

The latest projections of the public finances show that the underlying position remains strong. Recent fiscal outturns have been better than expected, largely reflecting non-discretionary, structural changes, which feed through into future years. This enables substantial new resources to be released to the Government's priority areas, while still locking in the tough fiscal stance set out in Budget 2000 and the Pre-Budget Report. As a result of a continuing commitment to stability and prudence, the Government remains on track to meet its fiscal rules:

- the current budget surplus is estimated to be £23 billion (nearly 2½ per cent of GDP) in 2000–01. The surplus is projected to be around 1¾ per cent of GDP in 2001–02, 1½ per cent of GDP in 2002–03 and about ¾ per cent of GDP thereafter. In each year the current surplus is at least as high as in the Pre-Budget Report.
- public sector net debt, which was 44 per cent of GDP at the end of 1996–97, is projected to fall to 31.8 per cent of GDP by the end of 2000–01, and to fall further to under 30 per cent in 2002–03 and to remain at around 30 per cent of GDP after March 2003. Net debt in every year is lower than in the Pre-Budget Report projections, by about ½ per cent of GDP.

Cyclically-adjusted public sector net borrowing is estimated to be a repayment of 1.4 per cent of GDP in 2000–01. A repayment of 0.3 per cent of GDP is projected for 2001–02. Modest deficits are projected from 2002–03, reflecting the rapid growth in public investment. These deficits are at the same levels as in the Pre-Budget Report and are consistent with the sustainable investment rule.

INTRODUCTION

CI Chapter 2 describes the Government's fiscal framework, including the two strict fiscal rules, and shows how the projections of the public finances are consistent with meeting these rules. This chapter explains in more detail the Government's performance against the fiscal rules. It includes:

- five year ahead 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;
- consistent projections of the cyclically-adjusted fiscal balances; and
- detailed analyses of the outlook for government receipts and expenditure.

MEETING THE FISCAL RULES

C2 The Government remains firmly on track to meet the fiscal rules throughout the next five years. Table C1 compares the latest estimates for the current year and projections up to 2005–06 of the main fiscal balances with those in the Pre-Budget Report and Budget 2000. The projected current budget surplus has increased by a further £6½ billion since the Pre-Budget Report in 2000–01, and by £1 billion in 2001–02. There have been similar improvements to public sector net borrowing in 2000–01 and 2001–02, and the latest projections for both the current surplus and net borrowing are the same or better in the subsequent four years as they were in the Pre-Budget Report. The fiscal stance including Budget measures is at least as tight as set out in the Pre-Budget Report, which was itself at least as tight as in Budget 2000.

Table C1: Fiscal balances comparison with Budget 2000 and PBR 2000¹

	Outturn ²	Estimate ³	Projections				
	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06
Fiscal balances (£ billion)							
Surplus on current budget							
Budget 2000	17.1	14	16	13	8	8	
PBR 2000	19.4	16.6	16	14	8	8	8
Budget 2001	19.2	23.1	17	15	8	9	9
Net borrowing							
Budget 2000	-11.9	-6	-5	3	11	13	
PBR 2000	-16.4	-10.1	-6	1	10	12	13
Budget 2001	-16.0	-16.4	-6	1	10	11	12
Cyclically-adjusted budget balances (per cent of GDP)							
Surplus on current budget – Budget 2000							
	1.8	1.3	1.3	1.0	0.7	0.7	
Surplus on current budget – PBR 2000							
	1.9	1.5	1.4	1.1	0.6	0.7	0.7
Surplus on current budget – Budget 2001	1.9	2.1	1.4	1.1	0.6	0.7	0.7
Net borrowing – Budget 2000							
	-1.2	-0.5	-0.3	0.5	1.1	1.1	
Net borrowing – PBR 2000							
	-1.6	-0.8	-0.3	0.3	1.1	1.1	1.1
Net borrowing – Budget 2001	-1.6	-1.4	-0.3	0.3	1.1	1.1	1.1

¹ Excluding windfall tax receipts and associated spending.

² The 1999–2000 figures were estimates in Budget 2000.

³ The 2000–01 figures were projections in Budget 2000 and PBR 2000.

C3 Table C2 shows the latest outturns for the key fiscal aggregates and other important measures of the public finances, including net borrowing and net worth, together with estimates for the current year and projections up to 2005–06.

C4 The current budget balance has improved from a deficit of 3 per cent of GDP in 1996–97 to a surplus of over 2 per cent of GDP in 1999–2000. The surplus is estimated to have risen further to nearly 2½ per cent of GDP in 2000–01. Current budget surpluses of around 1½ to 1¾ per cent of GDP are projected over the next two years. Thereafter, surpluses are projected to fall to around ¾ per cent of GDP from 2003–04. Consistent with the need to maintain a cautious approach, this profile shows that the Government is well on track to meet the golden rule over the projection period, with the average surplus on the current budget from 1999–2000 projected to be at least 1½ per cent of GDP throughout the next five years.

C5 Net borrowing is equal to net investment minus the surplus on the current budget. Public sector net investment is projected to be a little under $\frac{3}{4}$ per cent of GDP in 2000–01, implying a surplus on net borrowing of around $\frac{1}{4}$ per cent of GDP. The ratio of net investment to GDP is projected to more than double to $\frac{1}{2}$ per cent of GDP by 2003–04. The rapid growth of net investment results in declining surpluses of net borrowing over the next two years and, in conjunction with the effect of slower economic growth and the measures announced in the Pre-Budget Report and in this Budget, modest deficits over the remainder of the period.

Table C2: Summary of public sector finances¹

	Per cent of GDP							
	Outturns		Estimate	Projections				
	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06
Fairness and prudence								
Surplus on current budget	0.8	2.1	2.4	1.7	1.4	0.8	0.8	0.8
Average surplus since 1999–2000		2.1	2.3	2.1	1.9	1.7	1.5	1.4
Cyclically-adjusted surplus on current budget	0.5	1.9	2.1	1.4	1.1	0.6	0.7	0.7
Long-term sustainability								
Public sector net debt ²	39.7	36.8	31.8	30.3	29.6	29.7	29.9	30.0
Net worth ²	12.2	17.4	18.8	21.3	21.6	21.4	21.0	20.4
Primary balance	3.3	4.2	4.0	2.5	1.7	0.8	0.7	0.6
Economic impact								
Net investment ²	0.5	0.4	0.8	1.1	1.5	1.7	1.8	1.8
Public sector net borrowing (PSNB)	–0.3	–1.8	–1.7	–0.6	0.1	0.9	1.0	1.0
Cyclically-adjusted PSNB	0.0	–1.6	–1.4	–0.3	0.3	1.1	1.1	1.1
Financing								
Central government net cash requirement ²	–0.5	–1.0	–3.5	0.0	0.5	1.5	1.4	1.4
European commitments								
Treaty deficit ³	–0.7	–1.7	–1.7	–0.5	0.1	0.9	0.9	1.0
Treaty debt ratio ⁴	46.8	43.7	40.6	37.6	36.1	35.7	35.6	35.6
Memo: Output gap	0.4	0.2	0.6	0.5	0.3	0.2	0.1	0.0

¹ Excluding windfall tax receipts and associated spending.

² Including windfall tax receipts and associated spending.

³ General government net borrowing. The Treaty definition includes windfall tax receipts and associated spending.

⁴ General government gross debt.

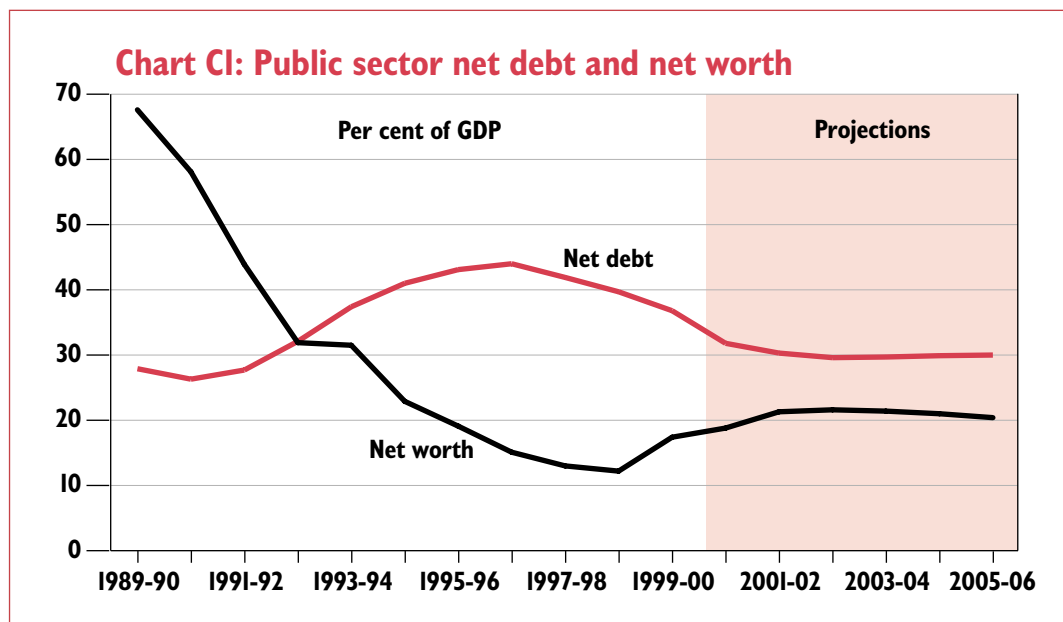
C6 Updated estimates of the cyclically-adjusted current budget and net borrowing as a per cent of GDP are also shown in Table C2. These allow underlying, or structural trends in the indicators to be seen more clearly, after the estimated effects of the economic cycle are removed.

C7 The cyclically-adjusted current balance has moved from a deficit of over 2 per cent of GDP in 1996–97 to a similar sized surplus in 2000–01. With the economy projected to be slightly above trend, the cyclically-adjusted current budget surpluses are a little smaller than the unadjusted projections.

C8 There has been a corresponding improvement in cyclically-adjusted net borrowing, which is used to measure the fiscal stance. From a deficit of 3 per cent of GDP in 1996–97, cyclically-adjusted net borrowing is estimated to have moved into balance in 1998–99, and to a surplus of around $\frac{1}{2}$ per cent of GDP in 1999–2000 and 2000–01. Modest deficits are projected from 2002–03 onwards, as the share of public sector net investment in GDP rises.

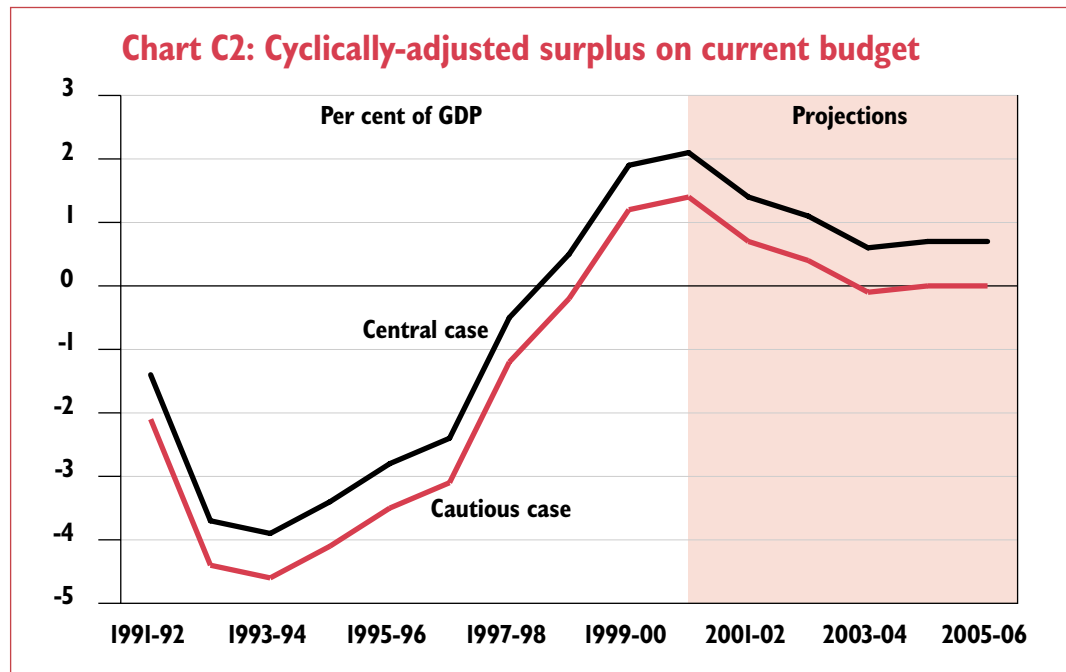
C9 The primary balance is equal to net borrowing excluding net debt interest payments – thus abstracting from the implications of past fiscal deficits. If real interest rates exceed trend GDP growth, a primary surplus is required to stabilise the net debt ratio. The primary balance has swung from a deficit of $\frac{1}{2}$ per cent of GDP in 1996–97 to an estimated surplus of 4 per cent of GDP in 2000–01. Although the surplus is projected to decline to $\frac{1}{2}$ per cent of GDP in 2005–06 it remains positive throughout the projection period. The continued surplus provides further evidence that, even though there are modest deficits in net borrowing from 2003–04 attributable to increases in net investment, the sustainable investment rule is not at risk.

C10 The central government net cash requirement was a repayment of 1 per cent of GDP in 1999–2000. The repayment in 2000–01 is expected to be $3\frac{1}{2}$ per cent of GDP, largely reflecting the receipts from the auction of licences to access the electromagnetic spectrum. The net cash requirement moves into deficit from 2001–02 onwards, reflecting the profile of public sector net borrowing.



C11 The approximate stock counterpart to the net cash requirement is public sector net debt, the key indicator for assessing performance against the sustainable investment rule. The large net cash repayment estimated for 2000–01 leads to a substantial fall in the debt – GDP ratio, from 36.8 per cent in March 2000 to 31.8 per cent in March 2001. Even though the net cash requirement moves into deficit from 2001–02, the deficits are small and the debt – GDP ratio continues to fall slightly before flattening out in 2003–04, at around 30 per cent of GDP. The latest projections of the net debt ratio are about $\frac{1}{2}$ per cent of GDP lower than those in the Pre-Budget Report throughout the projection period.

C12 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 since 1998. This follows a prolonged period in which the poor state of the public finances led to it falling to around 12 per cent of GDP. 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.



Forecast errors and risks

C13 The fiscal balances, which represent the difference between two large aggregates of spending and receipts, are inevitably subject to wide margins of forecast error. Over the past five years, the average absolute error (ie: the average error irrespective of whether the errors have been positive or negative) for one-year ahead forecasts of net borrowing has been 1 per cent of GDP, or plus or minus £9½ billion at 2000–01 prices. The error tends to grow as the forecast horizon lengthens. About half of this error arises from errors in the forecasts of GDP.

C14 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. If GDP growth were 1 per cent higher or lower than assumed from 2003–04 onwards, net borrowing might be lower or higher by 0.5 per cent of GDP in the first year (equivalent to about £5 billion) and lower or higher by a further 0.2 per cent (£2 billion) in the second year. The estimates for years prior to 2003–04 are slightly different as they are affected by recent changes to the corporation tax payment system, which are being phased in over a number of years. Under the previous tax regime the first year estimate was 0.4 and the second year estimate 0.3 per cent of GDP.

C15 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.

C16 It is for this reason that even though the fiscal projections are based on prudent and cautious assumptions (see paragraphs C17 to C19), Chart C2 shows a still more cautious case to illustrate the effect of uncertainty over the cyclical position of the economy. This cautious case assumes a larger output gap such that the level of trend output is assumed to be 1 per cent lower than in the central projection above. This scenario would imply that a greater proportion of the projected surplus on current budget was due to cyclical strength of the economy: a 1 per cent larger output gap reduces the structural surplus on current budget by about ¾ per cent of GDP a year. Nonetheless, even under this scenario, the cyclically-adjusted current budget is projected to be comfortably in surplus in 2000–01 and 2001–02 and

broadly in balance or in surplus thereafter. Even on this more cautious basis the Government remains on track to meet the golden rule over the economic cycle.

ASSUMPTIONS

CI7 The fiscal projections assume:

- the economy follows the path described in Chapter B. In the interests of caution, 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 lower end of the GDP growth ranges in Chapter B. The main economic assumptions are summarised in Table C3;
- firm Departmental Expenditure Limits as set out in Spending Review 2000 and the Pre-Budget Report but adjusted for subsequent changes (see paragraph C54);
- prior to firm spending plans being set in the 2002 Spending Review, current expenditure in 2004–05 and 2005–06, after the end of the 2000 Spending Review period, is projected to grow by $2\frac{1}{2}$ per cent a year in real terms for current expenditure included in departmental expenditure limits, in line with the neutral view of trend, and by $1\frac{3}{4}$ per cent a year in real terms for other current expenditure in line with trends in AME;
- a more than doubling in net investment by the end of the projection period to 1.8 per cent of GDP, which makes a significant contribution to tackling the legacy of under-investment while remaining consistent with the sustainable investment rule; and
- there are no tax changes beyond those already announced in or before this Budget and the indexation of rates and allowances.

Table C3: Economic assumptions for public finance projections

	Percentage changes on previous year						
	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06
Output (GDP)	$2\frac{3}{4}$	3	$2\frac{1}{4}$	$2\frac{1}{4}$	$2\frac{1}{4}$	$2\frac{1}{4}$	$2\frac{1}{4}$
Prices							
RPIX	$2\frac{1}{4}$	2	2	$2\frac{1}{2}$	$2\frac{1}{2}$	$2\frac{1}{2}$	$2\frac{1}{2}$
GDP deflator	$2\frac{1}{2}$	$1\frac{3}{4}$	$2\frac{1}{2}$	$2\frac{1}{2}$	$2\frac{1}{2}$	$2\frac{1}{2}$	$2\frac{1}{2}$
RPI ¹ (September)	$1\frac{1}{4}$	$3\frac{1}{4}$	$1\frac{3}{4}$	$2\frac{3}{4}$	$2\frac{1}{2}$	$2\frac{1}{2}$	$2\frac{1}{2}$
Rossi ² (September)	$1\frac{3}{4}$	$1\frac{1}{2}$	$1\frac{1}{2}$	$2\frac{1}{4}$	$2\frac{1}{4}$	$2\frac{1}{4}$	$2\frac{1}{4}$
Money GDP ³ (£ billion)	907	946	990	1036	1085	1136	1189

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 in the following year.

³ Not seasonally adjusted.

CI8 The key assumptions underlying the fiscal projections are audited by the National Audit Office. All these assumptions are now reviewed on a three year rolling basis. For this Budget, the NAO have reviewed the assumptions on the composition of GDP and funding. In both cases the review concluded that the assumptions adopted three years ago were reasonable. The NAO also commented that it was reasonable to continue using these assumptions.

CI9 As a result of these reviews the key assumptions and conventions used for the Budget public finance projections are unchanged. Details are given in Box C1. In line with the assumption endorsed by NAO, the projections reflect the fact that the average level of claimant count unemployment published by independent forecasters for the last quarter of 2002 is slightly higher than the recent actual levels. This does not represent the Government's view of the prospects for unemployment. It is instead a deliberately cautious approach for the purposes of these fiscal projections.

Box C1: 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 1.06 million in 2003–04, from recent levels of 1.03 million, consistent with the average of independent forecasts. |
| • Interest rates ^{1,6,7} | 3 month market rates change in line with market expectations (as of February 28). |
| • Equity prices ^{2,7} | FT-All share index rises from 2902 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 broadly constant in the medium term. |
| • Funding ^{3,8} | Funding assumptions used to project debt interest are consistent with the forecast level of government borrowing and with financing policy. |
| • Oil prices ⁵ | \$24.40 a barrel in 2001, the average of independent forecasts, and then constant in real terms. |
| • Anti-tobacco smuggling measures ⁶ | 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 Report 2000 Report, 8 November 2000 (HC959)

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

FISCAL AGGREGATES

C20 Tables C4 and C5 provide more detail on the projections of the current and capital budgets, in £ billion and as a per cent of GDP respectively. The tables show the current surplus and net borrowing, both including and excluding windfall tax receipts and associated spending. The latter gives a clearer picture of underlying trends. Latest estimates of windfall tax associated spending are given in Table 4.1a.

Table C4: Current and capital budgets

	£ billion						
	Outturn 1999–00	Estimate 2000–01	2001–02	2002–03	Projections 2003–04 2004–05 2005–06		
Current budget							
Current receipts	358.7	383.2	398	416	432	453	473
Current expenditure	325.3	346.0	367	386	407	426	446
Depreciation	14.6	14.9	15	16	17	17	18
Surplus on current budget (including WTAS ¹)	18.7	22.3	16	14	8	9	9
Surplus on current budget²	19.2	23.1	17	15	8	9	9
Capital budget							
Gross investment	23.0	26.3	30	35	39	41	43
less asset sales	-4.8	-4.1	-4	-4	-4	-4	-4
less depreciation	-14.6	-14.9	-15	-16	-17	-17	-18
Net investment	3.5	7.4	11	15	19	20	21
Net borrowing (including WTAS ¹)	-15.2	-15.0	-5	2	10	11	12
Net borrowing²	-16.0	-16.4	-6	1	10	11	12
Public sector net debt – end year	340.1	307.5	307	314	330	347	365
<i>Memos:</i>							
General government net borrowing ³	-15.8	-15.6	-5	1	10	11	12
General government gross debt ³	396.7	383.7	372	375	388	405	423

¹ Windfall tax receipts and associated spending.

² Excluding windfall tax receipts and associated spending.

³ Treaty measures of the government deficit and debt.

C21 The current budget surplus in 2000–01 is estimated to be £23.1 billion. Net investment is estimated to be £7.4 billion, of which £0.6 billion is windfall tax associated spending. The estimated repayment of net borrowing is £16.4 billion.

C22 The current budget surplus is projected to decline to £17 billion in 2001–02, to £15 billion in 2002–03, and then to fall further to about £8–9 billion from 2003–04 onwards. This profile of a modest decline in the current budget surplus from 2001–02 reflects the planned real increase in current expenditure of 2½ per cent a year and Pre-Budget Report and Budget spending and tax measures, together with receipts projections that are based on a cautious projection of trend real GDP growth of 2¼ per cent a year.

C23 Net investment is projected to rise to £11 billion in 2001–02, reducing the repayment of net borrowing to £6 billion. The ratio of net investment to GDP continues to rise, resulting in a projection of net borrowing of around 1 per cent of GDP in 2003–04.

C24 The profile of significant repayments of net borrowing up to 2001–02 results in a declining net debt-GDP ratio. Public sector net debt falls from 36.8 per cent of GDP in 1999–2000, to 31.8 per cent by the end of 2000–01, and to 29.6 per cent of GDP in 2002–03. Although the modest levels of borrowing in subsequent years lead to small increases in the level of net debt, the debt-GDP ratio remains fairly constant at around 30 per cent of GDP for the remainder of the projection period.

C25 Table C5 also shows the Treaty measures of the deficit and debt used in the Excessive Deficits Procedure, as a per cent of GDP. 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 C5: Current and capital budgets

	Per cent of GDP						
	Outturn	Estimate	Projections				
	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06
Current budget							
Current receipts	39.6	40.5	40.2	40.1	39.8	39.9	39.8
Current expenditure	35.9	36.6	37.1	37.3	37.5	37.5	37.5
Depreciation	1.6	1.6	1.6	1.5	1.5	1.5	1.5
Surplus on current budget (including WTAS ¹)	2.1	2.4	1.6	1.3	0.8	0.8	0.8
Surplus on current budget²	2.1	2.4	1.7	1.4	0.8	0.8	0.8
Capital budget							
Gross investment	2.5	2.8	3.1	3.4	3.6	3.6	3.6
less asset sales	–0.5	–0.4	–0.4	–0.4	–0.3	–0.3	–0.3
less depreciation	–1.6	–1.6	–1.6	–1.5	–1.5	–1.5	–1.5
Net investment	0.4	0.8	1.1	1.5	1.7	1.8	1.8
Net borrowing (including WTAS ¹)	–1.7	–1.6	–0.5	0.2	0.9	1.0	1.0
Net borrowing²	–1.8	–1.7	–0.6	0.1	0.9	1.0	1.0
Public sector net debt							
– end year	36.8	31.8	30.3	29.6	29.7	29.9	30.0
Memos:							
General government net borrowing ³	–1.7	–1.7	–0.5	0.1	0.9	0.9	1.0
General government gross debt ³	43.7	40.6	37.6	36.1	35.7	35.6	35.6

¹ Windfall tax receipts and associated spending.

² Excluding windfall tax receipts and associated spending.

³ Treaty measures of the government deficit and debt.

C26 Table C6 provides a detailed analysis of the changes to the projections of the main fiscal aggregates since Budget 2000 and the Pre-Budget Report, distinguishing between discretionary changes to receipts and spending in Spending Review 2000, the Pre-Budget Report and this Budget, and non-discretionary changes made as a result of data revisions and forecasting changes.

Table C6: Fiscal balances comparison with Budget 2000 and PBR 2000¹

	Outturn	Estimate	Projections				
	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06
Fiscal balances (£ billion)							
Surplus on current budget¹							
Budget 2000	17.1	14	16	13	8	8	
Effects on receipts of:							
Revisions and forecasting changes	0.6	4.7	4.9	5.1	5.3	5.8	
PBR policy measures	–	0.0	–0.6	–1.1	–1.1	–1.1	
Effects on spending of:							
Revisions and forecasting changes ²	1.7	–2.0	–0.9	–0.2	–1.6	–1.2	
SR2000 and PBR policy measures	–	–0.3	–2.8	–2.8	–2.9	–2.9	
PBR 2000	19.4	16.6	16	14	8	8	8
Effects on receipts of:							
Revisions and forecasting changes	1.3	2.9	2.2	3.5	4.0	4.3	4.1
Budget 2001 policy measures	–	–	–3.3	–3.8	–3.9	–3.9	–4.0
<i>of which:</i>							
PBR consultation measures	–	–	–2.0	–2.0	–2.0	–2.0	–2.0
New tax measures	–	–	–1.3	–1.8	–1.9	–2.0	–2.0
Effects on spending of:							
Revisions and forecasting changes	–1.4	3.6	1.1	0.7	0.3	0.2	0.8
Budget 2001 policy measures	–	–	0.6	0.5	0.1	0.1	0.1
<i>of which:</i>							
Changes to AME margin	–	–	1.7	1.6	1.6	1.7	1.7
New DEL and AME measures	–	–	–1.1	–1.0	–1.5	–1.6	–1.6
Budget 2001	19.2	23.1	17	15	8	9	9
Net borrowing¹							
Budget 2000	–11.9	–6	–5	3	11	13	
Effects on receipts of:							
Revisions and forecasting changes	–0.6	–4.7	–4.9	–5.1	–5.3	–5.8	
PBR policy measures	–	0.0	0.6	1.1	1.1	1.1	
Effects on spending of:							
Revisions and forecasting changes ²	–3.9	0.3	0.5	–0.8	0.3	0.8	
SR2000 and PBR policy measures	–	0.8	2.8	2.8	2.9	2.9	
PBR 2000	–16.4	–10.1	–6	1	10	12	13
Effects on receipts of:							
Revisions and forecasting changes	–1.3	–2.9	–2.2	–3.5	–4.0	–4.3	–4.1
Budget 2001 policy measures	–	–	3.3	3.8	3.9	3.9	4.0
<i>of which:</i>							
PBR consultation measures	–	–	2.0	2.0	2.0	2.0	2.0
New tax measures	–	–	1.3	1.8	1.9	2.0	2.0
Effects on spending of:							
Revisions and forecasting changes	1.7	–3.4	–1.6	–0.4	–0.2	–0.3	–0.9
Budget 2001 policy measures	–	–	0.3	–0.1	0.3	–0.1	–0.1
<i>of which:</i>							
Changes to AME margin	–	–	–1.7	–1.6	–1.6	–1.7	–1.7
New DEL and AME measures	–	–	2.1	1.4	1.9	1.6	1.6
Budget 2001	–16.0	–16.4	–6	1	10	11	12

¹ Excluding windfall tax receipts and associated spending.² Including changes to AME margin.

C27 Following the announcement of the spending envelope in Budget 2000, the only effect of Spending Review 2000 on changes to overall spending was the decision to carry forward just $\text{£}^{3/4}$ billion of the $\text{£}2$ billion underspend in 1999–2000 into 2000–01 and $\text{£}^{3/4}$ billion into 2001–02. In this Budget it has been decided to carry forward the $\text{£}1$ billion underspend assumed for 2000–01 into 2001–02, and there have also been further additions to departmental expenditure limits (see paragraph C54). Of the amount carried forward into 2001–02, $\text{£}^{1/2}$ billion is capital expenditure. Details of these changes and the effects of tax and annually managed expenditure policy measures in this Budget and the Pre-Budget Report are shown in Table A11.

C28 The table shows that the projected current budget surplus and repayment of net borrowing in 2000–01 increased by $\text{£}2.4$ billion and $\text{£}3.6$ billion respectively between Budget 2000 and the Pre-Budget Report. Much of this increase reflected stronger than expected receipts. There has been a further increase of $\text{£}3$ billion in receipts since the Pre-Budget Report, and lower spending has led to even larger increases in both the current surplus and the repayment of net borrowing. Lower spending reflects in part the assumption of a $\text{£}1$ billion underspend against departmental expenditure limits in 2000–01, but mostly lower annually managed expenditure.

C29 The forecasting changes for receipts from 2001–02 onwards carry forward the extra receipts in 2000–01, but in addition reflect changes to the profile of North Sea tax receipts (see paragraph C46). There are no forecasting changes to overall departmental expenditure limits, although there are some changes in the split between current and capital spending which affect the current surplus. The reductions in total annually managed expenditure are lower after 2001–02 than in 2000–01. Details of the forecasting changes are given in the following sections on receipts and public expenditure.

C30 Between Budget 2000 and the Pre-Budget Report the overall forecast changes outweighed the effects of policy measures, and net borrowing in the Pre-Budget Report projections was $\text{£}1\text{--}2$ billion a year less than in the Budget 2000 forecast. The forecasting changes since the Pre-Budget Report have been largely balanced by tax and spending policy changes. As a result, net borrowing is a little lower in 2001–02 and 2002–03, and unchanged thereafter. The current surplus is about $\text{£}1$ billion a year higher in most years than in the Pre-Budget Report.

RECEIPTS

C31 Table C7 gives detailed projections of receipts in £ billion to 2001–02. Changes in the receipts projections since the Pre-Budget Report and Budget 2000 are shown in Table C8. Projections of receipts as a percentage of GDP to 2005–06 are shown in Table C9. Table C10 sets out the projections of the tax-GDP ratio.

C32 Total receipts are estimated to rise by $6^{3/4}$ per cent in 2000–01, similar growth to the previous year. The strength of receipts contrasts with money GDP which has been growing by under 5 per cent, reflecting low increases in the GDP deflator. As a result, the receipts-GDP ratio has increased, to a projected 40.5 per cent in 2000–01.

C33 The increases in the receipts-GDP ratio partly reflect changes to the aggregate ratio of wages and salaries, company profits and consumer spending to GDP. This ratio has increased fairly steadily since 1996–97, in part reflecting the strength of the economy over this period. (This tends to be correlated with the output gap, see *Fiscal Policy: public finances and the cycle*, HM Treasury March 1999.) In addition, while inflation is currently at very low levels, oil and gas prices are relatively high, which is increasing the profits share of GDP of North Sea companies.

C34 Even after allowing for the changes in this ratio, the increase in the ratio of net taxes and social security contributions (and in the ratio of total receipts) to GDP in the two years to 2000–01 has been significantly greater than could have been expected by the Treasury's published ready reckoners for the effects of the economic cycle on the public finances – and after allowing for the doubling of oil prices over this period (see Tables C9 and C10). This is reflected in fairly large forecast errors for receipts in 2000–01 in both the Budget 2000 and Pre-Budget Report forecasts (see Table C8). Most of these errors relate to the forecasts of income tax and social security contributions (see paragraphs C37 – C41 and C51).

Table C7: Public sector current receipts

	£ billion		
	Outturn 1999–00	Estimate 2000–01	Projection 2001–02
<i>Inland Revenue</i>			
Income tax (gross of tax credits)	95.7	106.7	111.5
Corporation tax ¹	34.4	32.1	37.8
Tax credits	–3.2	–4.9	–7.4
Petroleum revenue tax	0.9	1.9	1.6
Capital gains tax	2.1	2.9	2.5
Inheritance tax	2.0	2.2	2.3
Stamp duties	6.9	8.2	8.0
Total Inland Revenue taxes (net of tax credits)	138.8	149.1	156.4
<i>Customs and Excise</i>			
Value added tax	56.4	59.0	61.3
Fuel duties	22.5	23.0	22.5
Tobacco duties	5.7	7.5	7.6
Spirits duties	1.8	1.8	1.8
Wine duties	1.7	1.8	1.9
Beer and cider duties	3.0	3.0	3.0
Betting and gaming duties	1.5	1.5	1.5
Air passenger duty	0.9	1.0	1.0
Insurance premium tax	1.4	1.7	1.8
Landfill tax	0.4	0.5	0.5
Climate change levy			0.8
Customs duties and levies	2.0	2.1	2.1
Total Customs and Excise	97.3	102.8	105.9
Vehicle excise duties	4.8	4.5	4.5
Oil royalties	0.4	0.6	0.6
Business rates ²	15.8	17.2	17.5
Social security contributions	56.4	60.1	62.6
Council Tax	13.0	13.9	14.7
Other taxes and royalties ³	8.4	8.9	9.5
Net taxes and social security contributions⁴	334.9	357.0	371.6
Accrual adjustments on taxes	4.8	3.1	1.7
less VAT and own resources contribution to EU budget	–5.6	–6.3	–5.9
less PC corporation tax payments	–0.3	–0.2	–0.2
Tax credits ⁵	3.2	4.9	5.8
Interest and dividends	3.8	5.3	4.8
Other receipts	17.9	19.4	20.5
Current receipts	358.7	383.2	398.4
<i>Memo:</i>			
North Sea revenues ⁶	2.5	4.8	5.9

¹Includes advance corporation tax (net of repayments): 1.7 –0.4 0.0
Also includes North Sea corporation tax after ACT set off, and corporation tax on gains. Gross of R&D tax credit and tax credit for cleaning contaminated sites (zero in 2000–2001, £0.1 billion in 2001–02) which are scored within the Tax credits line.

²Includes district council rates in Northern Ireland.

³Includes money paid into the National Lottery Distribution Fund.

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

⁵Excludes Children's Tax Credit, which scores as a tax repayment in the national accounts.

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

Table C8: Changes in current receipts since Budget 2000 and PBR 2000

	£ billion			
	2000–01		2001–02	
	Budget 2000	PBR 2000	Budget 2000	PBR 2000
Income tax (gross of tax credits)	5.7	2.9	4.3	1.9
Income tax credits	0.2	0.0	0.1	–0.4
Non-North Sea corporation tax	–1.3	0.4	–0.7	0.1
North Sea revenues	0.4	–0.6	0.4	–1.4
Capital taxes ¹	–0.5	–0.2	–1.4	–0.3
Stamp duty	1.0	–0.1	0.5	–0.1
Value added tax	–0.6	–0.2	–0.7	–0.2
Excise duties ²	–0.3	0.0	–2.0	–1.1
Social security contributions	1.3	0.3	1.4	0.4
Other taxes and royalties ³	1.7	–0.2	0.7	–0.5
Net taxes and social security contributions	7.6	2.3	2.6	–1.7
Other receipts and accounting adjustments	0.0	0.6	0.7	0.7
Current receipts	7.6	2.9	3.3	–1.1

¹ Capital gains tax and inheritance tax.

² Fuel, alcohol and tobacco duties.

³ Includes Council Tax and money paid into the National Lottery Distribution Fund, as well as other central government taxes.

C35 The ratio of net taxes and social security contributions as a percentage of GDP is projected to fall steadily over the next three years. In addition to the tax cuts in this Budget and the Pre-Budget Report, the decline reflects slightly weaker projections of GDP growth, consistent with the cautious assumptions for trend GDP; the fall in corporation tax receipts as a per cent of GDP, once the transitional period for the new system of instalment payments comes to an end; and projected lower levels of North Sea production (the profits from which are taxed at higher rates than in the non-North Sea sector). Receipts in 2001–02 are lower than expected in the Pre-Budget Report as the effect of Budget measures on receipts outweighs the effect of forecasting changes.

C36 Total tax receipts in 2001–02 are about £1½ billion lower than projected in the Pre-Budget Report because the effect of Budget tax measures outweighs the effects of forecasting changes (see Table C6). However, money GDP is slightly lower reflecting a lower GDP deflator and the tax-GDP ratio is unchanged. In subsequent years, the effects of tax measures are balanced by forecasting changes, but the slightly lower levels of money GDP mean that the receipts-GDP ratio is slightly higher in some years than previously projected. The direct tax burden on a typical family with two children will fall in 2001–02 to its lowest level since 1972.

Table C9: Current receipts

	Per cent of GDP						
	Outturn 1999–00	Estimate 2000–01	2001–02	2002–03	Projections 2003–04 2004–05 2005–06		
Income tax (gross of tax credits)	10.6	11.3	11.3	11.4	11.5	11.6	11.7
Non-North Sea corporation tax	3.6	3.2	3.4	3.4	3.2	3.3	3.3
Tax credits ¹	-0.3	-0.5	-0.7	-0.8	-0.8	-0.8	-0.8
<i>of which:</i>							
<i>Working Families' Tax Credit</i> ²	-0.1	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
North Sea revenues ³	0.3	0.5	0.6	0.6	0.5	0.5	0.4
Value added tax	6.2	6.2	6.2	6.2	6.1	6.1	6.1
Excise duties ⁴	3.8	3.9	3.7	3.7	3.6	3.5	3.4
Social security contributions	6.2	6.4	6.3	6.2	6.2	6.2	6.3
Other taxes and royalties ⁵	6.5	6.8	6.7	6.7	6.7	6.7	6.7
Net taxes and social security contributions⁶	36.9	37.7	37.5	37.3	37.0	37.0	37.0
Accruals adjustments on taxes	0.5	0.3	0.2	0.2	0.2	0.2	0.2
less EU transfers	-0.6	-0.7	-0.6	-0.5	-0.4	-0.4	-0.4
Income tax credits ⁷	0.3	0.5	0.6	0.6	0.6	0.5	0.5
Other receipts	2.4	2.6	2.5	2.6	2.5	2.5	2.4
Current receipts⁸	39.6	40.5	40.2	40.1	39.8	39.9	39.8
Memo:							
Current receipts (£billion)	358.7	383.2	398	416	432	453	473

¹ Mainly MIRAS and tax reliefs under the Working Families' Tax Credit and Children's Tax Credit schemes.

² The Working Families' Tax Credit will, subject to legislative constraints, be replaced in 2003 by a new integrated system of support for children and an employment tax credit.

³ Includes oil royalties, petroleum revenue tax and North Sea corporation tax (after ACT set-off).

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.

⁶ Includes VAT and 'own resources' contributions to EU budget. Net of income tax credits. Cash basis.

⁷ Excludes Children's Tax Credit, which scores as a tax repayment in the national accounts.

⁸ Accruals basis.

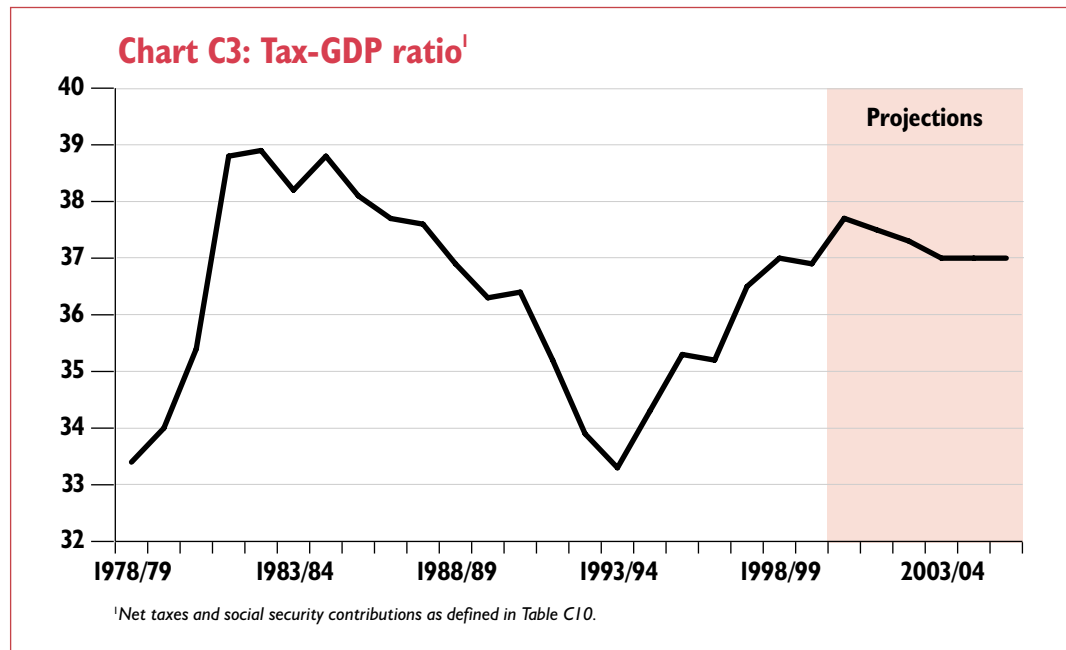


Table C10: Net taxes and social security contributions¹

	Per cent of GDP						
	Outturn	Estimate	Projections				
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Budget 2000	37.0	36.9	37.3	37.1	36.7	36.6	
PBR 2000	36.9	37.3	37.5	37.3	36.9	36.9	36.8
Budget 2001	36.9	37.7	37.5	37.3	37.0	37.0	37.0

¹ Net of income tax credits; cash basis.

Income tax C37 Income tax receipts (net of tax credits) in 2000-01 are expected to be about £102 billion, £3 billion higher than forecast in the Pre-Budget Report and up £6 billion on the Budget 2000 forecast. These upward revisions are despite the fact that overall levels of wages and salaries are estimated to grow by slightly less in 2000-01 than in either of the two previous forecasts. About half the increase since the Pre-Budget Report reflects higher than expected Self Assessment receipts, which mainly reflect the tax due for the 1999-2000 tax year on self-employment earnings and other income not subject to PAYE. Most of the rest of the increase reflects higher than expected PAYE receipts, probably from bonus payments.

C38 PAYE receipts have grown by about 12 per cent in 2000-01. This increase is higher than previously forecast and above what would be expected from current estimates of the growth of wages and salaries, even taking account of fiscal drag. It also comes on top of a larger than expected increase in 1999-2000. Recent Budget measures have had little effect overall on the growth of PAYE receipts in 2000-01. However, earlier Budget measures, mainly the November 1996 phasing out of tax relief on profit-related pay and extending PAYE to cover tax due when certain share options are exercised, have increased PAYE growth in 2000-01. Nonetheless, even after allowing for past Budget measures and fiscal drag, there is still a significant amount of the increase in PAYE to be explained.

C39 One possible explanation for these forecast errors is that the earnings distribution has changed unexpectedly over the last few years, with above average increases at higher earnings levels. Another possibility is that the national accounts are under-recording the growth of wages and salaries; however, the income account currently includes a small negative statistical discrepancy for 2000, implying incomes are being slightly over-recorded relative to money GDP. Also, the introduction of Self Assessment, which was originally thought to have just led to a one-off improvement in taxpayer compliance, may have had a delayed effect on PAYE receipts. One reason is that about half of all taxpayers subject to Self Assessment pay some of their tax through PAYE. As long as any extra tax due under Self Assessment is less than £1000, they can opt to have it collected in subsequent years through adjustments to PAYE codes.

C40 Any of these explanations would suggest that, other things equal, the unexpected increase in income tax receipts is unlikely to be unwound in future, and the forecasts carry them forward. However, as in past forecasts, the stronger than expected rate of growth of receipts has not been reflected in upward revisions to forecast growth rates of income tax for given economic determinants.

C41 As a result of the recent increases in PAYE and Self Assessment receipts income tax receipts (net of tax credits) are expected to rise to 10.8 per cent of GDP in 2000–01 from 10.3 per cent in 1999–2000. Mainly as a result of Budget measures, in particular the introduction of the Children's Tax Credit and the increase in the starting rate limit, the income tax to GDP ratio is projected to fall to 10.5 per cent in 2001–02, but then increase by about 0.1 per cent a year as a result of fiscal drag.

Non-North Sea corporation tax

C42 Receipts of non-North Sea corporation tax in 2000–01 are expected to be nearly £30 billion, about £ $\frac{1}{2}$ billion above the Pre-Budget Report forecast and £1 billion below the Budget 2000 forecast. Receipts are £3 billion less than in 1999–2000 mainly as a result of the tax reforms introduced in 1999, which cut the rates of tax, abolished advance corporation tax and introduced a four year transition to quarterly instalment payments for large companies, but also because of a decline in taxable profits of onshore industrial and commercial companies in 1999.

C43 Since the March 2000 Budget, total payments by onshore large companies under the instalment regime have been lower than forecast. The specified profile of payments for the first year was four instalments of 15 per cent of liability and a balancing payment of 40 per cent. In the event, the first three instalments were slightly higher, while the balancing payments were less than the expected 40 per cent. Since the Pre-Budget Report, payments on profits in 1999 have been above forecast while payments on profits in 2000 have been lower. Repayments of tax on earlier accounting periods and of ACT on foreign income dividends have been higher than forecast. Also, when group instalment payments by large oil companies have been attributed to each group member, some payments initially treated as North Sea payments have been switched to onshore companies.

C44 Receipts are forecast to increase to £34 billion in 2001–02 as a result of higher profits and the effect of the third year of the transition to instalments. In 2002–03 they are projected to rise by a further £ $1\frac{1}{2}$ billion, but then fall by nearly £ $\frac{3}{4}$ billion in 2003–04 as the extra tax paid during the four year transition to instalments ends. The yield is expected to increase steadily with increasing profits thereafter.

C45 The ratio of onshore corporation tax receipts to GDP was about 3.5 per cent in the period 1996-97 and 1998-99 and would normally be expected to stay at much the same level each year in the absence of changes to the tax regime or changes in the company profits share of GDP. However the transition to the new instalment system changes the ratio from year to year over the period from 1998-99 to 2002-03. Once the transition is complete, the ratio stabilises at around 3.3 per cent, a lower level than before mainly because of reductions in the rates announced in the 1997 and 1998 Budgets.

North Sea revenues C46 Receipts from companies engaged in North Sea oil and gas extraction are estimated to be £4¾ billion in 2000-01 compared with £2½ billion in 1999-2000. The increased payments derive directly from the effects of higher oil prices. Receipts in 2000-01 are ½ billion below the Pre-Budget Report forecast and ½ billion higher than the Budget 2000 forecast. The increase since March last year reflects higher than expected oil prices throughout 2000 while the reduction since the Pre-Budget Report is due to lower than expected instalment payments of North Sea corporation tax, slightly lower oil prices in the last quarter of 2000, and the attribution of some corporation tax received under group payments to onshore companies. Receipts are projected to rise to nearly £6 billion in 2001-02 when the full effect of higher oil prices in 2000 feeds through to receipts of corporation tax. From 2002-03 receipts decline slowly as production levels are forecast to fall. The higher oil price leads to increases in the ratio of North Sea revenues to GDP in both 2000-01 and 2001-02, but the ratio then falls as production declines.

C47 Capital gains tax receipts are expected to be £2.9 billion in 2000-01, falling back to £2.5 billion the following year as the Budget 2000 taper reform begins to affect receipts. These forecasts are slightly below those in the Pre-Budget Report, and about ½ billion lower than expected in the Budget 2000 forecast. The revision since the last Budget takes account of the lower 1999-2000 outturn and the latest information on the pattern of asset disposals. The change since the Pre-Budget Report mainly reflects changes to equity prices as governed by the audited assumption (see Box C1). Inheritance tax receipts are little changed compared with either the Pre-Budget Report or Budget 2000 forecast, at £2.2 billion in 2000-01 and £2.3 billion in 2001-02.

Stamp duty C48 Stamp duty receipts are forecast to increase from £6.9 billion in 1999-2000 to £8.2 billion in 2000-01 reflecting the impact of the Budget 2000 rate increases on land and property receipts, the strength of the equity markets, particularly in the first part of the year, and a high level of receipts from mergers and acquisitions. An expected return to more normal levels of stock market activity in 2001-02 reduces receipts to £8.0 billion. This is slightly down on the Pre-Budget Report, reflecting lower share prices offset by slightly higher forecasts for the property market.

VAT receipts C49 VAT receipts in 2000-01 are expected to be £59.0 billion, £0.2 billion below the Pre-Budget Report forecast. However, the ratio of VAT receipts to consumer spending is projected to be slightly higher than expected in 2000-01, and unchanged from the previous year. In future years, the forecast uses the National Audit Office audited assumption that, after allowing for the effects of Budget measures, the ratio of VAT receipts to consumer spending declines gradually, by 0.05 percentage points a year from its level in 2000-01. Compared with the Pre-Budget Report forecast, the net effect of the revised consumer spending projections and the Budget 2001 measures is to increase VAT receipts by nearly ½ billion a year from 2002-03 onwards.

Excise duties C50 The estimate of excise duties in 2000-01 is broadly unchanged from the Pre-Budget Report forecast. In future years, excise duties are forecast to be some £1½ billion a year lower than in the Pre-Budget Report, reflecting the Budget cuts in road fuel duties. The forecast of alcohol and tobacco receipts is broadly unchanged. The ratio of excise duty to GDP is

expected to decline over the forecast period, reflecting the assumption that consumption of goods subject to excise duties grows by less than GDP.

Social security contributions **C51** Social security (national insurance) contributions are projected to be £60.1 billion in 2000–01, an increase of 6½ per cent. As with income tax, the much stronger growth of social security contributions compared with wages and salaries has resulted in outcomes above those forecast in Budget 2000 and the Pre-Budget Report. While the employee upper earnings limit reduces the amount of fiscal drag in the social security contributions regime, nonetheless it seems likely that the unexpected buoyancy of social security contributions and PAYE receipts in 2000–01 are related. The ratio of social security contributions to GDP is projected to fall slightly over the next five years, reflecting assumed higher rates of contracting out of the state pension scheme, as individuals increasingly make use of stakeholder pensions.

PUBLIC EXPENDITURE

C52 Table C11 shows projections for public expenditure for the current year and the three years covered by Spending Review 2000. The projections cover the whole public sector using the aggregate Total Managed Expenditure (TME). TME is split into Departmental Expenditure Limits (DEL), firm three year limits for departments' programme spending, and Annually Managed Expenditure (AME), spending that is not easily subject to firm multi-year limits.

Table CI I: Total Managed Expenditure 1999-2000 to 2003-2004

	£ billion				
	Outturn 1999-00	Estimate 2000-01	2001-02	Projections 2002-03	2003-04
Departmental Expenditure Limits					
Resource Budget	159.9	172.3	187.0	199.1	210.7
Capital Budget	19.4	21.9	25.3	29.4	34.4
Total Departmental Expenditure Limits	179.3	194.2	212.3	228.5	245.1
Annually Managed Expenditure					
Departmental AME:					
Social Security Benefits	97.2	99.1	104.9	108.6	113.5
Housing Revenue Account subsidies	3.4	3.2	4.6	4.3	4.1
Common Agricultural Policy	2.9	2.8	2.6	2.6	2.7
Export Credits Guarantee Department	0.9	1.1	0.8	0.4	0.4
Self-financing public corporations capital expenditure	1.4	1.4	1.0	1.2	0.9
Net public service pensions	5.2	5.4	5.6	5.6	5.9
National Lottery	1.9	2.0	2.3	2.2	1.8
Other programme expenditure	0.2	-0.1	0.0	-0.1	-0.3
<i>Non-cash items:</i>					
Depreciation	7.8	7.8	8.3	8.9	9.7
Cost of capital charges	13.6	13.8	13.5	14.4	14.8
Provisions and other charges	2.3	1.0	-0.6	0.6	1.0
Total departmental AME¹	136.7	137.5	143.0	148.8	154.5
Other AME:					
Net payments to EC institutions ²	2.9	3.5	2.7	2.6	2.9
Locally financed expenditure	17.2	18.0	19.1	20.1	21.0
Central Government gross debt interest	25.3	26.6	23.1	24.2	24.0
Accounting and other adjustments	-18.0	-11.5	-7.5	-8.4	-8.0
Total other AME	27.4	36.6	37.4	38.4	40.0
AME Margin	0.0	0.0	1.0	2.0	3.0
Annually Managed Expenditure	164.1	174.0	181.4	189.2	197.5
Total Managed Expenditure	343.5	368.3	393.7	417.8	442.6
of which:					
Public sector current expenditure	325.3	346.0	367.0	386.4	407.3
Public sector net investment	3.5	7.4	11.2	15.3	18.7
Public sector depreciation	14.6	14.9	15.5	16.0	16.6

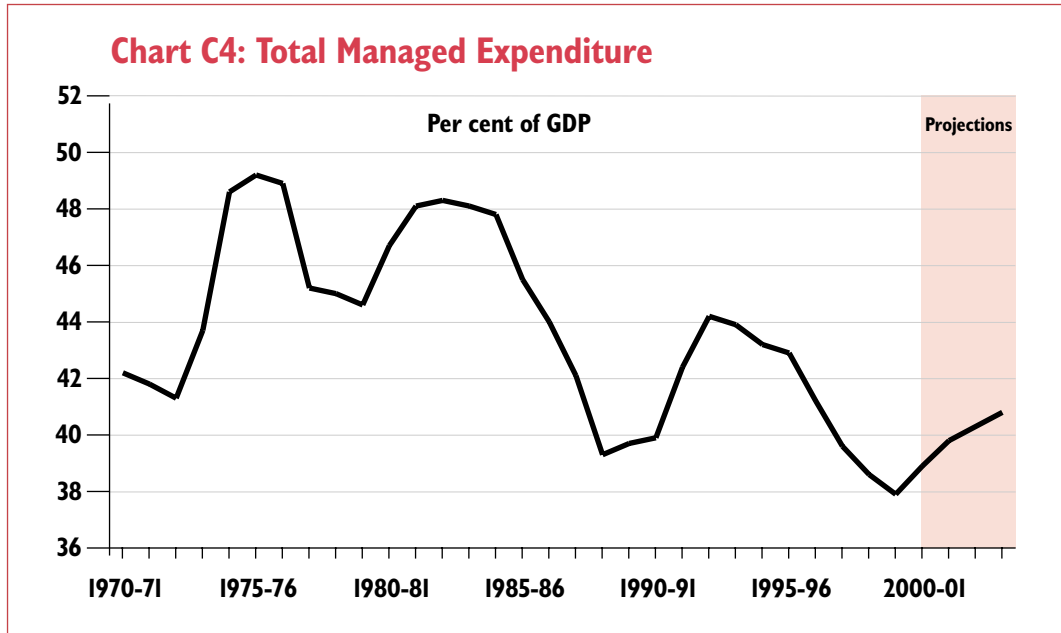
¹ Including non-cash items.

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):

1999-00	2000-01	2001-02	2002-03	2003-04
3.3	4.1	3.4	3.5	3.8

The trended forecast for 2000-01 is £3.4 billion

C53 Spending Review 2000 was the first to be conducted on a resource basis. The introduction of resource budgeting moves public spending onto an accruals basis scoring spending as and when resources are consumed. This is a move away from cash budgeting, as shown in Budget 2000, where budgets score cash payments when they are made. The move to resource budgeting does not affect TME but does lead to changes within DEL and AME. The details of these changes were set out in the Pre-Budget Report.



C54 Table C12 shows changes to DEL and AME since the Pre-Budget Report on the new resource basis. DEL was underspent by £2 billion in 1999-2000 and as part of Spending Review 2000 £³/₄ billion was carried forward into 2000-01, and £³/₄ billion into 2001-02. It is now provisionally estimated that the revised DEL total for 2000-01 will be underspent by £1 billion. This underspend will be carried forward into 2001-02. There will also be further additions to DEL of £2.4 billion over the next three years, comprising an extra £1 billion for education, £1 billion for health, £¹/₃ billion for fighting drugs and drug crime, and £0.1 billion for the Capital Modernisation Fund. Table C13 shows the Departmental Expenditure Limits in terms of the resource and capital budgets. It has been updated since the Pre-Budget Report to reflect transfers between departments and programmes, and additions to and allocations from the DEL reserve.

C55 Forecasts of individual AME programmes were reviewed in the Pre-Budget Report, but after excluding the additional spending on measures announced in the Pre-Budget Report from 2001-02 onwards and a DEL/AME classification switch, total AME was left unchanged from the Spending Review by offsetting savings in AME programmes in the AME margin. Total AME for 2000-01 was unchanged as the costs of the measures are to be met from the AME margin. The AME forecasts have now been reviewed again and the AME margin has been reset to £1 billion in the first year (2001-02), £2 billion in the second year and £3 billion in the third. It is expected that the costs of statutory compensation for the current outbreak of Foot and Mouth disease will be met from within announced public spending totals for Annually Managed Expenditure.

C56 The main economic assumptions underpinning the AME projections are set out in Table C3. As explained in C19, the projections are based on the latest audited assumption for UK claimant unemployment which is in line with the average of independent forecasters (see Box C1).

Table CI2: Changes in Total Managed Expenditure since PBR2000

	£ billion				
	Outturn 1999–00	Estimate 2000–01	2001–02	Projections 2002–03	2003–04
<i>Departmental Expenditure Limits</i>					
Resource Budget	1.1	–0.5	1.9	1.8	1.6
Capital Budget	1.5	–0.5	–0.1	–1.0	–0.8
Total Departmental Expenditure Limits	2.5	–1.0	1.8	0.8	0.8
<i>Annually Managed Expenditure</i>					
Social Security Benefits	0.0	0.1	–0.1	–0.1	0.7
Housing Revenue Account subsidies	0.1	0.0	0.0	0.0	0.0
Common Agricultural Policy	0.2	0.1	–0.2	–0.1	–0.1
Export Credits Guarantee Department	0.0	0.0	0.5	0.2	0.4
Self-financing public corporations capital expenditure	0.4	0.0	–0.5	0.0	–0.1
Net public service pensions	–0.1	–0.1	0.1	–0.2	–0.1
National Lottery	0.0	–0.2	0.1	0.1	–0.3
Other programme expenditure	0.3	–0.1	0.0	–0.1	–0.3
<i>Non-cash items:</i>					
Depreciation	0.5	0.9	0.9	0.5	0.7
Cost of capital charges	0.6	1.0	0.7	2.4	2.5
Provisions and other charges	1.7	1.0	–0.6	0.5	0.7
Total departmental AME¹	3.8	2.5	1.1	3.4	4.2
<i>Other AME:</i>					
Net payments to EC institutions	0.0	0.7	0.1	0.1	0.1
Locally financed expenditure	0.0	–0.4	–0.1	–0.1	0.0
Central Government gross debt interest	–0.2	–0.4	–1.5	–0.6	–0.4
Accounting and other adjustments	–4.2	–2.2	–0.8	–2.4	–3.0
Total other AME	–4.3	–2.3	–2.3	–3.1	–3.3
AME Margin	0.0	–2.6	–1.7	–1.6	–1.6
Annually Managed Expenditure	–0.6	–2.4	–3.0	–1.3	–0.7
Total Managed Expenditure	1.9	–3.4	–1.2	–0.5	0.1
of which:					
Public sector current expenditure	1.4	–3.6	–1.7	–1.3	–0.5
Public sector net investment	0.3	0.3	0.5	0.8	0.5
Public sector depreciation	0.2	–0.1	0.0	0.1	0.1

¹ Including non cash items.

C57 AME for 2000–01 is £2.4 billion lower than in the Pre-Budget Report, almost entirely because of the AME margin. Net payments to EC institutions scoring as AME were higher than expected because of a substantial shortfall in the expected level of receipts compared to what was expected at the time of the Pre-Budget Report. This was offset by lower than expected spending on other AME programmes.

Table CI3: Departmental Expenditure Limits – resource and capital budgets

	£ billion				
	Outturn 1999–00	Estimate 2000–01	2001–02	Plans 2002–03 2003–04	
Resource Budget					
Education and Employment	14.2	17.0	18.9	20.6	22.0
Health	40.0	44.0	47.7	52.4	56.6
<i>of which: NHS</i>	39.4	43.2	46.7	50.5	54.5
Environment, Transport and Regions	4.0	4.7	5.1	5.7	5.8
Local Government	33.9	35.3	36.9	39.0	41.6
Home Office	7.1	8.2	8.7	9.2	9.7
Legal Departments	2.7	3.0	3.1	3.2	3.2
Defence	18.2	18.1	18.3	18.5	18.7
Foreign and Commonwealth Office	1.0	1.1	1.2	1.1	1.1
International Development	2.2	2.6	2.7	2.9	3.2
Trade and Industry ¹	2.8	3.2	4.0	3.6	3.3
Agriculture, Fisheries and Food ²	1.0	1.1	1.1	1.1	1.1
Culture, Media and Sport	0.9	1.0	1.0	1.1	1.2
Social Security (administration)	3.2	3.6	3.8	4.2	4.2
Scotland ³	12.0	12.7	13.7	14.5	15.3
Wales ³	6.2	6.9	7.6	8.0	8.5
Northern Ireland Executive ³	4.3	4.8	5.0	5.3	5.7
Northern Ireland Office ³	1.0	1.1	1.0	1.1	1.0
Chancellor's Departments	3.5	3.8	3.9	4.0	4.0
Cabinet Office	1.2	1.2	1.3	1.3	1.3
Employment Opportunities Fund ⁴	0.5	0.7	0.9	0.9	1.4
Invest to Save Budget	0.0	0.0	0.0	0.0	0.1
Capital Modernisation Fund	0.0	0.0	0.0	0.0	0.0
Policy Innovation Fund	0.0	0.0	0.0	0.0	0.0
Reserve	0.0	0.0	1.2	1.4	1.7
Allowance for shortfall	0.0	-2.0	0.0	0.0	0.0
Total Resource Budget DEL	159.9	172.3	187.0	199.1	210.7
Capital budget					
Education and Employment	1.1	1.5	2.6	3.1	3.9
Health	0.9	1.6	2.1	2.4	2.7
<i>of which: NHS</i>	0.9	1.5	2.0	2.3	2.6
Environment, Transport and Regions	5.9	6.3	6.4	8.4	10.7
Local Government	0.3	0.1	0.1	0.3	0.3
Home Office	0.5	0.7	1.0	1.0	0.9
Legal Departments	0.1	0.1	0.1	0.1	0.1
Defence	5.9	5.5	5.5	5.7	6.2
Foreign and Commonwealth Office	0.1	0.1	0.1	0.2	0.2
International Development	0.3	0.3	0.4	0.4	0.4
Trade and Industry ¹	0.2	0.4	0.7	0.7	1.0
Agriculture, Fisheries and Food ²	0.2	0.2	0.2	0.3	0.3
Culture, Media and Sport	0.1	0.0	0.1	0.1	0.1
Social Security (administration)	0.0	0.1	0.1	0.1	0.0
Scotland ³	1.7	2.3	2.7	3.0	3.3
Wales ³	0.9	0.9	0.9	1.2	1.3
Northern Ireland Executive ³	0.6	0.7	0.8	0.8	0.7
Northern Ireland Office ³	0.0	0.0	0.1	0.1	0.0
Chancellor's Departments	0.1	0.1	0.2	0.2	0.2
Cabinet Office	0.2	0.2	0.2	0.2	0.2
Employment Opportunities Fund ⁴	0.2	0.7	0.0	0.0	0.0
Invest to Save Budget	0.0	0.0	0.0	0.0	0.0
Capital Modernisation Fund	0.0	0.0	0.5	0.9	1.2
Policy Innovation Fund	0.0	0.0	0.0	0.0	0.0
Reserve	0.0	0.0	0.6	0.4	0.5
Allowance for shortfall	0.0	0.0	0.0	0.0	0.0
Total Capital Budget DEL	19.4	21.9	25.3	29.4	34.4
Total Departmental Expenditure Limits	179.3	194.2	212.3	228.5	245.1
Total education spending	40.6	46.0	49.7	53.7	58.1

¹ Includes the capital expenditure of the Export Credits Guarantee Department² Includes spending on BSE related programmes³ For Scotland and Wales, the split between current and capital budgets is decided by the respective Executives. For Northern Ireland, during any period when the Assembly ceases to operate, this is a matter for the Secretary of State.⁴ Formerly Welfare to Work expenditure financed by the Windfall Tax.

C58 AME in 2001–02 is £3 billion lower than in the Pre-Budget Report. About £1³/₄ billion of this is due to the AME margin but debt interest payments are now expected to be about £1¹/₂ billion lower because of lower forecast RPI inflation leading to lower accrued uplift on index-linked gilts and lower market expectations for short term interest rates.

C59 The reduction in AME is lower in both 2002–03 (down £1¹/₄ billion from the Pre-Budget Report) and 2003–04 (down £³/₄ billion). Forecasts for debt interest are lower in both years by around £¹/₂ billion due mainly to lower short-term interest rate expectations. Social security spending is expected to be about £³/₄ billion higher in 2003–04 than in the Pre-Budget Report, partly because of the increases in Income Support and Jobseekers' Allowance child premiums and the maternity package measures announced in this Budget, and partly because of higher take up of Disability Living Allowance and Attendance Allowance. The reduction in AME for 2003–04 is also lower than in earlier years because upward changes in the accounting adjustments are no longer off set by changes in other AME programmes. Details of the main accounting adjustments, which comprise those items within TME but outside DEL and AME main programmes, are shown in Table C14. The main reasons for the increase since the Pre-Budget Report are changes to the adjustments on VAT refunded on general government expenditure (which have no effect on the fiscal position because they are offset by changes to receipts) and the changes announced in this Budget to Working Families' Tax Credit.

Table C14: Accounting and other adjustments

	£ billion				
	Outturn 1999–00	Estimate 2000–01	2001–02	Projections 2002–03	2003–04
1 Non-trading capital consumption	7.9	8.1	8.4	8.8	9.2
2 VAT refunded on general government expenditure	5.9	6.3	6.7	7.3	7.8
3 EC Contributions	–5.6	–6.3	–5.9	–5.4	–4.7
4 Income tax credits	3.0	4.9	5.8	6.1	6.1
<i>of which Working Families' Tax Credit and Disabled Person's Tax Credit:¹</i>	1.0	4.5	5.3	5.6	5.7
5 Adjustments for public corporations	3.7	4.1	4.1	4.2	4.5
6 Intra general government debt interest	–3.4	–2.9	–2.9	–3.1	–2.8
7 Financial transactions in departmental budgets	–1.8	–2.3	–2.0	–1.8	–2.0
8 Adjustments for expenditure financed by receipts	0.1	0.1	0.2	0.2	0.2
9 Other accounting adjustments	–3.8	–0.6	–0.5	–0.5	–0.5
less					
non-cash items in DEL	0.2	0.2	0.2	0.2	0.2
non-cash items in AME	23.7	22.6	21.1	23.9	25.5
Total accounting and other adjustments	–18.0	–11.5	–7.5	–8.4	–8.0

¹The Working Families' Tax Credit will, subject to legislative constraints, be replaced in 2003 by a new integrated system of support for children and an employment tax credit.

C60 As both DEL and AME are lower than in the Pre-Budget Report, TME is now expected to be around £3¹/₂ billion lower in 2000–01. In 2001–02 and 2002–03 the reductions in AME outweigh the increases in DEL leaving TME lower than at the Pre-Budget Report by £1¹/₄ billion and £¹/₂ billion respectively. In 2003–2004 the increase in DEL outweighs the reduction in AME leaving TME marginally higher. Chart C4 shows the ratio of TME to GDP. The ratio rises over the next few years, reflecting the higher levels of public investment.

C61 Table C15 gives a breakdown of public sector capital expenditure.

Table C15: Public sector capital expenditure

	£ billion				
	Outturn 1999–00	Estimate 2000–01	2001–02	Projections 2002–03	2003–04
CG spending and LA support in DEL	10.3	15.2	17.4	21.9	26.1
Locally-financed spending	0.9	0.5	2.1	2.0	1.8
National Lottery	1.7	1.2	1.4	1.3	1.1
Public corporations ¹	4.4	4.2	3.9	4.4	4.3
Other capital spending in AME	0.9	1.1	1.2	1.4	1.5
Allocation of reserve and AME margin	0.0	0.0	0.6	0.4	0.5
Public sector gross investment²	18.2	22.3	26.7	31.3	35.3
Less depreciation	–14.6	–14.9	–15.5	–16.0	–16.6
Public sector net investment²	3.5	7.4	11.2	15.3	18.7
Proceeds from the sale of fixed assets ³	4.8	4.1	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.

PRIVATE FINANCE INITIATIVE

C62 Under the Private Finance Initiative (PFI) the public sector purchases services from a private sector partner. In addition to requiring capital investment to be undertaken by the private sector, the ability of the private sector partner to be innovative and manage risks appropriately allocated to it can result in a specified level of service at a price that represents value for money.

C63 The PFI has now become an established method of delivering many public services which require significant investment in capital assets. Projects with a combined capital value of over £14 billion have been signed since May 1997 in such diverse areas as schools, colleges, hospitals, local authorities, defence IT, and property management. Approval of a PFI scheme depends on a thorough assessment of the lifetime costs of both providing and maintaining the underlying asset and the running costs of delivering the required service. The PFI provides considerable opportunities for the private sector; in return the contractual relationship with the public sector ensures the ongoing delivery of cost effective and quality services.

C64 The Government is committed to developing PFI and other partnerships arrangements with the private sector to further enhance the delivery of public services and to ensure the delivery of a higher sustainable level of public sector investment. The Government wants to exploit all commercial potential and spare capacity in public sector assets through a sensible balance of risk and reward.

C65 Table C16 shows a breakdown by department of the estimated public sector investment resulting from signed contracts and Table C17 those expected to reach preferred bidder stage within the next three years. From 2000–01 to 2003–04, some £13 billion of new investment is expected as a result of PFI.

Table C16: Departmental estimate of capital spending by the private sector (signed deals):

	£ million			
	Estimate 2000–01	2001–02	Projections 2002–03	2003–04
Defence	121	147	200	100
Foreign and Commonwealth Office and International Development	7	7	6	7
Agriculture, Fisheries and Food ¹	0	0	0	0
Trade and Industry	36	61	24	26
Environment, Transport and Regions ^{2,3}	619	639	855	1015
Education and Employment ⁴	15	28	9	0
Home Office	160	136	297	0
Legal Departments	37	36	13	6
Culture, Media and Sport	0	0	0	0
Health	491	501	235	67
Social Security	42	17	67	14
Scotland	540	289	78	20
Wales	160	11	0	0
Northern Ireland	39	26	4	0
Chancellor's Departments	104	87	19	19
Cabinet Office	155	159	42	6
Local authorities ^{5,6}	1352	1404	1215	1150
Total	3878	3548	3064	2430

¹ Includes Forestry Commission

² Includes the private sector capital investment in Channel Tunnel Rail Link.

³ In addition, substantial private investment is levered in through housing, urban regeneration and other programmes.

⁴ Excludes private finance activity in education institutions classified to the private sector. Estimated total values for these are £80m in 2000–01 and £226m in 2001–02. Includes projects in Voluntary Aided schools only; Schools projects funded through Revenue Support Grant are included in the Local Authority figures.

⁵ Figures represent spending on projects supported by central government through Revenue Support Grant.

⁶ PFI activity in Local Authority schools is included in the Local Authorities line.

C66 Under PFI, the public sector contracts for services not assets, and capital investment is only one of the activities undertaken by the private sector in order to supply services. The figures in Tables C16 and C17, therefore, do not reflect the total value of the contracts.

Table C17: Estimated aggregated capital value of projects at preferred bidder stage

	£ million			
	Estimate 2000–01	2001–02	Projections 2002–03	2003–04
Defence	0	228	293	280
Foreign and Commonwealth Office and International Development	0	0	0	0
Agriculture, Fisheries and Food ¹	0	13	8	0
Trade and Industry	10	16	12	3
Environment, Transport and Regions ^{2,3}	0	10	41	13
Education and Employment ⁴	0	0	0	0
Home Office	11	110	11	65
Legal Departments	3	14	29	8
Culture, Media and Sport	0	0	0	0
Health	68	30	0	0
Social Security	0	2	0	0
Scotland	19	81	11	0
Wales	3	82	15	0
Northern Ireland	22	54	24	0
Chancellor's Departments	0	0	0	0
Cabinet Office	0	2	4	4
Local Authorities ⁵	266	203	91	40
Total	402	845	539	413

¹ Includes Forestry Commission.

² Includes the private sector capital investment in Channel Tunnel Rail Link.

³ In addition, substantial private investment is levered in through housing, urban regeneration and other programmes.

⁴ Excludes PPP/PFI activity in the further and higher education (FHE) sectors, which are classified to the private sector. Includes projects in Voluntary Aided schools only: schools projects funded through Revenue Support Grant are included in the Local Authority figures.

⁵ PFI activity in local authority schools is included in the local authorities line.

Table C18: Estimated payments under PFI contracts – March 2001 (signed deals)

£ million			
2000–01	2906	2013–14	3806
2001–02	3595	2014–15	3676
2002–03	4084	2015–16	3681
2003–04	4478	2016–17	3680
2004–05	4524	2017–18	3619
2005–06	4509	2018–19	3059
2006–07	4554	2019–20	3038
2007–08	4505	2020–21	3149
2008–09	4466	2021–22	3026
2009–10	4371	2022–23	3024
2010–11	4140	2023–24	2980
2011–12	4090	2024–25	2994
2012–13	3863	2025–26	2661

C67 Table C18 shows a forecast of the estimated payments by the public sector flowing from private investment in signed projects over the next twenty-five years. Actual expenditure will depend on the details of the payment mechanism for each contract. There has been a technical change to the treatment of local authority expenditure within this table, which now takes into account the full cost to government of the PFI contracts rather than simply the capital support element. The capital element remains consistent with the levels reported for Budget 2000.

C68 Table C19 shows estimated receipts from asset and loan sales from 1990–00 to 2002–03. Following two years of total sales of fixed assets of over £4 billion a year, the Government continues to forecast further sales of some £4 billion in 2000–01 and each of the next two years.

C69 The figures for sales of financial assets include proceeds from the Public Private Partnership for National Air Traffic services and the Defence Evaluation and Research Agency.

Table C19: Loans and sales of assets

	£ billion			
	Outturn 1999–00	Estimate 2000–01	Projections 2001–02 2002–03	
Sales of fixed assets¹				
Central Government	1.1	1.3	1.0	1.0
Local Authorities	3.7	2.8	2.8	2.8
Total sales of fixed assets	4.8	4.1	3.8	3.8
Loans and sales of financial assets				
Sale of student loans portfolio				
Other loans and sales of financial assets	– 1.7	– 3.4	– 2.5	– 3.1
Total loans and sales of financial assets	– 1.7	– 3.4	– 2.5	– 3.1
Total loans and sales of assets	3.1	0.6	1.3	0.7

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

Table C20: Public sector net cash requirement¹

	£ 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	-16.0	0.4	0.7	-15.0	-5.1	0.0	0.5	-4.7
<i>Financial transactions</i>								
Net lending to private sector and abroad	3.2	-0.1	0.0	3.1	2.8	-0.1	0.0	2.7
Cash expenditure on company securities ²	0.2	0.1	0.0	0.3	-0.2	0.0	0.0	-0.2
Accruals adjustments on receipts	-18.8	0.2	0.0	-18.6	2.5	0.3	0.0	2.8
Other accruals adjustments	-2.6	0.0	0.0	-2.6	-0.4	0.0	0.0	-0.4
Miscellaneous financial transactions	-1.8	-0.1	0.4	-1.6	-0.7	0.0	0.0	-0.7
Own account net cash requirement	-35.9	0.5	1.0	-34.3	-1.1	0.2	0.5	-0.4
Net lending within the public sector	2.6	-1.5	-1.0	0.0	1.4	-1.0	-0.4	0.0
Net cash requirement³	-33.3	-1.0	0.0	-34.3	0.3	-0.8	0.1	-0.4

¹ The figures in this table include the windfall tax and associated spending. Excluding windfall tax receipts and associated spending, the public sector net cash requirement was -£9.3 billion (-1.0 per cent of GDP) in 1999–2000 and is projected to be -£35.7 billion (-3.8 per cent of GDP) in 2000–2001. It is projected at -£1.9 billion (-0.2 per cent of GDP) in 2001–02 and £4 billion (0.4 per cent of GDP) in 2002–03.

² Net acquisition of UK company securities and subscriptions to international development banks etc.

³ Market and overseas borrowing for local government and public corporation sectors.

C70 Table C21 updates the financing arithmetic for 2000–01. It also outlines the financing arithmetic for 2001–02. As a consequence of the success of the Spectrum auction, the Gilts Remit was revised and the new remit was published on 12 June 2000. Gross gilts issuance was fixed at £10.0 billion for the remainder of the financial year – a £2.2 billion reduction from the original remit issued in March 2000. The contingencies outlined in the Debt Management Report 2000–01 were exercised and it was announced that the surplus would be used for reducing net debt. In the Pre-Budget Report, a new CGNCR forecast of -£28.2 billion was published. Further decisions were made over the composition of the reduction in net debt. It was also announced that the DMO would be holding a short term net cash surplus which they would unwind over the next three financial years.

C71 The forecast for the CGNCR in 2001–02 is for a modest positive requirement. In order to maintain the level of gross issuance, the Government has decided to pre-finance foreign currency debt due in 2003. Additionally, the Government plans to purchase £1.0 billion of gilts through secondary market buy-backs. Both of these measures will help boost the net financing requirement and to address the current liquidity problems in the gilts market. Details of the Government's debt management plans for 2001–02, including the remits for the DMO and National Savings are published today in the Debt and Reserves Management Report 2001–02.

Table C2I: Financing requirement forecast

£ billion	2000–01			2001–02	
	Mar2000 Budget Remit	June 2001 Revised remit ¹	Nov 2000 Pre-Budget Report	Mar 2001 Budget	Mar 2001 Budget
Central government net cash requirement	-4.9	-4.9	-28.2	-33.3	0.3
Unanticipated spectrum receipts		-19.5			
Accrued uplift on maturing index-linked gilt					1.1
Net financing of official reserves	3.5	9.5	9.3	9.3	1.3
Gilt redemptions	18.6	18.6	18.6	18.6	16.7
Debt buy-backs	3.5	3.5	5.0	5.5	1.0
Gilt sales residual from 1999–2000	-9.5	-12.8	-12.8	-12.8	-
Gross financing requirement	11.2	-5.6	-8.1	-12.7	20.4
<i>Less</i>					
<i>Assumed net National Savings contribution</i>	-0.8	-0.8	-1.5	-0.7	-3.0
<i>DMO's cash deposit</i>	-0.2	-0.2	-0.2	-0.2	-
Net financing requirement	12.2	-4.6	-6.4	-11.8	23.4
<i>Financed by</i>					
Gross gilt sales	12.2	10.0	10.0	10.0	13.5
Changes in net short-term debt²		-14.7	-16.4	-21.8	9.9

Note: Figures may not sum due to rounding.

¹ Remit revised following outcome of the 1999–2000 CGNCR and outcome of the 3G Spectrum auction.

² This comprises a repayment of the Ways & Means Facility at the Bank of England, changes in the planned Treasury bill stock and changes in the Debt Management Office's (DMO) net cash position. For 2001–02, it comprises a £5.0 billion increase in the Treasury bill stock and a £4.9 billion reduction in the DMO's net cash position.

Table C22: Public sector transactions by sub-sector and economic category

£ billion						
2000–01						
General government						
	Line	Central government	Local authorities	Total	Public corporations	Public sector
<i>Current receipts</i>						
Taxes on income and wealth	1	145.0	0.0	145.0	-0.2	144.8
Taxes on production and imports	2	132.3	0.2	132.5	0.0	132.5
Other current taxes	3	3.6	13.9	17.5	0.0	17.5
Taxes on capital	4	2.2	0.0	2.2	0.0	2.2
Social contributions	5	60.9	0.0	60.9	0.0	60.9
Gross operating surplus	6	5.1	8.6	13.7	3.8	17.5
Rent and other current transfers	7	1.8	0.0	1.8	0.6	2.4
Interest and dividends from private sector and abroad	8	4.4	0.7	5.1	0.3	5.3
Interest and dividends from public sector	9	5.8	-3.6	2.2	-2.2	0.0
Total current receipts	10	361.1	19.8	380.9	2.3	383.2
<i>Current expenditure</i>						
Current expenditure on goods and services	11	107.6	70.0	177.6	0.0	177.6
Subsidies	12	4.3	0.8	5.1	0.0	5.1
Net social benefits	13	102.4	12.5	114.9	0.0	114.9
Net current grants abroad	14	0.1	0.0	0.1	0.0	0.1
Current grants (net) within public sector	15	67.5	-67.5	0.0	0.0	0.0
Other current grants	16	21.7	0.0	21.7	0.0	21.7
Interest and dividends paid	17	26.6	0.3	26.8	-0.3	26.5
Apportionment of DEL reserve and AME margin	18	0.0	0.0	0.0	0.0	0.0
Total current expenditure	19	330.1	16.1	346.3	-0.3	346.0
Depreciation	20	4.7	6.6	11.3	3.6	14.9
Surplus on current budget	21	26.3	-3.0	23.3	-1.0	22.3
<i>Capital expenditure</i>						
Gross domestic fixed capital formation	22	5.8	6.9	12.6	4.0	16.6
Less depreciation	23	-4.7	-6.6	-11.3	-3.6	-14.9
Increase in inventories	24	0.4	0.0	0.4	0.2	0.6
Capital grants (net) within public sector	25	4.4	-3.5	0.9	-0.9	0.0
Capital grants to private sector	26	4.4	1.3	5.7	0.0	5.7
Capital grants from private sector	27	0.0	-0.6	-0.6	0.0	-0.7
Apportionment of DEL reserve	28	0.0	0.0	0.0	0.0	0.0
Net capital expenditure	29	10.3	-2.6	7.7	-0.3	7.4
Net borrowing	30	-16.0	0.4	-15.6	0.7	-15.0

Table C22: 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	151.9	0.0	151.9	-0.2	151.7	Taxes on income and wealth
2	137.3	0.2	137.5	0.0	137.5	Taxes on production and imports
3	3.5	14.7	18.2	0.0	18.2	Other current taxes
4	2.3	0.0	2.3	0.0	2.3	Taxes on capital
5	62.8	0.0	62.8	0.0	62.8	Social contributions
6	5.3	9.0	14.3	4.1	18.3	Gross operating surplus
7	2.0	0.0	2.0	0.7	2.7	Rent and other current transfers
8	3.8	0.8	4.6	0.3	4.8	Interest and dividends from private sector and abroad
9	5.9	-3.5	2.4	-2.4	0.0	Interest and dividends from public sector
10	374.9	21.0	395.9	2.5	398.4	Total current receipts
<i>Current expenditure</i>						
Current expenditure on goods and services						
11	116.7	73.6	190.3	0.0	190.3	
12	5.6	0.9	6.5	0.0	6.5	Subsidies
13	108.6	12.9	121.6	0.0	121.6	Net social benefits
14	-0.9	0.0	-0.9	0.0	-0.9	Net current grants abroad
15	71.5	-71.5	0.0	0.0	0.0	Current grants (net) within public sector
16	24.4	0.0	24.4	0.0	24.4	Other current grants
17	23.1	0.1	23.3	-0.2	23.0	Interest and dividends paid
18	2.2	0.0	2.2	0.0	2.2	Apportionment of DEL reserve and AME margin
19	351.2	16.1	367.3	-0.2	367.0	Total current expenditure
20	4.9	6.8	11.7	3.8	15.5	Depreciation
21	18.8	-1.9	16.9	-1.1	15.9	Surplus on current budget
<i>Capital expenditure</i>						
22	7.6	8.5	16.1	3.9	20.0	Gross domestic fixed capital formation
23	-4.9	-6.8	-11.7	-3.8	-15.5	Less depreciation
24	0.4	0.0	0.4	0.0	0.4	Increase in inventories
25	5.1	-4.3	0.8	-0.8	0.0	Capital grants (net) within public sector
26	5.0	1.3	6.3	0.0	6.3	Capital grants to private sector
27	0.0	-0.7	-0.7	0.0	-0.7	Capital grants from private sector
28	0.6	0.0	0.6	0.0	0.6	Apportionment of DEL reserve
29	13.7	-1.9	11.8	-0.6	11.2	Net capital expenditure
30	-5.1	0.0	-5.1	0.5	-4.7	Net borrowing

Table C23: Historical series of public sector balances, receipts and debt

	Public sector current budget ¹	Public sector net borrowing ¹	Public sector net cash requirement ¹	Per cent of GDP		Public sector current receipts	Public sector net debt ³	General government gross debt	Public sector net worth ⁴
				General government net borrowing ²	Net taxes and social security contributions				
1970–71	6.7	-0.6	1.2	-2.0		43.1			
1971–72	4.1	1.0	1.4	-0.7		41.2			
1972–73	1.9	2.8	3.6	2.2		38.8			
1973–74	0.7	4.4	5.8	4.1		39.7			
1974–75	-0.9	6.4	9.0	4.0		42.5	52.1	60.4	
1975–76	-1.6	7.0	9.2	4.8		42.5	53.1	58.7	
1976–77	-1.3	5.6	6.4	4.3		43.6	53.5	59.1	
1977–78	-1.4	4.2	3.7	3.6		41.3	48.8	57.1	
1978–79	-2.4	4.8	5.2	4.0	33.4	40.5	47.3	56.2	
1979–80	-1.7	3.9	4.7	2.8	34.0	41.0	44.1	51.8	
1980–81	-2.9	4.6	5.1	3.6	35.4	42.4	45.5	52.9	
1981–82	-1.3	2.1	3.4	3.1	38.8	46.2	46.6	51.7	
1982–83	-1.6	3.0	3.2	3.1	38.9	45.6	44.8	50.4	
1983–84	-2.1	3.7	3.2	3.8	38.2	44.6	45.5	50.4	
1984–85	-2.7	4.1	3.1	3.8	38.8	43.9	45.2	50.3	
1985–86	-1.2	2.3	1.6	2.5	38.1	43.4	43.6	49.5	
1986–87	-1.5	2.1	0.9	2.4	37.7	42.0	41.0	48.9	
1987–88	-0.4	0.9	-0.7	1.2	37.6	41.2	36.9	46.5	75.3
1988–89	1.7	-1.5	-3.0	-1.0	36.9	40.8	30.7	40.6	82.0
1989–90	1.5	-0.4	-1.3	0.2	36.3	40.1	27.9	35.5	74.1
1990–91	0.6	0.7	-0.1	1.2	36.4	39.2	26.1	33.3	62.0
1991–92	-1.9	3.6	2.3	3.5	35.2	38.8	27.5	34.4	54.7
1992–93	-5.8	7.7	5.9	7.6	34.0	36.5	32.2	40.4	42.0
1993–94	-6.3	7.8	7.1	7.8	33.3	36.0	37.4	46.3	29.7
1994–95	-4.9	6.3	5.3	6.5	34.3	37.0	41.0	49.6	29.3
1995–96	-3.6	4.9	4.4	5.1	35.3	38.0	43.1	52.4	21.6
1996–97	-3.0	3.6	3.0	3.8	35.2	37.6	44.0	52.4	17.6
1997–98	-0.5	1.0	0.4	0.7	36.5	38.9	41.9	49.6	14.0
1998–99	0.8	-0.3	-0.6	-0.7	37.0	39.1	39.6	46.8	12.2
1999–00	2.1	-1.8	-1.0	-1.7	36.9	39.6	36.8	43.7	17.4

¹ Including windfall tax and associated spending.² UK national accounts definition.³ At end-March, GDP centred on end-March.⁴ At end-December, GDP centred on end-December.

Table C24: Historical series of government expenditure

	£ billion (1999–2000 prices)				Per cent of GDP			
	Public sector current expenditure	Public sector net capital expenditure	Public sector gross investment	Total Managed expenditure	Public sector current expenditure	Public sector net capital expenditure	Public sector gross investment	Total Managed Expenditure
1970–71	152.7	28.7	47.3	200.0	32.5	6.1	10.1	42.5
1971–72	160.0	25.1	44.4	204.4	33.0	5.2	9.2	42.2
1972–73	168.0	24.2	44.4	212.4	33.0	4.7	8.7	41.7
1973–74	184.8	27.2	49.8	234.6	34.8	5.1	9.4	44.1
1974–75	203.9	28.8	52.9	256.8	38.8	5.5	10.1	48.9
1975–76	208.9	28.2	52.6	261.5	39.5	5.3	10.0	49.5
1976–77	214.5	23.0	48.1	262.6	40.2	4.3	9.0	49.2
1977–78	211.1	15.6	40.7	251.8	38.2	2.8	7.4	45.5
1978–79	217.4	13.6	39.2	256.6	38.4	2.4	6.9	45.3
1979–80	223.9	12.5	38.5	262.4	38.3	2.1	6.6	44.9
1980–81	231.0	9.8	36.3	267.3	40.6	1.7	6.4	47.0
1981–82	241.0	4.8	31.2	272.2	42.8	0.8	5.5	48.3
1982–83	246.9	8.1	33.8	280.7	42.7	1.4	5.9	48.6
1983–84	254.2	10.1	35.7	289.9	42.4	1.7	6.0	48.3
1984–85	260.8	8.8	33.3	294.1	42.6	1.4	5.4	48.0
1985–86	261.5	7.2	29.3	290.8	41.1	1.1	4.6	45.7
1986–87	265.8	3.9	26.4	292.3	40.1	0.6	4.0	44.1
1987–88	269.1	3.7	24.6	293.6	38.6	0.5	3.5	42.1
1988–89	262.8	1.9	23.3	286.1	36.1	0.3	3.2	39.3
1989–90	264.3	8.1	29.7	294.0	35.7	1.1	4.0	39.7
1990–91	265.7	9.4	28.7	294.4	36.0	1.3	3.9	39.9
1991–92	281.3	12.5	28.9	310.2	38.4	1.7	3.9	42.4
1992–93	296.2	14.2	29.3	325.5	40.2	1.9	4.0	44.2
1993–94	305.3	11.5	26.4	331.7	40.4	1.5	3.5	43.9
1994–95	316.1	10.7	26.0	342.1	40.0	1.4	3.3	43.2
1995–96	320.6	10.0	25.6	346.3	39.7	1.2	3.2	42.9
1996–97	322.9	5.1	20.0	342.9	38.8	0.6	2.4	41.2
1997–98	321.8	4.0	18.6	340.5	37.5	0.5	2.2	39.6
1998–99	320.2	4.1	18.8	339.0	36.4	0.5	2.1	38.6
1999–00	325.3	3.5	18.2	343.5	35.9	0.4	2.0	37.9

CONVENTIONS USED IN PRESENTING THE PUBLIC FINANCES

FORMAT FOR THE PUBLIC FINANCES

The June 1998 Economic and Fiscal Strategy Report (EFSR), set out a new format for presenting the public finances that corresponded more closely to the two fiscal rules. The three principal measures are:

- the surplus on current budget (relevant to the golden rule);
- public sector net borrowing, and
- the public sector net debt ratio (relevant to the sustainable investment rule).

These measures are based on the national accounts and are consistent with the new European System of Accounts 1995 (ESA95). Estimates and forecasts of the public sector net cash requirement (formerly called the public sector borrowing requirement) are still shown in the FSBR, but they are given less prominence.

The fiscal rules are similar to the criteria for deficits and debt laid down in the Treaty but there are important definitional differences:

- UK fiscal rules cover the whole public sector, whereas the Treaty deficit and debt only includes general (ie: central and local) government;
- the fiscal rules apply over the whole economic cycle, not year-to-year;
- the current budget excludes capital spending, which is included in the Treaty deficit measure; and
- the UK debt measure is net of liquid assets, whereas the Treaty measure uses gross debt.

From February 2000 the Treaty deficit moved to being reported on an ESA95 basis.

NATIONAL ACCOUNTS

The national accounts record most transactions, including most taxes (although not corporation tax), on an accruals basis, and impute the value of some transactions where no money changes hands (for example, non-trading capital consumption). The principal measures drawn from the national accounts are described below.

The **current budget** (formerly known as the current balance) measures the balance of current account revenue over current expenditure. The definition of the current balance presented in this chapter is very similar to the national accounts concept of net saving. It differs only in that it includes taxes on capital (mainly death duties) in current rather than capital receipts.

Public sector net borrowing (formerly known as the financial deficit in the UK national accounts) is the balance between expenditure and income in the consolidated current and capital accounts. It differs from the public sector net cash requirement because it is measured on an accruals basis and because certain financial transactions (notably net lending and net acquisition of other financial assets, which affect the level of borrowing but not the public sector's net financial indebtedness) are excluded from public sector net borrowing but included in the public sector net cash requirement.

General government net borrowing, which excludes net borrowing of public corporations, is the most internationally comparable measure of the budget deficit. It is reported to the European Commission under the Treaty, using the definitions in ESA95.

CASH BASIS

The cash approach measures the actual cash transactions between the public sector and the rest of the economy. It is the starting point for monthly estimates of net borrowing.

PUBLIC SECTOR CURRENT RECEIPTS

Net taxes and social security contributions in Table C10 are measured on a cash basis, rather than a national accounts (accruals) basis, and, as far as possible, relate to actual cash flows. Income tax credits are netted off. VAT is net of refunds to the public sector. These refunds are part of “other taxes and royalties” in Table C7. Social security contributions are scored gross of amounts netted off by employers as reimbursement in respect of statutory sick pay and statutory maternity pay. (These payments count as expenditure rather than negative receipts.). “Good causes” receipts from the National Lottery are included in “other taxes and royalties”.

The **accounting adjustments** put these cash figures on to a national accounts (accruals) basis. Those elements of the UK contribution to the EC budget which relate to the UK tax base are deducted as, under ESA95, they are treated for national accounts as taxes imposed directly by the EU. Tax credits which score as expenditure in the national accounts are added back. Certain income tax reliefs are payable regardless of an individual’s liability to income tax; thus some payments are made to non-taxpayers. Examples are mortgage interest relief paid under the MIRAS (mortgage interest relief at source) scheme, life assurance premium relief on pre-1984 policies and private medical insurance premium relief for over-60s. The working families tax credit also falls into this category. Total tax relief paid under these schemes is shown as income tax credits in Table C7. Income tax receipts are shown gross of these tax credits. All such tax credits are shown in the national accounts as expenditure. From 2001–02, income tax credits include the Children’s Tax Credit, which is treated in the national accounts as negative tax receipts. Hence, payments of Children’s Tax Credit are not added back in deriving total receipts on a national accounts basis.

TOTAL MANAGED EXPENDITURE (TME)

Public expenditure control regime

The Economic and Fiscal Strategy Report (EFSR) in June 1998 also reformed the planning and control regime for public spending.

- Overall plans are based on sound economic principles, with a new distinction between current and capital spending;
- Firm 3-year plans (Departmental Expenditure Limits – DEL) will provide certainty and flexibility for long-term planning and management;
- Spending outside DEL, which cannot reasonably be subject to firm multi-year limits commitments, will be reviewed annually as part of the Budget process. This Annual Managed Expenditure (AME) is also subject to constraints;
- Large public corporations, not dependent on government grants, will have more flexibility;

Detailed plans under this regime were given in the 2000 Spending Review in July 2000 for the years 2001–02 to 2003–04.

Public sector **capital expenditure** is shown in Table C15. It includes:

- (i) gross domestic fixed capital formation (ie expenditure on fixed assets – schools, hospitals, roads, computers, plant and machinery, intangible assets etc) net of receipts from sales of fixed assets (eg council houses and surplus land);
- (ii) grants in support of capital spending by the private sector; and
- (iii) the value of the physical increase in stocks (for central government, primarily agricultural commodity stocks).

Net investment in Table C2 nets off depreciation of the public sector's stock of fixed assets.

Departmental Expenditure Limits (DEL) have distinct resource and capital budgets, shown in Table C13.

Annually Managed Expenditure (AME) components are shown in Table C11. These include all of social security spending, housing revenue account subsidies, the Common agricultural policy, export credits, net payments to EC institutions, spending by self financing public corporations, public service pensions net of contributions, spending financed by the national lottery and central government gross debt interest.

Total Managed Expenditure (TME), the sum of DEL and AME, is shown in Table C11.

Export Credits Guarantee Department programme includes the activities of the Guaranteed Export Finance Corporation (GEFCO), whose sole business is to refinance export loans guaranteed by ECGD, thus reducing the cost to Government. The refinancing activities are financial transactions affecting only the net cash requirement and so are netted out in the accounting adjustments.

Locally financed expenditure comprises local authority self-financed expenditure (LASFE) and Scottish spending financed by local taxation (non-domestic rates and, if and when levied, the Scottish variable rate of income tax). LASFE is the difference between total local authority expenditure, including most gross debt interest but net of capital receipts, and central government support to local authorities (ie Aggregate External Finance (AEF), specific grants and credit approvals).

Central government debt interest is shown gross. Only interest paid within central government is netted off; all other receipts of interest and dividends are included in current receipts. The capital uplift on index-linked gilts is scored as interest at the time it accrues, whereas the net cash requirement records the actual payments of capital uplift on the redemption of index-linked gilts (the uplift which accrued while the stock was in market hands). Interest paid includes the amortisation of discounts on gilts at issue.

The **accounting adjustments** include various items within TME but outside DEL, which are not shown separately in Table C11. These details are shown in Table C14. The definition of each line is as follows:

Line one adds the value of general government non-trading capital consumption.

Line two adds back VAT refunded to central government departments, local authorities and certain public corporations. DEL and AME programme expenditure are measured net of these refunds, while Total Managed Expenditure is recorded with the VAT paid.

Line three deducts traditional own resources (ie payments of Customs duties and agricultural and sugar levies) and VAT contributions to the European Community, which are included in the net payments to EC institutions line in AME, but excluded from TME.

Line four adds income tax credits which score as public expenditure under national accounting conventions. This includes Mortgage Interest Relief, Life Assurance Premium Relief, and (from 1999–00) the Working Families' Tax Credit and Disabled Person's Tax Credit.

Line five moves the scoring of public corporations' current and capital spending on to a national accounts basis. It adds in capital expenditure and debt interest payments to the private sector that do not score in departmental budgets and removes capital grants to public corporations and operating surpluses that do not score in departmental budgets.

Line six removes intra-public sector debt interest and dividend payments and receipts which are included elsewhere in Departmental Expenditure Limits and Annually Managed Expenditure.

Line seven deducts those financial transactions, which are scored in Departmental Expenditure Limits and Annually Managed Expenditure.

Line eight removes the deduction of receipts relating to regulation of industry that are netted off in DEL but should not be netted off in TME. It also deducts certain local authorities' receipts that are netted off TME.

Line nine shows other adjustments and include, amongst others, the deduction of grants paid to local authorities by non-departmental public bodies classified to the central government sector. In 1999–2000 it also includes a one-off accruals adjustment reflecting the new accounting convention used in departmental budgets.

DEBT AND WEALTH

Public sector net debt is approximately the stock analogue of the public sector net cash requirement. It measures the public sector's financial liabilities to the private sector and abroad, net of short-term financial assets such as bank deposits and foreign exchange reserves.

General government gross debt is the measure of debt used in the European Union's excessive deficits procedure. As a general government measure, it excludes the debt of public corporations. It measures general government's total financial liabilities before netting off short-term financial assets.

Public sector net worth represents the public sector's overall net balance sheet position. It is equal to the sum of the public sector's financial and non-financial assets less its total financial liabilities. The estimates of tangible assets are subject to wide margins of error, because they depend on broad assumptions, for example about asset lives, which may not be appropriate in all cases. The introduction of resource accounting for central government departments will lead in time to an improvement in data quality, as audited information compiled from detailed asset registers becomes available.

