

The latest projections for the public finances show that the Government is on track to meet its fiscal rules over the economic cycle:

- the current budget since the start of the current economic cycle in 1999-2000 shows an average annual surplus up to 2005-06 of 0.1 per cent of GDP. The Government is therefore on track to meet the golden rule on the basis of cautious assumptions. There is a margin against the golden rule of £11 billion in this cycle, including the AME margin. The current budget returns to balance by 2006-07, and the cyclically-adjusted current budget in the cautious case moves back to balance by the end of the projection period; and
- public sector net debt is projected to be low and stable over the next five years, stabilising at just under 36½ per cent of GDP at the end of the projection period – £53 billion below the 40 per cent ceiling set in the sustainable investment rule.

INTRODUCTION

C1 Chapter 2 describes the Government's fiscal policy 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 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).

MEETING THE FISCAL RULES

C3 Table C1 shows five-year projections for the current budget and public sector net debt, the key aggregates for assessing performance against the golden rule and the sustainable investment rule respectively. Outturns and projections of other important measures of the public finances, including net borrowing and cyclically-adjusted fiscal balances, are also shown.

C4 As explained in Chapter 2, the Government's provisional view is that the current economic cycle started in 1999-2000. Based on the assumptions used in these projections, the economy will return to trend, ending the current cycle, in 2005-06.

Table CI: Summary of public sector finances

	Per cent of GDP							
	Outturns		Estimate	Projections				
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Fairness and prudence								
Surplus on current budget	0.9	-1.2	-1.9	-0.9	-0.4	0.0	0.3	0.7
Average surplus since 1999-2000	1.7	1.0	0.4	0.2	0.1	0.1	0.1	0.2
Cyclically-adjusted surplus on current budget	0.6	-0.6	-1.0	-0.2	-0.2	0.0	0.3	0.7
Long-term sustainability								
Public sector net debt ¹	30.2	30.8	33.2	34.4	35.3	35.9	36.3	36.4
Core debt ¹	30.8	30.8	32.2	32.9	33.7	34.3	34.8	34.9
Net worth ²	25.0	24.3	22.0	19.6	17.1	16.5	15.4	15.5
Primary balance	1.7	-0.6	-1.7	-1.1	-0.8	-0.5	-0.2	-0.1
Economic impact								
Net investment	0.9	1.0	1.5	1.9	2.0	2.1	2.2	2.2
Public sector net borrowing (PSNB)	0.1	2.2	3.4	2.8	2.5	2.1	1.9	1.6
Cyclically-adjusted PSNB	0.4	1.6	2.4	2.1	2.3	2.1	1.9	1.6
Financing								
Central government net cash requirement	0.3	2.1	3.8	3.0	2.6	2.4	1.9	1.6
Public sector net cash requirement	0.3	2.1	3.9	2.9	2.5	2.3	1.9	1.6
European commitments								
Treaty deficit ³	0.0	2.1	3.2	2.6	2.4	2.0	1.9	1.6
Cyclically-adjusted Treaty deficit ³	0.3	1.5	2.3	1.9	2.2	2.0	1.9	1.6
Treaty debt ratio ⁴	37.9	37.9	39.8	40.9	41.5	41.9	42.2	42.1
Memo: Output gap	0.0	-1.2	-1.4	-0.8	-0.1	0.0	0.0	0.0

¹ Debt at end March; GDP centred on end March.

² Net worth at end December; GDP centred on end December.

³ General government net borrowing on a Maastricht basis.

⁴ General government gross debt measured on a Maastricht basis.

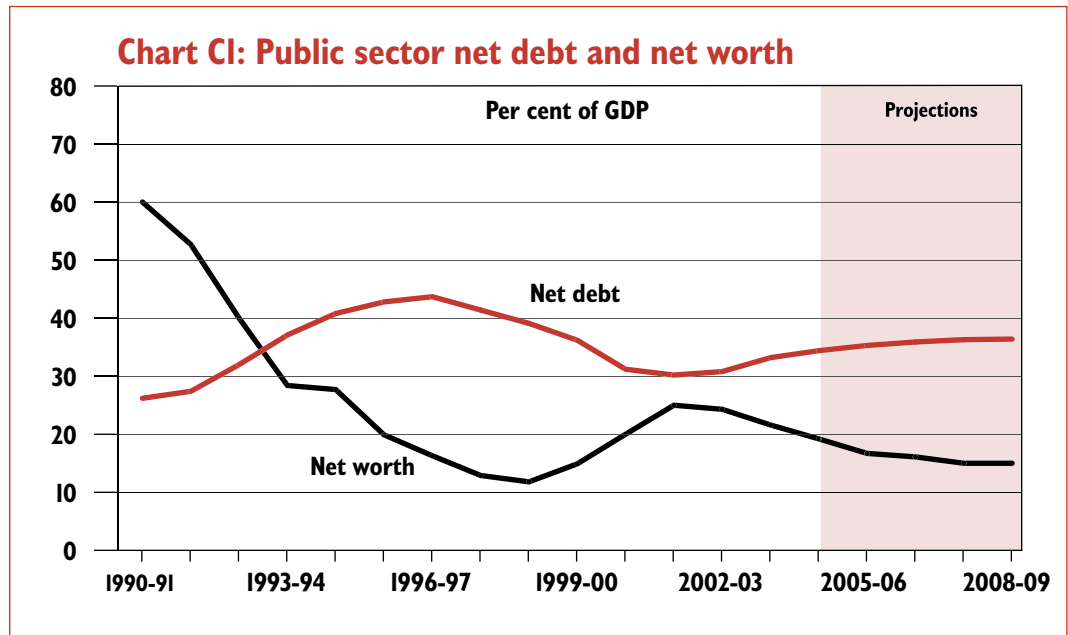
The golden rule C5 The projections show the average current budget since the start of the current economic cycle in 1999-2000 up to 2005-06 in surplus by an annual 0.1 per cent of GDP and the Government is therefore on track to meet the golden rule on the basis of cautious assumptions. There is a margin against the golden rule of £11 billion in this cycle, including the AME margin. If the economic cycle were to have started in 1997-98, the average surplus on the current budget up to 2005-06 would be 0.2 per cent of GDP. The cyclically-adjusted surplus, which allows underlying or structural trends in the indicators to be seen more clearly by removing the estimated effects of the economic cycle, shows a deficit from 2002-03 to 2005-06 before returning to balance in 2006-07.

C6 The economy is projected to return to trend by early 2006. With the economy assumed to be on trend from then on, the projections show, based on cautious assumptions, that the average surplus over the period 2005-06 to 2008-09 is 0.1 per cent of GDP. At this early stage, and based on cautious assumptions, the Government is therefore on track to continue to meet the golden rule after the end of this economic cycle.

The sustainable investment rule C7 The sustainable investment rule is comfortably met over the economic cycle. In 1996-97, public sector net debt stood at 44 per cent of GDP. The tough decisions on taxation and expenditure taken by the Government, including the decision to repay debt using the proceeds from the auction of spectrum licences, reduced debt to around 30 per cent of GDP by the end of 2001-02. It is now projected to increase slowly, as the Government borrows modestly to fund increased investment in public services, stabilising at just under 36½ per cent at the end of the projection period – £53 billion below the 40 per cent level. The revision to debt also includes the impact of fully incorporating Blue Book 2003 changes to the classification of business rates, which increases the public sector net cash requirement by around £1 billion per year. The projections for core debt, which exclude the estimated impact of the economic cycle, increase more slowly to around 35 per cent of GDP.

Net worth C8 Net worth is the approximate stock counterpart of the current budget. Declines of net worth are expected for the remainder of the projection period from the high level of 25 per cent of GDP in 2001-02. At present, net worth is not used as a key indicator of the public finances, mainly as a result of the difficulties involved in accurately measuring many government assets and liabilities.

C9 Chart C1 shows public sector net debt and net worth as a per cent of GDP from 1990-91 to 2008-09.



Net investment C10 As a result of decisions taken in the 2002 Spending Review, public sector net investment is projected to rise steadily to 2¼ per cent of GDP in 2008-09. 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.

Net borrowing C11 This increase in net investment, together with the new projections for the current budget, mean that public sector net borrowing is expected to be around 3½ per cent of GDP in 2003-04 and then fall to around 1½ per cent of GDP in 2008-09. Cyclically-adjusted net borrowing in 2003-04 is below 2½ per cent of GDP.

Financing C12 The central government net cash requirement was 2.1 per cent of GDP in 2002-03. It is projected to increase in 2003-04 before decreasing to 1.6 per cent of GDP in 2008-09, mirroring the profile of net borrowing.

European CI3 commitments Table C1 shows the Treaty measures of debt and deficit used for the purposes of the Excessive Deficit Procedure – Article 104 of the Treaty.

CHANGES TO THE FISCAL BALANCES

CI4 Table C2 compares the latest estimates for the main fiscal balances with those in the 2003 Pre-Budget Report and in Budget 2003.

Table C2: Fiscal balances compared with Budget 2003 and the 2003 Pre-Budget Report

	Outturn ¹ Estimate ²		Projections				
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Surplus on current budget (£ billion)							
Budget 2003	-11.7	-8.4	-1	2	6	9	-
Effect of revisions and forecasting changes:							
Receipts ³	-0.5	-5.5	-4	-4	-3	-1	-
Current expenditure ⁴	0.4	-2.9	-2	-2	-3	-3	-
Effect of discretionary changes	0.0	-2.5	-1	-1	0	0	-
2003 PBR	-11.8	-19.3	-8	-5	0	4	8
Effect of revisions and forecasting changes:							
Receipts ³	-0.4	-1.3	-2	-1	0	0	1
Current expenditure ⁴	-0.1	-0.6	1	1	1	1	1
Effect of discretionary changes ⁵	0.0	0.0	-1	-1	-1	-1	0
Budget 2004	-12.3	-21.3	-11	-5	0	4	9
Net borrowing (£ billion)							
Budget 2003	24.0	27.3	24	23	22	22	-
Changes to current budget	0.1	10.9	7	7	6	4	-
Forecasting changes to net investment	-1.5	-0.9	0	0	0	0	-
Discretionary changes to net investment	0.0	0.0	0	0	0	0	-
2003 PBR	22.5	37.4	31	30	27	27	24
Changes to current budget	0.5	1.9	2	1	0	0	-1
Forecasting changes to net investment	-0.1	-1.8	0	0	0	0	0
Discretionary changes to net investment	0.0	0.0	0	0	0	0	0
Budget 2004	22.9	37.5	33	31	27	27	23
Cyclically-adjusted surplus on current budget (per cent of GDP)							
Budget 2003	-0.5	0.2	0.5	0.4	0.4	0.6	-
2003 PBR	-0.6	-0.8	-0.1	-0.1	0.0	0.3	0.6
Budget 2004	-0.6	-1.0	-0.2	-0.2	0.0	0.3	0.7
Cyclically-adjusted net borrowing (per cent of GDP)							
Budget 2003	1.7	1.5	1.5	1.7	1.7	1.6	-
2003 PBR	1.6	2.4	2.0	2.2	2.0	1.9	1.7
Budget 2004	1.6	2.4	2.1	2.3	2.1	1.9	1.6
Net debt (per cent of GDP)							
Budget 2003	30.9	32.2	32.7	33.2	33.5	33.8	-
2003 PBR	30.9	32.8	33.8	34.6	35.1	35.4	35.5
Budget 2004	30.8	33.2	34.4	35.3	35.9	36.3	36.4

¹ The 2002-03 figures were estimates in Budget 2003.

² The 2003-04 figures were projections in Budget 2003.

³ Further details given in table C7.

⁴ Includes depreciation.

⁵ Includes measures announced since the 2003 Pre-Budget Report.

Changes between Budget 2003 and the Pre-Budget Report **C15** In the 2003 Pre-Budget Report, receipts were revised down in all years. This was mainly due to changes in the composition of GDP. In particular, lower than expected growth in wages and salaries reduced receipts from income tax and social security contributions.

C16 The discretionary changes of £2½ billion made in 2003-04 announced in the 2003 Pre-Budget Report reflect the carrying forward of the £2 billion unallocated special reserve into 2003-04 and the addition of a further £500 million. A further £300 million was added in 2004-05 as a prudent allowance against continuing commitments.

C17 Overall, in the 2003 Pre-Budget Report the current budget in 2003-04 was revised from a deficit of £8.4 billion to a deficit of £19.3 billion, and from a deficit of £1 billion to a deficit of £8 billion in 2004-05.

Changes between the Pre-Budget Report and the Budget 2004 **C18** The fiscal projections contained in this Budget are broadly in line with those in the 2003 Pre-Budget Report. Over half of the £1.3 billion downward revision to receipts in 2003-04 reflects a fiscally neutral adjustment to public corporations gross operating surpluses which is offset by lower expenditure and feeds through into the future years. The remaining difference in receipts in 2003-04 is largely explained by temporary or timing effects that have no impact on the underlying position. Current spending in 2003-04 is higher, largely because of changes to the timing of net contributions to the EU and re-profiling of tax credit payment schedules.

C19 Discretionary measures announced in this Budget, include a £100 payment to pensioner households with someone aged 70 or over to help with their council tax bills, local authority business growth incentives, a new Inland Revenue compliance package and other budget policy decisions set out in Chapter A. They also include the re-setting of the AME margin (which adds £1 billion to spending in 2004-05, and around £2 billion from 2005-06 onwards). In total, the discretionary measures reduce the current budget by around £1 billion a year from 2004-05 onwards.

FORECAST DIFFERENCES AND RISKS

C20 The fiscal balances represent the difference between two large aggregates of expenditure and receipts, and forecasts are inevitably subject to wide margins of uncertainty. Over the past ten years, the average absolute difference between year-ahead forecasts of net borrowing and subsequent outturns has been around 1 per cent of GDP. This difference tends to grow as the forecast horizon lengthens. A full account of differences between the year-ahead projections made in Budget 2001 and Budget 2002, and the subsequent outturns, is provided in the *End of year fiscal report*, published alongside the 2003 Pre-Budget Report.

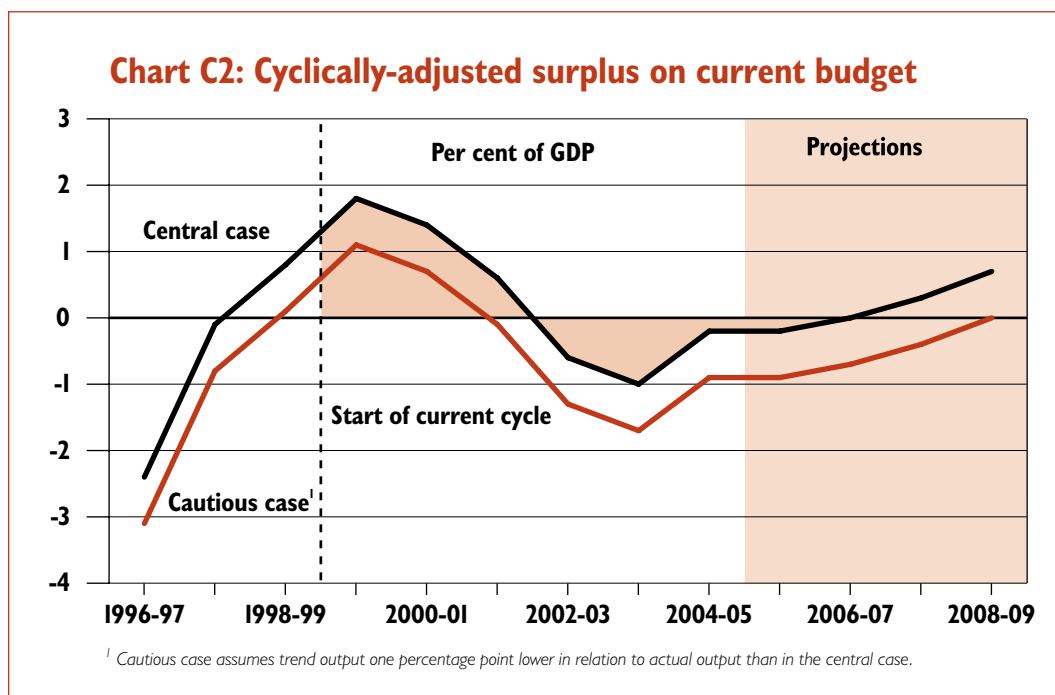
C21 As explained in Chapter B, UK GDP has grown strongly in recent months, with the major uncertainties that dominated the international economic outlook in early 2003 receding, global demand continuing to pick up and UK macroeconomic fundamentals remaining sound, business and consumer confidence have strengthened. As a result, domestic demand growth rose significantly through last year as private consumption growth recovered from temporary lows and business investment started to rise.

C22 Risks on the upside and downside have changed little since the time of the 2003 Pre-Budget Report. Although the US dollar's decline against some other major currencies in recent months has continued to be orderly, large global imbalances mean that much sharper movements in major exchange rates cannot be ruled out. In the UK, downside risks continue to be associated with the outlook for consumer spending. However, on the upside, the pick-up in growth seen since early 2003 could prove stronger than expected, in the short term.

C23 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 by the Treasury¹ suggests that if GDP growth were one 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 the following year. These figures are now closer to 0.5 and 0.2 per cent respectively, as the introduction of the corporation tax instalment system has reduced the lag between profits and tax receipts.² However, not all cycles will conform exactly to these parameters, notably because the estimates are based on historical data (since which time both the state of the economy and the tax regime have changed) and because cycles differ in respects other than magnitude.

C24 Projected differences in short-term growth forecasts may have only a temporary effect on 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 a little affected on average over the cycle.

C25 However, changes in the estimated cyclical position of the economy in relation to its trend – the output gap – will have a lasting effect on prospects. For this reason, the Government has remained vigilant to the uncertainties inherent in forecasting the public finances and created a margin against unexpected events through the use of cautious, audited assumptions and the use of the cautious case to stress test the resilience of public finance projections to unexpected events. Combined with the decision to consolidate the public finances when the economy was above trend, which resulted in low debt, the Government can now draw on this margin to safeguard the increase in investment in priority public services, fully meet the UK’s international commitments and allow the automatic stabilisers to work in full, while remaining on track to meet the fiscal rules.



¹ Fiscal policy: public finances and the cycle, HM Treasury, March 1999.

² The Treasury’s approach to cyclical adjustment is set out in Annex A of the 2003 End of year fiscal report.

ASSUMPTIONS

C26 The fiscal projections are based on the following assumptions:

- the economy follows the path in Chapter B. In the interests of caution, the fiscal projections continue to be based on the deliberately prudent and cautious assumption of trend output growth of 2½ per cent a year up to 2006-07, ¼ percentage point lower than the Government's neutral view. The Government's view of trend output growth is reduced to 2½ per cent in 2007-08 and 2008-09, and so, to maintain a cautious approach, an assumption of 2¼ per cent is used in the public finance projections, still ¼ percentage point lower than the Government's neutral view;
- there are no tax changes beyond those 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 proposed in this Budget for consultation, other proposals where final decisions have yet to be taken such as the Pension Protection Fund, or others that cannot be costed accurately, including the Graduate Contributions scheme;
- firm Departmental Expenditure Limits (DEL) as set out in the 2002 Spending Review up to 2005-06, but adjusted to the impact of policy decisions and DEL/AME reclassifications;
- total Annually Managed Expenditure (AME) programmes through to 2005-06 have been reviewed. The total has been adjusted for DEL/AME reclassifications, and for the estimated costs of spending measures announced in this Budget. In accordance with usual practice the Government has decided to reset the AME margin to £1 billion in 2004-05 and to £2 billion in 2005-06;
- although DEL and AME totals for 2006-07 onwards have not yet been determined, Budget 2004 sets firm overall spending limits for the 2004 Spending Review period. This allows current spending to increase by an average of 2.5 per cent in real terms in 2006-07 and 2007-08, in line with the cautious assumption for trend economic growth and consistent with the nominal growth rates set out in Budget 2003 and the 2003 Pre-Budget Report. Spending growth rates in 2008-09 are also based on those in the 2003 Pre-Budget Report, adjusted for policy decisions; and
- the capital expenditure of the 2004 Spending Review envelope is based on public sector net investment increasing from 2 per cent of GDP in 2005-06 to 2¼ per cent of GDP by 2007-08. Net investment remains at 2¼ per cent of GDP in the spending projection of 2008-09.

Table C3: Economic assumptions for the public finance projections

	Percentage changes on previous year						
	Outturn	Estimate		Projections			
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Output (GDP)	1 ³ / ₄	2 ³ / ₄	3	3	2 ¹ / ₂	2 ¹ / ₄	2 ¹ / ₄
Prices							
CPI	1 ¹ / ₄	1 ¹ / ₄	1 ³ / ₄	2	2	2	2
GDP deflator	3 ¹ / ₄	2 ³ / ₄	2 ¹ / ₄	2 ¹ / ₂	2 ³ / ₄	2 ³ / ₄	2 ³ / ₄
RPI ¹ (September)	1 ¹ / ₂	3	3	2 ³ / ₄	2 ³ / ₄	2 ³ / ₄	2 ³ / ₄
Rossi ² (September)	1 ¹ / ₄	2	1 ³ / ₄	2 ¹ / ₄	2 ¹ / ₄	2 ¹ / ₄	2 ¹ / ₄
Money GDP ³ (£ billion)	1054	1115	1176	1243	1308	1372	1440

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

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

³ Not seasonally adjusted.

The audited assumptions C27 A number of key assumptions that underpin the public finance projections are independently audited by the Comptroller and Auditor General under a three-year rolling review process. Details of all the audited assumptions are given in Box C1.

C28 For this Budget, the Comptroller and Auditor General audited the assumptions on the composition of GDP and on government financing. In both cases the review concluded that the assumptions were reasonable and continue to be so for the future.

C29 As described in Chapter 5, Budget 2004 unveils a new compliance and enforcement package for direct taxes and national insurance contributions (NICs). Consistent with previous practice, the estimates of the extra revenue delivered by the package include the direct and preventive effects of the package and make no allowances for indirect effects. Therefore, while the package is expected to produce an additional £2 billion in revenue over the next three years, in line with the Government's cautious approach to the public finances, a lower figure of £1.7 billion has been included in the public finances forecast. The Comptroller and Auditor General has audited the approach adopted to estimate the revenue benefits of the package and concluded that though there are uncertainties in the estimate of benefits, it is reasonable and incorporates caution.

C30 As explained in Box C2, in the light of the volatility in the observed ratio of VAT to consumption, a new approach to project VAT receipts has been used for the projections in Budget 2004. As Box C2 illustrates, the new approach adopts a more comprehensive approach to model the tax base than the old one. The Comptroller and Auditor General has also completed an audit of the assumption on the VAT gap used to project VAT receipts in the new approach. In his report, the Comptroller and Auditor General concluded that the assumption is reasonable and has features that introduce caution in the projections for VAT.

Box C1: Key assumptions audited by the NAO^a

• Privatisation proceeds	Credit is taken only for proceeds from sales that have been announced.
• Trend GDP growth	2½ per cent a year to 2006-07 and 2¼ per cent in 2007-08 and 2008-09.
• UK claimant unemployment	Remaining at recent levels of 0.92 million.
• Interest rates	3-month market rates change in line with market expectations (as of 5 March).
• Equity prices ^b	FTSE All-Share index rises from 2271 (close 5 March) in line with money GDP.
• VAT ^{b,c}	The VAT gap will rise by 0.5 percentage points per year from a level that is at least as high as the estimated outturn for the current year.
• Consistency of price indices ^b	Projections of price indices used to project the public finances are consistent with CPI.
• Composition of GDP ^c	Shares of labour income and profits in national income are broadly constant in the medium term.
• Funding ^c	Funding assumptions used to project debt interest are consistent with the forecast level of government borrowing and with financing policy.
• Oil prices	\$27.4 a barrel in 2004, the average of independent forecasts, and then constant in real terms.
• Tobacco	The underlying market share of smuggled cigarettes will be set at least at the latest published outturn. For Budget 2004, a share of 18 per cent has been used in all forecast years.

^a For details of all NAO audits before the 2003 Pre-Budget Report, see Budget 2003, 9 April 2003 (HC500)

^b Audit of Assumptions for the 2003 Pre-Budget Report, 10 December 2003 (HC35)

^c Audit of Assumptions for Budget 2004, 17 March 2004 (HC434)

FISCAL AGGREGATES

C3I Tables C4 and C5 provide more detail on the projections for the current and capital budgets.

Table C4: Current and capital budgets

	£ billion						
	Outturn	Estimate	Projections				
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Current budget							
Current receipts	396.2	421.5	455	490	522	553	583
Current expenditure	394.0	428.0	450	479	504	530	554
Depreciation	14.4	14.8	16	16	17	18	19
Surplus on current budget	-12.3	-21.3	-11	-5	0	4	9
Capital budget							
Gross investment	31.1	37.0	43	47	48	53	55
Less asset sales	-6.1	-6.0	-6	-6	-4	-4	-4
Less depreciation	-14.4	-14.8	-16	-16	-17	-18	-19
Net investment	10.6	16.2	22	25	27	31	32
Net borrowing	22.9	37.5	33	31	27	27	23
Public sector net debt – end year	334.1	379.7	416	450	481	511	537
Memos:							
Treaty deficit ¹	22.3	36.2	30	30	27	27	24
Treaty debt ²	399.8	443.3	481	516	548	579	606

¹ General government net borrowing on a Maastricht basis.

² General government gross debt on a Maastricht basis.

Table C5: Current and capital budgets

	Per cent of GDP						
	Outturn	Estimate	Projections				
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Current budget							
Current receipts	37.6	37.8	38.7	39.4	39.9	40.3	40.5
Current expenditure	37.4	38.4	38.2	38.5	38.6	38.6	38.5
Depreciation	1.4	1.3	1.3	1.3	1.3	1.3	1.3
Surplus on current budget	-1.2	-1.9	-0.9	-0.4	0.0	0.3	0.7
Capital budget							
Gross investment	2.9	3.3	3.7	3.8	3.7	3.8	3.8
Less asset sales	-0.6	-0.5	-0.5	-0.4	-0.3	-0.3	-0.3
Less depreciation	-1.4	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Net investment	1.0	1.5	1.9	2.0	2.1	2.2	2.2
Net borrowing	2.2	3.4	2.8	2.5	2.1	1.9	1.6
Public sector net debt – end year	30.8	33.2	34.4	35.3	35.9	36.3	36.4
Memos:							
Treaty deficit ¹	2.1	3.2	2.6	2.4	2.0	1.9	1.6
Treaty debt ratio ²	37.9	39.8	40.9	41.5	41.9	42.2	42.1

¹ General government net borrowing on a Maastricht basis.

² General government gross debt on a Maastricht basis.

C32 Following a deficit of 3 per cent of GDP in 1996-97, current budget surpluses of more than 2 per cent were recorded in 1999-2000 and 2000-01. These surpluses have allowed the Government to use fiscal policy to support monetary policy during the recent economic slowdown, and as a result the current budget is now in deficit. However, as the economy moves back to trend, the current budget moves back towards balance, and by the end of the projection period is in surplus by more than ½ per cent of GDP.

C33 The current budget surplus is equal to public sector receipts minus public sector current expenditure and depreciation. Underlying the projections of the current budget up to 2005-06 are steady increases in the ratio of public sector receipts. The reasons behind this increase are explained in later sections. The current expenditure projections are based on decisions made in and since the 2002 Spending Review. They also reflect decisions about the 2004 Spending Review envelope for total spending as set out in Chapter 6.

C34 Table C4 also shows that net investment is projected to increase from £16.2 billion in 2003-04 to £32 billion in 2008-09, as the Government seeks to rectify historical under-investment in public infrastructure. These increases are sustainable and fully consistent with the Government's long-term approach and the fiscal rules, as debt is being held below 36½ per cent of GDP throughout the projection period, well within the 40 per cent limit set by the sustainable investment rule.

RECEIPTS

C35 This section looks in detail at the projections for public sector tax receipts. It begins by looking at the main determinants of changes in the overall projections since the 2003 Pre-Budget Report, before looking in detail at changes in the projections of individual tax receipts. Finally, it provides updated forecasts for the tax-GDP ratios.

Changes in total receipts since the 2003 Pre-Budget Report

C36 Table C6 provides a detailed breakdown of the main factors that have led to changes in the overall projections since the 2003 Pre-Budget Report.

Table C6: Changes in current receipts since the 2003 Pre-Budget Report

	£ billion					
	Estimate		Projections			
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Effect on receipts of non-discretionary changes in:						
Assumptions audited by the NAO	0	0	1	1½	1½	2
of which:						
VAT forecast assumption	0	-½	0	½	1	1
Equity prices	0	½	1	1	1	1
Other economic determinants	-1	0	½	½	½	1
of which:						
Consumers' expenditure	0	½	½	½	½	0
Fiscal forecasting changes	0	-1	-1	-1½	-1½	-1½
Other	-½	-½	-½	-½	-½	-1
Total before discretionary changes¹	-1½	-1½	-½	0	0	½
Discretionary changes ²	0	0	1½	2	2	2
Total change¹	-1½	-1½	½	1½	2	3

¹ Total may not sum due to rounding.

² Includes measures announced since the 2003 Pre-Budget Report.

C37 Public sector receipts are estimated to be around £422 billion in 2003-04, £1.3 billion lower than estimated in the 2003 Pre-Budget Report. However, over half of this revision is due to a fiscally neutral change in NHS gross operating surpluses, which results in an equal reduction in Department of Health spending. This revision reduces receipts and spending by around £0.7 billion in each year, and is identified in the other line in Table C6.

C38 The remaining revision to receipts in 2003-04 is largely due to a £0.7 billion revision to estimated corporation tax revenues, including those from North Sea companies. This is largely a result of higher than expected tax repayments in relation to previous years' liabilities, and to temporarily higher capital allowances, which have no impact on underlying profits. These changes are included in the fiscal forecasting changes line in Table C6.

C39 Receipts in 2004-05 are also expected to be marginally lower than forecast in the 2003 Pre-Budget Report, but from 2005-06 onwards, receipts are expected to be higher than previously projected. This is mainly a result of:

- the impact of the new VAT forecasting methodology, described in Box C2. Although this assumption is more cautious in the short term, in the medium term it increases the VAT receipts forecast by around £1 billion each year;
- higher equity prices. The starting point for the audited assumption regarding equity prices is a FTSE all share value of 2271, compared with the 2003 Pre-Budget Report starting point of 2154. This adds around £1 billion to receipts from corporation tax receipts from life assurance companies, stamp duty receipts and capital taxes, by 2008-09;
- higher consumers' expenditure, reflecting higher than expected growth in the latter half of 2003; and
- discretionary changes announced in this Budget, including the Inland Revenue compliance package described in Chapter 5.

Offsetting these increases are:

- higher than expected levels of incorporation observed since the Pre-Budget Report, which reduces self-assessment tax receipts by more than it increases corporation tax receipts; and
- lower forecasts of council tax revenues, which are based on stylised assumptions of council tax increases and have no impact on fiscal balances, as explained in paragraph C52.

Both these changes are scored under fiscal forecasting changes in Table C6.

Tax-by-tax analysis

C40 Table C7 shows the changes to the projections of individual taxes since Budget 2003 and the 2003 Pre-Budget Report for 2003-04 and 2004-05. Table C8 contains updated projections for the main components of public sector receipts for 2002-03, 2003-04 and 2004-05.

Table C7: Changes in current receipts by tax since Budget 2003 and the 2003 Pre-Budget Report

	£ billion			
	Budget 2003		2003 PBR	
	2003-04	2004-05	2003-04	2004-05
Income tax (gross of tax credits)	-3.0	-3.6	0.3	-0.4
Social security contributions	-2.2	-2.8	-0.3	-0.7
Non-North Sea corporation tax ¹	-2.0	-1.6	-0.5	0.4
Less tax credits ²	-0.3	0.3	-0.3	-0.2
North Sea revenues	-0.4	-1.5	-0.4	-0.1
Capital taxes ³	0.1	0.5	0.2	0.1
Stamp duty	-0.4	0.2	0.0	0.1
Value added tax	3.1	3.0	0.7	0.9
Excise duties ⁴	0.0	0.5	0.1	-0.6
Other taxes and royalties ⁵	0.4	-0.5	-0.2	-0.4
Net taxes and social security contributions	-4.7	-5.5	-0.4	-1.1
Other receipts and accounting adjustments	-2.1	-0.3	-0.9	-0.4
Current receipts	-6.8	-5.7	-1.3	-1.5

¹ National Accounts measure: gross of enhanced and payable tax credits.

² Includes enhanced company tax credits that offset tax liability.

³ Capital gains tax and inheritance tax.

⁴ Fuel, alcohol and tobacco duties.

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

Table C8: Current receipts

	£ billion		
	Outturn 2002-03	Estimate 2003-04	Projection 2004-05
<i>Inland Revenue</i>			
Income tax (gross of tax credits)	112.6	119.1	127.8
Social security contributions	64.6	72.2	77.7
Corporation tax ¹	29.5	28.7	34.8
Tax credits ²	-3.4	-4.8	-4.1
Petroleum revenue tax	1.0	1.2	1.0
Capital gains tax	1.6	1.2	1.5
Inheritance tax	2.4	2.5	2.8
Stamp duties	7.5	7.5	9.4
Total Inland Revenue (net of tax credits)	215.8	227.6	251.0
<i>Customs and Excise</i>			
Value added tax	63.5	69.7	73.1
Fuel duties	22.1	22.8	24.4
Tobacco duties	8.1	8.1	8.1
Spirits duties	2.3	2.4	2.4
Wine duties	1.9	2.0	2.0
Beer and cider duties	3.1	3.2	3.3
Betting and gaming duties	1.3	1.3	1.3
Air passenger duty	0.8	0.8	0.9
Insurance premium tax	2.1	2.3	2.4
Landfill tax	0.5	0.6	0.6
Climate change levy	0.8	0.8	0.8
Aggregates levy	0.2	0.3	0.3
Customs duties and levies	1.9	1.9	1.9
Total Customs and Excise	108.7	116.4	121.6
Vehicle excise duties	4.6	4.7	4.9
Oil royalties	0.4	0.0	0.0
Business rates ³	18.5	18.7	19.1
Council tax	16.7	18.6	19.7
Other taxes and royalties ⁴	10.9	12.3	13.2
Net taxes and social security contributions⁵	375.6	398.2	429.4
Accruals adjustments on taxes	-0.3	3.0	0.8
Less own resources contribution to European Communities (EC) budget	-4.4	-4.5	-3.7
Less PC corporation tax payments	-0.1	-0.1	-0.1
Tax credits adjustment ⁶	1.1	0.5	0.6
Interest and dividends	4.5	4.1	4.9
Other receipts ⁷	19.8	20.3	22.7
Current receipts	396.2	421.5	454.7
<i>Memo:</i>			
North Sea revenues ⁸	4.9	4.3	3.6

¹ National Accounts measure: gross of enhanced and payable tax credits.

² Includes enhanced company tax credits.

³ Includes district council rates in Northern Ireland paid by business.

⁴ Includes VAT refunds and money paid into the National Lottery Distribution Fund.

⁵ Includes VAT and 'traditional own resources' contributions to EC budget.

⁶ Tax credits which are scored as negative tax in the calculation of NTSSC but expenditure in the National accounts.

⁷ Includes gross operating surplus and rent; net of oil royalties and business rate payments by Local Authorities.

⁸ Consists of North Sea corporation tax, petroleum revenue tax and royalties.

Income tax and social security contributions C41 Taken together, income tax receipts and social security contributions in 2003-04 are expected to be broadly unchanged from the 2003 Pre-Budget report estimates. Self-assessment receipts were higher than expected but underlying PAYE and NICs receipts have been slightly lower reflecting modest average earnings growth. However, the very buoyant levels of receipts in January and February show that bonus payments, primarily in the financial sector, have recovered in line with 2003 Pre-Budget Report estimates of financial sector profits.

C42 In 2004-05 receipts have been revised down by around £1 billion. Around £½ billion of this reduction reflects the analysis undertaken by HM Treasury and Inland Revenue, following the announcement in the 2003 Pre-Budget Report that the Government was concerned about the trend in tax-induced incorporation by self-employed individuals. Chapter 5 describes the steps the Government is taking. The 2004-05 revision also reflects lower interest rates, which lowers income tax receipts from interest income. This difference carries through into future years, although is partly offset by lower forecasts of the RPI which reduces future tax allowances, and discretionary measures announced in this Budget.

Non-North Sea corporation tax C43 Non-North Sea corporation tax receipts in 2003-04 are estimated to be around £0.5 billion lower than estimated in the 2003 Pre-Budget Report. However, this is largely due to temporarily higher capital allowances, and repayments in respect of previous years' liabilities. These factors do not affect estimated underlying profits in the current year, which are broadly in line with the 2003 Pre-Budget Report projections.

C44 Receipts in 2004-05 and subsequent years are higher than in the 2003 Pre-Budget report, largely because of:

- the impact of higher equity prices on tax receipts from life assurance companies, adding about £¼ billion in 2004-05 and £½ billion from 2005-06 onwards;
- the new Inland Revenue compliance package; and
- budget policy decisions including, from 2005-06, the introduction of a 19 per cent minimum rate of corporation tax on distributed profits, as described in Chapter 5. The net impact of this measure and of the estimated reduction in tax payments by small businesses incorporating for tax reasons since Budget 2003 are set out in Table A1.

The overall impact of these discretionary measures grows over time and, together with the baseline impact of incorporations on corporation tax receipts, adds around 0.2 percentage points to the corporation tax to GDP ratio by the end of the forecast period.

Tax credits C45 Tax credits that score as negative tax in current receipts are expected to be around £¼ billion higher than forecast in the 2003 Pre-Budget Report in both 2003-04 and 2004-05. This is mainly because of changes in the profile of recovery of overpayments. This also impacts on spending projections (see paragraph C67).

North Sea revenues C46 North Sea revenues in 2003-04 are expected to be £0.4 billion lower than was anticipated at the time of the 2003 Pre-Budget Report. As with non-North Sea companies, this is largely due to higher repayments in respect of previous years' liabilities, and does not impact on underlying profits. Higher oil prices (allowing for changes in the exchange rate) have a positive impact on revenues in all forecast years. However, in the short term, these impacts are more than offset by lower production forecasts.

Capital gains, inheritance tax and stamp duties C47 Receipts from capital gains tax, inheritance tax and stamp duties in 2003-04 are expected to be £0.2 billion higher than projected in the 2003 Pre-Budget report. This is mainly a result of higher than expected January 2004 receipts of capital gains tax. Receipts from 2005-06 onwards have been revised up by around £½ billion each year, partly explained by higher equity prices.

VAT receipts C48 VAT receipts are expected to be around £69.7 billion in 2003-04, £0.7 billion higher than forecast in the 2003 Pre-Budget Report, and £3.1 billion higher than forecast in Budget 2003. HM Customs and Excise considers that the reasons for the increase include the following:

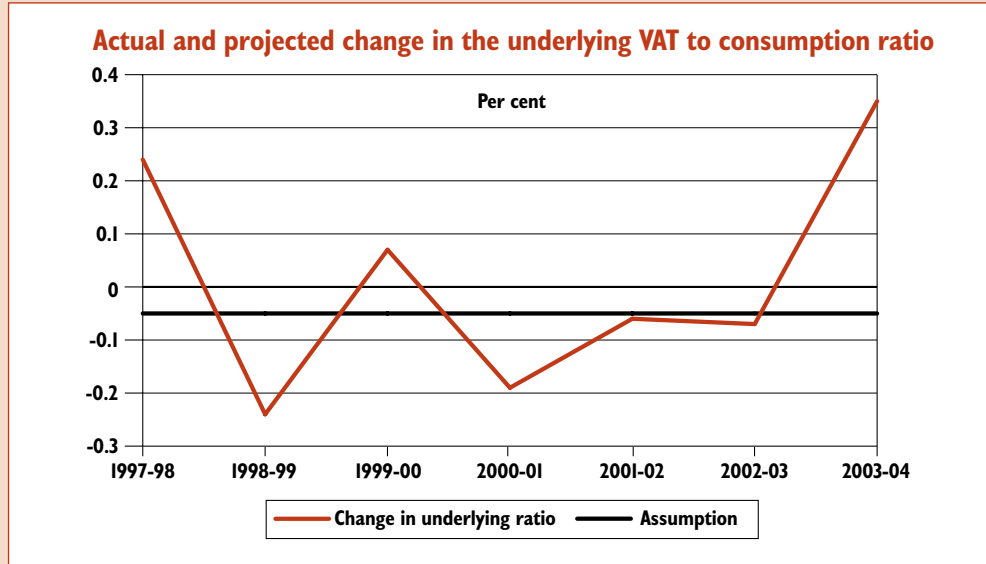
- the Budget 2003 forecast, based on the VAT ratio assumption, did not take account of rising expenditure on the wider (non-consumer) tax base; and
- there have been higher than forecast reductions in the level of VAT losses.

C49 As a result, HM Customs and Excise have developed a new method for forecasting VAT revenues that takes account of the whole VAT tax base rather than just consumers' expenditure (see Box C2). The new method involves making an assumption about the future size of the VAT gap (the difference between the theoretical level of VAT receipts given expenditure and VAT rates, and actual VAT receipts). The NAO have audited the assumption used for projecting the VAT gap and have concluded that it is reasonable and has features that introduce caution into the projections.

C50 The new methodology and assumption is more cautious than the previous approach in the short term, reducing receipts by around £0.5 billion, but increases receipts by around £1 billion in the medium term.

Box C2: Forecasting VAT receipts

Since 1997, VAT receipts forecasts have been based on the audited assumption that the ratio of underlying VAT receipts to consumers' expenditure will decline by 0.05 percentage points per year. However, volatility in the observed ratio has meant that this approach has resulted in some significant forecasting errors, as shown in the chart.



While the existing assumptions were used for the Pre-Budget Report forecast, as approved by the NAO for the short term, for Budget 2004, HM Customs and Excise have concluded that the change in the ratio in 2003-04 could be partly explained by changes in the composition of the VAT tax base. In particular, a shift towards non-consumer forms of VATable expenditure. As a result, HM Customs and Excise have developed a new forecasting methodology that can explicitly take account of these factors. It involves:

- (i) Producing estimates and forecasts of the VAT tax base and VAT Theoretical Tax Liability (VTTL) (the amount of VAT the government would receive if there was no fraud and avoidance).
- (ii) Comparing the current year VTTL with estimated VAT receipts to derive the VAT gap, expressed as a percentage of the VTTL, and assume that it grows from at least this level by 0.5 percentage points per year.
- (iii) Adjust the resulting VAT gap projections for the future impact of anti fraud and avoidance measures, and then deduct the resulting VAT gap projection from the VTTL forecast to derive VAT receipts forecast.

The assumption that the VAT gap grows by 0.5 percentage points per year is based on its long-run trend of around 0.4 percentage points a year, which is estimated across a period in which there was significant growth in VAT losses from Missing Trader Intra-Community (MTIC) fraud and alcohol and tobacco smuggling, both of which are now being successfully tackled.

The new approach to forecasting VAT receipts is also consistent with HM Customs and Excise's new approach to tackling VAT losses, which includes a target for reducing the VAT gap to 12 per cent by 2005-06. The NAO were invited to audit the assumption on the VAT gap, and have concluded that it is reasonable and has features that introduce caution in the projections. More details are available in the NAO report on Audit of Assumptions for Budget 2004.

Other HM Customs and Excise taxes C51 Receipts from other HM Customs and Excise taxes in 2003-04 are expected to be broadly in line with 2003 Pre-Budget Report estimates. However, receipts from 2004-05 onwards are expected to be lower, largely due to downward revisions to the RPI forecast, which is used to revalorise excise duties.

Council tax C52 Council tax increases are determined annually by local authorities, not by the Government, and the council tax figures for 2004-05 onwards are projections based on stylised assumptions, not government forecasts. The projected increase in 2004-05 is based on the latest available estimates released by the Chartered Institute for Public Finance and Accountancy (CIPFA),³ and the increases for later years on the average increases in council tax over the period from 1993-94 onwards. These increases are lower than those assumed in the 2003 Pre-Budget Report and projected council tax is about £½ billion a year lower from 2005-06. However these changes are broadly balanced by changes to locally financed expenditure and have no effect on the fiscal aggregates.

Other taxes C53 The main changes to other taxes since the 2003 Pre-Budget Report reflects lower than expected outturns for VED and VAT refunds, which knock through into future years.

Other receipts C54 In total, other public sector receipts have been revised down by £1.1 billion in 2003-04 and £0.2 billion in 2004-05. This partly reflects lower gross operating surpluses of NHS trusts. Trusts are expected to make a profit as a return on their assets, which they fund from the prices they charge to the Department of Health for providing clinical services. From 2003-04 onwards the expected rate of return has been reduced, meaning that trusts will reduce the prices they charge the Department of Health and consequently make around £0.7 billion less profit. This will be offset by lower expenditure by Department of Health to leave the current surplus unaffected. In addition, payments of taxes to the EC have been higher than expected in 2003-04, although this is mainly a timing effect and is expected to result in lower payments in 2004-05.

Tax-GDP ratio

C55 Table C9 shows projections of receipts from major taxes as a per cent of GDP, and Table C10 sets out the current and previous projections of the overall tax-GDP ratio.

C56 The tax-GDP ratio has fallen from 37.3 per cent in 2000-01 to an estimated 35.7 per cent in 2003-04. This has largely been a result of:

- significant falls in equity prices. At the time of Budget 2000, the FTSE all share index was 3126. By Budget 2003, it had fallen to 1778. This led to significant reductions in corporation tax receipts from life assurance companies, stamp duty, capital gains tax, and inheritance tax; and
- a reduction in the profitability of financial companies. The global economic slowdown observed over the past few years, together with the fall in equity prices described above, has had a particularly adverse impact on the profitability of financial companies. This had a direct impact on non-North Sea corporation tax receipts, which fell as a percentage of GDP from 3.6 per cent in 1999-00 to an estimated 2.3 per cent in 2003-04.

³ *Lowest council tax rises in nine years* – CIPFA press release, 2 March 2004.

C57 However, over the past year the financial sector has started to recover. Equity prices are now around 28 per cent higher than they were at the time of Budget 2003. Financial companies have started to report increased profitability and pay higher bonuses to their employees, very much in line with 2003 Pre-Budget Report estimates. The Budget projections assume that financial company profits will continue to recover back to their historic trend with GDP. This assumption explains much of the rise in the corporation tax to GDP ratio over the projection period. Other factors underlying the rise in the tax-GDP ratio shown in Table C9 include:

- normal fiscal drag, which adds around 0.1 percentage points a year to the income tax-GDP ratio;
- a recovery of financial sector bonus payments, which are generally subject to the higher rate of income tax, and therefore increase the effective tax rate on wages and salaries;
- the lagged impact of the recovery of equity prices observed in 2003; and
- discretionary measures announced in this and previous Budgets.

Table C9: Current receipts as a proportion of GDP

	Per cent of GDP						
	Outturn	Estimate	Projections				
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Income tax (gross of tax credits)	10.7	10.7	10.9	11.1	11.2	11.4	11.6
Social security contributions	6.1	6.5	6.6	6.6	6.6	6.7	6.8
Non-North Sea corporation tax ¹	2.5	2.3	2.7	3.2	3.3	3.4	3.4
Tax credits ²	-0.3	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3
North Sea revenues ³	0.5	0.4	0.3	0.3	0.3	0.3	0.3
Value added tax	6.0	6.3	6.2	6.2	6.2	6.2	6.2
Excise duties ⁴	3.6	3.5	3.4	3.4	3.3	3.3	3.2
Other taxes and royalties ⁵	6.6	6.6	6.7	6.9	7.0	7.1	7.1
Net taxes and social security contributions⁶	35.6	35.7	36.5	37.3	37.8	38.1	38.3
Accruals adjustments on taxes	0.0	0.3	0.2	0.1	0.1	0.1	0.1
Less EC transfers	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.2
Tax credits ⁷	0.1	0.0	0.0	0.0	0.1	0.1	0.1
Other receipts ⁸	2.3	2.2	2.3	2.2	2.2	2.2	2.2
Current receipts	37.6	37.8	38.7	39.4	39.9	40.3	40.5

¹ Gross of enhanced and payable tax credits.

² Tax credits scored as negative tax in net taxes and social security contributions.

³ Includes oil royalties, petroleum revenue tax and North Sea corporation tax.

⁴ Fuel, alcohol and tobacco duties.

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

⁶ Includes VAT and 'own resources' contributions to EC budget. Cash basis.

⁷ Tax credits scored as negative tax in net taxes and social security contributions but expenditure in the national accounts.

⁸ Mainly gross operating surplus and rent, excluding oil royalties. Net of local authority business rate payments.

Table C10: Net taxes and social security contributions¹

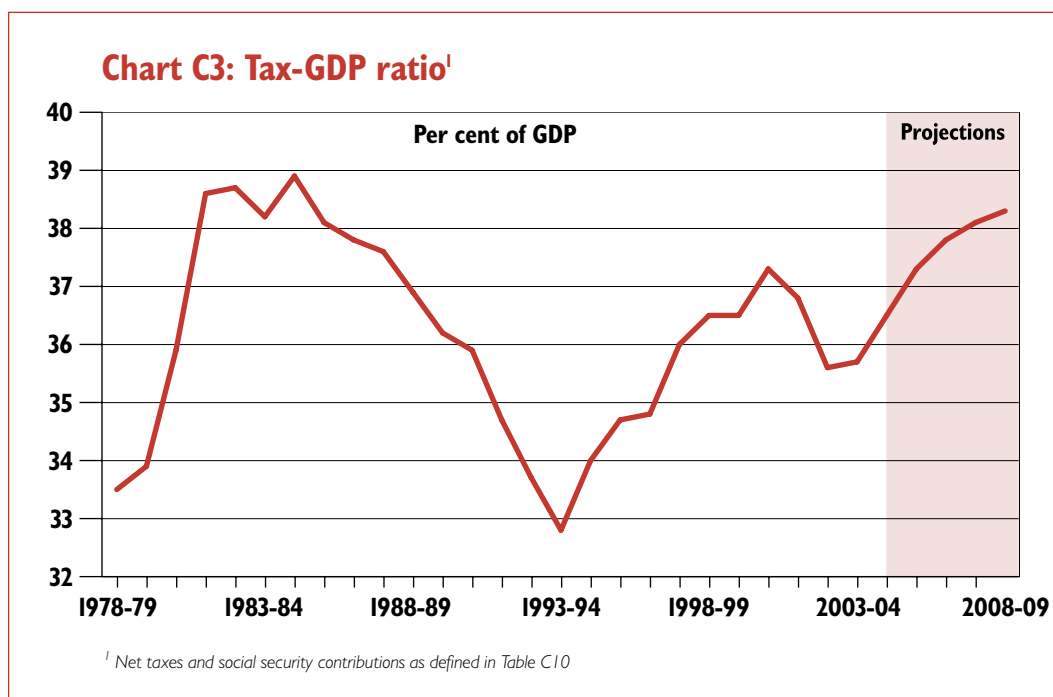
	Per cent of GDP						
	Outturn ² Estimate ³		Projections				
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Budget 2003	35.6	36.3	37.1	37.6	37.9	38.2	
2003 PBR	35.6	35.9	36.7	37.3	37.7	38.0	38.2
Budget 2004	35.6	35.7	36.5	37.3	37.8	38.1	38.3

¹ Cash basis. Uses OECD definition of negative tax credits.

² The 2002-03 figures were estimates in Budget 2003.

³ The 2003-04 figures were projections in Budget 2003.

C58 Chart C3 shows the tax-GDP ratio from 1978-79 to 2008-09.



PUBLIC EXPENDITURE

Total Managed Expenditure C59 The spending projections cover the whole of the public sector, using the national accounts aggregate Total Managed Expenditure (TME). For fiscal aggregates purposes, TME is split into national accounts components covering public sector current expenditure, public sector net investment and depreciation. For budgeting and other purposes, TME is split into Departmental Expenditure Limits (DEL) – firm three year limits for departments’ programme expenditure – and Annually Managed Expenditure (AME) – expenditure that is not easily subject to firm multi-year limits. However, until departmental allocations are set in the 2004 Spending Review, DEL and AME figures are only available to 2005-06.

C60 Forecasting changes have led to lower TME in each year, but this is mainly a result of fiscally neutral changes, which amount to about £1 billion a year. Without these changes current spending is about £1½ billion higher in 2003-04 but capital spending is £1¾ billion lower. In later years, forecasting changes have little effect on capital spending and only add small amounts to current spending.

C61 Discretionary changes to TME include scorecard measures on pensioners and Housing Benefit as described in Chapter A and the effects of resetting the AME margin.

C62 Table C11 sets out projected spending on DEL and the main components of AME to 2005-06 and Table C12 shows changes since the 2003 Pre-Budget Report.

Departmental Expenditure Limits **C63** Apart from budget policy decisions, the only overall changes to DEL for 2003-04 to 2005-06 since the 2003 Pre-Budget Report are reclassifications between DEL and AME and the fiscally neutral change to the Department of Health's spending described in paragraph C54. The reclassifications include:

- a £0.5 billion switch from Office of the Deputy Prime Minister's (ODPM) DEL to the Department for Work and Pensions' AME from 2004-05 onwards for rent rebates;
- an overall increase of £0.7 billion in various departments' pension contributions in DEL from 2005-06, which will be offset by higher receipts in the Civil Service Pension Scheme's AME; and
- a switch of £0.35 billion from the Department of Health's DEL to their AME in 2004-05 for the capital spending of foundation hospitals.

C64 There have also been some small switches between cash and non-cash spending and between resource and capital DEL. Table C13 shows DEL by resource and capital budgets by department. In line with previous practice, the DEL total for the current year incorporates an allowance for shortfall reflecting likely under-spends against departmental forecasts.

Annually Managed Expenditure **C65** The main economic assumptions underpinning the AME projections are set out in Box C1 and Table C3. In particular it is assumed that the UK claimant count unemployment remains at its recent level of 0.92 million, which is now higher than the most recent average of independent forecasts. The AME total is also affected by the reclassifications described in paragraph C63.

C66 Increases in forecast social security expenditure are due to revised population projections and increased uptake of benefits by pensioners and the disabled. The forecast also includes £4 billion for the rent rebate element of the Housing Revenue Account Subsidy, reflecting the switch of this expenditure from ODPM to Department for Work and Pensions in 2004-05. For consistency, this element has been included in social security spending across the forecast period.

C67 Compared to the 2003 Pre-Budget Report forecasts, spending on the Child and Working Tax Credits has increased in 2003-04, primarily because of re-profiling of payment schedules. The effects diminish as the payment schedule becomes established and as a result there are only modest changes to forecast costs in future years.

C68 Net public service pensions figures are reported on a Financial Reporting Standard 17 (FRS17) basis and record movements in the change in the liability of the various pensions schemes including the accruing costs as members serve additional years. Changes since the 2003 Pre-Budget Report reflect continued revision of estimated pension scheme liabilities following the introduction of FRS17. National accounts pensions expenditure, which is recorded on a transactions basis, shows only small changes from the 2003 Pre-Budget Report, with the exception of 2005-06, where there is a reduction of £0.7 billion, due to an increase in employer contributions to the Principal Civil Service Pension Scheme. This is balanced by an increase in DEL spending.

C69 Other departmental expenditure shows little change from the 2003 Pre-Budget Report except for an increase of £1.3 billion in 2004-05. This is mainly due to higher lending to the Export Credit Guarantee Department (ECGD) and public corporations, and to the switch to Department of Health capital AME outlined in paragraph C63. These changes have no impact on TME.

C70 Net payments to EC institutions in 2003-04 are estimated to be £1.0 billion higher than in the 2003 Pre-Budget Report, largely because of changes in the timing of payments. The payments for the Commission's calendar year budget period are scheduled on a monthly basis, but the Commission can ask for earlier payments and this accounts for about £0.7 billion of the extra payments in 2003-04. Payments for the rest of 2004, which fall into 2004-05, will be lower by the same amount, but other factors including a higher UK share of VAT and gross national income based payments, which reflects higher levels of economic growth in UK than in other member states, increase payments in all years. In order to improve the clarity of the forecasts, all the forecasts for net payments are now on a 'spot' basis. Previously forecasts beyond the current year were on a 'trended' basis, which were designed to smooth out fluctuations over the forecast period, but especially when there are timing and other changes affecting particular years, 'spot' forecasts should give a much better indicator of actual payments within a year.

C71 Changes to local authority self-financed expenditure (LASFE) reflect the revision of the forecasting assumption made for increases in Council Tax. This is outlined in more detail in paragraph C52.

C72 Central government gross debt interest payments in 2004-05 are lower than at the 2003 Pre-Budget Report. This reflects revisions to borrowing and slightly lower projections for inflation, affecting the accrued uplift for index-linked gilts, together with generally lower market expectations for interest rates. Debt interest payments in 2005-06 are slightly higher because the effect of upward revisions to borrowing more than offset lower interest rates.

C73 The main accounting adjustments, which reconcile the DEL and AME measures of spending with the national accounts measure, are shown in Table C14. Changes to the accounting adjustments since the last forecast are mainly due to:

- increases in the Financial Reporting Standard 17 (FRS17) measure of public sector pensions spending, on which departmental budgets are now based but which have no impact on the national accounts measure of pension spending;
- increases to provisions, which score in departmental budgets when they are recognised but do not score in national accounts until the cash expenditure actually happens;
- changes to financial transactions mainly because of changes in lending to public corporations, as described in paragraph C69; and
- reduced profits of public corporations, mainly NHS trusts, which are within budgets and are removed in the accounting adjustments. As explained in C54, from 2003-04 these profits will drop by some £0.7 billion per year, which will feed through via the accounting adjustments into lower Total Managed Expenditure. The effect is offset by lower receipts to leave the current surplus unaffected.

Table C11: Total Managed Expenditure 2002–03 to 2005–06

	£ billion			
	Outturn 2002-03	Estimate 2003-04	Projections 2004-05 2005-06	
Departmental Expenditure Limits				
Resource Budget	235.3	251.9	263.9	284.0
Capital Budget	20.7	23.9	26.3	28.9
Less depreciation	-15.5	-10.5	-11.0	-11.7
Total Departmental Expenditure Limits	240.6	265.3	279.3	301.1
Annually Managed Expenditure				
Social security benefits ^{1,2}	109.9	116.7	123.3	127.8
Tax credits ¹	10.0	14.0	13.8	14.3
Common Agricultural Policy	2.6	2.5	2.5	2.5
Net public service pensions ³	3.5	0.7	0.4	-0.3
National Lottery	1.8	2.0	2.0	1.6
Non-cash items in AME	30.1	30.0	28.1	29.7
Other departmental expenditure	2.3	1.9	2.7	2.8
Net payments to EC institutions ⁴	2.3	2.4	2.7	3.7
Locally financed expenditure	19.7	22.4	24.2	26.0
Central government gross debt interest	20.9	22.2	23.9	25.4
Public corporations' own-financed capital expenditure	2.0	2.5	2.6	2.5
Total AME before margin and accounting adjustments	205.0	217.4	226.3	235.9
AME margin	0.0	0.0	1.0	2.0
Accounting adjustments ⁵	-26.5	-23.6	-19.0	-18.7
Annually Managed Expenditure	178.5	193.7	208.3	219.2
Total Managed Expenditure	419.1	459.0	487.6	520.4
of which:				
Public sector current expenditure	394.0	428.0	449.7	478.9
Public sector net investment	10.6	16.2	22.4	25.2
Public sector depreciation	14.4	14.8	15.5	16.3

¹ For 2002-03 to 2004-05, child allowances in Income Support and Jobseekers' Allowance, which, from 2003-04, are paid as part of the Child Tax Credit, have been included in the tax credits line and excluded from the social security benefits line. This is in order to give figures on a consistent definition over the forecast period.

² For 2002-03 to 2003-04, the rent rebate element of Housing Revenue Account subsidies, which, from 2004-05, are administered by DWP, have been included in the social security benefits line. This is in order to give figures on a consistent definition over the forecast period.

³ Net public service pensions expenditure is reported under FRS17 accounting requirements.

⁴ 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):

	2002-03	2003-04	2004-05	2005-06
	3.1	3.3	3.3	4.3

⁵ Excludes depreciation.

C74 Chart C4 shows TME as a percentage of GDP from 1970-71 to 2005-06.

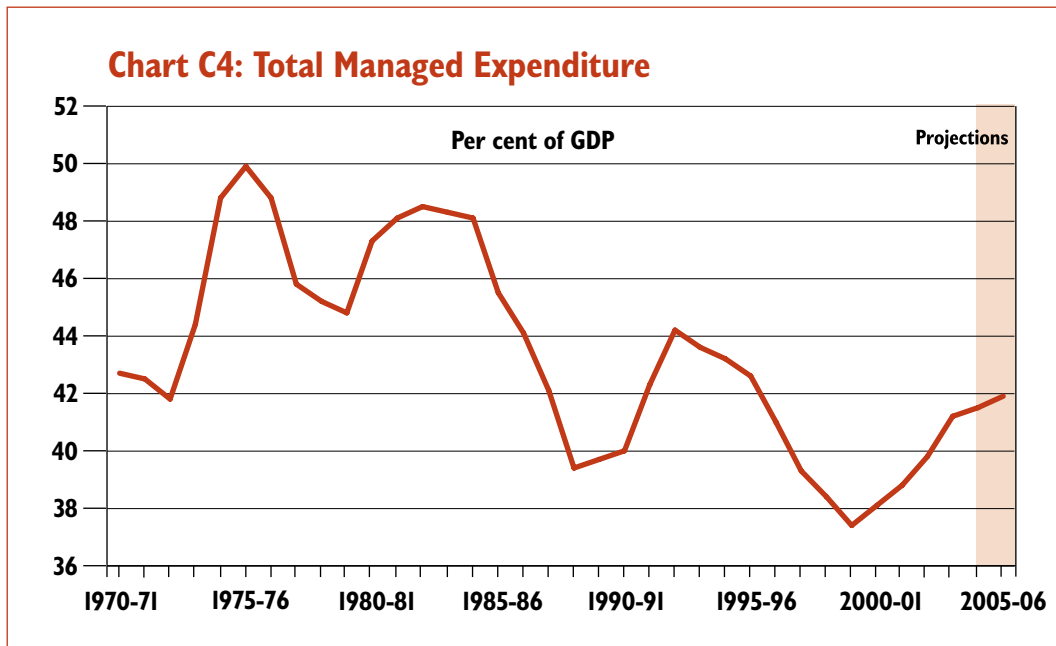


Table CI2: Changes to Total Managed Expenditure since the 2003 Pre-Budget Report

	£ billion			
	Outturn 2002-03	Estimate 2003-04	Projections 2004-05 2005-06	
Departmental Expenditure Limits				
Resource Budget	-0.3	-0.2	-0.3	0.4
Capital Budget	-0.6	-0.7	-0.4	-0.1
Less depreciation	-0.1	0.0	0.1	0.2
Total Departmental Expenditure Limits	-1.0	-1.0	-0.6	0.5
Annually Managed Expenditure				
Social security benefits	0.1	-0.1	1.6	0.8
Tax credits	0.1	0.9	0.5	0.0
Common Agricultural Policy	0.0	0.0	0.0	0.0
Net public sector pensions ¹	2.2	4.1	4.2	4.0
National Lottery	0.0	-0.1	0.0	0.0
Non cash items in AME	0.6	3.5	-0.2	0.2
Other departmental expenditure	-0.1	-0.1	1.3	0.2
Net payments to EC institutions	0.0	1.0	-0.3	0.1
Locally financed expenditure	0.1	-0.1	-0.6	-0.4
Central government gross debt interest	0.0	-0.2	-0.9	0.2
Public corporations' own-financed capital expenditure	0.0	0.0	0.0	0.0
Total AME before margin and accounting adjustments	3.0	8.8	5.7	4.9
AME margin	0.0	-0.3	1.0	2.0
Accounting adjustments ²	-2.0	-8.6	-5.8	-6.1
Annually Managed Expenditure	1.0	-0.1	0.9	0.8
Total Managed Expenditure	0.0	-1.1	0.3	1.3
<i>of which:</i>				
Public sector current expenditure	0.1	0.6	0.6	1.4
Public sector net investment	-0.1	-1.8	-0.3	-0.1
Public sector depreciation	0.0	0.0	0.0	0.0

¹ Net public sector pensions expenditure is reported under FRS17 accounting requirements.

² Accounting Adjustments are net of depreciation.

Table CI3: Departmental Expenditure Limits – resource and capital budgets

	£ billion			
	Outturn 2002-03	Estimate 2003-04	Plans 2004-05	Plans 2005-06
Resource Budget				
Education and Skills	21.2	22.9	23.9	26.7
Health	55.9	63.1	68.7	74.8
<i>of which: NHS</i>	54.2	61.4	66.5	72.6
Transport	6.2	8.0	7.5	8.4
Office of the Deputy Prime Minister	3.9	4.7	4.7	5.0
Local Government	37.4	41.0	43.4	45.8
Home Office	11.1	11.9	12.2	13.0
Departments for Constitutional Affairs	3.3	3.3	3.3	3.5
Attorney General's Departments	0.5	0.6	0.5	0.6
Defence	36.4	32.3	31.6	32.5
Foreign and Commonwealth Office	1.5	1.7	1.5	1.6
International Development	3.6	3.9	3.8	4.5
Trade and Industry	4.0	5.0	5.0	5.5
Environment, Food and Rural Affairs	2.3	2.8	3.1	3.2
Culture, Media and Sport	1.2	1.4	1.5	1.5
Work and Pensions	7.3	8.4	8.1	8.3
Scotland ¹	16.6	18.9	19.6	20.9
Wales ¹	9.1	10.0	10.4	11.1
Northern Ireland Executive ¹	6.6	6.7	6.8	7.2
Northern Ireland Office	1.1	1.1	1.1	1.2
Chancellor's Departments	4.4	4.7	4.8	5.1
Cabinet Office	1.6	1.8	1.9	1.9
Invest to Save Budget	0.0	0.0	0.0	0.0
Reserve	0.0	0.0	0.5	1.5
Unallocated special reserve ²	0.0	0.0	0.3	0.0
Allowance for shortfall ³	0.0	-2.2	0.0	0.0
Total Resource Budget DEL	235.3	251.9	263.9	284.0
Capital Budget				
Education and Skills	2.7	3.4	3.8	4.4
Health	2.0	2.7	3.0	4.3
<i>of which: NHS</i>	1.9	2.6	2.9	4.2
Transport	3.1	3.3	3.7	3.3
Office of the Deputy Prime Minister	1.5	2.2	2.3	2.4
Local Government	0.2	0.2	0.3	0.3
Home Office	0.7	1.0	1.0	1.1
Departments for Constitutional Affairs	0.1	0.2	0.1	0.1
Attorney General's Departments	0.0	0.0	0.0	0.0
Defence	6.1	6.4	6.3	6.9
Foreign and Commonwealth Office	0.1	0.1	0.1	0.1
International Development	0.0	0.0	0.0	0.0
Trade and Industry	0.3	0.6	0.2	0.1
Environment, Food and Rural Affairs	0.3	0.3	0.3	0.3
Culture, Media and Sport	0.0	0.2	0.1	0.1
Work and Pensions	0.3	0.2	0.2	0.1
Scotland ¹	1.6	1.3	2.0	2.1
Wales ¹	0.7	0.7	0.9	1.0
Northern Ireland Executive ¹	0.5	0.5	0.4	0.4
Northern Ireland Office	0.1	0.1	0.1	0.1
Chancellor's Departments	0.3	0.3	0.3	0.3
Cabinet Office	0.2	0.6	0.2	0.2
Invest to Save Budget	0.0	0.0	0.0	0.0
Reserve	0.0	0.0	1.0	1.1
Allowance for shortfall ³	0.0	-0.4	0.0	0.0
Total Capital Budget DEL	20.7	23.9	26.3	28.9
Depreciation	-15.5	-10.5	-11.0	-11.7
Total Departmental Expenditure Limits	240.6	265.3	279.3	301.1
Total education spending	53.9	59.4	63.2	68.1

¹ For Scotland, Wales and Northern Ireland, the split between current and capital budgets is decided by the respective executives.

² This represents provision for the costs of the military conflict in Iraq and other International obligations.

³ The allowance for shortfall reflect likely underspends in departmental forecasts.

Table C14: Accounting adjustments

	£ billion			
	Outturn 2002-03	Estimate 2003-04	Projections 2004-05 2005-06	
Tax credits for individuals	0.9	0.1	0.0	0.0
Pensions	-19.8	-21.2	-21.8	-23.3
European Community contributions	-4.1	-4.4	-4.0	-3.9
Other central government programmes	2.0	2.2	2.4	2.4
VAT refunds	8.8	10.3	11.1	12.2
Central government non-trading capital consumption	4.5	4.6	4.9	5.2
Non-cash items in resource budgets and not in TME	-19.6	-15.0	-12.7	-13.6
Expenditure financed by revenue receipts	0.2	0.2	0.3	0.3
Local authorities	4.6	4.8	5.0	5.3
General government consolidation	-5.6	-4.2	-4.8	-4.9
Public corporations	1.4	0.9	1.0	1.1
Financial transactions	-0.5	-0.3	0.1	0.8
Other accounting adjustments	0.7	-1.6	-0.3	-0.3
Total accounting adjustments	-26.5	-23.6	-19.0	-18.7

C75 Table C15 shows public sector capital expenditure from 2002-03 to 2005-06.

Table C15: Public sector capital expenditure

	£ billion			
	Outturn 2002-03	Estimate 2003-04	Projections 2004-05 2005-06	
Capital Budget DEL	20.7	23.9	26.3	28.9
Locally financed expenditure	0.2	1.1	2.0	2.1
National Lottery	0.9	1.0	1.0	0.8
Public corporations' own-financed capital expenditure	2.0	2.5	2.6	2.5
Other capital spending in AME	1.3	2.5	5.8	6.9
AME margin	0.0	0.0	0.1	0.2
Public sector gross investment¹	25.0	31.0	37.9	41.5
Less depreciation	14.4	14.8	15.5	16.3
Public sector net investment	10.6	16.2	22.4	25.2
Proceeds from the sale of fixed assets ²	6.1	6.0	5.5	5.5

¹ This and previous lines are all net of sales of fixed assets.

² Projections of total receipts from the sale of fixed assets by public sector.

C76 Table C16 shows estimated receipts from loans and sales of assets from 2002-03 to 2005-06. The figures for sales of financial assets include proceeds of £0.1 billion for the sale of a stake in QinetiQ (formerly the Defence Evaluation and Research Agency) in the first quarter of 2003. The proceeds of the Public Private Partnership (PPP) will be £0.2 billion, including receipts in 2001-02 and those due in future years.

Table C16: Loans and sales of assets

	£ billion			
	Outturn 2002-03	Estimate 2003-04	Projections 2004-05 2005-06	
Sales of fixed assets				
Central government	1.0	1.0	1.0	1.0
Local authorities	5.1	5.0	4.5	4.5
Total sales of fixed assets	6.1	6.0	5.5	5.5
Total loans and sales of financial assets	-2.8	-2.3	-2.0	-2.0
Total loans and sales of assets	3.3	3.7	3.5	3.5

PRIVATE FINANCE INITIATIVE

C77 Under the Private Finance Initiative (PFI) and other similar arrangements the public sector contracts to purchase services from the private sector on a long-term basis so as to take advantage of private sector management skills incentivised by having private finance at risk. The private sector has always been involved in the building and maintenance of public infrastructure, but PFI ensures that contractors are bound into long-term maintenance contracts and shoulder responsibility for the quality of the work they do. With PFI, the public sector defines what is required to meet public needs and ensures, by contract, delivery of the outputs it sets. It has rights under those contracts to change the output required from time to time. Consequently, with PFI the public sector can harness the private sector to deliver investment in better quality public services while maintaining frontline services in the public sector.

C78 The Government only uses PFI where it is appropriate and where it expects it to deliver value for money based on an assessment of the lifetime costs of both providing and maintaining the underlying asset and of the running costs of delivering the required level of service. In assessing where PFI is appropriate, the Government's approach is based on its commitment to efficiency, equity and accountability, and on the Prime Minister's principles of public service reform. PFI is only used where it can meet these requirements, and where the value for money it offers is not at the expense of the terms and conditions of staff. The Government is committed to securing the best value for its investment programme by ensuring that there is no inherent bias in favour of one procurement option over another.

C79 Table C17 shows a breakdown by department of the estimated investment in public services resulting from signed contracts and Table C18 shows the capital value of contracts expected to reach preferred bidder stage within the next three years.

C80 Under PFI, the public sector contracts for services, including the availability and management of facilities, and not assets. Capital investment is only one of the activities undertaken by the private sector in order to supply these services. The figures in Tables C17 and C18 therefore do not reflect the total value of contracts.

C8I Table C19 shows a forecast of the estimated payments for services flowing from new private investment in signed projects over the next 25 years. Actual expenditure will depend on the details of the payment mechanism for each contract. Payments may be lower than estimated due to deductions from the service payments caused by the supplier's failure to meet the required performance standards. In addition, variances may occur due to changes in the service requirements agreed during the course of the contracts. Payments may also vary as a result of the early termination of a contract triggering contractual arrangements for compensation on termination.

Table C17: Departmental estimate of capital spending by the private sector (signed deals)^{1,2}

	£ million		
	Projections		
	2004-05	2005-06	2006-07
Education and Skills ³	471	0	0
Health	460	412	292
Transport ⁴	1858	1704	1380
ODPM	34	23	78
Home Office	82	6	0
Constitutional Affairs	13	13	4
Defence	778	453	286
Foreign and Commonwealth Office	6	5	5
Trade and Industry	5	3	4
Environment, Food and Rural Affairs	56	39	23
Work and Pensions	38	40	31
Scotland	148	17	0
Wales	39	9	0
Northern Ireland Executive	13	41	16
Chancellor's departments	46	37	34
Cabinet Office	6	1	0
Culture, Media and Sports	13	5	0
Total	4066	2808	2153

¹ Investment in assets scored on the public sector balance sheet also score as public sector net investment. Figures are for investment under PFI-type contracts only.

² PFI activity in local authority projects is included under the sponsoring central government department.

³ Excludes private finance activity in educational institutions classified to the private sector.

⁴ Includes estimates of the capital expenditure for the London Underground Limited Public Private Partnership PFI Contracts in the years that investments are expected to take place.

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

	£ million		
	Projections		
	2004-05	2005-06	2006-07
Health	1955	1052	0
Education and Skills	695	0	0
Transport	107	0	0
Home Office	139	0	0
Constitutional Affairs	20	16	4
Defence	96	242	149
Culture, Media and Sports	32	24	16
ODPM	63	49	36
Environment, Food and Rural Affairs	28	7	1
Scotland	117	116	132
Wales	80	0	0
Northern Ireland Executive	0	24	0
Total	3332	1530	338

Table C19: Estimated payments under PFI contracts – April 2004 (signed deals)¹

	£ billion		
	Projections		
2004-05	5.5	2017-18	5.8
2005-06	6.0	2018-19	3.8
2006-07	6.3	2019-20	3.9
2007-08	6.3	2020-21	4.0
2008-09	6.1	2021-22	3.2
2009-10	6.3	2022-23	3.2
2010-11	6.2	2023-24	3.2
2011-12	6.1	2024-25	3.3
2012-13	6.2	2025-26	3.2
2013-14	6.2	2026-27	2.9
2014-15	6.1	2027-28	2.7
2015-16	6.2	2028-29	2.6
2016-17	6.2	2029-30	2.4

¹ The figures between 2004-05 and 2017-18 include estimated payments for the LUL PPP contracts. These contracts contain periodic reviews every 7.5 years and therefore the service payments are not fixed after 2009-10.

FINANCING REQUIREMENT

C82 Table C20 presents projections of the net cash requirement by sector, giving details of financial transactions that do not affect net borrowing (the change in the sector's net financial indebtedness) but do affect its financial requirement. In the updated projections central government accounts receivable/payable are also increased by around £1 billion a year as a result of full incorporation of the classification changes to business rates introduced in the 2003 National Accounts Blue Book.

Table C20: Public sector net cash requirement

£ billion								
	2003-04				2004-05			
	General government		Public corporations	Public sector	General government		Public corporations	Public sector
Central government	Local authorities	Central government			Local authorities			
Net borrowing	36.7	-0.4	1.2	37.5	30.9	-0.4	2.5	32.9
<i>Financial transactions</i>								
Net lending to private sector and abroad	2.3	-0.1	0.0	2.3	2.0	-0.1	0.0	2.0
Cash expenditure on company securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts receivable/payable	5.8	0.0	-0.7	5.1	2.6	0.0	-0.7	1.9
Adjustment for interest on gilts	-1.2	0.0	0.0	-1.2	-2.4	0.0	0.0	-2.4
Miscellaneous financial transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Own account net cash requirement	43.8	-0.5	0.5	43.7	33.2	-0.5	1.8	34.5
Net lending within the public sector	-1.5	2.6	-1.1	0.0	2.4	0.0	-2.4	0.0
Net cash requirement¹	42.3	2.1	-0.6	43.7	35.6	-0.5	-0.6	34.5

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

C83 Table C21 updates the financing arithmetic for both 2003-04 and 2004-05 in line with the new forecast for the public finances. The forecast for the central government net cash requirement (CGNCR) for 2003-04 is £42.3 billion, an increase of £1.8 billion on the 2003 Pre-Budget Report forecast. Additionally, there has been a £0.2 billion increase in the expected sterling offset from the issuance of the foreign currency bond in July 2003 and a £0.7 billion increase in the forecast of National Savings & Investments' net contribution. This means that the net financing requirement for 2003-04 is now forecast to be £58.0 billion, an increase of £0.9 billion from the 2003 Pre-Budget Report forecast. Gross gilt sales are now forecast to be £49.8 billion, an increase of £0.1 billion from the 2003 Pre-Budget Report forecast. The remainder of the increase in the net financing requirement will now be met by increasing the planned changes in the net short-term debt position by £0.8 billion. This is made up of an increase in the outstanding stock of Treasury bills in market hands at end-March 2004 of £1.0 billion to £19.3 billion and a £0.2 billion reduction in the planned rundown of the DMO's net short-term cash position which is forecast to be £0.4 billion at end-March 2004. The latter includes the £200 million DMO deposit at the Bank of England that is held in order to facilitate cash management operations.

C84 The forecast for the CGNCR for 2004-05 is £35.6 billion. Gross redemptions are £14.7 billion and National Savings & Investments' net contribution is estimated to be £2.0 billion. This means that the net financing requirement for 2004-05 is forecast to be £48.3 billion. DMO will aim to meet the net financing requirement by:

- gross gilts issuance of £48.0 billion; and
- an increase in the net short-term debt position of £0.3 billion.

C85 Full details of the financing remit including the structure of issuance and a gilt auction calendar for 2004-05 can be found in the *Debt and Reserves Management Report 2004-05* which is published today.

Table C21: Financing requirement forecast

	£ billion				
	Mar-2003 Provisional remit ¹	2003-04 Apr-2003 Revised remit ²	Dec-2003 Pre-Budget Report	Mar-2004 Budget	2004-05 Mar-2004 Budget
Central government net cash requirement	30.2	35.3	40.5	42.3	35.6
Net financing of official reserves			-1.6	-1.8	
Gilt redemptions	21.1	21.1	21.1	21.1	14.7
Debt buy-backs			0.2	0.2	
Gross financing requirement	51.3	56.4	60.2	61.8	50.3
Less assumed net NS&I's net contribution	1.5	1.5	3.0	3.7	2.0
Less change in DMO's cash balance at BoE	0.0	0.1	0.1	0.1	0.0
Net financing requirement	49.8	54.8	57.1	58.0	48.3
<i>Financed by</i>					
Gross gilt sales	40.0	47.4	49.7	49.8	48.0
Changes in short term debt	9.8	7.4	7.4	8.2	0.3

Note: Figures may not sum due to rounding.

¹ The Provisional Debt Management Report 2003-04 was published on 20 March 2003 in advance of Budget 2003 in order to comply with the Code for Fiscal Stability.

² Budget 2003 financing arithmetic revised on 23 April 2003 in line with outturns for FY2002-03.

ANALYSIS BY SUBSECTOR AND ECONOMIC CATEGORY

C86 Table C22 shows a breakdown of general government transactions by economic category for 2002-03 to 2005-06. Table C23 shows a more detailed breakdown for public sector transactions by sub-sector and economic category for each of these years.

Table C22: General government transactions by economic category

	£ billion			
	Outturn 2002-03	Estimate 2003-04	Projections 2004-05 2005-06	
<i>Current receipts</i>				
Taxes on income and wealth	142.9	146.8	162.8	180.1
Taxes on production and imports	142.2	151.7	161.0	171.1
Other current taxes	19.5	21.4	22.6	24.3
Taxes on capital	2.4	2.5	2.8	3.1
Social contributions	63.6	73.8	77.9	82.5
Gross operating surplus	9.4	9.7	10.2	10.7
Rent and other current transfers	2.1	1.6	1.7	1.7
Interest and dividends from private sector and abroad	3.9	3.5	4.3	4.4
Interest and dividends from public sector	7.2	7.3	8.0	8.4
Total current receipts	393.3	418.2	451.2	486.3
<i>Current expenditure</i>				
Current expenditure on goods and services	214.6	234.4	247.5	265.9
Subsidies	6.9	6.9	5.6	5.7
Net social benefits	128.4	137.7	145.5	150.2
Net current grants abroad	-0.6	0.1	-0.9	-2.2
Other current grants	23.4	26.3	26.8	31.7
Interest and dividends paid	21.3	22.5	24.2	25.7
AME margin	0.0	0.0	0.9	1.8
Total current expenditure	393.9	427.9	449.5	478.7
Depreciation	9.4	9.7	10.2	10.7
Surplus on current budget	-10.1	-19.3	-8.5	-3.2
<i>Capital expenditure</i>				
Gross domestic fixed capital formation	13.0	17.2	22.2	25.7
Less depreciation	-9.4	-9.7	-10.2	-10.7
Increase in inventories	0.0	-0.2	-0.4	-0.4
Capital grants (net) within public sector	1.4	0.8	0.6	0.6
Capital grants to private sector	7.7	9.7	10.6	12.3
Capital grants from private sector	-0.9	-0.9	-1.0	-0.9
AME margin	0.0	0.0	0.1	0.2
Net investment	11.9	17.0	22.0	26.8
Net borrowing¹	21.9	36.3	30.4	29.9
<i>of which:</i>				
Central government net borrowing	24.1	36.7	30.9	30.3
Local authority net borrowing	-2.1	-0.4	-0.4	-0.4
Gross debt (Maastricht basis)				
Central government	347.1	388.5	426.7	462.5
Local government	52.7	54.8	54.3	53.7

¹ Although this is based on the ESA95 definition of general government net borrowing (GGNB), the projections are identical to GGNB calculated on a Maastricht definition.

Table C23: Public sector transactions by sub-sector and economic category

	£ billion			
	2002-03			
	General government			Public sector
	Central government	Local authorities	Public corporations	
<i>Current receipts</i>				
Taxes on income and wealth	142.9	0.0	-0.1	142.9
Taxes on production and imports	142.1	0.1	0.0	142.2
Other current taxes	3.7	15.8	0.0	19.5
Taxes on capital	2.4	0.0	0.0	2.4
Social contributions	63.6	0.0	0.0	63.6
Gross operating surplus	4.5	4.9	9.0	18.4
Rent and other current transfers	2.1	0.0	0.6	2.8
Interest and dividends from private sector and abroad	3.3	0.7	0.5	4.5
Interest and dividends from public sector	6.2	1.0	-7.2	0.0
Total current receipts	370.8	22.5	2.9	396.2
<i>Current expenditure</i>				
Current expenditure on goods and services	131.6	83.1	0.0	214.6
Subsidies	5.8	1.1	0.0	6.9
Net social benefits	115.3	13.1	0.0	128.4
Net current grants abroad	-0.6	0.0	0.0	-0.6
Current grants (net) within public sector	78.7	-78.7	0.0	0.0
Other current grants	23.3	0.0	0.0	23.4
Interest and dividends paid	20.9	0.3	0.1	21.4
AME margin	0.0	0.0	0.0	0.0
Total current expenditure	374.9	19.0	0.1	394.0
Depreciation	4.5	4.9	5.0	14.4
Surplus on current budget	-8.7	-1.4	-2.2	-12.3
<i>Capital expenditure</i>				
Gross domestic fixed capital formation	4.9	8.1	5.0	18.0
Less depreciation	-4.5	-4.9	-5.0	-14.4
Increase in inventories	0.0	0.0	-0.1	-0.1
Capital grants (net) within public sector	8.7	-7.3	-1.4	0.0
Capital grants to private sector	6.6	1.1	0.3	8.0
Capital grants from private sector	-0.4	-0.5	0.0	-0.9
AME margin	0.0	0.0	0.0	0.0
Net investment	15.4	-3.5	-1.2	10.6
Net borrowing	24.1	-2.1	1.0	22.9

Table C23: Public sector transactions by sub-sector and economic category

£ billion				
2003-04				
	General government			Public sector
	Central government	Local authorities	Public corporations	
<i>Current receipts</i>				
Taxes on income and wealth	146.8	0.0	-0.1	146.7
Taxes on production and imports	151.6	0.1	0.0	151.7
Other current taxes	3.8	17.6	0.0	21.4
Taxes on capital	2.5	0.0	0.0	2.5
Social contributions	73.8	0.0	0.0	73.8
Gross operating surplus	4.6	5.1	10.0	19.7
Rent and other current transfers	1.6	0.0	0.0	1.6
Interest and dividends from private sector and abroad	2.8	0.7	0.6	4.1
Interest and dividends from public sector	5.2	2.1	-7.3	0.0
Total current receipts	392.6	25.6	3.3	421.5
<i>Current expenditure</i>				
Current expenditure on goods and services	142.5	91.9	0.0	234.4
Subsidies	5.8	1.1	0.0	6.9
Net social benefits	122.3	15.3	0.0	137.7
Net current grants abroad	0.1	0.0	0.0	0.1
Current grants (net) within public sector	87.5	-87.5	0.0	0.0
Other current grants	26.2	0.0	0.0	26.3
Interest and dividends paid	22.2	0.3	0.1	22.6
AME margin	0.0	0.0	0.0	0.0
Total current expenditure	406.7	21.2	0.1	428.0
Depreciation	4.6	5.1	5.2	14.8
Surplus on current budget	-18.7	-0.6	-2.0	-21.3
<i>Capital expenditure</i>				
Gross domestic fixed capital formation	7.1	10.1	4.9	22.1
Less depreciation	-4.6	-5.1	-5.2	-14.8
Increase in inventories	-0.2	0.0	0.0	-0.2
Capital grants (net) within public sector	7.7	-6.9	-0.8	0.0
Capital grants to private sector	8.5	1.3	0.3	10.0
Capital grants from private sector	-0.3	-0.5	0.0	-0.9
AME margin	0.0	0.0	0.0	0.0
Net investment	18.1	-1.1	-0.8	16.2
Net borrowing	36.7	-0.4	1.2	37.5

Table C23: Public sector transactions by sub-sector and economic category

	£ billion			
	2004-05			
	General government			Public sector
	Central government	Local authorities	Public corporations	
<i>Current receipts</i>				
Taxes on income and wealth	162.8	0.0	-0.1	162.7
Taxes on production and imports	160.9	0.2	0.0	161.0
Other current taxes	3.9	18.7	0.0	22.6
Taxes on capital	2.8	0.0	0.0	2.8
Social contributions	77.9	0.0	0.0	77.9
Gross operating surplus	4.9	5.3	10.9	21.1
Rent and other current transfers	1.7	0.0	0.0	1.7
Interest and dividends from private sector and abroad	3.4	0.9	0.6	4.9
Interest and dividends from public sector	4.3	3.7	-8.0	0.0
Total current receipts	422.4	28.8	3.4	454.7
<i>Current expenditure</i>				
Current expenditure on goods and services	151.1	96.4	0.0	247.5
Subsidies	4.3	1.2	0.0	5.6
Net social benefits	129.7	15.8	0.0	145.5
Net current grants abroad	-0.9	0.0	0.0	-0.9
Current grants (net) within public sector	91.5	-91.5	0.0	0.0
Other current grants	26.7	0.0	0.0	26.8
Interest and dividends paid	23.9	0.3	0.2	24.4
AME margin	0.9	0.0	0.0	0.9
Total current expenditure	427.3	22.2	0.2	449.7
Depreciation	4.9	5.3	5.4	15.5
Surplus on current budget	-9.7	1.2	-2.1	-10.5
<i>Capital expenditure</i>				
Gross domestic fixed capital formation	8.5	13.7	6.1	28.3
Less depreciation	-4.9	-5.3	-5.4	-15.5
Increase in inventories	-0.4	0.0	0.0	-0.4
Capital grants (net) within public sector	8.8	-8.2	-0.6	0.0
Capital grants to private sector	9.3	1.3	0.3	10.9
Capital grants from private sector	-0.3	-0.7	0.0	-1.0
AME margin	0.1	0.0	0.0	0.1
Net investment	21.2	0.8	0.4	22.4
Net borrowing	30.9	-0.4	2.5	32.9

Table C23: Public sector transactions by sub-sector and economic category

£ billion				
2005-06				
	General government			Public sector
	Central government	Local authorities	Public corporations	
<i>Current receipts</i>				
Taxes on income and wealth	180.1	0.0	-0.1	180.0
Taxes on production and imports	170.9	0.2	0.0	171.1
Other current taxes	4.2	20.2	0.0	24.3
Taxes on capital	3.1	0.0	0.0	3.1
Social contributions	82.5	0.0	0.0	82.5
Gross operating surplus	5.2	5.6	11.3	22.0
Rent and other current transfers	1.7	0.0	0.0	1.7
Interest and dividends from private sector and abroad	3.3	1.1	0.7	5.1
Interest and dividends from public sector	4.5	3.9	-8.4	0.0
Total current receipts	455.4	30.9	3.5	489.8
<i>Current expenditure</i>				
Current expenditure on goods and services	162.8	103.1	0.0	265.9
Subsidies	4.3	1.3	0.0	5.7
Net social benefits	134.3	15.9	0.0	150.2
Net current grants abroad	-2.2	0.0	0.0	-2.2
Current grants (net) within public sector	96.7	-96.7	0.0	0.0
Other current grants	31.6	0.0	0.0	31.7
Interest and dividends paid	25.4	0.3	0.2	25.9
AME margin	1.8	0.0	0.0	1.8
Total current expenditure	454.7	24.0	0.2	478.9
Depreciation	5.2	5.6	5.6	16.3
Surplus on current budget	-4.5	1.3	-2.3	-5.5
<i>Capital expenditure</i>				
Gross domestic fixed capital formation	11.4	14.3	4.3	30.0
Less depreciation	-5.2	-5.6	-5.6	-16.3
Increase in inventories	-0.4	0.0	0.0	-0.4
Capital grants (net) within public sector	9.3	-8.7	-0.6	0.0
Capital grants to private sector	10.9	1.4	0.3	12.6
Capital grants from private sector	-0.3	-0.6	0.0	-0.9
AME margin	0.2	0.0	0.0	0.2
Net investment	25.8	0.9	-1.6	25.2
Net borrowing	30.3	-0.4	0.7	30.6

HISTORICAL SERIES

Table C24: Historical series of public sector balances, receipts and debt

	Per cent of GDP								
	Public sector current budget	Cyclically-adjusted surplus on current budget	Public sector net borrowing	Cyclically-adjusted public sector net borrowing	Public sector net cash requirement	Net taxes and social security contributions	Public sector current receipts	Public sector net debt ¹	Public sector net worth ²
1970-71	6.7	7.3	-0.6	-1.2	1.2		43.3		
1971-72	4.2	5.2	1.1	0.0	1.4		41.4		
1972-73	2.0	2.2	2.8	2.6	3.6		39.0		
1973-74	0.3	-1.0	4.9	6.2	5.9		39.6		
1974-75	-1.1	-2.3	6.6	7.8	9.0		42.3	52.1	
1975-76	-1.6	-1.3	7.0	6.7	9.3		42.9	53.9	
1976-77	-1.2	-0.4	5.5	4.7	6.4		43.3	52.4	
1977-78	-1.4	-1.0	4.3	3.9	3.7		41.5	49.0	
1978-79	-2.6	-2.5	5.0	4.9	5.2	33.5	40.2	47.1	
1979-80	-1.9	-1.8	4.1	4.0	4.7	33.9	40.7	43.9	
1980-81	-3.0	-1.1	4.9	2.9	5.2	35.9	42.4	46.1	
1981-82	-1.4	2.6	2.3	-1.7	3.3	38.6	45.8	46.1	
1982-83	-1.5	2.8	3.0	-1.3	3.2	38.7	45.5	44.8	
1983-84	-2.0	1.6	3.8	0.2	3.2	38.2	44.4	45.3	
1984-85	-2.2	0.8	3.7	0.7	3.1	38.9	44.3	45.2	
1985-86	-1.2	0.6	2.4	0.6	1.6	38.1	43.2	43.4	
1986-87	-1.4	-1.2	2.1	1.9	0.9	37.8	42.0	41.1	
1987-88	-0.3	-1.6	1.0	2.2	-0.7	37.6	41.1	36.8	73.6
1988-89	1.7	-0.9	-1.3	1.3	-3.0	36.9	40.7	30.6	78.7
1989-90	1.4	-1.4	-0.2	2.6	-1.3	36.2	39.9	27.7	70.6
1990-91	0.4	-1.2	1.0	2.6	-0.1	35.9	38.9	26.2	60.0
1991-92	-1.9	-1.5	3.8	3.3	2.3	34.7	38.6	27.4	52.7
1992-93	-5.6	-3.6	7.6	5.6	5.9	33.7	36.6	32.0	40.0
1993-94	-6.2	-3.9	7.8	5.5	7.1	32.8	35.7	37.1	28.4
1994-95	-4.8	-3.3	6.3	4.8	5.3	34.0	36.9	40.8	27.7
1995-96	-3.3	-2.6	4.8	4.0	4.3	34.7	37.8	42.8	19.9
1996-97	-2.8	-2.3	3.5	3.0	2.9	34.8	37.2	43.7	16.3
1997-98	-0.1	-0.1	0.8	0.7	0.1	36.0	38.4	41.4	12.9
1998-99	1.1	0.8	-0.4	-0.1	-0.8	36.5	38.7	39.1	11.8
1999-00	2.1	1.8	-1.7	-1.3	-0.9	36.5	39.0	36.2	14.9
2000-01	2.1	1.4	-1.6	-0.9	-3.9	37.3	39.7	31.2	20.0
2001-02	0.9	0.6	0.1	0.4	0.3	36.8	38.8	30.2	25.0
2002-03	-1.2	-0.6	2.2	1.6	2.1	35.6	37.6	30.8	24.3

¹ At end-March; GDP centred on end-March.² At end-December; GDP centred on end-December.

Table C25: Historical series of government expenditure

	£ billion (2002–03 prices)				Per cent of GDP			
	Public sector current expenditure	Public sector net investment	Public sector gross investment ¹	Total managed expenditure	Public sector current expenditure	Public sector net investment	Public sector gross investment ¹	Total managed expenditure
1970-71	165.9	31.1	51.0	216.8	32.6	6.1	10.0	42.7
1971-72	174.0	27.5	47.9	221.9	33.3	5.3	9.2	42.5
1972-73	181.4	26.4	47.8	229.1	33.1	4.8	8.7	41.9
1973-74	199.7	29.7	53.7	253.4	35.1	5.2	9.4	44.5
1974-75	221.0	31.5	57.2	278.2	38.8	5.5	10.0	48.9
1975-76	225.7	30.9	56.7	282.5	39.9	5.5	10.0	49.9
1976-77	232.2	25.2	52.0	284.2	39.9	4.3	8.9	48.8
1977-78	229.0	17.1	44.0	273.0	38.4	2.9	7.4	45.8
1978-79	236.0	14.9	42.3	278.3	38.4	2.4	6.9	45.3
1979-80	241.7	13.8	41.6	283.3	38.2	2.2	6.6	44.8
1980-81	249.0	11.1	39.3	288.3	40.8	1.8	6.4	47.3
1981-82	260.2	5.7	33.7	293.9	42.6	0.9	5.5	48.1
1982-83	265.6	9.3	36.5	302.1	42.7	1.5	5.9	48.5
1983-84	274.1	11.6	38.5	312.6	42.3	1.8	5.9	48.2
1984-85	281.6	10.1	35.8	317.4	42.6	1.5	5.4	48.0
1985-86	281.7	8.6	31.4	313.2	41.0	1.2	4.6	45.6
1986-87	286.2	5.1	28.3	314.5	40.1	0.7	4.0	44.1
1987-88	289.4	5.0	26.3	315.7	38.6	0.7	3.5	42.1
1988-89	282.5	2.8	24.9	307.4	36.2	0.4	3.2	39.4
1989-90	284.6	9.5	31.8	316.4	35.7	1.2	4.0	39.7
1990-91	286.1	11.5	30.9	317.0	36.1	1.4	3.9	40.0
1991-92	303.4	14.6	31.0	334.4	38.4	1.8	3.9	42.3
1992-93	318.3	15.9	31.2	349.5	40.3	2.0	3.9	44.2
1993-94	328.0	13.0	27.9	356.0	40.1	1.6	3.4	43.6
1994-95	339.1	12.8	28.2	367.3	39.8	1.5	3.3	43.2
1995-96	344.0	12.4	27.8	371.8	39.4	1.4	3.2	42.6
1996-97	344.8	6.8	20.7	365.4	38.5	0.8	2.3	40.8
1997-98	344.6	6.3	19.7	364.4	37.1	0.7	2.1	39.2
1998-99	344.5	7.0	20.6	365.1	36.1	0.7	2.2	38.3
1999-00	350.7	4.5	18.3	368.9	35.5	0.5	1.9	37.4
2000-01	369.8	5.3	19.3	389.1	36.2	0.5	1.9	38.1
2001-02	379.5	9.8	24.1	403.6	36.6	0.9	2.3	38.9
2002-03	394.0	10.6	25.0	419.1	37.4	1.0	2.4	39.8

¹ Net of sales of fixed assets

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 principle 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, self-assessment income tax and some other Inland Revenue taxes which, because of practical difficulties, are scored on a cash basis) on an accruals basis, and impute the value of some transactions where no money changes hands (for example, non-trading capital consumption).

Outturn values (those for 2002-03 and earlier years) for the National Accounts series are those most recently published by the Office for National Statistics (ONS). Full details of the sources for each table are included in *Budget 2004 technical annex: data sources, economy forecasts and charts*, available on the Treasury's internet site and on request from the Treasury's Public Enquiry Unit (020 7270 4558).

The outturn figures do not take account of reclassifications and other changes which have been announced by the ONS, but not yet reflected in series published in either the quarterly Public Sector Accounts release (last published in December 2003) or the monthly Public Sector Finance release (last published in February 2004). The main outstanding changes are:

- the reclassification of NHS Trusts from public corporations to central government, which has no effect on public sector aggregates, but will increase general government net borrowing and the Treaty deficit by up to 0.1 per cent of GDP a year; and
- the decision announced in February 2004 to change the date when Network Rail moved from public to private sector from 16 August 2002 to 1 April 2003. This change is expected to add about £0.6 billion to the public sector current deficit for 2002-03 and about £1.5 billion to net borrowing. Public sector net debt for the second half of 2002-03 will increase by about 1 per cent of GDP, but this will only be a temporary effect.

Both these changes affect other parts of the National Accounts and the ONS are planning to make the changes to National Accounts and public sector fiscal measures in June 2004.

The principle measures drawn from the National Accounts are described below.

FISCAL AGGREGATES

The **current budget** (formerly known as the current balance) measures the balance of current account revenue over current expenditure (including depreciation). The definition of the current budget 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. The current budget is used to measure progress against the golden rule. The actual measure is the average surplus on the current budget expressed as a ratio to GDP over the economic cycle.

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 in that 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.

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 Deficit 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.

PUBLIC SECTOR RECEIPTS

Net taxes and social security contributions (NTSSC) is a measure of net cash payments made to UK government and differs in several respects from the National Accounts measure of total public sector current receipts (PSCR). A reconciliation between the two aggregates is given in the lower half of Table C8. The main adjustments are:

- accruals adjustments, mainly on income tax, national insurance contributions and VAT, are added to change the basis of figures from cash to National Accounts accruals;
- some tax payments that are collected by the Government, but then paid to the EC, are subtracted as they do not score as government receipts in the National Accounts;
- tax paid by public corporations is also subtracted, as it has no impact on overall public sector receipts;
- an adjustment is made for tax credits. In NTSSC, all tax credits are scored as negative tax to the extent that they are less than or equal to the tax liability of the household, and as public expenditure where they exceed the liability, in line with OECD Revenue Statistics guidelines. Although the ONS have adopted this treatment for the Working Tax Credit and Child Tax Credit, which were introduced in April 2003, they have continued to treat the Working Families' Tax Credit (WFTC), the Disabled Person's Tax Credit (DPTC) and enhanced and payable company tax credits entirely as public expenditure in the National Accounts. Those parts of WFTC, DPTC and company tax credits that offset tax liability in NTSSC are added back into current receipts in Table C8;
- interest and other non-tax receipts, which are excluded from NTSSC, are added. This excludes oil royalties, as they are already included in NTSSC, even though the National Accounts treat them as non-tax receipts; and
- business rates paid by local authorities are included in the calculation of NTSSC but not PSCR. These are therefore deducted from NTSSC before arriving at PSCR.

TOTAL MANAGED EXPENDITURE

Public expenditure is measured across the whole of the public sector using the aggregate **Total Managed Expenditure (TME)**. TME is the sum of the public sector current expenditure, public sector net investment and public sector depreciation. These aggregates are based on National Accounts definitions defined under ESA95.

Public sector current expenditure is the sum of expenditure on pay, and related costs, plus spending on goods and services, and current grants made to the private sector. Current expenditure is net of receipts from sales of goods and services.

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

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

Public sector net investment: in Table C1 nets off depreciation of the public sector's stock of fixed assets.

Public sector depreciation: is the annual charge that is made in relation to the reduction in value of the public sector's capital assets over a particular financial year.

For budgeting purposes, TME is further split into Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME):

Departmental Expenditure Limits (DEL) are firm three-year spending limits for departments. In general DEL will cover all running costs and all programme expenditure except that spending that is included in departmental Annually Managed Expenditure due to it not being reasonably subject to close control over the three year period. DEL has distinct resource and capital budgets, as shown in Table C13.

Annually Managed Expenditure (AME) is spending that cannot be reasonably subject to firm multi-year limits. AME components are shown in Table C11 and are defined as follows:

Social security benefits in AME expenditure covers contributory, non-contributory and income-related benefits for children, people of working age and pensioners. Broadly, benefits are paid in respect of retirement, unemployment, incapacity, or disability, caring responsibilities and bereavement, as well as housing costs for all groups with effect from Budget 2004. Some expenditure on housing-related benefits is, however, covered by the locally financed expenditure category.

Tax credits for individuals scored as expenditure includes spending on the Working Families' Tax Credit and Disabled Person's Tax Credit and that element of the Working Tax Credit and the Child Tax Credit that is classified as public expenditure under National Accounts definitions. For 2002-03 to 2004-05, expenditure related to the child allowances in Income Support and Jobseekers' Allowance, which, from 2003-04, are paid as part of the Child Tax Credit, have been included in the tax credit line rather than the social security benefits line in order to present figures on a consistent definition over the period shown.

Common Agriculture Policy expenditure comprises direct payments to farmers and market price supports (intervention purchases and export refunds).

Net public service pensions. The main unfunded public service pension schemes, following FRS17, report any increase in liabilities accrued in the period less contributions received from employers, employees and inward transfers. This line does not include an amount for the unwinding of the discount rate on the liability (which scores elsewhere in AME). For some small unfunded schemes, information is not available on an FRS17 basis, and these schemes report the difference between the cash paid out during the year and any contributions received.

National Lottery expenditures relate to the distribution of the money received from the National Lottery for good causes. Funds are drawn down by Distributor Bodies and directed towards Lottery funded projects.

Non-cash items in AME. Under the 2002 Spending Review resource budgeting regime, a department's spending budget includes certain items that do not have a cash component at the time when the expense is recorded. Examples include depreciation, cost of capital charges and provisions.

Other departmental expenditure aggregates all other expenditure made by departments that is not separately identified in the AME table.

Net payments to EC (European Communities) institutions is the balance between the UK's gross contribution to the EC Budget minus the UK abatement and public sector receipts from the EC budget (net contribution to EC budget). For domestic public expenditure planning purposes part of the UK's contribution to the EC budget is attributed to the overseas aid programme and excluded from the net payments to EC institutions figures.

Locally financed expenditure consists of 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 the public sector is netted off. All other receipts of interest and dividends are included in current receipts. The capital uplift on index-linked gilts is also scored here as interest at the time it accrues as is the amortisation of discounts on gilts at issue.

Public corporations' own-financed capital expenditure. This is the amount of capital expenditure by public corporations that is not financed by general government.

AME margin is an unallocated margin on total AME spending and is included as a measure of caution against AME expenditure exceeding its forecast levels.

The accounting adjustments reconcile the DEL and AME framework of departmental budgets to the national accounts measure of TME, and are shown in Table C14.

Tax credits adds in spending on individuals' tax credits which is scored as negative tax in net taxes and social security contributions but as public expenditure in National Accounts. As explained in the public sector current receipts section this mainly includes elements of WFTC and DPTC, which were replaced by new tax credits in 2003-04.

Pensions adjusts from the AME treatment to the national accounts measure by removing increases to liabilities scored in the net public sector pension line, removing increases to the liabilities arising from the unwinding of the discount rate that are scored in the other non-cash items in AME, and adding in the expenditure charged directly to the scheme's balance sheet.

European Community contributions deduct traditional own resources (i.e. payments of customs duties and agricultural and sugar levies) and VAT contributions to the EC, which are included in the net payments to EC institutions line in AME but excluded from TME.

Other central government programmes covers various items which relate to central government programme expenditure and where budgeting and national accounts treatment differ, for example the depreciation costs of NHS trusts and tax credits for companies.

VAT refunds adds back refunds obtained by central government departments, local authorities and certain public corporations. DEL and AME programme expenditure are measured net of these refunds, while TME is recorded with VAT paid.

Central government non-trading capital consumption (i.e. depreciation) as measured by ONS for national accounts is added.

Non-cash items in resource budgets and not in TME includes cost of capital charge, write-offs, notional audit fee, take-up, movements in the value, and release of provisions, the subsidy and bad debt element of student loans, and movements in stocks.

Expenditure financed by revenue receipts adds in certain receipts which are deducted from departmental budgets but which are not treated as negative expenditure in TME.

Local authorities adds in local authority depreciation and subsidies paid to local authority trading bodies, and deducts capital grants from local authorities to public corporations, local authority receipts of investment grants from private sector developers and certain licence fees collected by local authorities.

General government consolidation adjusts for the fact that payments of certain taxes, grants and interest that are within the public sector do not score in TME, as TME is a consolidated public sector concept.

Public corporations adds receipts from public corporations of interest, dividends and equity withdrawals that are netted-off in budgets, interest paid by public corporations to the private sector and abroad (as property income paid by the public sector to the rest of the economy is in TME, but not in departmental budgets) and deducts the profit/ loss of NHS trusts and Forestry Enterprise.

Financial transactions deducts net lending, acquisition of securities and profit/ loss on sale of financial assets.

Other accounting adjustments deducts depreciation and impairments in AME, and reconciles to actual and expected national accounts outturn.