
THE ECONOMY AND THE PUBLIC FINANCES

Introduction

The November 1997 Pre-Budget Report, published by HM Treasury on 25 November, includes sections on both the economy (Appendix A) and the public finances (Appendix B). This document provides supplementary material to that set out in the appendices to the main report. It contains information which has previously been included with published forecasts.

The first section comprises more detailed information on economic developments and prospects, and follows closely the set of charts and tables which was included in Chapter 3 of the July 1997 Financial Statement and Budget Report.

As explained in more detail at the beginning of Appendix A of the Pre-Budget Report, the forecasts of GDP and its components are presented as ranges from 1998. These ranges are intended to provide an indication of how differing degrees of supply side improvement offer the prospect of a more favourable path for the economy over the next few years. Within the range of outcomes for GDP growth, the forecast path for inflation is assumed to be invariant. This is a highly stylised assumption that is made for the illustrative purpose of focussing on the real benefits of improved labour supply behaviour. It amounts to assuming that these benefits show up quickly in employment and output, abstracting from the transitional adjustment through wages and prices. Ratios of demand components to GDP are also assumed to be largely invariant within the forecast ranges for GDP growth. Where applicable, the ranges are shown in the charts and tables.

The second section gives further details of the outturns for the public finances in 1996-97 and the latest forecasts for 1997-98 and 1998-99.

HM Treasury
25 November 1997

THE ECONOMY AND THE PUBLIC FINANCES: SUPPLEMENTARY MATERIAL

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S1 THE ECONOMY

The degree of spare capacity

Chart S1.1a: CBI capacity utilisation in manufacturing

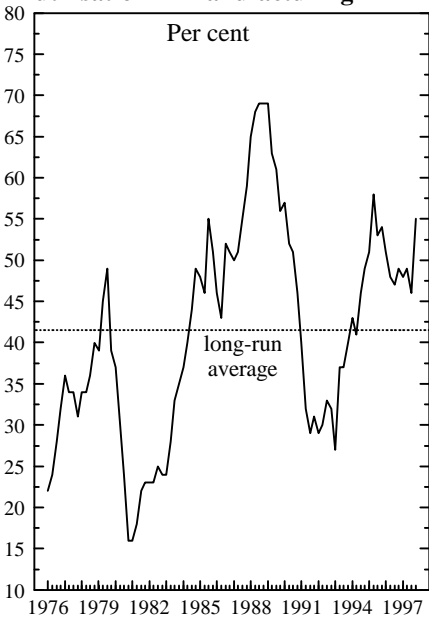


Chart S1.1b: BCC survey of capacity utilisation

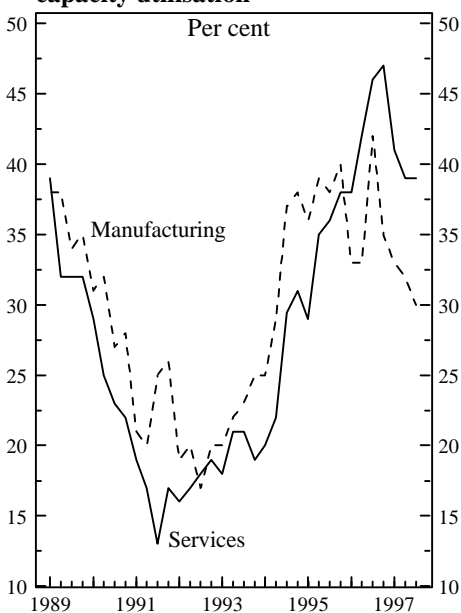


Chart S1.2a: CBI survey of skilled labour shortages

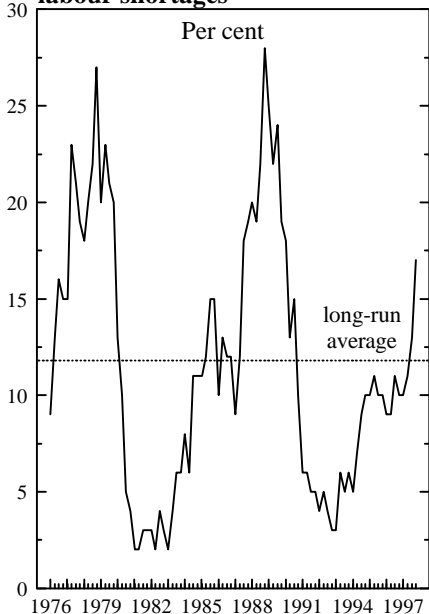
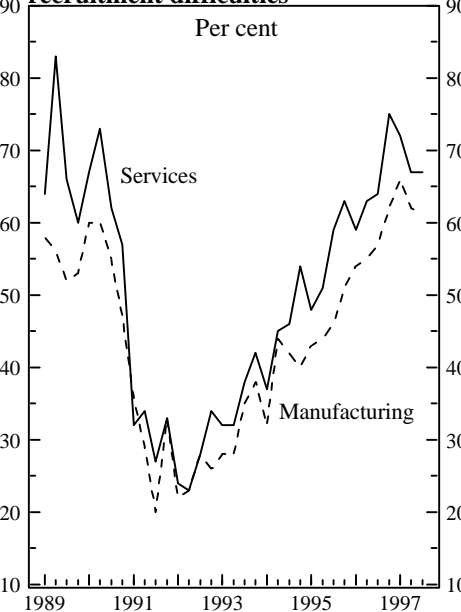
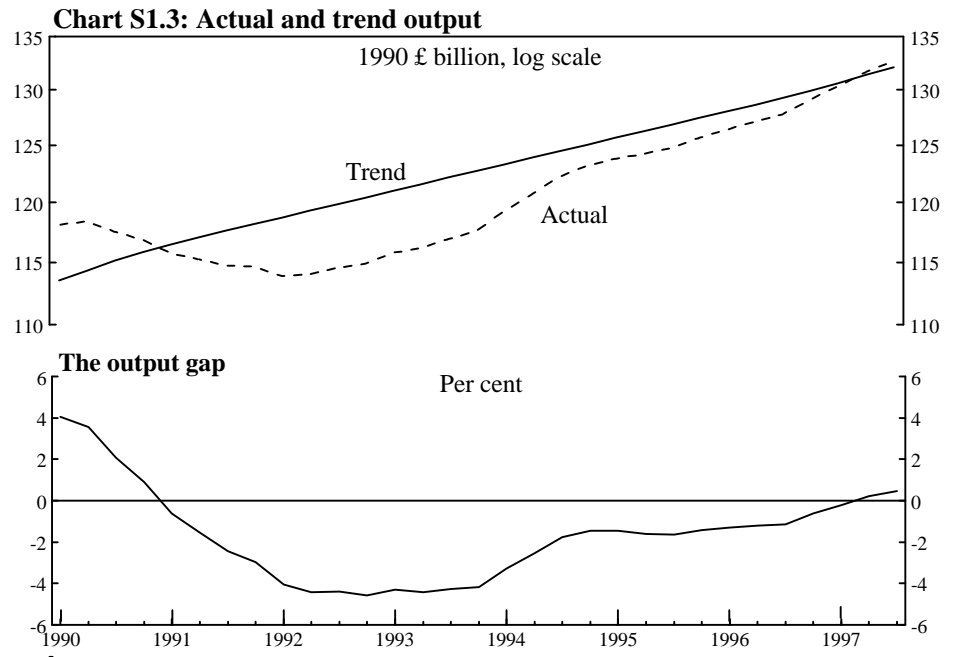
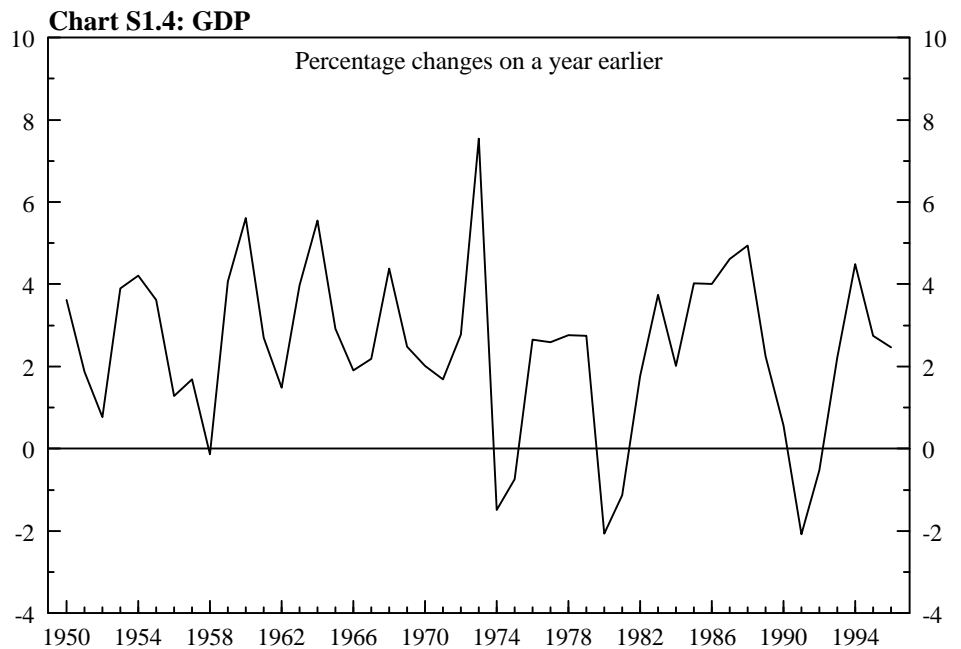


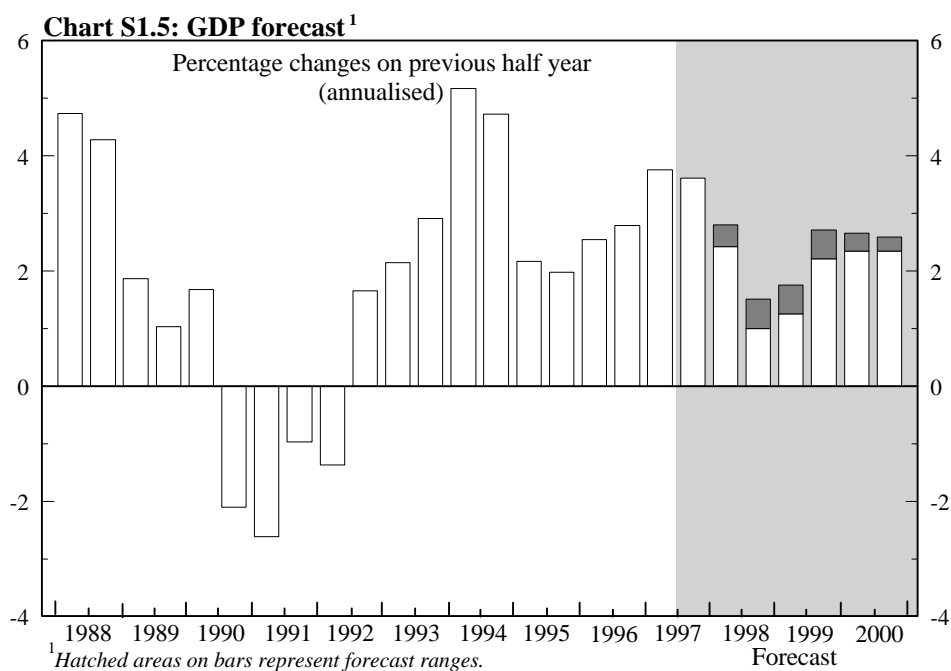
Chart S1.2b: BCC survey of recruitment difficulties





GDP



**Table S1.1: Contributions to GDP growth¹**

	Percentage points, unless otherwise stated				
	1996	1997	Forecast		
			1998	1999	2000
Final domestic demand	3½	4	3¼ to 3¾	1¾ to 2¼	2½ to 2¾
Stockbuilding	-¼	¼	¼	0 to ¼	0 to ¼
Total domestic demand	3	4¼	3¾ to 4	1¾ to 2½	2½ to 3
Net trade	-½	-¼	-1	-¼	0
less factor cost adjustment	¼	½	¼	¼	¼
GDP growth, per cent	2½	3½	2¼ to 2¾	1½ to 2	2¼ to 2¾

¹ Components may not sum to total due to rounding and omission of statistical discrepancy.

The personal sector

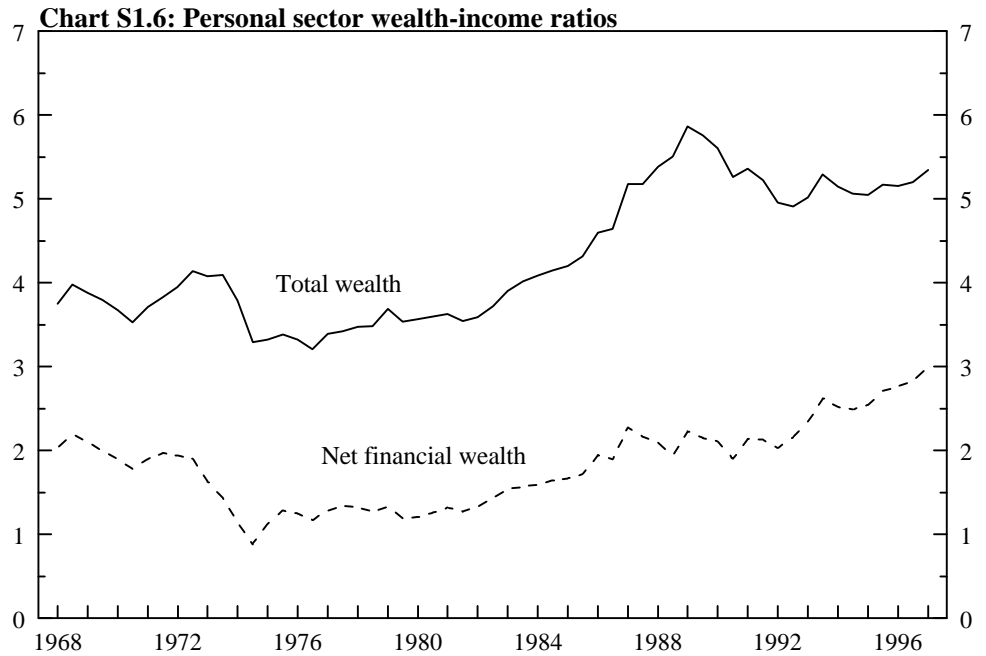


Table S1.2: Personal expenditure and income

	Percentage changes on a year earlier				
	1996	Forecast			
		1997	1998	1999	2000
Consumers' expenditure	3½	4½	3½ to 3¾	1½ to 2	2¼ to 2½
Real personal disposable income	3¾	2¾	2¼ to 2½	¾ to 1¼	1½ to 2
Saving ratio (level, per cent)	12	10½	9½	8¾	8¼

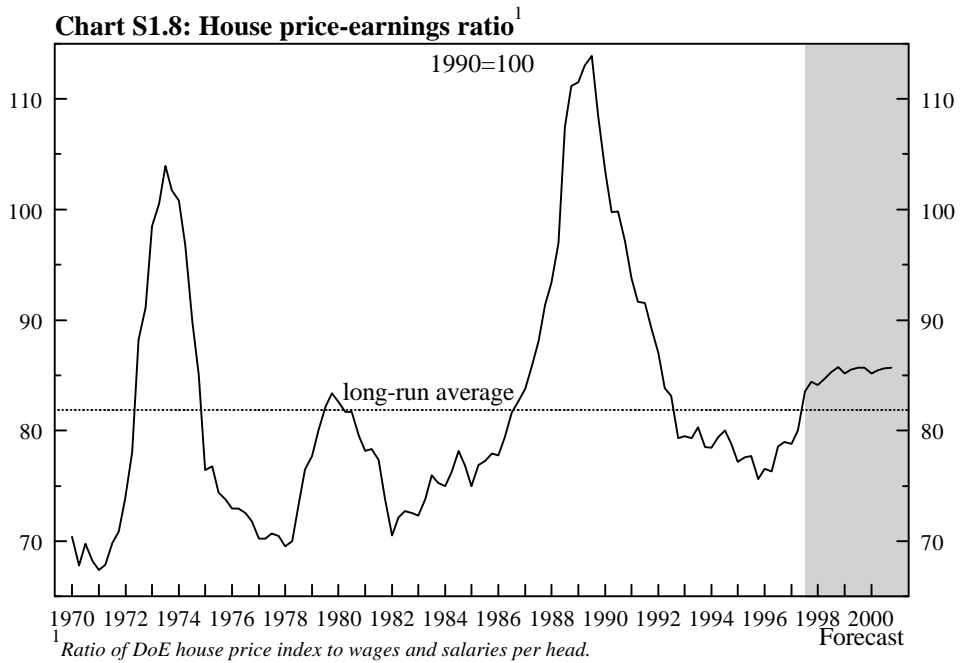
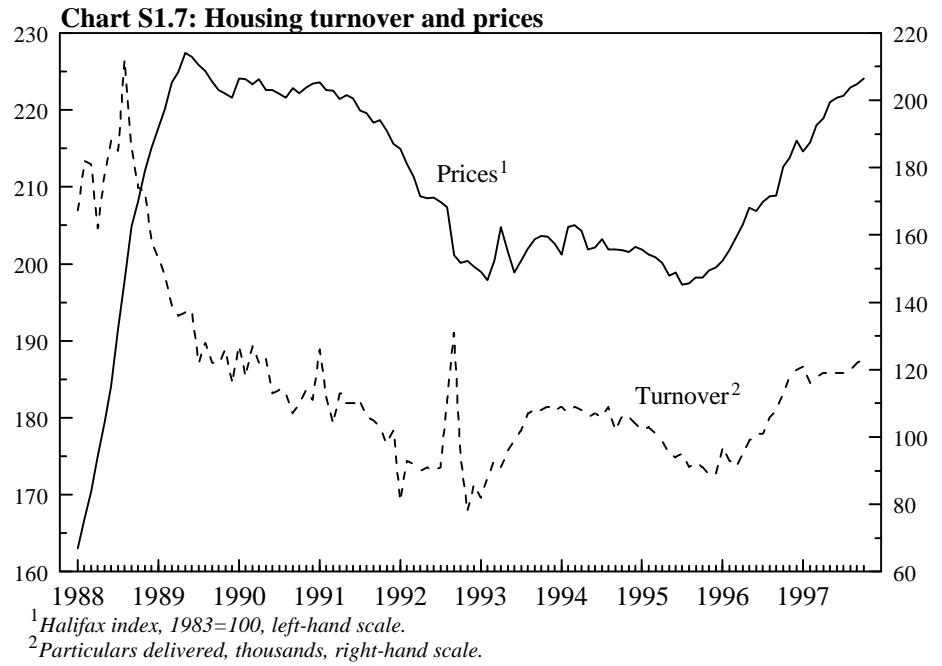
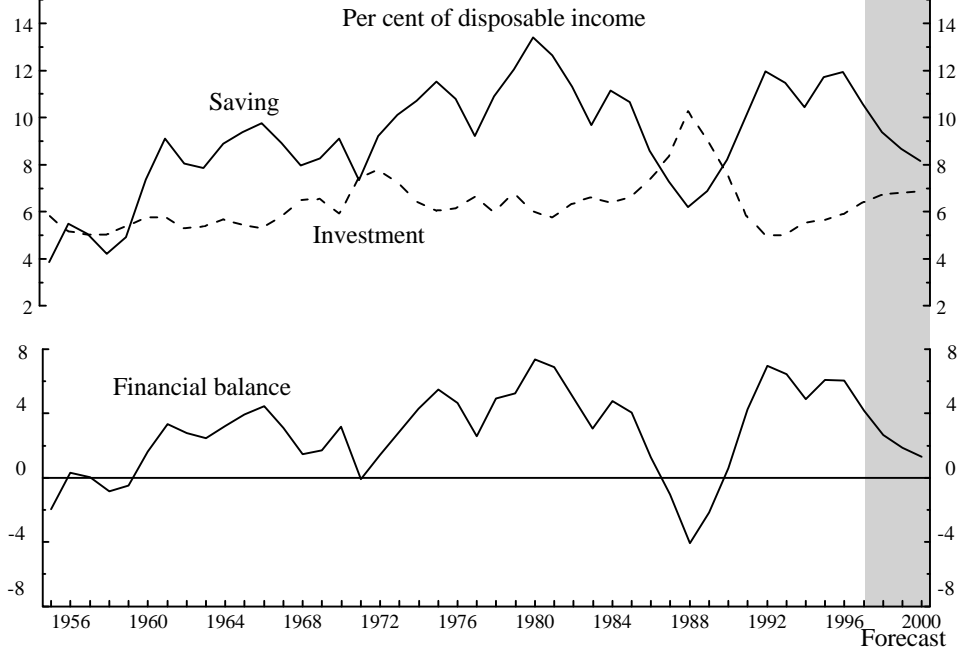
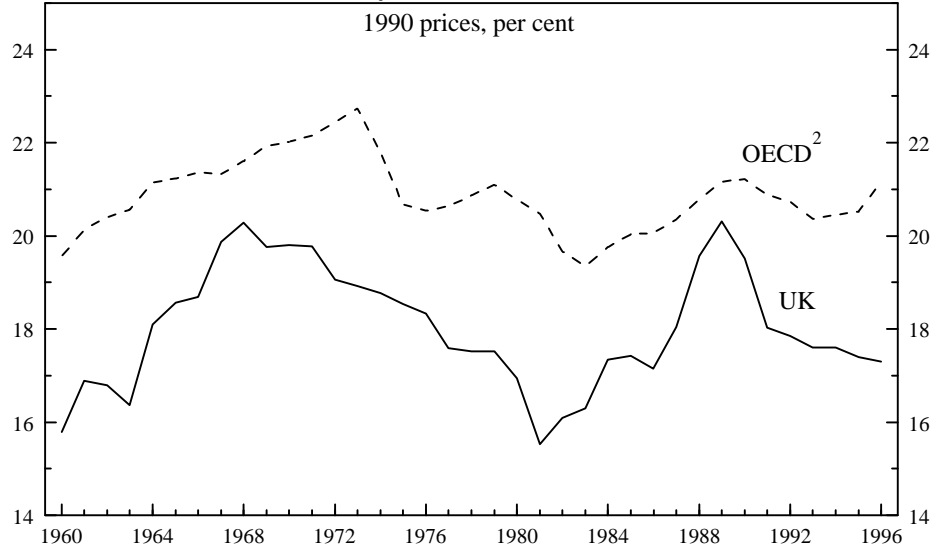


Chart S1.9: Personal sector financial balance



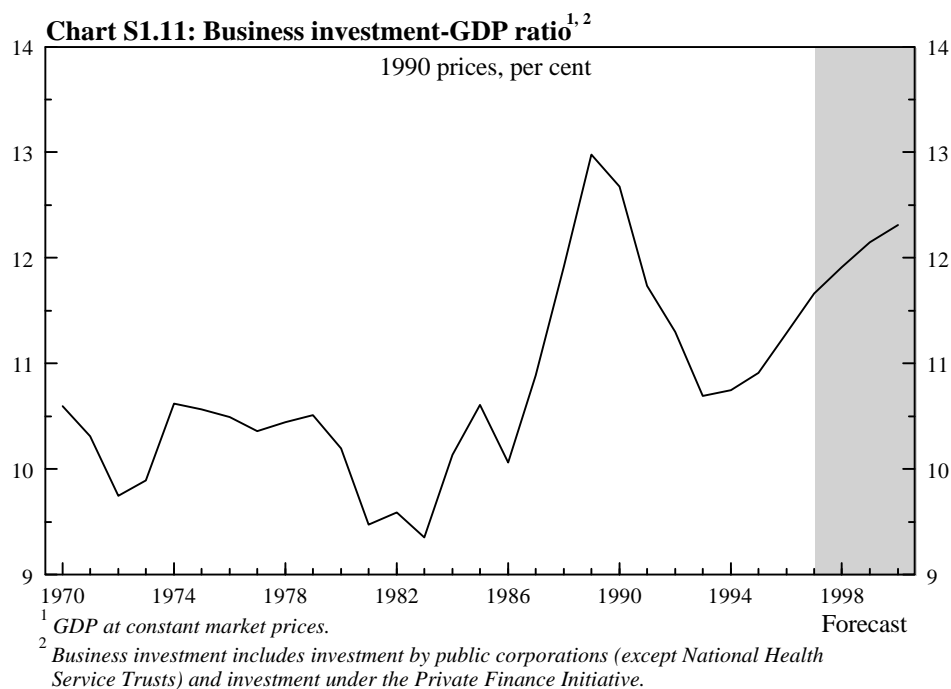
Investment and stockbuilding

Chart S1.10: Whole economy investment-GDP ratio¹



¹ GDP at constant market prices.

² Source: OECD Quarterly National Accounts.

**Table S1.3: Gross domestic fixed capital formation**

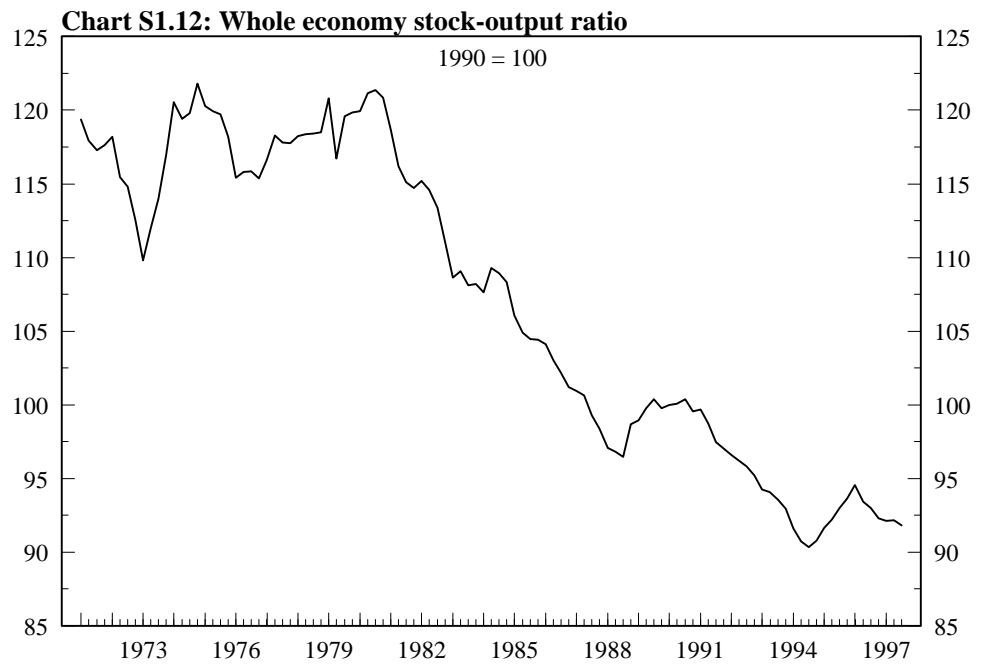
	Percentage changes on a year earlier				
	1996	Forecast			
		1997	1998	1999	2000
Whole economy ¹	1¾	3¾	6 to 6¼	2¼ to 2¾	3 to 3¼
of which:					
Business ^{2,3}	5¾	7	4½ to 5	3½ to 4	3½ to 4
Housing ²	-¼	8	6¾ to 7	1½ to 2	1¼ to 1½
General government ^{2,4}	-13½	-14½	17½	-4½	2½

¹ Includes transfer costs of land and existing buildings.

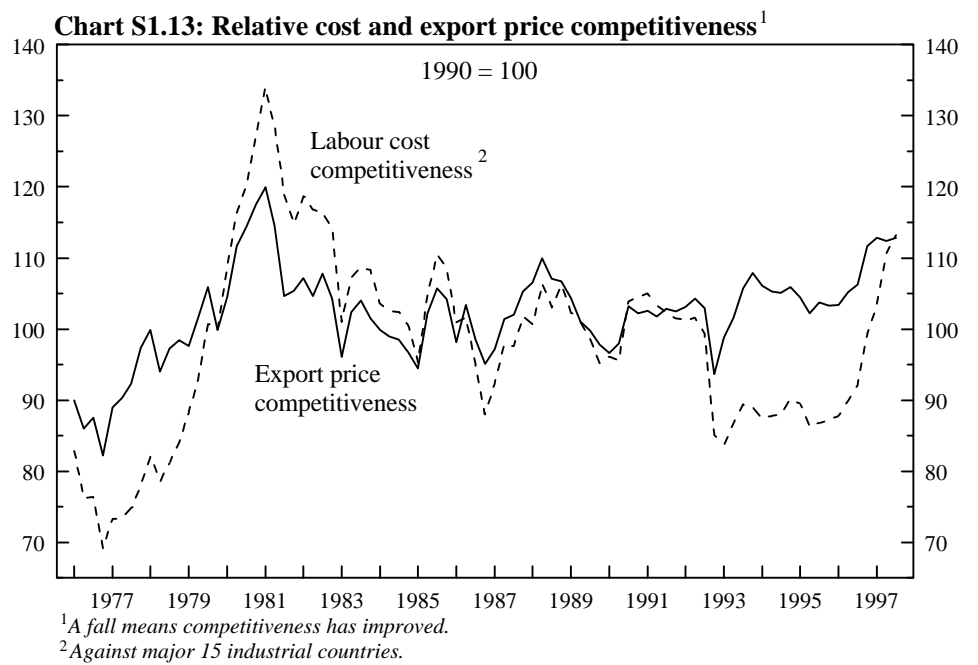
² Excludes net purchases of land and existing buildings.

³ Private sector and public corporations (except National Health Service Trusts) non-residential investment. Includes investment under the Private Finance Initiative.

⁴ Includes National Health Service Trusts.



Trade and the balance of payments



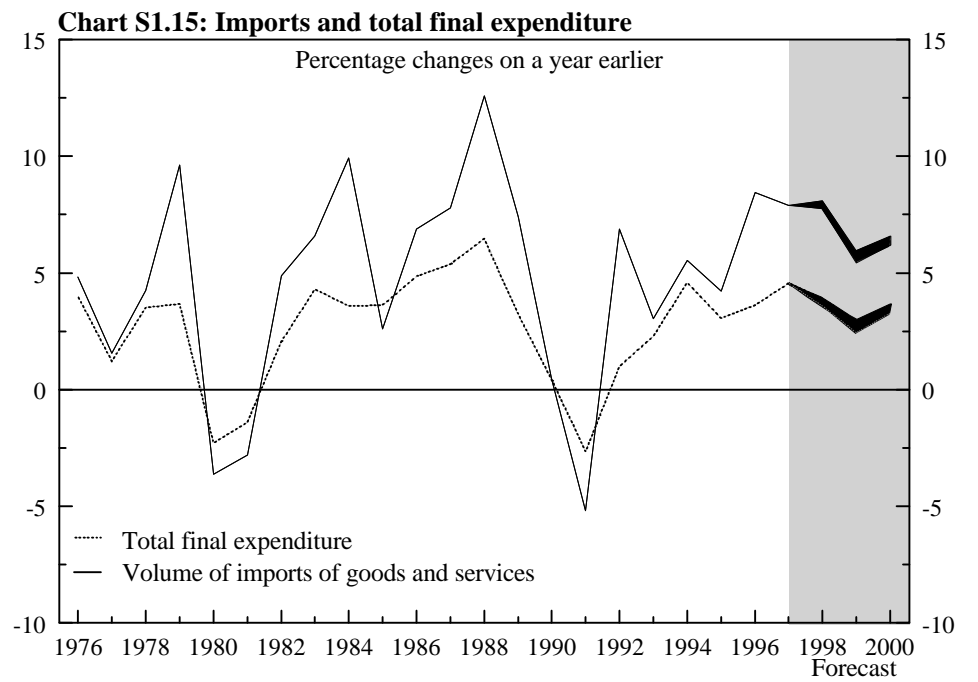
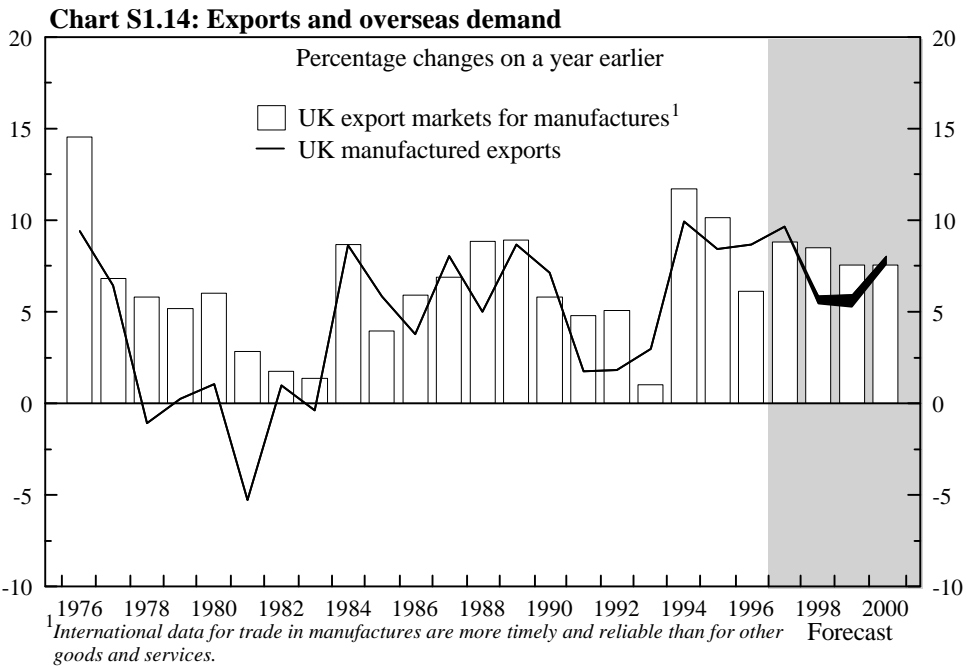


Table S1.4: Trade in goods and services

	Percentage changes on a year earlier					£ billion Goods and services balance
	Volumes		Prices ¹		Terms of trade ²	
	Exports	Imports	Exports	Imports		
1996	7	8½	1¾	½	1¼	-5½
<i>Forecast</i>						
1997	7½	8	-5	-6¾	2	-1½
1998	5 to 5¼	7¾ to 8	-3½	-4	¾	-6
1999	5¼ to 5¾	5½ to 6	2	2	0	-6½
2000	6½ to 7	6¼ to 6½	2½	2½	0	-6¼

¹ Average value indices.

² Ratio of export to import prices.

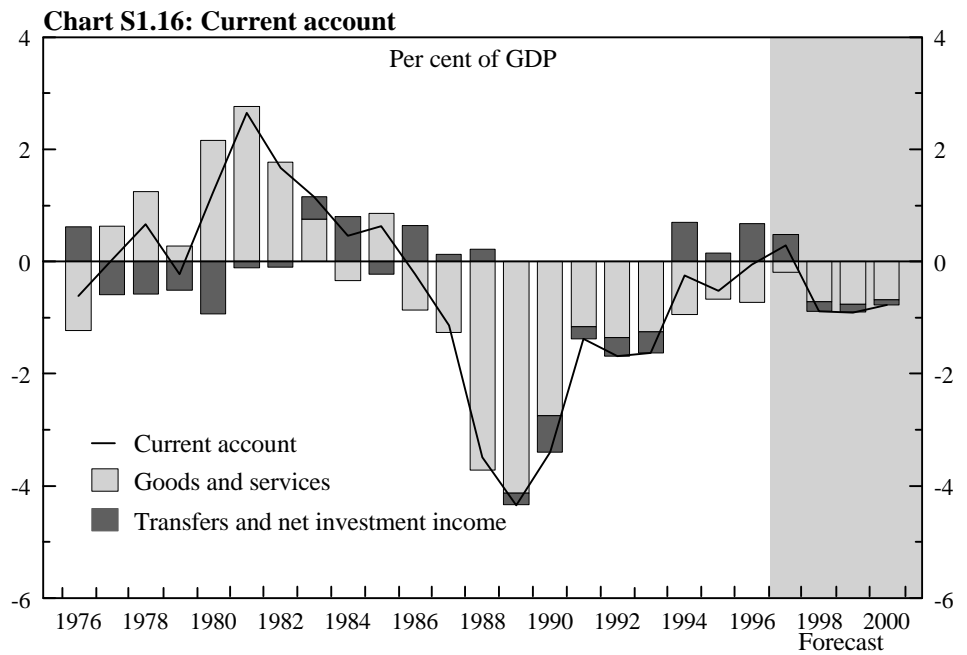
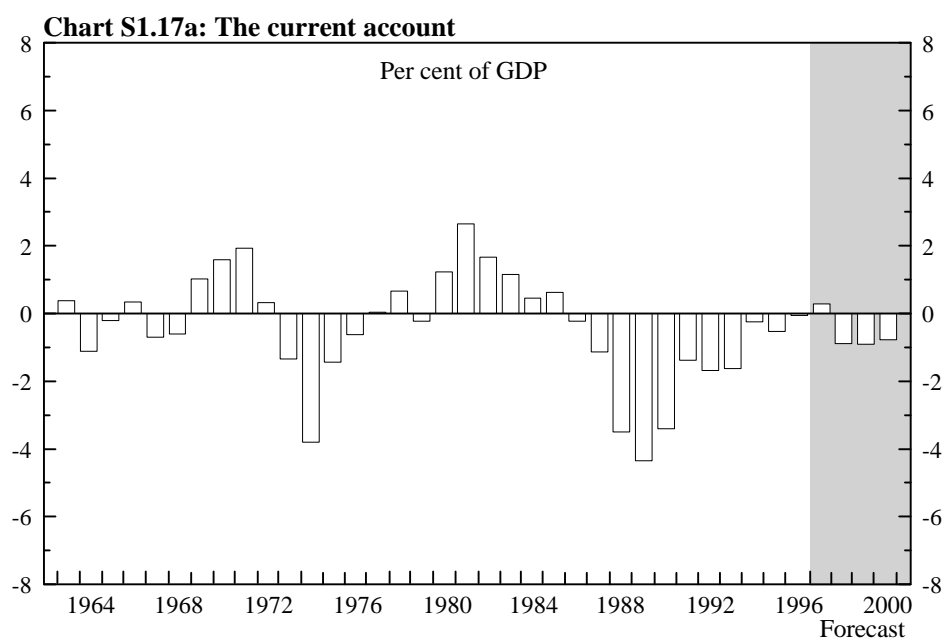


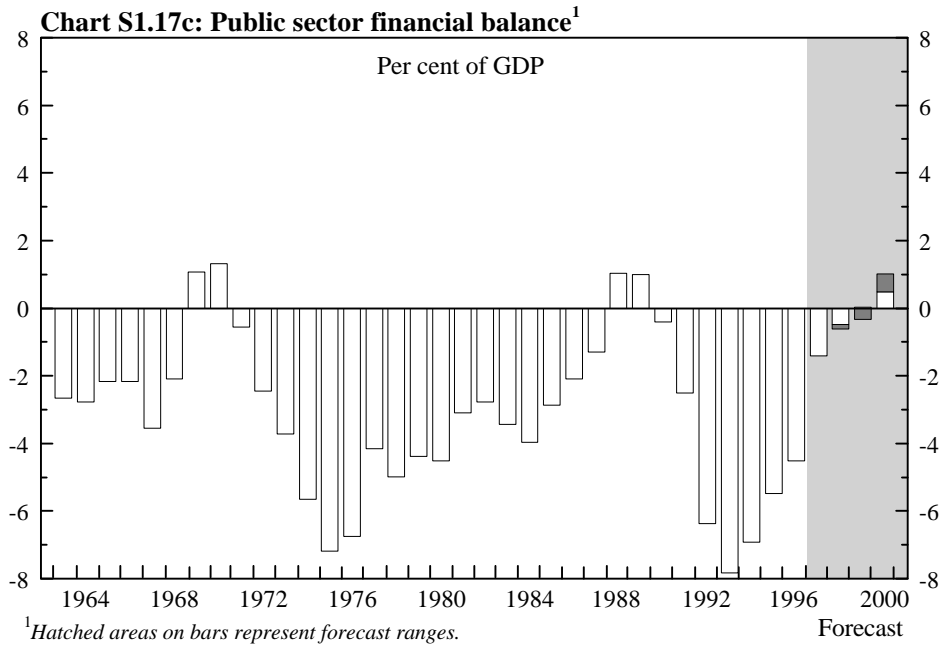
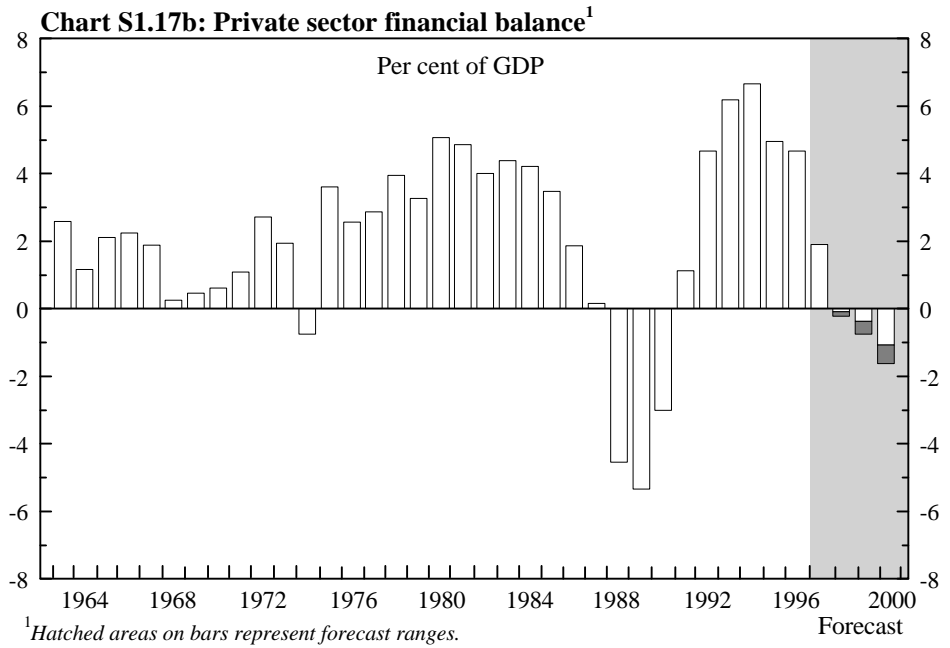
Table S1.5: The current account

	£ billion						Current balance
	Non-oil goods	Oil	Services	Total goods & services	Transfers	NI ¹	
1996	-17½	5	7¼	-5½	-4¾	9¾	-½
<i>Forecast</i>							
1997	-14½	5	8	-1½	-4¾	8½	2¼
1998	-18¾	5½	7	-6	-6½	5	-7¼
1999	-20¾	6¾	7½	-6½	-5¾	4½	-7¾
2000	-21	7	7¾	-6¼	-6	5¼	-7

¹ Net investment income.

Pattern of financial balances





The labour market

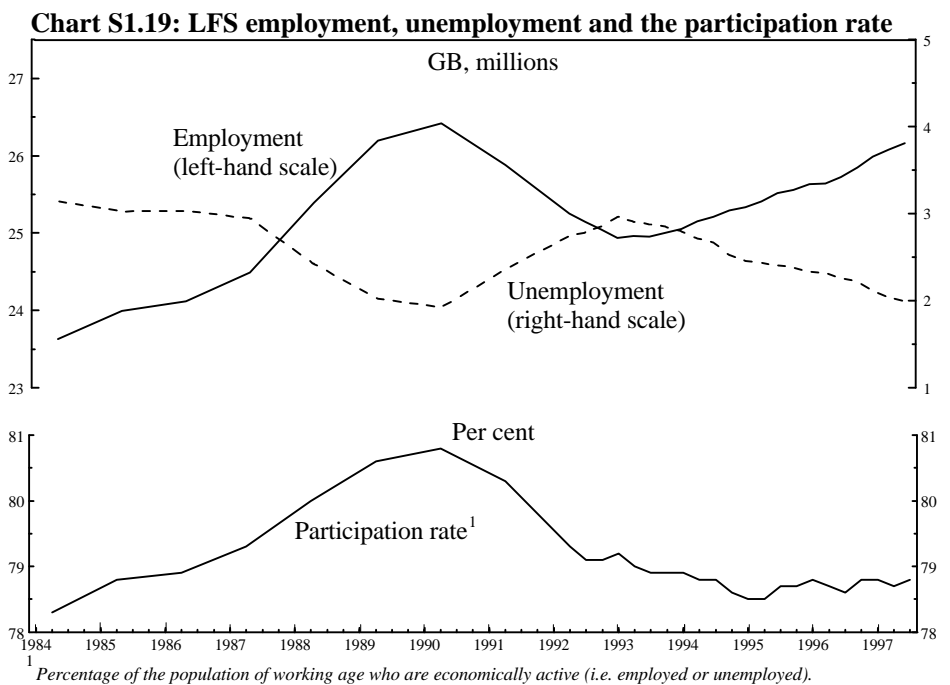
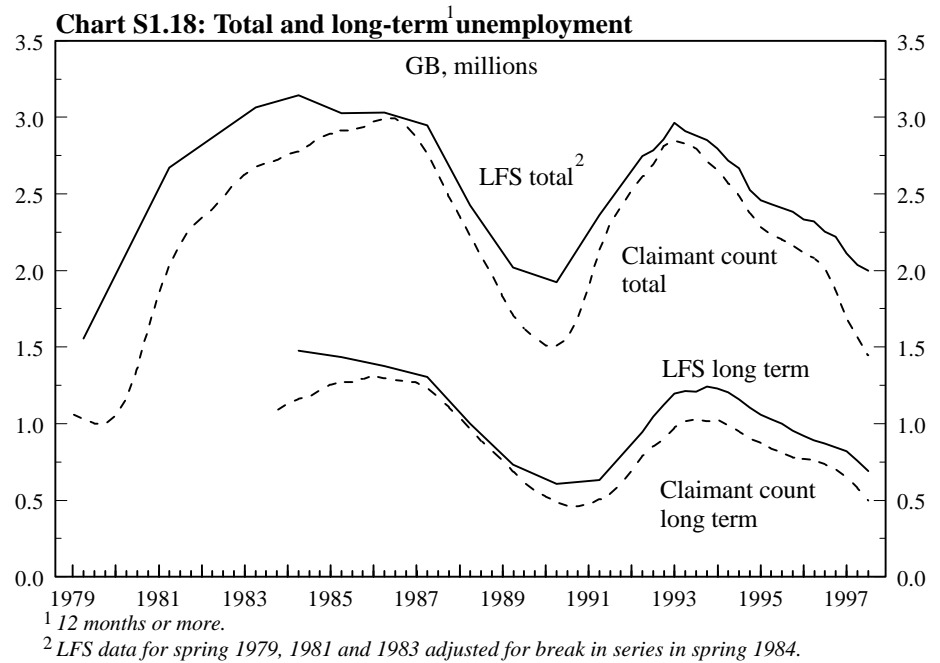
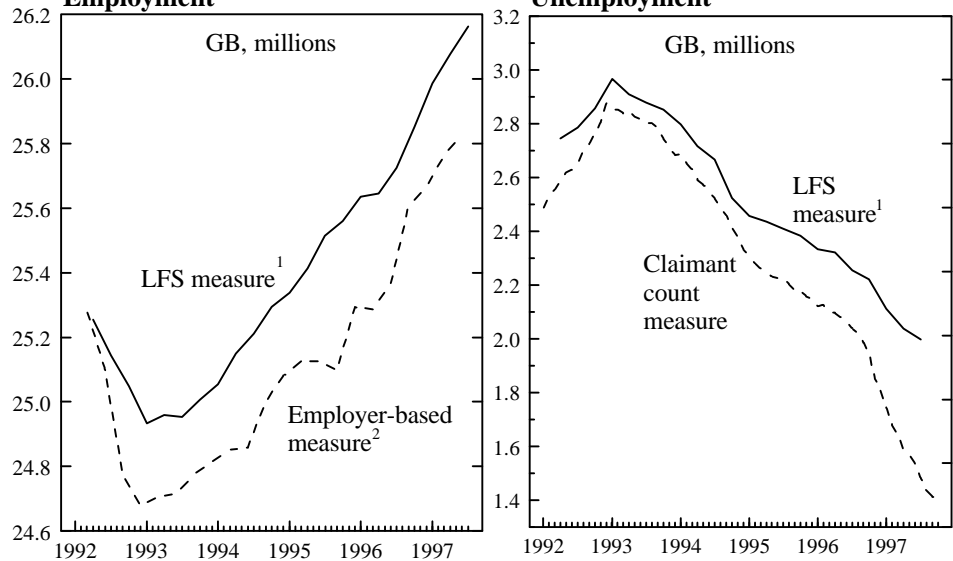
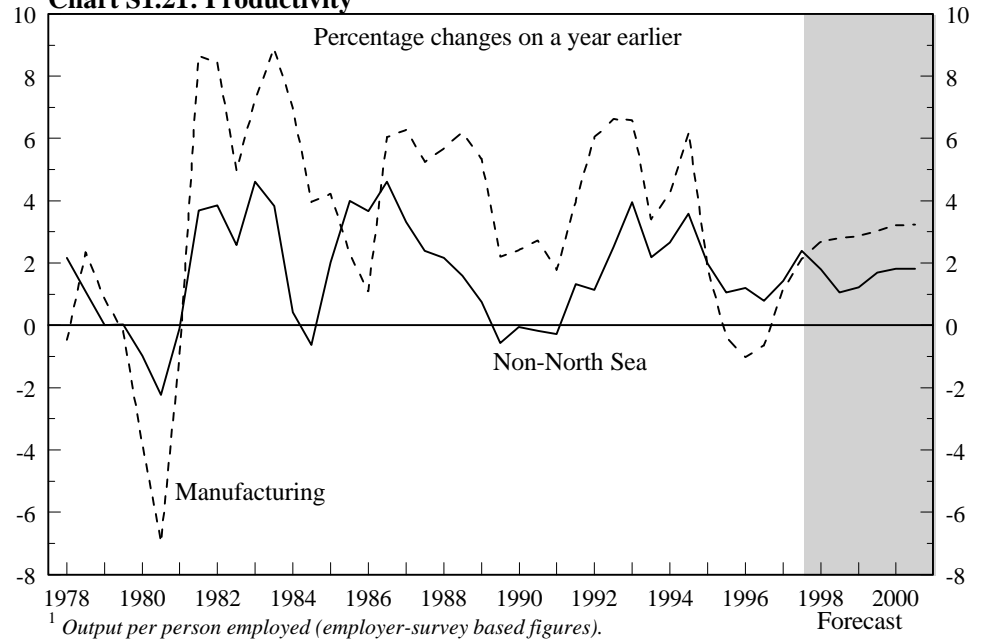


Chart S1.20: Employment and unemployment

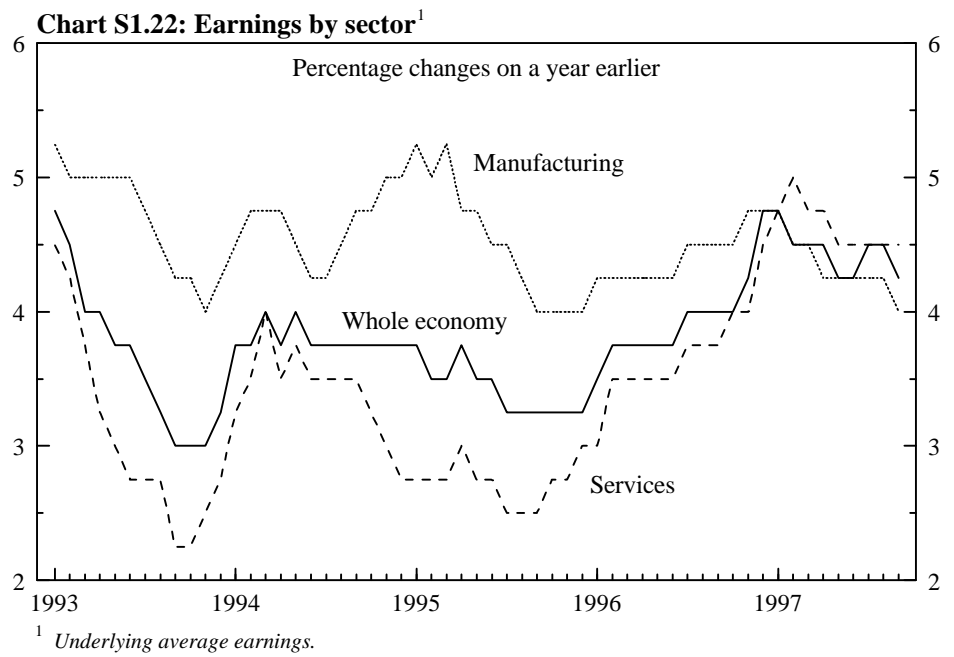


¹ LFS data recorded against central month of each LFS quarter. LFS winter quarter refers to December to February, spring to March to May, etc.
² GB workforce in employment.

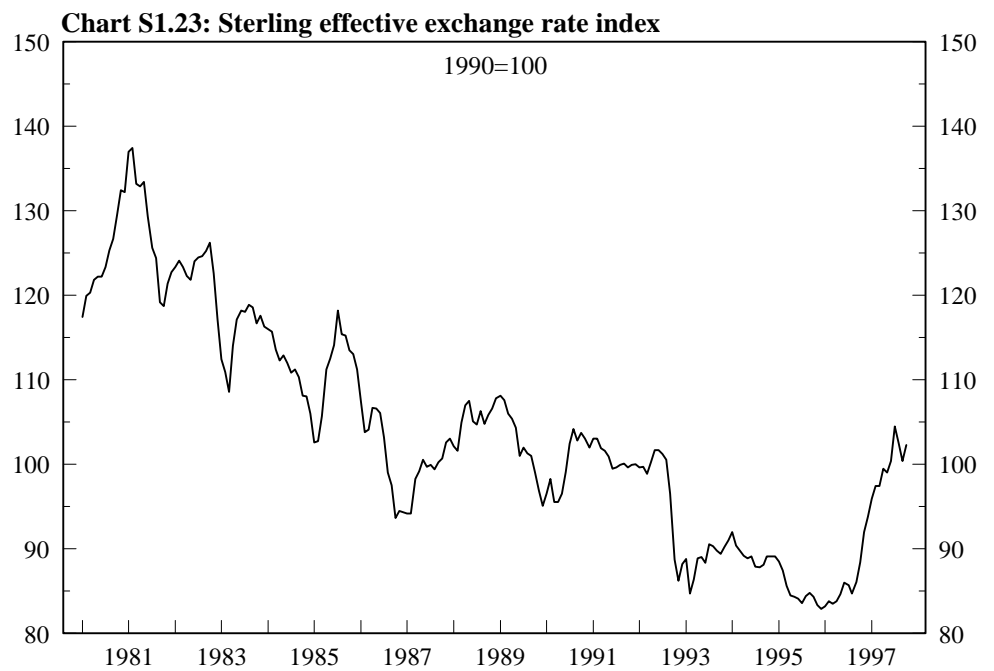
Chart S1.21: Productivity¹

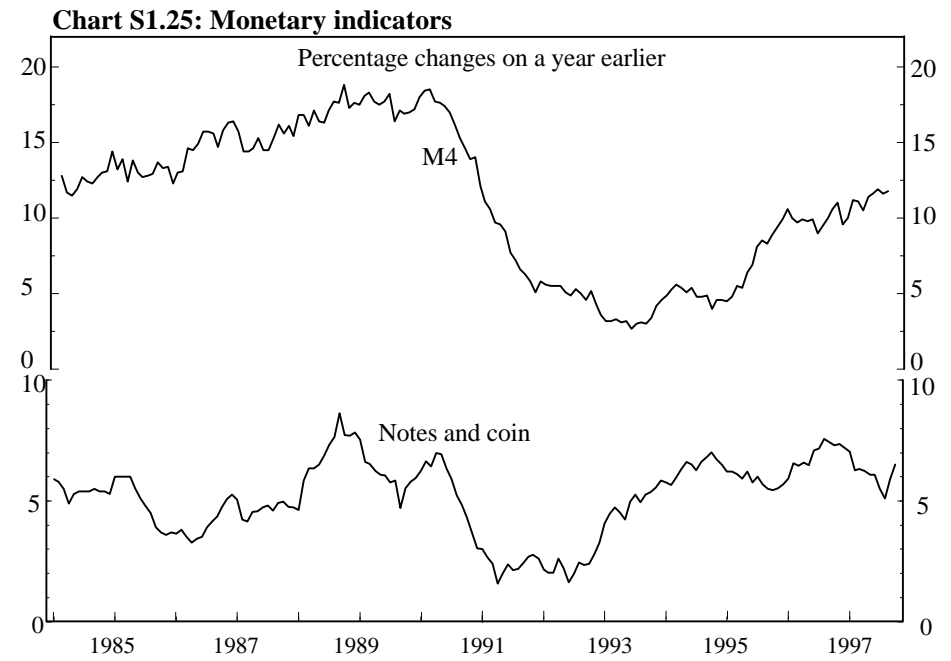
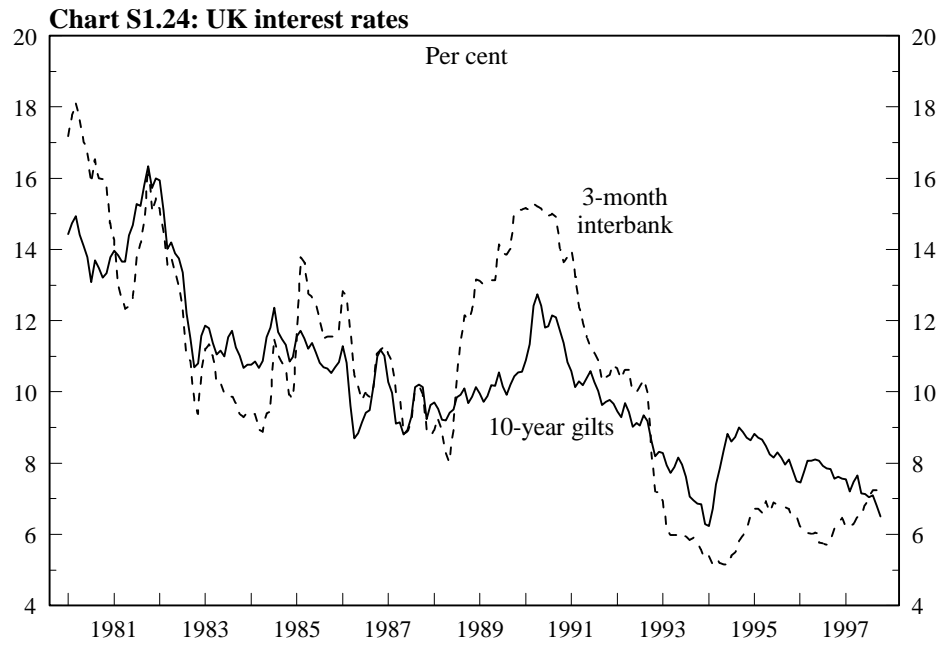


¹ Output per person employed (employer-survey based figures).



Financial developments





Inflation

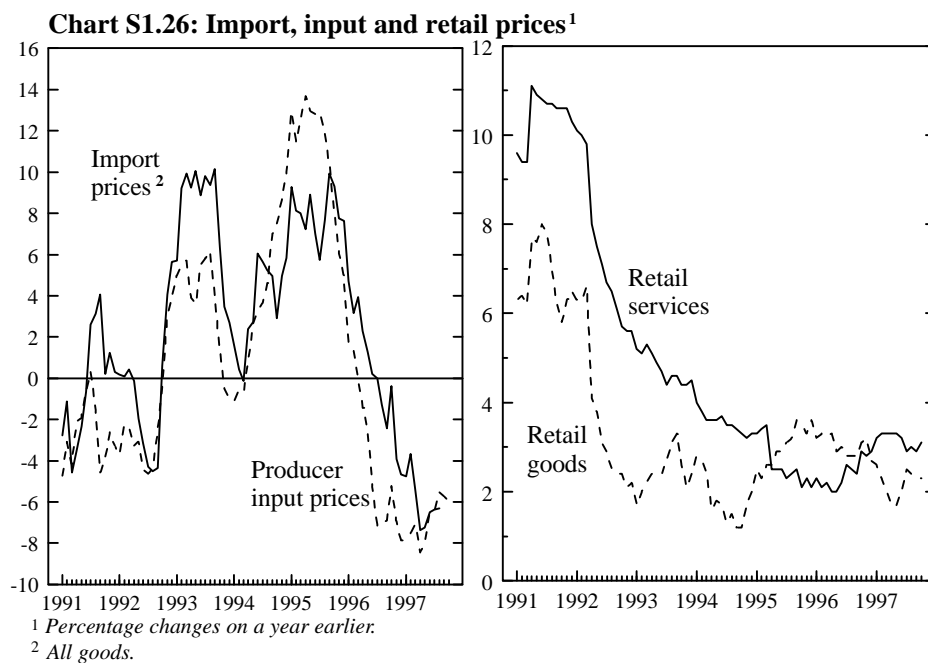
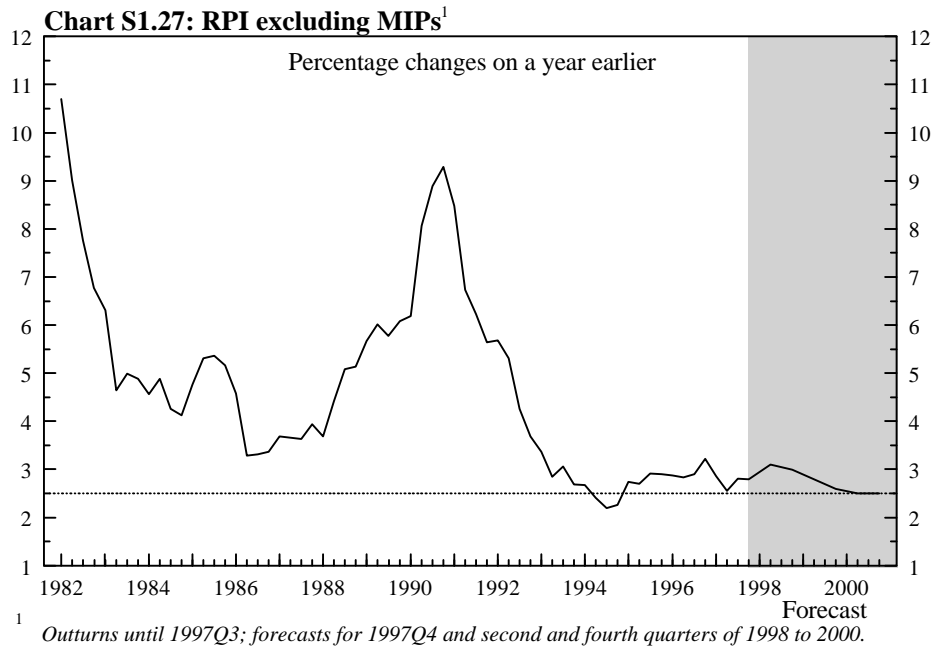


Table S1.6: Retail and producer output prices

	Percentage changes on a year earlier							
	Forecast							
	1997		1998		1999		2000	
	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4
RPI excluding MIPs	2½	2¾	3	3	2¾	2½	2½	2½
Producer output prices ¹	½	¾	1	1½	2¼	2¼	2¼	2¼

¹ Excluding the food, beverages, tobacco and petroleum industries.



Comparison with independent forecasts

Table S1.7: Pre-Budget Report and independent¹ forecasts

	Percentage changes on a year earlier unless otherwise stated					
	1997			1998		
	Pre-Budget Report	Independent Average	Independent Range	Pre-Budget Report	Independent Average	Independent Range
Gross domestic product	3½	3.5	3.1 to 3.9	2¼ to 2¾	2.4	1.5 to 3.6
RPI excluding MIPs (Q4)	2¾	2.6	2.0 to 3.0	3	2.8	2.3 to 3.8
Current account (£ billion)	2¼	-0.7	-7.0 to 3.8	-7¼	-7.7	-12.4 to -0.5

¹ "Forecasts for the UK Economy: A Comparison of Independent Forecasts", November 1997.

Comparison with July Budget forecast

Table S1.8: Comparison with July Budget forecast

		Percentage changes on a year earlier unless otherwise stated	
		July 1997 Budget	November 1997 Pre-Budget report
Gross domestic product	1997	3¼	3½
	1998	2½	2¼ to 2¾
RPI excluding MIPs	1997Q4	2½	2¾
	1998Q4	2¾	3
Current account (£ billion)	1997	-6	2¼
	1998	-9	-7¼

Table S1.9: Summary of economic prospects¹

	Percentage changes on a year earlier unless otherwise stated					Average errors from past forecasts ³
	1996	Forecast ²				
		1997	1998	1999	2000	
Output at constant prices ⁴						
Gross domestic product (GDP)	2½	3½	2¼ to 2¾	1½ to 2	2¼ to 2¾	1½
Non-North Sea GDP	2½	3½	2¼ to 2½	1¼ to 1¾	2¼ to 2¾	1½
Manufacturing output	¼	1¾	1½ to 1¾	1¼ to 1¾	2 to 2¼	2¼
Expenditure components of GDP at constant prices ⁴						
Domestic demand	2¾	3¾	3¼ to 3½	1½ to 2	2¼ to 2½	1½
Consumers' expenditure	3½	4½	3½ to 3¾	1½ to 2	2¼ to 2½	1½
General government consumption	2½	¼	-1¼	1	1¼	1¼
Fixed investment	1¾	3¾	6 to 6¼	2¼ to 2¾	3 to 3¼	4¼
Change in stockbuilding ⁵	-¼	¼	¼	0 to ¼	0 to ¼	¼
Exports of goods and services	7	7½	5 to 5¼	5¼ to 5¾	6½ to 7	1¾
Imports of goods and services	8½	8	7¾ to 8	5½ to 6	6¼ to 6½	2¾
Balance of payments current account						
£ billion	- ½	2¼	-7¼	-7¾	-7	8¼
per cent of GDP	0	¼	-1	-1	-¾	1
Inflation						
RPI excluding mortgage interest payments (Q4)	3¼	2¾	3	2½	2½	1
Producer output prices (Q4) ⁶	¾	¾	1½	2¼	2¼	1¼
GDP deflator at market prices (financial year)	2¾	2¾	2¾	2½	2½	1¼
Money GDP at market prices (financial year)						
£ billion	752	800	837 to 840	873 to 881	915 to 926	16
percentage change	5½	6¼	4½ to 5	4¼ to 4¾	4¾ to 5¼	2

¹ Data in this chapter are consistent with the output, income and expenditure estimates and other series for the period to the third quarter of 1997 released by the Office for National Statistics on 20 November 1997.

² Despite the assumption that ratios of variables to GDP are largely invariant within forecast ranges, the growth ranges for GDP components do not necessarily round to the ½ percentage point ranges for GDP growth. This reflects the GDP growth ranges themselves being rounded, and assumed invariance of the levels of public spending and counterparts within the forecast ranges.

³ Average absolute errors in autumn forecasts over past ten years. The average errors for the current account are calculated as a percent of GDP. The £ billion figures are calculated by scaling the errors as a percent of GDP by money GDP.

⁴ Further detail on GDP and its components is given in Table S1.10.

⁵ Per cent of GDP.

⁶ Excluding the food, beverages, tobacco and petroleum industries.

Table S1.10: Gross domestic product and its components

£ billion at 1990 prices, seasonally adjusted											
	Consumers' expenditure	General government consumption	Total fixed investment	Stockbuilding	Domestic demand	Exports of goods and services	Total final expenditure	Less imports of goods and services	Less adjustment to factor cost	Plus statistical discrepancy ¹	GDP at factor cost
1996	376.6	122.4	104.1	2.6	605.8	179.8	785.6	184.7	77.2	0.8	524.5
1997	393.2	122.7	108.0	4.1	627.9	193.5	821.4	199.3	80.4	1.1	542.8
1998	406.9 to 408.2	121.0	114.5 to 114.9	5.2 to 5.5	647.6 to 649.6	203.2 to 203.8	850.8 to 853.4	214.7 to 215.4	81.8 to 82.1	1.4	555.6 to 557.3
1999	413.1 to 416.4	122.2	117.0 to 118.0	5.3 to 6.4	657.7 to 663.0	213.8 to 215.6	871.5 to 878.5	226.4 to 228.2	82.9 to 83.6	1.4	563.6 to 568.1
2000	422.0 to 426.9	123.9	120.4 to 121.8	5.9 to 7.4	672.2 to 679.9	227.9 to 230.5	900.1 to 910.4	240.4 to 243.2	84.5 to 85.4	1.4	576.6 to 583.2
1996											
1st half	186.7	61.0	52.0	1.3	301.0	88.6	389.6	91.1	38.3	0.3	260.5
2nd half	190.0	61.4	52.1	1.3	304.8	91.2	396.0	93.5	38.8	0.5	264.1
1997											
1st half	194.2	61.5	53.5	1.7	311.0	94.7	405.7	97.2	39.9	0.4	269.0
2nd half	199.0	61.2	54.5	2.3	316.9	98.8	415.7	102.0	40.5	0.7	273.8
1998											
1st half	202.5 to 202.8	60.5	56.8 to 56.9	2.7 to 2.8	322.4 to 323.0	100.6 to 100.8	423.1 to 423.8	105.8 to 106.0	40.8 to 40.9	0.7	277.1 to 277.6
2nd half	204.5 to 205.4	60.5	57.7 to 58.0	2.5 to 2.8	325.2 to 326.6	102.6 to 103.0	427.7 to 429.6	108.9 to 109.4	41.0 to 41.2	0.7	278.5 to 279.7
1999											
1st half	205.7 to 207.1	60.8	58.2 to 58.6	2.5 to 2.9	327.2 to 329.5	105.2 to 106.0	432.5 to 435.4	111.6 to 112.4	41.3 to 41.6	0.7	280.2 to 282.2
2nd half	207.4 to 209.3	61.4	58.8 to 59.4	2.9 to 3.5	330.4 to 333.5	108.6 to 109.6	439.0 to 443.1	114.8 to 115.8	41.6 to 42.0	0.7	283.3 to 286.0
2000											
1st half	209.8 to 212.1	61.8	59.7 to 60.4	2.9 to 3.6	334.2 to 337.8	112.1 to 113.3	446.3 to 451.2	118.3 to 119.6	42.0 to 42.5	0.7	286.6 to 289.7
2nd half	212.2 to 214.8	62.1	60.7 to 61.4	3.0 to 3.8	338.0 to 342.1	115.8 to 117.2	453.8 to 459.3	122.1 to 123.6	42.4 to 43.0	0.7	289.9 to 293.5
Percentage changes on a year earlier ²											
1996	3½	2½	1¾	-¼	2¾	7	3½	8½	1½	¼	2½
1997	4½	¼	3¾	¼	3¾	7½	4½	8	4¼	0	3½
1998	3½ to 3¾	-1¼	6 to 6¼	¼	3¼ to 3½	5 to 5¼	3½ to 4	7¼ to 8	1¾ to 2	0	2¼ to 2¾
1999	1½ to 2	1	2¼ to 2¾	0 to ¼	1½ to 2	5¼ to 5¾	2½ to 3	5½ to 6	1¼ to 1¾	0	1½ to 2
2000	2¼ to 2½	1¼	3 to 3¾	0 to ¼	2¼ to 2½	6½ to 7	3¼ to 3¾	6¼ to 6½	1¾ to 2¼	0	2¼ to 2¾

¹ Expenditure adjustment.² For stockbuilding and the statistical discrepancy, changes are expressed as a percent of GDP.

S2 THE PUBLIC FINANCES

S2.01 This section gives further details of the outturns for the public finances in 1996-97 and the forecasts for 1997-98 and 1998-99.

- **Table S2.1** sets out the main economic assumptions - on output, inflation and money GDP.
- **Table S2.2** gives a sectoral breakdown of borrowing, including a comparison of the outturns for the first seven months of 1997-98 with those for the same period last year, and forecasts for the whole of 1997-98 and for 1998-99.
- **Table S2.3** shows central government net borrowing measured from the cash flows into and out of central government funds and accounts.
- **Table S2.4** gives a detailed breakdown of general government taxes and other receipts.
- **Table S2.5** gives projections for net public debt and general government gross debt.
- **Table S2.6** details changes in the forecast since the July Budget.
- **Table S2.7** gives a breakdown of the financing requirement for the CGBR.

Notes on the conventions used in presenting the public finances are given at the end.

S2.02 Table S2.1 sets out the main economic assumptions used in the public finances projections. The output growth rates are at the lower end of the range described in Appendix A of the Pre-Budget Report.

Table S2.1: Economic assumptions for public finance projections

	Percentage change on previous financial year					
	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
Output (GDP)	3½	1¾	1¾	2¼	2¼	2¼
Prices						
RPI excluding MIPs	2¾	3	2½	2½	2½	2½
GDP deflator	2¾	2¾	2½	2½	2½	2½
RPI (September) ¹	3½	3½	2½	2½	2½	2½
Rossi (September) ¹	2½	2½	2½	2¼	2¼	2¼
Money GDP (£ billion)	800	837	873	915	960	1006

¹ Used for projecting social security expenditure in the following financial year.

Borrowing by sector **S2.03** Table S2.2 gives a sectoral breakdown of borrowing for 1996-97, 1997-98 and for 1998-99.

Table S2.2: Public sector borrowing requirement by sector

	£ billion						
	1996-97			1997-98			1998-99
	Outturn			Outturn	Estimate		Projection
	Apr - Oct	Nov - Mar	Total	Apr - Oct	Nov - Mar	Total	
CGBR(O) ¹	12.5	12.4	24.9	3.5	6.4	9.9	4.4
LABR ²	0.3	-1.1	-0.8	0.5	-0.4	0.1	-0.1
PCBR ³	-1.5	0.1	-1.5	-1.4	1.0	-0.4	0.2
PSBR	11.2	11.4	22.6	2.6	7.0	9.5	4.5
CGBR ⁴	12.3	12.7	25.0	5.0	6.7	11.7	5.5
PCMOB ⁵	-0.2	0.1	-0.1	-1.4	0.6	-0.8	-0.2

¹ Central government borrowing requirement on own account.

² Local authority borrowing requirement.

³ Public corporations borrowing requirement.

⁴ Central government borrowing requirement, including on-lending to local authorities and public corporations.

⁵ Public corporations' market and overseas borrowing.

S2.04 Central government borrowing on own account (ie excluding borrowing for on lending to local authorities and public corporations) more than accounted for the total PSBR in 1996-97, and this is expected to be so also in 1997-98. Central government borrowing on own account in the first seven months of 1997-98 was £9bn lower than in the same period of 1996-97. Borrowing in the remaining five months is expected to be some £6 billion lower than in the same period last year. The rate of decline is lower than in the first seven months mostly because net departmental outlays were more front-end loaded during 1996-97 than has been the case this year.

Central government transactions on a cash basis

S2.05 The monthly outturns for central government borrowing are measured from the cash flows into and out of central government's funds and accounts, after consolidation. Table S2.3 sets out the 1996-97 outturn and 1997-98 forecasts for central government borrowing in terms of this cash flow presentation.

Table S2.3: Central government transactions on a cash receipts and outlays basis

	£ billion		
	1996-97	1997-98	
	Outturn	Last Budget forecast ²	Latest estimate
<i>Receipts</i>			
Inland Revenue ¹	104.0	116.7	115.9
Customs and Excise ¹	82.4	89.4	88.9
Social security contributions (GB)	45.1	47.8	47.8
Interest and dividends	8.3	8.2	8.1
Other	21.1	20.2	20.5
Total receipts	260.9	282.3	281.2
<i>Outlays</i>			
Interest payments	26.6	27.0	26.8
Privatisation proceeds	-4.4	-2.0	-2.0
Net departmental outlays	263.5	268.6	266.4
Total outlays	285.8	293.6	291.1
Net own account borrowing³	24.9	11.2	9.9
Net lending to local authorities and public corporations	0.2	1.2	1.8
Net borrowing	25.0	12.4	11.7

¹ Payments to the Consolidated Fund.

² Assumes Reserve allocated to central government sector.

³ Excludes net lending to local authorities and public corporations.

General government receipts

S2.06 Table S2.4 gives a more detailed breakdown of receipts, in £ billion, than Table B3 of the Pre-Budget Report.

Table S2.4: General government receipts¹

	£ billion		
	Outturn	Estimate	Projection
	1996-97	1997-98	1998-99
<i>Inland Revenue</i>			
Income tax	69.1	75.5	83.2
Corporation tax ²	27.8	30.3	31.5
Windfall tax		2.6	2.6
Petroleum revenue tax	1.8	1.2	1.0
Capital gains tax	1.1	1.3	2.0
Inheritance tax	1.6	1.6	1.7
Stamp duties	2.3	3.4	4.1
Total Inland Revenue	103.7	115.9	126.1
<i>Customs and Excise</i>			
Value added tax	46.7	50.1	52.5
Fuel duties	16.9	18.7	19.7
Tobacco duties	8.0	8.3	8.9
Spirits duties	1.6	1.6	1.6
Wine duties	1.3	1.4	1.5
Beer and cider duties	2.8	2.9	3.0
Betting and gaming duties	1.4	1.6	1.6
Air passenger duty	0.4	0.5	0.7
Insurance premium tax	0.7	1.1	1.3
Landfill tax	0.1	0.4	0.5
Customs duties and levies	2.3	1.9	1.7
Total Customs and Excise	82.1	88.6	93.3
Vehicle excise duties	4.2	4.5	4.7
Oil royalties	0.7	0.5	0.5
Business rates ³	15.5	14.6	14.6
Social security contributions	47.4	49.5	52.2
Council Tax	10.1	10.5	11.6
Other taxes and royalties	7.8	8.0	7.8
Total taxes and social security contributions	271.4	292.2	310.8
Interest and dividends	4.9	4.9	5.1
Gross trading surpluses and rent	5.0	4.9	5.0
Other receipts ⁴	4.1	6.4	6.5
General government receipts	285.4	308.4	327.4
North Sea revenues ⁵	3.5	3.5	3.2

¹ On a cash basis.

² Includes advance corporation tax: 11.8 12.0 12.2
(Net of repayments. Also includes North Sea corporation tax after ACT set off, and corporation tax on gains).

³ Includes district council rates in Northern Ireland.

⁴ Includes accruals adjustments for index-linked gilts.

⁵ North sea corporation tax (before ACT set-off), petroleum revenue tax and royalties.

The debt burden **S2.07** The debt burden is forecast to fall slightly as a percentage of GDP. The gross ratio is comfortably below the Maastricht reference level of 60 per cent.

Table S2.5: Public sector debt¹

	Outturn	Estimate	Projection
	1996-97	1997-98	1998-99
Net public sector debt			
£ billion ²	350	361	368
-per cent of GDP ³	45.1	44.0	43.1
General government gross debt			
- £ billion ²	409	418	427
-per cent of GDP ⁴	54.3	52.2	51.0

¹ At end-March.

² Rounded to the nearest £1 billion.

³ GDP centred on end-March.

⁴ Ratios on a Maastricht-basis. GDP is on an ESA basis, year ending in March.

Changes since last Budget **S2.08** The PSBR in 1997-98 is now forecast to be about £1½ billion lower than the Budget forecast. This mostly reflects lower general government expenditure (particularly cyclical social security) and a higher repayment of debt held by the market and overseas, by public corporations. The forecast for 1998-99 is about £½ billion higher than that in July.

S2.09 The Control Totals for 1997-98 and 1998-99 are in line with existing plans (adjusted for classification changes), by assumption. Outside the Control Total spending is lower than the July Budget forecast in 1997-98 but higher in 1998-99. Spending on cyclical social security is £1 billion lower in 1997-98, largely because of lower unemployment. Accounting adjustments are higher for both years.

Table S2.6: Changes since Budget¹

	£ billion		
	1996-97	1997-98	1998-99
<i>Expenditure</i>			
Control Total	0.2	0.0	0.0
Cyclical social security	-0.3	-1.0	-0.5
CG debt interest ²	-0.3	0.0	0.5
Accounting adjustments	-0.6	0.3	0.7
GGE(X)	-1.0	-0.7	0.7
Privatisation proceeds	0.0	0.0	0.0
Other adjustments	0.1	-0.1	0.0
Total GG expenditure	-0.9	-0.8	0.7
<i>Receipts</i>			
Income tax	-0.4	-1.0	-0.4
Corporation tax	0.0	0.2	-0.5
Value added tax	0.1	0.1	0.0
Excise duties ³	0.0	-0.6	-0.6
Other taxes ⁴	0.1	0.5	0.1
Social security contributions	0.0	0.0	0.2
Other receipts	-0.7	0.8	1.4
Total GG receipts	-0.9	0.0	0.2
Public corporations' market and overseas borrowing	-0.2	-0.6	0.0
PSBR	-0.2	-1.4	0.6

¹ Budget forecast has been adjusted for classification and other accounting changes.

See note on conventions used in presenting the public finances.

² Central government debt interest payments net of interest and dividend receipts from outside of general government.

³ Fuel, alcohol and tobacco duties.

⁴ Includes council tax and money paid into the National Lottery Distribution Fund, as well as other central government taxes.

Financing policy

S2.10 Table S2.7 updates the financing arithmetic to allow for the new CGBR forecast. The July Budget forecast reduced the CGBR financing requirement to £28.1 billion, compared with the original figure of £39.5 billion published in March 1997. Following the July Budget, the gilts auction calendar was amended and two gilts auctions were cancelled to accommodate the revised gilts sales requirement. The July Budget assumed an unchanged net contribution from National Savings of £3 billion.

S2.11 With the further revision to the CGBR forecast, the CGBR financing requirement has been reduced to £27.4 billion. This is expected to be met from gilts sales of £25.4 billion, and a net contribution from National Savings of £2 billion.

S2.12 With gilts sales to end-October of £18.4 billion, the revised gilts sales requirement means that a further £7.0 billion of gilts sales will be required in the five months November 1997 to March 1998 to finance the CGBR. Financing policy will be carried out on the basis set out in the remit to the Bank of England (published in the 1997-98 Debt Management Report), subject to changes to the auction programme announced on 2 July.

Table S2.7: Financing requirement forecast for 1997-98

	March 1997 Original Remit	July 1997 Budget	November 1997 Pre-Budget Report
£ billion			
CGBR	20.0	12.4	11.7
Gilts maturing	19.6	19.6	19.6
<i>Plus</i> gilt sales residual from 1996-97		-3.9	-3.9
Financing requirement	39.5	28.1	27.4
<i>Less</i> Net National Savings inflow	3.0	3.0	2.0
<i>Less</i> other funding	0.0	0.0	0.0
Gilts sales required	36.5	25.1	25.4
<i>Less</i> Gilts sales (April - October 1997)			18.4
Further gilts sales required (November 1997 - March 1998)			7.0

CONVENTIONS USED IN PRESENTING THE PUBLIC FINANCES

S2.13 The public finances are presented in two main ways: on a cash basis and on a national accounts, or accruals, basis. This note briefly describes the two approaches, and outlines the relationships between the various public finances tables shown in the Pre-Budget Report itself and in this supplementary paper.

Cash basis

S2.14 The cash approach concentrates on the actual cash transactions between the public sector and the rest of the economy. It is particularly useful for analysing the components of the PSBR, which is itself almost entirely a cash concept. A cash basis also corresponds closely to the way public expenditure is planned, controlled and accounted for at present.

Table S2.2 of the supplementary document

S2.15 A sectoral breakdown of borrowing on a cash basis is given in Table S2.2 of the supplementary document.

Tables B3, B4 and B5 of the Pre-Budget Report and S2.4 of the supplementary document

S2.16 A detailed breakdown of general government expenditure is given in Tables B4 and B5 (of the Pre-Budget Report) and of general government receipts in Table S2.4 (of the supplementary document). As far as possible, the figures in these tables relate to actual cash flows. The estimates of taxes, for example, are for tax payments received during the year, rather than for liabilities incurred. There are however, a number of items which are not on a cash basis:

- "social security contributions" are scored gross of amounts netted off by employers as reimbursement in respect of statutory sick pay and statutory maternity pay. These payments count as expenditure rather than negative receipts;
- -VAT refunded to central and local government is included in "other taxes and royalties" (Table S2.4 in the supplementary document);
- an imputed flow for capital consumption by general government is included in "other receipts" (Table B3 in the Pre-Budget Report and Table S2.4 in the supplementary document).

S2.17 These latter two flows have no impact on the PSBR (as they also appear on the expenditure side of the account in "accounting adjustments"). This line also includes various other adjustments needed to get back to the national accounts basis required for GGE.

S2.18 The final departure from a cash basis is the "central government debt interest" line of Tables B4 and B5 (in the Pre-Budget Report), which scores the capital uplift on index-linked gilts as interest at the time it accrues. Because the PSBR is on a cash basis, an offset is made in the form of an accruals adjustment to "other receipts" (Table B3 in the Pre-Budget Report and Table S2.4 in the supplementary document). This removes the accrued uplift scored and adds back any actual payments of uplift on redemptions.

Table S2.3 of the supplementary document

S2.19 The only completely cash-based table is Table S2.3 (in the supplementary document), which shows the finances of central government. This gives a cash presentation based on information from central government funds and accounts. The imputed flows for refunded VAT, social security contributions and capital consumption are all excluded, and the "interest payments" line takes account of actual payments of capital uplift on index-linked gilts, rather than the accrued uplift.

S2.20 Similar tables cannot be produced for local authorities or public corporations because the available cash data are not comprehensive.

General government expenditure

S2.21 Tables B4 and B5 (of the Pre-Budget Report) show the components of GGE and GGE(X). GGE includes: current expenditure, capital expenditure, the Reserve, net lending to the private sector and abroad, cash expenditure on company securities and net lending by central government to public corporations.

S2.22 GGE (X) differs slightly from GGE in that it excludes privatisation proceeds and lottery-financed expenditure, and nets off interest and dividend receipts.

Table S2.6 of the supplementary document

S2.23 There is one classification change and one other accounting change which affect the aggregate figures. The classification change is the removal from the Control Total of local authority debt interest ultimately financed by payments of housing subsidy (housing element). This subsidy is in the Control Total, so the change removes an element of double scoring. The change reduces the Control Total by £700 million in 1997-98 and £100 million in 1998-99, and increases the accounting adjustments by the same amount.

S2.24 It has been decided that the national accounts will score as reducing general government expenditure (GGE) the proceeds of the student loan debt sale less the capitalised value of future subsidies. The PSBR, as a cash concept, will score the full proceeds. The Control Total will continue to score the full proceeds, in line with the treatment in the PSBR, entailing an accounting adjustment in respect of the difference between the amounts scored in the Control Total and in GGE.

National accounts basis

Table B1 of the Pre-Budget Report

S2.25 Table B1 in the pre-Budget report summarises the public finances on a national accounts basis (except for the PSBR which is on a cash basis). Under the measurement conventions used in the national accounts:

- most transactions, including most taxes (although not corporation tax), are recorded on an accruals rather than a cash payment basis;
- the value of some transactions is imputed where no money changes hands (for example, non-trading capital consumption).

S2.26 The **current balance** measures the balance of current account revenue over current expenditure. The measure of the current balance presented in Tables B1, B6 and B9 (Pre-Budget Report) differs slightly from the national accounts concept in two respects: it includes taxes on capital in current receipts and an estimate of depreciation in current expenditure.

S2.27 The **public sector financial deficit** is the balance between expenditure and income in the consolidated current and capital accounts. Unlike the PSBR, the financial deficit is not wholly a measure of cash transactions because certain items are measured on an accruals basis. Certain other financial transactions, notably net lending and privatisation proceeds, are also excluded from the financial deficit but included in the PSBR.

S2.28 The general government financial deficit (GGFD), which excludes the financial deficit of public corporations, is the most internationally comparable measure of the budget deficit, and that used in the excessive deficits criterion of the Maastricht Treaty. GGFD as measured in UK national accounts differs slightly from the Maastricht measure in Tables B1 and B6 (Pre-Budget Report). The Maastricht measure scores the capital uplift on index-linked gilts at the time of the gilt's redemption (as in the PSBR), whereas the UK measure of GGFD scores the uplift payment on an accrued basis over the lifetime of the gilt. The UK treatment of unfunded public sector pension schemes also differs from that in the Maastricht measure. The surplus of pensions paid, over contributions, is treated in the UK accounts as a financial transaction reducing government liability to pensioners and employees in such schemes. In the Maastricht measure of the GGFD, pension payments and contributions of unfunded schemes are treated as non-financial transactions, so increasing the deficit.

Public sector debt

S2.29 Table S2.5 (supplementary document) sets out projections for two different measures of public sector debt. **Net public sector debt** is approximately the stock analogue of the PSBR. It measures the public sector's financial liabilities to the private sector and abroad, net of short-term financial assets.

S2.30 **General government gross debt** is the measure of debt used in the European Union's excessive deficits procedure. As a general government measure, it excludes the debt of public corporations. It measures general government's total financial liabilities before netting off short-term financial assets.

Public sector net wealth

S2.31 Public sector net wealth represents the public sector's net balance sheet position. It is equal to the sum of the public sector's tangible and financial assets less its financial liabilities at market value. The estimates of tangible assets are however 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 to an improvement in data quality as audited information compiled from detailed asset registers becomes available.