



HM TREASURY

End of year fiscal report

December 2009



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1

Introduction

The annual publication of the *End of year fiscal report*, first published alongside the 2002 Pre-Budget Report, reflects the Government's commitment to transparency in the conduct of fiscal policy. The report provides retrospective reporting and analysis of fiscal issues and builds on the information published in the Pre-Budget Report and the Budget. This year's report looks in detail at the differences between the Budget 2007 and Budget 2008 year-ahead fiscal forecasts and outturns, assessed in an historical and international context.

The global financial crisis precipitated a steep and synchronised global downturn, and these economic developments have had a profound effect on the fiscal positions of most advanced economies. Government borrowing has been much higher than anticipated before the onset of the global financial crisis in all G7 countries, including the UK.

Taking account of these developments, this report provides a comprehensive analysis of the underlying reasons for the differences between the Budget 2008 forecasts for the UK public finances and outturns in 2008-09. The analysis shows that these forecast differences are to a major extent attributable to the direct and indirect impact of the global financial crisis and the resulting global economic downturn on the key determinants of the public finances. In addition, the discretionary fiscal action taken by the Government to support the economy through the downturn is also reflected in the forecast differences for 2008-09.

This report also examines the UK's fiscal forecasting performance over a longer timescale, and compares it internationally. This analysis shows that the profile of public sector net borrowing (PSNB) forecast differences since the mid-1980s is such that outturn PSNB has tended to be higher than the year-ahead Budget forecast when output is below its trend level, and lower than forecast when output is above trend. Also, the differences between forecast and outturn for 2008-09 have had a significant influence on average forecast errors. Overall, this means outturn PSNB has on average been in line with the year-ahead Budget forecast in the period since the reforms to the fiscal framework in 1997.

1.1 The Government's reforms to the fiscal framework since 1997 have been designed to ensure that transparency and openness apply to fiscal policy. Transparency is one of the key principles by which the Government has operated fiscal policy since 1997. It allows effective scrutiny of the conduct of fiscal policy and the state of the public finances, thereby improving the credibility of macroeconomic policy.

1.2 A transparent approach means the Government clearly states the objectives of fiscal policy, is open about the way in which those objectives are implemented, and provides full information on the performance of the public finances against those objectives in a clear and timely manner.

1.3 The *End of year fiscal report* (EYFR) contributes to transparency in the Government's fiscal reporting and analysis. It is retrospective, describing fiscal developments in the previous two financial years, and setting these into an historical context. The EYFR complements the data on and analysis of the public finances that are published at the time of each Pre-Budget Report and

Budget. It ensures that the UK is in line with international best practice, including the International Monetary Fund's *Code of Good Practices on Fiscal Transparency*.¹

1.4 The focus of the EYFR is an analysis of the difference between forecast and outturn for the year-ahead fiscal forecasts from the last two Budgets. The aim of this analysis is to increase the understanding of key fiscal developments and knowledge of where outturns are significantly different from forecasts, and to identify the reasons behind these differences. Conducting and presenting this analysis should strengthen the credibility of future fiscal forecasts, and thus support the effective implementation of the Government's fiscal framework.

1.5 This report provides a retrospective examination of forecasting performance in the two most recently completed fiscal years, together with the Government's historical forecasting performance.² The detailed forecast analysis considers the Budget 2007 forecast for 2007-08 and the Budget 2008 forecast for 2008-09. The two-year horizon strikes a balance between timely reporting of fiscal developments and the quality and robustness of data.

1.6 The data in this report include the effects of the Government's financial sector interventions on a National Accounts basis, except where stated, and are consistent with *Statistical Bulletin: Public sector finances, September 2009*.³ This is to ensure forecasts and outturns are compared on a consistent basis. The Pre-Budget Report also sets out fiscal aggregates on a basis which excludes the temporary effects of financial sector interventions, consistent with National Accounts methodology.

1.7 Public finance data are open to revision for a considerable period after the end of the relevant financial year. In addition, the analysis presented in this report depends on macroeconomic data that are subject to revision for several years, as the data are refined on the basis of more comprehensive information.

1.8 The data and analysis presented here are therefore not final. This is particularly the case for the most recent year, 2008-09. Nonetheless, the information is sufficiently robust to provide a sound basis for forecast analysis. Future revisions, particularly for 2007-08, are more likely to affect the detail while leaving the main conclusions unchanged.

1.9 To aid understanding of the analysis set out in the *End of year fiscal report*, the 2003 EYFR described the forecasting process. In particular it described the linkages between the Treasury's economic forecast and the projections for the public finances. It also described how the projections for the public finances are partly based on independently-audited assumptions, which are designed to build caution in to the fiscal forecasts.

1.10 The analysis of forecasting differences in this report identifies a number of possible reasons for differences between forecasts and outturn, reflecting the nature of the forecasting process. Differences between forecast and outturn are attributed to one of five categories:

- differences between forecast and outturn for **economic determinants**. For example, forecasts for taxes and spending are heavily influenced by forecasts for economic growth and the composition of economic growth. This category would therefore include any differences in the public finance projections that can be clearly ascribed to differences between outturn and forecasts for the macroeconomic determinants forecast by the Treasury, such as wages and salaries, consumer spending and profits;

¹ *Code of Good Practices on Fiscal Transparency*, International Monetary Fund, 2007.

² Analysis of fiscal trends in the current fiscal year is undertaken in Chapter 2 and Annex B of the 2009 Pre-Budget Report.

³ *Statistical Bulletin: Public sector finances, September 2009*, ONS/HM Treasury, 20 October 2009.

- divergences between the **NAO-audited assumptions** and their outturn.⁴ This would include, for example, the effects of the level of unemployment on social security spending, or the effects of the oil price on receipts from North Sea taxes;
- **fiscal forecasting differences**. This category incorporates the differences in tax receipts that result from unexpected changes in the relationship between the tax rate and the tax base. On the spending side, these differences would include differences between the forecast take-up of benefits and the actual outturn, or differences between outturns and plans for Departmental Expenditure Limits (DEL). Both receipts and spending fiscal forecasting differences can be driven by changes in economic conditions;
- **policy measures**,⁵ which reflects the impact of new policy measures announced after publication of the forecast; and
- **other factors**, which includes a variety of minor factors, most importantly the impact of changes in the definitions or statistical treatment of components of the public finances.

1.11 Chapter 2 provides a summary of developments from a macroeconomic perspective, and examines the differences between outturn and the Budget 2007 and Budget 2008 year-ahead forecasts for the main fiscal aggregates. In light of the profound effect the global economic shocks and resulting downturn in the UK have had on the public finances, the chapter provides a comprehensive analysis of the underlying reasons for the difference between outturn public sector net borrowing (PSNB) in 2008-09 and the Budget 2008 forecast.

1.12 The Budget 2008 forecasting differences highlight the considerable uncertainty inherent in fiscal forecasts, particularly the fiscal balances, which represent the difference between two large aggregates of spending and receipts. The magnitude and complexity of the shocks that have hit the global economy means the uncertainties are particularly pronounced at the current time. In this context, Chapter 2 also examines the UK's fiscal forecasting performance over a longer timescale and compares it internationally.

1.13 Fiscal forecasting performance is assessed in terms of accuracy and caution. '**Accuracy**' is measured using the absolute average difference: the smaller the average absolute difference, the more accurate the forecast. '**Caution**' is measured by the simple average of the differences of forecast from outturn. A net borrowing forecast is cautious if the outturn is lower than forecast – this is indicated by a positive forecast difference, which is calculated as forecast minus outturn.

1.14 The key findings of Chapter 2 are:

- on **Budget 2007 and Budget 2008 year-ahead forecasts**: outturn PSNB for 2007-08 was in line with the Budget 2007 year-ahead forecast. Outturn PSNB for 2008-09 was 3.0 per cent of GDP above the Budget 2008 year-ahead forecast, mainly driven by the impact of the global financial crisis, and steep and synchronised global economic downturn, on the UK. The discretionary fiscal action taken by the Government to support the economy also contributed to the forecast difference;
- on the **profile of past forecast differences**: the profile of PSNB forecast differences since the mid-1980s is such that outturn PSNB has tended to be higher than the year-ahead Budget forecast when output is below its trend level, and lower than forecast when output is above trend;

⁴ A list of the assumptions audited by the National Audit Office (NAO) for Budget 2008 and Budget 2009 is shown in Annex A.

⁵ In order to provide further clarity on the reasons behind forecasting differences, building on previous EYFRs this year's report separates out the impact of 'policy measures' from that of 'other factors' in the breakdown of forecasting differences.

- on **average one-year ahead forecast difference (caution)**: overall, outturn PSNB has on average been in line with the year-ahead Budget forecast in the period since 1997. This average forecast difference is similar to the average forecasting difference prior to 1997;
- on **average two-year ahead forecast difference (caution)**: outturn PSNB has on average been 0.4 per cent of GDP higher than the two-year ahead net borrowing forecast in the period since 1997-98. In the period prior to 1997-98, outturn net borrowing was on average in line with the two-year ahead forecast;
- on **average absolute forecast differences (accuracy)**: the overall accuracy of one- and two-year ahead PSNB forecasts under the new framework has been similar to that of the period before 1997-98. The average absolute year-ahead forecast difference since 1997-98 has been 1.0 per cent of GDP, compared to 1.2 per cent of GDP in the earlier period. The average absolute two-year ahead forecast difference has been 1.4 per cent of GDP since 1997-98, compared to the average of 1.5 per cent of GDP in the period before 1997-98; and
- on **forecast differences in an international context**: on average since 1997, the UK's net borrowing forecasting performance has been in line with the average of the EU 15 Member States (as measured by average forecast difference), and better than average in terms of accuracy (as measured by average absolute forecast difference).

1.15 Chapter 3 provides a detailed analysis of projections for tax receipts made at Budget 2007 and Budget 2008 for the fiscal years 2007-08 and 2008-09 respectively. The key conclusions of the chapter are:

- in 2008-09, total receipts fell to £533.1 billion, £42.1 billion below the Budget 2008 forecast (a difference of 2.9 per cent of GDP). This shortfall was due to reduced receipts across almost all tax components, as a result of the impact of the global financial crisis and the steep and synchronised global downturn on the UK; and
- in 2007-08, total receipts were £548.4 billion, £4.6 billion below the Budget 2007 forecast (a difference of 0.3 per cent of GDP). This was in part due to a shortfall in corporation tax receipts, while a shortfall in income tax was offset by higher national insurance contributions.

1.16 Finally, Chapter 4 presents a detailed analysis of the projections for public spending made at Budget 2007 for the fiscal year 2007-08, and at Budget 2008 for 2008-09. The main conclusions of Chapter 4 are:

- in 2008-09, Total Managed Expenditure (TME) rose to £618.1 billion, and was £0.3 billion above the Budget 2008 forecast (a difference of less than 0.1 per cent of GDP); and
- in 2007-08, TME stood at £582.0 billion and was approximately £4.6 billion lower than the Budget 2007 forecast (a difference of 0.3 per cent of GDP), which was driven by lower than forecast spending on Annually Managed Expenditure (AME).

2

Fiscal forecasting in historical and international context

This chapter examines the differences between forecasts for the main fiscal aggregates and outturns. It looks in detail at the differences between the Budget 2007 and Budget 2008 year-ahead forecasts and outturns, and provides a comprehensive analysis of the underlying reasons for the Budget 2008 forecasting differences for 2008-09.

The global financial crisis and resulting economic downturn have had a profound effect on the public finances in the UK and all other G7 countries. This is reflected in the differences between the Budget 2008 forecasts for the fiscal aggregates in 2008-09 and outturns. Some of the main effects on the UK public finances of the economic downturn include:

- the direct and indirect impact of the downturn on the key economic determinants that determine tax receipts, such as wages and salaries, consumer spending and profits. Such effects are reflected in the operation of the UK's relatively strong automatic stabilisers, that have supported the economy through increased borrowing;
- the impact of the financial crisis on tax receipts from the financial and housing sectors, which have typically been significant sources of receipts in the UK; and
- in addition, the discretionary fiscal action taken by the Government to support the economy through the downturn is also reflected in the forecast differences for 2008-09.

The Budget 2008 forecasting differences highlight the considerable uncertainty inherent in fiscal forecasts. Such uncertainty is heightened in the current unprecedented circumstances, and applies to all forecasters and projections for all countries. In this context, Chapter 2 also examines the UK's fiscal forecasting performance over a longer timescale and compares it internationally. The analysis shows that:

- the profile of public sector net borrowing (PSNB) forecast differences since the mid-1980s is such that outturn PSNB has tended to be higher than the year-ahead Budget forecast when output is below its trend level, and lower than forecast when output is above trend. Also, the differences between forecast and outturn for 2008-09 have had a significant influence on average forecast errors. Overall, this means outturn PSNB has on average been in line with the year-ahead Budget forecast in the period since the reforms to the fiscal framework in 1997. This average forecasting difference is similar to the average forecasting difference prior to 1997; and
- on average since 1997, the UK's net borrowing forecasting performance has been in line with the average of the EU 15 Member States (as measured by average forecast difference), and better than average in terms of accuracy (as measured by average absolute forecast difference).

2.1 This chapter provides a detailed analysis of the differences of the Budget 2007 forecast for 2007-08 and the Budget 2008 forecast for 2008-09 compared to outturn for the main fiscal

aggregates, with a particular focus on the reasons behind the Budget 2008 year-ahead forecast differences. The chapter then goes on to examine the UK's forecasting performance over a longer timescale, and compares it internationally.

Assessing fiscal forecasting performance

2.2 As noted in Chapter 1, forecasting performance can be assessed in terms of accuracy and caution:

- the relative '**accuracy**' of forecasts is compared using the absolute forecast difference, which measures the difference between forecast and outturn, but ignores whether that difference is positive or negative. The smaller the absolute average difference the more accurate the forecast; and
- to compare the relative '**caution**' of forecasts the simple forecast difference is used. The forecast difference is calculated as forecast minus outturn (unless otherwise stated). Therefore if the forecasts of net borrowing over time, for example, are generally cautious, the average forecast differences will be positive.

Analysis of Budget 2007 and Budget 2008 year-ahead forecasting differences

2.3 This section first looks at the headline forecasting differences for the Budget 2007 forecasts for 2007-08 and Budget 2008 for 2008-09, then considers the composition of forecast differences within the fiscal aggregates, and provides a breakdown of the forecast differences in to the five categories described in Chapter 1.

2.4 The section then analyses in detail the underlying reasons for the Budget 2008 forecasting differences for 2008-09. The section concludes with a discussion of the impact of the economic cycle on fiscal forecasting differences, and the Treasury's cyclical adjustment methodology.

Headline forecasting differences for 2007-08 and 2008-09

2.5 The global financial crisis caused a steep and synchronised global downturn, and has had a profound effect on the fiscal positions of most countries, including the UK. The speed and severity with which the shock hit – as well as the fiscal action taken by governments across the globe to provide support to the economy – is reflected in the size of the differences between public finances forecasts and outturns as the impact of the shock has developed.

2.6 These forecasting differences, discussed below for the UK, highlight that forecasts for the public finances are subject to a significant degree of uncertainty. The magnitude and complexity of the shocks that have hit the global economy mean the uncertainties are particularly pronounced at the current time.

2.7 Table 2.A provides a summary comparison of the year-ahead projections for the main fiscal aggregates in Budget 2007 and Budget 2008 compared with the latest outturn information.

Table 2.A: Differences in the Budget forecasts for the main fiscal aggregates

	Per cent of GDP					
	2007-08			2008-09		
	Budget 2007 Forecast	Outturn	Difference	Budget 2008 Forecast	Outturn	Difference
Surplus on current budget	-0.3	-0.4	-0.1	-0.7	-3.4	-2.8
<i>Memo: average absolute difference, current budget, since 1998-99</i>			0.9			0.9
Cyclically-adjusted surplus on current budget	-0.3	-0.6	-0.3	-0.5	-2.5	-2.0
Public sector net borrowing	2.4	2.4	0.0	3.0	5.9	3.0
<i>Memo: average absolute difference, net borrowing, since 1970-71</i>			1.1			1.1
Cyclically-adjusted public sector net borrowing	2.4	2.6	0.2	2.8	5.0	2.2
Public sector net debt	38.2	36.5	-1.7	38.5	43.2	4.7

Note: Forecasts are given as a percentage of outturn GDP, and thus may differ slightly to the forecasts as published in Budget 2007 and Budget 2008. In contrast to elsewhere in the report, the difference column in this table is calculated as outturn minus forecast. The public sector net debt figures exclude the temporary effects of financial sector interventions. Figures may not sum due to rounding.

2.8 The key messages from Table 2.A on the differences between the Budget 2007 year-ahead forecasts and outturn in 2007-08 are:

- outturn public sector net borrowing (PSNB) in 2007-08 was in line with the Budget 2007 forecast. The surplus on the current budget in 2007-08 was 0.1 per cent of GDP below the Budget 2007 forecast. These forecasting differences are significantly smaller than the historical average absolute differences;
- cyclically-adjusted PSNB in 2007-08 was 0.2 per cent of GDP above the Budget 2007 forecast. The cyclically-adjusted surplus on current budget in 2007-08 was 0.3 per cent of GDP below the Budget 2007 forecast. The forecast differences in the cyclically-adjusted aggregates primarily reflect the Treasury's downward adjustment to trend output of around 5 per cent between mid-2007 and mid-2010 in light of the global financial shock, as set out in Budget 2009; and
- PSND as a share of GDP in 2007-08 was 1.7 percentage points below the Budget 2007 forecast, which reflects higher nominal GDP and a lower net cash requirement than forecast.

2.9 The key messages from Table 2.A on the differences between the Budget 2008 year-ahead forecasts and outturn in 2008-09 are:

- outturn PSNB in 2008-09 was 3.0 per cent of GDP above the Budget 2008 forecast. The surplus on current budget in 2008-09 was 2.8 per cent of GDP below the Budget 2008 forecast. With the 2007-08 forecast very close to outturn, the large 2008-09 differences clearly reflect the size of the economic shocks, making these forecasting differences significantly larger than the historical average absolute differences;
- cyclically-adjusted PSNB in 2008-09 was 2.2 per cent of GDP above the Budget 2008 forecast. The cyclically-adjusted surplus on current budget in 2008-09 was 2.0 per cent of GDP below the Budget 2008 forecast;
- The forecast differences in the cyclically-adjusted aggregates are due to the impact of the financial crisis and the global downturn on the level of trend output, receipts

from the financial and housing sectors and asset prices, and discretionary measures to support the economy; and

- PSND as a share of GDP in 2008-09 was 4.7 percentage points above the Budget 2008 forecast.¹ This reflects both the net borrowing forecast difference in 2008-09 – discussed in detail below – and lower than expected nominal GDP.

Breakdown of forecast differences for 2007-08 and 2008-09

2.10 This section provides more detailed information on the composition of forecast differences within the fiscal aggregates, a breakdown of these forecast differences into the five categories described in Chapter 1 and, reflecting these breakdowns between categories, analyses the reasons behind the Budget 2008 forecasting differences.

Composition of forecast differences with the fiscal aggregates

2.11 Table 2.B shows that in 2007-08 outturn current receipts were £4.6 billion lower than forecast at Budget 2007, while in 2008-09 outturn current receipts were £42.1 billion lower than forecast at Budget 2008. The Budget 2007 year-ahead absolute forecast difference was lower than the historical average, whereas the Budget 2008 year-ahead absolute forecast difference was considerably higher than the historical average, reflecting the size of the recent economic shocks.

2.12 Outturn current expenditure was £2.9 billion lower than forecast in 2007-08, and £2.6 billion lower than forecast in 2008-09. In both cases, the absolute forecast difference was below the average absolute difference since 1998-99.

2.13 The forecast differences for current expenditure and current receipts in 2007-08 are affected by a classification change by the Office for National Statistics (ONS) – a change to its treatment of local authorities' Housing Revenue Accounts (HRAs). Although this change is fiscally neutral to the public sector, it has the effect of increasing both expenditure and receipts totals by approximately £1.6 billion.

¹ The PSND data referred to in this document exclude the temporary effects of financial sector interventions, unless otherwise stated.

Table 2.B: Summary of differences in Budget forecasts

	£ billion					
	2007-08			2008-09		
	Budget 2007 Forecast	Outturn	Difference	Budget 2008 Forecast	Outturn	Difference
Current budget						
Current receipts	553.0	548.4	-4.6	575.2	533.1	-42.1
<i>Memo: average absolute difference in current receipts since 1998-99¹</i>			10.7			10.9
Current expenditure	538.6	535.7	-2.9	566.2	563.7	-2.6
<i>Memo: average absolute difference in current expenditure since 1998-99¹</i>			4.3			4.4
Depreciation	18.7	17.8	-0.9	18.6	18.7	0.1
Surplus on current budget	-4.3	-5.1	-0.8	-9.6	-49.2	-39.6
Capital budget						
Gross investment	54.2	53.1	-1.1	56.8	56.9	0.1
Less asset sales	-6.2	-6.9	-0.7	-5.3	-2.5	2.8
Less depreciation	-18.7	-17.8	0.9	-18.6	-18.7	-0.1
Net investment	29.4	28.5	-0.9	32.9	35.7	2.8
Public sector net borrowing	33.7	33.6	-0.1	42.5	85.0	42.4
<i>Memo: average absolute difference between forecast and outturn net borrowing since 1970-71¹</i>			17.3			17.5
Public sector net debt²	540.3	526.8	-13.5	581.1	609.5	28.4
Memo						
Treaty deficit ³	35.1	37.4	2.3	46.6	98.5	52.0
Treaty debt ⁴	610.5	613.9	3.4	679.1	796.9	117.8

¹ Derived from average difference as a ratio to GDP and stated in money GDP in that year.
² Excluding the temporary effects of financial sector interventions.
³ General government net borrowing on a Maastricht basis.
⁴ General government gross debt on a Maastricht basis.
Note: The difference columns in this table are calculated as outturn minus forecast. Figures may not sum due to rounding.

2.14 Net borrowing is equal to net investment less the surplus on the current budget. Outturn net investment was £0.9 billion below forecast in 2007-08. In 2008-09 outturn net investment was £2.8 billion above forecast, due to £1.0 billion of policy measures, and higher capital AME than forecast. The outturn for asset sales in 2007-08 was £0.7 billion above forecast, while outturn in 2008-09 was £2.9 billion below forecast, mainly due to lower HRA housing sales, and sales of other Local Authority assets, reflecting conditions in the property market. The outturn for depreciation was £0.9 billion below forecast for 2007-08, and £0.1 billion above forecast for 2008-09.

2.15 Overall, the outturn for surplus on current budget in 2007-08 was £0.8 billion below forecast, and the outturn in 2008-09 was £39.6 billion below forecast. Net borrowing was £0.1 billion below forecast in 2007-08 and £42.4 billion above forecast in 2008-09.

2.16 The outturn for public sector net debt was around £13.5 billion lower than forecast in 2007-08 – this in part reflects the timing of cash spending flows between fiscal years. In 2008-09, public sector net debt was £28.4bn above the Budget forecast. This is less than the forecast difference for net borrowing and is partly due to a lower starting point for net debt than expected and the sale of shares in British Energy and QinetiQ which reduced the debt level but not net borrowing. The greater forecasting difference for Treaty Debt (general government gross debt) than for public sector net debt reflects that Treaty debt is affected by the financial sector interventions.

Sources of forecasting differences

2.17 Table 2.C breaks down the differences between the year-ahead Budget forecasts and outturns into the five categories described in Chapter 1.

2.18 Table 2.C shows that:

- in 2007-08, differences due to economic determinants and fiscal forecasting differences were offset by caution provided by the NAO-audited assumptions, such that PSNB was £0.1 billion lower than forecast; and
- in 2008-09, the differences between forecast and outturn for the main fiscal aggregates were largely due to economic determinants and fiscal forecasting differences, with the remaining difference being mostly accounted for by the discretionary measures adopted to support the economy.

2.19 Of the £10.1 billion of the current receipts difference for 2008-09 categorised as fiscal forecasting differences, around half can be accounted for by the indirect impact of the economic shock. This effect is discussed further in the following section – which provides an analysis of the overarching reasons behind the Budget 2008 year-ahead forecasting differences in the main fiscal aggregates.

2.20 More detailed analysis of the forecast differences for spending and receipts in 2007-08 and 2008-09 is developed in Chapters 3 and 4.

Table 2.C: Breakdown of differences in the main fiscal aggregates

	£ billion	
	Budget 2007 forecast for 2007-08	Budget 2008 forecast for 2008-09
Current receipts difference	-4.6	-42.1
<i>contribution from:</i>		
Economic determinants	-4.3	-24.7
NAO-audited assumptions	5.1	-0.2
Fiscal forecasting differences	-6.9	-10.1
Policy measures	-0.1	-7.1
Other factors	1.6	0.0
Current expenditure difference	-2.9	-2.6
<i>contribution from:</i>		
Economic determinants	0.3	0.0
NAO-audited assumptions	-0.1	-0.1
Fiscal forecasting differences	-3.7	-1.8
Policy measures	0.4	0.3
Other factors	0.2	-1.0
Depreciation difference	-0.9	0.1
<i>contribution from:</i>		
Economic determinants	0.0	0.0
NAO-audited assumptions	0.0	0.0
Fiscal forecasting differences	-0.9	0.1
Policy measures	0.0	0.0
Other factors	0.0	0.0
Current budget difference	-0.8	-39.6
<i>contribution from:</i>		
Economic determinants	-4.6	-24.6
NAO-audited assumptions	5.2	-0.1
Fiscal forecasting differences	-2.3	-8.4
Policy measures	-0.5	-7.4
Other factors	1.4	1.0
Net investment difference	-0.9	2.8
<i>contribution from:</i>		
Economic determinants	-0.1	-0.2
NAO-audited assumptions	0.0	0.0
Fiscal forecasting differences	-0.7	2.1
Policy measures	-0.7	0.9
Other factors	0.7	0.0
Net borrowing difference	-0.1	42.4
<i>contribution from:</i>		
Economic determinants	4.5	24.4
NAO-audited assumptions	-5.2	0.1
Fiscal forecasting differences	1.6	10.5
Policy measures	-0.2	8.4
Other factors	-0.7	-1.0

Note: Differences calculated as outturn minus forecast. Contributions may not sum due to rounding.

Budget 2008 PSNB forecast difference for 2008-09

2.21 Budget 2008 recognised that prolonged financial sector disruption would have a negative impact on economic growth and the public finances. However, there were considerable uncertainties around the likely scale of the impact on the economy.

2.22 The Budget 2008 forecast for UK output growth in 2008-09 was 1¾ per cent, which was in line with the average of independent forecasts at the time. As the financial crisis intensified over 2008, it precipitated a steep and synchronised global downturn, that has significantly reduced UK growth. The latest ONS figures suggest outturn 2008-09 output growth was -1.3 per cent.

2.23 Falling economic growth through 2008-09 meant that key economic determinants for tax receipts, including wages and salaries, company profits, and consumer expenditure, were lower than forecast at the time of Budget 2008. Higher claimant count unemployment also caused social security spending to be above forecast. This reflects the UK's relatively strong automatic stabilisers, which have supported the economy through increased borrowing.

2.24 These impacts have driven receipts from taxes on income and production lower. Income tax, national insurance contributions (NICs), corporation tax and VAT receipts in 2008-09 were all significantly lower than forecast; these forecasting differences are discussed in more detail in Chapter 3.

2.25 The financial and housing sectors have been particularly affected by the global financial crisis and economic downturn. These sectors have typically been significant sources of tax receipts in the UK – for example financial company corporation tax accounted for around 25 per cent of overall corporation tax in 2007-08.

2.26 The financial sector also provides significant amounts of income tax and NICs on salaries and bonuses. Financial sector profits in 2008-09 were significantly below the Budget 2008 forecast, and financial sector wages and salaries grew slower than expected. The financial crisis and the global downturn have therefore had a significant impact on corporation tax, income tax and NICs receipts through the impact on the financial sector – as well as through other channels, including more broadly through lower second-round spending elsewhere in the economy.

2.27 The fall in activity and prices in the housing market as a result of the downturn have particularly impacted on stamp duty receipts. House prices fell by 5.6 per cent in 2008-09 (as measured by the CLG house price index), and turnover was less than half that seen in 2007-08.

2.28 Lower equity prices also contributed to lower stamp duty receipts. The Budget 2008 forecasts were based on assumptions for equity prices that assumed growth in line with that of nominal GDP from their level at the time. This assumption is audited by the NAO and assumed at Budget 2008 that the FTSE All-Share Index would average around 3,000 in 2008-09. In outturn it averaged around 2,100 over 2008-09.

2.29 The nature of the economic shock has also driven receipts lower than forecast after accounting for the direct impact of changes in the key economic determinants forecast by the Treasury.

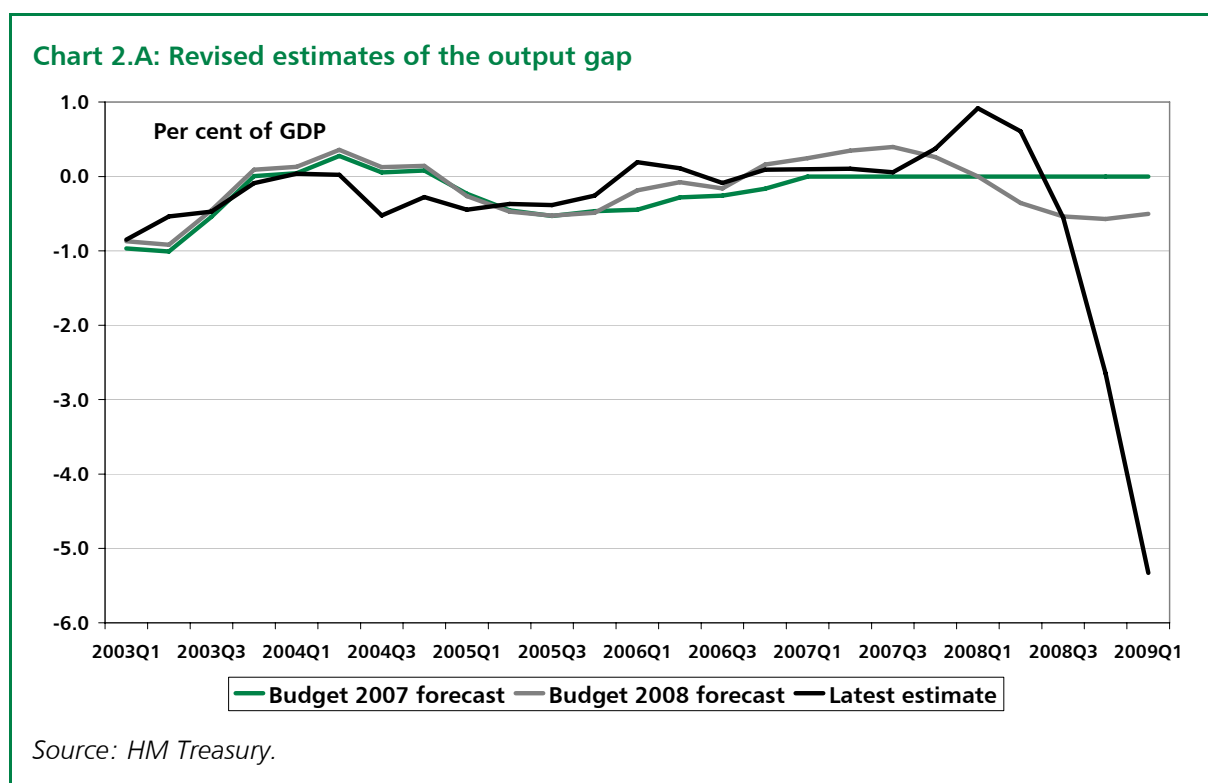
2.30 In so far as outturns for the public finances moved in line with outturns for the economy, this is captured in the economic determinants category reported in Table 2.C above and the receipts tables in Chapter 3. However a downturn may also alter the nature of the relationship between economic determinants and the public finances. For example, forecast differences for NICs will partly reflect changes in the distribution of income, and onshore corporation tax forecast differences will partly reflect the sectoral impact of the downturn on profits. While

driven by the economy, such factors were not fully picked up in receipts forecasting models, and they are captured as fiscal forecasting differences in the categories in Table 2.C above and Chapter 3.

2.31 The 'policy measures' category in Table 2.C reflects differences in forecasts for expenditure and receipts due to measures introduced after Budget 2008 to support the economy through the downturn. These include, for example, the impact on receipts of the temporary reduction in the rate of VAT announced at the 2008 Pre-Budget Report. In total, £8.4 billion of the net borrowing forecast difference in 2008-09 is scored in the policy measures category, which is net of around £1 billion of fees related to the financial sector interventions.

Impact of the economic cycle on forecasting differences

2.32 As discussed in detail above in the context of 2008-09, short-term economic prospects have a significant influence on the public finances, and differences between forecast and outturn for key economic variables can account for a large proportion of the differences in the fiscal projections. In particular, the public finances are strongly related to the cyclical position of the economy, measured by the output gap.



2.33 The output gap is the difference between actual non-oil output and the estimated trend level of non-oil output.² As set out in Budget 2009, the Treasury has assumed a downward adjustment to trend output of around 5 per cent between mid-2007 and mid-2010. Since the publication of the 2008 EYFR there have also been revisions to the profile of output growth. Both these factors have fed through directly to the latest estimate of the profile of the output gap, as shown in Chart 2.G.

2.34 Taken together with the Treasury's trend output assumptions, the latest data imply an output gap in 2007-08 of 0.4 per cent of GDP, which compares to the year-ahead forecast in

² When the economy is on trend, implying a zero output gap, its factors of production are employed at normal rates of utilization and there is no change in the degree of inflationary pressure in the economy. See *Evidence on the economic cycle*, HM Treasury, 2008.

Budget 2007 of 0.0 per cent, and an output gap of -2.0 per cent in 2008-09, which compares to the year-ahead forecast in Budget 2008 of -0.5 per cent.

2.35 The new output gap estimates directly affect the cyclically-adjusted fiscal balances, which are calculated using a formula that relates the fiscal aggregates to the cycle on the basis of past relationships.³ As the output gap becomes less negative, a smaller proportion of actual borrowing is attributed to cyclical factors and a larger proportion to non-cyclical factors, and vice versa. The downward adjustment to trend output of around 5 per cent between mid-2007 and mid-2010 implies less negative estimates of the output gap over this period relative to an unadjusted trend output projection, and therefore results in a smaller proportion of borrowing being attributed to cyclical factors.

The Treasury's cyclical adjustment methodology

2.36 The economic cycle has significant short-term effects on the public finances, which are taken into account when assessing the underlying structural position of the public finances. The Government publishes cyclically-adjusted estimates of the key fiscal balances at each Budget and Pre-Budget Report.⁴ The Treasury's latest forecasts of cyclically-adjusted PSNB and the cyclically-adjusted surplus on the current budget are published in each Budget and Pre-Budget Report.

2.37 The Treasury's methodology for estimating the impact of the economic cycle on the public finances, described in the 2008 HM Treasury Economic Working Paper *Public Finances and the Cycle*, is based on the average impact of changes in the output gap on the public finances over previous cycles. To the extent that a given economic cycle differs from the average, temporary changes in the public finances may not be fully ascribed to the economic cycle.

2.38 In addition, events which impact on the public finances over a different horizon to the economic cycle, such as significant movements in asset prices, are not fully captured by the Treasury's methodology. Given the degree of judgement inherent in forecasting trend output, there is a significant degree of uncertainty surrounding estimates of the output gap, the position of the economy in the cycle, and cyclically-adjusted parameters.

Forecasting performance in an historical and international perspective

2.39 The Budget 2008 forecasting differences highlight the considerable uncertainty inherent in fiscal forecasts. Such uncertainty has been heightened in the recent unprecedented circumstances, and applies to all forecasters and projections for all countries. In this context, the rest of this chapter also examines the UK's fiscal forecasting performance internationally and over a longer timescale.

Historical forecasting performance

2.40 Table 2.D summarises the average one- and two-year ahead PSNB forecast differences since 1970-71 and 1980-81 respectively. Chart 2.B plots the forecast differences for each fiscal year.⁵ The key points to note are:

³ See *Public Finances and the Cycle*, HM Treasury Economic Working Paper No.5, HM Treasury, November 2008.

⁴ At Budget 2009 the National Audit Office audited the Treasury's approach to producing estimates of the public finances adjusted for the effects of the economic cycle, and 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.

⁵ The current presentation of the fiscal aggregates was first introduced in the 1998 Economic and Fiscal Strategy Report. Data for 1998 onwards refer to PSNB. Differences prior to 1998 are based on forecasts and outturn for the public sector net cash requirement (PSNCR, previously known as the public sector borrowing requirement). Adjustments have been made for the move to ESA95 where these adjustments are available: these are set out in table 4 of *Monthly Statistics on Public Sector Finances*, GSS methodology series no. 12, Government Statistical Service, 1999.

- the profile of public sector net borrowing (PSNB) forecast differences since the mid-1980s is such that outturn PSNB has tended to be higher than the year-ahead Budget forecast when output is below its trend level, and lower than forecast when output is above trend;
- overall, outturn PSNB has on average been in line with the year-ahead Budget forecast in the period since 1997. This partly reflects the difference between forecast and outturn for PSNB in 2008-09 – which has a significant influence on all the averages illustrated in the ‘Since 1997-98’ column in Table 2.D, as shown by comparison with the memo column. The average year-ahead forecasting difference for the full period since the introduction of the new macroeconomic framework is similar to the average forecasting difference prior to 1997;
- outturn PSNB has on average been 0.4 per cent of GDP higher than the two-year ahead net borrowing forecast in the period since 1997-98. In the period prior to 1997-98, outturn net borrowing was on average in line with the two-year ahead forecast; and
- the overall accuracy of one- and two-year ahead PSNB forecasts under the new framework has been similar to that of the period before 1997-98. The average absolute year-ahead forecast difference since 1997-98 has been 1.0 per cent of GDP, compared to 1.2 per cent of GDP in the earlier period. The average absolute two-year ahead forecast difference has been 1.4 per cent of GDP since 1997-98, compared to 1.5 per cent of GDP in the period before 1997-98.

Table 2.D: Summary statistics for net borrowing forecast differences

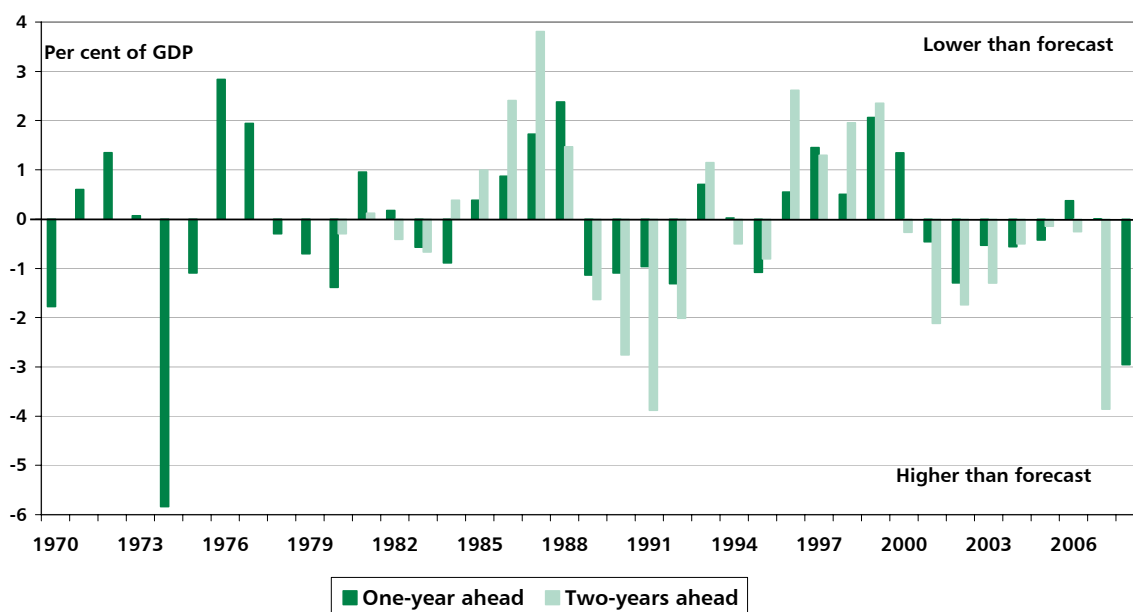
	Per cent of GDP			Number of observations in whole sample	Memo: since 1997-98, excluding 2008-09
	Whole sample	Before 1997-98	Since 1997-98		
One-year ahead PSNB forecasts					
Average absolute difference	1.1	1.2	1.0	39	0.8
Average difference	-0.1	-0.1	0.0		0.2
Two-year ahead PSNB forecasts					
Average absolute difference	1.5	1.5	1.4	28	1.2
Average difference	-0.2	0.0	-0.4		-0.1

Note: The one year ahead forecasts sample is from 1970-71 onwards, and the two year ahead forecasts sample is from 1980-81 onwards. This reflects the length of the available time series.

Forecast differences in historical context

2.41 Chart 2.B plots the one- and two-year ahead forecast differences for PSNB (PSNCR before Budget 1997). It shows that forecast differences narrowed significantly over the years from 2001-02 to 2007-08, a period of relative stability in the macroeconomic aggregates. However, the recent unprecedented economic shocks have led to historically large differences in the forecasts for 2008-09. The difference between the 2008-09 year-ahead forecast from Budget 2008 and outturn was -3.0 per cent of GDP, whilst the 2008-09 two-year ahead forecast from Budget 2007 showed a difference from outturn of -3.9 per cent of GDP.

Chart 2.B: PSNB forecast differences since 1970-71



Note: The year on the horizontal axis indicates the year of the Budget forecast to which the one- and two-year ahead forecast differences refer (e.g. the bars at 2000 show the Budget 2000 one-year ahead forecast differences for 2000-01 and two-year ahead forecast for 2001-02).

Source: HM Treasury.

2.42 There is a positive correlation between borrowing forecast differences and the economic cycle since the mid-1980s (though this relationship is based on a relatively small sample size). PSNB has tended to be lower than forecast over this period (resulting in a positive forecast difference) when the output gap is positive, and higher than forecast (a negative forecast difference) when the output gap is negative.

2.43 If a stable and predictable relationship existed between forecast differences and the output gap, that information could in theory be used to adjust the fiscal projections and improve the accuracy of the fiscal forecasts. However, the correlation is one between PSNB forecast differences and the latest available estimate of the output gap, and not one between PSNB forecast differences and the real-time (i.e. contemporaneous) estimates of the output gap. Therefore, on the basis of this observation, it would not have been possible at the time to use evidence of this relationship to improve forecast accuracy.

2.44 However, with the economy currently forecast to be below trend for several years, this reinforces the importance of building caution into the fiscal forecasts, such as through the NAO-audited assumptions.

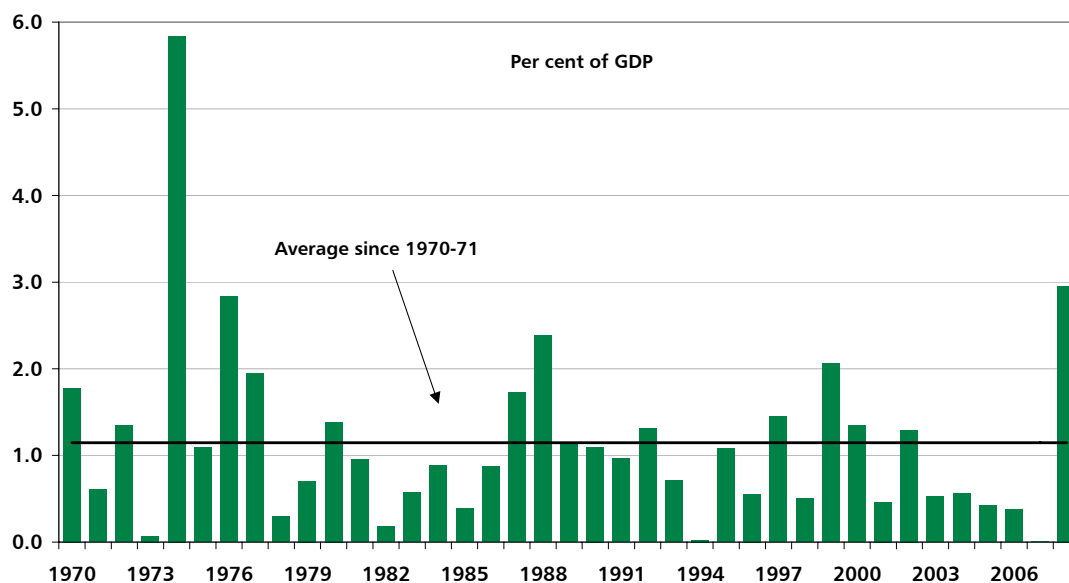
Absolute forecasting differences in historical context

2.45 The accuracy of past one-year ahead and two-year ahead PSNB forecasts is shown in Charts 2.C and 2.D. Chart 2.C shows the absolute differences for one-year ahead forecasts since 1970-71. It shows that on the basis of current data, the Budget 2008 year-ahead absolute forecast difference (of 3.0 per cent of GDP) was the largest since the forecast for 1974-75, reflecting the impact of the global financial crisis, and steep and synchronised global economic downturn, on the public finances.

2.46 Chart 2.D shows the absolute differences for two-year ahead PSNB forecasts since 1980-81. It shows that on the basis of current data the two-year ahead absolute forecast

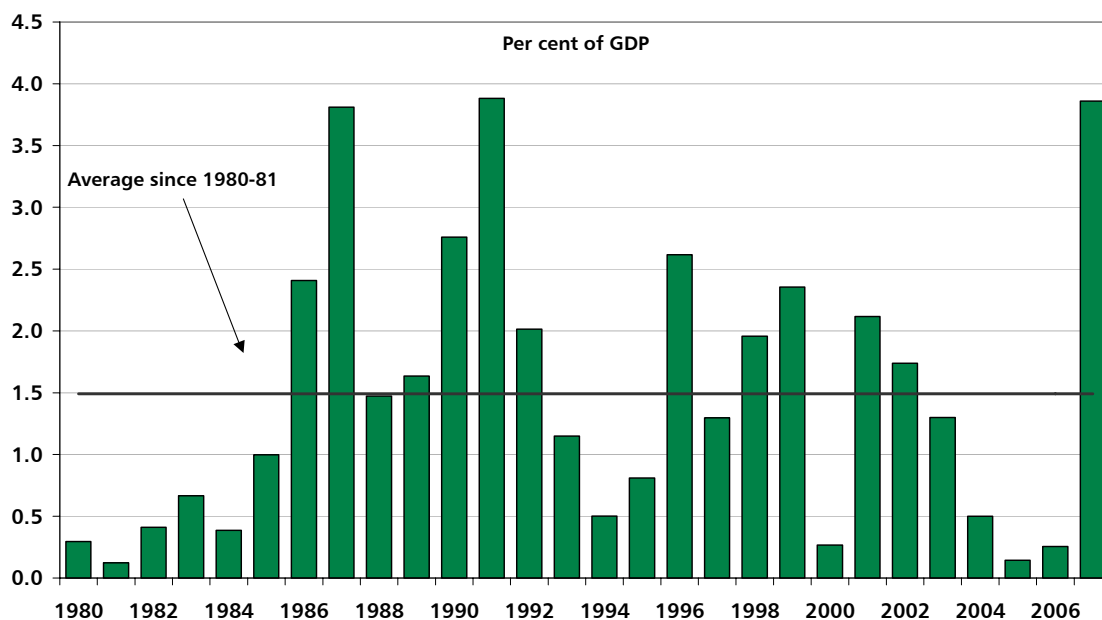
difference for 2008-09 made at Budget 2007 (of 3.9 per cent of GDP) was the largest since the forecast for 1991-92.

Chart 2.C: One-year ahead absolute forecast differences for PSNB



Note: The year on the horizontal axis indicates the year of the Budget forecast to which the one-year ahead forecast differences refer (e.g. the bar at 2000 shows the Budget 2000 one-year ahead forecast difference for 2000-01). The time period of the chart reflects the length of the available time series.
Source: HM Treasury.

Chart 2.D: Two-year ahead absolute forecast differences for PSNB



Note: The year on the horizontal axis indicates the year of the Budget forecast to which the two-year ahead forecast differences refer (e.g. the bar at 2000 shows the Budget 2000 two-year ahead forecast difference for 2001-02). The time period of the chart reflects the length of the available time series.
Source: HM Treasury.

International comparisons

2.47 This section compares the UK's fiscal forecasting performance with that of international organisations and other countries. International comparisons have to be treated with caution as the forecast horizon and the fiscal aggregate being forecast will often differ.

2.48 Table 2.E summarises the one-year ahead forecast differences for the UK's net borrowing (or nearest fiscal aggregate) since 1997 for international organisations and the Treasury.⁶ Two IMF forecasts have been included. The first is drawn from the annual United Kingdom Article IV Consultation, which is published at a similar time to the Budget and forecasts borrowing on a financial year basis in line with practice in the UK. The second is from the World Economic Outlook, which forecasts borrowing on a calendar year basis and is more closely comparable to the OECD's Economic Outlook and the European Commission's Autumn Forecasts in that it simultaneously forecasts for a broad range of countries.

Table 2.E: Forecast differences for UK net borrowing, 1997 to 2008

	Per cent of GDP	
	Absolute average difference	Average difference
HM Treasury	1.0	0.0
OECD	1.3	0.0
IMF (Article IV)	1.1	0.3
IMF (WEO)	1.2	-0.2
European Commission	1.1	-0.5

2.49 The first column of Table 2.E shows that the Treasury's fiscal forecasts since 1997 have been marginally more accurate than the forecasts for the UK made by these international organisations. The second column shows that on average the Treasury's forecasts have exhibited a level of caution within the range of those made by the international organisations, where a positive forecast difference means that outturn borrowing was lower than had been forecast on average. It is important, though, to bear in mind the difficulty of making comparisons with and between international organisations.

Comparisons with other countries

2.50 It is also possible to compare the UK's forecasting performance with that of other countries, including other EU Member States and members of the G7, on average over time and in the context of the global economic shock. Significant forecasting differences have been experienced in most other advanced economies over 2008 and 2009, reflecting the effects of the shock.

2.51 For example, outturn net borrowing in the US for Fiscal Year (FY) 2009 was 6.8 per cent of GDP⁷ higher than the Administration's year-ahead forecast, and outturn net borrowing for FY2008 was 1.6 per cent of GDP higher than the year-ahead forecast. (The different size of the forecast differences in FY2008 and FY2009 will to a large extent reflect the timing of the development of the global financial crisis). The comparable size of the forecast differences in the US to those in the UK (outturn PSNB in 2008-09 was 3.0 per cent of GDP above the year-ahead forecast) reflects the similarities in the effects of the global financial crisis in both economies.

⁶ To ensure broad comparability with the Treasury's forecast, the effect of the Spectrum Licence Proceeds has been removed from the OECD, IMF and European Commission outturn data. This increases outturn net borrowing for 2000 by around 2.3 per cent of GDP.

⁷ The US FY2009 covers the period October 2008 to September 2009. This figure excludes the effect of the US Administration's provision for the Troubled Asset Relief Programme (TARP), which the Administration's FY2010 Budget included in the estimate for outturn net borrowing in FY2009, and so is calculated in a comparable way to the UK Budget 2008 year-ahead difference.

2.52 Table 2.F shows the average one-year ahead forecast difference from 1997 to 2008 in forecasts for general government net borrowing – using the year-ahead projections set down in the EU 15 Member States’ annual Stability or Convergence Programmes.⁸ UK forecasting performance is in line with the EU 15 average (as measured by average forecast difference), and better than average in terms of accuracy (as measured by average absolute forecast difference).⁹

Table 2.F: Convergence Programme net borrowing forecasts – differences between forecast and outturn, 1997 to 2008

	Per cent of GDP	
	Absolute average difference	Average difference
France	0.61	-0.36
Austria	0.63	-0.17
Belgium	0.77	-0.03
Spain	0.94	-0.43
UK	1.07	-0.37
Italy	1.08	-0.61
Germany	1.08	0.25
Finland	1.16	1.01
Portugal	1.20	-0.90
Sweden	1.33	0.02
Denmark	1.41	0.14
Netherlands	1.58	0.56
Ireland	2.31	0.51
Luxembourg	2.45	2.31
Greece	3.25	-3.25
EU 15 Average	1.39	-0.09
<i>Memo: UK Budget forecasts</i>	<i>1.01</i>	<i>-0.03</i>

Note: Differences refer to general government net borrowing. The average differences are calculated as forecast minus outturn. The forecast data are from the Stability and Convergence Programmes submitted by each country and are available on the European Commission's website (http://ec.europa.eu/economy_finance/sg_pact_fiscal_policy/sg_programmes9147_en.htm) From 1998 onwards, the programmes are generally submitted in December of each year. In 1997, the timing of the forecasts was more varied throughout that year. Eurostat data is used for the outturn data. For the UK, ONS outturn data submitted to Eurostat is used. Outturn data for the UK is on a financial year basis to be consistent with the forecasts.

⁸ This analysis remains confined to the former-EU 15 Member States, as the 10 accession Member States produced their first Convergence Programmes in 2004.

⁹ Since the Stability and Convergence Programmes are generally published in December, Member States’ calendar year forecasts are for the year ending 12 months after the forecast is made, the same timeframe as for the UK’s Budget forecasts. By contrast, the UK’s Convergence Programme contains a financial year forecast for the year ending 15 months after the forecast is made.

3

Receipts

This chapter provides more detailed analysis of developments in receipts in 2007-08 and 2008-09. The detailed forecast analysis considers the Budget 2007 forecast for 2007-08 and the Budget 2008 forecast for 2008-09. It shows that:

- current receipts fell from £548.4 billion in 2007-08 (38.7 per cent of GDP) to £533.1 billion in 2008-09 (37.2 per cent of GDP);
- receipts were lower than forecast by £4.6 billion in 2007-08, reflecting lower than expected receipts from a number of taxes including corporation tax; and
- receipts were lower than forecast by £42.1 billion in 2008-09, as a result of the impact of the global financial crisis and the resulting global economic downturn on the UK.

3.1 This chapter provides more detailed analysis of developments in current receipts and, in particular, the year-ahead forecasts made in Budget 2007 and Budget 2008. It first analyses the overall forecasting differences, before looking in detail at each of the main taxes.

Overall receipts forecasting differences

3.2 Table 3.A shows the differences between the year-ahead forecasts of and outturn for receipts for Budget 2007 and Budget 2008. Current receipts were £548.4 billion in 2007-08, and fell to £533.1 billion in 2008-09.

Table 3.A: Summary of differences in Budget receipts forecasts

	Forecast	Outturn	Difference
Budget 2007 forecast of 2007-08			
Current receipts (£ billion)	553.0	548.4	-4.6
Current receipts (per cent of GDP)	40.1	38.7	-1.4
Cyclically-adjusted current receipts (per cent of GDP)	40.1	38.6	-1.5
Budget 2008 forecast of 2008-09			
Current receipts (£ billion)	575.2	533.1	-42.1
Current receipts (per cent of GDP)	39.0	37.2	-1.8
Cyclically-adjusted current receipts (per cent of GDP)	39.2	37.4	-1.8

Note: Figures may not sum due to rounding.

3.3 Current receipts were £4.6 billion below forecast in 2007-08 and £42.1 billion below forecast in 2008-09. Table 3.B shows that there was a shortfall in receipts in 2007-08 from corporation tax, while the shortfall in income tax was offset by higher national insurance contributions (NICs).

3.4 Table 3.C shows that in 2008-09 the forecast difference resulted from a significant shortfall in nearly all tax receipt components. The difference in receipts reflects the impact of the global financial crisis and resulting global economic downturn. Lower than forecast economic determinants such as earnings, consumer spending and profits are therefore the primary cause of the forecast difference, followed by fiscal forecasting differences and measures taken to

support the economy. The impact on individual sources of receipts is described in more detail in the tax by tax analysis section below.

Tax forecasting and reasons for differences

3.5 Chapter 1 explained that differences between forecast and outturn can be split into several categories:

- **economic determinants:** tax revenues, or more specifically tax bases (the transactions or assets on which the taxes are charged) are largely related to particular macroeconomic variables forecast by the Treasury. For example, income tax receipts are heavily dependent on levels of wages and salaries, and VAT receipts on consumers' expenditure. Any difference between the forecasts of these economic determinants used in the original tax forecasts and their eventual outturn values will partly explain differences between forecast and outturn tax receipts;
- **audited assumptions:**¹ many of the economic determinants described above are calculated using assumptions that are audited by the National Audit Office (NAO) and designed to add caution to the forecast. The direct impacts of differences in the forecasts of these determinants with their outturn on the tax forecasts can be separately identified. This includes the impact of using a trend growth assumption that is one quarter of a percentage point below the Treasury's central case. These estimates will not include the second round effects of these audited assumptions, such as the impact the interest rate assumption has on receipts through its impact on the Retail Prices Index (RPI), which would be captured in the economic determinants category;
- **fiscal forecasting differences:** tax receipts are forecast using fiscal models based on economic determinants. Any differences in receipts resulting from changes in the relationship between economic determinants, tax rates and revenues are defined as fiscal forecasting differences. For example, if income tax receipts turned out to be higher than forecast even after taking account of differences in the eventual level of wages and salaries, then there is a fiscal forecasting difference;
- **policy measures:** this reflects the impact of new policy measures announced after publication of the forecast; and
- **other factors:** other sources of error, such as changes in the definitions or statistical treatment of components of the public finances, are scored under other factors.

Tax by tax forecasting differences

3.6 Tables 3.B and 3.C use this breakdown of forecasting differences for the Budget 2007 and Budget 2008 year-ahead forecasts for each of the main taxes. These tables also group the taxes to show the same breakdown for HM Revenue and Customs (HMRC) receipts, net taxes and national insurance contributions, and current receipts.

¹ See Annex A for a full list of NAO-audited assumptions.

Table 3.B: Breakdown of Budget 2007 forecasting differences of receipts for 2007-08

	Forecast	Outturn	Difference	£ billion				
				of which:				
				Economic determinants	Assumptions audited by the NAO	Fiscal forecasting differences	Policy measures	Other factors
HM Revenue & Customs								
Income tax (gross of tax credits)	156.9	151.8	-5.2	-0.1	0.8	-5.8	0.0	0.0
Income tax credits ¹	-4.4	-4.4	0.0	0.0	0.0	0.0	0.0	0.0
National insurance contributions	95.1	100.4	5.3	0.6	0.2	4.5	0.0	0.0
Value added tax	80.0	80.6	0.6	-0.5	1.6	-0.6	0.0	0.0
Corporation tax ²	49.5	46.4	-3.1	-2.8	1.9	-2.2	0.0	0.0
Petroleum revenue tax	1.6	1.7	0.1	-0.2	0.4	-0.2	0.0	0.0
Fuel duties	25.1	24.9	-0.2	0.2	-0.3	-0.1	0.0	0.0
Capital gains tax	4.6	5.3	0.6	0.0	0.0	0.4	0.0	0.2
Inheritance tax	4.0	3.8	-0.2	0.0	0.1	-0.2	-0.1	0.0
Stamp duties	14.3	14.1	-0.2	-0.6	0.0	0.5	0.0	0.0
Tobacco duties ³	8.1	8.1	0.0	0.0	0.3	-0.3	0.0	0.0
Alcohol duties	8.2	8.3	0.1	0.0	0.0	0.1	0.0	0.0
Other HMRC	10.3	10.1	-0.2	0.1	0.0	-0.3	0.0	0.0
Total HMRC	453.4	451.1	-2.4	-3.1	4.9	-4.3	-0.1	0.2
Vehicle excise duties	5.6	5.4	-0.2	0.0	0.0	-0.2	0.0	0.0
Business rates	22.1	21.4	-0.7	0.0	0.0	-0.7	0.0	0.0
Council tax	23.5	23.3	-0.2	0.0	0.0	-0.2	0.0	0.0
Other taxes and royalties	14.5	14.9	0.4	-0.5	0.0	0.6	0.0	0.3
Net taxes and national insurance contributions	519.2	516.1	-3.1	-3.7	4.9	-4.7	-0.1	0.4
Accruals adjustment on taxes	2.4	1.3	-1.2	-0.3	0.2	-1.1	0.0	0.0
less VAT and own resources EU contributions	-4.1	-5.0	-0.9	-0.5	0.0	-0.5	0.0	0.0
less PC onshore CT payments	-0.2	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Tax credits adjustment ⁴	0.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Interest & dividends	7.1	8.8	1.7	0.1	0.0	1.6	0.0	0.0
Other receipts	28.0	27.0	-1.1	0.0	0.0	-2.4	0.0	1.3
Current receipts	553.0	548.4	-4.6	-4.3	5.1	-7.1	-0.1	1.8

¹ The Budget only includes tax credits that offset income tax liability, in line with internationally agreed definitions.

² Net of negative tax credits

³ A revised NAO audited assumption was adopted in Budget 2007, which assumes that the underlying level of duty paid consumption of cigarettes will be set at least 3 per cent per year lower than the estimated outturn of the current year.

⁴ Tax credits that are classified as expenditure in the National Accounts but negative taxation in the calculation of net taxes and national insurance contributions

Note: Figures may not sum due to rounding

Income tax and national insurance contributions

3.7 Combined income tax and national insurance contributions were £0.1 billion above forecast in 2007-08. There were offsetting effects for income tax and NICs, due mainly to difficulties with the apportionment between the two for Pay As You Earn (PAYE) receipts. Self assessment receipts were £1.4 billion above forecast, with growth in self employment income declared for tax being stronger than expected. This is scored under fiscal forecasting differences, and was partly offset by the effect of lower than expected increases in wages and salaries, which have been scored as differences in economic determinants.

3.8 Cash receipts from income tax and national insurance contributions combined were £14.5 billion below forecast in 2008-09. The key factor behind lower receipts was the impact of the economic downturn and its adverse effect on both employment and earnings growth. In addition, the announcement in May 2008 of an additional £600 increase in the personal tax allowance for 2008-09 reduced cash receipts of income tax by £2.4 billion – this is included in Table 2.C under policy measures. With outturn receipts lower than forecast by more than would be implied by economic determinants, there is a negative fiscal forecasting difference. This could in part be due to the economic downturn affecting the distribution of income. Self assessment receipts were £1.4 billion below forecast, largely due to lower than expected self-employment income.

Table 3.C: Breakdown of Budget 2008 forecasting differences of receipts for 2008-09

	Forecast	Outturn	Difference	£ billion of which:					
				Economic determinants	Assumptions audited by the NAO	Fiscal forecasting differences	Policy measures	Other factors	
HM Revenue & Customs									
Income tax (gross of tax credits)	160.2	153.5	-6.8	-8.2	0.9	2.9	-2.4	0.0	
Income tax credits ¹	-5.2	-5.6	-0.4	0.0	0.0	-0.4	0.0	0.0	
National insurance contributions	104.6	96.9	-7.7	-3.0	0.2	-4.8	0.0	0.0	
Value added tax	83.8	78.4	-5.3	-2.0	-2.2	0.4	-1.5	0.0	
Corporation tax ²	51.3	43.1	-8.2	-4.5	1.7	-5.4	0.0	0.0	
Petroleum revenue tax	1.7	2.6	0.9	0.6	0.4	-0.1	0.0	0.0	
Fuel duties	25.7	24.6	-1.1	-0.2	-0.3	-0.4	-0.2	0.0	
Capital gains tax	5.0	7.8	2.9	-0.1	0.0	3.0	0.0	0.0	
Inheritance tax	3.2	2.9	-0.4	-0.1	-0.1	-0.2	0.0	0.0	
Stamp duties	13.5	8.0	-5.5	-4.4	-0.9	-0.1	-0.1	0.0	
Tobacco duties	7.6	8.2	0.6	0.1	0.4	-0.2	0.3	0.0	
Alcohol duties	8.7	8.5	-0.2	-0.2	0.0	-0.1	0.1	0.0	
Other HMRC	10.6	10.3	-0.3	0.2	0.0	-0.5	-0.1	0.0	
Total HMRC	470.5	439.1	-31.4	-21.8	0.1	-5.8	-3.9	0.0	
Vehicle excise duties	6.1	5.6	-0.5	-0.3	0.0	-0.3	0.0	0.0	
Business rates	23.7	22.9	-0.8	0.0	0.0	-0.7	-0.1	0.0	
Council tax	24.9	24.3	-0.5	0.0	0.0	-0.5	0.0	0.0	
Other taxes and royalties	15.7	15.7	0.0	-0.1	0.0	0.4	-0.6	0.4	
Net taxes and national insurance contributions	541.0	507.7	-33.3	-22.2	0.1	-7.0	-4.6	0.4	
Accruals adjustment on taxes	2.0	-4.2	-6.3	-1.8	-0.3	-1.7	-2.5	0.0	
less VAT and own resources EU contributions	-4.7	-5.1	-0.5	-0.3	0.0	-0.2	0.0	0.0	
less PC onshore CT payments	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	
Tax credits adjustment ³	0.7	0.7	0.0	0.0	0.0	0.0	0.0	0.0	
Interest & dividends	7.0	7.0	-0.1	-0.4	0.0	0.4	0.0	0.0	
Other receipts	29.4	27.4	-2.0	0.0	0.0	-1.6	0.0	-0.4	
Current receipts	575.2	533.1	-42.1	-24.7	-0.2	-10.1	-7.1	0.0	

¹ The Budget only includes tax credits that offset income tax liability, in line with internationally agreed definitions.

² Net of negative tax tax credits

³ Tax credits that are classified as expenditure in the National Accounts but negative taxation in the calculation of net taxes and national insurance contributions

Note: Figures may not sum due to rounding

Value Added Tax

3.9 VAT receipts in 2007-08 were £0.6 billion above the Budget 2007 forecast. The VAT forecast incorporates the NAO-audited assumption on the VAT gap (the gap between theoretical VAT liability and actual receipts), which is assumed to increase by 0.5 percentage points from its latest outturn value. In fact in 2007-08 the VAT gap fell, increasing receipts relative to the Budget 2007 forecast by around £1.5 billion, which is scored in the NAO-audited assumptions category. The decrease in the VAT gap was supported by the continued efforts of HMRC to reduce the level of attempted Missing Trader Intra-Community (MTIC) fraud. The increase in VAT receipts was partly offset by lower growth in the government element of the VAT base and a lower share of household expenditure liable to the standard rate of VAT.

3.10 VAT receipts in 2008-09 were £5.3 billion below forecast. Of this forecast difference, policy measures to temporarily reduce the standard rate of VAT to 15 per cent, and HMRC's Business Payment Support Service granting additional "time-to-pay" allowing businesses to reschedule payments, reduced revenues by £1.5 billion. The cash effects of these policy changes have been scored under policy measures in the forecast breakdown. The accruals adjustment related to these policy changes is around £2.3 billion, described further in paragraph 3.33.

3.11 VAT receipts were further reduced in 2008-09 by the downturn in the economy, and particularly by lower than expected growth in consumer spending and a fall in the share of spending on standard rated goods. The sharpest drops in spending were on standard-rated consumer durables. In total this reduced receipts by around £2.0 billion. The Budget 2008 VAT forecast assumed that the VAT gap would increase by 0.5 percentage points from its latest outturn value. However, the VAT gap estimate for 2008-09 shows a larger increase of around 2.9 percentage points, reducing receipts by £2.2 billion compared to the Budget 2008 forecast, scored to the NAO-audited assumption. The combination of the economic downturn and restrictive credit conditions put pressure on firms' cash flows and 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. More detail on measuring overall VAT

losses in these years can be found in the HM Revenue and Customs release *Measuring Tax Gaps 2009*.

Corporation tax

3.12 Non-North Sea corporation tax receipts in 2007-08 were £2.7 billion below forecast. This in part reflected lower than expected non-oil non-financial profits, scored as economic determinants, but also higher than expected repayments, which is scored as a fiscal forecasting difference.

3.13 In 2007-08, North Sea corporation tax receipts were £0.3 billion below forecast. This was largely caused by a combination of lower than expected production, and higher than expected operating and capital expenditure, scored as economic determinant differences. The shortfall was partly offset by higher than expected oil prices; at Budget 2007 the NAO assumption for the average price of oil was \$58.1 per barrel, but the outturn for 2007 as a whole was \$72.4 per barrel.

3.14 Non-North Sea corporation tax receipts in 2008-09 were £10.4 billion below forecast. Of this, £4.7 billion was due to economic determinants, reflecting lower company profits than assumed in the Budget 2008 forecast due to the impact of the financial crisis in 2008-09. Of the difference due to economic determinants, around £2.8 billion was caused by lower than expected financial sector profits. A substantial amount of the negative differences attributed to fiscal forecasting are likely to be economy-related. Over £2 billion of this difference was due to higher than expected gross repayments as firms carried back losses against recently paid tax. In addition, receipts from non-oil, non-financial firms fell by more than would be implied by the National Accounts measure of profits. This is also likely to be mainly related to the economic downturn, but is scored as a fiscal forecasting difference.

3.15 In 2008-09, North Sea corporation tax receipts were £2.2 billion above forecast. This was mainly attributable to a higher than expected world oil price, which for 2008 averaged \$98.3 per barrel, compared with a Budget 2008 NAO assumption of \$83.8 per barrel. A depreciation of sterling against the dollar further raised revenues by raising the sterling equivalent oil price, but this was partly offset by higher than expected North Sea operating expenditure. Both these effects score as economic determinant differences, while the difference due to the world oil price is scored to the NAO-audited assumption.

Petroleum revenue tax

3.16 Receipts of petroleum revenue tax (PRT) in 2007-08 were £0.1 billion above forecast, largely due to a higher than forecast world oil price (averaging \$72.4 per barrel in 2007, compared with the forecast under the NAO-audited assumption of \$58.1 per barrel). Receipts of PRT in 2008-09 were £0.9 billion higher than forecast, reflecting a higher than expected world oil price, a weaker than forecast sterling-dollar exchange rate and higher than expected production in PRT fields.

Fuel duties

3.17 Fuel duty receipts in 2007-08 were £0.2 billion below forecast. Receipts were weakened by the fact that oil prices were higher than forecast under the NAO-audited assumption. With fuel duties charged on a per litre basis, higher pump prices reduce the demand for fuel and hence fuel duty receipts. This was partially offset by a positive impact from economic determinants of £0.2 billion due to stronger GDP growth, higher RPI inflation, and movements in the exchange rate.

3.18 Fuel duty receipts in 2008-09 were £1.1 billion below forecast. At Budget 2008 it was announced that fuel duty rates would be raised in line with inflation at the start of September, but this was delayed until 1st December 2008, contributing £0.2 billion to the shortfall, which

has been scored under policy measures. Receipts were further reduced by higher than expected oil prices and weaker demand for fuel from both households and businesses.

Capital gains tax

3.19 Capital gains tax (CGT) receipts in 2007-08 were £0.6 billion above the Budget 2007 forecast, most of which can be attributed to fiscal forecasting differences related to modelling taxpayer behaviour.

3.20 CGT receipts in 2008-09 were £2.9 billion above the Budget 2008 forecast. In part, this 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. This is scored as a fiscal forecasting difference.

Inheritance tax

3.21 Inheritance tax receipts in 2007-08 were £0.2 billion lower than the Budget 2007 forecast, partly due to the 2007 Pre-Budget Report measure on transferable tax-free allowances for married couples and civil partners.

3.22 Inheritance tax receipts in 2008-09 were £0.4 billion lower than the Budget 2008 forecast, partly due to lower than forecast equity and house prices in 2008-09.

Stamp duties

3.23 In 2007-08 total stamp duty receipts were £0.2 billion lower than forecast. Receipts on land and property were below forecast primarily due the economic downturn leading to lower than expected commercial property prices and residential transactions. However, these shortfalls were partially offset by higher than expected stamp duty receipts from shares.

3.24 In 2008-09 total stamp duty receipts were £5.5 billion lower than forecast. Receipts on land and property were around £4.7 billion below forecast due to lower than expected commercial volumes and prices but the key driver was the fall in residential transaction volumes to historically low levels. The stamp duty holiday for all purchases of residential property below £175,000, announced in September 2008, further reduced receipts in 2008-09. Stamp duty on share yields were also lower than expected, reflecting both lower than forecast prices and lower than forecast trading volumes.

Tobacco duties

3.25 In 2007-08 tobacco receipts were very close to the Budget 2007 forecasts. A revised NAO-audited assumption was adopted in Budget 2007, which assumes that the underlying level of duty paid consumption of cigarettes will be set at least 3 per cent per year lower than the estimated outturn of the current year. In 2007-08 duty paid clearances increased by 0.4 per cent, which resulted in a £0.3 billion under-forecast attributed to the NAO-audited assumption. This was offset by a negative fiscal forecasting difference of £0.3 billion, which can be attributed to an over-estimate of underlying duty paid clearances in 2006-07, and to a timing effect shifting receipts between years.

3.26 Tobacco duties in 2008-09 were £0.6 billion above forecast. Around half of the higher receipts reflect the decision to raise tobacco duties in the 2008 Pre-Budget Report to ensure that the overall taxation on tobacco remained broadly unchanged following the temporary reduction in the VAT rate to 15 per cent. This is scored under policy measures. In addition, underlying clearances decreased by less than forecast which resulted in a £0.4 billion under-forecast, attributed to the NAO-audited assumption.

Alcohol duties

3.27 In 2007-08, alcohol duty receipts were £0.1 billion higher than forecast, largely due to forestalling bringing forward receipts expected in 2008-09 into 2007-08. Alcohol receipts in 2008-09 were £0.2 billion below forecast, largely attributable to economic determinants. This is partly offset by the decision to raise alcohol duties in the 2008 Pre-Budget report to offset the impact of the reduction in the VAT rate.

Other HMRC taxes

3.28 Receipts from other HMRC taxes were £0.2 billion below forecast in 2007-08 and £0.3 billion below in 2008-09. Minor timing changes to air passenger duty increases explain some of the shortfall in 2008-09, which score under policy measures. Fiscal forecasting differences explain most of the remaining shortfall in both years.

Vehicle excise duty

3.29 Vehicle excise duty receipts were £0.2 billion below forecast in 2007-08 due to negative fiscal forecasting differences. Vehicle excise duty receipts were £0.5 billion below forecast in 2008-09 partly reflecting lower than expected sales of vehicles, which are scored as economic determinant differences.

Council tax

3.30 Council tax increases are determined annually by local authorities rather than the Government, so council tax forecasts are projections based on a set of stylised assumptions. Forecasts for the forthcoming financial year in Budgets 2007 and 2008 were based on the latest available estimates released by the Chartered Institute for Public Finance and Accountancy (CIPFA). Council tax receipts in 2007-08 were £0.2 billion lower than forecast in Budget 2007. Council tax receipts were £0.5 billion lower in 2008-09 than forecast in Budget 2008. In both cases this is attributable to fiscal forecasting differences.

Other taxes and royalties

3.31 Receipts of other taxes and royalties in 2007-08 were £0.4 billion higher than forecast in Budget 2007, in part due to positive fiscal forecasting differences in VAT refunds from government departments, and in part due to the reclassification of rail franchise premia receipts to the 'other taxes and royalties' category from the 'other receipts' category, which was scored in other factors. In 2008-09 receipts of other taxes and royalties were not significantly different from forecast. The impact of the reclassification of rail franchise premia receipts was offset by lower than expected VAT refunds from government departments, reflecting lower economic determinants and the impact of the temporary VAT rate reduction.

Accruals adjustments

3.32 In 2007-08 accruals adjustments were £1.2 billion below forecast, which is mainly attributed to a negative fiscal forecasting difference of £1.1 billion. This was due to lower accruals adjustments for both NICs and VAT, which more than offset a higher accruals adjustment on income tax. Cash receipts of VAT were weak at the start of 2008-09, which meant that less than expected VAT accrued back to 2007-08. Lower than expected economic determinants for income tax and VAT, partly offset by higher than expected NAO-audited assumptions, caused the remaining £0.1 billion difference.

3.33 In 2008-09 accruals adjustments were £6.3 billion below forecast, reflecting lower accruals adjustments for both income tax and VAT, offsetting a higher accruals adjustment on NICs. Much of this is due to the economic downturn. PAYE and VAT are both on an accrued basis in

the National Accounts. Cash receipts received in the early part of 2009-10 are accrued back to 2008-09, if they relate to wages and salaries earned or VAT-able activity that took place in that year. With earnings lower and economic activity weaker than anticipated at Budget 2008, the accruals adjustments were lower. The VAT accruals adjustment was also affected by the temporary reduction in the standard rate of VAT to 15 per cent. This lowered cash receipts of VAT in the first three months of 2009-10 by around £2.3 billion, which accrued back to 2008-09 and is scored under policy measures.

Interest and dividends

3.34 Interest and dividend receipts were £1.7 billion above forecast in 2007-08, partly reflecting higher than expected interest receipts received by the Debt Management Office (DMO) on short term deposits, which are scored under fiscal forecasting differences. Interest and dividend receipts were £0.1 billion below forecast in 2008-09, reflecting lower than forecast interest rates.

Other receipts

3.35 Other receipts consist of gross operating surplus and rent, including accruals adjustments of the proceeds from the auction of spectrum licences, current transfers from households and general government rent receipts.

3.36 In June 2007, the ONS changed their treatment of local authorities' Housing Revenue Accounts. In the National Accounts, these are regarded as 'quasi-corporations' net borrowing. The effect was to impute equal amounts of additional expenditure by local authorities and increases in the gross operating surplus of public corporations. These changes are shown as other factors, both in the other receipts category and in the accounting adjustments on public expenditure (see Chapter 4).

3.37 Other receipts in 2007-08 were £1.1 billion below forecast. Receipts in 2007-08 were boosted by the Housing Revenue Account (HRA) reclassification, which added £1.6 billion. However, non-HRA elements of the gross operating surplus were lower than expected. Other receipts in 2008-09 were £2.0 billion below forecast, largely reflecting lower than expected gross operating surplus and the reclassification of rail franchise premia receipts into the other taxes and royalties section.

4

Public expenditure

This chapter provides a detailed analysis of developments in public expenditure in 2007-08 and 2008-09. The detailed forecast analysis considers the Budget 2007 forecast for 2007-08 and the Budget 2008 forecast for 2008-09. It shows that:

- Total Managed Expenditure (TME) rose from £582.0 billion in 2007-08 (41.0 per cent of GDP) to £618.1 billion in 2008-09 (43.1 per cent of GDP);
- TME was lower than forecast by £4.6 billion in 2007-08 (0.3 per cent of GDP);
- TME was higher than forecast by £0.3 billion in 2008-09 (less than 0.1 per cent of GDP); and
- public sector net investment increased by more than 25 per cent over the two years 2007-08 and 2008-09.

4.1 This chapter provides a detailed examination of trends and developments in public expenditure in 2007-08 and 2008-09 and, in particular, differences between projected expenditure and outturn for the year-ahead projections in Budgets 2007 and 2008.

4.2 Public expenditure is measured across the whole of the public sector using the aggregate Total Managed Expenditure (TME). TME is the sum of public sector current expenditure, public sector net investment and public sector depreciation. These aggregates are based on National Accounts definitions defined under the European System of Accounts 1995.

4.3 For budgeting purposes, TME is divided into:

- Departmental Expenditure Limits (DEL): firm three-year spending limits for departments; and
- Annually Managed Expenditure (AME): spending that due to its nature cannot reasonably be subject to firm multi-year limits. It includes social security, debt interest payments, some central government non-departmental spending, some local authority and public corporation spending as well as adjustments that are made to reconcile with National Accounts.

4.4 To improve long-term planning and to protect capital investment, DEL is further divided into Capital and Resource (current) Budgets, which are managed separately. End-year flexibility (EYF) allows departments to carry forward unspent resources from one year to the next.

4.5 Data on public spending remains provisional for a considerable period after the end of the relevant financial year. For example, resource accounts for central government departments may not be finalised until around nine months after the end of the year, while consolidated data for local authorities is produced over a longer time scale. That means that the data in this chapter, particularly for 2008-09, are not final. The information is, however, sufficiently robust to allow analyses of forecasting differences; future revisions are likely to change the detail rather than the main conclusions.

4.6 As set out in Chapter 1, the relevant data in this Chapter include the effects of the Government's financial sector interventions on a National Accounts basis, except where stated. This is to ensure forecasts and outturns are compared on a consistent basis. The Pre-Budget Report also sets out fiscal aggregates on a basis which excludes the temporary effects of financial sector interventions, consistent with National Accounts methodology.

Overall public expenditure forecasting differences

4.7 Table 4.A shows the latest outturn for key public spending aggregates for 2007-08 and 2008-09, including a comparison of the differences in the year-ahead forecasts for spending published in Budget 2007 and Budget 2008 respectively.

Table 4.A: Summary of public expenditure forecasting differences for 2007-08 and 2008-09

	£ billion					
	2007-08			2008-09		
	Forecast	Outturn	Difference	Forecast	Outturn	Difference
Public sector current expenditure	538.6	535.7	-2.9	566.2	563.7	-2.6
Public sector net investment	29.4	28.5	-0.9	32.9	35.7	2.8
Public sector depreciation	18.7	17.8	-0.9	18.6	18.7	0.1
Total Managed Expenditure	586.6	582.0	-4.6	617.8	618.1	0.3
<i>of which:</i>						
Departmental Expenditure Limits						
Resource Budget	310.0	310.1	0.1	324.3	321.2	-3.1
Capital Budget	44.3	44.2	-0.1	48.1	48.1	0.0
Less depreciation	-10.6	-10.9	-0.3	-11.5	-11.6	-0.2
Total Departmental Expenditure Limits	343.7	343.3	-0.4	360.9	357.7	-3.2
Total Annually Managed Expenditure	242.9	238.7	-4.3	256.9	260.4	3.5

Note: Figures may not sum due to rounding.

4.8 TME rose from £582.0 billion in 2007-08 (41.0 per cent of GDP) to £618.1 billion in 2008-09 (43.1 per cent of GDP). The rise in nominal terms reflects planned rises in DEL to fund Government priorities announced in the 2007 Comprehensive Spending Review (CSR), and increases in AME, which are discussed below. The rise as a percentage of GDP also reflects a denominator effect, as DEL spending plans are set in nominal terms, while nominal GDP grew at a slower rate than had been anticipated.

4.9 Net investment increased by over 25 per cent in nominal terms, from £28.5 billion to £35.7 billion between 2007-08 and 2008-09. This partly reflects increases to departmental capital budgets planned in the 2007 CSR in order to fund the Government's long-term priorities, as well as the impact of policy measures in 2008-09.

Forecast differences in 2007-08

4.10 In 2007-08, TME was £4.6 billion below forecast, which was driven by lower than forecast spending on AME. Public sector current expenditure was £2.9 billion lower than forecast, which includes increases of £1.0 billion due to classification changes. Public sector net investment outturn was £0.9 billion lower than forecast, due to lower capital AME.

Forecast differences in 2008-09

4.11 In 2008-09, TME was £0.3 billion above forecast, which was a result of lower than planned DEL spending being more than offset by higher AME, where effects of the economic downturn have led to rises in expenditure in social security and other cyclical components of AME. Public sector current expenditure was £2.6 billion lower than forecast. Public sector net investment was £2.8 billion higher than projected, including £0.9 billion of policy measures, and higher capital AME than forecast.

Spending forecasts and reasons for differences

4.12 The following section analyses the differences between forecast and outturn data. As in Chapters 2 and 3, differences are decomposed into the following five categories:

- **economic determinants**, for example, debt interest payments on index-linked gilts are affected by the accrued uplift, which is in turn dependent upon inflation forecasts;
- **NAO-audited assumptions**,¹ for example, the assumption on the unemployment claimant count used in the social security forecast and the assumption for interest rates used in the forecast of debt interest payments;
- **fiscal forecasting differences**, which could arise from the differences in the projected number of benefit recipients, or differences between outturns and plans for DEL;
- **policy measures**, which reflects the impact of new policy measures announced after publication of the forecast; and
- **other factors**, which includes the impact of changes in the definitions or statistical treatment of components of the public finances.

DEL forecasting differences

4.13 Tables 4.B and 4.C provide a breakdown of TME forecasting differences for 2007-08 and 2008-09 respectively. Differences between outturn and plans reflect the difference between the planned limits for departmental expenditure and the actual expenditure. Such differences are treated as 'fiscal forecast differences', with the exception of discretionary changes, including expenditure financed by allocations made from the special reserve, which are attributed to 'policy measures', and classification changes, which are attributed to 'other factors'.

4.14 Departments can carry forward unspent budgetary allocations into future years under the end-year flexibility arrangements. This is designed to avoid wasteful year-end surges in spending by allowing departments to plan spending across years and deliver the Government's plans for improvements to the public services. The drawdown of EYF by departments in subsequent years is subject to need, realism and the fiscal position and can increase total DEL spending above the planned or forecast levels set out in successive Budgets. Further information on the stock of EYF, including a breakdown by department, is included in the Public Expenditure Outturn White Paper (PEOWP), published in July of each year.²

¹ See Annex A for a full list of NAO-audited assumptions.

² See http://www.hm-treasury.gov.uk/pespub_index.htm.

Table 4.B: Breakdown of Budget 2007 forecasting differences of public expenditure for 2007-08

	Forecast	Outturn	Difference	£ billion				
				of which:				
				Economic determinants	Assumptions audited by the NAO	Fiscal forecasting differences	Policy measures	Other factors
Departmental Expenditure Limits								
Resource Budget	310.0	310.1	0.1	0.0	0.0	0.5	0.4	-0.8
Capital Budget	44.3	44.2	-0.1	0.0	0.0	-0.9	0.0	0.8
Less depreciation	-10.6	-10.9	-0.3	0.0	0.0	-0.3	0.0	0.0
Total Departmental Expenditure Limits	343.7	343.3	-0.4	0.0	0.0	-0.7	0.4	0.0
Annually Managed Expenditure	242.9	238.7	-4.3	0.2	-0.1	-4.6	-0.7	0.9
Total Managed Expenditure	586.6	582.0	-4.6	0.2	-0.1	-5.3	-0.3	0.9
<i>of which:</i>								
Public sector current expenditure	538.6	535.7	-2.9	0.3	-0.1	-3.7	0.4	0.2
Public sector net investment	29.4	28.5	-0.9	-0.1	0.0	-0.7	-0.7	0.7
Public sector depreciation	18.7	17.8	-0.9	0.0	0.0	-0.9	0.0	0.0

Note: Figures may not sum due to rounding.

DEL in 2007-08

4.15 Outturn for total DEL in 2007-08 was £343.3 billion, £0.4 billion below the Budget 2007 forecast. This difference between planned and outturn spending is equivalent to 0.1 per cent of forecast total DEL, or less than 0.1 per cent of GDP.

4.16 Spending on Resource DEL was £0.1 billion above the Budget 2007 forecast. This was a result of EYF drawdown and a £0.4 billion addition to the special reserve being partly offset by other factors, including the reclassification of £0.7 billion of Nuclear Decommissioning Authority expenditure from resource to capital DEL, to align with the treatment in National Accounts.

4.17 Capital DEL outturn was £0.1 billion below the Budget 2007 plans. This was due to the increase from the nuclear decommissioning classification change being more than offset by lower than planned spending in the Department of Health, and the Department for Children, Schools and Families (DCSF).

4.18 Outturn for DEL depreciation was £0.3 billion above the Budget 2007 forecast, resulting entirely from fiscal forecasting differences. DEL depreciation is removed to derive total DELs.

Table 4.C: Breakdown of Budget 2008 forecasting differences of public expenditure for 2008-09

	Forecast	Outturn	Difference	£ billion				
				of which:				
				Economic determinants	Assumptions audited by the NAO	Fiscal forecasting differences	Policy measures	Other factors
Departmental Expenditure Limits								
Resource Budget	324.3	321.2	-3.1	0.0	0.0	-4.1	0.6	0.4
Capital Budget	48.1	48.1	0.0	0.0	0.0	-1.1	1.0	0.1
Less depreciation	-11.5	-11.6	-0.2	0.0	0.0	-0.2	0.0	0.0
Total Departmental Expenditure Limits	360.9	357.7	-3.2	0.0	0.0	-5.3	1.6	0.5
Annually Managed Expenditure	256.9	260.4	3.5	-0.3	-0.1	5.7	-0.4	-1.5
Total Managed Expenditure	617.8	618.1	0.3	-0.3	-0.1	0.4	1.2	-1.0
<i>of which:</i>								
Public sector current expenditure	566.2	563.7	-2.6	0.0	-0.1	-1.8	0.3	-1.0
Public sector net investment	32.9	35.7	2.8	-0.2	0.0	2.1	0.9	0.0
Public sector depreciation	18.6	18.7	0.1	0.0	0.0	0.1	0.0	0.0

Note: Figures may not sum due to rounding.

DEL in 2008-09

4.19 Outturn spending for total DEL in 2008-09 was £357.7 billion, £3.2 billion below the Budget 2008 forecast.

4.20 Resource DEL outturn was £3.1 billion below the Budget 2008 forecast. This was largely a result of lower than planned spending by the Department of Health, which was mainly due to a surplus in the NHS, as a result of improving financial management. The policy measures reflect an addition to the Resource Reserve, announced at the 2008 Pre-Budget Report.

4.21 Capital DEL outturn was the same as the Budget 2008 forecast, where lower than planned spending by departments was offset by discretionary policy measures. The lower than planned spending largely reflected spending in some of the Department for Children, Schools and Families' (DCSF) capital programmes in 2008-09, reflecting the flexible nature of the funding available over the CSR period which reduces the pressure to spend in-year. The policy measures included £0.2 billion for housing programmes announced in September 2008, £0.4 billion addition to the Capital Reserve, and £0.4 billion of capital spending brought-forward as part of the capital stimulus announced at the 2008 Pre Budget Report.

4.22 The 2008 Pre-Budget Report announced that £3 billion of capital spending from 2010-11 would be brought forward into 2009-10 and 2008-09 in order to support the economy during the downturn. All £0.4 billion that was allocated to 2008-09 was spent in-year, by Communities and Local Government (CLG), the Department for Innovation, Universities and Skills (DIUS – now within Business, Innovation and Skills) and the Department for Energy and Climate Change (DECC).

4.23 DEL depreciation was £0.2 billion higher than forecast, resulting entirely from fiscal forecasting differences.

AME forecasting differences

4.24 Expenditure in AME, unlike spending in DEL, is not subject to firm spending limits. AME projections are based on forecasts for individual components, which are typically reviewed biannually at each Pre-Budget Report and Budget.

4.25 Tables 4.D and 4.E present a breakdown of forecasting differences in AME for 2007-08 and 2008-09 respectively. Forecast differences for a particular AME spending component are apportioned to one or more of the five types of forecast differences discussed previously. For AME as a whole, forecasting differences correspond to £4.3 billion in 2007-08 (or 0.3 per cent of GDP), and £3.5 billion in 2008-09 (or 0.2 per cent of GDP).

4.26 In 2008-09, the AME forecast was affected by the impact of the economic downturn, in particular on social security spending. In Table 2.E these effects are reflected in the NAO assumptions and fiscal forecasting differences categories. The claimant count was higher than projected, affecting spending on Jobseeker's Allowance and Housing Benefit. In addition, the impact of the downturn on the composition of some benefit caseloads would be expected to increase expenditure - in particular Housing Benefit, where the rise in the proportion of claimants resident in the private sector mainly reflects the rise in unemployment. The increased number of falls in household income, which largely influence expenditure on tax credits, are also likely to be largely attributable to the economic downturn.

Table 4.D: Breakdown of Budget 2007 AME forecasting differences of public expenditure 2007-08

	Forecast	Outturn	Difference	£ billion				
				of which:				
				Economic determinants	Assumptions audited by the NAO	Fiscal forecasting differences	Policy measures	Other factors
Annually Managed Expenditure								
Social security benefits ¹	139.2	138.7	-0.5	0.0	-0.4	0.3	0.0	-0.3
Tax credits	16.5	17.2	0.7	0.0	0.0	0.7	0.0	0.0
Net public service pensions ²	1.7	2.2	0.5	0.0	0.0	0.5	0.0	0.0
National Lottery	1.6	1.6	0.0	0.0	0.0	0.0	0.0	0.0
BBC domestic services	3.3	3.6	0.3	0.0	0.0	0.3	0.0	0.0
Public corporations' own-financed capital expenditure	4.6	5.3	0.7	0.0	0.0	0.7	0.0	0.0
Other departmental expenditure	3.1	1.5	-1.6	0.0	0.0	-0.9	-0.7	0.0
Net expenditure transfers to EC Institutions ³	5.0	5.4	0.4	0.0	0.0	0.4	0.0	0.0
Locally financed expenditure	27.8	28.5	0.6	0.0	0.0	0.6	0.0	0.0
Central government gross debt interest	29.1	30.0	0.9	0.7	0.3	-0.1	0.0	0.0
Accounting adjustments	10.0	4.7	-5.2	-0.5	0.0	-7.0	0.0	2.2
AME margin	1.0	0.0	-1.0	0.0	0.0	0.0	0.0	-1.0
Total Annually Managed Expenditure	242.9	238.7	-4.3	0.2	-0.1	-4.6	-0.7	0.9

¹ Child allowances in Income Support and Jobseeker's Allowance, which from 2003-04 are paid as part of the Child Tax Credit, have been included in the tax credits line and excluded from the social security benefits line. This is in order to give figures on a consistent definition over the forecast period.

² Net public service pensions expenditure is reported on a National Accounts basis.

³ Gross National Income-based contributions less UK abatement.

Note: Figures may not sum due to rounding.

Table 4.E: Breakdown of Budget 2008 AME forecasting differences of public expenditure 2008-09

	Forecast	Outturn	Difference	£ billion				
				of which:				
				Economic determinants	Assumptions audited by the NAO	Fiscal forecasting differences	Policy measures	Other factors
Annually Managed Expenditure								
Social security benefits ¹	146.4	149.8	3.4	0.0	0.7	1.7	1.1	0.0
Tax credits	19.0	19.8	0.9	0.0	0.0	0.9	0.0	0.0
Net public service pensions ²	2.9	3.3	0.4	0.0	0.0	0.4	0.0	0.0
National Lottery	1.5	1.5	0.1	0.0	0.0	0.1	0.0	0.0
BBC domestic services	3.5	3.5	-0.1	0.0	0.0	-0.1	0.0	0.0
Public corporations' own-financed capital expenditure	5.2	7.3	2.2	0.0	0.0	2.2	0.0	0.0
Other departmental expenditure ³	2.5	0.6	-1.9	0.0	0.0	-0.9	-1.0	0.0
Net expenditure transfers to EC Institutions ⁴	5.5	3.1	-2.4	0.0	0.0	-2.4	0.0	0.0
Locally financed expenditure	30.2	34.2	3.9	0.0	0.0	3.9	0.0	0.0
Central government gross debt interest	30.3	30.5	0.2	-0.1	-0.7	1.0	0.0	0.0
Accounting adjustments	8.9	6.8	-2.2	-0.1	0.0	-1.1	-0.4	-0.5
AME margin	1.0	0.0	-1.0	0.0	0.0	0.0	0.0	-1.0
Total Annually Managed Expenditure	256.9	260.4	3.5	-0.3	-0.1	5.7	-0.4	-1.5

¹ Child allowances in Income Support and Jobseeker's Allowance, which from 2003-04 are paid as part of the Child Tax Credit, have been included in the tax credits line and excluded from the social security benefits line. This is in order to give figures on a consistent definition over the forecast period.

² Net public service pensions expenditure is reported on a National Accounts basis.

³ Other departmental expenditure excludes net lending to support financial institutions, and interest received in respect of this lending, neither of which score in Total Managed Expenditure (TME).

⁴ Gross National Income-based contributions less UK abatement.

Note: Figures may not sum due to rounding.

AME component analysis

Social security benefits

4.27 Social security payments in 2007-08 were £0.5 billion lower than the Budget 2007 forecast. This was largely due to a fall in the unemployment caseload, causing a fall in expenditure of £0.4 billion. The reclassification of the Independent Living Fund (ILF) from AME to DEL accounts for the £0.3 billion of other factors, which were more than offset by fiscal forecasting differences from factors affecting Housing Benefit (such as increases in the working age caseload).

4.28 Outturn in 2008-09 was £3.4 billion higher than the Budget 2008 forecast. The difference includes £1.7 billion of fiscal forecasting differences, which is likely to have been driven by the effects of the economic downturn, such as higher than expected benefit caseloads. Other increases compared to forecast include £0.7 billion due to a higher than projected claimant count affecting expenditure on Jobseeker's Allowance and Housing Benefit. £1.1 billion of the difference is due to policy measures announced at PBR 2008, including additional spending on Christmas Bonus for pensioners, further support for mortgage interest payments, and bringing forward uprating for Child Benefit.

Tax credits

4.29 The tax credits line includes spending by the Department for Work and Pensions on child allowances in Income Support and Job Seekers Allowance, which will in due course be paid as Child Tax Credit. These child allowances are grouped together under tax credits, so that historical and future spending is on a consistent basis.

4.30 In 2007-08 tax credits expenditure was £0.7 billion higher than forecast and this is entirely scored as fiscal forecasting differences. This reflects the effects of turnover among the tax credits population on overall income growth among customers, and higher than projected birth rates.

4.31 Outturn in 2008-09 was £0.9 billion above forecast, again because of fiscal forecast differences. These arose mainly because of the higher than forecast expenditure on families in-work, due to an increase in the number of people experiencing falls in their income, alongside a larger number of families out of work, both of which are likely to have been driven by the economic downturn.

Net public service pensions

4.32 Net public service pensions figures are presented on a National Accounts basis, which reflects the difference between the payments to pensioners paid out during the year and contributions received for the main pay as you go public service schemes.

4.33 In 2007-08 the outturn for net public service pensions was £0.5 billion higher than forecast, and this is scored as a fiscal forecasting difference. This difference was mainly due to lower than expected receipts to the National Health Service Pension Scheme (NHSPS), and higher than forecast expenditure from other smaller schemes.

4.34 Outturn in 2008-09 was £0.4 billion above the Budget 2008 forecast. This was largely due to higher than expected expenditure by the Armed Forces Pension Scheme (AFPS), and other smaller schemes.

National lottery

4.35 The lottery outturn for both 2007-08 and 2008-09 was very close to forecast.

BBC domestic services

4.36 BBC domestic services were reclassified from the public corporations to the central government sector in January 2006 and have been a component of AME since Budget 2006. Outturn for 2007-08 was £0.3 billion higher than forecast, whilst 2008-09 outturn was very close to forecast.

Public corporations' own-finances capital expenditure

4.37 Public corporations' own-financed capital expenditure (PCOFCE) comprises the capital expenditure of public corporations, net of any capital grants or loans given by a public corporation's parent department and net of any private sector borrowing.

4.38 Outturn for 2007-08 was £0.7 billion above forecast, attributable to fiscal forecasting differences. The underlying cause for this difference was higher Housing Revenue Account (HRA) net capital spending, which in turn partly reflected lower housing sales.

4.39 PCOFCE in 2008-09 was £2.2 billion higher than forecast, attributable to fiscal forecasting differences. The difference was mainly due to a reduced level of housing sales, which led to an increase in HRA net capital spending.

Other departmental expenditure

4.40 Outturn for other departmental expenditure in 2007-08 was £1.6 billion lower than forecast. The difference allocated to policy changes is a result of the one-off sale of Chelsea Barracks, which accounted for £0.7 billion of the difference. The largest contributing fiscal forecasting difference is a change to the measurement of outturn, compared to forecast, to include certain financial transactions that are scored in other departmental expenditure in AME and then removed within the accounting adjustments.

4.41 For 2008-09, other departmental expenditure was £1.9 billion lower than forecast. This was partly due to the receipt of fees from financial sector interventions, including the Credit Guarantee Scheme (CGS), which are scored as a policy change. The fiscal forecasting difference was mainly due to changes to financial transactions in AME, which are removed in accounting adjustments.

Net expenditure transfers to EC institutions

4.42 Outturn in 2007-08 was £0.4 billion higher than forecast, primarily due to amendments to the EC Budgets for 2007 and 2008, including the profile requested for Member States' payments in the first quarter of 2008.

4.43 Outturn in 2008-09 was £2.4 billion lower than forecast at the time of the 2008 Budget. This was largely the result of amendments to the EC Budgets for 2008 and 2009, including the pattern of payments requested from Member States in the first quarter of 2009, and of a later than expected implementation of the new Own Resources Decision, the agreement which sets out the way in which Member States finance the annual EC Budget.

Locally-financed expenditure

4.44 Locally-financed expenditure consists of local authority self-financed expenditure (LASFE), Scottish spending financed by local taxation, and Northern Ireland regional rates. LASFE is the difference between total local authority expenditure, net of capital receipts, and central government support to local authorities.

4.45 Outturn for 2007-08 was £0.6 billion above the Budget 2007 forecast. This difference arose because of a problem with the forecasting methodology used at Budget 2007 (and previous Budgets), which has now been corrected.

4.46 Locally-financed expenditure for 2008-09 was £3.9 billion higher than the Budget 2008 forecast. The main component underlying this fiscal forecasting difference was lower receipts from sales of local authority capital assets, other than housing, because of the economic downturn. However, locally-financed expenditure was also higher in outturn because of an additional £0.5 billion capital spending associated with large scale voluntary transfers of housing stock, and an additional £0.7 billion current spending financed by higher interest receipts.

Central government gross debt interest

4.47 Central government gross debt interest in 2007-08 was £0.9 billion higher than the Budget 2007 forecast. £0.7 billion of this difference resulted from higher than forecast accrued uplift on index-linked debt, which is scored as an economic determinant difference, and £0.3 billion from higher than forecast interest rates, which is scored as a difference arising from the assumptions audited by the NAO. Partially offsetting these, the central government net cash requirement (CGNCR) was lower than forecast, providing a moderating influence on debt interest expenditure; this difference is scored as a fiscal forecasting difference.

4.48 Central government gross debt interest in 2008-09 was £0.2 billion higher than the Budget 2008 forecast. A higher than forecast CGNCR contributed to an increase of £1.0 billion, which is scored as a fiscal forecasting difference, whilst the effects of lower than forecast interest rates lowered debt interest expenditure by £0.7 billion to partially offset the increase.

Accounting adjustments

4.49 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. The 'other factors' column shows changes in National Accounts adjustments which the Office for National Statistics (ONS) have made since the forecasts were compiled, and offsets changes in definitions of DEL and AME, where there are relevant accounting adjustments.

4.50 In 2007-08 the 'other factors' are mainly due to the inclusion of a new accounting adjustment in June 2007 for local authorities' imputed subsidies for the injection of equity into HRAs, which increased TME by £1.6 billion. This is neutral across the public finances, as it is offset by additional HRA gross operating surplus within current receipts.

4.51 The fiscal forecasting differences for 2007-08 reflect several areas where the measurement of accounting adjustments has been improved, and where outturn and forecasts are now compiled on a different basis to the forecasts made in Budget 2007. The two main areas of changes in measurement are in spending by NHS trusts, and LASFE. (See paragraph 4.52 in the 2008 EYFR). In 2007-08, outturn was also lower than forecast by £0.9 billion for both VAT refunds and depreciation. In 2008-09, the component that accounted for the largest difference in the accounting adjustments was VAT refunds, where differences occurred because of changes in the economic determinants, and policy changes, as well as fiscal forecasting differences. The differences from policy changes were due to the effects on VAT refunds from the temporary 2½ per cent reduction in VAT announced in the 2008 Pre-Budget Report, as well as an imputed subsidy to Northern Rock, which is offset in current receipts.

AME margin

4.52 The year-ahead forecasts of AME for Budget 2007 and 2008 included an AME margin of £1.0 billion to minimise the risk of outturn AME exceeding its forecast. The change in AME margin is classified as an 'other factor' in the breakdown of forecasting differences.

A

Assumptions used in Budget 2007 and Budget 2008

Table A.1: Budget 2007 – key assumptions audited by the National Audit Office

Assumption used for Budget 2007	
Trend GDP growth	2½ per cent a year.
Dating of the cycle	The end date of the previous economic cycle was in the first half of 1997.
Privatisation proceeds	Credit is taken only for proceeds from sales that have been announced.
UK claimant unemployment	Rising slowly to 0.95 million in 2007-08, from recent levels of 0.93 million.
Interest rates	3-month market rates change in line with market expectations (as of 9 March 2007).
Equity prices	FTSE All-share index rises from 3244 (close 9 March 2007) in line with money GDP.
VAT	The underlying VAT gap will rise by 0.5 percentage points per year from the estimated outturn for the current year.
Consistency of price indices	Projections of price indices used to project the public finances are consistent with CPI.
Composition of GDP	Shares of labour income and profits in national income are broadly constant in the medium term.
Funding	Funding assumptions used to project debt interest are consistent with the forecast level of government borrowing and with financing policy.
Oil prices	\$58.1 a barrel in 2007, the average for the three months to March 9, and then constant in real terms. This is lower than the \$58.6 average of independent forecasts for 2007.
Tobacco	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.

Table A.2: Budget 2008 – key assumptions audited by the National Audit Office

	Assumption used for Budget 2008
Trend GDP growth	2½ per cent a year to 2012-13.
Dating of the cycle	The end date of the previous economic cycle was in the first half of 1997.
Privatisation proceeds	Credit is taken only for proceeds from sales that have been announced.
UK claimant unemployment	Rising from recent average levels of 0.80 million to 0.99 million at the end of 2009, and to 1.00 million at the end of 2010.
Interest rates	3-month market rates change in line with market expectations (as of 28 February 2008).
Equity prices	FTSE All-share index rises from 2959 (close 6 March 2008) in line with money GDP.
VAT	The underlying VAT gap will rise by 0.5 percentage points per year from the estimated outturn for the current year.
Consistency of price indices	Projections of price indices used to project the public finances are consistent with CPI.
Composition of GDP	Shares of labour income and profits in national income are broadly constant in the medium term.
Funding	Funding assumptions used to project debt interest are consistent with the forecast level of government borrowing and with financing policy.
Oil prices	\$83.8 a barrel in 2008, the average of independent forecasts, and then constant in real terms.
Tobacco	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.

B

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List of abbreviations

AFPS	Armed Forces Pension Scheme
AME	Annually Managed Expenditure
BBC	British Broadcasting Corporation
CGNCR	Central government net cash requirement
CGT	Capital gains tax
CIPFA	Chartered Institute for Public Finance and Accountancy
CSR	Comprehensive Spending Review
CT	Corporation tax
DEL	Departmental Expenditure Limits
DMO	Debt Management Office
ESA95	European System of Accounts
EU	European Union
EYF	End-year flexibility
EYFR	End of year fiscal report
FTSE	Financial Times Stock Exchange
FY	Fiscal Year
G7	A group of seven major industrial nations (comprising: Canada, France, Germany, Italy, Japan, the United Kingdom and the United States)
GDP	Gross Domestic Product
HMRC	Her Majesty's Revenue and Customs
HRA	Housing Revenue Account
ILF	Independent Living Fund
IMF	International Monetary Fund
LASFE	Local authority self-financed expenditure
MTIC	Missing Trader Intra-Community
NAO	National Audit Office
NHS	National Health Service
NHSPS	National Health Service Pension Scheme
NICs	National Insurance Contributions
OECD	Organisation for Economic Cooperation and Development
OLDF	Olympic Lottery Distribution Fund
ONS	Office for National Statistics
PAYE	Pay as You Earn
PC	Public corporations
PCOFCE	Public corporations' own-financed capital expenditure
PEOWP	Public Expenditure Outturn White Paper
PRT	Petroleum Revenue Tax
PSNB	Public sector net borrowing
PSNCR	Public sector net cash requirement
PSND	Public Sector Net Debt
RPI	Retail Prices Index
TME	Total Managed Expenditure
VAT	Value Added Tax

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