

The latest projections for the public finances show that the Government remains on track to meet its strict fiscal rules. Low and stable debt levels combined with strong surpluses on the current budget left the public finances well placed to accommodate the impact of the global slowdown in 2001. Budget 2002 projections show that:

- the current budget remains in surplus over the economic cycle, even using cautious assumptions and including in the cautious case, ensuring that the Government remains on track to meet the golden rule;
- public sector net debt is expected to remain low and stable at around 31 per cent of GDP; comfortably meeting the sustainable investment rule;
- the fiscal stance this year and over the next two years is at least as tight as in the Pre-Budget Report; and
- in the medium term, and in light of the low levels of net debt, the Government is moderately increasing net borrowing to fund investment in priority public services.

Budget 2002 therefore maintains the conditions for economic stability, continuing the Government's prudent approach to managing the public finances, while releasing substantial resources for the Government's long-term goals.

## INTRODUCTION

**C1** Chapter 2 describes the Government's fiscal framework and shows how the projections of the public finances are consistent with meeting the fiscal rules. This chapter explains the latest outturns and the fiscal projections in more detail. It includes:

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

**C2** The fiscal projections continue to be based on deliberately cautious key assumptions audited by the National Audit Office (NAO). The latest assumptions are set out in Box C1 and include a revised assumption for trend output growth of 2½ per cent a year.

## MEETING THE FISCAL RULES

**C3** The Government remains firmly on track to meet the fiscal rules throughout the next five years. Table C1 compares the latest estimates for the main fiscal balances with those in the Pre-Budget Report and Budget 2001.

**C4** In the Pre-Budget Report, receipts for 2001–02 were revised down significantly – mainly as a result of the effects of the global economic downturn. An explanation of the impact of the slowdown on different taxes was included in the Pre-Budget Report. Receipts outturns since November have been about £1 billion lower than in the Pre-Budget Report. However,

reflecting lower outturns for spending, the provisional outturn for the current surplus in 2001–02 is £10.6 billion, £0.3 billion higher than projected in November.

**C5** The provisional outturn for net investment in 2001–02 is slightly lower than in the Pre-Budget Report, and public sector net borrowing is £1.2 billion lower at £1.3 billion. The revised fiscal projections show that fiscal policy supported monetary policy in 2001 through the automatic stabilisers as the economy moved slightly below trend, while continuing to meet the two fiscal rules.

**C6** Receipts in 2002–03 are considerably lower than projected in Budget 2001 but much the same as in the Pre-Budget Report. The current surplus is expected to return to its Pre-Budget Report level in 2002–03 and is higher in 2003–04 and 2004–05 because of Budget measures and stronger economic growth, mainly resulting from the change to the trend output growth assumption. Over the five year period as a whole the projected current surplus is higher than in the Pre-Budget Report.

**C7** In both 2002–03 and 2003–04, cyclically-adjusted net borrowing is projected to be 0.2 per cent of GDP lower than in the Pre-Budget Report, before returning to its Pre-Budget Report level in 2004–05. The fiscal stance this year and over the next two years is therefore at least as tight as projected in November. Compared with the Pre-Budget Report, there is a small fiscal tightening this year and next as growth gathers pace during 2002 and the economy returns to trend. Over the medium term, the Government has decided to increase net borrowing modestly to fund investment in improving the public infrastructure, increasing public sector net investment gradually from less than  $\frac{3}{4}$  per cent of GDP in 2000–01 to over 2 per cent of GDP by 2006–07. With net debt of around 31 per cent of GDP over the projection period, these planned increases are fully consistent with meeting the fiscal rules comfortably.

**Table CI: Fiscal balances compared with Budget 2001 and the 2001 Pre-Budget Report<sup>1</sup>**

|  | Outturn <sup>2</sup> |             | Projections |            |            |            |            |
|--|----------------------|-------------|-------------|------------|------------|------------|------------|
|  | 2000–01              | 2001–02     | 2002–03     | 2003–04    | 2004–05    | 2005–06    | 2006–07    |
| <b>Surplus on current budget (£ billion)</b>                           |                      |             |             |            |            |            |            |
| Budget 2001  | 22.3                 | 15.9        | 14          | 8          | 9          | 9          |            |
| PBR 2001   | 25.1                 | 10.3        | 3           | 4          | 7          | 8          | 9          |
| <b>Budget 2002</b>   | <b>21.6</b>          | <b>10.6</b> | <b>3</b>    | <b>7</b>   | <b>9</b>   | <b>7</b>   | <b>9</b>   |
| <b>Net borrowing (£ billion)</b>                                       |                      |             |             |            |            |            |            |
| Budget 2001  | –15.0                | –4.7        | 2           | 10         | 11         | 12         |            |
| PBR 2001   | –18.8                | 2.5         | 12          | 15         | 13         | 13         | 13         |
| <b>Budget 2002</b>   | <b>–15.9</b>         | <b>1.3</b>  | <b>11</b>   | <b>13</b>  | <b>13</b>  | <b>17</b>  | <b>18</b>  |
| <b>Cyclically-adjusted surplus on current budget (per cent of GDP)</b> |                      |             |             |            |            |            |            |
| Budget 2001  | 2.0                  | 1.2         | 1.0         | 0.6        | 0.7        | 0.7        |            |
| PBR 2001   | 2.3                  | 1.0         | 0.3         | 0.3        | 0.5        | 0.7        | 0.7        |
| <b>Budget 2002<sup>3</sup></b>   | <b>1.8</b>           | <b>1.0</b>  | <b>0.5</b>  | <b>0.6</b> | <b>0.7</b> | <b>0.6</b> | <b>0.7</b> |
| <b>Cyclically-adjusted net borrowing (per cent of GDP)</b>             |                      |             |             |            |            |            |            |
| Budget 2001  | –1.3                 | –0.1        | 0.4         | 1.1        | 1.1        | 1.1        |            |
| PBR 2001   | –1.6                 | 0.3         | 1.1         | 1.4        | 1.2        | 1.1        | 1.1        |
| <b>Budget 2002<sup>3</sup></b>   | <b>–1.2</b>          | <b>0.2</b>  | <b>0.9</b>  | <b>1.2</b> | <b>1.2</b> | <b>1.4</b> | <b>1.4</b> |

<sup>1</sup> Including Windfall Tax receipts and associated spending.

<sup>2</sup> The 2000–01 figures were estimates in Budget 2001; the 2001–02 figures were projections in Budget 2001 and PBR 2001.

<sup>3</sup> These figures are estimates in 2001–02.

**C8** Table C2 shows five-year projections of the current budget surplus and public sector net debt as a percentage of GDP, the key fiscal aggregates for assessing performance against the golden rule and the sustainable investment rule respectively. Outturns and projections of other important measures of the public finances, including net borrowing and net worth, are also shown.

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

|   | Per cent of GDP |         |          |             |         |         |         |         |
|---|-----------------|---------|----------|-------------|---------|---------|---------|---------|
|   | Outturns        |         | Estimate | Projections |         |         |         |         |
|   | 1999–00         | 2000–01 | 2001–02  | 2002–03     | 2003–04 | 2004–05 | 2005–06 | 2006–07 |
| <b>Fairness and prudence</b>                    |                 |         |          |             |         |         |         |         |
| Surplus on current budget                       | 2.3             | 2.3     | 1.1      | 0.3         | 0.6     | 0.8     | 0.6     | 0.7     |
| Average surplus since 1999–2000                 | 2.3             | 2.3     | 1.9      | 1.5         | 1.3     | 1.2     | 1.1     | 1.1     |
| Cyclically-adjusted surplus on current budget   | 2.1             | 1.8     | 1.0      | 0.5         | 0.6     | 0.7     | 0.6     | 0.7     |
| <b>Long-term sustainability</b>                 |                 |         |          |             |         |         |         |         |
| Public sector net debt                          | 36.4            | 31.3    | 30.4     | 30.2        | 30.4    | 30.4    | 30.7    | 31.0    |
| Core debt <sup>1</sup>                          | 35.7            | 31.0    | 30.2     | 29.9        | 30.1    | 30.2    | 30.5    | 30.8    |
| Net worth <sup>2</sup>                          | 14.7            | 19.5    | 20.8     | 21.4        | 21.4    | 21.0    | 20.3    | 20.1    |
| Primary balance                                 | 4.1             | 3.8     | 1.7      | 0.6         | 0.5     | 0.4     | 0.1     | 0.0     |
| <b>Economic impact</b>                          |                 |         |          |             |         |         |         |         |
| Net investment                                  | 0.5             | 0.6     | 1.2      | 1.4         | 1.8     | 1.9     | 2.0     | 2.1     |
| Public sector net borrowing (PSNB)              | –1.8            | –1.7    | 0.1      | 1.1         | 1.2     | 1.1     | 1.4     | 1.4     |
| Cyclically-adjusted PSNB                        | –1.6            | –1.2    | 0.2      | 0.9         | 1.2     | 1.2     | 1.4     | 1.4     |
| <b>Financing</b>                                |                 |         |          |             |         |         |         |         |
| Central government net cash requirement         | –1.0            | –3.7    | 0.3      | 1.3         | 1.6     | 1.4     | 1.7     | 1.9     |
| <b>European commitments</b>                     |                 |         |          |             |         |         |         |         |
| Treaty deficit <sup>3</sup>                     | –1.7            | –1.7    | 0.2      | 1.0         | 1.1     | 1.1     | 1.4     | 1.5     |
| Cyclically-adjusted Treaty deficit <sup>3</sup> | –1.5            | –1.2    | 0.3      | 0.8         | 1.1     | 1.2     | 1.4     | 1.5     |
| Treaty debt ratio <sup>4</sup>                  | 43.4            | 40.1    | 38.0     | 36.9        | 36.6    | 36.5    | 36.6    | 36.8    |
| Memo: Output gap                                | 0.2             | 0.8     | –0.2     | –0.2        | 0.1     | 0.0     | 0.0     | 0.0     |

<sup>1</sup> See box 2.4.

<sup>2</sup> At end December; GDP centered on end-December.

<sup>3</sup> General government net borrowing on an ESA95 basis.

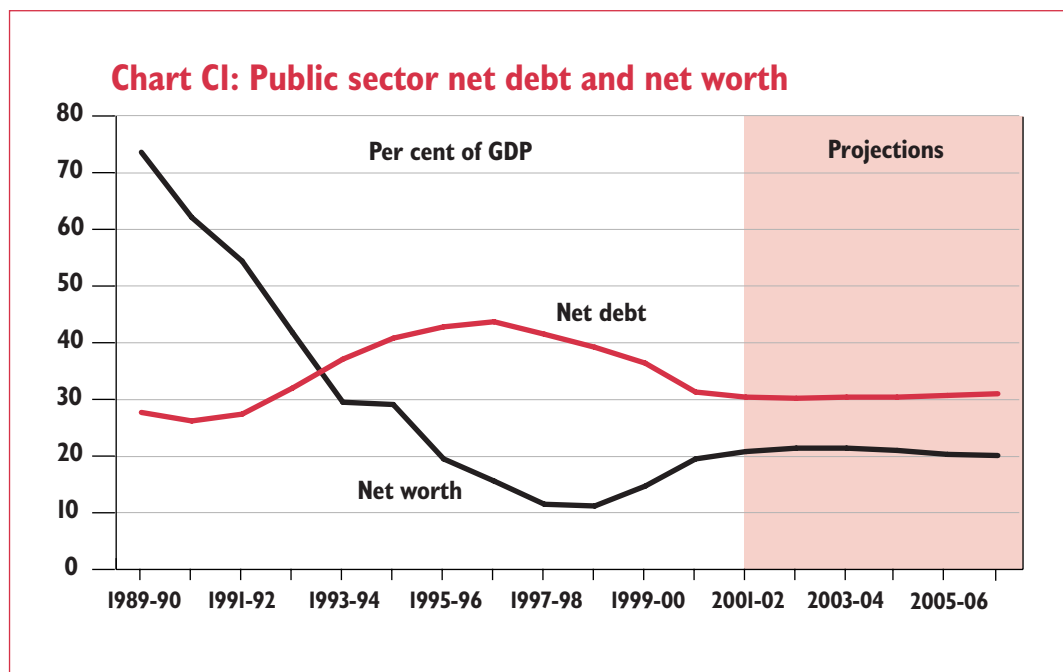
<sup>4</sup> General government gross debt on Maastricht basis.

**C9** The projections show that, as in Budget 2001 and the Pre-Budget Report, the Government remains on track to meet the golden rule over the forecast period. The current budget balance improved from a deficit of 3 per cent of GDP in 1996–97 to surpluses of over 2 per cent in 1999–2000 and 2000–01, and 1 per cent in 2001–02. While the surplus temporarily falls to about  $\frac{1}{4}$  per cent of GDP in 2002–03, it recovers to around  $\frac{3}{4}$  per cent over the rest of the period. The average surplus on the current budget from 1999–2000 is projected to be over 1 per cent of GDP in each year, consistent with the golden rule over the projection period. Table C2 also shows the updated estimates of the cyclically-adjusted current budget. These allow underlying or structural trends in the indicators to be seen more clearly, once the estimated effects of the economic cycle are removed.

**CI0** The sustainable investment rule is also comfortably met over the projection period. In 1996–97, public sector net debt stood at 44 per cent of GDP. The tough decisions on taxation and spending taken by the Government over the course of the last Parliament, including the decision to use the proceeds from the auction of spectrum licences to repay debt, means that net debt is projected to stay around 31 per cent of GDP throughout the projection period.

**CI1** As explained in Box 2.4, in order to increase the transparency of the framework, Table C2 now includes figures for a measure of net debt excluding cyclical fluctuations – core debt. The Budget 2002 projections show that over the next few years core debt will grow slowly as the Government borrows modestly to fund increased investment in priority public services, consistent with the fiscal rules.

**CI2** Net worth is the approximate stock counterpart of the current budget balance. Current budget surpluses of over 2 per cent of GDP in recent years have begun to raise net worth to an estimated 21 per cent of GDP in 2001–02. At present, net worth is not used as a key indicator of the public finances, mainly due to the difficulties in measuring accurately many government assets and liabilities.



**CI3** 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 output growth, a primary surplus is required to stabilise the net debt ratio. The primary balance is projected to be in surplus by over 1½ per cent of GDP in 2001–02, and to remain positive throughout the projection period.

**CI4** As a result of the spending measures announced in the Budget, public sector net investment is projected to rise steadily to 2.1 per cent of GDP by 2006–07. These increases are sustainable and fully consistent with the Government's long-term approach and the fiscal rules, since net debt is being held at a stable and prudent level, well below 40 per cent of GDP. This increase in net investment, together with the new projections of the surplus on the current budget, mean that public sector net borrowing is expected to rise from 0.1 per cent of GDP in 2001–02 to 1.4 per cent in 2006–07.

**C15** The central government net cash requirement was a repayment of  $3\frac{3}{4}$  per cent of GDP in 2000–01. This largely reflected the receipts from the auction of licences to access the electromagnetic spectrum. The net cash requirement moved to a modest deficit in 2001–02, and the deficit is projected to increase in 2002–03 and subsequent years, mirroring the profile of public sector net borrowing.

**C16** Table C2 also shows the Treaty measures of the deficit and debt used in the Excessive Deficits Procedure. The reference levels of 3 per cent of GDP for the deficit and 60 per cent of GDP for net debt are comfortably achieved throughout the projection period.

## FORECAST ERRORS AND RISKS

**C17** The fiscal balances represent the difference between two large aggregates of spending and receipts and are inevitably subject to wide margins of forecast error. Over the past five years, the average absolute error (the average error irrespective of whether the errors have been positive or negative) for one-year ahead forecasts of net borrowing has been around 1 per cent of GDP. The error tends to grow as the forecast horizon lengthens. Much of this error arises from forecast errors of GDP.

**C18** 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. Earlier work<sup>1</sup> suggested that if GDP growth were 1 percentage point higher or lower than assumed over the coming year, net borrowing might be lower or higher by 0.4 per cent of GDP in the first year and by a further 0.3 per cent of GDP in the following year. Allowing for the reduction in the lag between profits and corporation tax receipts resulting from the introduction of the instalment system, these figures are now closer to 0.5 and 0.2 per cent respectively. However, not all cycles will conform exactly to these parameters, notably because the estimates are based on historical data (since which time both the economy and tax regime have changed) and because cycles differ in respects other than magnitude.

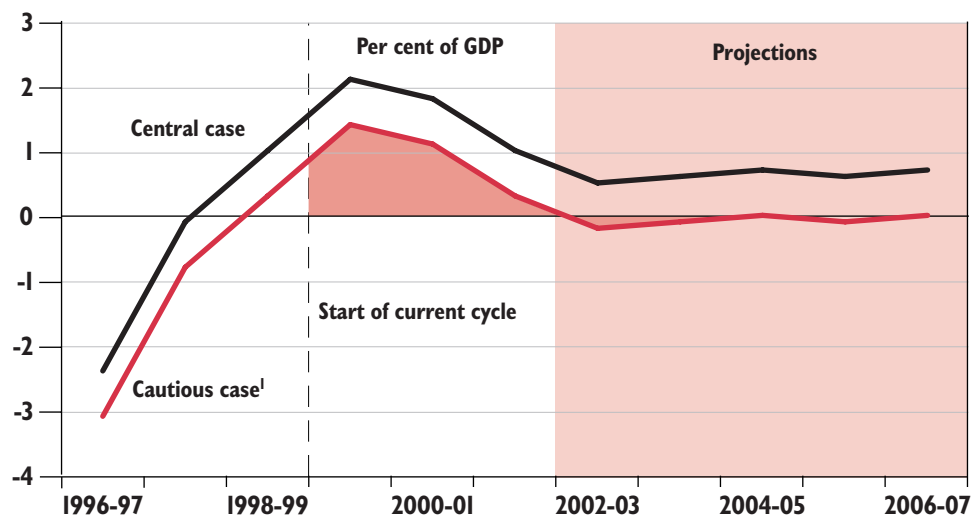
**C19** Errors in short-term growth forecasts may have only a temporary effect on the public finances. For a given path of trend output, higher or lower growth in the short-term will be followed by lower or higher growth later on, and the public finances may be little affected on average over the cycle. However, errors in estimating the cyclical position of the economy in relation to its trend – the output gap – will have a permanent effect on prospects.

**C20** For this reason, the public finance projections are deliberately based on assumptions for key economic variables, including the trend rate of growth of the economy in the medium term. These are audited by the NAO to ensure they remain both reasonable and cautious. Details of these assumptions are given in Box C1.

**C21** In addition, the public finance projections are stress-tested against an alternative cautious case, in which the output gap is assumed to be 1 percentage point higher than the central view. This scenario would imply that a greater proportion of the projected surplus on the current budget was due to the cyclical strength of the economy: a 1 per cent larger positive output gap reduces the structural surplus on the current budget by about  $\frac{3}{4}$  per cent of GDP a year. This is illustrated in Chart C2. Even in this more cautious case, the cyclically-adjusted current budget is estimated to have been comfortably in surplus over the past four years. The impact of the temporary fall in receipts means that it moves into deficit over the short term, before returning broadly to balance from 2004–05. However, the average surplus on the cyclically-adjusted current budget in the cautious case from 1999–2000 only falls to a minimum of  $\frac{1}{4}$  per cent of GDP in each year.

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

**Chart C2: Cyclically-adjusted surplus on current budget**



<sup>1</sup>Cautious case assumes trend output 1 percentage point lower in relation to actual output than in the central case.

## ASSUMPTIONS

**C22** The fiscal projections are based on the following assumptions:

- the economy follows the path described in Chapter B. In the interests of caution, the fiscal projections continue to be based on a deliberately prudent and cautious assumption of trend output growth that is  $\frac{1}{4}$  percentage point lower than the Government's neutral view. Thus, the projections are now based on trend output growth of  $2\frac{1}{2}$  per cent a year;
- there are no tax changes beyond those already announced in or before this Budget and the indexation of rates and allowances. Consistent with the *Code for Fiscal Stability*, the forecast does not take account of measures which cannot be costed accurately in advance of consultation, including the intention to abolish Royalty on North Sea oil;
- forecasts for individual Annually Managed Expenditure (AME) programmes through to 2003–04 have been reviewed and further additions made for new spending measures in AME announced in this Budget. Following usual practice, the Government has decided to reset the AME margin to £1 billion in 2002–03 and £2 billion in 2003–04;
- beyond 2003–04, current expenditure in AME, excluding measures introduced in the Pre-Budget Report and in this Budget, which are projected separately, is projected to grow at  $1\frac{3}{4}$  per cent a year in real terms, in line with recent trends;
- firm overall spending plans for the 2002 Spending Review from 2003–04 to 2005–06 are set out in Chapter 6 in paragraph 6.33. Decisions on departmental spending allocations will be announced in the 2002 Spending Review;
- prior to spending plans being set in the 2004 Spending Review, the fiscal projections assume DEL growth after 2005–06 of 2.5 per cent in real terms, in

line with the assumption on economic growth used for the public finances, supplemented by an addition to allow for the 5 year health settlement of the difference between planned health growth and health's long term average growth, 3.6 per cent. This delivers DEL growth of 3.8 per cent in 2006–07. Other spending in AME is forecast to grow at 1.75 per cent in real terms in line with its long-term trend after 2005–06; and

- within these aggregates, net investment is forecast to increase from 2.0 per cent over the 2002 Spending Review period of 2.1 per cent in 2006–07 towards an assumption of 2.25 per cent of GDP in 2007–08, remaining consistent with the sustainable investment rule.

A full explanation of the firm DEL spending limits for resource and capital expenditure within which the 2002 Spending Review will be completed is provided in Chapter 6. Details of tax changes and other Budget policy decisions are set out in Chapter A.

**Table C3: Economic assumptions for public finance projections**

|                                    | Percentage changes on previous year |                               |                               |                               |                               |                               |                               |
|------------------------------------|-------------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|                                    | Outturn                             |                               |                               | Projections <sup>1</sup>      |                               |                               |                               |
|                                    | 2000–01                             | 2001–02                       | 2002–03                       | 2003–04                       | 2004–05                       | 2005–06                       | 2006–07                       |
| Output (GDP)                       | 3                                   | 1 <sup>3</sup> / <sub>4</sub> | 2 <sup>1</sup> / <sub>2</sub> | 2 <sup>3</sup> / <sub>4</sub> | 2 <sup>1</sup> / <sub>2</sub> | 2 <sup>1</sup> / <sub>2</sub> | 2 <sup>1</sup> / <sub>2</sub> |
| Prices                             |                                     |                               |                               |                               |                               |                               |                               |
| RPIX                               | 2                                   | 2 <sup>1</sup> / <sub>4</sub> | 2 <sup>1</sup> / <sub>4</sub> | 2 <sup>1</sup> / <sub>2</sub> | 2 <sup>1</sup> / <sub>2</sub> | 2 <sup>1</sup> / <sub>2</sub> | 2 <sup>1</sup> / <sub>2</sub> |
| GDP deflator                       | 1 <sup>3</sup> / <sub>4</sub>       | 2 <sup>3</sup> / <sub>4</sub> | 2 <sup>1</sup> / <sub>2</sub> | 2 <sup>1</sup> / <sub>2</sub> | 2 <sup>1</sup> / <sub>2</sub> | 2 <sup>1</sup> / <sub>2</sub> | 2 <sup>1</sup> / <sub>2</sub> |
| RPI <sup>2</sup> (September)       | 3 <sup>1</sup> / <sub>4</sub>       | 1 <sup>3</sup> / <sub>4</sub> | 2                             | 3 <sup>1</sup> / <sub>2</sub> | 2 <sup>3</sup> / <sub>4</sub> | 2 <sup>1</sup> / <sub>2</sub> | 2 <sup>1</sup> / <sub>2</sub> |
| Rossi <sup>3</sup> (September)     | 1 <sup>1</sup> / <sub>2</sub>       | 1 <sup>3</sup> / <sub>4</sub> | 1 <sup>3</sup> / <sub>4</sub> | 2 <sup>1</sup> / <sub>4</sub> | 2 <sup>1</sup> / <sub>4</sub> | 2                             | 2                             |
| Money GDP <sup>4</sup> (£ billion) | 956                                 | 1000                          | 1051                          | 1108                          | 1163                          | 1222                          | 1284                          |

<sup>1</sup> The figure for RPIX in 2001–02 is an outturn.

<sup>2</sup> Used for revalorising excise duties in current year and uprating income tax allowances and bands and certain social security benefits in the following year.

<sup>3</sup> RPI excluding housing costs, used for uprating certain social security benefits.

<sup>4</sup> Not seasonally adjusted.

**C23** The key assumptions underlying the fiscal projections are audited by the NAO. For this Budget, the NAO have reviewed the Government's revised trend growth assumptions. The NAO have also audited the assumption on UK claimant unemployment under the three-year rolling review process. The reviews concluded that both the new trend output growth and unemployment assumptions remain reasonable and cautious.

**Box C1: Key assumptions audited by the NAO**

- **Privatisation proceeds<sup>1,6</sup>** Credit is taken only for proceeds from sales that have been announced.
- **Trend GDP growth<sup>1,6,9</sup>** 2½ per cent a year.
- **UK claimant unemployment<sup>1,4,7,9</sup>** Rising slowly to 1.00 million in 2003–04, from recent levels of 0.95 million, consistent with average of independent forecasts.
- **Interest rates<sup>1,6,7</sup>** 3-month market rates change in line with market expectations (as of 10 April).
- **Equity prices<sup>2,7</sup>** FT–All share index rises from 2542 (close 5 April) from Q2 2002 in line with money GDP.
- **VAT<sup>2,7</sup>** Ratio of underlying VAT receipts to consumption falls by 0.05 percentage points a year.
- **GDP deflator and RPI<sup>2,7</sup>** Projections of price indices used to plan public expenditure are consistent with RPIX.
- **Composition of GDP<sup>3,8</sup>** Shares of labour income and profits in national income are broadly constant in the medium term.
- **Funding<sup>3,8</sup>** Funding assumptions used to project debt interest are consistent with the forecast level of government borrowing and with financing policy.
- **Oil prices<sup>5</sup>** \$21.5 a barrel in 2002, the average for Q1 2002, and then constant in real terms.
- **Anti-tobacco smuggling measures<sup>4</sup>** Only direct effects, including deterrent effects of fiscal marks, are allowed for.

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

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

<sup>3</sup> Audit of Assumptions for the Budget, 19 March 1998 (HC616).

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

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

<sup>6</sup> Audit of Assumptions for the March 2000 Budget, 21 March 2000 (HC348).

<sup>7</sup> Audit of Assumptions for the Pre-Budget 2000 Report, 8 November 2000 (HC959).

<sup>8</sup> Audit of Assumptions for the March 2001 Budget, 7 March 2001 (HC304).

<sup>9</sup> Audit of Assumptions for the April 2002 Budget, 17 April 2002 (HC760).

**FISCAL AGGREGATES**

**C24** Tables C4 and C5 provide further detail on the projections of the current and capital budgets. As in the Pre-Budget Report, the tables show the current surplus and net borrowing both including and excluding Windfall Tax and associated spending (WTAS). WTAS now has much less impact and, unless otherwise stated, all projections now cover all public expenditure. Latest estimates of associated spending are given in Table 4.1.

**Table C4: Current and capital budgets**

|   | £ billion    |              |            |             |            |            |            |
|---|--------------|--------------|------------|-------------|------------|------------|------------|
|   | Outturns     |              |            | Projections |            |            |            |
|   | 2000–01      | 2001–02      | 2002–03    | 2003–04     | 2004–05    | 2005–06    | 2006–07    |
| <b>Current budget</b>                                       |              |              |            |             |            |            |            |
| Current receipts <sup>1</sup>                               | 383.0        | 390.8        | 407        | 442         | 468        | 494        | 520        |
| Current expenditure <sup>1</sup>                            | 348.8        | 367.4        | 390        | 420         | 444        | 471        | 495        |
| Depreciation <sup>1</sup>                                   | 12.7         | 12.8         | 14         | 15          | 15         | 16         | 17         |
| Surplus on current budget<br>(excluding WTAS <sup>2</sup> ) | 22.1         | 11.4         | 4          | 7           | 9          | 7          | 9          |
| <b>Surplus on current budget</b>                            | <b>21.6</b>  | <b>10.6</b>  | <b>3</b>   | <b>7</b>    | <b>9</b>   | <b>7</b>   | <b>9</b>   |
| <b>Capital budget</b>                                       |              |              |            |             |            |            |            |
| Gross investment  | 23.4         | 29.9         | 32         | 38          | 41         | 44         | 47         |
| less asset sales  | –5.0         | –5.1         | –4         | –4          | –4         | –4         | –4         |
| less depreciation <sup>1</sup>                              | –12.7        | –12.8        | –14        | –15         | –15        | –16        | –17        |
| Net investment  | 5.7          | 12.0         | 14         | 20          | 22         | 24         | 27         |
| Net borrowing<br>(excluding WTAS <sup>2</sup> )             | –17.2        | 0.1          | 10         | 13          | 13         | 17         | 18         |
| <b>Net borrowing</b>  | <b>–15.9</b> | <b>1.3</b>   | <b>11</b>  | <b>13</b>   | <b>13</b>  | <b>17</b>  | <b>18</b>  |
| <b>Public sector net debt</b>                               |              |              |            |             |            |            |            |
| – end year  | <b>305.9</b> | <b>310.6</b> | <b>326</b> | <b>345</b>  | <b>363</b> | <b>385</b> | <b>408</b> |
| <b>Memos:</b>   |              |              |            |             |            |            |            |
| Treaty deficit <sup>3</sup>                                 | –16.1        | 1.7          | 10         | 13          | 13         | 17         | 19         |
| Treaty debt <sup>4</sup>                                    | 383.6        | 380.5        | 388        | 406         | 424        | 447        | 472        |

<sup>1</sup> These figures are estimates in 2001–02.

<sup>2</sup> Windfall Tax receipts and associated spending.

<sup>3</sup> General government net borrowing on an ESA95 basis.

<sup>4</sup> General government gross debt.

**C25** The current budget surplus is equal to public sector receipts minus public sector current expenditure and depreciation. As explained in paragraph C6, the current budget is projected to be in surplus in each year of the projection period, showing that the Government remains firmly on track to meet the golden rule throughout.

**C26** Underlying the projections of the current budget surplus are steady rises in the ratio of public sector receipts and current expenditure to GDP, largely reflecting measures announced in this Budget.

**C27** Table C4 also shows public sector net investment more than doubling from £12 billion in 2001–02 to £27 billion in 2006–07 as a result of the Government's aim to improve public infrastructure. These increases are sustainable and fully consistent with the Government's long-term approach and the fiscal rules, since net debt is being held at a stable and prudent level at around 31 per cent of GDP, well under 40 per cent of GDP, as shown in Table C5.

**Table C5: Current and capital budgets**

|   | Per cent of GDP |             |             |             |             |             |             |
|---|-----------------|-------------|-------------|-------------|-------------|-------------|-------------|
|   | Outturn         | Estimate    | Projections |             |             |             |             |
|   | 2000–01         | 2001–02     | 2002–03     | 2003–04     | 2004–05     | 2005–06     | 2006–07     |
| <b>Current budget</b>                                       |                 |             |             |             |             |             |             |
| Current receipts  | 40.1            | 39.1        | 38.7        | 39.9        | 40.2        | 40.4        | 40.5        |
| Current expenditure   | 36.5            | 36.7        | 37.1        | 37.9        | 38.2        | 38.5        | 38.5        |
| Depreciation  | 1.3             | 1.3         | 1.3         | 1.3         | 1.3         | 1.3         | 1.3         |
| Surplus on current budget<br>(excluding WTAS <sup>1</sup> ) | 2.3             | 1.1         | 0.4         | 0.6         | 0.8         | 0.6         | 0.7         |
| <b>Surplus on current budget</b>                            | <b>2.3</b>      | <b>1.1</b>  | <b>0.3</b>  | <b>0.6</b>  | <b>0.8</b>  | <b>0.6</b>  | <b>0.7</b>  |
| <b>Capital budget</b>                                       |                 |             |             |             |             |             |             |
| Gross investment  | 2.4             | 3.0         | 3.1         | 3.4         | 3.5         | 3.6         | 3.7         |
| less asset sales  | –0.5            | –0.5        | –0.4        | –0.3        | –0.3        | –0.3        | –0.3        |
| less depreciation   | –1.3            | –1.3        | –1.3        | –1.3        | –1.3        | –1.3        | –1.3        |
| Net investment  | 0.6             | 1.2         | 1.4         | 1.8         | 1.9         | 2.0         | 2.1         |
| Net borrowing<br>(excluding WTAS <sup>1</sup> )             | –1.8            | 0.1         | 1.0         | 1.2         | 1.1         | 1.4         | 1.4         |
| <b>Net borrowing</b>  | <b>–1.7</b>     | <b>0.1</b>  | <b>1.1</b>  | <b>1.2</b>  | <b>1.1</b>  | <b>1.4</b>  | <b>1.4</b>  |
| <b>Public sector net debt<br/>– end year</b>                | <b>31.3</b>     | <b>30.4</b> | <b>30.2</b> | <b>30.4</b> | <b>30.4</b> | <b>30.7</b> | <b>31.0</b> |
| Memos:  |                 |             |             |             |             |             |             |
| Treaty deficit <sup>2</sup>                                 | –1.7            | 0.2         | 1.0         | 1.1         | 1.1         | 1.4         | 1.5         |
| Treaty debt ratio <sup>3</sup>                              | 40.1            | 38.0        | 36.9        | 36.6        | 36.5        | 36.6        | 36.8        |

<sup>1</sup> Windfall Tax receipts and associated spending.

<sup>2</sup> General government net borrowing on an ESA95 basis.

<sup>3</sup> General government gross debt.

**C28** Table C6 provides an analysis of the changes to the projections of the main fiscal aggregates since Budget 2001 and the Pre-Budget Report.

**C29** The short term downward revisions to current budget surpluses and the corresponding increases in net borrowing between Budget 2001 and the Pre-Budget Report were mainly due to revised forecasts of public sector receipts, largely driven by lower financial company profits and changes to GDP. The fiscal aggregates were then projected to move back towards their Budget 2001 levels as the economy moved back to trend.

**C30** The tax measures announced in this Budget, together with the stronger economic forecast and other forecasting changes, mean that receipts are now projected to be higher than in the Pre-Budget Report. The impact of the  $\frac{1}{4}$  point increase in the trend output growth assumption cumulates over the projection period, increasing the projected level of receipts by £5 billion in the final year.

**C31** The Government's Budget decisions, combined with forecasting changes, result in a fiscal stance over the next two years that is at least as tight as projected in the Pre-Budget Report. Borrowing is slightly higher in the medium term as a result of planned increases in investment.

**Table C6: Fiscal balances compared with Budget 2001 and the 2001 Pre-Budget Report**

|  | Outturn <sup>1</sup> |             |           | Projections |           |           |           |
|--|----------------------|-------------|-----------|-------------|-----------|-----------|-----------|
|  | 2000–01              | 2001–02     | 2002–03   | 2003–04     | 2004–05   | 2005–06   | 2006–07   |
| <b>Surplus on current budget (£ billion)</b>           |                      |             |           |             |           |           |           |
| <b>Budget 2001</b>                                     | <b>22.3</b>          | <b>15.9</b> | <b>14</b> | <b>8</b>    | <b>9</b>  | <b>9</b>  | <b>–</b>  |
| Effect of forecasting changes                          | 2.8                  | –5.2        | –11       | –3          | 0         | 2         | –         |
| Effect of policy measures                              | –                    | –0.3        | 0         | –2          | –3        | –3        | –         |
| <b>PBR 2001</b>  | <b>25.1</b>          | <b>10.3</b> | <b>3</b>  | <b>4</b>    | <b>7</b>  | <b>8</b>  | <b>9</b>  |
| Effect of forecasting changes                          | –3.5                 | 0.3         | 1         | 1           | 2         | 5         | 7         |
| <i>of which: revision to trend growth assumption</i>   | –                    | –           | 1         | 2           | 3         | 4         | 5         |
| Budget policy decisions/SR 2002 additions <sup>2</sup> | –                    | –           | –1        | 2           | 0         | –6        | –8        |
| <b>Budget 2002</b>                                     | <b>21.6</b>          | <b>10.6</b> | <b>3</b>  | <b>7</b>    | <b>9</b>  | <b>7</b>  | <b>9</b>  |
| <b>Net borrowing</b>                                   |                      |             |           |             |           |           |           |
| <b>Budget 2001</b>                                     | <b>–15</b>           | <b>–4.7</b> | <b>2</b>  | <b>10</b>   | <b>11</b> | <b>12</b> | <b>–</b>  |
| Effect of forecasting changes                          | –3.8                 | 5.2         | 11        | 3           | 0         | –2        | –         |
| Effect of policy measures                              | –                    | 2.0         | –1        | 1           | 3         | 3         | –         |
| <b>PBR 2001</b>  | <b>–18.8</b>         | <b>2.5</b>  | <b>12</b> | <b>15</b>   | <b>13</b> | <b>13</b> | <b>13</b> |
| Effect of forecasting changes                          | 2.9                  | –1.2        | –1        | –1          | –2        | –5        | –7        |
| <i>of which: revision to trend growth assumption</i>   | –                    | –           | –1        | –2          | –3        | –4        | –5        |
| Budget policy decisions/SR 2002 additions <sup>2</sup> | –                    | –           | 0         | –1          | 2         | 9         | 13        |
| <b>Budget 2002</b>                                     | <b>–15.9</b>         | <b>1.3</b>  | <b>11</b> | <b>13</b>   | <b>13</b> | <b>17</b> | <b>18</b> |

Note: Figures may not sum due to rounding.

<sup>1</sup> The 2000–01 figures were estimates in Budget 2001; the 2001–02 figures were projections in Budget 2001 and PBR 2001.

<sup>2</sup> The assumptions for public spending in 2006–07 are set out in paragraph C22.

## RECEIPTS

**C32** Table C7 gives detailed projections of receipts to 2002–03. Changes in the receipts projections since Budget 2001 and the Pre-Budget Report are shown in Table C8. Projections of receipts as a percentage of GDP to 2006–07 are shown in Table C9. Table C10 sets out the projections of the tax–GDP ratio.

**C33** The introduction of the Working Tax Credit and Child Tax Credit has been accompanied by a review of the classification of all personal tax credits. This has affected the definition of the net taxes and social security contributions measure, which is the basis for the tax–GDP ratio. The change is described in more detail in Box C2.

**C34** Table C8 shows that relative to Budget 2001, receipts are estimated to have been around £7½ billion lower in 2001–02, and are projected to be lower by around £9 billion in 2002–03. The downward revisions to receipts at the time of the Pre-Budget Report were largely due to falls in oil prices, equity prices and financial company profits.

**C35** Latest estimates for receipts in 2001–02 show a downward revision of £½ billion since the Pre-Budget Report. This relates mainly to lower than expected corporation tax and social security contributions. These falls are expected to be temporary, for the reasons discussed below, and was partly offset by higher than expected outturns for income tax.

**C36** Net taxes and social security contributions are estimated to have risen by 2¾ per cent in 2001–02, considerably lower than the increase in money GDP. As a result the tax–GDP ratio fell from 37.7 per cent in 2000–01 to 37.0 per cent. The classification change has little effect on this fall, as it has much the same effect on both 2000–01 and 2001–02.

**Box C2: The classification of personal tax credits**

As set out in Chapters 4 and 5, the Government is introducing a new system of support to tackle child poverty and make work pay. The system will separate support for adults from support for children while providing a common framework for assessing entitlement and rationalising administration.

Two new tax credits, the Working Tax Credit and the Child Tax Credit will be introduced from April 2003. They will replace:

- Working Families' Tax Credit (WFTC) and the Disabled Person's Tax Credit (DPTC), which are currently classified as spending in the National Accounts but until now as negative taxation for the purposes of calculating net taxes and social security contributions, as used in the tax-GDP ratio;
- the Children's Tax Credit, which is classified as negative taxation for all purposes; and
- New Deal Employment Credit for the over 50s and income related elements of support for children in Income Support and Jobseeker's Allowance, which are classified as public expenditure for all purposes.

On 20 February 2002, the Office for National Statistics (ONS) announced that the Working and Child Tax Credits would be classified in the National Accounts as negative taxation to the extent that credits are less than or equal to the tax liability of the household, and as public expenditure where credits exceed the liability. The ONS will continue to classify WFTC and DPTC as public expenditure.

This decision on the new tax credits is consistent with OECD guidance, which has recently been reviewed following extensive consultation including with the UK. However, in contrast to the ONS, the OECD will also be applying the same classification rules to WFTC and other tax credits, giving a more consistent time series. The OECD decision is likely to be adopted by other international bodies.

The Government has consistently argued that tax credits paid through the pay packet should be classified as negative taxation. Accordingly it has decided to adopt the OECD classification rules for the purposes of calculating net taxes and social security contributions, as used in the tax-GDP ratio consistent with international best practice. All the figures for net taxes and social security contributions shown in Tables C7 to C10 and C23 have been revised to bring them into line with the new definition. OECD numbers are measured on a cash basis. This change adds about 0.5 percentage points to the tax-GDP ratio for 1999-2000 onwards.

All other fiscal aggregates will continue to be measured on a National Accounts basis.

Table C7: Current receipts

|  | £ billion    |              | Projection<br>2002–03 |
|--|--------------|--------------|-----------------------|
|  | 2000–01      | 2001–02      |                       |
| <b>Outturns</b>  |              |              |                       |
| <i>Inland Revenue</i>  |              |              |                       |
| Income tax (gross of tax credits)                              | 106.0        | 110.2        | 117.5                 |
| Corporation tax <sup>1</sup>                                   | 32.4         | 32.4         | 33.2                  |
| Tax credits <sup>2</sup>                                       | -1.2         | -2.6         | -3.9                  |
| Petroleum revenue tax  | 1.5          | 1.3          | 1.4                   |
| Capital gains tax  | 3.2          | 2.9          | 1.8                   |
| Inheritance tax  | 2.2          | 2.3          | 2.5                   |
| Stamp duties   | 8.2          | 7.1          | 8.2                   |
| Social security contributions                                  | 60.6         | 63.2         | 65.0                  |
| <b>Total Inland Revenue (net of tax credits)</b>               | <b>212.9</b> | <b>216.9</b> | <b>225.6</b>          |
| <i>Customs and Excise</i>                                      |              |              |                       |
| Value added tax  | 58.5         | 61.1         | 63.9                  |
| Fuel duties  | 22.6         | 21.9         | 23.1                  |
| Tobacco duties   | 7.6          | 7.8          | 7.7                   |
| Spirits duties   | 1.8          | 1.9          | 2.0                   |
| Wine duties  | 1.8          | 2.0          | 2.2                   |
| Beer and cider duties  | 3.0          | 3.1          | 3.1                   |
| Betting and gaming duties                                      | 1.5          | 1.4          | 1.3                   |
| Air passenger duty   | 1.0          | 0.8          | 0.8                   |
| Insurance premium tax  | 1.7          | 1.9          | 1.9                   |
| Landfill tax   | 0.5          | 0.5          | 0.5                   |
| Climate change levy  | 0.0          | 0.6          | 0.9                   |
| Aggregates levy  | 0.0          | 0.0          | 0.2                   |
| Customs duties and levies                                      | 2.1          | 2.0          | 2.1                   |
| <b>Total Customs and Excise</b>                                | <b>102.2</b> | <b>104.9</b> | <b>109.7</b>          |
| Vehicle excise duties  | 4.3          | 4.4          | 4.5                   |
| Oil royalties  | 0.6          | 0.6          | 0.5                   |
| Business rates <sup>3</sup>                                    | 17.3         | 18.2         | 18.5                  |
| Council tax  | 14.2         | 14.9         | 16.1                  |
| Other taxes and royalties <sup>4</sup>                         | 9.0          | 10.6         | 10.7                  |
| <b>Net taxes and social security contributions<sup>5</sup></b> | <b>360.4</b> | <b>370.3</b> | <b>385.6</b>          |
| Accrual adjustments on taxes                                   | 2.8          | 0.9          | 0.8                   |
| <i>less own resources contribution to EC budget</i>            | -6.3         | -6.1         | -5.4                  |
| <i>less PC corporation tax payments</i>                        | -0.1         | -0.1         | -0.2                  |
| Tax credits <sup>6</sup>                                       | 1.2          | 1.2          | 1.6                   |
| Interest and dividends   | 5.8          | 4.2          | 4.2                   |
| Other receipts <sup>7</sup>                                    | 19.4         | 20.4         | 20.6                  |
| <b>Current receipts</b>  | <b>383.0</b> | <b>390.8</b> | <b>407.2</b>          |
| <i>Memo:</i>   |              |              |                       |
| North Sea revenues <sup>8</sup>                                | 4.3          | 5.2          | 5.3                   |

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

<sup>2</sup> Personal tax credits scored as negative tax under OECD rules, plus enhanced and payable company tax credits (zero in 2000–01, £50 million in 2001–02 and £350 million in 2002–03).

<sup>3</sup> Includes district council rates in Northern Ireland paid by business.

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

<sup>5</sup> Includes VAT and 'traditional own resources' contributions to EC budget. Refer to Box C2 for further details. Cash basis.

<sup>6</sup> Tax credits scored as expenditure in the National Accounts but negative tax in net taxes and social security contributions.

<sup>7</sup> Includes gross operating surplus and rent; net of oil royalties.

<sup>8</sup> Consists of North Sea corporation tax (before ACT set-off), petroleum revenue tax and royalties.

**Table C8: Changes in current receipts since Budget 2001 and the 2001 Pre-Budget Report**

|   | £ billion   |             |             |            |
|---|-------------|-------------|-------------|------------|
|   | Budget 2001 |             | PBR 2001    |            |
|   | 2001–02     | 2002–03     | 2001–02     | 2002–03    |
| Income tax (gross of tax credits)           | -1.3        | -0.5        | 0.6         | 1.5        |
| Non-North Sea corporation tax <sup>1</sup>  | -5.0        | -5.8        | -0.7        | -1.9       |
| Tax credits <sup>2</sup>                    | 0.2         | 0.0         | 0.2         | 0.0        |
| North Sea revenues                          | -0.7        | -0.6        | -0.2        | 0.1        |
| Capital taxes <sup>3</sup>                  | 0.5         | -0.2        | -0.1        | -0.1       |
| Stamp duty                                  | -0.9        | -0.4        | -0.3        | 0.5        |
| Value added tax                             | -0.3        | 0.0         | -0.3        | 0.1        |
| Excise duties <sup>4</sup>                  | -0.3        | 0.1         | -0.3        | 0.2        |
| Social security contributions               | 0.6         | 0.3         | -1.0        | -0.7       |
| Other taxes and royalties <sup>5</sup>      | 1.3         | 1.0         | 1.0         | 0.4        |
| Net taxes and social security contributions | -5.8        | -6.1        | -1.2        | 0.2        |
| Other receipts and accounting adjustments   | -1.7        | -2.8        | 0.8         | 0.8        |
| <b>Current receipts</b>                     | <b>-7.6</b> | <b>-8.9</b> | <b>-0.4</b> | <b>1.0</b> |

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

<sup>2</sup> Personal tax credits scored as negative tax under OECD rules, plus enhanced and payable company tax credits (zero in 2000–01, £50 million in 2001–02 and £350 million in 2002–03); Budget 2001 and PBR 2001 estimates have been revised accordingly.

<sup>3</sup> Capital gains tax and inheritance tax.

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

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

**Table C9: Current receipts Budget 2002**

|  | Per cent of GDP |          |         |             |         |         |         |
|--|-----------------|----------|---------|-------------|---------|---------|---------|
|  | Outturn         | Estimate |         | Projections |         |         |         |
|  | 2000–01         | 2001–02  | 2002–03 | 2003–04     | 2004–05 | 2005–06 | 2006–07 |
| Income tax (gross of tax credits)                        | 11.1            | 11.0     | 11.2    | 11.4        | 11.5    | 11.7    | 11.8    |
| Non-North Sea corporation tax <sup>1</sup>               | 3.2             | 2.9      | 2.8     | 3.0         | 3.2     | 3.4     | 3.5     |
| Tax credits <sup>2</sup>                                 | -0.1            | -0.3     | -0.4    | -0.3        | -0.2    | -0.2    | -0.2    |
| <i>of which:</i>   |                 |          |         |             |         |         |         |
| Working Families' Tax Credit <sup>3</sup>                | -0.1            | -0.1     | -0.1    | 0.0         | 0.0     | 0.0     | 0.0     |
| North Sea revenues <sup>4</sup>                          | 0.5             | 0.5      | 0.5     | 0.5         | 0.5     | 0.5     | 0.4     |
| Value added tax  | 6.1             | 6.1      | 6.1     | 6.0         | 5.9     | 5.9     | 5.8     |
| Excise duties <sup>5</sup>                               | 3.9             | 3.7      | 3.6     | 3.5         | 3.5     | 3.4     | 3.3     |
| Social security contributions                            | 6.3             | 6.3      | 6.2     | 6.7         | 6.9     | 6.9     | 6.9     |
| Other taxes and royalties <sup>6</sup>                   | 6.8             | 6.8      | 6.7     | 6.6         | 6.7     | 6.8     | 6.8     |
| Net taxes and social security contributions <sup>7</sup> | 37.7            | 37.0     | 36.7    | 37.6        | 38.1    | 38.3    | 38.3    |
| Accruals adjustments on taxes                            | 0.3             | 0.1      | 0.1     | 0.3         | 0.1     | 0.1     | 0.1     |
| less EC transfers  | -0.7            | -0.6     | -0.5    | -0.4        | -0.4    | -0.4    | -0.3    |
| Tax credits <sup>8</sup>                                 | 0.1             | 0.1      | 0.2     | 0.1         | 0.1     | 0.1     | 0.1     |
| Other receipts   | 2.6             | 2.5      | 2.3     | 2.4         | 2.4     | 2.3     | 2.3     |
| Current receipts <sup>9</sup>                            | 40.1            | 39.1     | 38.7    | 39.9        | 40.2    | 40.4    | 40.5    |
| <b>Memo:</b>   |                 |          |         |             |         |         |         |
| Current receipts (£ billion)                             | 383.0           | 390.8    | 407     | 442         | 468     | 494     | 520     |

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

<sup>2</sup> Personal tax credits scored as negative tax under OECD rules, plus enhanced and payable company tax credits (zero in 2000–01, £50 million in 2001–02 and £350 million in 2002–03).

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

<sup>4</sup> Includes oil royalties, petroleum revenue tax and North Sea corporation tax.

<sup>5</sup> Fuel, alcohol and tobacco duties.

<sup>6</sup> Includes council tax and money paid into the National Lottery Distribution Fund, as well as other central government taxes.

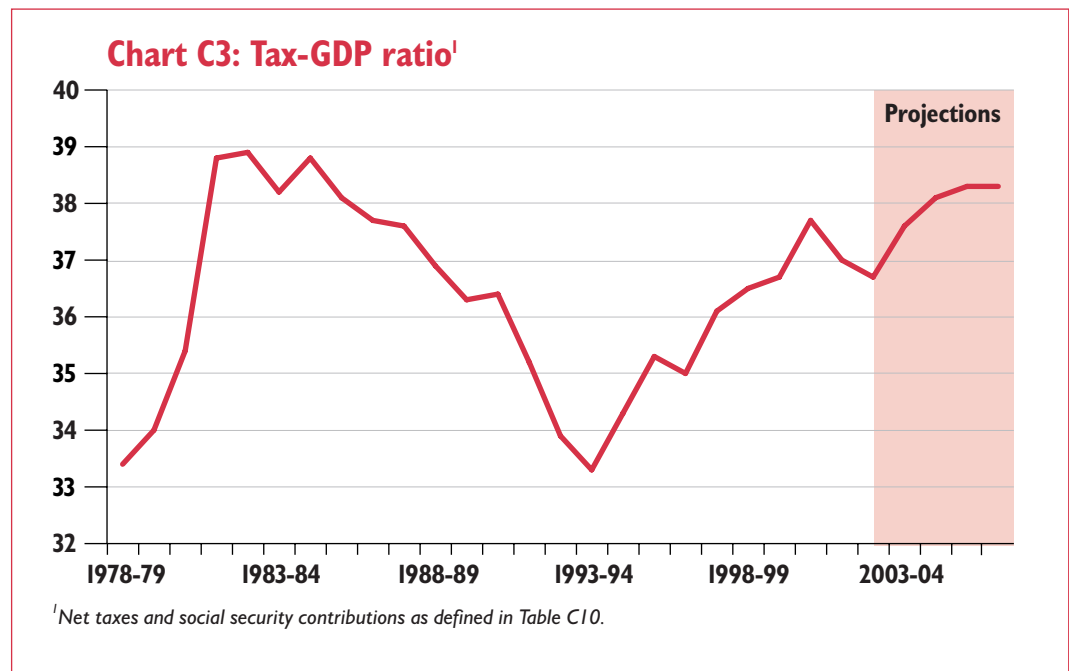
<sup>7</sup> Includes VAT and 'own resources' contributions to EC budget. Cash basis. Refer to Box C2 for further details.

<sup>8</sup> Tax credits scored as expenditure in the National Accounts but negative tax in net taxes and social security contributions.

<sup>9</sup> Accruals basis.

**C37** The tax-GDP ratio falls further to 36.7 per cent in 2002–03, before increasing to 37.6 per cent in 2003–04. This increase is mainly the result of measures effective from 2003–04 onwards and the economy returning to trend. There are further modest increases in the tax-GDP ratio over subsequent years, as was the case in the Pre-Budget Report. Factors contributing to this include fiscal drag, a continued expectation that financial company profits and bonuses will recover as was anticipated in the Pre-Budget Report, and a yield from tax measures which is anticipated to increase slightly from year to year.

**C38** Table C10 shows the changes to the tax–GDP ratio since Budget 2001 and the Pre-Budget Report. The changes in 2001–02 partly reflect revisions to GDP and lower outturn receipts. In subsequent years the changes largely reflect Budget 2002 decisions on tax.



**Table C10: Net taxes and social security contributions<sup>1</sup>**

|                          | Per cent of GDP               |             |             |             |             |             |             |
|--------------------------|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                          | Outturn <sup>2</sup> Estimate |             |             | Projections |             |             |             |
|                          | 2000–01                       | 2001–02     | 2002–03     | 2003–04     | 2004–05     | 2005–06     | 2006–07     |
| Budget 2001 <sup>3</sup> | 38.1                          | 38.0        | 37.8        | 37.5        | 37.5        | 37.4        |             |
| PBR 2001 <sup>3</sup>    | 37.8                          | 37.2        | 36.8        | 36.9        | 37.1        | 37.2        | 37.2        |
| <b>Budget 2002</b>       | <b>37.7</b>                   | <b>37.0</b> | <b>36.7</b> | <b>37.6</b> | <b>38.1</b> | <b>38.3</b> | <b>38.3</b> |

<sup>1</sup> Cash basis; refer to box C2 for further details.

<sup>2</sup> The 2000–01 figures were estimates in Budget 2001.

<sup>3</sup> Previous Budget and Pre-Budget Report projections have been revised so that they are consistent with the new classification of tax credits (see Box C2).

**Income tax C39** Provisional outturn estimates suggest income tax receipts in 2001–02 were £110 billion, around £<sup>1</sup>/<sub>2</sub> billion more than projected in the Pre-Budget Report. This mainly reflects stronger than expected PAYE. Although tax on bonus payments does seem to have been lower than in the corresponding months of 2000–01, the reduction was not as large as anticipated in the Pre-Budget Report.

**C40** Receipts in 2002–03 are projected to be about £1½ billion higher than in the Pre-Budget Report, because of the higher 2001–02 outturn, higher wages and salaries growth, upward revisions to National Accounts components affecting future self assessment tax receipts, and slightly higher market expectations for interest rates, which lead to higher tax on savings income.

**C41** In later years there are larger increases compared with the Pre-Budget Report, mainly as a result of higher income growth, arising from the changed assumption on trend output growth, and Budget measures.

**Non-North Sea  
corporation tax**

**C42** Non-North Sea corporation tax in 2001–02 was around £¾ billion below the Pre-Budget Report projection, over half of which reflected stronger than expected repayments. This outturn leads to lower projections for 2002–03 and 2003–04. The projections for all years incorporate a revised profile of payments and repayments derived from the data now available on the quarterly instalment system that was introduced for large companies in 1999. This shows that companies, on average, pay more in their instalments and balancing payments than required by their self-assessments, and subsequently claim repayments. This revised profile indicates that repayments will be higher than projected in the Pre-Budget Report, but has a neutral impact on overall corporation tax receipts in the later years of the forecast. Further changes reflect the revision to the trend output growth assumption, and Budget measures. The projection for financial company profits is broadly consistent with independent forecasts for financial companies profits, where these are available.

**North Sea  
revenues**

**C43** Under the terms of the assumption as audited by the NAO, the oil price used in these projections is based on the average of independent forecasts if this is lower than recent levels. Otherwise recent levels are used. The latest available average of independent forecasts for 2002 is \$21.6, which is slightly above the average oil price in Q1 2002 of \$21.5. The latter has therefore been used as the base price for these projections. As a result of this cautious assumption prices are around \$1½ lower than assumed in the Pre-Budget Report throughout the forecast period.

**C44** North Sea revenues in 2001–02 were slightly lower than projected in the Pre-Budget Report, mainly reflecting the weakness of oil prices at the end of 2001. The effects of lower oil prices over the forecast period are more than offset by upward revisions to the oil production projections and Budget measures, and projected revenues are higher than in the Pre-Budget Report from 2004–05 onwards.

**Capital taxes**

**C45** The Budget forecast for capital gains tax is little changed from the Pre-Budget Report, with effects of the modest decrease in equity prices offset by higher property prices. Inheritance tax receipts in 2001–02 were slightly lower than projected in the Pre-Budget Report. This shortfall has been projected forward, but is more than offset by the effects of higher property prices by 2003–04.

**Stamp duty**

**C46** Stamp duty in 2001–02 was slightly lower than projected in the Pre-Budget Report, but 2002–03 receipts are expected to be around £½ billion higher because of recent property market turnover and price levels. Receipts in 2003–04 are much the same level as in the Pre-Budget Report, as the modest fall in the equity price projection is offset by a higher property price projection. In later years receipts are up to £1 billion higher, partly because the higher forecast for property prices more than offsets the lower equity price projection, and partly because of Budget measures.

**Tax credits C47** The classification changes described in Box C2 reduce the level of tax credit payments scoring as negative tax and this change explains almost all of the changes since published Budget 2001 and the Pre-Budget Report estimates. These classification changes are offset by equal and opposite changes in other receipts and accounting adjustments.

**Social security contributions C48** Provisional cash receipts of social security contributions in 2001–02 were £1 billion lower than projected in the Pre-Budget Report. About a third of this shortfall reflects higher rebates that are usually paid a year in arrears in respect of people contracted out of SERPS. The 2001–02 shortfall is projected forward but recent information suggests that growth in these rebates is now likely to be lower than expected in the Pre-Budget Report and the combined effect of these changes leads to higher net receipts in later years of the forecast. In addition, higher wages and salaries growth arising from the changed trend output growth assumption also leads to higher receipts, but the largest effect from 2003–04 onwards reflects the Budget measures.

**VAT C49** VAT receipts in 2001–02 were £61.1 billion, around £0.3 billion below the Pre-Budget Report forecast. The forecast of VAT revenues in 2002–03 and all future years continues to be governed by the NAO audited assumption that, after allowing for the effects of VAT measures, the ratio of VAT receipts to consumer spending declines gradually, by 0.05 percentage points a year. The shortfall in 2001–02 will therefore automatically depress receipts in future years. However, the Budget forecast of higher consumers' expenditure growth in the short term combined with the VAT anti-avoidance measures described in Chapter A mean that VAT receipts are expected to be slightly higher than their Pre-Budget Report levels in 2002–03, 2003–04, and 2004–05, before returning towards their Pre-Budget Report levels as household spending growth moderates to more sustainable rates.

**Excise duties C50** Excise duties in 2001–02 were slightly lower than forecast in the Pre-Budget Report. This is mainly because the later than usual date of the Budget means that the additional receipts associated with the forestalling of road fuel duties will now be received in April 2002 rather than March 2002. This timing issue decreases receipts in 2001–02 by around £0.2 billion with an offsetting increase in 2002–03. The introduction of the oils fraud strategy described in Chapter A and the increase in demand resulting from the lower oil price forecast means that hydrocarbon oil receipts in future years are then expected to be higher than their Pre-Budget Report levels.

**C51** Alcohol and tobacco duties in 2001–02 were broadly in line with their Pre-Budget Report forecasts. Receipts in future years are expected to be slightly higher, almost entirely as a result of Budget measures. The ratio of excise duties to GDP is expected to decline over the forecast period, reflecting the fact that the consumption of products subject to excise duties grows by less than real GDP.

## PUBLIC EXPENDITURE

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**C52** Table C11 shows projections for public expenditure through to 2003–04, the last year covered by the 2000 Spending Review. 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.

**C53** Table C12 shows changes in DEL, AME and TME since the Pre-Budget Report. It is provisionally estimated that the DEL total for 2001–02 will be underspent by £0.7 billion. A further addition of £4 billion has been made to DEL in 2003–04, which includes £2.4 billion for the NHS. The remaining £1.6 billion includes provisions for the government's personal social services. The remainder will be allocated in the 2002 Spending Review. Table C14 shows DEL in terms of resource and capital budgets. These have been updated since the Pre-Budget Report to reflect transfers between departments and programmes, additions, and allocations from central funds. The allowance for shortfall of £2 billion, in line with Budget 2001, represents a cautious estimate of likely further underspend beneath departmental estimates.

**C54** Forecasts of individual AME programmes were reviewed in the Pre-Budget Report and have been reviewed again for this Budget. In addition, and following usual practice, the Government has decided to reset the AME margin to £1 billion in 2002–03 and £2 billion in 2003–04. Further additions have also been made for new spending measures in AME announced at this Budget. These add approximately £<sup>3</sup>/<sub>4</sub> billion to AME in 2002–03 and £<sup>3</sup>/<sub>2</sub> billion in 2003–04.

**C55** The main economic assumptions underpinning the AME projections are set out in Box C1 and in Table C3. In particular, it is assumed that UK claimant unemployment will increase slightly, in line with the average of independent forecasts, from its recent level of 0.95 million (the average of the three months ending in March 2002) to 1.00 million in 2003–04.

**C56** Excluding new measures and the effect of re-setting the margin, the main changes to AME projections since the Pre-Budget Report are lower forecasts for social security benefit expenditure and public sector pensions, and higher forecasts for locally financed expenditure. Reductions in the social security forecasts are mainly due to the lower assumption for unemployment, which reduces the social security forecast by just over £<sup>1</sup>/<sub>2</sub> billion by 2003–04, together with further reductions to reflect lower than expected outturn expenditure in 2001–02. In 2002–03 these reductions are partially offset by extra expenditure resulting from the increase of child allowances in Income Support and Jobseekers' Allowance of £3.50 a week announced in this Budget. In 2003–04 these allowances are drawn together with other support for children in the new Child Tax Credit and this reduces forecast social security expenditure by a further £0.4 billion. Forecasts of locally financed expenditure are higher than in the Pre-Budget Report due to higher assumptions for future council tax settlements. These reflect recent outturn data on actual settlements.

**Table CI I: Total Managed Expenditure 2000–01 to 2003–04**

|   | £ billion          |                     |                                |              |
|---|--------------------|---------------------|--------------------------------|--------------|
|   | Outturn<br>2000–01 | Estimate<br>2001–02 | Projections<br>2002–03 2003–04 |              |
| <b>Departmental Expenditure Limits</b>                  |                    |                     |                                |              |
| Resource Budget   | 171.8              | 187.8               | 201.2                          | 214.0        |
| Capital Budget  | 20.6               | 24.0                | 28.3                           | 33.5         |
| Budget 2002 addition                                    |                    |                     |                                | 1.6          |
| <b>Total Departmental Expenditure Limits</b>            | <b>192.3</b>       | <b>211.8</b>        | <b>229.5</b>                   | <b>249.0</b> |
| <b>Annually Managed Expenditure</b>                     |                    |                     |                                |              |
| <b>Departmental AME:</b>                                |                    |                     |                                |              |
| Social security benefits                                | 99.1               | 105.1               | 109.0                          | 113.9        |
| Housing Revenue Account subsidies                       | 3.1                | 4.5                 | 4.5                            | 4.4          |
| Common Agricultural Policy                              | 2.6                | 4.7                 | 2.6                            | 2.6          |
| Export Credits Guarantee Department                     | 1.3                | 0.2                 | 0.4                            | –0.2         |
| Self-financing public corporations' capital expenditure | 1.4                | 1.1                 | 1.2                            | 1.2          |
| Net public service pensions                             | 5.2                | 5.2                 | 5.1                            | 5.4          |
| National Lottery  | 1.9                | 1.7                 | 2.3                            | 2.3          |
| Other programme expenditure                             | 0.2                | 0.2                 | 0.1                            | 0.0          |
| <i>Non-cash items :</i>                                 |                    |                     |                                |              |
| Depreciation  | 7.1                | 7.9                 | 8.8                            | 9.5          |
| Cost of capital charges                                 | 13.5               | 14.3                | 14.6                           | 15.5         |
| Provisions and other charges                            | 8.9                | 1.3                 | 2.9                            | 3.0          |
| <b>Total departmental AME<sup>1</sup></b>               | <b>144.3</b>       | <b>146.2</b>        | <b>151.5</b>                   | <b>157.6</b> |
| <b>Other AME :</b>                                      |                    |                     |                                |              |
| Net payments to EC institutions <sup>2</sup>            | 3.7                | 0.8                 | 2.2                            | 2.4          |
| Locally financed expenditure                            | 18.4               | 19.4                | 20.7                           | 21.9         |
| Central government gross debt interest                  | 25.9               | 22.2                | 21.1                           | 23.2         |
| Accounting and other adjustments                        | –17.5              | –8.2                | –7.6                           | –1.6         |
| <b>Total Other AME</b>                                  | <b>30.6</b>        | <b>34.1</b>         | <b>36.4</b>                    | <b>45.9</b>  |
| AME Margin  | 0.0                | 0.0                 | 1.0                            | 2.0          |
| <b>Annually Managed Expenditure</b>                     | <b>174.8</b>       | <b>180.3</b>        | <b>188.9</b>                   | <b>205.5</b> |
| <b>Total Managed Expenditure</b>                        | <b>367.2</b>       | <b>392.1</b>        | <b>418.4</b>                   | <b>454.6</b> |
| <i>of which:</i>  |                    |                     |                                |              |
| Public sector current expenditure                       | 348.8              | 367.4               | 389.9                          | 420.3        |
| Public sector net investment                            | 5.7                | 12.0                | 14.4                           | 19.7         |
| Public sector depreciation                              | 12.7               | 12.8                | 14.0                           | 14.6         |

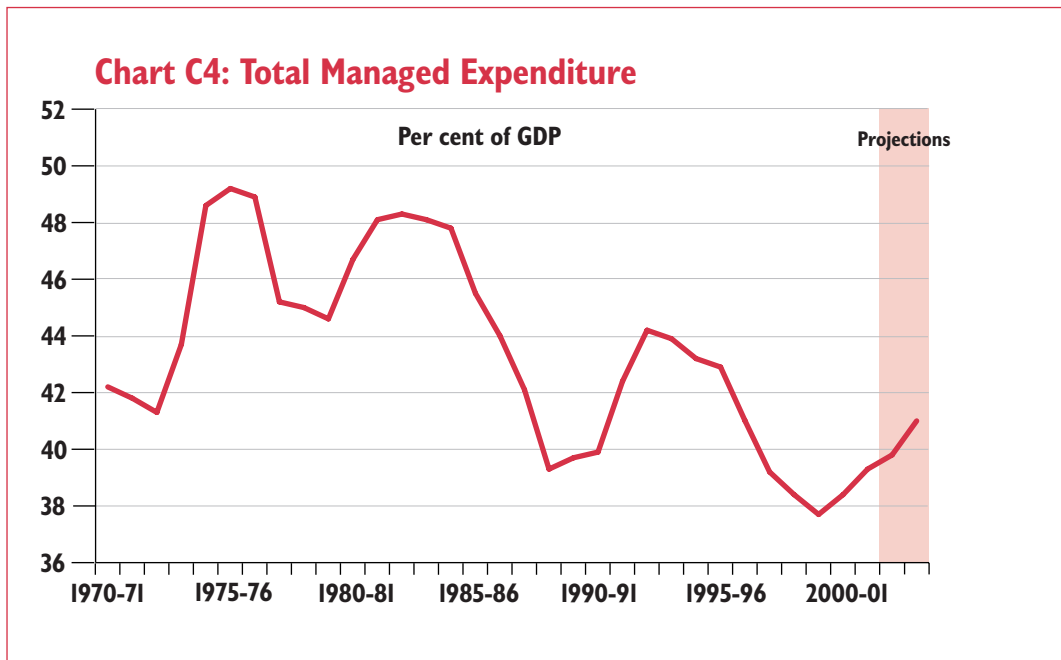
<sup>1</sup> Including non-cash items.

<sup>2</sup> Net payments to EC Institutions exclude the UK's contribution to the cost of EC aid to non-Member States (which is attributed to the aid programme).

Net Payments therefore differ from the UK's net contribution to the EC Budget, latest estimates for which are (in £ billion):

| 2000-01 | 2001-02 | 2002-03 | 2003-04 |
|---------|---------|---------|---------|
| 4.3     | 1.5     | 3.0     | 3.2     |

The trended forecast for 2001–02 is £3.1 billion.



**C57** Other changes to the AME projections include the lower forecasts for the Export Credits Guarantee Department ECGD, particularly in 2003–04, as a result of new assumptions about the amount of business likely to be available for refinancing. ECGD’s refinancing of loans, which it has guaranteed, does not score in TME, which follows National Accounts definitions and excludes financial transactions. These changes are offset within the accounting adjustments and therefore do not affect total AME. Forecasts of debt interest payments are not significantly different from those in the Pre-Budget Report. Changes reflect a combination of lower payments due to lower borrowing in 2001–02, offset by the effect of higher interest rates and, in 2003–04, higher accrued uplift on index linked gilts due to a slightly higher forecast for the RPI.

**C58** Details of the main accounting adjustments, which comprise those items within TME but outside DEL and AME main programmes are shown in Table C13. Of these adjustments VAT refunded on general government expenditure is higher than forecast at the Pre-Budget Report. These changes are however offset by equivalent changes to receipts. Forecasts for tax credits are significantly higher in 2003–04 as a result of the introduction of the new tax credits.

**Table CI2: Changes in Total Managed Expenditure since Budget 2001 and the 2001 Pre-Budget Report**

|  | £ billion   |             |             |             |             |             |             |             |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|  | Budget 2001 |             |             |             | PBR 2001    |             |             |             |
|  | 2000–01     | 2001–02     | 2002–03     | 2003–04     | 2000–01     | 2001–02     | 2002–03     | 2003–04     |
| <b>Departmental Expenditure Limits</b>                     |             |             |             |             |             |             |             |             |
| Resource Budget  | -0.5        | 0.8         | 2.0         | 3.3         | 1.0         | 0.2         | -0.1        | 2.1         |
| Capital Budget   | -1.4        | -1.2        | -1.1        | -0.9        | 0.4         | -0.9        | 0.0         | 0.3         |
| Budget 2002 addition                                       |             |             |             | 1.6         |             |             |             | 1.6         |
| <b>Total Departmental Expenditure Limits</b>               | <b>-1.9</b> | <b>-0.4</b> | <b>0.9</b>  | <b>4.0</b>  | <b>1.4</b>  | <b>-0.7</b> | <b>-0.1</b> | <b>4.0</b>  |
| <b>Annually Managed Expenditure</b>                        |             |             |             |             |             |             |             |             |
| <b>Departmental AME:</b>                                   |             |             |             |             |             |             |             |             |
| Social security benefits                                   | 0.0         | 0.2         | 0.4         | 0.4         | -0.1        | -0.3        | -0.3        | -1.2        |
| Housing Revenue Account subsidies                          | -0.1        | 0.0         | 0.2         | 0.3         | -0.1        | 0.0         | 0.1         | 0.2         |
| Common Agricultural Policy                                 | -0.1        | 2.1         | 0.0         | 0.0         | 0.0         | 0.2         | -0.1        | -0.1        |
| Export Credits Guarantee Department                        | 0.2         | -0.5        | -0.1        | -0.6        | 0.1         | -0.6        | -0.2        | -0.8        |
| Self-financing public corporations'<br>capital expenditure | 0.0         | 0.1         | 0.0         | 0.3         | 0.0         | 0.0         | -0.1        | 0.1         |
| Net public service pensions                                | -0.2        | -0.4        | -0.5        | -0.5        | 0.2         | -0.1        | -0.4        | -0.4        |
| National Lottery   | -0.1        | -0.6        | 0.1         | 0.5         | 0.0         | -0.4        | 0.1         | 0.0         |
| Other programme expenditure                                | 0.3         | 0.2         | 0.3         | 0.3         | 0.0         | 0.0         | 0.1         | 0.1         |
| <i>Non-cash items :</i>                                    |             |             |             |             |             |             |             |             |
| Depreciation   | -0.7        | -0.4        | -0.1        | -0.2        | 0.1         | -0.2        | -0.3        | -0.1        |
| Cost of capital charges                                    | -0.3        | 0.9         | 0.2         | 0.7         | -0.4        | 0.7         | 0.6         | 0.9         |
| Provisions and other charges                               | 7.9         | 1.9         | 2.3         | 2.0         | 4.1         | 1.5         | 1.0         | 0.7         |
| <b>Total departmental AME<sup>1</sup></b>                  | <b>6.8</b>  | <b>3.2</b>  | <b>2.7</b>  | <b>3.1</b>  | <b>3.9</b>  | <b>0.6</b>  | <b>0.5</b>  | <b>-0.5</b> |
| <b>Other AME :</b>   |             |             |             |             |             |             |             |             |
| Net payments to EC institutions                            | 0.2         | -1.9        | -0.4        | -0.6        | 0.0         | 0.0         | 0.0         | 0.0         |
| Locally financed expenditure                               | 0.5         | 0.2         | 0.6         | 0.9         | 0.1         | 0.0         | 0.5         | 0.7         |
| Central government gross debt interest                     | -0.6        | -1.0        | -3.0        | -0.8        | -0.2        | 0.0         | -0.3        | 0.0         |
| Accounting and other adjustments                           | -6.0        | -0.7        | 0.8         | 6.4         | -1.6        | -1.4        | -0.2        | 5.5         |
| <b>Total Other AME</b>                                     | <b>-6.0</b> | <b>-3.4</b> | <b>-2.0</b> | <b>5.9</b>  | <b>-1.6</b> | <b>-1.3</b> | <b>-0.1</b> | <b>6.3</b>  |
| AME Margin   | 0.0         | -1.0        | -1.0        | -1.0        | 0.0         | -0.2        | -0.2        | 0.5         |
| <b>Annually Managed Expenditure</b>                        | <b>0.8</b>  | <b>-1.1</b> | <b>-0.3</b> | <b>8.0</b>  | <b>2.3</b>  | <b>-0.9</b> | <b>0.2</b>  | <b>6.3</b>  |
| <b>Total Managed Expenditure</b>                           | <b>-1.1</b> | <b>-1.6</b> | <b>0.6</b>  | <b>12.0</b> | <b>3.7</b>  | <b>-1.5</b> | <b>0.2</b>  | <b>10.3</b> |
| <i>of which:</i>   |             |             |             |             |             |             |             |             |
| Public sector current expenditure                          | 2.8         | 0.3         | 3.5         | 13.0        | 4.3         | -0.3        | 0.5         | 9.2         |
| Public sector net investment                               | -1.7        | 0.8         | -0.9        | 1.0         | -0.6        | -0.9        | -0.3        | 1.1         |
| Public sector depreciation                                 | -2.2        | -2.7        | -2.0        | -2.0        | 0.0         | -0.4        | 0.0         | 0.0         |

<sup>1</sup> Including non-cash items.

**Table CI3: Accounting and other adjustments**

|  | £ billion          |                     |                                |             |
|--|--------------------|---------------------|--------------------------------|-------------|
|  | Outturn<br>2000–01 | Estimate<br>2001–02 | Projections<br>2002–03 2003–04 |             |
| 1 Non-trading capital consumption                  | 7.7                | 7.8                 | 8.5                            | 8.9         |
| 2 VAT refunded on general government expenditure   | 6.7                | 7.5                 | 8.2                            | 9.0         |
| 3 EC Contributions                                 | -6.3               | -6.1                | -5.4                           | -4.9        |
| 4 Tax credits                                      | 5.1                | 6.0                 | 6.8                            | 10.7        |
| <i>of which personal tax credits<sup>1</sup></i>   | 4.6                | 5.5                 | 6.2                            | 9.8         |
| 5 Adjustments for public corporations              | 4.1                | 4.2                 | 4.6                            | 5.1         |
| 6 Intra general government debt interest           | -3.0               | -3.0                | -3.0                           | -3.0        |
| 7 Financial transactions in departmental budgets   | -2.0               | -1.2                | -1.3                           | -1.3        |
| 8 Adjustments for expenditure financed by receipts | 0.2                | 0.2                 | 0.2                            | 0.2         |
| 9 Other accounting adjustments                     | -0.1               | 0.1                 | 0.3                            | 1.9         |
| less   |                    |                     |                                |             |
| non-cash items in DEL                              | 0.2                | 0.2                 | 0.2                            | 0.2         |
| non-cash items in AME                              | 29.5               | 23.5                | 26.3                           | 28.0        |
| <b>Total accounting and other adjustments</b>      | <b>-17.5</b>       | <b>-8.2</b>         | <b>-7.6</b>                    | <b>-1.6</b> |

<sup>1</sup> Personal tax credits include expenditure on the Working Families' Tax Credit, the Disabled Person's Tax Credit and that bit of the Working Tax Credit and Child Tax Credit scoring as expenditure in the National Accounts. Further information on the classification of personal tax credits is given in Box C2.

Table CI4: Departmental Expenditure Limits – resource and capital budgets

|   | £ billion          |                     |                  |                  |
|---|--------------------|---------------------|------------------|------------------|
|   | Outturn<br>2000–01 | Estimate<br>2001–02 | Plans<br>2002–03 | Plans<br>2003–04 |
| <b>Resource Budget</b>                          |                    |                     |                  |                  |
| Education and Skills                            | 14.3               | 17.0                | 20.2             | 21.5             |
| Health  | 43.6               | 48.8                | 53.4             | 58.5             |
| <i>of which: NHS</i>                            | 42.7               | 47.7                | 51.2             | 56.1             |
| Transport and the Regions                       | 3.7                | 4.2                 | 5.2              | 5.2              |
| Local Government                                | 35.3               | 36.9                | 37.4             | 40.1             |
| Home Office                                     | 8.4                | 9.6                 | 9.4              | 9.6              |
| Lord Chancellor's Departments                   | 2.5                | 2.9                 | 2.7              | 2.8              |
| Attorney General's Departments                  | 0.4                | 0.4                 | 0.4              | 0.4              |
| Defence   | 19.2               | 18.9                | 18.9             | 18.9             |
| Foreign and Commonwealth Office                 | 1.2                | 1.3                 | 1.3              | 1.2              |
| International Development                       | 2.4                | 2.8                 | 2.9              | 3.2              |
| Trade and Industry                              | 3.0                | 3.9                 | 3.7              | 3.3              |
| Environment, Food and Rural Affairs             | 1.5                | 2.4                 | 1.7              | 1.7              |
| Culture, Media and Sport                        | 0.9                | 0.9                 | 1.2              | 1.2              |
| Work and Pensions (administration) <sup>1</sup> | 5.9                | 6.3                 | 6.9              | 7.5              |
| Scotland <sup>2</sup>                           | 12.6               | 14.2                | 15.3             | 16.3             |
| Wales <sup>2</sup>                              | 6.8                | 7.7                 | 8.2              | 8.8              |
| Northern Ireland Executive <sup>2</sup>         | 4.4                | 5.2                 | 5.2              | 5.5              |
| Northern Ireland Office                         | 0.9                | 1.1                 | 1.1              | 1.0              |
| Chancellor's Departments                        | 3.5                | 3.9                 | 4.0              | 4.0              |
| Cabinet Office                                  | 1.2                | 1.4                 | 1.4              | 1.5              |
| Invest to Save Budget                           | 0.0                | 0.0                 | 0.0              | 0.1              |
| Capital Modernisation Fund                      | 0.0                | 0.0                 | 0.0              | 0.0              |
| Policy Innovation Fund                          | 0.0                | 0.0                 | 0.0              | 0.0              |
| Reserve   | 0.0                | 0.0                 | 0.7              | 1.7              |
| Allowance for shortfall                         | 0.0                | -2.0                | 0.0              | 0.0              |
| <b>Total Resource Budget DEL</b>                | <b>171.8</b>       | <b>187.8</b>        | <b>201.2</b>     | <b>214.0</b>     |
| <b>Capital Budget</b>                           |                    |                     |                  |                  |
| Education and Skills                            | 1.6                | 2.5                 | 3.0              | 3.9              |
| Health  | 1.3                | 1.9                 | 2.4              | 3.0              |
| <i>of which: NHS</i>                            | 1.3                | 1.8                 | 2.3              | 2.9              |
| Transport and the Regions                       | 6.0                | 6.8                 | 8.5              | 10.4             |
| Local Government                                | 0.1                | 0.1                 | 0.3              | 0.3              |
| Home Office                                     | 0.5                | 0.9                 | 0.9              | 0.8              |
| Lord Chancellor's Departments                   | 0.1                | 0.1                 | 0.1              | 0.1              |
| Attorney General's Departments                  | 0.0                | 0.0                 | 0.0              | 0.0              |
| Defence   | 5.7                | 5.6                 | 5.7              | 6.0              |
| Foreign and Commonwealth Office                 | 0.1                | 0.1                 | 0.1              | 0.2              |
| International Development                       | 0.2                | 0.3                 | 0.4              | 0.4              |
| Trade and Industry <sup>3</sup>                 | 0.3                | 0.6                 | 0.8              | 1.0              |
| Environment, Food and Rural Affairs             | 0.3                | 0.5                 | 0.5              | 0.5              |
| Culture, Media and Sport                        | 0.0                | 0.0                 | 0.1              | 0.1              |
| Work and Pensions (administration) <sup>1</sup> | 0.8                | 0.2                 | 0.1              | 0.1              |
| Scotland <sup>2</sup>                           | 2.0                | 2.3                 | 2.4              | 2.4              |
| Wales <sup>2</sup>                              | 0.8                | 0.9                 | 1.1              | 1.1              |
| Northern Ireland Executive <sup>2</sup>         | 0.6                | 0.8                 | 0.6              | 0.9              |
| Northern Ireland Office                         | 0.0                | 0.1                 | 0.1              | 0.0              |
| Chancellor's Departments                        | -0.2               | 0.2                 | 0.2              | 0.2              |
| Cabinet Office                                  | 0.2                | 0.2                 | 0.2              | 0.2              |
| Invest to Save Budget                           | 0.0                | 0.0                 | 0.0              | 0.0              |
| Capital Modernisation fund                      | 0.0                | 0.0                 | 0.9              | 1.2              |
| Policy Innovation Fund                          | 0.0                | 0.0                 | 0.0              | 0.0              |
| Reserve   | 0.0                | 0.0                 | 0.0              | 0.7              |
| Allowance for shortfall                         | 0.0                | 0.0                 | 0.0              | 0.0              |
| <b>Total Capital Budget DEL</b>                 | <b>20.6</b>        | <b>24.0</b>         | <b>28.3</b>      | <b>33.5</b>      |
| Budget 2002 addition                            |                    |                     |                  | 1.6              |
| <b>Total Departmental Expenditure Limits</b>    | <b>192.3</b>       | <b>211.8</b>        | <b>229.5</b>     | <b>249.0</b>     |
| Total education spending                        | 44.2               | 50.9                | 53.7             | 58.1             |

<sup>1</sup> Includes Welfare to Work expenditure financed by the Windfall Tax.<sup>2</sup> For Scotland, Wales and Northern Ireland, the split between current and capital budgets is decided by the respective executives.<sup>3</sup> Includes the capital expenditure of the Export Credits Guarantee Department.

**C59** Table C15 gives a breakdown of public sector capital expenditure.

**Table C15: Public sector capital expenditure**

|   | £ billion          |                     |                                |             |
|---|--------------------|---------------------|--------------------------------|-------------|
|   | Outturn<br>2000–01 | Estimate<br>2001–02 | Projections<br>2002–03 2003–04 |             |
| CG spending and LA support in DEL                   | 11.6               | 14.7                | 17.3                           | 22.8        |
| Locally-financed spending                           | 0.0                | 1.9                 | 2.0                            | 1.9         |
| National Lottery                                    | 1.1                | 0.9                 | 1.3                            | 1.3         |
| Public corporations <sup>1</sup>                    | 4.6                | 4.7                 | 6.2                            | 5.7         |
| Other capital spending in AME                       | 1.0                | 2.4                 | 1.7                            | 1.9         |
| Allocation of DEL reserve                           | 0.0                | 0.0                 | 0.0                            | 0.7         |
| <b>Public sector gross investment<sup>2</sup></b>   | <b>18.4</b>        | <b>24.8</b>         | <b>28.4</b>                    | <b>34.3</b> |
| Less depreciation                                   | 12.7               | 12.8                | 14.0                           | 14.6        |
| <b>Public sector net investment<sup>2</sup></b>     | <b>5.7</b>         | <b>12.0</b>         | <b>14.4</b>                    | <b>19.7</b> |
| Proceeds from the sale of fixed assets <sup>3</sup> | 5.0                | 5.1                 | 3.8                            | 3.8         |

<sup>1</sup> Public corporations' capital expenditure is partly within DEL and partly within AME.  
<sup>2</sup> This and previous lines are all net of sales of fixed assets.  
<sup>3</sup> 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.

**C60** Table C16 shows estimated receipts from loans and sales of assets from 2000–01 to 2003–04. The table shows that, following fixed asset sales of approximately £5 billion a year in 2000–01 and 2001–02, the Government expects further sales of approximately £4 billion in each of the next two years.

**C61** The figures for sales of financial assets include outturn proceeds from the sale of a stake in the National Air Traffic Services in the first half of 2001 and estimated proceeds from the Public Private Partnership for QinetiQ (formerly the Defence Evaluation and Research Agency).

**Table C16: Loans and sales of assets**

|  | £ billion          |                     |                                |             |
|--|--------------------|---------------------|--------------------------------|-------------|
|  | Outturn<br>2000–01 | Estimate<br>2001–02 | Projections<br>2002–03 2003–04 |             |
| <b>Sales of fixed assets<sup>1</sup></b>         |                    |                     |                                |             |
| Central government                               | 1.4                | 0.8                 | 1.0                            | 1.0         |
| Local authorities                                | 3.6                | 4.3                 | 2.8                            | 2.8         |
| <b>Total sales of fixed assets</b>               | <b>5.0</b>         | <b>5.1</b>          | <b>3.8</b>                     | <b>3.8</b>  |
| <b>Total loans and sales of financial assets</b> | <b>–3.4</b>        | <b>–1.8</b>         | <b>–2.5</b>                    | <b>–2.4</b> |
| <b>Total loans and sales of assets</b>           | <b>1.6</b>         | <b>3.3</b>          | <b>1.2</b>                     | <b>1.4</b>  |

<sup>1</sup> 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.

## PRIVATE FINANCE INITIATIVE

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**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 that require significant investment in capital assets. Projects with a combined capital value of around £18 billion have been approved 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 partnership 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 C17 shows a breakdown by department of the estimated public sector investment resulting from signed contracts and Table C18 to those expected to reach preferred bidder stage within the next three years. From 2002–03 to 2004–05, some £25.5 billion of new investment is expected as a result of PPP and PFI.

**Table C17: Departmental estimate of capital spending by the private sector (signed deals)**

|  | £ million    |                        |              |
|--|--------------|------------------------|--------------|
|  | 2002–03      | Projections<br>2003–04 | 2004–05      |
| Defence  | 262          | 105                    | 0            |
| Foreign and Commonwealth Office and Overseas Development | 9            | 8                      | 8            |
| Environment, Food and Rural Affairs                      | 16           | 3                      | 0            |
| Trade and Industry                                       | 16           | 14                     | 11           |
| Transport, Local Government and the Regions              | 1 076        | 1 005                  | 458          |
| Education and Skills <sup>1</sup>                        | 9            | 0                      | 0            |
| Home Office  | 84           | 13                     | 2            |
| Legal Departments  | 47           | 24                     | 9            |
| Culture, Media and Sport                                 | 1            | 0                      | 0            |
| Health   | 311          | 126                    | 55           |
| Work and Pensions  | 67           | 14                     | 22           |
| GCHQ   | 42           | 7                      | 0            |
| Scotland   | 118          | 19                     | 0            |
| Wales  | 12           | 0                      | 0            |
| Northern Ireland   | 42           | 11                     | 3            |
| Cabinet Office   | 0            | 0                      | 0            |
| Chancellor's Departments                                 | 32           | 7                      | 13           |
| Local authorities <sup>2,3</sup>                         | 1 580        | 1 900                  | 1 900        |
| Greater London Authority                                 | 0            | 0                      | 0            |
| <b>Total</b>   | <b>3 724</b> | <b>3 256</b>           | <b>2 481</b> |

<sup>1</sup> Excludes private finance activity in education institutions classified to the private sector. Schools projects funded through Revenue Support Grant are included in the local authority figures.

<sup>2</sup> Figures represent spending on projects supported by central government through Revenue Support Grant.

<sup>3</sup> PFI activity in local authority schools is included in the local authority 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 C17 and C18, therefore, do not reflect the total value of the contracts.

**Table C18: Estimated aggregated capital value of projects at preferred bidder stage**

|  | £ million     |            |            |
|--|---------------|------------|------------|
|  | 2002–03       | 2003–04    | 2004–05    |
| Defence  | 879           | 198        | 0          |
| Foreign and Commonwealth Office and Overseas Development | 0             | 0          | 0          |
| Environment, Food and Rural Affairs                      | 0             | 0          | 0          |
| Trade and Industry                                       | 0             | 0          | 0          |
| Transport, Local Government and the Regions <sup>1</sup> | 16 080        | 0          | 0          |
| Education and Skills                                     | 0             | 0          | 0          |
| Home Office  | 40            | 24         | 0          |
| Legal Departments  | 58            | 26         | 0          |
| Culture, Media and Sport                                 | 0             | 0          | 0          |
| Health   | 40            | 67         | 129        |
| GCHQ   | 0             | 0          | 0          |
| Work and Pensions  | 3             | 0          | 0          |
| Scotland   | 33            | 0          | 0          |
| Wales  | 55            | 70         | 59         |
| Northern Ireland   | 61            | 16         | 0          |
| Customs & Excise   | 0             | 0          | 0          |
| Cabinet Office   | 4             | 4          | 4          |
| Chancellor's Departments                                 | 2             | 20         | 25         |
| Local authorities  | 0             | 0          | 0          |
| Greater London Authority                                 | 0             | 0          | 0          |
| <b>Total</b>   | <b>17 255</b> | <b>425</b> | <b>217</b> |

<sup>1</sup> This figure represents the estimated capital value of the LUL PPP Contracts.

**C67** Table C19 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.

**Table C19: Estimated payments under PFI contracts – April 2002 (signed deals)**

| £ million |       |         |       |
|-----------|-------|---------|-------|
| 2002–03   | 4 545 | 2015–16 | 3 940 |
| 2003–04   | 4 907 | 2016–17 | 3 943 |
| 2004–05   | 4 944 | 2017–18 | 3 898 |
| 2005–06   | 4 964 | 2018–19 | 3 071 |
| 2006–07   | 4 980 | 2019–20 | 3 323 |
| 2007–08   | 5 026 | 2020–21 | 3 434 |
| 2008–09   | 4 786 | 2021–22 | 2 923 |
| 2009–10   | 4 726 | 2022–23 | 3 013 |
| 2010–11   | 4 453 | 2023–24 | 2 982 |
| 2011–12   | 4 384 | 2024–25 | 2 995 |
| 2012–13   | 4 199 | 2025–26 | 2 708 |
| 2013–14   | 4 105 | 2026–27 | 940   |
| 2014–15   | 3 945 | 2027–28 | 617   |

## FINANCING REQUIREMENT

**Table C20: Public sector net cash requirement**

|  | £ billion          |                   |                     |               |                    |                   |                     |               |
|--|--------------------|-------------------|---------------------|---------------|--------------------|-------------------|---------------------|---------------|
|  | 2001–02            |                   |                     |               | 2002–03            |                   |                     |               |
|  | General government |                   |                     |               | General government |                   |                     |               |
|  | Central government | Local authorities | Public corporations | Public sector | Central government | Local authorities | Public corporations | Public sector |
| <b>Net borrowing</b>                     | <b>2.5</b>         | <b>-0.6</b>       | <b>-0.6</b>         | <b>1.3</b>    | <b>9.0</b>         | <b>0.9</b>        | <b>1.2</b>          | <b>11.2</b>   |
| <i>Financial transactions</i>            |                    |                   |                     |               |                    |                   |                     |               |
| Net lending to private sector and abroad | 2.4                | 0.2               | -0.3                | 2.3           | 2.5                | -0.1              | 0.0                 | 2.5           |
| Cash expenditure on company securities   | -0.5               | -0.3              | 0.1                 | -0.7          | 0.1                | 0.0               | 0.0                 | 0.1           |
| Accruals adjustments on receipts         | -0.5               | 0.0               | 1.0                 | 0.5           | 1.9                | 0.0               | 0.0                 | 1.9           |
| Other accruals adjustments               | -0.4               | 0.0               | 0.0                 | -0.4          | -1.8               | 0.0               | 0.0                 | -1.8          |
| Miscellaneous financial transactions     | 0.4                | 0.1               | -0.3                | 0.2           | 0.0                | 0.0               | 0.0                 | 0.0           |
| Own account net cash requirement         | 3.9                | -0.5              | -0.1                | 3.2           | 11.7               | 0.9               | 1.2                 | 13.8          |
| Net lending within the public sector     | -0.9               | 0.1               | 0.8                 | 0.0           | 1.9                | -0.3              | -1.6                | 0.0           |
| Net cash requirement <sup>1</sup>        | 2.9                | -0.4              | 0.7                 | 3.2           | 13.5               | 0.6               | -0.4                | 13.8          |

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

**C68** In order to comply with the *Code for Fiscal Stability*, the *Debt and Reserves Management Report 2002–03* (DRMR) was published on 14 March 2002 in advance of Budget 2002. As well as an update of the financing arithmetic for 2001–02, it also outlined indicative financing arithmetic for 2002–03. The forecasts for both years' arithmetic were based on the public finance projections published in the Pre-Budget Report. For 2002–03, the preliminary net financing requirement was £32.3 billion. This was to be met by gross gilt issuance of £23 billion and a £9.3 billion adjustment in the short-term debt position.

**C69** Table C21 updates the financing arithmetic for both 2001–02 and 2002–03 to allow for both the publication of the outturn data for 2001–02 and also the update of the forecast for 2002–03 of the central government net cash requirement.

**C70** The outturn for the central government net cash requirement 2001–02 is £2.9 billion, a reduction of £3.4 billion from the Pre-Budget Report forecast. Additionally, there have been changes to the Debt Management Office's gilt buy-back target and adjustment of their cash deposit at the Bank of England. These changes have resulted in an end of March 2002 level of the Debt Management Office's net cash position of £11 billion. This is an increase of £3.3 billion on the forecast level published in March 2002.

**C71** The forecast for the central government net cash requirement for 2002–03 is £13.5 billion. Additionally, changes in the forecast levels of redemptions and the Debt Management Office's cash deposit at the Bank of England mean that the revised net financing requirement for 2002–03 is £32.1 billion, a decrease of £0.2 billion from the forecast published in the DRMR.

**C72** In order to meet this financing need, the Debt Management Office's remit for 2002–03 has been adjusted such that:

- gross gilt sales have been reduced by £0.2 billion to £22.8 billion; but
- the adjustment of the short-term debt level remains at £9.3 billion.

**C73** Full details of these measures and complete financing tables for 2001–02 and 2002–03 can be found on the Debt Management Office's website ([www.dmo.gov.uk](http://www.dmo.gov.uk)).

**Table C21: Financing requirement forecast**

| £ billion   | 2001–02                       |   |                                  | 2001–02          |                    | 2002–03          |                    |
|---|-------------------------------|---|----------------------------------|------------------|--------------------|------------------|--------------------|
|   | Mar–2001<br>Original<br>remit | Apr–2001<br>Revised<br>remit <sup>1</sup> | Nov–2001<br>Pre-Budget<br>Report | Mar–2002<br>DRMR | Apr–2002<br>Budget | Mar–2002<br>DRMR | Apr–2002<br>Budget |
| <b>Central government net cash requirement</b>        | <b>0.3</b>                    | <b>0.3</b>                                | <b>6.3</b>                       | <b>6.3</b>       | <b>2.9</b>         | <b>13.6</b>      | <b>13.5</b>        |
| Accrued uplift on maturing index-linked gilts         | 1.1                           | 1.1                                       | 1.1                              | 1.1              | 1.1                | 0.0              | 0.0                |
| Net financing of official reserves                    | 1.3                           | 1.3                                       | 1.3                              | 1.2              | 1.2                | 0.0              | 0.0                |
| Gilt redemptions                                      | 16.7                          | 16.7                                      | 16.7                             | 16.7             | 16.7               | 17.2             | 17.0               |
| Debt buy-backs  | 1.0                           | 1.0                                       | 0.5                              | 0.5              | 0.6                | 0.0              | 0.0                |
| <b>Gross financing requirement</b>                    | <b>20.4</b>                   | <b>20.4</b>                               | <b>25.9</b>                      | <b>25.8</b>      | <b>22.5</b>        | <b>30.8</b>      | <b>30.5</b>        |
| <i>Less assumed net National Savings contribution</i> | –3.0                          | –3.0                                      | 0.0                              | –0.2             | –0.2               | –1.5             | –1.5               |
| <i>Less change in DMO cash balance at BoE</i>         | 0.0                           | 0.3                                       | 0.3                              | 0.3              | 0.4                | 0.0              | –0.1               |
| <b>Net financing requirement</b>                      | <b>23.4</b>                   | <b>23.1</b>                               | <b>25.6</b>                      | <b>25.7</b>      | <b>22.3</b>        | <b>32.3</b>      | <b>32.1</b>        |
| <i>Financed by</i>                                    |                               |   |                                  |                  |                    |                  |                    |
| <b>Gross gilt sales</b>                               | <b>13.5</b>                   | <b>13.5</b>                               | <b>14.0</b>                      | <b>13.7</b>      | <b>13.7</b>        | <b>23.0</b>      | <b>22.8</b>        |
| <b>Changes in short term debt</b>                     | <b>9.9</b>                    | <b>9.6</b>                                | <b>11.6</b>                      | <b>12.0</b>      | <b>8.6</b>         | <b>9.3</b>       | <b>9.3</b>         |

Note: Figures may not sum due to rounding

<sup>1</sup> An update of 2001–02's financing arithmetic was published when the outturn for 2000–01 was published.

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

| £ billion   |                    |                   |             |              |                     |               |
|---|--------------------|-------------------|-------------|--------------|---------------------|---------------|
| 2001–02   |                    |                   |             |              |                     |               |
| Line  | General government |                   |             | Total        | Public corporations | Public sector |
|   | Central government | Local authorities |             |              |                     |               |
| <i>Current Receipts</i>                               |                    |                   |             |              |                     |               |
| Taxes on income and wealth                            | 1                  | 146.0             | 0.0         | 146.0        | -0.1                | 145.9         |
| Taxes on production and imports                       | 2                  | 135.7             | 0.5         | 136.3        | 0.0                 | 136.3         |
| Other current taxes                                   | 3                  | 3.2               | 14.9        | 18.0         | 0.0                 | 18.0          |
| Taxes on capital                                      | 4                  | 2.3               | 0.0         | 2.3          | 0.0                 | 2.3           |
| Social contributions                                  | 5                  | 63.0              | 0.0         | 63.0         | 0.0                 | 63.0          |
| Gross operating surplus                               | 6                  | 4.3               | 3.4         | 7.8          | 10.6                | 18.4          |
| Rent and other current transfers                      | 7                  | 2.0               | 0.0         | 2.0          | 0.6                 | 2.6           |
| Interest and dividends from private sector and abroad | 8                  | 3.2               | 0.7         | 4.0          | 0.2                 | 4.2           |
| Interest and dividends from public sector             | 9                  | 6.1               | 1.7         | 7.8          | -7.8                | 0.0           |
| <b>Total current receipts</b>                         | <b>10</b>          | <b>365.9</b>      | <b>21.3</b> | <b>387.2</b> | <b>3.6</b>          | <b>390.8</b>  |
| <i>Current expenditure</i>                            |                    |                   |             |              |                     |               |
| Current expenditure on goods and services             | 11                 | 116.9             | 76.9        | 193.7        | 0.0                 | 193.7         |
| Subsidies   | 12                 | 4.7               | 0.9         | 5.6          | 0.0                 | 5.6           |
| Net social benefits                                   | 13                 | 112.4             | 12.3        | 124.7        | 0.0                 | 124.7         |
| Net current grants abroad                             | 14                 | -1.7              | 0.0         | -1.7         | 0.0                 | -1.7          |
| Current grants (net) within public sector             | 15                 | 73.9              | -73.9       | 0.0          | 0.0                 | 0.0           |
| Other current grants                                  | 16                 | 22.4              | 0.0         | 22.4         | 0.0                 | 22.4          |
| Interest and dividends paid                           | 17                 | 22.2              | 0.4         | 22.5         | 0.1                 | 22.6          |
| Apportionment of AME margin                           | 18                 | 0.0               | 0.0         | 0.0          | 0.0                 | 0.0           |
| <b>Total current expenditure</b>                      | <b>19</b>          | <b>350.8</b>      | <b>16.5</b> | <b>367.3</b> | <b>0.1</b>          | <b>367.4</b>  |
| Depreciation  | 20                 | 4.3               | 3.4         | 7.8          | 5.0                 | 12.8          |
| <b>Surplus on current budget</b>                      | <b>21</b>          | <b>10.8</b>       | <b>1.3</b>  | <b>12.1</b>  | <b>-1.5</b>         | <b>10.6</b>   |
| <i>Capital expenditure</i>                            |                    |                   |             |              |                     |               |
| Gross domestic fixed capital formation                | 22                 | 6.3               | 7.7         | 14.0         | 4.7                 | 18.7          |
| Less depreciation                                     | 23                 | -4.3              | -3.4        | -7.8         | -5.0                | -12.8         |
| Increase in inventories                               | 24                 | 0.0               | 0.0         | 0.0          | 0.0                 | 0.0           |
| Capital grants (net) within public sector             | 25                 | 6.0               | -4.2        | 1.8          | -1.8                | 0.0           |
| Capital grants to private sector                      | 26                 | 5.3               | 1.2         | 6.5          | 0.0                 | 6.5           |
| Capital grants from private sector                    | 27                 | 0.0               | -0.5        | -0.5         | 0.3                 | -0.5          |
| <b>Net capital expenditure</b>                        | <b>28</b>          | <b>13.2</b>       | <b>0.7</b>  | <b>14.0</b>  | <b>-2.0</b>         | <b>12.0</b>   |
| <b>Net borrowing</b>                                  | <b>29</b>          | <b>2.5</b>        | <b>-0.6</b> | <b>1.9</b>   | <b>-0.6</b>         | <b>1.3</b>    |

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

| £ billion |                    |                   |              |                     |               |   |
|-----------|--------------------|-------------------|--------------|---------------------|---------------|---|
| 2002–03   |                    |                   |              |                     |               |   |
| Line      | General government |                   | Total        | Public corporations | Public sector |   |
|           | Central government | Local authorities |              |                     |               |   |
|           |                    |                   |              |                     |               | <i>Current Receipts</i>                               |
| 1         | 152.4              | 0.0               | 152.4        | -0.2                | 152.3         | Taxes on income and wealth                            |
| 2         | 143.4              | 0.2               | 143.6        | 0.0                 | 143.6         | Taxes on production and imports                       |
| 3         | 3.2                | 16.1              | 19.4         | 0.0                 | 19.4          | Other current taxes                                   |
| 4         | 2.5                | 0.0               | 2.5          | 0.0                 | 2.5           | Taxes on capital                                      |
| 5         | 64.2               | 0.0               | 64.2         | 0.0                 | 64.2          | Social contributions                                  |
| 6         | 4.8                | 3.7               | 8.5          | 10.1                | 18.6          | Gross operating surplus                               |
| 7         | 1.8                | 0.0               | 1.8          | 0.7                 | 2.5           | Rent and other current transfers                      |
| 8         | 3.1                | 0.8               | 3.9          | 0.3                 | 4.2           | Interest and dividends from private sector and abroad |
| 9         | 5.6                | 1.8               | 7.4          | -7.4                | 0.0           | Interest and dividends from public sector             |
| <b>10</b> | <b>381.1</b>       | <b>22.6</b>       | <b>403.6</b> | <b>3.5</b>          | <b>407.2</b>  | <b>Total current receipts</b>                         |
|           |                    |                   |              |                     |               | <i>Current expenditure</i>                            |
|           |                    |                   |              |                     |               | Current expenditure on goods and services             |
| 11        | 128.1              | 80.3              | 208.4        | 0.0                 | 208.4         |   |
| 12        | 6.3                | 1.2               | 7.5          | 0.0                 | 7.5           | Subsidies   |
| 13        | 116.5              | 12.4              | 129.0        | 0.0                 | 129.0         | Net social benefits                                   |
| 14        | -0.1               | 0.0               | -0.1         | 0.0                 | -0.1          | Net current grants abroad                             |
| 15        | 76.5               | -76.5             | 0.0          | 0.0                 | 0.0           | Current grants (net) within public sector             |
| 16        | 22.6               | 0.0               | 22.6         | 0.0                 | 22.6          | Other current grants                                  |
| 17        | 21.1               | 0.3               | 21.5         | 0.1                 | 21.6          | Interest and dividends paid                           |
| 18        | 1.0                | 0.0               | 1.0          | 0.0                 | 1.0           | Apportionment of AME margin                           |
| <b>19</b> | <b>372.0</b>       | <b>17.8</b>       | <b>389.8</b> | <b>0.1</b>          | <b>389.9</b>  | <b>Total current expenditure</b>                      |
| 20        | 4.8                | 3.7               | 8.5          | 5.5                 | 14.0          | Depreciation  |
| <b>21</b> | <b>4.2</b>         | <b>1.1</b>        | <b>5.3</b>   | <b>-2.1</b>         | <b>3.2</b>    | <b>Surplus on current budget</b>                      |
|           |                    |                   |              |                     |               | <i>Capital expenditure</i>                            |
| 22        | 6.0                | 10.5              | 16.5         | 6.2                 | 22.7          | Gross domestic fixed capital formation                |
| 23        | -4.8               | -3.7              | -8.5         | -5.5                | -14.0         | Less depreciation                                     |
| 24        | 0.0                | 0.0               | 0.0          | 0.1                 | 0.1           | Increase in inventories                               |
| 25        | 7.2                | -5.5              | 1.7          | -1.7                | 0.0           | Capital grants (net) within public sector             |
| 26        | 5.0                | 1.4               | 6.4          | 0.0                 | 6.4           | Capital grants to private sector                      |
| 27        | 0.0                | -0.7              | -0.7         | 0.0                 | -0.7          | Capital grants from private sector                    |
| <b>28</b> | <b>13.3</b>        | <b>2.0</b>        | <b>15.3</b>  | <b>-0.9</b>         | <b>14.4</b>   | <b>Net capital expenditure</b>                        |
| <b>29</b> | <b>9.1</b>         | <b>0.9</b>        | <b>10.0</b>  | <b>1.2</b>          | <b>11.2</b>   | <b>Net borrowing</b>                                  |

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

| £ billion   |                    |                   |             |                     |               |              |
|---|--------------------|-------------------|-------------|---------------------|---------------|--------------|
| 2003–04   |                    |                   |             |                     |               |              |
| Line  | General government |                   |             | Public corporations | Public sector |              |
|   | Central government | Local authorities | Total       |                     |               |              |
| <i>Current Receipts</i>                               |                    |                   |             |                     |               |              |
| Taxes on income and wealth                            | 1                  | 165.3             | 0.0         | 165.3               | -0.2          | 165.1        |
| Taxes on production and imports                       | 2                  | 149.6             | 0.2         | 149.8               | 0.0           | 149.8        |
| Other current taxes                                   | 3                  | 3.5               | 17.3        | 20.8                | 0.0           | 20.8         |
| Taxes on capital                                      | 4                  | 2.6               | 0.0         | 2.6                 | 0.0           | 2.6          |
| Social contributions                                  | 5                  | 76.3              | 0.0         | 76.3                | 0.0           | 76.3         |
| Gross operating surplus                               | 6                  | 5.0               | 3.9         | 8.9                 | 10.5          | 19.4         |
| Rent and other current transfers                      | 7                  | 1.8               | 0.0         | 1.8                 | 0.7           | 2.6          |
| Interest and dividends from private sector and abroad | 8                  | 3.9               | 0.9         | 4.8                 | 0.2           | 5.0          |
| Interest and dividends from public sector             | 9                  | 5.7               | 2.0         | 7.7                 | -7.7          | 0.0          |
| <b>Total current receipts</b>                         | <b>10</b>          | <b>413.7</b>      | <b>24.2</b> | <b>438.0</b>        | <b>3.6</b>    | <b>441.6</b> |
| <i>Current Expenditure</i>                            |                    |                   |             |                     |               |              |
| Current expenditure on goods and services             | 11                 | 136.5             | 87.3        | 223.8               | 0.0           | 223.8        |
| Subsidies   | 12                 | 6.6               | 1.3         | 7.9                 | 0.0           | 7.9          |
| Net social benefits                                   | 13                 | 125.1             | 13.0        | 138.1               | 0.0           | 138.1        |
| Net current grants abroad                             | 14                 | -0.9              | 0.0         | -0.9                | 0.0           | -0.9         |
| Current grants (net) within public sector             | 15                 | 82.6              | -82.6       | 0.0                 | 0.0           | 0.0          |
| Other current grants                                  | 16                 | 25.6              | 0.0         | 25.6                | 0.0           | 25.6         |
| Interest and dividends paid                           | 17                 | 23.2              | 0.4         | 23.5                | 0.1           | 23.7         |
| Apportionment of AME margin                           | 18                 | 2.0               | 0.0         | 2.0                 | 0.0           | 2.0          |
| <b>Total current expenditure</b>                      | <b>19</b>          | <b>400.8</b>      | <b>19.3</b> | <b>420.1</b>        | <b>0.1</b>    | <b>420.3</b> |
| Depreciation  | 20                 | 5.0               | 3.9         | 8.9                 | 5.7           | 14.6         |
| <b>Surplus on current budget</b>                      | <b>21</b>          | <b>7.9</b>        | <b>1.1</b>  | <b>8.9</b>          | <b>-2.2</b>   | <b>6.7</b>   |
| <i>Capital expenditure</i>                            |                    |                   |             |                     |               |              |
| Gross domestic fixed capital formation                | 22                 | 8.4               | 11.9        | 20.3                | 5.7           | 26.0         |
| Less depreciation                                     | 23                 | -5.0              | -3.9        | -8.9                | -5.7          | -14.6        |
| Increase in inventories                               | 24                 | -0.1              | 0.0         | -0.1                | 0.1           | 0.0          |
| Capital grants (net) within public sector             | 25                 | 8.5               | -6.6        | 1.9                 | -1.9          | 0.0          |
| Capital grants to private sector                      | 26                 | 7.4               | 1.5         | 8.9                 | 0.0           | 8.9          |
| Capital grants from private sector                    | 27                 | 0.0               | -0.6        | -0.6                | 0.0           | -0.6         |
| <b>Net capital expenditure</b>                        | <b>28</b>          | <b>19.2</b>       | <b>2.4</b>  | <b>21.5</b>         | <b>-1.8</b>   | <b>19.7</b>  |
| <b>Net borrowing</b>                                  | <b>29</b>          | <b>11.3</b>       | <b>1.3</b>  | <b>12.6</b>         | <b>0.4</b>    | <b>13.0</b>  |

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

|         | Per cent of GDP              |                             |   |                                    |   |  |                                |                                     |  |                                      |
|---------|------------------------------|-----------------------------|---|------------------------------------|---|--|--------------------------------|-------------------------------------|--|--------------------------------------|
|         | Public sector current budget | Public sector net borrowing | Cyclically adjusted public sector net borrowing | Public sector net cash requirement | General government net borrowing <sup>1</sup> | Net taxes and social security contributions <sup>2</sup> | Public sector current receipts | Public sector net debt <sup>3</sup> | General government gross debt <sup>4</sup> | Public sector net worth <sup>5</sup> |
| 1970–71 | 6.7                          | -0.6                        | -0.8  | 1.2                                | -2.1  |  | 43.3                           |                                     |  |                                      |
| 1971–72 | 4.2                          | 1.1                         | 0.5   | 1.4                                | -0.7  |  | 41.4                           |                                     |  |                                      |
| 1972–73 | 2.0                          | 2.8                         | 2.7   | 3.6                                | 2.2   |  | 39.0                           |                                     |  |                                      |
| 1973–74 | 0.3                          | 4.9                         | 5.7   | 5.9                                | 4.4   |  | 39.5                           |                                     |  |                                      |
| 1974–75 | -1.1                         | 6.6                         | 7.2   | 9.0                                | 4.1   |  | 42.3                           | 52.1                                | 60.4                                       |                                      |
| 1975–76 | -1.6                         | 7.0                         | 6.5   | 9.3                                | 4.8   |  | 42.9                           | 53.9                                | 58.7                                       |                                      |
| 1976–77 | -1.2                         | 5.5                         | 4.8   | 6.4                                | 4.1   |  | 43.3                           | 52.4                                | 59.1                                       |                                      |
| 1977–78 | -1.4                         | 4.3                         | 3.8   | 3.7                                | 3.6   |  | 41.5                           | 49.0                                | 57.1                                       |                                      |
| 1978–79 | -2.6                         | 5.0                         | 4.8   | 5.2                                | 4.3   | 33.2   | 40.2                           | 47.1                                | 56.2                                       |                                      |
| 1979–80 | -1.9                         | 4.1                         | 4.0   | 4.7                                | 3.0   | 33.9   | 40.7                           | 43.9                                | 51.8                                       |                                      |
| 1980–81 | -3.0                         | 4.9                         | 2.9   | 5.2                                | 3.8   | 35.7   | 42.4                           | 46.1                                | 52.9                                       |                                      |
| 1981–82 | -1.4                         | 2.3                         | -1.7  | 3.3                                | 3.3   | 38.7   | 45.8                           | 46.1                                | 51.7                                       |                                      |
| 1982–83 | -1.5                         | 3.0                         | -1.1  | 3.2                                | 3.1   | 39.0   | 45.5                           | 44.8                                | 50.4                                       |                                      |
| 1983–84 | -2.0                         | 3.8                         | 0.6   | 3.2                                | 3.8   | 38.2   | 44.5                           | 45.3                                | 50.4                                       |                                      |
| 1984–85 | -2.2                         | 3.7                         | 1.0   | 3.1                                | 3.3   | 38.9   | 44.4                           | 45.2                                | 50.3                                       |                                      |
| 1985–86 | -1.2                         | 2.4                         | 0.9   | 1.6                                | 2.6   | 38.1   | 43.1                           | 43.4                                | 49.5                                       |                                      |
| 1986–87 | -1.4                         | 2.1                         | 1.9   | 0.9                                | 2.3   | 37.8   | 42.0                           | 41.1                                | 48.9                                       |                                      |
| 1987–88 | -0.3                         | 1.0                         | 2.1   | -0.7                               | 1.3   | 37.6   | 41.1                           | 36.8                                | 46.5                                       | 75.2                                 |
| 1988–89 | 1.7                          | -1.3                        | 1.2   | -3.0                               | -0.9  | 36.9   | 40.7                           | 30.6                                | 40.6                                       | 81.7                                 |
| 1989–90 | 1.4                          | -0.2                        | 2.5   | -1.3                               | 0.3   | 36.2   | 39.9                           | 27.7                                | 35.5                                       | 73.6                                 |
| 1990–91 | 0.4                          | 1.0                         | 2.6   | -0.1                               | 1.4   | 36.3   | 39.0                           | 26.2                                | 33.3                                       | 62.1                                 |
| 1991–92 | -1.9                         | 3.8                         | 3.2   | 2.3                                | 3.7   | 35.0   | 38.6                           | 27.4                                | 34.4                                       | 54.4                                 |
| 1992–93 | -5.6                         | 7.6                         | 5.5   | 5.9                                | 7.4   | 34.0   | 36.6                           | 32.0                                | 40.6                                       | 41.8                                 |
| 1993–94 | -6.2                         | 7.8                         | 5.4   | 7.1                                | 7.8   | 33.0   | 35.8                           | 37.1                                | 45.9                                       | 29.5                                 |
| 1994–95 | -4.8                         | 6.3                         | 4.9   | 5.3                                | 6.5   | 34.2   | 36.9                           | 40.8                                | 49.4                                       | 29.1                                 |
| 1995–96 | -3.4                         | 4.8                         | 4.0   | 4.3                                | 5.0   | 35.0   | 37.8                           | 42.8                                | 51.9                                       | 19.5                                 |
| 1996–97 | -3.0                         | 3.7                         | 3.1   | 2.9                                | 3.9   | 35.0   | 37.4                           | 43.7                                | 52.1                                       | 15.6                                 |
| 1997–98 | -0.1                         | 0.7                         | 0.7   | 0.1                                | 0.8   | 36.1   | 38.5                           | 41.5                                | 49.0                                       | 11.5                                 |
| 1998–99 | 1.3                          | -0.6                        | -0.3  | -0.8                               | -0.6  | 36.5   | 39.0                           | 39.2                                | 46.3                                       | 11.2                                 |
| 1999–00 | 2.3                          | -1.8                        | -1.6  | -0.9                               | -1.7  | 36.7   | 39.4                           | 36.4                                | 43.4                                       | 14.7                                 |
| 2000–01 | 2.3                          | -1.7                        | -1.2  | -3.9                               | -1.7  | 37.7   | 40.1                           | 31.3                                | 40.1                                       | 19.5                                 |

<sup>1</sup> UK National Accounts definition.

<sup>2</sup> Consistent with the new OECD classification of personal tax credits.

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

<sup>4</sup> Maastricht measure from 1993.

<sup>5</sup> At end-December; GDP centred on end-December.

Table C24: Historical series of government expenditure

|         | £ billion (2000–01 prices)        |                                       |                                |                           | Per cent of GDP                   |                                       |                                |                           |
|---------|-----------------------------------|---------------------------------------|--------------------------------|---------------------------|-----------------------------------|---------------------------------------|--------------------------------|---------------------------|
|         | Public sector current expenditure | Public sector net capital expenditure | General government expenditure | Total Managed Expenditure | Public sector current expenditure | Public sector net capital expenditure | General government expenditure | Total Managed Expenditure |
| 1970–71 | 157.3                             | 29.5                                  | 198.9                          | 205.6                     | 32.6                              | 6.1                                   | 41.3                           | 42.7                      |
| 1971–72 | 164.5                             | 26.0                                  | 204.9                          | 209.8                     | 33.3                              | 5.3                                   | 41.5                           | 42.5                      |
| 1972–73 | 171.9                             | 25.0                                  | 213.3                          | 217.1                     | 33.1                              | 4.8                                   | 41.1                           | 41.8                      |
| 1973–74 | 188.8                             | 28.1                                  | 229.1                          | 239.6                     | 35.0                              | 5.2                                   | 42.5                           | 44.4                      |
| 1974–75 | 208.6                             | 29.7                                  | 257.4                          | 262.6                     | 38.8                              | 5.5                                   | 47.9                           | 48.8                      |
| 1975–76 | 213.3                             | 29.2                                  | 257.5                          | 266.9                     | 39.9                              | 5.5                                   | 48.1                           | 49.9                      |
| 1976–77 | 219.4                             | 23.8                                  | 250.8                          | 268.4                     | 39.9                              | 4.3                                   | 45.6                           | 48.8                      |
| 1977–78 | 216.2                             | 16.2                                  | 239.2                          | 257.7                     | 38.4                              | 2.9                                   | 42.5                           | 45.8                      |
| 1978–79 | 222.6                             | 14.1                                  | 250.6                          | 262.6                     | 38.4                              | 2.4                                   | 43.2                           | 45.2                      |
| 1979–80 | 228.3                             | 13.1                                  | 257.0                          | 267.7                     | 38.2                              | 2.2                                   | 43.0                           | 44.8                      |
| 1980–81 | 235.0                             | 10.5                                  | 264.9                          | 272.0                     | 40.8                              | 1.8                                   | 46.1                           | 47.3                      |
| 1981–82 | 245.5                             | 5.4                                   | 268.8                          | 277.3                     | 42.6                              | 0.9                                   | 46.6                           | 48.1                      |
| 1982–83 | 251.1                             | 8.8                                   | 274.7                          | 285.5                     | 42.7                              | 1.5                                   | 46.7                           | 48.5                      |
| 1983–84 | 259.2                             | 10.9                                  | 277.9                          | 295.6                     | 42.3                              | 1.8                                   | 45.4                           | 48.3                      |
| 1984–85 | 266.2                             | 9.6                                   | 283.5                          | 300.0                     | 42.6                              | 1.5                                   | 45.4                           | 48.1                      |
| 1985–86 | 266.2                             | 8.1                                   | 281.7                          | 295.9                     | 41.0                              | 1.2                                   | 43.4                           | 45.5                      |
| 1986–87 | 270.1                             | 4.8                                   | 281.0                          | 296.9                     | 40.1                              | 0.7                                   | 41.8                           | 44.1                      |
| 1987–88 | 273.7                             | 4.7                                   | 282.5                          | 298.6                     | 38.6                              | 0.7                                   | 39.8                           | 42.1                      |
| 1988–89 | 267.4                             | 2.6                                   | 275.6                          | 291.0                     | 36.2                              | 0.4                                   | 37.3                           | 39.4                      |
| 1989–90 | 269.4                             | 9.0                                   | 289.0                          | 299.4                     | 35.7                              | 1.2                                   | 38.3                           | 39.7                      |
| 1990–91 | 271.0                             | 10.9                                  | 288.5                          | 300.3                     | 36.1                              | 1.4                                   | 38.4                           | 40.0                      |
| 1991–92 | 287.2                             | 13.8                                  | 304.0                          | 316.5                     | 38.4                              | 1.8                                   | 40.7                           | 42.3                      |
| 1992–93 | 301.6                             | 15.0                                  | 320.3                          | 331.1                     | 40.3                              | 2.0                                   | 42.8                           | 44.2                      |
| 1993–94 | 311.5                             | 12.3                                  | 330.9                          | 338.1                     | 40.1                              | 1.6                                   | 42.6                           | 43.6                      |
| 1994–95 | 322.6                             | 12.2                                  | 340.3                          | 349.4                     | 39.9                              | 1.5                                   | 42.0                           | 43.2                      |
| 1995–96 | 327.4                             | 11.7                                  | 347.6                          | 353.9                     | 39.4                              | 1.4                                   | 41.8                           | 42.6                      |
| 1996–97 | 330.8                             | 5.8                                   | 341.9                          | 350.4                     | 38.7                              | 0.7                                   | 40.0                           | 41.0                      |
| 1997–98 | 328.2                             | 5.2                                   | 341.8                          | 346.8                     | 37.2                              | 0.6                                   | 38.7                           | 39.2                      |
| 1998–99 | 328.1                             | 6.1                                   | 343.8                          | 347.5                     | 36.2                              | 0.7                                   | 38.0                           | 38.4                      |
| 1999–00 | 332.9                             | 4.8                                   | 348.8                          | 350.6                     | 35.7                              | 0.5                                   | 37.4                           | 37.6                      |
| 2000–01 | 348.8                             | 5.7                                   | 365.8                          | 364.9                     | 36.5                              | 0.6                                   | 38.3                           | 38.2                      |

## 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 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 (i.e. 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 inheritance tax) 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**, the Treaty deficit, 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

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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

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**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. The definition has been amended to follow OECD guidance in rules and classification of tax and social security contributions.

**The accounting adjustments** put these cash figures on to a national accounts (accruals) basis. Those elements of the UK contribution to the EC budget that relate to the UK tax base are deducted as, under ESA95, they are treated for the National Accounts as taxes imposed directly by the European Union. Tax credits that score as expenditure in the National Accounts but as negative taxation in net taxes and social security contributions, such as WFTC payments that offset income tax liability, are added back.

## TOTAL MANAGED EXPENDITURE

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

- (i) gross domestic fixed capital formation (i.e. expenditure on fixed assets schools, hospitals, roads, computers, plant and machinery, intangible assets etc) net of receipts from sales of fixed assets (e.g. 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 C14.

**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 (i.e. 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 C13. 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 (i.e. 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 tax credits which score as public expenditure under national accounting conventions. This includes Mortgage Interest Relief, Life Assurance Premium Relief, and (from 1999–2000) the Working Families' Tax Credit and Disabled Person's Tax Credit, and the enhanced and payable elements of company tax credits.

*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 DEL and AME.

*Line seven* deducts those financial transactions, which are scored in DEL and AME.

*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 includes, among others, the deduction of grants paid to local authorities by non-departmental public bodies classified to the central government sector.

## DEBT AND WEALTH

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**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**, the Treaty debt ratio, 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.