

The updated projections of the public finances show that the fiscal position is sound. The tough decisions on taxation and spending taken by the Government over the past four years have enabled £51 billion of debt to be repaid and mean that fiscal policy is well placed to play its part in cushioning the effects of the global economic slowdown. Debt levels are stable and low and strong surpluses on the current budget over the past two years provide room for manoeuvre within the fiscal rules over the remainder of the economic cycle.

The interim projections of the public finances show that the Government remains on track to meet both its fiscal rules over the cycle, including in the cautious case:

- the current budget remains in surplus throughout the projection period, even using cautious assumptions, ensuring that the Government remains on track to meet the golden rule; and
- public sector net debt is expected to remain low and stable over the next five years ; comfortably meeting the sustainable investment rule at 31 per cent of GDP, the lowest ratio in the G7.

In the short term, lower receipts compared to the Budget mean that fiscal policy is supporting monetary policy this year and next in maintaining economic stability. Over the forecast period, receipts are expected to return to the Budget profile. Public sector net borrowing is projected to be $\frac{1}{4}$ per cent of GDP in 2001-02, and 1 per cent of GDP in the following year. Modest deficits are projected to continue, reflecting the rapid growth of public investment, and fully consistent with meeting both fiscal rules.

INTRODUCTION

B1. Chapter 2 describes the Government's fiscal framework and shows how the updated projections of the public finances are consistent with meeting the fiscal rules. This annex explains in more detail the Government's performance against the fiscal rules. It includes:

- five year projections of the current budget surplus and public sector net debt, the key aggregates for assessing performance against the golden rule and the sustainable investment rule respectively;
- projections of public sector net borrowing, the fiscal aggregate relevant to assessing the impact of fiscal policy on the economy;
- projections of the cyclically-adjusted fiscal balances; and
- detailed analyses of the outlook for government receipts and expenditure.

MEETING THE FISCAL RULES

B2. The Pre-Budget Report provides an update of the projections of the public finances contained in Budget 2001, taking account of developments in both the public finances and the economy since then. The public finance projections in the Pre-Budget Report present an interim forecast update and do not necessarily represent the final outcome the Government is seeking.

B3. Table B1 compares the Pre-Budget Report projections for the current budget and net borrowing with those made in Budget 2001. These projections inevitably involve a considerable element of uncertainty and are therefore based deliberately on cautious assumptions of key economic variables, including the trend rate of growth of the economy. A cautious asymmetric approach to fiscal policy helps ensure that the public finances are well placed to deal with the impact of the world economic slowdown by building in a safety margin against unexpected events.

B4. Reduced economic growth has implications for both public sector receipts and spending. However, the tough decisions on taxation and spending taken by the Government over the past four years to repay debt mean that fiscal policy is able to support monetary policy this year and next in maintaining economic stability, while continuing to meet the two fiscal rules. The revised fiscal projections show that the current budget will remain in surplus throughout the economic cycle. The outturn for 2000-01 shows a £2¾ billion higher surplus on the current account and a 3¾ billion higher net repayment. A current budget surplus of £10 billion is projected for 2001-02, compared with the Budget projection of £16 billion. The current surplus in 2002-03 has also been revised downwards to £3 billion. Similarly, public sector net borrowing of £2.5 billion is now expected in 2001-02, compared with a projected net repayment of £5 billion in the Budget. However, as the economy moves back to trend, the fiscal position moves back towards its Budget 2001 profile.

Table B1: Fiscal balances comparison with Budget 2001¹

	Outturn ²		Projections			
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Fiscal balances						
Surplus on current budget (£ billion)						
Budget 2001	22.3	16	14	8	9	9
PBR 2001	25.1	10.3	3	4	7	8
Net borrowing (£ billion)						
Budget 2001	-15.0	-5	2	10	11	12
PBR 2001	-18.8	2.5	12	15	13	13
Cyclically-adjusted surplus on current budget (per cent of GDP)						
Budget 2001	2.0	1.2	1.0	0.6	0.7	0.7
PBR 2001	2.3	1.0	0.3	0.3	0.5	0.7
Cyclically-adjusted net borrowing (per cent of GDP)						
Budget 2001	-1.3	-0.1	0.4	1.1	1.1	1.1
PBR 2001	-1.6	0.3	1.1	1.4	1.2	1.1

¹ Includes windfall tax receipts and associated spending.

² The 2000-01 figures were estimates in Budget 2001.

B5. Table B2 shows five year projections of the current budget surplus and public sector net debt, the key aggregates for assessing performance against the golden rule and the sustainable investment rule respectively. Outturns and projections of other important measures of the public finances, including net borrowing and net worth, are also shown.

B6. The projections show that the Government remains on track to meet the golden rule over the forecast period, with the average surplus on the current budget from 1999-00 projected to be at least 1.1 per cent of GDP throughout the next five years. The current budget balance improved slightly in 2000-01 to a surplus of just over 2½ per cent of GDP. The surpluses are projected to fall temporarily over the short term, mainly reflecting the effects of weaker growth, the impact of the audited assumptions, and weaker financial company profits (these are discussed in more detail below). Over the medium term, stronger economic growth and a return in financial company profits to their long term trend will push the current surplus back towards Budget 2001 levels.

B7. Net borrowing is equal to net investment minus the surplus on the current budget. Public sector net investment is projected to be approximately 1.3 per cent of GDP in 2001-02, implying net borrowing of 0.3 per cent of GDP. The ratio of net investment to GDP is projected to increase steadily to 1.8 per cent of GDP in 2004-05 and remain at that level thereafter. The rapid growth of net investment, in conjunction with the effects of slower economic growth, will result in modest levels of net borrowing over the remainder of the period, consistent with meeting the sustainable investment rule.

Table B2: Summary of public sector finances

	Outturns		Per cent of GDP					
	1999-00	2000-01	2001-02	2002-03	2003-04	Projections		
						2004-05	2005-06	2006-07
Fairness and prudence								
Surplus on current budget	2.3	2.6	1.0	0.3	0.4	0.6	0.7	0.7
Average surplus since 1999-2000	2.3	2.5	2.0	1.6	1.3	1.2	1.1	1.1
Cyclically-adjusted surplus on current budget	2.0	2.3	1.0	0.3	0.3	0.5	0.7	0.7
Long-term sustainability								
Public sector net debt	36.4	31.2	30.7	30.6	31.0	31.1	31.1	31.1
Net worth	14.7	19.5	21.6	21.2	20.8	20.3	19.8	19.5
Primary balance	4.1	4.1	1.6	0.6	0.5	0.7	0.7	0.6
Economic impact								
Net investment	0.5	0.7	1.3	1.4	1.7	1.8	1.8	1.8
Public sector net borrowing (PSNB)	-1.8	-2.0	0.3	1.1	1.3	1.2	1.1	1.1
Cyclically-adjusted PSNB	-1.5	-1.6	0.3	1.1	1.4	1.2	1.1	1.1
Financing								
Central government net cash requirement	-1.0	-3.7	0.6	1.3	1.7	1.3	1.2	1.3
European commitments								
Treaty deficit ¹	-1.7	-2.0	0.2	1.1	1.3	1.1	1.0	1.0
Cyclically-adjusted Treaty deficit ¹	-1.4	-1.7	0.3	1.0	1.3	1.1	1.0	1.0
Treaty debt ratio ²	43.1	39.9	38.1	37.2	37.0	36.8	36.6	36.3
<i>Memo:</i> Output gap	0.3	0.6	-0.1	-0.1	0.2	0.0	0.0	0.0

¹ General government net borrowing on an ESA95 basis.

² General government gross debt.

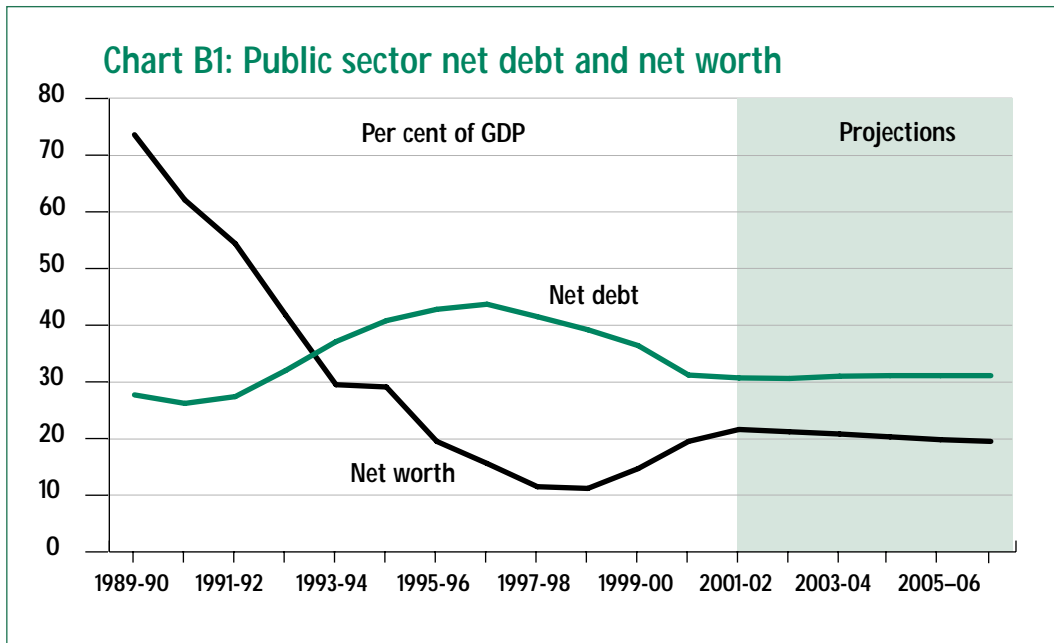
B8. The primary balance is equal to net borrowing excluding net debt interest payments - thus abstracting from the implications of past fiscal deficits. If real interest rates exceed trend GDP growth, a primary surplus is required to stabilise the net debt ratio. The primary balance is projected to be in surplus by 1½ per cent of GDP in 2001-02. Surpluses of between ½ per cent and ¾ per cent of GDP are projected over the next five years.

B9. The central government net cash requirement was a repayment of 3¾ per cent of GDP in 2000-01, higher than expected at Budget 2001. This largely reflects the receipts from the auction of licences to access the electromagnetic spectrum. The net cash requirement is projected to move into deficit from 2001-02 onwards, mirroring the profile of public sector net borrowing. The approximate stock counterpart to the public sector net cash requirement is public sector net debt.

B10. In 1996-97, public sector net debt stood at 44 per cent of GDP. The tough decisions on taxation and spending taken by the Government over the past four years, including the decision to use the proceeds from the auction of spectrum licences to pay off debt, mean that net debt is now projected to be around 31 per cent of GDP in 2001-02, the lowest of all the G7

countries. The net debt-GDP ratio is expected to stabilise at around 31 per cent for the rest of the projected period – well below 40 per cent and comfortably meeting the sustainable investment rule.

B11. The approximate stock counterpart to the current budget balance is public sector net worth. Current budget surpluses of over 2 per cent of GDP a year have begun to raise net worth to an estimated 21½ per cent of GDP in 2001-02. At present, net worth is not used as a key indicator of the public finances, due mainly to the difficulties in measuring accurately many government assets and liabilities.



B12. Table B2 also shows the updated estimates of the cyclically-adjusted current budget and net borrowing as a per cent of GDP. These allow underlying or structural trends in the indicators to be seen more clearly, once the estimated effects of the economic cycle are removed.

B13. The cyclically-adjusted current budget balance has moved from a deficit of over 2 per cent of GDP in 1996-97 to a surplus of over 2 per cent of GDP in 2000-01. As with the unadjusted figures, the strong increases in investment and the global economic slowdown result in reduced surpluses in 2001-02 and 2002-03, before the surpluses return towards Budget levels.

B14. Similarly, cyclically adjusted net borrowing of 3 per cent of GDP in 1996-97 has moved to a repayment of around 1½ per cent in 2000-01 before returning to a modest deficit over the short and medium term, consistent with the sustainable investment rule.

Forecast errors and risks

B15. The fiscal balances represent the difference between two large aggregates of spending and receipts and are inevitably subject to wide margins of forecast error. Over the past five years, the average absolute error (the average error irrespective of whether the errors have been positive or negative) for one-year ahead forecasts of net borrowing has been around 1 per cent of GDP. The error tends to grow as the forecast horizon lengthens. Much of this error arises from forecast errors of GDP.

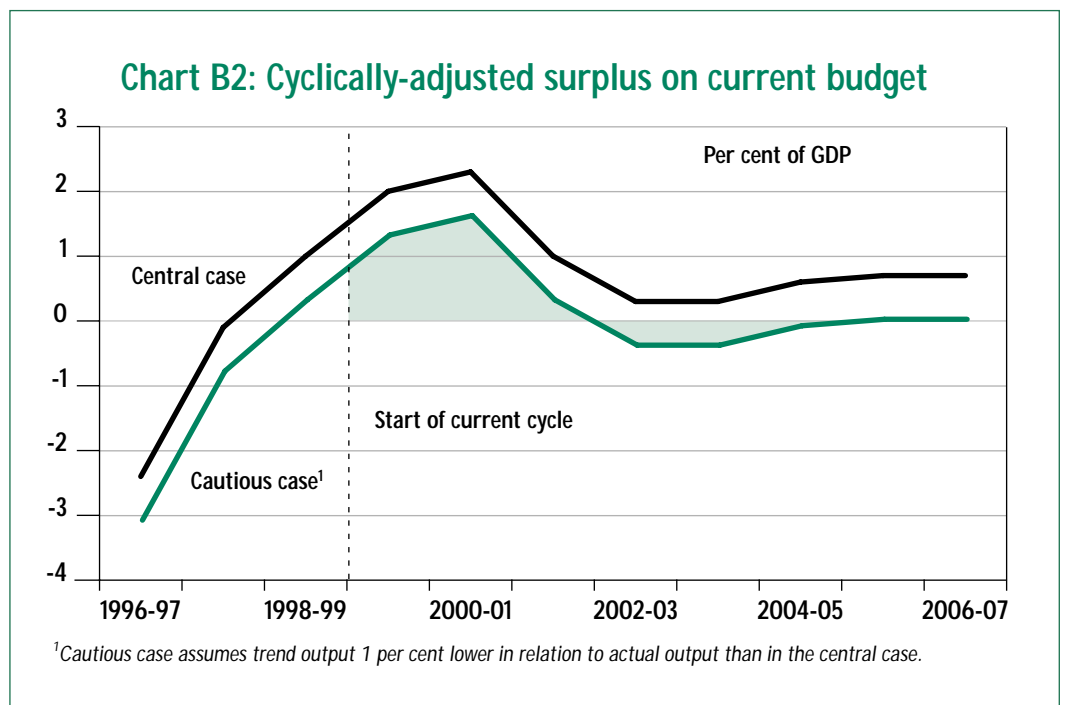
B16. Short-term forecasts of the public finances are critically dependent on the path of the economy, as most tax revenues and some public expenditure – notably social security – vary

directly with the economic cycle. Work published by the Treasury¹ suggests that if GDP growth were 1 percentage point higher or lower than assumed over the coming year, net borrowing might be lower or higher by around 0.4 per cent of GDP in the first year and by a further 0.3 per cent in the following year. Allowing for the reduction in the lag between profits and corporation tax receipts resulting from the introduction of the instalment system (discussed in Box B2), these figures are now closer to 0.5 and 0.2 per cent. However, not all cycles will conform exactly to these parameters, notably because the estimates are based on historical data (since which time both the economy and tax regime have changed) and because cycles differ in respects other than their magnitude.

B17. Errors in short-term growth forecasts may have only a temporary effect on the public finances. For a given path of trend output, higher or lower growth in the short-term will be followed by lower or higher growth later on, and the public finances may be little affected on average over the cycle. However, errors in estimating the cyclical position of the economy in relation to its trend – the output gap – will have a permanent effect on prospects.

B18. For this reason, the public finance projections are deliberately based on assumptions for key economic variables, including the trend rate of growth of the economy in the medium term. These are audited by the National Audit Office (NAO) to ensure they remain both reasonable and cautious. Details of these assumptions are given in Box B1.

B19. In addition, the public finance projections are stress-tested against an alternative cautious case, in which the output gap is assumed to be 1 percentage point higher than the central view. This scenario would imply that a greater proportion of the projected surplus on the current budget was due to the cyclical strength of the economy: a 1 per cent larger positive output gap reduces the structural surplus on the current budget by about $\frac{3}{4}$ per cent of GDP a year. This is illustrated in chart B2. Even in this more cautious case, the cyclically-adjusted current budget is estimated to remain comfortably in surplus over the past 4 years. The impact of the temporary fall in receipts means that it moves into deficit over the short term, before returning to surplus in 2005-06. However, the average cyclically-adjusted current budget is forecast to be in surplus over the economic cycle.



¹ See *Fiscal Policy: Public Finances and the Cycle*, HM Treasury, March 1999.

ASSUMPTIONS

B20. The fiscal projections are based on the following assumptions:

- the economy follows the path described in Annex A. The fiscal projections continue to be based on the deliberately prudent and cautious assumption of trend growth of $2\frac{1}{4}$ per cent a year. The main economic assumptions are summarised in Table B3;
- firm Departmental Expenditure Limits (DELs) as set out in the 2000 Spending Review, adjusted for subsequent changes;
- Annually Managed Expenditure (AME) totals as set out in Budget 2001, adjusted to allow for estimated costs of spending measures announced in the Pre-Budget Report (see Table B4);
- prior to firm spending plans being set in the 2002 Spending Review, current expenditure in DEL is projected to grow by $2\frac{1}{2}$ per cent a year in real terms over 2004-05 and 2005-06 from a baseline excluding capital to resource switches made by the devolved administrations. This is in line with the neutral view of trend. Current expenditure in AME is projected to grow by $1\frac{3}{4}$ per cent a year in real terms, in line with recent trends;
- net investment more than doubles by 2003-04 and is forecast to end the projection period at 1.8 per cent of GDP. This makes a significant contribution toward tackling the historical under-investment while remaining consistent with the sustainable investment rule by ensuring the net debt-GDP ratio remains well below 40 per cent throughout the projection period; and
- there are no tax changes beyond those already announced before or in this Pre-Budget Report (see Table B4) and the indexation of rates and allowances.

Table B3: Economic assumptions for public finance projections

	Percentage changes on previous year						
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Output (GDP)	$2\frac{3}{4}$	2	$2\frac{1}{4}$	$2\frac{1}{2}$	$2\frac{1}{4}$	$2\frac{1}{4}$	$2\frac{1}{4}$
Prices							
RPIX	2	$2\frac{1}{4}$	$2\frac{1}{4}$	$2\frac{1}{2}$	$2\frac{1}{2}$	$2\frac{1}{2}$	$2\frac{1}{2}$
GDP deflator	$1\frac{3}{4}$	$2\frac{1}{2}$	$2\frac{1}{2}$	$2\frac{1}{2}$	$2\frac{1}{2}$	$2\frac{1}{2}$	$2\frac{1}{2}$
RPI ¹ (September)	$3\frac{1}{4}$	$1\frac{3}{4}$	2	$3\frac{1}{4}$	$2\frac{3}{4}$	$2\frac{1}{2}$	$2\frac{1}{2}$
Rossi ² (September)	$1\frac{1}{2}$	$1\frac{3}{4}$	2	2	$2\frac{1}{4}$	$2\frac{1}{4}$	$2\frac{1}{4}$
Money GDP ³ (£ billion)	955	998	1046	1099	1150	1205	1263

¹ Used for revalorising excise duties in current year and uprating income tax allowances and bands and certain social security benefits in the following year.

² RPI excluding housing costs, used for uprating certain social security benefits.

³ Not seasonally adjusted.

B21. The key assumptions underlying the fiscal projections are audited by the NAO under the three-year rolling review. The key assumptions and conventions used for the Budget 2001 public finance projections are unchanged. Details of all the audited assumptions are given in Box B1.

Box B1: Key assumptions audited by the NAO

- **Privatisation proceeds^{1,6}** Credit is taken only for proceeds from sales that have been announced.
- **Trend GDP growth^{1,6}** 2¼ per cent a year.
- **UK claimant unemployment^{1,4,7}** Rising slowly to 1.14 million in 2003-04, from recent levels of 0.95 million, consistent with average of independent forecasts.
- **Interest rates^{1,6,7}** 3-month market rates change in line with market expectations (as of 19 November).
- **Equity prices^{2,7}** FT-All share index rises from 2579 (close 19 November) in line with money GDP.
- **VAT^{2,7}** Ratio of VAT to consumption falls by 0.05 percentage points a year.
- **GDP deflator and RPI^{2,7}** Projections of price indices used to plan public expenditure are consistent with RPIX.
- **Composition of GDP^{3,8}** Shares of labour income and profits in national income are consistent with the public finances forecast and with financing policy.
- **Funding^{3,8}** Funding assumptions used to project debt interest are consistent with the forecast level of government borrowing and with financing policy.
- **Oil prices⁵** \$22.90 a barrel in 2002, the average of independent forecasts, and then constant in real terms.
- **Anti-tobacco smuggling measures⁶** Only direct effects, including deterrent effects of fiscal marks, are allowed for.

¹Audit of Assumptions for the July 1997 Budget Projections, 19 June 1997 (HC3693).

²Audit of Assumptions for the Pre-Budget Report, 25 November 1997 (HC361).

³Audit of Assumptions for the Budget, 19 March 1998 (HC616).

⁴Audit of the Unemployment Assumption for the March 1999 Budget Projections, 9 March 1999 (HC294).

⁵Audit of the Oil Price Assumption for the Pre-Budget Report, November 1999 (HC873).

⁶Audit of Assumptions for the March 2000 Budget, 21 March 2000 (HC348).

⁷Audit of Assumptions for the Pre-Budget 2000 Report (HC959).

⁸Audit of Assumptions for the March 2001 Budget, 7 March 2001 (HC304).

PRE-BUDGET REPORT MEASURES

B22. The impact on the fiscal projections of measures announced since Budget 2001 and in this Pre-Budget Report are set out in table B4. In line with the convention adopted in previous Pre-Budget Reports, expenditure measures in AME for future years have been added to total AME, while measures in the current year have been deducted from the AME margin. In 2002-03, lower debt interest payments have enabled £1 billion to be reallocated from AME to resource DEL to fund additional spending on health. Changes to the forecast for individual AME programmes have otherwise been offset in the AME margin. The interim forecast shows that the AME margin is now expected to be around £0.2 billion in 2001-02, £1.2 billion in 2002-03, and £1.5 billion in 2003-04 (see table B13).

B23. Consistent with the requirements of the *Code for Fiscal Stability*, the forecast does not take account of:

- measures proposed in the Pre-Budget Report for further consultation in the run up to Budget 2002, including the research and development (R&D) tax credit for large companies; and
- other proposals where final decisions on rates have yet to be taken; these include the Working Tax Credit and the Child Tax Credit.

Table B4: Estimated costs for Pre-Budget Report measures and other measures announced since Budget 2001

	(+ve is an Exchequer yield) £ million			
	2001-02	2002-03	2003-04	2004-05
Total	-345	-415	-1710	-2795
Measures announced since Budget 2001				
Change CGT business assets taper relief	0	-10	-20	-40
Forex and Corporate Debt - measures introduced in July 2001	90	160	150	150
Remove Crown's preferential right to recover unpaid taxes	0	-35	-70	-70
Removal of automatic VAT fines for small businesses	*	*	*	*
Winter fuel payments increased to £200 for 2001-02	-435	0	0	0
Total measures announced since Budget 2001	-345	115	60	40
Measures announced in the Pre-Budget Report				
Increased limit for EMI to £30 million	0	-25	-30	-40
VAT: reform of annual accounting system	0	*	*	*
Implementation of VAT flat rate scheme for small businesses	0	-25	-25	-25
Freeze of Class 2 NICs rates	0	-5	-5	-5
Introduction of Pension Credit	0	0	-975	-2025
Guaranteed increase in basic state pension	0	0	-225	-225
Winter fuel payments increased to £200 for 2002-03 and beyond	0	-435	-440	-445
Disability measures	0	-30	-65	-70
Reform of Pools Betting Duty	0	-5	-5	-5
Green Fuels Challenge – pilot schemes	0	*	*	*
Aggregates levy – special arrangements in Northern Ireland	0	-10	-10	-10
Total Pre-Budget Report measures	0	-535	-1780	-2850
Additional PBR policy decisions				
Additional health spending in DEL	0	-1000	0	0
Reallocation from AME	0	1000	0	0

* Negligible.

FISCAL AGGREGATES

B24. Tables B5 and B6 provide more detail on the projections for the current and capital budgets. The tables show the current surplus and net borrowing, both including and excluding windfall tax and associated spending. Windfall tax and associated spending now has much less impact and, unless otherwise stated, all the projections in this annex now cover all public expenditure. Latest estimates of associated spending are given in Table 4.1.

Table B5: Current and capital budgets

	£ billion						
	Outturn		Projections				
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Current budget							
Current receipts	382.2	391.2	406	430	452	474	497
Current expenditure	344.5	367.6	389	411	430	450	471
Depreciation	12.7	13.2	14	15	15	16	17
Surplus on current budget (excluding WTAS ¹)	25.6	11.1	4	4	7	8	9
Surplus on current budget	25.1	10.3	3	4	7	8	9
Capital budget							
Gross investment	23.5	29.8	33	37	39	41	43
less asset sales	-4.5	-3.8	-4	-4	-4	-4	-4
less depreciation	-12.7	-13.2	-14	-15	-15	-16	-17
Net investment	6.3	12.9	15	19	20	22	23
Net borrowing (excluding WTAS ¹)	-20.1	1.4	11	14	13	13	13
Net borrowing	-18.8	2.5	12	15	13	13	13
Public sector net debt – end year	306.0	312.7	328	348	366	384	402
<i>Memos:</i>							
Treaty deficit ²	-19.6	1.9	11	14	12	13	12
Treaty debt ³	381.0	380.0	390	406	424	441	459

¹ Windfall tax receipts and associated spending.

² General government net borrowing on an ESA95 basis.

³ General government gross debt.

B25. The current budget surplus in 2001-02 is estimated to be £10.3 billion. Net investment is estimated to be £13 billion, resulting in net borrowing of £3 billion. The current budget surplus is projected to fall in 2002-03 to a surplus of £2.5 billion. Net investment rises to £15 billion, which increases net borrowing to £12 billion in 2002-03.

B26. Significant repayments of net borrowing over the last three years have resulted in a declining net debt-GDP ratio. Public sector net debt is projected to fall again in 2001-02 to 30³/₄ per cent of GDP from 31¹/₄ per cent of GDP in 2000-01. The net debt-GDP ratio rises to a sustainable level of around 31 per cent by the end of the projection period, well below the 40 per cent guideline set by the sustainable investment rule.

B27. Table B6 shows the Treaty measures of the deficit and debt used in the Excessive Deficits Procedure of the Treaty. The reference levels of 3 per cent of GDP for the deficit and 60 per cent of GDP for debt are achieved comfortably throughout the projection period.

Table B6: Current and capital budgets

	Per cent of GDP						
	Outturn				Projections		
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Current budget							
Current receipts	40.0	39.2	38.8	39.1	39.3	39.4	39.3
Current expenditure	36.1	36.8	37.2	37.4	37.4	37.4	37.3
Depreciation	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Surplus on current budget (excluding WTAS ¹)	2.7	1.1	0.3	0.4	0.6	0.7	0.7
Surplus on current budget	2.6	1.0	0.3	0.4	0.6	0.7	0.7
Capital budget							
Gross investment	2.5	3.0	3.1	3.4	3.4	3.4	3.4
less asset sales	-0.5	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3
less depreciation	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	1.3
Net investment	0.7	1.3	1.4	1.7	1.8	1.8	1.8
Net borrowing (excluding WTAS ¹)	-2.1	0.1	1.1	1.3	1.2	1.1	1.1
Net borrowing	-2.0	0.3	1.1	1.3	1.2	1.1	1.1
Public sector net debt							
– end year	31.2	30.7	30.6	31.0	31.1	31.1	31.1
<i>Memos:</i>							
Treaty deficit ²	-2.0	0.2	1.1	1.3	1.1	1.0	1.0
Treaty debt ratio ³	39.9	38.1	37.2	37.0	36.8	36.6	36.3

¹ Windfall tax receipts and associated spending.

² General government net borrowing on an ESA95 basis.

³ General government gross debt.

B28. Table B7 sets out the effects of forecasting changes, Pre-Budget Report measures and other discretionary changes since the Budget on the main fiscal aggregates. The table gives a further breakdown of the large forecasting changes to receipts.

B29. The latest available outturn information for 2000-01 shows current receipts £1 billion lower than estimated in Budget 2001. However, this was more than offset by lower spending so that the surplus on the current budget was £2³/₄ billion higher, and net borrowing £3³/₄ billion lower than the Budget forecast.

Table B7: Fiscal balances compared with Budget 2001

	Outturn ¹		Projections			
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Fiscal balances (£ billion)						
Surplus on current budget						
Budget 2001	22.3	15.9	14	8	9	9
Effects on receipts of:						
Revisions and forecasting changes	-1.0	-7.3	-10	-3	-1	1
<i>of which:</i>						
changes to GDP	0	-0.8	-2	0	0	1
changes to equity prices	0	-0.7	-2	-2	-2	-2
changes to other audited assumptions	0	-0.8	-2	-2	-1	-1
changes to financial company profits	0	-3.1	-2	0	1	2
other	-1.0	-2.0	-1	1	1	1
Policy measures since Budget 2001	-	0.1	0	0	0	0
Effects on spending of:						
Revisions and forecasting changes	3.7	2.1	-1	0	1	1
Policy measures since Budget 2001	-	-0.4	0	-2	-3	-3
PBR 2001	25.1	10.3	3	4	7	8
Net borrowing						
Budget 2001	-15.0	-4.7	2	10	11	12
Effects on receipts of:						
Revisions and forecasting changes	1.0	7.3	10	3	1	-1
<i>of which:</i>						
changes to GDP	0	0.8	2	0	0	-1
changes to equity prices	0	0.7	2	2	2	2
changes to other audited assumptions	0	0.8	2	2	1	1
changes to financial company profits	0	3.1	2	0	-1	-2
other	1.0	2.0	1	-1	-1	-1
Policy measures since Budget 2001	-	-0.1	0	0	0	0
Effects on spending of:						
Revisions and forecasting changes	-4.8	-0.5	0	0	-1	-1
Policy measures since Budget 2001	-	0.4	0	2	3	3
PBR 2001	-18.8	2.5	12	15	13	13
Cyclically-adjusted budget balances (per cent of GDP)						
Surplus on current budget – Budget 2001	2.0	1.2	1.0	0.6	0.7	0.7
Surplus on current budget – PBR 2001	2.3	1.0	0.3	0.3	0.5	0.7

¹ The 2000-01 figures were estimates in Budget 2001.

B30. The current surplus for 2001-02 onwards is much lower than in Budget 2001, mainly because of forecasting changes to receipts. Further details of these changes are given in the next section. Net borrowing is also adversely affected by the forecasting changes to receipts.

B31. There are no forecasting changes to total spending during the 2000 Spending Review period. However, the split between current and capital expenditure changes and as a result of the different assumptions made about current and capital spending after 2003-04 (see paragraph B20) total expenditure then is slightly higher than in the Budget.

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B32. Changes to the projections of the main taxes since the Budget are shown in Table B8. Table B9 gives projections of receipts as a percentage of GDP and Table B10 sets out the Budget and Pre-Budget Report projections of the overall tax-GDP ratio. A more detailed breakdown of receipts is given in Table B11, while Table B12 looks in more detail at the changes for receipts between 2000-01 and 2001-02.

Table B8: Changes in current receipts since Budget 2001

	£ billion		
	2000-01	2001-02	2002-03
Income tax (gross of tax credits)	-0.8	-1.9	-1.9
Non-North Sea corporation tax ¹	0.3	-4.3	-4.0
Tax credits ²	-0.3	-0.2	-0.4
North Sea revenues	-0.5	-0.5	-0.7
Capital taxes ³	0.3	0.5	-0.1
Stamp duty	0.0	-0.6	-0.9
Value added tax	-0.5	0.0	-0.2
Excise duties ⁴	-0.2	0.0	-0.1
Social security contributions	0.6	1.6	1.0
Other taxes and royalties ⁵	0.5	0.3	0.6
Net taxes and social security contributions	-0.5	-4.9	-6.7
Other receipts and accounting adjustments	-0.5	-2.4	-3.2
Current receipts	-1.0	-7.2	-9.9

¹ Gross of company tax credits.

² Includes company tax credits.

³ Capital gains tax and inheritance tax.

⁴ Fuel, alcohol and tobacco duties.

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

B33. As shown in Table B8, total receipts in 2001-02 are now expected to be around £7 billion lower than in Budget 2001. This means that current receipts are now expected to grow by 2 per cent, compared with 4 per cent in Budget 2001.

B34. The estimated effect of changes since Budget 2001 to the assumptions for GDP and its components is shown in Table B7. These changes account for around £1 billion of the drop in receipts in 2001-02 and £2 billion in 2002-03. Although economic growth in 2003 is expected to be higher than in Budget 2001, the cumulative effect on levels of the main tax bases (wages and salaries, industrial and commercial company profits and consumers' expenditure) is such that the effect on tax receipts in 2003-04 is still negative. However, the impact of the economic forecast means that receipts are expected to be slightly higher at the end of the projection period, consistent with a higher level of money GDP. The main taxes affected by these changes are income tax, corporation tax and VAT.

B35. Changes to some of the other assumptions have large effects on tax receipts. In particular, equity price levels are important determinants of capital taxes, stamp duty and corporation tax, mainly because of the effect on the capital gains of life insurance companies. The audited assumption that underpins the current projections is that equity prices increase in line with money GDP from the existing level of the FT – All Share Index – in this case 2579. Compared with the Budget 2001 starting point of 2902, this means that equity prices are about 14 per cent lower in the current forecast. This reduces receipts by about £½ billion in 2001-02 and by around £2 billion from 2002-03 onwards, due to the lags in the payments of capital taxes.

B36. Changes in other assumptions audited by the NAO also have a significant impact on receipts, particularly in the early years. Oil prices are \$1.7 a barrel lower than at the time of Budget 2001, reducing receipts by about £½ billion a year throughout the period. Much of the change in the “other audited assumptions” line of Table B7 is explained by lower market expectations of 3 month market interest rates than in Budget 2001. This has an impact on income tax deducted at source from bank and building society interest payments and, with a lag, on the extra tax paid on interest income by higher rate taxpayers. It also has a large impact on non-tax receipts of the public sector, such as interest receipts.

B37. As discussed in Box B2, corporation tax receipts in 2001-02 are expected to be £4½ billion lower than in the Budget projections. Some of this reflects changes in the tax paid by industrial and commercial companies, largely due to changes in the economy. This element is included in the GDP line of Table B7. However, much of the fall in receipts is due to a fall in the taxable profits of financial companies. This is not directly reflected in forecasts for GDP. The “financial companies” line in Table B7 shows the impact on the fiscal balances of the reduction in corporation tax receipts due to the lower assumption about financial company profits. This excludes life insurance companies, whose profits forecast is based on equity prices. The “financial companies” line also includes falls in income tax because of changes stemming from lower bonuses paid by financial companies to their employees. These have recently had a substantial impact on PAYE receipts.

Table B9: Current receipts

	Per cent of GDP						
	Outturn 2000-01	2001-02	2002-03	2003-04	Projections 2004-05 2005-06 2006-07		
Income tax (gross of tax credits)	11.1	11.0	11.1	11.3	11.4	11.5	11.7
Non-North Sea corporation tax ¹	3.2	3.0	3.0	3.2	3.3	3.4	3.4
Tax credits ²	-0.5	-0.8	-0.9	-0.8	-0.8	-0.8	-0.8
<i>of which:</i>							
<i>Working Families' Tax Credit</i> ³	-0.5	-0.6	-0.6	-0.6	-0.5	-0.5	-0.5
North Sea revenues ⁴	0.4	0.5	0.5	0.5	0.4	0.4	0.3
Value added tax	6.1	6.1	6.1	6.0	6.0	6.0	5.9
Excise duties ⁵	3.9	3.7	3.6	3.5	3.5	3.4	3.3
Social security contributions	6.3	6.4	6.3	6.2	6.2	6.2	6.2
Other taxes and royalties ⁶	6.8	6.7	6.6	6.6	6.7	6.7	6.7
Net taxes and social security contributions ⁷	37.3	36.8	36.4	36.4	36.6	36.7	36.8
Accruals adjustments on taxes less EU transfers	0.2	0.0	0.0	0.1	0.1	0.1	0.1
Tax credits ⁸	-0.7	-0.6	-0.5	-0.4	-0.4	-0.4	-0.4
Other receipts	0.5	0.6	0.6	0.6	0.6	0.5	0.5
Current receipts ⁹	2.6	2.4	2.3	2.4	2.4	2.3	2.3
<i>Memo:</i>							
Current receipts (£bn)	40.0	39.2	38.8	39.1	39.3	39.4	39.3
	382.2	391.2	406	430	452	474	497

¹ Gross of company tax credits.

² Includes company tax credits.

³ The Working Families' Tax Credit will be replaced in 2003 by a new system of tax credits.

⁴ Includes oil royalties, petroleum revenue tax and North Sea corporation tax.

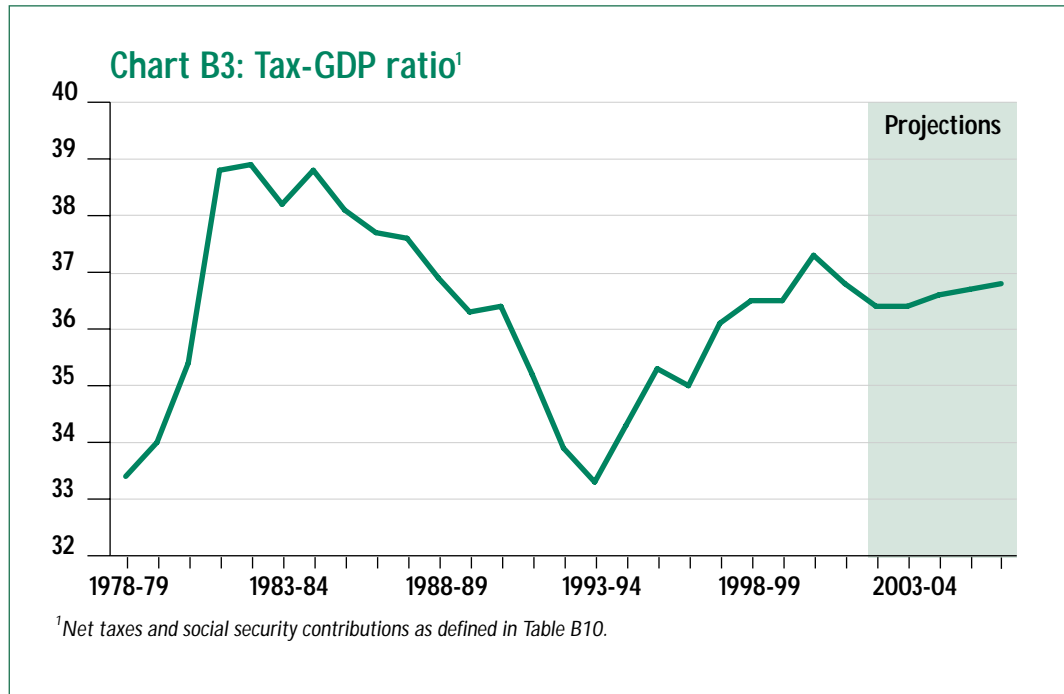
⁵ Fuel, alcohol and tobacco duties.

⁶ Includes Council Tax and money paid into the National Lottery Distribution Fund, as well as other central government taxes.

⁷ Includes VAT and 'own resources' contributions to EU budget. Net of income tax credits. Cash basis.

⁸ Excludes Children's Tax Credit, and other tax credits which score as a tax repayment in the national accounts.

⁹ Accruals basis.



Total taxes B38. The remaining changes to receipts cover a wide variety of different changes to the forecasts for individual taxes. Many reflect the effects of outturn data.

B39. Table B10 and Chart B3 show the tax-GDP ratio, measured as net taxes and social security contributions as a percentage of GDP. The revision to the tax-GDP ratio in 2000-01 largely reflects upward GDP data revisions which also feed through in later years. The lower levels of tax receipts now expected in 2001-02 and 2002-03 lead to larger falls in the ratio than in the Budget 2001 projections.

Table B10: Net taxes and social security contributions¹

	Per cent of GDP						
	Outturn ²		Projections				
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Budget 2001	37.7	37.5	37.3	37.0	37.0	37.0	
PBR 2001	37.3	36.8	36.4	36.4	36.6	36.7	36.8

¹ Net of tax credits: cash basis.

² The 2000-01 figures were estimates in Budget 2001.

Income tax B40. Income tax receipts in 2001-02 are expected to be around £110 billion, almost £2 billion lower than forecast in the Budget. Around half of this shortfall relates to revisions to the data for last year, including a reallocation from income tax to capital gains tax (both of which are collected under self assessment).

B41. The majority of the remaining shortfall in 2001-02 relates to bonuses. At the time of the Budget it was not possible to give a full explanation for the high levels of income tax receipts observed in 1999-00 and 2000-01. It is now apparent that a large proportion of these additional receipts were related to bonus payments made by financial companies, particularly to people at the top of the earnings distribution, increasing the average rate of tax paid on these earnings. In the Budget forecast, PAYE receipts from bonus payments were assumed to continue at 2000-01 levels. However, the decline in financial sector profits, evidenced by lower than expected corporation tax receipts from that sector (see Box B2) suggests that lower bonuses are likely in 2001-02. The PAYE forecast includes an allowance of

Box B2: Corporation tax receipts in 2001-02

The timing of corporation tax receipts in recent years has been heavily influenced by the reforms announced in Budget 1998, which abolished advance corporation tax, introduced a four-year transition to instalment payments for large companies, and cut tax rates.

Small and medium-sized companies should now pay all their tax liability for an accounting period nine months after the end of that period. Large companies now pay most of their tax in four quarterly instalments, based on their own estimates of their tax liability for the period, starting in the seventh month of the accounting period. They pay a fixed percentage of the estimated liability for the year in each instalment. During the transition period, they will also make a balancing payment nine months after the end of their accounting period. The percentages are:

Year 1 ¹	4 instalments of 15 per cent; balancing payment 40 per cent
Year 2	4 instalments of 18 per cent; balancing payment 28 per cent
Year 3	4 instalments of 22 per cent; balancing payment 12 per cent
Year 4 +	4 instalments of 25 per cent

One result of the new system is that tax payments respond much more quickly to changes in companies' views of their profits and tax liabilities. Large companies with calendar year accounting periods paid their first instalment in respect of their 2001 profits in July 2001, and their second in October. These instalments were expected to show growth of about 30 per cent on the corresponding payments for last year in the Budget 2001 forecast, partly because of the increase in the instalment percentage and partly from profits growth. But actual receipts of instalments this year have shown only modest growth on last year, implying that companies are expecting lower tax liabilities this year than last.

Repayments of corporation tax have also been much higher than expected in the first seven months of the year. By contrast, small company payments have been higher than forecast in the Budget.

As a result of the lower than expected level of net receipts in the first seven months of the year, receipts in 2001-02 as a whole are now expected to be about £4½ billion lower than in the Budget forecast.

1. Year 1 is accounting period ending on or after 1 July 1999.

around £1 billion for the impact of lower bonuses, although this is subject to a high degree of uncertainty. Consistent with the projections for financial company profits, the bonuses are expected to recover later in the forecast period, and to make a small positive contribution to PAYE receipts, relative to the Budget forecast, from 2004-05 onwards.

B42. Self assessment receipts are expected to be slightly weaker than forecast in the Budget until 2004-05, reflecting lower interest rate projections and lower growth in self employment incomes. Other income tax receipts are expected to be somewhat lower in 2002-03 and 2003-04, before returning towards the levels forecast in the Budget. The main factors determining this profile are lower interest rates and recent outturns.

Non-North Sea corporation tax

B43. Non-North Sea corporation tax in 2001-02 is expected to be around £4¼ billion below the Budget forecast. Forecast receipts from industrial and commercial companies are driven mainly by their projected profits. Projected profits growth in 2001-02 and 2002-03 is lower than in the Budget, while growth in 2003-04 is higher. Higher levels of tax losses brought forward slow the recovery in corporation tax receipts, but by 2005-06, receipts from both small companies and instalment payers are similar to the levels projected in the Budget.

B44. The Pre-Budget Report forecast assumes that, apart from life insurance companies, the fall in financial company taxable profits implied by their instalment payments this year is temporary, and that profits recover in 2002 and 2003. From 2004 onwards, financial companies taxable profits are assumed to grow slightly faster than money GDP as profits return to a cautious view of their long-term trend. In addition, financial companies' 1999 assessments showed significantly lower levels of deductions against income than assumed in the Budget. Projecting this outturn forward implies higher tax yields for a given level of taxable profits. Hence, receipts from financial companies are forecast to recover to around their Budget levels in 2003-04, and to exceed them slightly in later years.

B45. Life insurance companies' profits are highly dependent on asset prices. The much lower starting point for the audited assumption for equity prices leads to much lower receipts throughout the forecast period.

North Sea revenues **B47.** North Sea revenues are expected to be £ $1\frac{1}{2}$ - $\frac{3}{4}$ billion a year lower than forecast in the Budget projections between 2001-02 and 2003-04. This mainly reflects a reduction in the oil price forecast relative to the Budget of around 6 per cent from 2002-03 onwards.

Capital taxes **B48.** As described in paragraph B5, capital taxes receipts are much lower than Budget projections because of the lower equity price assumption. The 2000-01 outturn for capital gains tax was £3.2 billion – around £0.3 billion higher than forecast in the Budget, reflecting the reallocation from income tax referred to in paragraph B40. Receipts are expected to fall slightly in 2001-02 reflecting the taper reforms introduced in Budget 2000. For 2002-03, a larger reduction to £ $1\frac{3}{4}$ billion is now forecast, arising in part from the maturing of the taper, but also from the sharp fall in equity prices in 2001-02 which impacts on receipts a year later. Inheritance tax receipts for 2000-01 were £2.2 billion, as forecast in the Budget. However, recent outturns have been higher than predicted, resulting in a forecast for 2001-02 of around £ $2\frac{1}{2}$ billion.

Stamp duty **B49.** The outturn for stamp duty receipts in 2000-01 was £ $8\frac{1}{4}$ billion, the same as the Budget forecast. However, 2001-02 receipts are now expected to be £ $7\frac{1}{2}$ billion – over £ $\frac{1}{2}$ billion lower than the Budget forecast – as the reduction in equity prices and volumes more than offsets higher than anticipated house prices. Following this, modest increases in receipts in subsequent years are forecast, though these are much lower than the Budget, mainly because of the lower equity price assumption.

- VAT receipts** **B50.** VAT receipts in 2001-02 are expected to be broadly in line with the Budget forecast. The forecast of VAT revenues in later years continues to be governed by the NAO audited assumption that, after allowing for the effects of VAT measures, the ratio of VAT receipts to consumer spending declines gradually, by 0.05 percentage points a year. This assumption, combined with the Pre-Budget Report forecast of reduced growth in consumers' expenditure from 2002, means that VAT receipts fall from their Budget levels by around £¼ billion in 2002-03.
- Excise duties** **B51.** Excise duties in 2001-02 are expected to be slightly lower than forecast in the Budget. Although actual receipts for tobacco and road fuel duties were significantly weaker in the first half of 2001-02 than in 2000-01 (see table B12), they are expected to recover during the remainder of the year. The introduction of anti-forestalling measures in March 2001 means that receipts are much more evenly spread across the year, boosting receipts in the latter half relative to earlier years. Similarly, road fuel receipts in the latter half of 2000-01 were unusually low because of the negative forestalling associated with the Budget 2001 duty cuts. The current forecast assumes that duties will be increased in line with inflation, and that taxable quantities released in March will return to normal levels. However, weaker than expected outturn receipts have resulted in lower full year forecasts for road fuels.
- Other indirect taxes** **B52.** Revised assumptions about the timing of CCL payments have reduced the first year 2001-02 cash forecast by around £¼ billion. Forecasts for future years' receipts have been left unchanged and these will be reviewed for the Budget in the light of latest outturns for this new tax. The events of 11 September have also reduced air passenger duty revenues, although there remains considerable uncertainty as to how long receipts will be affected by the current downturn in passenger numbers.

Table B11: Current receipts

	£ billion		
	Outturn 2000-01	Projections 2001-02	2002-03
<i>Inland Revenue</i>			
Income tax (gross of tax credits)	105.9	109.7	116.1
Corporation tax ¹	32.4	33.3	35.0
Tax credits	-5.2	-7.6	-9.0
Petroleum revenue tax	1.5	1.4	1.4
Capital gains tax	3.2	2.9	1.8
Inheritance tax	2.2	2.4	2.5
Stamp duties	8.2	7.4	7.7
Social security contributions	60.6	64.3	65.7
Total Inland Revenue (net of tax credits)	208.9	213.8	221.1
<i>Customs and Excise</i>			
Value added tax	58.5	61.3	63.7
Fuel duties	22.6	22.2	23.0
Tobacco duties	7.6	7.8	7.7
Spirits duties	1.8	1.9	2.0
Wine duties	1.8	2.0	2.0
Beer and cider duties	3.0	3.0	3.1
Betting and gaming duties	1.5	1.4	1.3
Air passenger duty	1.0	0.8	0.8
Insurance premium tax	1.7	1.8	1.8
Landfill tax	0.5	0.5	0.5
Climate change levy	0.0	0.6	1.0
Aggregates levy	0.0	0.0	0.2
Customs duties and levies	2.1	2.1	2.3
Total Customs and Excise	102.2	105.4	109.6
Vehicle excise duties	4.5	4.5	4.7
Oil royalties	0.5	0.5	0.5
Business rates ²	17.3	18.1	18.4
Council tax	14.2	14.8	15.8
Other taxes and royalties ³	9.0	9.6	10.3
Net taxes and social security contributions⁴	356.5	366.7	380.4
Accrual adjustments on taxes	2.3	0.3	0.2
less own resources contribution to EU budget	-6.3	-5.8	-5.4
less PC corporation tax payments	-0.1	-0.1	-0.2
Tax credits ⁵	5.2	6.1	6.5
Interest and dividends	5.8	4.3	4.0
Other receipts	19.0	19.7	20.7
Current receipts	382.2	391.2	406.2
<i>Memo:</i>			
North Sea revenues ⁶	4.3	5.4	5.2

¹ Includes advance corporation tax (net of repayments):

Also includes North Sea corporation tax after ACT set off, and corporation tax on gains.

Gross of R&D tax credit (zero in 2000-01, £0.1 billion in 2001-02) and tax credit for cleaning contaminated land sites (£50 million in 2001-02) which are scored within the tax credits line.

² Includes district council rates in Northern Ireland paid by business.

³ Includes money paid into the National Lottery Distribution Fund.

⁴ Includes VAT and 'traditional own resources' contributions to EU budget. Net of tax credits. Cash basis.

⁵ Excludes Children's Tax Credit, and other tax credits which score as a tax repayment in the national accounts.

⁶ Consists of North Sea corporation tax (before ACT set-off), petroleum revenue tax and royalties.

Table B12: Net taxes and social security contributions

	£ billion			Percentage change on 2000–01		
	Outturn ¹			Outturn		
	Apr–Oct	Nov–Mar	2001–02	Apr–Oct	Nov–Mar	Full year
<i>Inland Revenue</i>						
Income tax and capital gains tax ²	56.9	48.3	105.2	3.9	–1.9	1.2
Corporation tax ³	23.2	9.9	33.1	6.5	–6.8	2.2
Petroleum revenue tax	0.9	0.5	1.4	0.6	–20.6	–8.4
Inheritance tax	1.4	1.0	2.4	7.1	11.6	8.9
Stamp duties	4.4	3.0	7.4	–11.9	–5.0	–9.2
Social security contributions	36.8	27.4	64.3	7.3	4.3	6.0
Total Inland Revenue (net of tax credits)	123.7	90.1	213.8	14.4	–10.7	2.3
<i>Customs and Excise</i>						
Value added tax	36.0	25.3	61.3	5.1	4.5	4.8
Fuel duties	12.9	9.4	22.2	–3.2	0.4	–1.7
Tobacco duties	4.6	3.2	7.8	–4.3	11.6	1.6
Alcohol duties	3.9	3.0	6.9	3.6	3.4	3.5
Other Customs duties and levies	4.1	3.0	7.1	5.7	6.8	6.2
Total Customs and Excise	61.5	43.8	105.4	2.4	4.1	3.1
Vehicle excise duties	2.7	1.8	4.5	–5.5	14.9	1.9
Oil royalties	0.3	0.3	0.5	7.5	6.3	6.9
Business rates ³	11.3	6.8	18.1	–1.6	16.2	4.5
Council tax ⁴	9.9	4.9	14.8	6.5	1.3	4.7
Other taxes and royalties ⁴	5.4	4.2	9.6	3.4	12.3	7.1
Net taxes and social security contributions⁵	214.8	151.9	366.7	3.6	1.8	2.9

¹ Provisional.

² Net of income tax credits.

³ Net of company tax credits.

⁴ Includes money paid into the National Lottery Distribution fund.

⁵ Includes VAT and 'traditional own resources' contributions to EU budget. Net of income tax credits. Cash basis.

PUBLIC EXPENDITURE

B53. Table B13 shows projections for public expenditure for the three years covered by the 2000 Spending Review. The projections cover the whole public sector using the aggregate Total Managed Expenditure (TME). As explained in Chapter 6, TME is split into DEL and AME.

Table B13: Total Managed Expenditure 2000-01 to 2003-04

	£ billion			
	Outturn 2000-01	2001-02	Projections 2002-03	2003-04
Departmental Expenditure Limits				
Resource Budget	170.8	187.6	201.3	211.9
Capital Budget	20.1	24.9	28.3	33.2
Total Departmental Expenditure Limits	190.9	212.5	229.6	245.1
Annually Managed Expenditure				
Departmental AME				
Social Security Benefits	99.2	105.5	109.3	115.1
Housing Revenue Account subsidies	3.2	4.6	4.4	4.2
Common Agricultural Policy	2.7	4.5	2.7	2.8
Export Credits Guarantee Department	1.2	0.9	0.6	0.6
Self-financing public corporations capital expenditure	1.4	1.1	1.3	1.1
Net public service pensions	4.9	5.3	5.4	5.8
National Lottery	1.9	2.1	2.2	2.3
Other programme expenditure	0.2	0.2	0.0	-0.1
<i>Non-cash items:</i>				
Depreciation	7.1	8.1	9.1	9.6
Cost of capital charges	13.9	13.6	14.1	14.6
Provisions and other charges	4.9	-0.2	1.8	2.2
Total departmental AME¹	140.4	145.6	151.0	158.1
Other AME:				
Net payments to EC institutions ²	3.7	0.7	2.1	2.3
Locally financed expenditure	18.3	19.3	20.2	21.2
Central government gross debt interest ³	26.1	22.2	21.4	23.2
Accounting and other adjustments	-15.9	-6.9	-7.3	-7.1
Total other AME	32.2	35.4	36.4	39.6
AME Margin	0.0	0.2	1.2	1.5
Annually Managed Expenditure	172.6	181.1	188.7	199.2
Total Managed Expenditure	363.5	393.7	418.2	444.3
of which:				
Public sector current expenditure	344.5	367.6	389.4	411.1
Public sector net investment	6.3	12.9	14.8	18.6
Public sector depreciation	12.7	13.2	14.0	14.6

¹ Including non-cash items.

² Net payments to EC institutions exclude the UK's contribution to the cost of EC aid to non-member states (which is attributed to the aid programme). Net payments therefore differ from the UK's net contribution to the EC budget, latest estimates for which are (in £ billion):

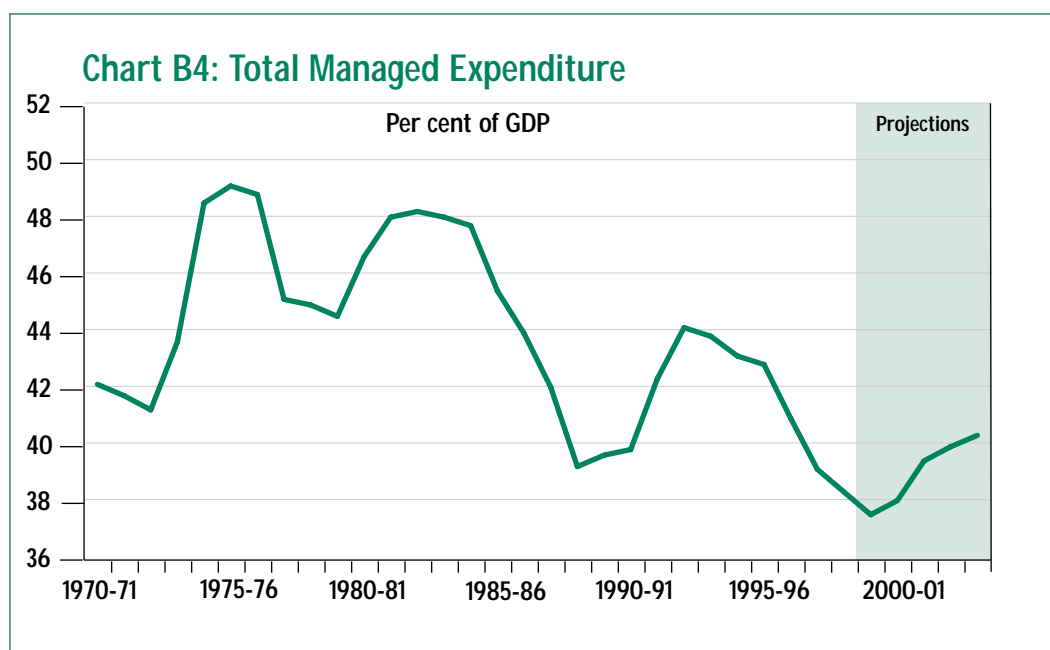
2000-01	2001-02	2002-03	2003-04
4.3	1.4	3.0	3.2

The trended forecast for 2001-02 is £3.1 billion

³ In Budget 2001, and previous documents, central government gross debt interest was defined as payments gross of payments to public corporations. In line with changes introduced in the 2001 National Accounts these are now stated net of payments to public corporations. Payments from central government to public corporations are now recorded in the adjustments for public corporations line in the accounting adjustments (see Table B15). Debt interest payments on a net basis are around £0.4 billion a year lower than on a gross basis.

B54. The Pre-Budget Report is an interim report on the public finances. For this purpose, in line with the usual convention, TME has been increased in future years to accommodate the Pension Credit and other AME measures, by £0.5 billion in 2002-03 and £1.7 billion in 2003-04, but otherwise remains unchanged. Within the total for TME in 2002-03 £1 billion has been

reallocated from lower debt interest payments in AME to resource DEL to fund additional spending on health. The overall total for DEL is assumed to be fully spent. Within that total, to cover End Year Flexibility drawdown so far, there is an allowance for shortfall. It is assumed that over the year underspends will offset the drawdown of End Year Flexibility. Forecasts of individual AME programmes have been reviewed for this Pre-Budget Report and any changes have been offset in the margin. Again, in line with the convention, the additions to the winter fuel payment in the current year have been deducted from the margin.



B55. The main economic assumptions underpinning the AME projections are set out in Table B3. In particular, they assume that UK claimant unemployment will increase slightly from the recent level of 0.95 million (the average of the three months ending in October) to 1.14 million in 2003-04, in line with the average of independent forecasts (see Box B1).

B56. Table B14 shows changes to DEL and AME, and the main national accounts expenditure aggregates, since the Budget. Total DEL spending for 2000-01 was £3.4 billion lower than estimated at the Budget. Total AME expenditure in 2000-01 was £1.4 billion lower than at the Budget, though the outturn figure is provisional and subject to revision. From 2001-02, total DEL remains unchanged since the Budget with the following exceptions: the £1 billion reallocated to health in 2002-03; some relatively small classification changes between DEL and AME which have no effect on overall TME; and some transfers from capital DEL to resource DEL, mainly for the devolved administrations in Scotland and Wales.

B57. Total AME for 2001-02, excluding the AME margin, is £0.8 billion higher than in Budget 2001, reducing the margin to just £0.2 billion. This change is due to a number of factors, of which the main one is the inclusion in AME of estimated costs arising from Foot and Mouth disease of around £2 billion. Estimates of these costs were not available at the time of the Budget and it was expected that they would be met from the AME margin. Offsetting the costs of Foot and Mouth disease, net payments to EC institutions were £2 billion lower than expected, of which £0.2 billion relates to compensation from the EC towards the costs of Foot and Mouth, with the remainder due to a reduction in overall EC contributions. Expenditure on social security benefits is now expected to be £1/2 billion higher than in the Budget, mainly because of the increase in the winter fuel payment for winter 2001, announced since the Budget. Debt interest payments are about £0.6 billion lower because of lower short-term interest rates.

Table B14: Changes in Total Managed Expenditure since Budget 2001

	£ billion			
	Outturn 2000-01	2001-02	Projections 2002-03	2003-04
Departmental Expenditure Limits				
Resource Budget	-1.5	0.6	2.1	1.2
Capital Budget	-1.8	-0.4	-1.1	-1.2
Total Departmental Expenditure Limits	-3.4	0.2	1.0	0.0
Annually Managed Expenditure				
Departmental AME				
Social Security Benefits	0.1	0.5	0.7	1.6
Housing Revenue Account subsidies	0.0	0.0	0.1	0.1
Common Agricultural Policy	-0.1	1.9	0.1	0.1
Export Credits Guarantee Department	0.0	0.1	0.1	0.2
Self-financing public corporations capital expenditure	0.0	0.1	0.1	0.1
Net public service pensions	-0.4	-0.3	-0.1	-0.2
National Lottery	-0.1	-0.2	0.0	0.5
Other programme expenditure	0.3	0.2	0.1	0.2
<i>Non-cash items:</i>				
Depreciation	-0.8	-0.1	0.2	-0.1
Cost of capital charges	0.1	0.1	-0.3	-0.2
Provisions and other charges	3.9	0.4	1.2	1.3
Total departmental AME¹	2.9	2.6	2.2	3.5
Other AME:				
Net payments to EC institutions	0.2	-2.0	-0.5	-0.6
Locally financed expenditure	0.4	0.2	0.1	0.2
Central government gross debt interest ²	-0.4	-1.0	-2.7	-0.8
Accounting and other adjustments	-4.4	0.7	1.1	0.9
Total other AME	-4.3	-2.1	-2.0	-0.3
AME Margin	0.0	-0.8	-0.8	-1.5
Annually Managed Expenditure	-1.4	-0.3	-0.6	1.7
Total Managed Expenditure	-4.8	0.0	0.5	1.7
of which:				
Public sector current expenditure	-1.5	0.6	3.0	3.8
Public sector net investment	-1.1	1.7	-0.5	-0.1
Public sector depreciation	-2.2	-2.3	-2.0	-2.0

¹ Including non-cash items

² In Budget 2001, and previous documents, central government gross debt interest was defined as payments gross of payments to public corporations. In line with changes introduced in the 2001 National Accounts these are now stated net of payments to public corporations. Payments from central government to public corporations are now recorded in the adjustments for public corporations line in the accounting adjustments (see Table B15). Debt interest payments on a net basis are around £0.4 billion a year lower than on a gross basis.

B58. Before allowing for the effects of measures, the projections for AME components in 2002-03 are slightly lower than in the Budget. Debt interest payments are £2¼ billion lower because of lower short-term interest rates and lower RPI inflation. £1 billion of these lower payments have been reallocated to health spending in DEL. Net payments to EC institutions are again lower, by about £½ million, but social security spending is up by £¾ billion, reflecting the new measures announced in this Pre-Budget Report and because

of higher than previously forecast expenditure on benefits to the disabled. There are also a number of small increases in other components. After all these changes the AME margin is £1.2 billion, compared with £2 billion in the Budget projections.

B59. The new measures announced in this Pre-Budget Report add nearly £1³/₄ billion to AME in 2003-04. Spending on other components is up by about £1¹/₂ billion since the Budget and as a result the AME margin falls from £3 billion to about £1¹/₂ billion. Debt interest payments in 2003-04 are around £0.4 billion lower than Budget projections – a much smaller fall than in 2002-03 because the change in interest rate expectations is smaller and because inflation effects make a positive contribution. Net payments to EC institutions are again lower, by about £1¹/₂ billion. Social security spending, excluding the effect of the new Pension Credit and other new measures, is almost unchanged as the effects of the higher NAO audited unemployment assumption and lower inflation balance out. National Lottery spending is expected to be about £1¹/₂ billion higher than in the Budget projections, and there are again small increases in most other components.

B60. Details of the main accounting adjustments, which include those items within TME but outside DEL and AME main programmes, are shown in Table B15. Most of these items have increased since the Budget, partly as a result of revisions made by the Office for National Statistics, this summer, to the National Accounts. Some of the increases, such as the adjustments on VAT refunded on general government expenditure, are offset by changes to receipts.

Table B15: Accounting and other adjustments

	£ billion			
	Outturn 2000-01	2001-02	Projections 2002-03	2003-04
1 Non-trading capital consumption	7.7	8.0	8.5	8.9
2 VAT refunded on general government expenditure	6.6	7.4	8.1	8.7
3 EC Contributions	-6.3	-5.8	-5.4	-4.9
4 Income tax credits	5.1	6.1	6.5	6.5
<i>of which Working Families' Tax Credit and Disabled Person's Tax Credit¹</i>	4.6	5.6	6.0	6.1
5 Adjustments for public corporations	4.3	4.5	4.8	5.1
6 Intra general government debt interest	-3.0	-2.9	-3.0	-3.0
7 Financial transactions in departmental budgets	-2.2	-2.2	-1.9	-2.1
8 Adjustments for expenditure financed by receipts	0.2	0.2	0.1	0.1
9 Other accounting adjustments	-2.2	-0.3	0.3	0.3
less				
non-cash items in DEL	0.3	0.2	0.2	0.2
non-cash items in AME	25.8	21.5	25.0	26.4
Total accounting and other adjustments	-15.9	-6.9	-7.3	-7.1

¹ The Working Families' Tax Credit will, subject to legislative constraints, be replaced in 2003 by a new system of tax credits.

B61. Table B16 shows the Departmental Expenditure Limits in terms of the resource and capital budgets. It has been updated since the Budget to reflect the additional £1bn for health reallocated from AME, transfers between departments and programmes, and machinery of government changes.

Table B16: Departmental Expenditure Limits – resource and capital budgets

	£ billion			
	Outturns 2000–01	2001–02	Plans 2002–03	2003–04
Resource Budget				
Education and Skills	14.2	17.3	18.8	20.1
Health	43.6	47.9	53.3	56.6
<i>of which: NHS</i>	42.8	46.9	51.4	54.5
Transport and the Regions	3.6	4.7	5.1	5.1
Local Government	35.3	36.9	39.0	41.6
Home Office	8.4	8.8	9.2	9.7
Lord Chancellor's Departments	2.5	2.8	2.7	2.8
Attorney General's Departments	0.4	0.4	0.4	0.4
Defence	18.1	18.4	18.5	18.7
Foreign and Commonwealth Office	1.1	1.2	1.1	1.1
International Development	2.4	2.7	3.0	3.2
Trade and Industry	3.0	4.1	3.7	3.3
Environment, Food and Rural Affairs	1.5	2.1	1.7	1.8
Culture, Media and Sport	1.0	1.0	1.1	1.2
Work and Pensions (administration)	5.2	5.8	6.1	6.1
Scotland ²	12.7	14.8	15.4	16.3
Wales ²	6.8	7.6	8.2	8.8
Northern Ireland Executive ²	4.6	5.0	5.3	5.6
Northern Ireland Office	1.1	1.0	1.1	1.0
Chancellor's Departments	3.6	4.0	4.0	4.0
Cabinet Office	1.2	1.5	1.4	1.4
Employment Opportunities Fund ³	0.6	0.9	0.9	1.4
Invest to Save Budget	0.0	0.0	0.0	0.1
Capital Modernisation Fund	0.0	0.0	0.0	0.0
Policy Innovation Fund	0.0	0.0	0.0	0.0
Reserve	0.0	1.6	1.3	1.8
Allowance for shortfall ⁴	0.0	-3.1	0.0	0.0
Total Resource Budget DEL	170.8	187.6	201.3	211.9
Capital budget				
Education and Skills	1.6	2.9	3.0	3.9
Health	1.3	2.5	2.4	2.7
<i>of which: NHS</i>	1.3	2.3	2.3	2.6
Transport and the Regions	5.9	7.3	8.1	10.5
Local Government	0.1	0.1	0.3	0.3
Home Office	0.5	1.1	0.9	0.8
Lord Chancellor's Departments	0.1	0.1	0.1	0.1
Attorney General's Departments	0.0	0.0	0.0	0.0
Defence	5.2	5.5	5.7	6.2
Foreign and Commonwealth Office	0.1	0.1	0.2	0.2
International Development	0.2	0.4	0.4	0.4
Trade and Industry ¹	0.3	0.8	0.8	1.0
Environment, Food and Rural Affairs	0.4	0.5	0.5	0.5
Culture, Media and Sport	0.0	0.1	0.1	0.1
Work and Pensions (administration)	0.1	0.2	0.1	0.1
Scotland ²	2.0	2.4	2.3	2.4
Wales ²	0.8	0.9	1.1	1.1
Northern Ireland Executive ²	0.7	0.8	0.8	0.7
Northern Ireland Office	0.0	0.1	0.1	0.0
Chancellor's Departments	-0.2	0.3	0.2	0.2
Cabinet Office	0.2	0.3	0.2	0.2
Employment Opportunities Fund ³	0.7	0.0	0.0	0.0
Invest to Save Budget	0.0	0.0	0.0	0.0
Capital Modernisation Fund	0.0	0.3	0.9	1.2
Policy Innovation Fund	0.0	0.0	0.0	0.0
Reserve	0.0	0.0	0.3	0.5
Allowance for shortfall ⁴	0.0	-1.8	0.0	0.0
Total Capital Budget DEL	20.1	24.9	28.3	33.2
Total Departmental Expenditure Limits	190.9	212.5	228.6	245.1
Total education spending ⁵	45.9	49.7	53.7	58.1

¹ Includes the capital expenditure of the Export Credits Guarantee Department² For Scotland and Wales and Northern Ireland, the split between current and capital budgets is decided by the respective executives.³ Formerly Welfare to Work expenditure financed by the Windfall Tax.⁴ It is assumed that over the year underspends in total will offset the drawdown of End Year Flexibility.⁵ Plans as at Budget 2001

B62. Table B17 gives a breakdown of public sector capital expenditure.

Table B17: Public sector capital expenditure

	£ billion			
	Outturn 2000–01	2001–02	Projections 2002–03 2003–04	
CG spending and LA support in DEL	10.4	15.6	19.2	23.6
Locally-financed spending	1.9	1.9	1.9	1.8
National Lottery	1.1	1.1	1.2	1.3
Public corporations ¹	4.6	4.8	4.6	4.3
Other capital spending in AME	1.0	2.6	1.5	1.6
Allocation of reserve and AME margin	0.0	0.0	0.3	0.5
Public sector gross investment²	19.0	26.0	28.8	33.2
Less depreciation	12.7	13.2	14.0	14.6
Public sector net investment²	6.3	12.9	14.8	18.6
Proceeds from the sale of fixed assets ³	4.5	3.8	3.8	3.8

¹ Public corporations' capital expenditure is partly within DEL and partly within AME.

² This and previous lines are all net of sales of fixed assets.

³ Projections of total receipts from the sale of fixed assets by public sector. These receipts are taken into account in arriving at public sector gross and net investment, which are net of sales of fixed assets.

B63 Table B18 shows estimated receipts from asset and loan sales from 2000-01 to 2003-04. The table shows that, following fixed asset sales of £4½ billion last year, the Government expects further sales of £4 billion in this year and each of the next two years.

B64. The figures for sales of financial assets include outturn proceeds from the sale of a stake in National Air Traffic Services in the first half of 2001 and estimated proceeds from the Public Private Partnership for the Defence Evaluation and Research Agency.

Table B18: Loans and sales of assets

	£ billion			
	Outturn 2000–01	2001–02	Projections 2002–03 2003–04	
Sales of fixed assets¹				
Central Government	1.2	1.0	1.0	1.0
Local Authorities	3.3	2.8	2.8	2.8
Total sales of fixed assets	4.5	3.8	3.8	3.8
Total loans and sales of financial assets	-3.8	-2.7	-2.8	-3.1
Total loans and sales of assets	0.8	1.0	1.0	0.6

¹ National accounts definition of capital. Excludes single-use fighting equipment by Ministry of Defence, which is treated as capital under resource accounting, and expenditure on and sale of which will be included in the capital budget under resource budgeting.

Financing Requirement

B65. Table B19 presents projections of the net cash requirement by sector, giving details of the various financial transactions that do not affect net borrowing (the change in the sector's net financial indebtedness) but do affect its financing requirement.

Table B19: Public sector net cash requirement

£ billion								
	2000-01				2001-02			
	General government		Public corporations	Public sector	General government		Public corporations	Public sector
	Central government	Local authorities			Central government	Local authorities		
Net borrowing	-19.0	-0.6	0.8	-18.8	1.3	0.6	0.6	2.5
<i>Financial transactions</i>								
Net lending to private sector and abroad	3.7	0.1	0.3	4.1	2.9	-0.1	0.0	2.8
Cash expenditure on company securities	0.0	0.1	0.3	0.3	-0.1	0.0	0.0	-0.1
Accruals adjustments on receipts	-19.7	-0.4	0.2	-19.9	1.3	0.0	0.0	1.3
Other accruals adjustments	-2.6	0.0	0.0	-2.6	-0.4	0.0	0.0	-0.4
Miscellaneous financial transactions	0.5	0.2	-0.7	-0.1	-0.2	0.0	0.0	-0.2
Own account net cash requirement	-37.1	-0.6	0.8	-36.9	4.9	0.5	0.6	6.0
Net lending within the public sector	1.8	-1.1	-0.7	0.0	1.4	-1.0	-0.4	0.0
Net cash requirement¹	-35.3	-1.7	0.1	-36.9	6.3	-0.5	0.2	6.0

¹ Market and overseas borrowing for local government and public corporation sectors.

B65. Table B20 updates the financing arithmetic for 2001-02 to allow for the latest forecast of the central government net cash requirement. The Debt and Reserves Management Report 2001-02, published in March, outlined how the Government planned to finance its net cash requirement in 2001-02.

Table B20: Financing requirement forecast

£ billion	2001-02		
	Original remit March 2001	Revised remit ¹ April 2001	Pre-Budget Report
Central government net cash requirement	0.3	0.3	6.3
Accrued uplift on index linked gilts	1.1	1.1	1.1
Expected net financing of official reserves	1.3	1.3	1.3
Expected gilt redemptions	16.7	16.7	16.7
Debt buy-backs	1.0	1.0	0.5
Financing requirement	20.4	20.4	25.9
<i>Less assumed net National Savings contribution</i>	-3.0	-3.0	0.0
<i>Less changes in DMO's balance at BoE</i>	-	0.3	0.3
Net financing requirement	23.4	23.1	25.6
Contingencies			
<i>Less change of Ways and Means facility</i>	na	0.0	0.0
<i>Less increase in planned Treasury Bill stock</i>	na	5.0	6.4
<i>Less further reduction in net short term debt²</i>	na	4.6	5.2
Planned gross gilt sales	13.5	13.5	14.0
Gilt sales to date (April-October 2001)			7.7
<i>of which</i>			
Short conventionals (3-7 years)			0.0
Medium conventionals (7-15 years)			2.5
Long conventionals (> 15 years)			2.5
Index-linked			2.7
Further planned gilt sales			
Short conventionals (1-7 years)			0.0
Medium conventionals (7-15 years)			2.3
Long conventionals (> 15 years)			3.0
Index linked			1.0

Note: figures may not sum due to rounding.

¹ An update of 2001-02's financing arithmetic was published when the outturn for 2000-01 was published

² Excluding DMO cash deposit at the Bank of England

B67. The forecast for the central government net cash requirement for 2001-02 has now been revised by £6 billion to £6.3 billion. As a result of the revised forecast, the Debt Management Office's target for buy-backs from the secondary market has been scaled back to £0.5 billion. Additionally, it is now expected that National Savings' net contribution will be some £3 billion higher than originally planned. This means that the revised net financing requirement for 2001-02 is now £25.6 billion, an increase of £2.5 billion from the forecast published with the outturn data for 2000-01 on 23 April 2001.

B68. In order to meet this increased financing requirement, the Debt Management Office's gilt remit for 2001-02 has been revised and they are now instructed to:

- increase gross gilts issuance by £0.5 billion to £14 billion;
- increase the planned stock of outstanding Treasury bills by £1.4 billion to £9.7 billion; and
- increase the planned rundown of their net cash position by a further £0.6 billion to £5.2 billion.

B69. Full details of all these measures and a complete financing table for 2001-02 can be found on the Debt Management Office's website (www.dmo.gov.uk).

Table B21: Public sector transactions by sub-sector and economic category

£ billion						
2000–01						
Line	General government			Public corporations	Public sector	
	Central government	Local authorities	Total			
<i>Current Receipts</i>						
Taxes on income and wealth	1	143.8	0.0	143.8	-0.1	143.7
Taxes on production and imports	2	131.6	0.2	131.8	0.0	131.8
Other current taxes	3	3.3	14.0	17.3	0.0	17.3
Taxes on capital	4	2.2	0.0	2.2	0.0	2.2
Social contributions	5	62.2	0.0	62.2	0.0	62.2
Gross operating surplus	6	4.3	3.4	7.7	9.1	16.8
Rent and other current transfers	7	1.7	0.0	1.7	0.6	2.4
Interest and dividends from private sector and abroad	8	4.8	0.8	5.6	0.2	5.8
Interest and dividends from public sector	9	5.4	1.4	6.7	-6.7	0.0
Total current receipts	10	359.3	19.8	379.2	3.1	382.2
<i>Current Expenditure</i>						
Current expenditure on goods and services	11	107.2	70.1	177.3	0.0	177.3
Subsidies	12	4.3	1.0	5.3	0.0	5.3
Net social benefits	13	102.8	11.9	114.8	0.0	114.8
Net current grants abroad	14	-0.1	0.0	-0.1	0.0	-0.1
Current grants (net) within public sector	15	67.4	-67.4	0.0	0.0	0.0
Other current grants	16	20.6	0.0	20.6	0.0	20.6
Interest and dividends paid	17	26.1	0.4	26.5	0.1	26.6
Apportionment of AME margin	18	0.0	0.0	0.0	0.0	0.0
Total current expenditure	19	328.3	16.1	344.3	0.1	344.5
Depreciation	20	4.3	3.4	7.7	5.0	12.7
Surplus on current budget	21	26.8	0.3	27.1	-2.0	25.1
<i>Capital expenditure</i>						
Gross domestic fixed capital formation	22	4.5	7.0	11.5	4.6	16.1
Less depreciation	23	-4.3	-3.4	-7.7	-5.0	-12.7
Increase in inventories	24	-0.1	0.0	-0.1	-0.1	-0.2
Capital grants (net) within public sector	25	5.0	-4.3	0.7	-0.7	0.0
Capital grants to private sector	26	2.6	1.2	3.8	0.0	3.8
Capital grants from private sector	27	0.0	-0.7	-0.7	0.0	-0.8
Net capital expenditure	28	7.8	-0.3	7.5	-1.2	6.3
Net borrowing	29	-19.0	-0.6	-19.6	0.8	-18.8

Table B21: Public sector transactions by sub-sector and economic category

£ billion						
2001–02						
Line	General government			Public corporations	Public sector	
	Central government	Local authorities	Total			
						<i>Current Receipts</i>
1	145.8	0	145.8	-0.1	145.7	Taxes on income and wealth
2	136.4	0.2	136.6	0.0	136.6	Taxes on production and imports
3	3.3	14.8	18.1	0.0	18.1	Other current taxes
4	2.4	0.0	2.4	0.0	2.4	Taxes on capital
5	63.8	0.0	63.8	0.0	63.8	Social contributions
6	4.5	3.5	8.0	9.6	17.7	Gross operating surplus
7	1.9	0.0	1.9	0.7	2.6	Rent and other current transfers
8	3.4	0.7	4.1	0.2	4.3	Interest and dividends from private sector and abroad
9	5.7	1.8	7.5	-7.5	0.0	Interest and dividends from public sector
10	367.4	21.0	388.3	2.8	391.1	Total current receipts
						<i>Current expenditure</i>
						Current expenditure on goods and services
11	117.8	74.9	192.7	0.0	192.7	
12	6.5	1.0	7.5	0.0	7.5	Subsidies
13	110.1	12.4	122.4	0.0	122.4	Net social benefits
14	-2.0	0.0	-2.0	0.0	-2.0	Net current grants abroad
15	71.9	-71.9	0.0	0.0	0.0	Current grants (net) within public sector
16	24.2	0.0	24.2	0.0	24.2	Other current grants
17	22.2	0.2	22.4	0.1	22.5	Interest and dividends paid
18	0.2	0.0	0.2	0.0	0.2	Apportionment of AME margin
19	350.8	16.7	367.5	0.1	367.6	Total current expenditure
20	4.5	3.5	8.0	5.2	13.2	Depreciation
21	12.0	0.8	12.8	-2.4	10.3	Surplus on current budget
						<i>Capital expenditure</i>
22	6.6	8.6	15.2	4.8	20.1	Gross domestic fixed capital formation
23	-4.5	-3.5	-8.0	-5.2	-13.2	Less depreciation
24	0.2	0.0	0.2	0.0	0.2	Increase in inventories
25	5.7	-4.3	1.5	-1.5	0.0	Capital grants (net) within public sector
26	5.3	1.2	6.5	0.0	6.5	Capital grants to private sector
27	0.0	-0.7	-0.7	0.0	-0.7	Capital grants from private sector
28	13.3	1.4	14.7	-1.8	12.9	Net capital expenditure
29	1.3	0.6	1.9	0.6	2.5	Net borrowing

Table B21: Public sector transactions by sub-sector and economic category

£ billion						
2002–03						
Line	General government			Public corporations	Public sector	
	Central government	Local authorities	Total			
<i>Current Receipts</i>						
Taxes on income and wealth	1	152.5	0.0	152.5	-0.2	152.3
Taxes on production and imports	2	142.2	0.2	142.3	0.0	142.3
Other current taxes	3	3.4	15.8	19.3	0.0	19.3
Taxes on capital	4	2.5	0.0	2.5	0.0	2.5
Social contributions	5	64.6	0.0	64.6	0.0	64.6
Gross operating surplus	6	4.8	3.7	8.5	10.1	18.6
Rent and other current transfers	7	1.9	0.0	1.9	0.7	2.6
Interest and dividends from private sector and abroad	8	3.1	0.6	3.7	0.3	4.0
Interest and dividends from public sector	9	5.8	1.7	7.5	-7.5	0.0
Total current receipts	10	380.8	22.0	402.7	3.4	406.2
<i>Current Expenditure</i>						
Current expenditure on goods and services	11	126.0	80.6	206.6	0.0	206.6
Subsidies	12	6.4	1.1	7.5	0.0	7.5
Net social benefits	13	114.0	12.7	126.7	0.0	126.7
Net current grants abroad	14	-0.9	0.0	-0.9	0.0	-0.9
Current grants (net) within public sector	15	77.0	-77.0	0.0	0.0	0.0
Other current grants	16	26.6	0.0	26.6	0.0	26.6
Interest and dividends paid	17	21.4	0.2	21.6	0.1	21.7
Apportionment of AME margin	18	1.2	0.0	1.2	0.0	1.2
Total current expenditure	19	371.8	17.5	389.3	0.1	389.4
Depreciation	20	4.8	3.7	8.5	5.5	14.0
Surplus on current budget	21	4.2	0.8	5.0	-2.2	2.8
<i>Capital expenditure</i>						
Gross domestic fixed capital formation	22	8.2	10.2	18.4	4.6	23.0
Less depreciation	23	-4.8	-3.7	-8.5	-5.5	-14.0
Increase in inventories	24	0.2	0.0	0.2	0.0	0.2
Capital grants (net) within public sector	25	6.1	-5.3	0.8	-0.8	0.0
Capital grants to private sector	26	4.9	1.4	6.3	0.0	6.3
Capital grants from private sector	27	0.0	-0.7	-0.7	0.0	-0.7
Net capital expenditure	28	14.6	1.9	16.5	-1.7	14.8
Net borrowing	29	10.4	1.1	11.5	0.5	12.0

Table B21: Public sector transactions by sub-sector and economic category

£ billion						
2003–04						
Line	General government			Public corporations	Public sector	
	Central government	Local authorities	Total			
						<i>Current Receipts</i>
1	162.9	0.0	162.9	-0.2	162.7	Taxes on income and wealth
2	148.8	0.2	148.9	0.0	148.9	Taxes on production and imports
3	3.7	16.9	20.5	0.0	20.5	Other current taxes
4	2.6	0.0	2.6	0.0	2.6	Taxes on capital
5	68.0	0.0	68.0	0.0	68.0	Social contributions
6	5.0	3.9	8.9	10.6	19.5	Gross operating surplus
7	1.9	0.0	1.9	0.7	2.6	Rent and other current transfers
8	3.9	0.7	4.6	0.2	4.8	Interest and dividends from private sector and abroad
9	6.6	2.0	8.5	-8.5	0.0	Interest and dividends from public sector
10	403.2	23.6	426.7	2.8	429.6	Total current receipts
						<i>Current expenditure</i>
						Current expenditure on goods and services
11	131.7	85.8	217.5	0.0	217.5	
12	6.4	1.1	7.6	0.0	7.6	Subsidies
13	120.0	13.1	133.1	0.0	133.1	Net social benefits
14	-1.0	0.0	-1.0	0.0	-1.0	Net current grants abroad
15	81.5	-81.5	0.0	0.0	0.0	Current grants (net) within public sector
16	28.9	0.0	28.9	0.0	28.9	Other current grants
17	23.2	0.2	23.3	0.1	23.5	Interest and dividends paid
18	1.5	0.0	1.5	0.0	1.5	Apportionment of AME margin
19	392.2	18.8	411.0	0.1	411.1	Total current expenditure
20	5.0	3.9	8.9	5.7	14.6	Depreciation
21	5.9	0.9	6.9	-3.0	3.9	Surplus on current budget
						<i>Capital expenditure</i>
22	9.2	11.6	20.8	4.3	25.1	Gross domestic fixed capital formation
23	-5.0	-3.9	-8.9	-5.7	-14.6	Less depreciation
24	0.1	0.0	0.1	0.0	0.1	Increase in inventories
25	7.0	-6.3	0.7	-0.7	0.0	Capital grants (net) within public sector
26	7.1	1.5	8.6	0.0	8.6	Capital grants to private sector
27	0.0	-0.6	-0.6	0.0	-0.6	Capital grants from private sector
28	18.4	2.3	20.7	-2.1	18.6	Net capital expenditure
29	12.5	1.3	13.8	0.9	14.7	Net borrowing

Table B22: Historical series of public sector balances, receipts and debt

	Per cent of GDP									
	Public sector current budget	Public sector net borrowing	Cyclically adjusted public sector net borrowing	Public sector net cash requirement	General government net borrowing ¹	Net taxes and social security contributions	Public sector current receipts	Public sector net debt ²	General government gross debt ³	Public sector net worth ⁴
1970-71	6.7	-0.6	-0.8	1.2	-2.1		43.1			
1971-72	4.2	1.1	0.5	1.4	-0.7		41.2			
1972-73	2.0	2.8	2.7	3.6	2.2		38.9			
1973-74	0.3	4.9	5.8	5.9	4.4		39.4			
1974-75	-1.1	6.6	7.3	9.0	4.1		42.1	52.1	60.4	
1975-76	-1.6	7.0	6.6	9.3	4.8		42.7	53.9	58.7	
1976-77	-1.2	5.5	4.9	6.4	4.1		43.1	52.4	59.1	
1977-78	-1.4	4.3	3.9	3.7	3.6		41.3	49.0	57.1	
1978-79	-2.6	5.0	4.9	5.2	4.3	33.2	40.0	47.1	56.2	
1979-80	-1.9	4.1	4.1	4.7	3.0	33.9	40.6	43.9	51.8	
1980-81	-3.0	4.9	2.9	5.2	3.8	35.7	42.4	46.1	52.9	
1981-82	-1.4	2.3	-1.7	3.3	3.3	38.7	45.7	46.1	51.7	
1982-83	-1.5	3.0	-1.2	3.2	3.1	39.0	45.5	44.8	50.4	
1983-84	-2.0	3.8	0.4	3.2	3.8	38.2	44.4	45.3	50.4	
1984-85	-2.2	3.7	0.8	3.1	3.3	38.9	44.4	45.2	50.3	
1985-86	-1.2	2.4	0.6	1.6	2.6	38.1	43.1	43.4	49.5	
1986-87	-1.4	2.1	1.6	0.9	2.3	37.8	42.0	41.1	48.9	
1987-88	-0.3	1.0	1.8	-0.7	1.3	37.6	41.1	36.8	46.5	75.2
1988-89	1.7	-1.3	0.9	-3.0	-0.9	36.9	40.7	30.6	40.6	81.7
1989-90	1.4	-0.2	2.3	-1.3	0.3	36.2	39.9	27.7	35.5	73.6
1990-91	0.4	1.0	2.5	-0.1	1.4	36.3	39.0	26.2	33.3	62.1
1991-92	-1.9	3.8	3.2	2.3	3.7	35.0	38.6	27.4	34.4	54.4
1992-93	-5.6	7.6	5.5	5.9	7.4	34.0	36.6	32.0	40.4	41.8
1993-94	-6.2	7.8	5.6	7.1	7.8	33.0	35.8	37.1	46.3	29.5
1994-95	-4.8	6.3	5.1	5.3	6.5	34.2	36.9	40.8	49.6	29.1
1995-96	-3.4	4.8	4.4	4.3	5.0	35.0	37.8	42.8	52.4	19.5
1996-97	-3.0	3.7	3.5	2.9	3.9	35.0	37.4	43.7	52.4	15.6
1997-98	-0.1	0.7	0.9	0.1	0.8	36.1	38.5	41.5	49.6	11.5
1998-99	1.3	-0.6	-0.3	-0.8	-0.6	36.5	39.0	39.2	46.8	11.2
1999-00	2.3	-1.8	-1.6	-0.9	-1.7	36.5	39.4	36.4	43.6	14.7
2000-01	2.6	-2.0	-1.7	-3.9	-2.0	37.3	40.0	31.2	40.6	19.5

¹UK national accounts definition.

²At end-March, GDP centred on end-March.

³Maastricht measure from 1993.

⁴At end-December, GDP centred on end-December.

Table B23: Historical series of government expenditure

	£ billion (2000–01 prices)				Per cent of GDP			
	Public sector current expenditure	Public sector net capital expenditure	General government expenditure	Total managed expenditure	Public sector current expenditure	Public sector net capital expenditure	General government expenditure	Total managed expenditure
1970–71	152.8	28.9	194.6	201.1	32.4	6.1	41.3	42.7
1971–72	159.8	25.4	200.2	205.0	33.1	5.3	41.5	42.5
1972–73	167.9	24.5	209.1	212.8	33.0	4.8	41.1	41.8
1973–74	183.1	27.4	223.1	233.3	34.9	5.2	42.5	44.4
1974–75	191.3	27.3	236.9	241.6	38.7	5.5	47.9	48.8
1975–76	204.0	28.0	247.0	256.1	39.7	5.5	48.1	49.9
1976–77	209.6	22.9	240.6	257.6	39.7	4.3	45.6	48.8
1977–78	207.6	15.6	230.9	248.8	38.2	2.9	42.5	45.8
1978–79	214.7	13.6	242.8	254.5	38.2	2.4	43.2	45.2
1979–80	214.5	12.3	242.0	252.0	38.2	2.2	43.0	44.8
1980–81	226.5	10.1	255.5	262.4	40.8	1.8	46.1	47.3
1981–82	239.4	5.2	262.7	271.0	42.5	0.9	46.6	48.1
1982–83	246.5	8.7	269.9	280.5	42.6	1.5	46.7	48.5
1983–84	258.2	10.9	277.5	295.2	42.2	1.8	45.4	48.3
1984–85	264.9	9.5	282.1	298.5	42.6	1.5	45.4	48.1
1985–86	265.9	8.1	281.4	295.6	41.0	1.2	43.4	45.5
1986–87	266.7	4.8	277.4	293.1	40.1	0.7	41.8	44.1
1987–88	271.2	4.6	280.0	295.9	38.6	0.7	39.8	42.1
1988–89	262.4	2.6	270.4	285.6	36.2	0.4	37.3	39.4
1989–90	265.6	8.9	284.9	295.2	35.7	1.2	38.3	39.7
1990–91	267.5	10.7	284.7	296.3	36.1	1.4	38.4	40.0
1991–92	285.2	13.7	301.9	314.3	38.4	1.8	40.7	42.3
1992–93	301.7	15.0	320.3	331.2	40.3	2.0	42.8	44.2
1993–94	313.1	12.4	332.4	339.8	40.1	1.6	42.6	43.6
1994–95	322.2	12.2	339.8	349.0	39.9	1.5	42.0	43.2
1995–96	326.8	11.7	346.8	353.2	39.4	1.4	41.8	42.6
1996–97	332.4	5.9	343.5	352.1	38.7	0.7	40.0	41.0
1997–98	328.7	5.2	342.2	347.2	37.2	0.6	38.7	39.2
1998–99	328.6	6.1	344.3	348.0	36.2	0.7	38.0	38.4
1999–00	334.3	4.7	350.3	352.2	35.7	0.5	37.4	37.6
2000–01	344.5	6.3	363.4	363.5	36.1	0.7	38.1	38.1

