns and the fiscal projections in more detail<sup>1</sup>. It includes:

- five-year projections of the current budget, the cyclically-adjusted current budget, public sector net borrowing (PSNB) and public sector net debt excluding financial sector interventions; and
- detailed analyses of the outlook for government receipts and expenditure.

**C.2** As set out in Chapter 2, the Budget presents information on the public finances on three different bases:

- **Including financial sector interventions on a national accounts basis.** These measures reflect the treatment of financial sector interventions as determined by the national accounts, including temporary and exceptional effects from, for example, the inclusion of the balance sheets and operations of banks classified to the public sector.
- **Excluding liabilities and unrealised losses from financial sector interventions.** These measures remove the temporary effects of financial sector interventions on the fiscal aggregates. As losses are realised for central government, and so can be reliably included in the fiscal projections, they will score in these measures.
- **Including unrealised losses on financial sector interventions.** These measures include the anticipated future loss stemming from the Government's financial sector interventions, and so are better measures of the sustainability of the medium term fiscal position than those on the other two measurement bases. They remove the temporary effects of financial sector interventions on the fiscal aggregates.

**C.3** The projections set out in this chapter are based on the first two of these bases. The estimate of unrealised losses is not included in these projections, because both the quantum and the timing are uncertain.

<sup>1</sup> For further detail, see *Budget 2009: the economy and public finances – supplementary material* on the Treasury's internet site. This includes tables on public expenditure, sub-sector and economic category analyses, and conventions used in presenting the public finances.

## FORECAST ASSUMPTIONS AND RISKS

**Key assumptions C.4** This section sets out the key assumptions on which the fiscal projections are based:

- the economy follows the path described in Chapter B. The fiscal projections continue to be based on the assumption that trend output growth will be ¼ percentage point lower than the Government's neutral view, which is designed to add caution, implying growth of the economy for the public finances projections of -2¾ per cent in 2009-10, 1¾ per cent in 2010-11 and 3¼ per cent in 2011-12;
- there are no tax or spending policy changes beyond those announced in or before this Budget. Rates, thresholds and limits increase in line with projected indexation or announced policy. Consistent with the *Code for Fiscal Stability*, the forecast does not take account of measures proposed in this Budget for consultation or other proposals where final decisions are yet to be taken;
- Departmental Expenditure Limits (DEL) to 2010-11 are adjusted as set out in Chapter 2, in order to help support the economy;
- total Annually Managed Expenditure (AME) programmes to 2010-11 have been forecast consistent with the economic assumptions and policy decisions in this Budget;
- public sector current expenditure is then projected to grow at 0.7 per cent on average in real terms from 2011-12 to 2013-14; and
- net investment is projected to move to 1¼ per cent of GDP in 2013-14.

**Table CI: Economic assumptions for the public finance projections**

	Percentage changes on previous year unless otherwise specified						
	Outturn	Estimate	Projections				
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Output (GDP)	3	-1	-2 ¾	1 ¾	3 ¼	3 ¼	3 ¼
Prices							
CPI	2 ¼	3 ¾	1 ¼	1	2	2	2
GDP deflator	2 ¾	2 ½	1	1 ½	2 ½	2 ¾	2 ¾
RPI <sup>1</sup> (September)	4	5	-3	1 ¾	3 ¾	3 ¾	3
Rossi <sup>2</sup> (September)	2 ¼	6 ¼	¼	¾	2 ¼	2 ½	2 ½
Money GDP <sup>3</sup> (£ billion)	1,420	1,439	1,412	1,460	1,548	1,644	1,745

<sup>1</sup> Used for revalorising excise duties in current year and uprating income tax allowances and bands and certain social security benefits in the following year. Unless a fall is specifically allowed for in statute, tax parameters and benefit levels depending on the negative RPI value for 2009 are assumed to remain unchanged from their previous values.

<sup>2</sup> RPI excluding housing costs, used for uprating certain social security benefits.

<sup>3</sup> Not seasonally adjusted.

**C.5** The estimates for 2008-09 are based on all available data within the Treasury and other government departments involved in producing tax and spending forecasts. The estimates are consistent with those set out in today's joint Office for National Statistics (ONS) and HM Treasury monthly public sector finances release.

**The use of NAO audited assumptions** **C.6** The use of assumptions audited by the National Audit Office (NAO) under the three-year rolling review process is designed to add caution into the public finance projections. Details of the audited assumptions are given in Box C1. The trend rate of GDP growth is assumed to be  $\frac{1}{4}$  per cent below the neutral view, which means that the rate of economic growth on which the public finances projections are based is the lower end of the forecast range, as set out in Table C1.

**Trend output assumption** **C.7** For Budget 2009, the Comptroller and Auditor General has audited the assumption for underlying trend growth used for the purposes of projecting the public finances. His audit incorporated a review of the three changes made to the assumption by the Treasury over the three-year rolling review period.

**C.8** The review concluded that the increase in the working-age population growth rate component of the assumption made at the 2006 Pre-Budget Report, to reflect higher projected inward migration, proved to be cautious. On the trend growth assumption itself, he concluded that:

- while the assumption was reasonable in 2006, with hindsight and reflecting the impact of the financial crisis on the economy, the immediate impact of which on trend growth was difficult to judge, the overall trend growth assumption that applied in 2007 and up to the 2008 Pre-Budget Report did not prove to be cautious compared to the latest external estimates of trend growth;
- the new lower assumption for trend output adopted by the Treasury at the 2008 Pre-Budget Report, to reflect the impact of the shock that had occurred and on which sufficient information had by then become available to make a considered change, appears on current information to have been reasonable within the latitudes arising from uncertainties in making estimates of trend growth, though on the basis of his comparisons with the most recent external forecasts and his consultations, there was no longer a clear margin for caution; and
- on the same basis, the revised assumption adopted by the Treasury at Budget 2009, incorporating an additional downward adjustment to reflect the further intensification of the global economic shocks from the time of the 2008 Pre-Budget Report, is reasonable, as well as containing an element of caution.

**Cyclical-adjusted methodology** **C.9** The Comptroller and Auditor General also audited the Treasury's approach to producing estimates of the public finances adjusted for the effects of the economic cycle (the cyclical-adjustment methodology). He concluded that the Treasury's approach is a reasonable one to adopt, provided that its limitations and the inherent uncertainties in the method are acknowledged transparently, as the Treasury has done in past analyses. He recommended that the Treasury sets out an analysis of the key uncertainties relevant at the time of forecasting rounds, and that as an assurance of the continued reasonableness of its methodology, that the Treasury should periodically examine external estimates of the cyclical adjustment coefficients and publish a broad reconciliation of any differences with its own estimates.

**Short-term interest rates** **C.10** The Comptroller and Auditor General concluded that the interest rates convention, that forward three-month interest rates will be based on market expectations, resulted in projections for the past three years of the rolling review period that were cautious overall. He concluded that, while projections of interest rates remain uncertain and are likely to be more so in the medium term, the adjustment to the interest rate convention made by the Treasury to account for the disruption in financial markets over the rolling review period is reasonable, and explicitly seeks to maintain an element of caution.

**Privatisation proceeds** **C.11** The review also concluded that the convention on privatisation proceeds, that only proceeds from announced sales are included in the fiscal projections, had resulted in actual proceeds greater than the level included in the fiscal projections, and that the convention remains a reasonable and cautious approach. No other assumptions were due for review in this Budget.

**Forecast differences and risks** **C.12** Forecasts of the public finance forecast are always subject to a significant degree of uncertainty. As set out in Chapter B, the scale of the shocks, the downturn in activity and the policy interventions currently at play in the global economy means economic forecasts are subject to exceptional uncertainty. As set out in *Public finances and the cycle*<sup>2</sup>, published by HM Treasury at the 2008 Pre-Budget Report, each 1 percentage point lower or higher growth in a year typically leads to a 0.5 percentage point of GDP increase or decrease in PSNB in that year and 0.2 percentage point of GDP in the following year. Another key uncertainty is the outlook for the financial sector, which has been an important source of tax receipts in the UK. To help deal with uncertainty a number of key assumptions underlying the forecast are audited by the NAO and designed to add caution to the forecast. The impact of these assumptions on the forecast is set out in Box C2.

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<sup>2</sup>Public finances and the cycle: Treasury Economic Working Paper No.5, HM Treasury, November 2008.

**Box C1: Key assumptions audited by the NAO<sup>a</sup>**

Trend GDP growth <sup>f</sup>	2½ per cent a year to 2014. A downward adjustment of around 5 per cent has been made to the level of trend output, phased in between mid-2007 and mid-2010, as set out in Chapter B.
Dating of the cycle <sup>e</sup>	The previous economic cycle, which began in the first half of 1997, ended in the second half of 2006.
Composition of GDP <sup>c</sup>	Shares of labour income and profits in national income are broadly constant in the medium term.
Consistency of price indices <sup>b</sup>	Projections of price indices used to project the public finances are consistent with CPI.
Oil prices <sup>e</sup>	\$46.7 a barrel in 2009, the average for the three months to 14 April, and then constant in real terms. This is lower than the \$48.4 average of independent forecasts for 2009.
Equity prices <sup>b</sup>	FTSE All-share index rises from 2097 (close 17 April) in line with money GDP.
VAT <sup>c</sup>	The underlying VAT gap will rise by 0.5 percentage points per year from the estimated outturn for the current year.
Tobacco <sup>c</sup>	The underlying level of duty paid consumption of cigarettes will be set at least three per cent per year lower than the estimated outturn for the current year.
UK claimant unemployment <sup>d,g</sup>	Projections are based on the average of independent forecasts. Under the convention, the most recent data result in a projection of the UK claimant unemployment rising from recent levels of 1.39 million to 2.09 million at the end of 2009, and to 2.44 million at the end of 2010.
Interest rates <sup>f</sup>	3-month market rates change in line with market expectations (as of 14 April).
Funding <sup>c</sup>	Funding assumptions used to project debt interest are consistent with the forecast level of government borrowing and with financing policy.
Privatisation proceeds <sup>f</sup>	Credit is taken only for proceeds from sales that have been announced.

<sup>a</sup> For details of all NAO audits before the 2006 Pre-Budget Report, see Budget 2006, 22 March 2006 (HC 937).

<sup>b</sup> Audit of Assumptions for the 2006 Pre-Budget Report, 6 December 2006 (HC 125).

<sup>c</sup> Audit of Assumptions for Budget 2007, 21 March 2007 (HC 393).

<sup>d</sup> Audit of Assumptions for Budget 2008, 12 March 2008 (HC 345).

<sup>e</sup> Audit of Assumptions for the 2008 Pre-Budget Report, 24 November 2008 (HC 1150).

<sup>f</sup> Audit of Assumptions for Budget 2009, 22 April 2009 (HC 408).

<sup>g</sup> Seasonally-adjusted UK claimant unemployment. This is a cautious assumption based on the average of external forecasts and is not the Treasury's economic forecast.

## FISCAL PROJECTIONS

**C.13** Table C2 shows five-year projections for the current budget, cyclically-adjusted current budget, public sector net borrowing and public sector net debt<sup>3</sup>. Outturns and projections of other important measures of the public finances are also shown.

**Table C2: Summary of public sector finances**

	Per cent of GDP						
	Outturn Estimate		Projections				
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
<b>Fiscal consolidation</b>							
Surplus on current budget	-0.4	-3.6	-9.3	-9.4	-7.2	-5.6	-4.3
Cyclically-adjusted surplus on current budget	-0.7	-3.1	-6.7	-6.4	-4.9	-3.9	-3.2
Consolidation in the cyclically-adjusted surplus on current budget <sup>1</sup>	-	-	-	0.3	1.6	1.0	0.7
<b>Economic impact</b>							
Net investment	2.1	2.6	3.1	2.5	1.9	1.6	1.3
Public sector net borrowing (PSNB)	2.4	6.3	12.4	11.9	9.1	7.2	5.5
Cyclically-adjusted PSNB	2.7	5.7	9.8	8.9	6.8	5.5	4.5
<b>Sustainability</b>							
Public sector net debt <sup>2,3</sup>	36.5	43.0	55.4	65.0	70.9	74.5	76.2
Core debt <sup>2,3</sup>	36.6	42.5	52.4	59.2	63.2	65.7	66.9
Net worth <sup>4</sup>	28.9	25.5	21.1	10.5	4.0	-0.3	-2.9
Primary balance	-0.9	-4.6	-10.8	-9.3	-6.1	-4.1	-2.5
<b>Financing</b>							
Central government net cash requirement	2.3	11.3	15.6	12.3	9.6	7.3	6.0
Public sector net cash requirement <sup>3</sup>	1.5	4.2	13.3	12.3	9.7	7.5	6.0
<b>Stability and Growth Pact</b>							
Treaty deficit <sup>5</sup>	2.8	7.1	12.6	12.0	9.2	7.3	5.8
Cyclically-adjusted Treaty deficit <sup>5</sup>	3.1	6.6	10.0	9.0	6.9	5.7	4.7
Treaty debt ratio <sup>6</sup>	43.2	55.2	71.9	82.1	87.2	89.9	90.7
Memo: Output gap	0.6	-1.3	-4.8	-4.0	-3.0	-2.1	-1.2
Memo: PSND including financial sector interventions	43.1	52.4	64.9	74.2			
Memo: PSNCR including financial sector interventions	1.5	5.8	13.4	12.5			

<sup>1</sup> Change in the cyclically-adjusted surplus on the previous year.

<sup>2</sup> Debt at end March; GDP centred on end March.

<sup>3</sup> Excluding liabilities and unrealised losses from financial sector interventions.

<sup>4</sup> Estimate at end December; GDP centred on end December.

<sup>5</sup> General government net borrowing on a Maastricht basis.

<sup>6</sup> General government gross debt measures on a Maastricht basis.

**Current budget C.14** The Budget projections expect the current budget to remain in deficit throughout the forecast period, peaking at 9.4 per cent of GDP in 2010-11, and then falling to 4.3 per cent by 2013-14. The cyclically-adjusted surplus removes the estimated effects of the economic cycle on the current balance. The cyclically-adjusted deficit is expected to fall from 6.7 per cent in 2009-10 to 3.2 per cent in 2013-14.

**Net debt to GDP ratio C.15** PSND is projected to rise over the forecast period to 76.2 per cent of GDP by 2013-14. The projections for core debt, which excludes the estimated impact of the economic cycle, is expected to rise to 66.9 per cent in 2013-14.

<sup>3</sup>As set out in Chapter 2, the measure of public sector net debt (PSND) used for the assessment of fiscal sustainability excludes the impact of liabilities and unrealised losses from the financial sector interventions. Table C2 also reports on PSND including the impact of these interventions.

**Contingent liabilities C.16** Fiscal aggregates published by the Government, such as net debt and net worth, reflect public sector liabilities that have been accrued in the past and are certain to require future transfers to meet the obligations. In addition, there are provisions or contingent liabilities that may have to be met in the future but where the timing or existence of the liability is not certain, these include, for example, nuclear decommissioning liabilities. The Government considers these types of liabilities in the sustainability analysis published in the *Long-term public finance report*, including most recently in the 2008 report. The report publishes estimates of net liabilities, which include provisions and are based on dry run Whole of Government Accounts (WGA). When WGA are published for the year 2009-10, contingent liabilities will be disclosed as a note to the accounts. However, measures of contingent liability are subject to significant uncertainties, which limits the extent to which they can be used to determine fiscal policy in the short run.

**Net worth C.17** Public sector tangible and financial assets net of financial liabilities can be calculated to provide an estimated measure of net worth. Because capital spending adds to assets and current spending does not, this measure is the approximate stock counterpart of the current budget. On this measure net worth is projected to become negative in the medium term as current borrowing continues. This borrowing reduces net worth, as it is not offset by an increase in the Government's existing assets. As such measures include liabilities accrued to date that will have to be met in the future, but do not take account of future government revenues, the concept of net worth is not comprehensive. Net worth is not used as a key indicator of the public finances, mainly as a result of the difficulties involved in accurately measuring many government assets and liabilities. The estimates of values of tangible assets are subject to wide margins of error because they depend on broad assumptions, for example about asset lives, which may not be appropriate in all cases.

**Net investment C.18** Public sector net investment has increased rapidly in recent years from 1¼ per cent of GDP in 2003-04 to 2.1 per cent of GDP in 2007-08. As a result of decisions taken in this Budget and the 2008 Pre-Budget Report, net investment will increase to 3.1 per cent of GDP in 2009-10 and then move to around 1¼ per cent of GDP in 2013-14.

**Public sector net borrowing C.19** Public sector net borrowing (PSNB) is projected to increase to 12.4 per cent of GDP in 2009-10 from 6.3 per cent in 2008-09. With tax receipts expected to fall further and the automatic stabilisers projected to increase expenditure since the 2008 Pre-Budget Report, PSNB will peak in 2009-10 and then fall each year to 5.5 per cent of GDP in 2013-14 as a result of economic recovery and the Government's action to ensure the sustainability of the public finances.

**Financing C.20** The central government net cash requirement (CGNCR) was 2.3 per cent of GDP in 2007-08 and 11.3 per cent in 2008-09, which is higher than forecast in the 2008 Pre-Budget Report due to higher net investment and lower receipts. The CGNCR is projected to be around 15.6 per cent of GDP in 2009-10 and is expected to fall steadily to 6.0 per cent in 2013-14 as net borrowing falls. The impact on the CGNCR of financial sector interventions is included in Table C15.

**Stability and Growth Pact C.21** Table C2 shows the Treaty measures of debt and deficit used for the purposes of the Excessive Deficit Procedure – Article 104 of the Treaty. The treaty deficit in 2007-08 was 2.8 per cent of GDP. The deficit is expected to peak at 12.6 per cent of GDP in 2009-10 before falling to 5.8 per cent in 2013-14. Treaty debt is forecast to rise from 43.2 per cent of GDP in 2007-08 to 90.7 per cent in 2013-14.

## CHANGES TO THE FISCAL BALANCES

**C.22** Table C3 compares the latest estimates for the main fiscal balances with those in Budget 2008 and the 2008 Pre-Budget Report.

**Table C3: Fiscal balances compared with Budget 2008 and the 2008 Pre-Budget Report**

	Outturn <sup>1</sup>	Estimate <sup>2</sup>	Projections				
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
<b>Net borrowing (£ billion)</b>							
<b>Budget 2008</b>	<b>36.4</b>	<b>42.5</b>	<b>38</b>	<b>32</b>	<b>27</b>	<b>23</b>	
Changes to current budget	-1.2	31.6	74	77	65	56	
Changes to net investment	1.4	3.5	5 ½	-4	-5 ½	-8	
<b>2008 Pre-Budget Report</b>	<b>36.6</b>	<b>77.6</b>	<b>118</b>	<b>105</b>	<b>87</b>	<b>70</b>	<b>54</b>
Changes to current budget	-1.4	11.1	53 ½	64 ½	57	54	53 ½
Changes to net investment	-0.6	1.2	3 ½	3 ½	-3 ½	-6 ½	-10 ½
<b>Budget 2009</b>	<b>34.6</b>	<b>90.0</b>	<b>175</b>	<b>173</b>	<b>140</b>	<b>118</b>	<b>97</b>
<b>Surplus on current budget (£ billion)</b>							
<b>Budget 2008</b>	<b>-7.9</b>	<b>-9.6</b>	<b>-4</b>	<b>4</b>	<b>11</b>	<b>18</b>	
Effect of revisions and forecasting changes	1.2	-23.3	-61	-78	-75	-72	
Effect of discretionary changes <sup>3</sup>	0.0	-8.3	-13	1	10	16	
<b>2008 Pre-Budget Report</b>	<b>-6.7</b>	<b>-41.2</b>	<b>-78</b>	<b>-73</b>	<b>-54</b>	<b>-37</b>	<b>-21</b>
Effect of revisions and forecasting changes	1.3	-11.1	-48	-64 ½	-63 ½	-66 ½	-71
Effect of discretionary changes <sup>3</sup>	0.0	0.0	-5 ½	½	7	12 ½	17 ½
<b>Budget 2009</b>	<b>-5.3</b>	<b>-52.3</b>	<b>-132</b>	<b>-137</b>	<b>-111</b>	<b>-91</b>	<b>-74</b>
<b>Net investment (£ billion)</b>							
<b>Budget 2008</b>	<b>28.5</b>	<b>32.9</b>	<b>35</b>	<b>37</b>	<b>38</b>	<b>41</b>	
Effect of revisions and forecasting changes	1.4	2.5	2 ½	- ½	-2	-1 ½	
Effect of discretionary changes <sup>3</sup>	0.0	1.0	3 ½	-3 ½	-4	-6 ½	
<b>2008 Pre-Budget Report</b>	<b>29.9</b>	<b>36.5</b>	<b>40</b>	<b>33</b>	<b>33</b>	<b>33</b>	<b>33</b>
Effect of revisions and forecasting changes	-0.6	1.2	1 ½	2 ½	-2	-1 ½	-1 ½
Effect of discretionary changes <sup>3</sup>	0.0	0.0	1 ½	1	-1 ½	-5	-9
<b>Budget 2009</b>	<b>29.3</b>	<b>37.7</b>	<b>44</b>	<b>36</b>	<b>29</b>	<b>26</b>	<b>22</b>
<b>Cyclically-adjusted surplus on current budget (per cent of GDP)</b>							
Budget 2008	-0.7	-0.5	0.1	0.5	0.8	1.0	
2008 Pre-Budget Report	-0.8	-2.8	-4.4	-3.4	-2.3	-1.6	-1.0
<b>Budget 2009</b>	<b>-0.7</b>	<b>-3.1</b>	<b>-6.7</b>	<b>-6.4</b>	<b>-4.9</b>	<b>-3.9</b>	<b>-3.2</b>
<b>Cyclically-adjusted net borrowing (per cent of GDP)</b>							
Budget 2008	2.7	2.7	2.2	1.8	1.5	1.2	
2008 Pre-Budget Report	2.9	5.3	7.2	5.6	4.3	3.5	2.8
<b>Budget 2009</b>	<b>2.7</b>	<b>5.7</b>	<b>9.8</b>	<b>8.9</b>	<b>6.8</b>	<b>5.5</b>	<b>4.5</b>
<b>Net debt (per cent of GDP)<sup>4</sup></b>							
Budget 2008	37.1	38.5	39.4	39.8	39.7	39.3	
2008 Pre-Budget Report	36.3	41.2	48.2	52.9	55.6	57.1	57.4
<b>Budget 2009</b>	<b>36.5</b>	<b>43.0</b>	<b>55.4</b>	<b>65.0</b>	<b>70.9</b>	<b>74.5</b>	<b>76.2</b>

Note - Totals may not sum due to rounding.

<sup>1</sup> The 2007-08 figures were estimates in Budget 2008.

<sup>2</sup> The 2008-09 figures were projections in Budget 2008.

<sup>3</sup> Including changes to forecasting assumptions on spending growth in 2011-12 and 2012-13.

<sup>4</sup> Debt at end March; GDP centred on end March; excluding liabilities and unrealised losses from financial sector interventions.

**Changes to 2007-08** **C.23** The outturn for the current budget in 2007-08 shows a deficit of £5.3 billion, £2.7 billion lower deficit than expected at Budget 2008. The changes since Budget 2008 largely reflect revisions following reclassification of some central and local government expenditure from current to capital expenditure, which was partly offset by downward revisions to current receipts. The 2007-08 outturn for net borrowing is £1.9 billion lower than the Budget 2008 estimate, slightly less than the fall in the current deficit, due to the revised increase in capital expenditure.

**Changes to 2008-09** **C.24** The outturn for the current deficit in 2008-09 is higher than forecast in the 2008 Pre-Budget Report due primarily to weaker than expected receipts driven by the deterioration in the economy. In particular receipts from income tax, VAT and corporation tax have been lower than expected at the Pre-Budget Report due to lower than expected nominal wages, consumption and profits growth, and due to greater use of the support for business offered by the Government's time-to-pay facility. The impact of the 2008 Pre-Budget Report fiscal stimulus increased the current deficit in 2008-09 by £8.3 billion. Net borrowing in 2008-09 is expected to be £12 billion above the 2008 Pre-Budget Report forecast, driven by the higher current budget deficit and by higher net investment. As a result of increased borrowing, PSND for 2008-09 is forecast to be 43.0 per cent of GDP, 1.8 per cent of GDP higher than the 2008 Pre-Budget Report forecast and 4.5 per cent higher than the Budget 2008 forecast.

**Changes from 2009-10** **C.25** The current budget deficit has been revised up in all years in the forecast period from 2009-10, with a peak deficit of 9.3 per cent of GDP in 2010-11, a difference of 4.7 per cent of GDP since the 2008 Pre-Budget Report forecast, as the sharp downturn in 2009 drives further falls in receipts and higher spending, in particular on social security, and further borrowing to fund targeted support for the economy. Net borrowing is forecast to peak in 2009-10 at £175 billion, which is £57 billion above the 2008 Pre-Budget Report forecast. Net borrowing in 2009-10 is expected to be 12.4 per cent of GDP, of which, the Government is delivering fiscal support worth 4.0 per cent of GDP through discretionary support and the automatic stabilisers. In total, borrowing for capital investment accounts for 3.1 per cent of GDP in 2009-10.

**C.26** Net borrowing falls to 5.5 per cent of GDP by the end of the forecast period, reflecting the action the Government is taking to ensure the sustainability of the public finances over the medium term, including through fiscal support, as shown in Table C3. PSND increases over the forecast period, particularly in 2009-10 and 2010-11, as additional borrowing is reflected in these years, and then begins to stabilise at 76.2 per cent by the end of the forecast period.

## BUDGET POLICY DECISIONS

**C.27** Consistent with the requirements of the *Code for Fiscal Stability*, the updated projections take into account the fiscal effects of all firm decisions announced in this Budget or since the 2008 Pre-Budget Report. The fiscal impacts of these measures are set out in Chapter A.

**C.28** Expenditure measures affecting AME and DEL in 2009-10 and 2010-11 have been added to total AME and total DEL, respectively.

**C.29** Consistent with the *Code for Fiscal Stability*, the projections do not take account of decisions where the impact cannot yet be quantified or of measures where consultation is proposed in this Budget, or where final decisions have yet to be taken.

## FISCAL AGGREGATES

**C.30** Tables C4 and C5 provide more detail on the projections for the current and capital budgets.

**Table C4: Current and capital budgets**

	£ billion						
	Outturn	Estimate	Projections				
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
<b>Current budget</b>							
Current receipts	548.0	530.7	496	528	577	620	662
Current expenditure	535.6	564.5	608	645	666	689	712
Depreciation	17.8	18.6	20	21	22	23	24
<b>Surplus on current budget</b>	<b>-5.3</b>	<b>-52.3</b>	<b>-132</b>	<b>-137</b>	<b>-111</b>	<b>-91</b>	<b>-74</b>
<b>Capital budget</b>							
Gross investment <sup>1</sup>	47.1	56.2	63	57	51	49	46
Less depreciation	-17.8	-18.6	-20	-21	-22	-23	-24
Net investment	29.3	37.7	44	36	29	26	22
<b>Net borrowing</b>	<b>34.6</b>	<b>90.0</b>	<b>175</b>	<b>173</b>	<b>140</b>	<b>118</b>	<b>97</b>
<b>Public sector net debt - end year<sup>2</sup></b>	<b>526.8</b>	<b>609.1</b>	<b>792</b>	<b>977</b>	<b>1130</b>	<b>1262</b>	<b>1370</b>
Memos:							
Treaty deficit <sup>3</sup>	39.4	102.7	178	175	142	120	100
Treaty debt <sup>4</sup>	613.9	794.0	1014	1199	1351	1478	1582

<sup>1</sup> Net of asset sales; for a breakdown see Table 2.3 in Budget 2009: the economy and public finances - supplementary material.

<sup>2</sup> Debt at end March; excluding liabilities and unrealised losses from financial sector interventions.

<sup>3</sup> General government net borrowing on a Maastricht basis.

<sup>4</sup> General government gross debt on a Maastricht basis.

**Table C5: Current and capital budgets**

	Per cent of GDP						
	Outturn	Estimate	Projections				
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
<b>Current budget</b>							
Current receipts	38.6	36.9	35.1	36.2	37.2	37.7	37.9
Current expenditure	37.7	39.2	43.1	44.2	43.0	41.9	40.8
Depreciation	1.3	1.3	1.4	1.4	1.4	1.4	1.4
<b>Surplus on current budget</b>	<b>-0.4</b>	<b>-3.6</b>	<b>-9.3</b>	<b>-9.4</b>	<b>-7.2</b>	<b>-5.6</b>	<b>-4.3</b>
<b>Capital budget</b>							
Gross investment <sup>1</sup>	3.3	3.9	4.5	3.9	3.3	3.0	2.6
Less depreciation	-1.3	-1.3	-1.4	-1.4	-1.4	-1.4	-1.4
Net investment	2.1	2.6	3.1	2.5	1.9	1.6	1.3
<b>Net borrowing</b>	<b>2.4</b>	<b>6.3</b>	<b>12.4</b>	<b>11.9</b>	<b>9.1</b>	<b>7.2</b>	<b>5.5</b>
<b>Public sector net debt - end year<sup>2</sup></b>	<b>36.5</b>	<b>43.0</b>	<b>55.4</b>	<b>65.0</b>	<b>70.9</b>	<b>74.5</b>	<b>76.2</b>
Memos:							
Treaty deficit <sup>3</sup>	2.8	7.1	12.6	12.0	9.2	7.3	5.8
Treaty debt ratio <sup>4</sup>	43.2	55.2	71.9	82.1	87.2	89.9	90.7

<sup>1</sup> Net of asset sales; for a breakdown see Table 2.3 in Budget 2009: the economy and public finances - supplementary material.

<sup>2</sup> Debt at end March; GDP centred on end March; excluding liabilities and unrealised losses on financial sector interventions.

<sup>3</sup> General government net borrowing on a Maastricht basis.

<sup>4</sup> General government gross debt on a Maastricht basis.

**C.31** The current budget surplus is equal to public sector current receipts less public sector current expenditure and depreciation. The reasons for changes in receipts and current expenditure are explained in later sections. The current deficit peaks at £137 billion in 2010-11 due to the impact of the downturn on the public finances and as a result of discretionary action to support the economy. The current deficit then declines to £74 billion in 2013-14 as the economy recovers and current expenditure grows at lower rates.

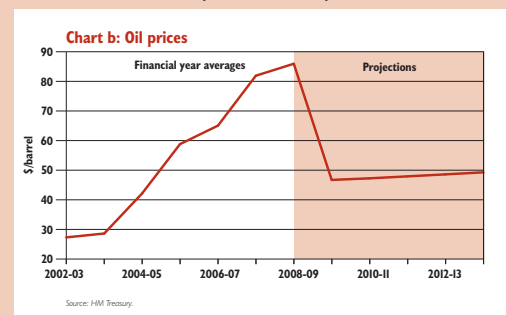
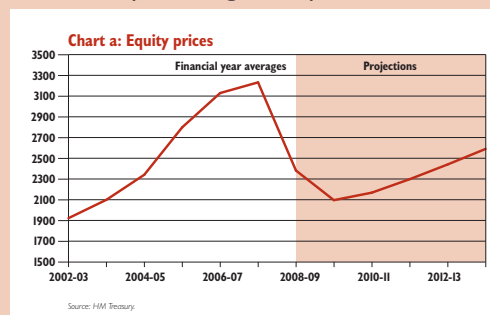
**C.32** Table C5 shows that public sector net investment increased from 2.1 per cent of GDP in 2007-08 to 2.6 per cent in 2008-09, and is projected to increase to 3.1 per cent in 2009-10, as the Government brings forward capital spending from 2010-11, as announced in the 2008 Pre-Budget Report. Public sector net investment is then expected to move to around 1¼ per cent of GDP in 2013-14.

**Box C2: Impact of NAO audited assumptions on the fiscal forecast**

The National Audit Office (NAO) audited assumptions are designed to add caution to the public finances forecast. Box C1 sets out details of all the NAO assumptions. This box illustrates how three of the assumptions affect the Budget 2009 forecast.

**Equity price:** The audited assumption is that the FTSE All-share index rises in line with money GDP from its current level. With equity prices falling by over 40 per cent over the past two years, much of this decline has been effectively locked into the public finances projections. By 2013-14, under the assumption equity prices remain over 20 per cent lower than their 2007-08 peak. Equity prices have a direct impact on stamp duty on shares, onshore corporation tax, and with a lag, capital gains tax and inheritance tax and a 1 per cent change in equity prices could change receipts by around £100 million.

**Oil price:** For Budget 2009 the audited assumption is based on the average price over the past three months, which is then held flat in real terms. The synchronised global downturn has reduced the demand for oil, with an average price over the past three months of \$47.6 a barrel. This is a relatively low price compared to those seen in the years of strong global growth between 2005 and 2008. As the world economy picks up and demand for oil recovers the oil price may rise more quickly than suggested by the assumption. Other things equal, a \$1 change in oil prices could change North Sea revenues by around £150 million in the first year. There are however a number of offsetting effects from the impact of higher oil prices which would reduce the overall impact on the public finances.



**VAT gap:** The audited assumption is that the underlying VAT gap (the difference between recorded VAT receipts and the theoretical tax liability) increases by 0.5 percentage points per year from the latest estimated outturn. With firms' cash flows under pressure due to the recession, there has been a rise in VAT debts, pushing up the VAT gap. The forecast allows for a further rise in VAT debt in 2009-10 which would increase the VAT gap by significantly more than the 0.5 percentage points required in the assumption. The higher VAT gap is locked in by the NAO assumption through the medium-term forecast, although with the economy recovering, new VAT debt may stabilise and then fall, which would reduce the VAT gap.

## RECEIPTS

**C.33** This section analyses the projections for tax receipts in detail. It begins by looking at the main determinants of changes in the overall projections since the 2008 Pre-Budget Report, before looking at changes in the projections of individual tax receipts. Finally, it provides updated forecasts for the tax-GDP ratios.

### Changes in total receipts since the 2008 Pre-Budget Report

**C.34** The unexpectedly steep downturn in the UK and other advanced economies since the final quarter of 2008 has been reflected in a sharp drop in receipts in the final months of 2008-09. There have also been higher time-to-pay requests to spread tax payments over a longer time frame via HMRC's Business Payment Support Service (BPSS). Net taxes and national insurance contributions (NICs) in 2008-09 were £11.2 billion below the Pre-Budget Report forecast. With the economy expected to contract sharply in the first half of 2009 and to stabilise in the second half of the year, net taxes and NICs are expected to fall by a further 8.0 per cent in 2009-10. Receipts are only expected to be above their 2007-08 peak in 2011-12. This is broadly consistent with the economic forecast for the level of real GDP to recover its early 2008 peak by late 2011.

**Impact of the economy on receipts** **C.35** The deeper economic downturn in 2009 and the slower rebound in 2010 than forecast in the 2008 Pre-Budget Report means less cumulative real growth over the forecast period to 2013-14. In addition, inflation is expected to be below target for longer than was forecast in the 2008 Pre-Budget Report. This leaves the price level lower throughout the economic forecast. Lower inflation will impact on key tax bases such as nominal consumer spending and earnings growth. In 2013-14, the combination of lower cumulative real growth and lower inflation leaves nominal GDP, which largely comprises the sum of nominal labour income and profits, around 5½ per cent below its 2008 Pre-Budget Report projection.

**C.36** Income tax and NICs are around 45 per cent of total receipts. Weaker labour income reduces receipts by around £15 billion in 2011-12, relative to the 2008 Pre-Budget Report forecast. In particular, the level of average earnings is lower throughout the forecast, reflecting that average earnings growth is likely to be subdued in the near-term given low inflation and the opening up of a substantial output gap. Weaker consumer spending takes around £5 billion off receipts by 2011-12, while other GDP effects, such as from lower profits and dividends, reduce receipts by a further £5 billion.

**C.37** As in the Pre-Budget Report, the economic forecast assumes a significant rebalancing of demand in the UK economy. With households likely to spend less to increase saving, and sterling having depreciated, the recovery is forecast to include some rebalancing towards investment and net exports. Such a recovery will constrain the medium term upturn in receipts, relative to a consumer-led rebound.

**Impact of financial sector on receipts** **C.38** Box C3 looks at the impact of the financial and housing sectors on the public finances. The forecast for receipts from the financial and housing sectors was reduced sharply in the 2008 Pre-Budget Report and the Budget forecast has lowered receipts from the sectors further. The forecast allows for weaker financial sector profits in 2009 and then assumes that profit growth averages around 10 per cent over the following four years, rather than the 14 per cent assumed in the Pre-Budget Report. By 2013-14, corporation and income tax from the sector is likely to be around £5 billion lower than previously assumed.

**Impact of NAO assumptions on receipts**

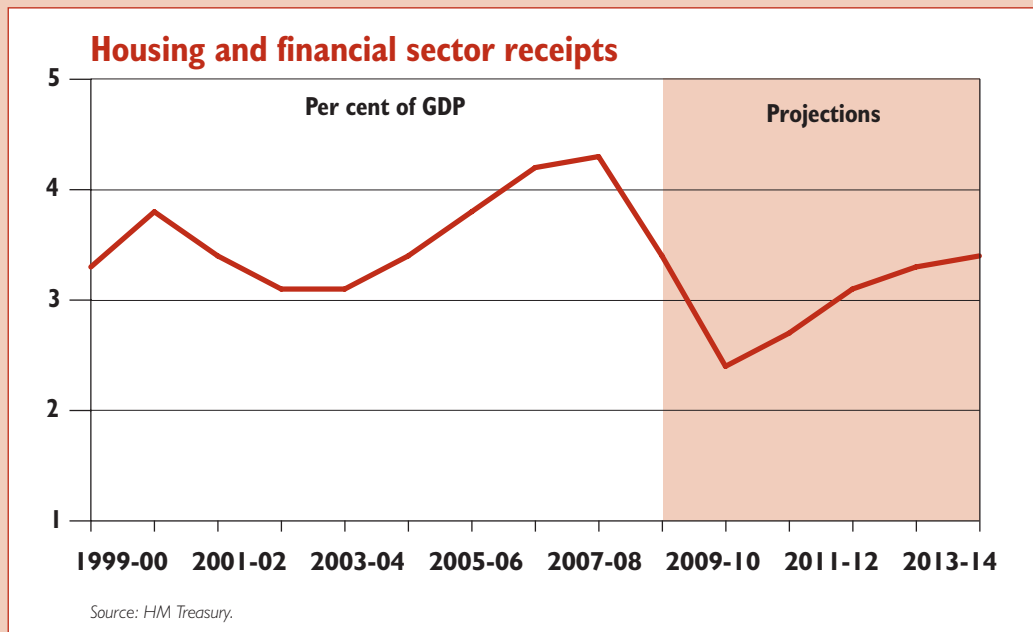
**C.39** Box C2 looks at the impact of the NAO audited assumptions on the fiscal forecast. Relative to the Pre-Budget Report forecast, lower oil prices, record low short-term interest rates and a higher VAT gap have all reduced receipts. Oil prices are around \$13 a barrel lower throughout the forecast reducing North Sea revenues by around £2 billion per year. Short-term interest rates are based on market expectations. Lower interest rates throughout the forecast than in the Pre-Budget Report take around £2 billion off receipts each year. With the rise in VAT debt pushing up the VAT gap in both 2008-09 and 2009-10 and the higher gap being locked into the medium-term forecast by the NAO audited assumption, VAT receipts are lower by over £4 billion from 2010-11 onwards.

**Box C3: The impact of the financial and housing sector on the public finances**

The intensification of the credit shock into a financial crisis has particularly affected the financial and housing sectors in the UK, which have typically been significant sources of tax receipts. Financial company corporation tax has accounted for around 25 per cent of overall corporation tax, and the sector provides significant amounts of income tax and NICs on salaries and bonuses. The housing sector provides revenue directly through stamp duty, inheritance tax and capital gains tax and indirectly through the VAT collected on housing-related consumption.

In recent years, the financial and housing sectors saw rapid growth in activity and asset values. This growth was reflected in receipts from taxes linked to the two sectors<sup>a</sup>. In 2002-03, financial and housing sector receipts were equivalent to 3 per cent of GDP. By 2007-08, these receipts had increased to 4¼ per cent of GDP. The rise in housing and financial sector receipts from 2002-03 to 2007-08 accounted for half of the increase in total current receipts over this period.

Receipts from the sectors dropped sharply in 2008-09 and are expected to fall further in 2009-10. Receipts are then expected to recover but the sectors do not recover to the levels of activity, and associated receipts, experienced in 2007-08. With the weaker projections for both financial sector profitability and property markets in the Budget forecast, receipts from the two sectors are predicted to decline to 2½ per cent in 2009-10, before rising to 3¼ per cent of GDP in 2013-14.



<sup>a</sup> These revenues include receipts from financial sector corporation tax, financial sector PAYE and NICs, Capital Gains Tax, Inheritance Tax and stamp duties.

## Tax by tax analysis

**C.40** Table C6 shows the main components of public sector receipts outturn for 2007-08, the estimate for 2008-09 and the projections for 2009-10, as well as the changes to the projections of individual taxes since the 2008 Pre-Budget Report. Table 2.9 in *Budget 2009: the economy and public finances – supplementary material* provides projections of individual taxes up to 2013-14.

**Income tax and national insurance contributions** **C.41** Cash receipts of income tax and NICs in 2008-09 are expected to be £5.4 billion below their 2008 Pre-Budget Report projection. This includes a shortfall of around £3.3 billion in PAYE and NIC1 receipts and £1.8 billion lower self-assessment receipts. The Pre-Budget Report forecast already allowed for a steep drop in financial sector bonuses and receipts relating to bonuses are likely to be over 50 per cent down on last year. Lower PAYE and NIC1 receipts than expected reflects the deterioration in the labour market and downward pressure on non-bonus earnings growth. The drop in PAYE and NIC1 receipts is most acute in the manufacturing, construction, retail and financial sectors.

**C.42** Income tax and NICs receipts are expected to fall by over 4 per cent in 2009-10 from 2008-09 reflecting drops in PAYE and NIC1 receipts, self assessment and tax on savings income. Labour income is expected to fall in 2009-10 due to the weakness in the labour market. The forecast also allows for a further drop in receipts from the financial sector in 2009-10. Self assessment receipts in 2009-10 will relate to 2008-09 liabilities and incomes but are likely to fall given weaker self-employment income, savings and dividend income. The reduction in Bank Rate to a record low is likely to reduce tax on savings income from over £4 billion in 2008-09 to just above £1 billion in 2009-10.

**C.43** Income tax and NIC receipts are expected to recover from 2010-11 as the economy picks up. However, with earnings growth more subdued for longer than assumed in the Pre-Budget Report, the level of earnings remains lower throughout the forecast. Consequently, income tax and NICs remain significantly lower than in the Pre-Budget Report.

**Non-North Sea corporation tax** **C.44** The downturn in the economy and in particular the weakness of the financial sector led to a sharp fall in non-North Sea corporation tax receipts in 2008-09. Receipts from the financial sector fell 32 per cent, while instalment payments from large industrial and commercial companies were down 19 per cent. Non-oil, non-financial profits are expected to decline more sharply than whole economy GDP in 2009 given steeper than expected drops in economic activity both in the UK and other advanced economies. Profits in the financial sector are also expected to remain weak in 2009 with banking losses related to the current downturn potentially rising. Coupled with likely repayments as firms carry back losses against recently paid tax, financial sector corporation tax in 2009-10 is likely to be just 40 per cent of its 2007-08 level.

**C.45** As one of the most cyclical taxes, onshore corporation tax receipts are expected to rebound from 2010-11 onwards as both the general economy and the financial sector recover. The forecast incorporates above trend growth in financial sector profits in 2010 and 2011 as the sector recovers from depressed levels, with trend growth in profits thereafter, with profit growth averaging 10 per cent a year over the four year period. Combined with the effect of some firms carrying forward losses against future profits, corporation tax from the financial sector remains below its 2007-08 level, even by 2013-14. With the contribution of the financial sector to overall activity likely to be smaller than envisaged prior to the crisis, onshore corporation tax picks up to 2.5 per cent of GDP by the end of the forecast, well below the recent peak of 2.9 per cent.

Table C6: Current receipts

	£ billion			Changes since PBR 2008 (£ billion)		
	Outturn 2007-08	Estimate 2008-09	Projection 2009-10	Outturn 2007-08	Estimate 2008-09	Projection 2009-10
<b>HM Revenue and Customs</b>						
Income tax (gross of tax credits)	151.8	152.5	140.5	-0.1	-4.2	-10.7
Income tax credits	-4.4	-5.7	-6.2	0.0	-0.1	-0.2
National insurance contributions	100.4	96.4	97.7	0.0	-1.2	-3.1
Value added tax	80.6	78.4	63.7	0.0	-4.1	-8.8
Corporation tax <sup>1</sup>	46.9	43.4	34.7	0.0	-2.1	-7.7
Corporation tax credits <sup>2</sup>	-0.6	-0.6	-0.7	0.0	0.0	0.0
Petroleum revenue tax	1.7	2.6	1.1	0.0	0.0	-0.4
Fuel duties	24.9	24.6	26.6	0.0	-0.4	0.4
Capital gains tax	5.3	7.8	2.2	0.0	2.9	-0.1
Inheritance tax	3.9	2.9	2.3	0.0	-0.2	-0.1
Stamp duties	14.1	8.0	5.0	0.0	-0.3	-1.9
Tobacco duties	8.1	8.2	8.3	0.0	0.0	0.1
Spirits duties	2.4	2.4	2.6	0.0	0.1	0.0
Wine duties	2.6	2.7	2.7	0.0	0.0	-0.2
Beer and cider duties	3.3	3.4	3.4	0.0	0.0	0.1
Betting and gaming duties	1.5	1.5	1.5	0.0	0.0	0.0
Air passenger duty	2.0	1.9	1.8	0.0	-0.1	-0.2
Insurance premium tax	2.3	2.3	2.4	0.0	0.0	-0.1
Landfill tax	0.9	1.0	1.0	0.0	0.1	-0.2
Climate change levy	0.7	0.7	0.7	0.0	0.0	0.0
Aggregates levy	0.3	0.3	0.3	0.0	0.0	0.0
Customs duties and levies	2.5	2.7	2.7	0.0	0.0	-0.1
<b>Total HMRC</b>	<b>451.1</b>	<b>437.4</b>	<b>394.2</b>	<b>-0.1</b>	<b>-9.7</b>	<b>-33.3</b>
Vehicle excise duties	5.4	5.6	5.6	0.0	-0.2	-0.4
Business rates	21.4	22.8	23.8	0.0	-0.6	-0.7
Council tax <sup>3</sup>	23.3	24.3	24.9	0.1	-0.3	-0.8
Other taxes and royalties <sup>4</sup>	14.6	15.3	16.8	0.0	-0.4	0.9
<b>Net taxes and NICs<sup>5</sup></b>	<b>515.9</b>	<b>505.4</b>	<b>465.4</b>	<b>0.0</b>	<b>-11.2</b>	<b>-34.2</b>
Accruals adjustments on taxes	1.2	-4.4	0.3	0.1	-1.4	-2.2
Less own resources contribution to EC budget	-5.0	-5.2	-4.2	0.0	-0.9	0.6
Less PC corporation tax payments	-0.3	-0.2	-0.2	0.0	0.0	0.0
Tax credits adjustment <sup>6</sup>	0.6	0.6	0.7	0.0	0.0	0.0
Interest and dividends	8.7	7.4	5.6	0.4	-0.3	-2.5
Other receipts <sup>7</sup>	27.0	27.1	28.4	-0.1	-1.0	-1.1
<b>Current receipts</b>	<b>548.0</b>	<b>530.7</b>	<b>496.1</b>	<b>0.5</b>	<b>-14.7</b>	<b>-39.4</b>
<i>Memo:</i>						
North Sea revenues <sup>8</sup>	7.8	12.9	6.9	0.0	-0.3	-1.8

<sup>1</sup> National Accounts measure, gross of enhanced and payable tax credits.

<sup>2</sup> Includes enhanced company tax credits.

<sup>3</sup> Council tax increases are determined annually by local authorities, not by the Government. As in previous years, council tax figures are projections based on assumptions and are not Government forecasts.

<sup>4</sup> Includes VAT refunds and money paid into the National Lottery Distribution Fund.

<sup>5</sup> Includes VAT and 'traditional own resources' contributions to EC budget.

<sup>6</sup> Tax credits which are scored as negative tax in the calculation of NTNIC but expenditure in the National Accounts.

<sup>7</sup> Includes gross operating surplus, rent and business rate payments by local authorities.

<sup>8</sup> Consists of North Sea corporation tax and petroleum revenue tax.

**North Sea revenues** **C.46** The surge in oil prices up to mid-2008 is reflected in North Sea revenues of £12.9 billion in 2008-09, up 66 per cent on the previous year. Oil prices averaged almost \$100 a barrel in 2008, although the sharp fall in prices in the latter months of last year meant that the final corporation tax instalment payment on 2008 profits made in January was substantially smaller than previous instalment payments.

**C.47** North Sea revenues are expected to almost halve in 2009-10. Projections of North Sea revenues for 2009 and beyond use the NAO audited oil price assumption. In line with the average of the past three months' oil price in nominal dollar terms, oil prices are expected to be \$46.7 a barrel in 2009, around \$13 a barrel lower than assumed at the 2008 Pre-Budget Report. The lower oil price takes around £2 billion off North Sea revenues in 2009-10, compared with the 2008 Pre-Budget Report projection. However, consistent with a weaker oil price, the forecast incorporates a lower level of capital expenditure by North Sea firms than previously assumed. Overall, North Sea revenues are expected to be between £1½ and £2 billion lower than in the Pre-Budget Report throughout the forecast period.

**Capital gains tax and inheritance tax** **C.48** Receipts from capital gains tax (CGT) in 2008-09 were £2.9 billion higher than projected at the 2008 Pre-Budget Report. CGT paid in 2008-09 relates to gains realised in the previous financial year and higher receipts are due to a number of factors. In part, it is likely to reflect investors making use of the time allowed by the Government for them to rearrange their affairs ahead of the abolition of taper relief, when the CGT regime was reformed in the 2007 Pre-Budget Report.

**C.49** CGT is particularly sensitive to equity price changes. This is because financial assets account for two-thirds of chargeable gains and that there is a gearing effect because CGT is charged on the gain rather than the whole disposal price. In addition, many people have leeway on when they realise gains and are less likely to do so in a weak market. With equity prices having fallen by over 40 per cent since their mid-2007 peak, CGT receipts are expected to drop sharply to £2.2 billion in 2009-10 and fall further in 2010-11 to a level last seen after the dotcom-related drop in equity prices. With equity prices assumed to recover in line with nominal GDP growth, CGT receipts start to pick up from 2011-12.

**C.50** Inheritance tax receipts dropped sharply by 25 per cent in 2008-09. This is principally due to the impact of the 2007 Pre-Budget Report measure on transferable tax-free allowances for married couples and civil partners. A fall in both equity and house prices is also a factor. With the average of independent forecasts suggesting a further fall in house prices during 2009 and housing accounting for around half of the assets in estates notified for probate, inheritance tax receipts are likely to fall further in 2009-10.

**Stamp duties** **C.51** Stamp duty land tax (SDLT) fell by nearly a half in 2008-09 from the previous financial year, with stamp duty on shares falling by around a quarter. While both residential and commercial property prices have declined, the key driver of the sharp fall in SDLT is the historically low levels of transactions. The fall in yield on stamp duty on shares reflects both lower prices and trading volumes.

**C.52** Stamp duties are expected to fall further in 2009-10. SDLT will be affected by further drops in residential and commercial property prices, while transactions are expected to remain low. Thereafter SDLT recovers with transactions in the property market rising from 2010 onwards and house prices growing broadly in line with their long term average growth rate. With the average equity price in 2009-10 well below the 2008-09 average, stamp duty on shares will fall in 09-10. Thereafter, receipts recover as equity prices are assumed to rise in line with nominal GDP and there is a cyclical recovery in equity volumes.

**VAT receipts C.53** The 2008 Pre-Budget Report forecast that VAT receipts would decline over the remainder of 2008-09, reflecting lower consumer spending and the cut in the standard rate of VAT from 17½ per cent to 15 per cent. However, VAT receipts in recent months have been much weaker than expected and were £4.1 billion lower in 2008-09 than the 2008 Pre-Budget Report forecast. This reflected a smaller VAT tax base, higher time-to-pay requests and a rise in VAT tax debts.

**C.54** Like other taxes, VAT receipts have been affected by the much steeper than expected drop in economic activity in the closing months of 2008-09. In addition, the composition of consumer spending, around two-thirds of the total VAT tax base, has moved away from standard-rated goods. The downturn in consumer spending has been most acute for discretionary expenditure on goods and services like meals in restaurants and durable items such as new cars and furniture. Nominal spending on consumer durables (which are mostly standard-rated) fell 10 per cent between the first and final quarters of 2008. In contrast, high food inflation lifted the value of food sales (mainly zero-rated) by 5.4 per cent over the same period. The economic downturn and restrictive credit conditions have put pressure on firms' cash flows and has led to a rise in VAT debts, over and above the effect of some firms using time-to-pay to spread tax payments over a longer time frame. Higher VAT debt growth pushes up the VAT gap (the difference between the theoretical tax liability and actual receipts).

**C.55** VAT receipts in 2009-10 are expected to fall by around 19 per cent compared with 2008-09, reflecting both the temporary reduction in the standard rate of VAT to 15 per cent and a continuation of the factors that weakened VAT receipts at the end of 2008-09. Real consumer spending is expected to fall by over 3 per cent in 2009, with spending on consumer durables continuing to drop for much of the year and the forecast allows for a further rise in VAT debt in 2009-10. The forecast also includes a significant provision for additional repayments in 2009-10 and 2010-11 relating to a judicial ruling on the three-year time limit for reclaiming overdeclared or underclaimed VAT for tax periods before May 1997.

**C.56** With the VAT rate back at 17½ per cent in 2010-11, a rebound in VAT receipts is forecast. However, growth in the VAT base is held back by consumer spending growing at rates below that of the whole economy, as households continue to adjust their finances. In addition, the NAO audited assumption on the VAT gap locks in the significant increases in the gap in 2008-09 and 2009-10. With the economy recovering, it might be expected that new VAT debt would stabilise and then fall, reducing the VAT gap. However the assumption requires at least a 0.5 percentage point rise in the underlying VAT gap each year.

**Excise duties C.57** Fuel duties in 2008-09 were £0.4 billion below their 2008 Pre-Budget Report projection and were lower than in 2007-08. Since fuel duty is charged on a per litre basis, this reflects a reduction in the demand for fuel. The first half of 2008-09 saw a sharp increase in global oil prices and hence pump prices. The drop in economic activity has also reduced the demand for fuel with nominal consumer spending on vehicle fuels falling 4.6 per cent in the final quarter of 2008. The near-term weakness in the economy will impact on the demand for fuel in 2009-10, although there will be an offset from the sharp drop in pump prices since summer 2008. The forecast incorporates the rise in fuel duties from September 2009 announced in this Budget.

**C.58** Alcohol duties in 2008-09 were £0.1 billion above their Pre-Budget Report projection. In 2009-10, the rises in alcohol duties in the 2008 Pre-Budget Report and in this Budget will help to offset the impact from the likely contraction of consumer spending through 2009. Tobacco receipts in 2008-09 were in line with the Pre-Budget Report projection. The forecast for 2009-10 incorporates the decision to raise tobacco duty in this Budget.

**Council tax C.59** Council tax increases are determined annually by local authorities, and not by the Government. The council tax projections are based on stylised assumptions and are not Government forecasts. The projected increase in 2009-10 is based on the estimate released by the Chartered Institute for Public Finance and Accountancy (CIPFA). Increases for later years are based on the arithmetic average of council tax increases over the past three years plus historic base growth. Since changes to council tax are broadly balanced by changes to locally financed expenditure, they have little material impact on the current balance or on net borrowing.

### Tax-GDP ratio

**C.60** Table C7 shows projections of receipts from the major taxes as a per cent of GDP and Table C8 sets out projections of the overall tax-GDP ratio, based on net taxes and national insurance contributions.

**C.61** The tax-GDP ratio dropped by around 1¼ percentage points in 2008-09 and is expected to fall a further 2 percentage points in 2009-10 reflecting the deeper economic downturn, the further decline in receipts from the housing and financial sectors and the temporary reduction in the standard rate of VAT. The tax-GDP ratio falls to just 33 per cent in 2009-10, the lowest since 1994-95. The decline in the tax-GDP ratio between 2009-10 and the last on-trend point in 2006-07 is just over 3 percentage points. In the early 1990s downturn, the tax-GDP ratio fell by a similar amount between 1990-91, when the economy started to move below trend, and 1993-94.

**C.62** With the VAT rate returning to 17½ per cent, the tax-GDP ratio starts to rise in 2010-11 and increases further reflecting above-trend growth, a pick up in the financial sector and fiscal consolidation measures from 2011-12 onwards. However, forecasting judgments on the rebalancing of demand in the economy, the receipts take from the financial and housing sectors and the NAO audited assumptions all limit the rise in the tax-GDP ratio from 2010-11 onwards.

**Table C7: Current receipts as a proportion of GDP**

	Per cent of GDP						
	Outturn	Estimate	Projections				
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Income tax (gross of tax credits)	10.7	10.6	10.0	9.9	10.4	10.8	11.0
National insurance contributions	7.1	6.7	6.9	6.8	7.0	7.1	7.2
Non-North Sea corporation tax <sup>1</sup>	2.9	2.3	2.0	2.3	2.5	2.5	2.5
Tax credits <sup>2</sup>	-0.4	-0.4	-0.5	-0.5	-0.5	-0.4	-0.4
North Sea revenues <sup>3</sup>	0.5	0.9	0.5	0.5	0.4	0.4	0.3
Value added tax	5.7	5.5	4.5	5.0	5.1	5.1	5.0
Excise duties <sup>4</sup>	2.9	2.9	3.1	3.1	3.1	3.0	3.0
Other taxes and royalties <sup>5</sup>	6.9	6.7	6.4	6.6	6.6	6.7	6.7
<b>Net taxes and NICs<sup>6</sup></b>	<b>36.3</b>	<b>35.1</b>	<b>33.0</b>	<b>33.8</b>	<b>34.7</b>	<b>35.1</b>	<b>35.3</b>
Accruals adjustments on taxes	0.1	-0.3	0.0	0.2	0.2	0.3	0.2
Less EU transfers	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3
Other receipts <sup>7</sup>	2.5	2.4	2.4	2.5	2.6	2.6	2.7
<b>Current receipts</b>	<b>38.6</b>	<b>36.9</b>	<b>35.1</b>	<b>36.2</b>	<b>37.2</b>	<b>37.7</b>	<b>37.9</b>

<sup>1</sup> National Accounts measure, gross of enhanced and payable tax credits.

<sup>2</sup> Tax credits scored as negative tax in net taxes and national insurance contributions.

<sup>3</sup> Includes petroleum revenue tax and North Sea corporation tax.

<sup>4</sup> Fuel, alcohol and tobacco duties.

<sup>5</sup> Includes council tax and money paid into the National Lottery Distribution Fund, as well as other central government taxes.

<sup>6</sup> Includes VAT and 'own resources' contributions to EC budget; cash basis.

<sup>7</sup> Mainly gross operating surplus and rent.

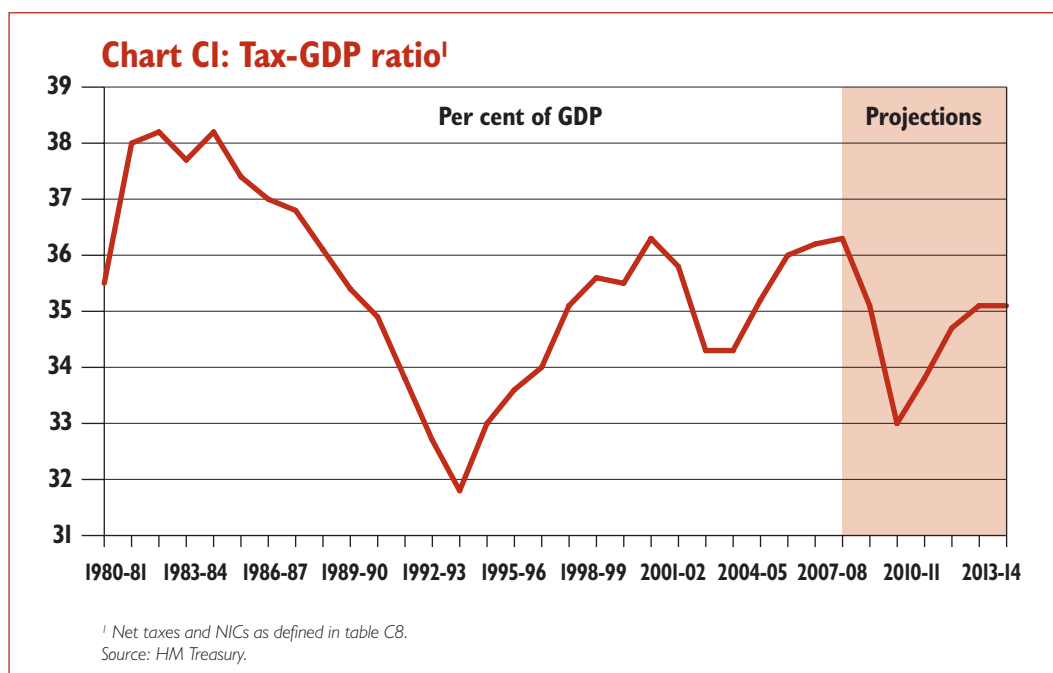
**Table C8: Net taxes and national insurance contributions<sup>1</sup>**

	Per cent of GDP						
	Outturn <sup>2</sup>	Estimate <sup>3</sup>	Projections				
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Budget 2008	36.8	36.7	36.9	37.3	37.4	37.4	
2008 Pre-Budget Report	36.3	35.3	33.8	34.8	35.4	35.7	36.0
<b>Budget 2009</b>	<b>36.3</b>	<b>35.1</b>	<b>33.0</b>	<b>33.8</b>	<b>34.7</b>	<b>35.1</b>	<b>35.3</b>

<sup>1</sup> Cash basis. Uses OECD definition of tax credits scored as negative tax.

<sup>2</sup> The 2007-08 figures were estimates in Budget 2008.

<sup>3</sup> The 2008-09 figures were projections in Budget 2008.



## PUBLIC EXPENDITURE

**C.63** This section looks in detail at the projections for public expenditure. It includes outturn for 2007-08, estimates for 2008-09 and public expenditure plans for 2009-10 to 2010-11. The spending projections cover the whole of the public sector, using the National Accounts aggregate Total Managed Expenditure (TME).

**C.64** For fiscal aggregates purposes, TME is split into National Accounts components covering public sector current expenditure, public sector net investment and depreciation. For budgeting and other purposes, TME is split into DEL (firm three-year limits for departments' programme expenditure) and AME (expenditure that is not easily subject to firm multi-year limits). Departments have separate resource budgets, for current and capital expenditure.

**C.65** Table C9 sets out projected spending on DEL and the main components of AME to the end of the 2007 Comprehensive Spending Review period in 2010-11. Table C10 shows changes since the 2008 Pre-Budget Report.

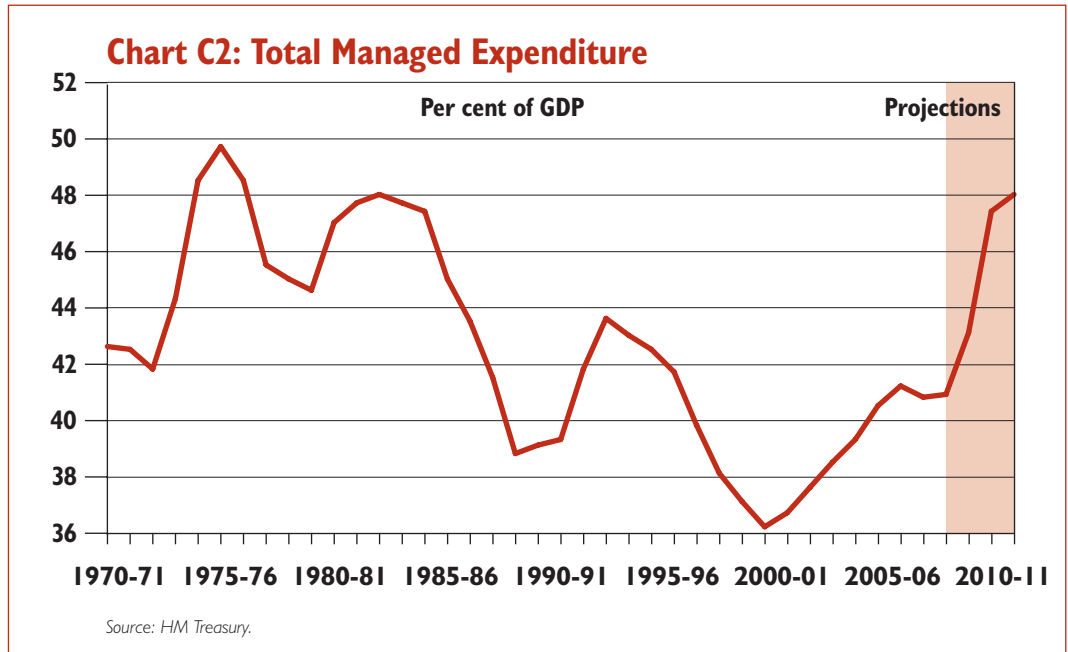
### Changes in TME since the 2008 Pre-Budget Report

**C.66** Estimated outturn information suggests that TME for 2008-09 will be around £2.4 billion lower than in the 2008 Pre-Budget Report. Current expenditure is £3.5 billion lower due to lower departmental spending within current DEL, the receipt of fees associated with financial sector interventions, lower net expenditure transfers to EU institutions, and lower debt interest payments. Public sector net investment was higher by £1.2 billion mainly due to higher net investment by public corporations (PCs), increased by lower receipts from sales of capital assets, including sales of housing from local authority Housing Revenue Accounts, which score as public corporations in the National Accounts.

**C.67** The main changes to TME projections in the 2007 Comprehensive Spending Review period since the 2008 Pre-Budget Report are to DEL, where totals for 2009-10 to 2010-11 have been revised as a result of changes to spending announced in this Budget, and changes to the forecasts of individual AME components, again including measures announced in this Budget.

**C.68** TME is estimated to be £17.7 billion higher in 2009-10 and £19.9 billion higher in 2010-11 than at the 2008 Pre-Budget Report, mainly due to increases to DELs, and increased spending on social security benefits and tax credits. The reasons for changes in TME are explained in more detail in the paragraphs below on DELs and the individual AME components.

**C.69** Chart C2 shows TME as a percentage of GDP from 1970-71 to the end of the 2007 CSR period in 2010-11.



**Table C9: Total Managed Expenditure 2007-08 to 2010-11**

	£ billion			
	Outturn 2007-08	Estimate 2008-09	Projections 2009-10      2010-11	
<b>CURRENT EXPENDITURE</b>				
<b>Resource Departmental Expenditure Limits</b>	<b>309.9</b>	<b>324.3</b>	<b>342.1</b>	<b>352.3</b>
<i>of which:</i>				
Near-cash Departmental Expenditure Limits	288.4	303.0	319.9	328.8
Non-cash	21.6	21.2	22.3	23.5
<b>Resource Annually Managed Expenditure</b>	<b>225.7</b>	<b>240.2</b>	<b>265.9</b>	<b>292.6</b>
<i>of which:</i>				
Social security benefits <sup>1</sup>	138.7	150.1	164.7	170.9
Tax credits <sup>1</sup>	17.2	19.8	21.7	21.8
Net public service pensions <sup>2</sup>	2.3	3.1	4.1	4.6
National Lottery	0.9	0.9	0.9	0.9
BBC domestic services	3.5	3.4	3.5	3.7
Other departmental expenditure	2.7	0.8	2.5	1.7
Net expenditure transfers to EC institutions <sup>3</sup>	5.4	3.1	5.6	7.9
Locally-financed expenditure <sup>4</sup>	24.3	27.3	27.9	28.5
Central government gross debt interest	30.0	30.5	27.2	42.9
AME margin	0.0	0.0	0.9	1.8
Accounting adjustments	0.8	1.2	6.9	7.9
<b>Public sector current expenditure</b>	<b>535.6</b>	<b>564.5</b>	<b>608.0</b>	<b>644.9</b>
<b>CAPITAL EXPENDITURE</b>				
<b>Capital Departmental Expenditure Limits</b>	<b>44.1</b>	<b>48.3</b>	<b>57.7</b>	<b>51.6</b>
<b>Capital Annually Managed Expenditure</b>	<b>3.0</b>	<b>7.9</b>	<b>5.8</b>	<b>5.3</b>
<i>of which:</i>				
National Lottery	0.7	0.6	1.0	0.9
Locally-financed expenditure <sup>4</sup>	4.0	4.5	4.4	3.9
Public corporations' own-financed capital expenditure	5.4	7.2	7.4	7.5
Other capital expenditure	-1.0	0.4	1.5	1.0
AME margin	0.0	0.0	0.1	0.2
Accounting adjustments	-6.1	-4.8	-8.6	-8.1
<b>Public sector gross investment</b>	<b>47.1</b>	<b>56.2</b>	<b>63.4</b>	<b>56.9</b>
Less public sector depreciation	-17.8	-18.6	-19.6	-20.7
<b>Public sector net investment</b>	<b>29.3</b>	<b>37.7</b>	<b>43.8</b>	<b>36.2</b>
<b>TOTAL MANAGED EXPENDITURE<sup>5</sup></b>	<b>582.7</b>	<b>620.7</b>	<b>671.4</b>	<b>701.7</b>
<i>of which:</i>				
Departmental Expenditure Limits	343.2	360.7	387.3	390.5
Annually Managed Expenditure	239.4	260.0	284.1	311.2

<sup>1</sup> For 2007-08 to 2008-09, child allowances in Income Support and Jobseekers' Allowance have been included in the tax credits line and excluded from the social security benefits line.

<sup>2</sup> Net public service pensions expenditure is reported on a National Accounts basis.

<sup>3</sup> AME spending component only. Total net payments to EC institutions also include receipts scored in DEL, VAT based contributions which score as negative receipts and some payments which have no effect on the UK public sector in the National Accounts. Latest estimates for total net payments, which exclude the UK's contribution to the cost of EU aid to non-Member States (which is attributed to the aid programme) and other costs attributed to Departmental DELs, and the UK's net contribution to the EC Budget, which includes these attributed costs, are (in £ billion):

	2007-08	2008-09	2009-10	2010-11
Net payments to EC institutions	3.5	2.2	3.3	5.6
Net contribution to EC Budget	4.2	3.0	4.1	6.5

<sup>4</sup> This expenditure is mainly financed by council tax revenues. See footnote to Table C6 for an explanation of how the council tax projections are derived.

<sup>5</sup> Total Managed Expenditure is equal to the sum of public sector current expenditure, public sector net investment, and public sector depreciation.

**Table C10: Changes to Total Managed Expenditure since the 2008 Pre-Budget Report**

	£ billion			
	Outturn 2007-08	Estimate 2008-09	Projections 2009-10      2010-11	
<b>CURRENT EXPENDITURE</b>				
<b>Resource Departmental Expenditure Limits</b>	<b>-0.1</b>	<b>-1.1</b>	<b>2.9</b>	<b>2.2</b>
<i>of which:</i>				
Near-cash Departmental Expenditure Limits	-0.3	-1.4	2.6	2.3
Non-cash	0.2	0.3	0.4	0.0
<b>Resource Annually Managed Expenditure</b>	<b>-0.7</b>	<b>-2.4</b>	<b>11.4</b>	<b>14.4</b>
<i>of which:</i>				
Social security benefits	0.0	0.9	5.1	6.9
Tax credits	0.0	0.3	1.1	1.4
Net public service pensions	0.0	0.2	0.4	0.7
National Lottery	0.0	-0.1	0.1	0.0
BBC domestic services	0.2	0.0	0.0	0.0
Other departmental expenditure	0.1	-1.3	0.2	0.1
Net expenditure transfers to EC institutions	0.0	-0.7	0.4	0.7
Locally-financed expenditure	-0.1	1.2	1.1	0.2
Central government gross debt interest	0.0	-0.4	0.6	2.9
AME margin	0.0	0.0	0.0	0.0
Accounting adjustments	-0.8	-2.6	2.4	1.5
<b>Public sector current expenditure</b>	<b>-0.8</b>	<b>-3.5</b>	<b>14.3</b>	<b>16.6</b>
<b>CAPITAL EXPENDITURE</b>				
<b>Capital Departmental Expenditure Limits</b>	<b>0.0</b>	<b>-0.4</b>	<b>3.9</b>	<b>1.5</b>
<b>Capital Annually Managed Expenditure</b>	<b>-0.6</b>	<b>1.5</b>	<b>-0.5</b>	<b>1.8</b>
<i>of which:</i>				
National Lottery	0.0	-0.1	0.1	0.0
Locally-financed expenditure	0.4	-0.8	-0.2	0.3
Public corporations' own-financed capital expenditure	-0.4	0.8	0.3	1.6
Other capital expenditure	0.2	0.8	1.0	0.4
AME margin	0.0	0.0	0.0	0.0
Accounting adjustments	-0.8	0.8	-1.8	-0.5
<b>Public sector gross investment</b>	<b>-0.6</b>	<b>1.1</b>	<b>3.4</b>	<b>3.3</b>
Less public sector depreciation	0.1	0.1	0.1	0.2
<b>Public sector net investment</b>	<b>-0.6</b>	<b>1.2</b>	<b>3.4</b>	<b>3.5</b>
<b>TOTAL MANAGED EXPENDITURE</b>	<b>-1.4</b>	<b>-2.4</b>	<b>17.7</b>	<b>19.9</b>
<i>of which:</i>				
Departmental Expenditure Limits	-0.2	-1.4	6.7	3.7
Annually Managed Expenditure	-1.1	-1.0	11.0	16.3

## DEL and AME analysis

**DEL C.70** The detailed allocation of DEL is shown in Table C11. In line with previous practice, resource and capital DEL for 2008-09 reflect the latest available information and include an allowance for shortfall reflecting likely underspends against departmental provisions.

**C.71** There are a number of changes to DEL budgets since the 2008 Pre-Budget Report:

- adjustments to departments' budgets that reflect additional value for money savings in 2010-11;
- an increase to the Ministry of Defence budget to fund military operations in 2009-10;
- updated budgets for the departments for Business, Enterprise and Regulatory Reform, Environment, Food and Rural Affairs, and Energy and Climate Change, following the machinery of government changes. These update the provisional budgets previously published;
- reprofiling of the devolved administrations' capital DEL to bring forward spending from 2010-11 to 2008-09 and 2009-10; and
- updated to reflect Budget 2009 policy decisions, which are set out in more detail in Chapter A.

**C.72** The latest figures also include a number of classification and budgetary changes, which have no impact on National Accounts definitions or TME. The only significant change is the reclassification from DEL to AME of certain transactions relating to Northern Ireland Water.

**Table C11: Departmental Expenditure Limits - resource and capital budgets**

	Outturn 2007-08	Estimate 2008-09	Plans 2009-10	2010-11
<b>Resource DEL<sup>1</sup></b>				
Children, Schools and Families	44.9	46.8	49.2	51.3
Health	88.4	92.5	99.9	104.0
of which: NHS England	86.4	90.9	98.2	102.3
Transport	6.8	6.5	6.4	6.4
Innovation, Universities and Skills	15.5	16.7	17.2	17.9
CLG Communities	4.2	4.3	4.5	4.5
CLG Local Government	22.8	24.6	25.6	26.3
Home Office	8.6	8.9	9.4	9.5
Justice	8.8	9.3	9.5	9.4
Law Officers' Departments	0.7	0.7	0.7	0.7
Defence	35.7	37.9	38.7	36.7
Foreign and Commonwealth Office	1.9	2.0	2.0	1.6
International Development	4.5	4.8	5.5	6.2
Energy and Climate Change	0.6	1.0	1.1	1.1
Business, Enterprise and Regulatory Reform	1.8	1.6	1.8	1.4
Environment, Food and Rural Affairs	2.7	2.7	2.7	2.7
Culture, Media and Sport	1.6	1.6	1.7	1.7
Work and Pensions	8.1	8.1	9.1	9.9
Scotland	23.8	24.6	25.4	26.1
Wales	12.3	13.0	13.6	14.0
Northern Ireland Executive	7.6	8.1	8.4	8.7
Northern Ireland Office	1.3	1.3	1.2	1.2
Chancellor's Departments	4.8	4.8	4.6	4.5
Cabinet Office	1.8	2.0	2.3	2.4
Independent Bodies	0.7	0.8	0.9	1.0
Moderisation Funding	0.0	0.0	0.3	0.3
Reserve	0.0	0.0	0.7	2.9
Allowance for shortfall	0.0	-0.6	0.0	0.0
<b>Total resource DEL</b>	<b>309.9</b>	<b>324.3</b>	<b>342.1</b>	<b>352.3</b>
<b>Capital DEL</b>				
Children, Schools and Families	5.2	5.6	7.2	6.8
Health	3.8	4.6	5.6	4.8
of which: NHS England	3.6	4.4	5.4	4.7
Transport	7.1	7.3	8.3	7.4
Innovation, Universities and Skills	2.1	2.1	2.6	1.8
CLG Communities	6.1	7.1	8.8	6.1
CLG Local Government	0.0	0.1	0.1	0.1
Home Office	0.7	0.9	0.8	0.8
Justice	0.8	1.0	0.8	0.7
Law Officers' Departments	0.0	0.0	0.0	0.0
Defence	7.9	8.6	9.1	8.8
Foreign and Commonwealth Office	0.2	0.2	0.2	0.2
International Development	0.7	0.9	1.4	1.6
Energy and Climate Change	1.5	1.7	2.0	1.8
Business, Enterprise and Regulatory Reform	0.0	0.0	0.3	0.3
Environment, Food and Rural Affairs	0.6	0.6	0.7	0.6
Culture, Media and Sport	0.5	0.8	0.4	0.6
Work and Pensions	0.1	0.1	0.1	0.1
Scotland	3.6	3.3	3.7	3.2
Wales	1.5	1.6	1.7	1.7
Northern Ireland Executive	1.1	1.1	1.1	1.1
Northern Ireland Office	0.0	0.1	0.1	0.1
Chancellor's Departments	0.3	0.3	1.0	0.3
Cabinet Office	0.3	0.4	0.4	0.4
Independent Bodies	0.1	0.0	0.1	0.1
Reserve	0.0	0.0	1.2	2.1
Allowance for shortfall	0.0	-0.2	0.0	0.0
<b>Total capital DEL</b>	<b>44.1</b>	<b>48.3</b>	<b>57.7</b>	<b>51.6</b>
<b>Depreciation</b>	<b>10.8</b>	<b>11.9</b>	<b>12.4</b>	<b>13.4</b>
<b>Total Departmental Expenditure Limits</b>	<b>343.2</b>	<b>360.7</b>	<b>387.3</b>	<b>390.5</b>
Total Education spending <sup>2</sup>	78.1	83.0	88.0	89.2

<sup>1</sup> RDEL budgets for 2010-11 reflect adjustments as a result of additional value for money savings.

<sup>2</sup> The definition of education is now more closely aligned to the UN's Classification of the Functions of Government, including education not definable by level. The total DCSF budget, although reprofiled to bring forward capital spending, is unchanged over the 2008-09 to 2010-11 period. Projections also reflect updated information in respect of Devolved Administration and Local Authority spending plans

**AME C.73** AME spending is forecast on the basis of the economic assumptions set out in Table C1 and the NAO audited assumptions set out in Box C1. The main changes to these assumptions since the 2008 Pre-Budget Report can be attributed to the higher UK claimant unemployment assumption, which affects social security benefit expenditure.

**Social security benefits C.74** The forecast for social security expenditure is higher than at the 2008 Pre-Budget Report, due to a range of factors associated with the economic downturn. The most notable impact is a direct increase to Jobseeker's Allowance, Housing Benefit and Council Tax Benefit costs associated with the higher projections of claimant count unemployment from the NAO audited assumption. The forecast also includes the measures set out in Chapter 5 to support people through the economic downturn, via social security benefits.

**Tax credits C.75** The forecast for expenditure on Child and Working Tax credits has increased since the 2008 Pre-Budget Report, reflecting the impact of the economic downturn. The revised projections reflect revisions in respect of different sections of the population who claim tax credits whilst they are in-work, or while they are out of work. For in-work recipients, the revisions reflect higher than expected entitlements, due to changes in the composition of these recipients, and an increase in people who have reported falls in their income. The forecast also assumes an increase in out of work recipients who claim child tax credits, in line with the higher unemployment claimant count assumption.

**Public service pensions C.76** Net public service pensions are measured on a National Accounts basis, and report benefits paid less contributions received by central government pay-as-you-go public service pension schemes. Forecast expenditure from 2009-10 reflects actuarial advice on the rate and level at which benefits are expected to come into payment, the rate of future employer and employee contributions and the latest information relating to scheme demographics. The increase in the forecast for net public service pensions expenditure since the 2008 Pre-Budget Report is due to higher projections of payments to pensioners. Although lower forecast RPI inflation reduces the uprating of benefits paid, this effect is more than offset by upward revisions to estimated future payments to reflect the latest information on demographics.

**National Lottery C.77** The National Lottery figures reflect the latest view on timing of drawdown by the distributing bodies. Estimated outturn for 2008-09 is broadly unchanged from the projection in the 2008 Pre-Budget Report. The 2009-10 to 2010-11 estimates of drawdown have been revised to take into account the latest information from the distribution funds, and projected revenues from ticket sales.

**Other departmental expenditure C.78** Other departmental current expenditure forecasts for 2009-10 and 2010-11 have increased slightly from the 2008 Pre-Budget Report, reflecting net increases in the forecasts of HRA subsidy, following the decision to reduce guideline local authority rent increases in 2009-10. These increases are largely offset by consequential reductions in the Housing Benefit forecast within Social Security, and by reductions in DELs. The reduction in other departmental current expenditure in 2008-09, since the 2008 Pre-Budget Report reflects the receipts of fees from financial sector interventions. Other capital expenditure is higher than the 2008 Pre-Budget Report forecast mainly because of increases in net lending to public corporations and other bodies. These increases are offset elsewhere in AME, either in public corporations' own-financed capital expenditure (which removes departments' finance to public corporations, as set out below), or in the capital accounting adjustments.

**EU contributions C.79** Net expenditure transfers to EU Institutions, which consist of Gross National Income (GNI) based contributions less the UK abatement, are lower in 2008-09 and higher in both 2009-10 and 2010-11 than estimated at the time of the 2008 Pre-Budget Report. The main factors are the use of the latest available information on the size of the EC Budget for 2009 and the level of UK payments to this Budget, changes in the UK GNI-based contributions resulting

from use of the latest economic assumptions, and changes resulting from new information from the European Commission.

**Locally financed expenditure C.80** Locally financed expenditure mainly consists of local authority self-financed expenditure (LASFE) and Scottish spending financed by local taxation. LASFE is the local authority spending financed by local authorities' own sources of net income, other than central government support. The main determinant of the LASFE forecast is council tax. The council tax projections used to derive current LASFE in 2010-11 are based on stylised assumptions, which are not government forecasts, and are mirrored in the projections for council tax included in current receipts, so that these assumptions have no material effect on the fiscal aggregates. The current forecast also reflects historical information on movements in reserves, interest receipts and debt repayment. Capital LASFE reflects forecasts on the level of capital expenditure financed by the use of capital receipts, revenue sources of capital finance, private sector contributions and self-financed borrowing. Capital LASFE is net of local authority asset sales.

**C.81** The increases in current LASFE estimated outturn in 2008-09, and the increases in current LASFE projections for 2009-10 and 2010-11 since the 2008 Pre-Budget Report mainly reflect the impact of higher forecasts for local authorities' net use of reserves to finance current spending. Capital LASFE in 2008-09 is expected to be lower than at the 2008 Pre-Budget report due to lower use of capital receipts. For 2009-10 and 2010-11, the increases in capital LASFE projections are largely due to a further fall forecast in local authority asset sales, particularly in 2009-10.

**CG debt interest C.82** Forecasts for central government gross debt interest payments have been revised in the light of latest economic determinant assumptions. With the exception of 2008-09, the projections for central government gross debt interest payments over the 2007 Comprehensive Spending Review period have increased since the 2008 Pre-Budget Report. Lower forecast RPI inflation have reduced expected debt interest payments on index-linked gilts. Market interest rates have fallen since the 2008 Pre-Budget Report, which has the effect of reducing debt interest payment costs. However, these reductions are more than offset by the effects of the higher central government net cash requirement (CGNCR) in 2009-10 and 2010-11.

**PC capital expenditure C.83** Public corporations' own-financed capital expenditure (PCOFCE) measures the total amount of public corporations' net capital expenditure, less the amount of this spending that is financed by central government departments, which is already included in DEL and elsewhere in AME. PCOFCE is higher in all years compared to the 2008 Pre-Budget Report reflecting lower sales of housing from local authority Housing Revenue Accounts, partly offset by reductions to remove higher net lending to public corporations included in other departmental capital expenditure. This offsetting reduction is most prominent in 2009-10.

**AME margin C.84** The AME margin has been reset at £1 billion and £2 billion for the years 2009-10 and 2010-11 respectively.

**Accounting adjustments C.85** The accounting adjustments reconcile the budgeting aggregates DEL and AME with the National Accounts definition of TME, removing items that score in DEL or AME but not in TME, and adding in items included in TME but not in DEL or AME. A breakdown of these accounting adjustments is given in the *Budget 2009: the economy and public finances – supplementary material*. Changes to the current and capital accounting adjustments since 2008 Pre-Budget Report reflect:

- revisions to estimates of current VAT refunds, which affect both current expenditure and receipts and are neutral across the public sector;

- increases in the estimate for defence capital spending, classified as being on 'single use military equipment', which is treated as current spending in the National Accounts and therefore effects current and capital accounting adjustments; and
- increases in the estimates of financial transactions which score as capital expenditure within the budgeting aggregates but not in the National Accounts and are therefore removed as capital accounting adjustments.

## FINANCING REQUIREMENT

**Central government net cash requirement** **C.86** Table C12 presents projections of the net cash requirement by sub-sector, giving details of financial transactions that do not affect net borrowing (the change in the sectors' net financial indebtedness) but do affect its financing requirement.

**C.87** The central government net cash requirement (CGNCR) in 2008-09 is £9.5 billion higher than at the 2008 Pre-Budget Report, reflecting higher net borrowing and changes to financial transactions, including net lending to local authorities.

**C.88** Financial sector interventions in 2008-09 have added some £84.0 billion to the CGNCR, but substantially less to PSNB as many of the banks concerned are now classified to the public sector, or the payments are regarded for National Accounts purposes as being recoverable and thus offset by imputed receipts. Details of each of the interventions are given in Box C4 below.

**Table C12: Public sector net cash requirement**

	£ billion				£ billion			
	2008-09				2009-10			
	General government		Public sector		General government		Public sector	
	Central government	Local authorities	Public corporations	Public sector	Central government	Local authorities	Public corporations	Public sector
<b>Net borrowing</b>	<b>98.9</b>	<b>3.1</b>	<b>-12.0</b>	<b>90.0</b>	<b>172.0</b>	<b>6.4</b>	<b>-3.1</b>	<b>175.4</b>
<i>Financial transactions</i>								
Net lending to private sector and abroad	4.3	0.3	-0.1	4.5	5.5	0.1	-0.3	5.3
Cash expenditure on company securities	26.2	-0.9	-29.0	-3.7	17.0	-0.8	-15.2	1.0
Accounts receivable/payable	13.3	1.2	0.6	15.1	0.6	-0.3	0.3	0.6
Adjustment for interest on gilts	-4.6	0.0	0.0	-4.6	5.1	0.0	0.0	5.1
Miscellaneous financial transactions	24.4	0.4	-66.2	-41.4	18.7	0.0	-17.5	1.3
Own account net cash requirement	162.5	4.2	-106.8	59.9	218.9	5.4	-35.8	188.6
Net lending within the public sector	-0.1	-0.1	0.2	0.0	1.9	-1.2	-0.7	0.0
<b>Net cash requirement<sup>1</sup></b>	<b>162.4</b>	<b>4.0</b>	<b>-106.6</b>	<b>59.9</b>	<b>220.8</b>	<b>4.2</b>	<b>-36.5</b>	<b>188.6</b>

<sup>1</sup> Market and overseas borrowing for local government and public corporation sectors.

**2008-09 C.89** Table C13 updates the financing arithmetic for 2008-09 in line with outturn, and for 2009-10 in line with the updated fiscal forecasts. The outturn for the central government net cash requirement (CGNCR) is £162.4 billion in 2008-09, an increase of £9.5 billion from the 2008 Pre-Budget Report forecast of £152.9 billion. The outturn for the net financing requirement (NFR) is £169.1 billion, an increase of £11.4 billion from the 2008 Pre-Budget Report. It is also £0.6 billion below total financing, resulting in the forecast level of the Debt Management Office's (DMO's) short-term net cash position at end March 2009 rising to £1.1 billion. The Government repaid £3.2 billion of its Ways and Means Advance at the Bank of England in 2008-09.

**2009-10 C.90** The projection for the CGNCR in 2009-10 is £220.8 billion. Gross gilt redemptions are £16.6 billion and National Savings and Investments (NS&I) is not expected to make a net contribution to financing in 2009-10, reflecting a target to maintain broadly the existing level of stock after the high contribution to net financing of £12.5 billion in 2008-09. This projection assumes gross inflows of £13.9 billion. The Government will finance the official reserves by £2.0 billion. The projection for the net financing requirement in 2009-10 is £237.8 billion.

**DMO C.91** The financing requirement will be met by:

- gross gilt issuance of £220 billion;
- an increase in the Treasury bill stock by £21.6 billion to £65.6 billion; and
- a change in the short-term debt level reflecting the Government's decision to repay £3.8 billion of the remaining balance of the Ways and Means Advance at the Bank of England.

**C.92** Gross debt issuance is expected to be £241.6 billion, with the additional amount (in excess of the net financing requirement of £237.8 billion) required to meet the further planned repayment of £3.8 billion of the Ways and Means Advance.

**C.93** Auctions will remain the Government's primary method by which to issue gilts. However, following a consultation by the Debt Management Office (DMO) the Government has decided to use supplementary methods to issue gilts in 2009-10. In particular, the Government has decided to use syndication, and to extend the use of mini tenders, which were first introduced in October 2008, to issue gilts. Further details on this decision and the amount of gilts to be issued by way of syndication and mini tender can be found in the *Debt and reserves management report 2009-10*.

**C.94** Gross gilt, issuance is expected to be split as follows:

- short-maturity gilt issuance is expected to be £74 billion (or 34 per cent of total issuance);
- medium maturity gilt issuance is expected to be £70 billion (or 32 per cent of total issuance);
- long-maturity gilt issuance is expected to be £46 billion (or 21 per cent of total issuance); and
- issuance of index-linked gilts is expected to be £30 billion (or 13 per cent of total issuance).

**C.95** The planning assumption is that short maturity and medium maturity gilts will be issued at auction only. Long maturity and index-linked gilts will be issued also by way of syndication or mini tender.

**Table CI3: Financing requirement forecast**

	£ billion			
	April 2008 Revised Remit <sup>1</sup>	2008-09 November 2008 Pre-Budget Report	April 2009 Budget	2009-10 April 2009 Budget
<b>Central government net cash requirement</b>	<b>59.3</b>	<b>152.9</b>	<b>162.4</b>	<b>220.8</b>
Gilt redemptions	17.3	18.3	18.3	16.6
Financing for the Asset Purchase Facility	0.0	0.0	1.0	-1.0
Financing for the Official Reserves <sup>2</sup>	2.0	0.0	0.0	2.0
Buy-backs <sup>3</sup>	0.0	0.0	2.4	0.0
Planned short-term financing adjustment <sup>4</sup>	-2.5	-2.5	-2.5	-0.6
<b>Gross financing requirement</b>	<b>76.1</b>	<b>168.7</b>	<b>181.6</b>	<b>237.8</b>
Less Assumed net contribution from NS&I	4.0	11.0	12.5	0.0
<b>Net financing requirement</b>	<b>72.1</b>	<b>157.7</b>	<b>169.1</b>	<b>237.8</b>
<i>Financed by:</i>				
<b>1. Debt issuance by the Debt Management Office</b>				
<b>(a) Treasury bills</b>	<b>-0.9</b>	<b>14.5</b>	<b>26.4</b>	<b>21.6</b>
<b>(b) Gilts</b>	<b>80.0</b>	<b>146.4</b>	<b>146.5</b>	<b>220.0</b>
<b>2. Other planned changes in short-term debt<sup>5</sup></b>				
Changes in Ways & Means <sup>6</sup>	-7.0	-3.2	-3.2	-3.8
<b>3. Unanticipated changes in short-term cash position<sup>7</sup></b>				
<b>Total financing</b>	<b>72.1</b>	<b>157.7</b>	<b>169.7</b>	<b>237.8</b>
<b>Short-term debt levels at end of financial year</b>				
Treasury bill stock in market hands <sup>8</sup>	16.7	32.1	44.0	65.6
Ways & Means	0.4	4.2	4.2	0.4
DMO net cash position	0.5	0.5	1.1	0.5

<sup>1</sup> The financing arithmetic in Budget 2008 was revised on 18 April 2008 to reflect outturn data for 2007-08.

<sup>2</sup> The total reflects an additional £2 billion of sterling financing for the Official Reserves.

<sup>3</sup> The total primarily reflects purchases of the near maturity index-linked 2009 stock but also purchases of "rump gilts" which are older, smaller gilts, declared as such by the DMO and in which Gilt-edged Market Makers (GEMMs) are not required to make two way markets. The Government will not sell further amounts of such gilts to the market but the DMO is prepared, when asked by a GEMM, to make a price to purchase such gilts.

<sup>4</sup> To accommodate changes to the current year's financing requirement resulting from: (i) publication of the previous year's outturn CGNCR; (ii) an increase in the DMO's cash position at the Bank of England; and / or (iii) carry over of unanticipated change but the DMO is prepared, when asked by a GEMM, to make a price to purchase such gilts.

<sup>5</sup> Total planned changes to short-term debt are the sum of: (i) the planned short-term financing adjustment; (ii) Treasury bill sales; and (iii) changes to the level of the Ways & Means Advance.

<sup>6</sup> Reflects the Government's decision to repay £3.8 billion of the remaining balance of the Ways and Means Advance in 2009-10. The Government repaid £3.2 billion of the Advance in 2008-09.

<sup>7</sup> A negative (positive) number indicates an addition to (reduction in) the financing requirement for the following financial year. Total planned changes to short-term debt are the sum of: (i) the planned short-term financing adjustment; (ii) Treasury bills

<sup>8</sup> The DMO has operational flexibility to vary the end-financial year stock subject to its operational requirements in 2009-10.

**C.96** Full details of the DMO's financing remit including further information on the structure of gilts issuance and the gilt auction calendar for 2009-10 can be found in the *Debt and reserves management report 2009-10* which is published alongside this Budget and is available on HM Treasury's website.

## FINANCIAL SECTOR INTERVENTIONS

**C.97** The independent Office for National Statistics (ONS) will determine how measures to maintain financial stability and support the effective functioning of the financial sector are classified within the National Accounts and included in outturn data, in consultation with Eurostat (the Statistical Office of the European Union) and statistical offices in other Member States to ensure consistent interpretation of international statistical guidance.

**C.98** However the long-term impact on the sustainability of public finances will be determined not by the face value of any liabilities incurred but by any eventual profit or loss that accrues on these interventions, taking account of fees received and the value of investments when they are sold.

**C.99** As set out in Chapter 2, the Government will base its assessment of the fiscal position on aggregates that both exclude the temporary impact of any liabilities incurred as a result of these interventions and include an expected level of unrealised losses. The projections set out in this chapter exclude the temporary impact of any liabilities, but do not include the expected level of unrealised losses, as the timing and quantum are uncertain. Any economic profit or loss will be included in the measures used in these projections when that profit or loss crystallises. Consistent with this policy, the projections also do not include the benefit of expected fees or dividends. In practice this means that:

- the forecast does not include any projections of estimated fee income from schemes such as the Asset Protection Scheme, the Credit Guarantee Scheme or the Special Liquidity Scheme;
- no estimates of the potential final net profits or losses from any of the interventions are included in the projections; and
- no account is taken of the net operating profits or losses of banks classified to the public sector except the Bank of England, in the projections of public corporation gross operating surplus.

**C.100** Payments and receipts associated with interventions are included in estimated outturn and in the Budget projections where these have already been made, or a firm announcement has been made of a future transaction. The cash raised to finance these payments gives rise to an increase in the Government's debt interest costs which is included in the projections in this chapter.

**C.101** Because of the difficulties around estimating the eventual profit or loss on these interventions, the Government is, for fiscal policy purposes, making a provisional estimate of losses on financial sector interventions. This policy decision is covered in more detail in Chapter 2.

**C.102** The remainder of this section summarises the current impact of the interventions on the projections of key fiscal aggregates. Box C4 provides more detail on these on a scheme-by-scheme basis.

### Impact on Public Sector Net Debt

**C.103** Since September 2008 the ONS has published estimates of public sector net debt both including and excluding financial sector interventions (initially only the impact of Northern Rock) in the monthly Public Sector Finance statistics releases. Table C14 shows the composition of the difference between PSND including financial sector interventions on a

National Accounts basis and PSND excluding liabilities and unrealised losses from financial sector interventions for 2008-09, 2009-10 and 2010-11.

**Table CI4: Financial sector interventions - impact on PSND**

	£ billion		
	Estimate	Projections	
	2008-09	2009-10	2010-11
<b>PSND excluding liabilities and unrealised losses from financial sector interventions</b>	<b>609.1</b>	<b>792</b>	<b>977</b>
Bank balance sheets <sup>1</sup>	123	123	126
Depositor compensation	9	10	10
Bank of England Schemes	3	3	3
<b>PSND including financial sector interventions on a National Accounts basis</b>	<b>743.6</b>	<b>928</b>	<b>1115</b>

<sup>1</sup> RBS and Lloyds Banking Group cannot be included until ONS have calculated their specific contributions, this is consistent with ONS' treatment in Public Sector Finances.

**C.104** The main contributions to PSND including financial sector interventions are from the liabilities, net of liquid assets, of the balance sheets of Northern Rock and Bradford & Bingley (B&B) that were classified to the public sector by ONS in 2008. There are smaller contributions from transactions associated with Kaupthing Singer & Friedlander (KSF), Heritable, Landsbanki and London Scottish Bank. The ONS has classified Royal Bank of Scotland (RBS) and Lloyds Banking Group (LBG) to the public sector with effect from October 2008. However, ONS have not yet been able to calculate the impact of these banks' balance sheets on PSND and have said that this may take some time to complete. The Government's purchases of equity in RBS and Lloyds Banking Group are not included in PSND as these are classified by the ONS as intra-public sector transactions.

### Impact on the central government net cash requirement

**C.105** Cash payments associated with the financial sector interventions increase the CGNCR in the year in which they are made. In 2008-09 the following transactions increased the CGNCR by £84 billion in total:

- the Government loan to Northern Rock, which stood at £14.6 billion at the end of the year on a gross basis;
- £36.5 billion for the cost of share purchases in RBS and Lloyds Banking Group, net of commissions;
- compensation payments to depositors in Bradford & Bingley, including loans to the Financial Services Compensation Scheme (FSCS), totalling £18.6 billion or £18.0 billion, net of the consideration from Abbey, and the provision of a working capital facility of which £6.0 billion had been drawn by the end of the year;
- compensation payments to depositors in KSF, Heritable, Landsbanki and London Scottish Bank, including loans in respect of liabilities borne both by the FSCS and by the Icelandic Depositors' and Investors' Guarantee Fund, totalling £7.4 billion; and
- a £1.6 billion payment to support the restructuring of the Dunfermline building society.

**C.106** The CGNCR projections for 2009-10 and subsequent years include:

- expected further loan advances and capital injections to Northern Rock;

- expected further working capital support to Bradford & Bingley totalling £5.5 billion in 2009-10; and
- the maximum of £19 billion capital injection into RBS, announced in February 2009, has been assumed in the projections for 2009-10 and 2010-11.

**Table C15: Financial sector interventions - impact on CGNCR**

	£ billion		
	Estimate	Projections	
	2008-09	2009-10	2010-11
<b>Net effect of financial sector interventions</b>	<b>84.0</b>	<b>38</b>	<b>0</b>
Loans and equity injections	57	37	0
Depositor compensation	27	1	0

## Impact on public sector and general government borrowing

**Public sector net borrowing** C.107 The financial sector interventions do not generally affect public sector net borrowing because:

- they take the form of financial transactions, such as loans or share purchases, which do not constitute borrowing (as one financial asset is being exchanged for another);
- they are offset by recoveries imputed in the national accounts, such as for liabilities borne by the FSCS; or
- they are related to banks classified to the public sector and so are classified as intra-public sector flows.

**General government net borrowing** C.108 However, there are transactions associated with the interventions which the ONS has classified as scoring in general government net borrowing, and therefore in the Maastricht Treaty definition of the Government deficit:

- the compensation of £4.6 billion paid by the Treasury to depositors in B&B above the FSCS depositor guarantee limit is regarded as a capital grant. For all other bank compensation payments, national accounts score an immediate offsetting claim on the private sector, but this is not the case for B&B, which is a public sector company; and
- capital grants are scored for the purchase of equity in RBS and LBG, equal to the difference between the market value of the shares at the time of purchase and the value based on the agreed purchase price. These total £6.3 billion in 2008-09.

C.109 Similarly general government gross debt, the Maastricht Treaty debt definition, is affected by all of the cash flows that impact on the CGNCR, whether or not they cross the public sector boundary.

**Box C4: Impact of financial sector interventions on the public finances projections**

This box explains how each intervention has been reflected in the projections on a National Accounts basis.

**BANK OF ENGLAND SCHEMES**

**Special Liquidity Scheme (SLS):** This scheme was introduced in April 2008 to provide liquidity support to the banking system. The Government has lent a total of £185 billion of Treasury bills to the Bank of England to run the scheme. The classification of the scheme is a matter for the ONS and until there is a ruling it has been assumed that there will be no impact on PSND as the transaction is back-to-back stock lending and therefore no debt is regarded as having been issued. Fees charged by the Bank of England for use of the scheme are not included in the projections.

**Asset Purchase Facility:** The Bank of England Asset Purchase Facility Fund Ltd was set up in February 2009. The Fund borrows cash from the Bank of England in order to purchase assets. In the first phase, now suspended, these were private sector assets and the cash used was raised through issuing Treasury Bills and deposited by the Debt Management Office. In the second phase the Bank of England creates central bank money to lend to the Fund which can purchase up to £150 billion of assets of which no more than £50 billion can be private sector. Liquid private sector assets and gilts will broadly net off in PSND. Corporate bonds are regarded as illiquid and so do not net off. The impact of the scheme on PSND at end March 2009 was £2.7 billion, mainly from gilts which are valued for PSND at face value, which was lower than the market price paid. Any eventual profit or loss from the facility will only be included when it crystallises for central government.

**HM TREASURY SCHEMES**

**Credit Guarantee Scheme (CGS):** This scheme was introduced in October 2008 as an insurance contract to repay new senior bank debt should the participating bank default. ONS have indicated that generally guarantees are contingent liabilities of government and so do not score in the accounts unless the guarantee is called. The fees charged for the scheme are not included in the projections.

**Asset Protection Scheme:** Under the scheme, the Government provides protection against future credit losses on certain assets in exchange for a fee. The Royal Bank of Scotland and Lloyds have both announced their intention to participate in the scheme. RBS intends to protect £325 billion worth of eligible assets, and Lloyds intends to protect £260 billion of eligible assets. A 'first loss' remains with the institution. RBS will bear a first loss amount of £42.2 billion in relation to protected assets. Lloyds will bear a first loss amount of £35.2 billion in relation to protected assets. The Government protection will cover 90 per cent of the credit losses exceeding this amount, with the participating institution retaining the residual exposure. It is not currently possible to produce a robust estimate of the scale or profile of losses, as the scheme is providing protection in respect of assets which the market cannot value at the moment and around which there are very significant uncertainties. Therefore no estimate of losses from the scheme nor benefit from fees has been included in these projections as there are very significant uncertainties over the scale and profile of losses.

**Asset Backed Securities (ABS) Guarantee Scheme:** The scheme, announced in this Budget, makes available guarantees for residential mortgage-backed securities. The guarantees are contingent liabilities of government, and therefore do not impact on the public finances unless the guarantee is called. The fees charged for the scheme are not included in the public finances projections.

### DIRECT SUPPORT FOR BANKS

**Northern Rock and Bradford & Bingley** together accounted for around £123 billion of PSND including financial sector interventions at the end of 2008-09. The forecast includes projections of the rate at which government loans to these banks will be made and paid back on the basis of their published business plans. Northern Rock announced in February 2009 that it would increase mortgage lending by up to £14 billion over the next two years and restructure the company. In addition the Government has announced that it will be strengthening Northern Rock's capital base in 2009-10 by up to £3 billion, the full amount has been assumed in the projections. CGNCR is also increased by compensation payments to depositors in Bradford & Bingley and the provision of a working capital facility.

**Royal Bank of Scotland and Lloyds Banking Group:** ONS announced on 19 February 2009 that both RBS and the LBG would be classified to the public sector but that it may take some time to complete their incorporation into data for the public sector. The Government's purchase of equity in these banks in 2008-09 was scored in the CGNCR, and a portion of the cost scored in the Treaty deficit. The projections of the CGNCR for 2009-10 and 2010-11 include estimates of further capital injections announced in February 2009 for RBS. No projections for net operating profits or losses from these banks are included in the forecast.

**Icelandic banks:** Kaupthing Singer & Friedlander (KSF) and Heritable were taken into administration in October 2008, adding £3.3 billion to CGNCR through transactions associated with transfer of retail deposits to ING Direct. Much of this represents a Government loan to cover the liabilities borne by the FSCS, but the final allocation is not settled. Payments totalling £4.0 billion were also made in 2008-09 to compensate retail depositors, both those with Icesave accounts at Landsbanki, and those with KSF and Heritable whose accounts were not transferred to ING Direct. Further compensation payments to these retail depositors are included in the projections for 2009-10. The payments in respect of Icesave accounts are eventually expected to add around £4.5 billion to CGNCR, £3.8 billion of which represents loans to cover the liabilities borne by the FSCS and by the Icelandic Depositors' and Investors' Guarantee Fund.

**Dunfermline building society:** This was restructured in March 2009 with the retail and wholesale deposits, branches, head office and originated residential mortgages (other than social housing loans and related deposits) transferred to Nationwide supported by a payment by HM Treasury of £1.6 billion. Dunfermline's social housing portfolio has been placed into a bridge bank, under the control of the Bank of England, along with a small element of related deposits from social landlords. The remainder of the business has been put into administration under the Building Society Special Administration Process. CGNCR in 2008-09 is increased by the payment made.

### ADDITIONAL ANALYSES

**C.II0** Historical series for the main fiscal aggregates are included in Table C16. Further information on general government transactions and more detailed breakdowns of the public sector are included in *Budget 2009: the economy and public finances – supplementary material*, along with a detailed description of the conventions used in presenting the public finances.

## HISTORICAL SERIES

**Table CI6: Historical series of public sector balances, receipts and debt**

	Per cent of GDP								
	Public sector current budget	Cyclically-adjusted surplus on current budget	Public sector net borrowing	Cyclically-adjusted public sector net borrowing	Public sector net cash requirement <sup>1</sup>	Net taxes and national insurance contributions	Public sector current receipts	Public sector net debt <sup>1,2</sup>	Public sector net worth <sup>3</sup>
1970-71	6.8		-0.6		1.2	36.3	43.3		
1971-72	4.2		1.1		1.4	35.0	41.5		
1972-73	2.0		2.8		3.6	32.6	39.0		
1973-74	0.4	-0.7	4.9	6.0	5.8	31.9	39.5		
1974-75	-0.9	-2.5	6.5	8.1	8.9	34.5	42.1	52.1	
1975-76	-1.4	-1.6	7.0	7.2	9.2	35.3	42.8	53.8	
1976-77	-1.1	-0.6	5.5	5.0	6.3	35.1	43.2	52.3	
1977-78	-1.3	-1.2	4.3	4.1	3.6	34.1	41.4	49.0	
1978-79	-2.5	-2.3	5.0	4.8	5.2	33.1	40.1	47.1	
1979-80	-1.8	-1.7	4.1	4.0	4.6	33.5	40.6	43.9	
1980-81	-2.9	-1.5	4.8	3.4	5.1	35.5	42.2	46.0	
1981-82	-1.3	2.5	2.3	-1.5	3.3	38.0	45.5	46.2	
1982-83	-1.4	2.9	3.0	-1.4	3.1	38.2	45.2	44.8	
1983-84	-1.9	1.8	3.7	0.0	3.1	37.7	44.1	45.1	
1984-85	-2.1	0.9	3.6	0.6	3.0	38.2	43.9	45.3	
1985-86	-1.2	0.6	2.4	0.6	1.6	37.4	42.7	43.5	
1986-87	-1.4	-1.2	2.0	1.9	0.9	37.0	41.9	41.0	
1987-88	-0.4	-1.7	1.0	2.2	-0.7	36.8	40.6	36.8	73.0
1988-89	1.6	-1.0	-1.3	1.3	-3.0	36.1	40.2	30.5	78.2
1989-90	1.4	-1.4	-0.2	2.6	-1.3	35.4	39.4	27.7	70.1
1990-91	0.3	-1.2	1.0	2.6	-0.1	34.9	38.4	26.2	59.8
1991-92	-2.0	-1.5	3.7	3.3	2.3	33.8	38.1	27.4	52.6
1992-93	-5.6	-3.7	7.4	5.5	5.8	32.7	36.3	31.4	40.1
1993-94	-6.3	-4.0	7.7	5.4	6.9	31.8	35.4	36.5	29.6
1994-95	-4.8	-3.3	6.2	4.7	5.2	33.0	36.4	40.1	28.8
1995-96	-3.3	-2.4	4.7	3.8	4.2	33.6	37.2	41.9	21.5
1996-97	-2.7	-2.2	3.4	2.8	2.9	34.0	36.4	42.5	17.7
1997-98	-0.1	-0.1	0.7	0.6	0.1	35.1	37.5	40.6	15.3
1998-99	1.2	0.9	-0.5	-0.2	-0.7	35.6	37.7	38.4	14.4
1999-00	2.2	1.7	-1.6	-1.1	-0.9	35.5	37.9	35.6	17.4
2000-01	2.4	1.6	-1.9	-1.1	-3.7	36.3	38.6	30.7	23.0
2001-02	1.2	0.9	0.0	0.2	0.4	35.8	37.8	29.7	29.6
2002-03	-1.0	-0.7	2.3	2.0	2.2	34.3	36.3	30.8	28.2
2003-04	-1.5	-1.3	2.9	2.7	3.3	34.3	36.5	32.2	28.5
2004-05	-1.6	-1.5	3.3	3.2	3.2	35.2	37.3	34.1	28.6
2005-06	-1.1	-1.0	3.0	2.8	3.2	36.0	38.4	35.4	28.6
2006-07	-0.4	-0.3	2.3	2.3	2.6	36.2	38.6	36.0	29.2
2007-08	-0.4	-0.7	2.4	2.7	1.5	36.3	38.6	36.5	28.9

<sup>1</sup> Excluding liabilities and unrealised losses from financial sector interventions.

<sup>2</sup> At end-March; GDP centred on end-March.

<sup>3</sup> At end-December; GDP centred on end-December.

**Table C17: Historical series of government expenditure**

	£ billion (2007-08 prices)				Per cent of GDP			
	Public sector current expenditure	Public sector net investment	Public sector gross investment <sup>1</sup>	Total Managed Expenditure	Public sector current expenditure	Public sector net investment	Public sector gross investment <sup>1</sup>	Total Managed Expenditure
1970-71	190.2	36.3	58.1	248.3	32.7	6.2	10.0	42.7
1971-72	199.4	31.6	54.5	254.0	33.4	5.3	9.1	42.6
1972-73	207.6	30.4	54.3	261.9	33.2	4.9	8.7	41.9
1973-74	228.0	34.1	60.8	288.9	35.0	5.2	9.3	44.3
1974-75	251.4	36.6	64.7	316.1	38.7	5.6	10.0	48.6
1975-76	256.7	35.9	64.2	320.9	39.7	5.6	9.9	49.7
1976-77	263.7	29.4	58.8	322.5	39.7	4.4	8.8	48.5
1977-78	260.1	20.1	49.7	309.8	38.3	3.0	7.3	45.6
1978-79	268.0	17.6	47.8	315.8	38.2	2.5	6.8	45.1
1979-80	274.6	16.4	47.0	321.6	38.1	2.3	6.5	44.6
1980-81	282.5	13.1	44.3	326.8	40.6	1.9	6.4	47.0
1981-82	294.9	7.0	37.9	332.8	42.3	1.0	5.4	47.7
1982-83	301.7	11.1	41.1	342.8	42.3	1.6	5.8	48.1
1983-84	311.2	13.5	43.4	354.6	42.0	1.8	5.9	47.8
1984-85	319.3	11.9	40.3	359.6	42.2	1.6	5.3	47.5
1985-86	319.3	9.2	35.3	354.6	40.5	1.2	4.5	45.0
1986-87	324.5	5.6	31.8	356.3	39.7	0.7	3.9	43.6
1987-88	327.8	5.0	29.8	357.6	38.1	0.6	3.5	41.6
1988-89	320.6	3.1	27.9	348.5	35.8	0.3	3.1	38.9
1989-90	322.9	11.3	35.7	358.6	35.3	1.2	3.9	39.2
1990-91	325.1	12.3	34.6	359.7	35.6	1.3	3.8	39.4
1991-92	344.6	16.1	34.9	379.5	38.0	1.8	3.8	41.9
1992-93	361.9	16.8	35.2	397.1	39.8	1.8	3.9	43.7
1993-94	372.0	13.3	31.5	403.5	39.7	1.4	3.4	43.1
1994-95	383.4	13.6	31.8	415.2	39.3	1.4	3.3	42.6
1995-96	388.6	13.7	31.4	420.0	38.7	1.4	3.1	41.8
1996-97	387.6	7.1	23.2	410.8	37.6	0.7	2.3	39.9
1997-98	386.5	6.1	21.6	408.1	36.2	0.6	2.0	38.2
1998-99	388.2	7.4	22.4	410.6	35.1	0.7	2.0	37.2
1999-00	395.7	6.7	21.7	417.5	34.4	0.6	1.9	36.3
2000-01	416.0	6.2	21.3	437.3	35.0	0.5	1.8	36.8
2001-02	428.0	14.0	29.4	457.4	35.3	1.2	2.4	37.7
2002-03	447.8	15.7	31.6	479.5	36.0	1.3	2.5	38.6
2003-04	470.8	17.4	33.5	504.3	36.8	1.4	2.6	39.4
2004-05	492.2	22.2	38.5	530.7	37.7	1.7	2.9	40.6
2005-06	511.8	24.8	41.8	553.5	38.2	1.8	3.1	41.3
2006-07	521.4	26.7	44.1	565.4	37.7	1.9	3.2	40.9
2007-08	535.6	29.3	47.1	582.7	37.7	2.1	3.3	41.0

<sup>1</sup> Net of sales of fixed assets.

