

The interim projections for the public finances in this Pre-Budget Report show that the Government is on track to meet its strict fiscal rules over the economic cycle:

- the average current budget since the start of the current economic cycle in 1999-2000 shows an annual surplus of around 0.2 per cent of GDP, equivalent to a margin or surplus in this cycle of £14 billion, meaning the Government is on track to meet the golden rule on the basis of cautious assumptions. The cyclically-adjusted current budget in the cautious case returns close 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 35½ per cent of GDP and well below the 40 per cent ceiling set in the sustainable investment rule.

This report and the UK's annual Convergence Programme also show that the projections in this Pre-Budget Report are fully consistent with a prudent interpretation of the Stability and Growth Pact, which takes into account the economic cycle, the long-term sustainability of the public finances and the important role of public investment.

The 2003 *End of year fiscal report* is published alongside this Pre-Budget Report. The report underlines the Government's commitment to transparency in fiscal policy by providing detailed retrospective information on the state of the public finances in 2001-02 and 2002-03.

INTRODUCTION

B1 Chapter 2 describes the Government's fiscal policy framework and shows how the projections of the public finances presented in this Pre-Budget Report are consistent with the fiscal rules. This annex explains 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 analysis of the outlook for government receipts and expenditure.

B2 The fiscal projections continue to be based on deliberately cautious key assumptions audited by the National Audit Office (NAO).

B3 As described in Chapter 2, an *End of year fiscal report* is published alongside this Pre-Budget Report. The report underlines the Government's commitment to transparency in fiscal policy by providing detailed retrospective information on the state of the public finances in 2001-02 and 2002-03, including their performance against the fiscal rules and against published forecasts and plans. The information set out in the 2003 *End of year fiscal report* supplements the historical and provisional outturn data published in this annex.

B4 The Pre-Budget Report updates the projections of the public finances contained in Budget 2003 to take account of subsequent developments in both the public finances and the world and UK economies. The projections represent an interim forecast update and are not necessarily the outcome the Government is seeking.

MEETING THE FISCAL RULES

B5 Table B1 shows five-year projections for the current budget and public sector net debt, the key aggregates for assessing the performance against the golden rule and the sustainable investment rule respectively. Outturns and projections of other important measures of the public finances, including net investment and net borrowing, are also shown.

Table B1: 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	-1.1	-1.7	-0.7	-0.4	0.0	0.3	0.6
Average surplus since 1999-2000	1.7	1.0	0.4	0.3	0.2	0.1	0.2	0.2
Cyclically-adjusted surplus on current budget	0.6	-0.6	-0.8	-0.1	-0.1	0.0	0.3	0.6
Long-term sustainability								
Public sector net debt ¹	30.2	30.9	32.8	33.8	34.6	35.1	35.4	35.5
Core debt ¹	31.1	31.2	32.2	32.6	33.2	33.7	34.1	34.3
Net worth ²	24.9	24.3	21.5	19.4	16.2	16.0	14.8	14.4
Primary balance	1.7	-0.5	-1.7	-0.9	-0.7	-0.4	-0.3	-0.1
Economic impact								
Net investment	0.9	1.0	1.6	1.9	2.0	2.1	2.2	2.2
Public sector net borrowing (PSNB)	0.1	2.1	3.4	2.6	2.4	2.1	1.9	1.7
Cyclically-adjusted PSNB	0.3	1.6	2.4	2.0	2.2	2.0	1.9	1.7
Financing								
Central government net cash requirement	0.3	2.1	3.6	2.8	2.6	2.5	2.1	1.8
Public sector net cash requirement	0.3	2.1	3.6	2.6	2.3	2.2	1.8	1.6
European commitments								
Treaty deficit ³	0.0	2.1	3.3	2.6	2.4	2.1	2.0	1.8
Cyclically-adjusted Treaty deficit ³	0.3	1.5	2.4	2.0	2.2	2.1	2.0	1.8
Treaty debt ratio ⁴	37.9	37.9	39.3	40.2	40.8	41.1	41.4	41.5
Memo: Output gap	0.0	-1.1	-1.4	-0.7	-0.2	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 measures on a Maastricht basis.

B6 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 next return to trend levels, ending the current cycle, in 2005-06.

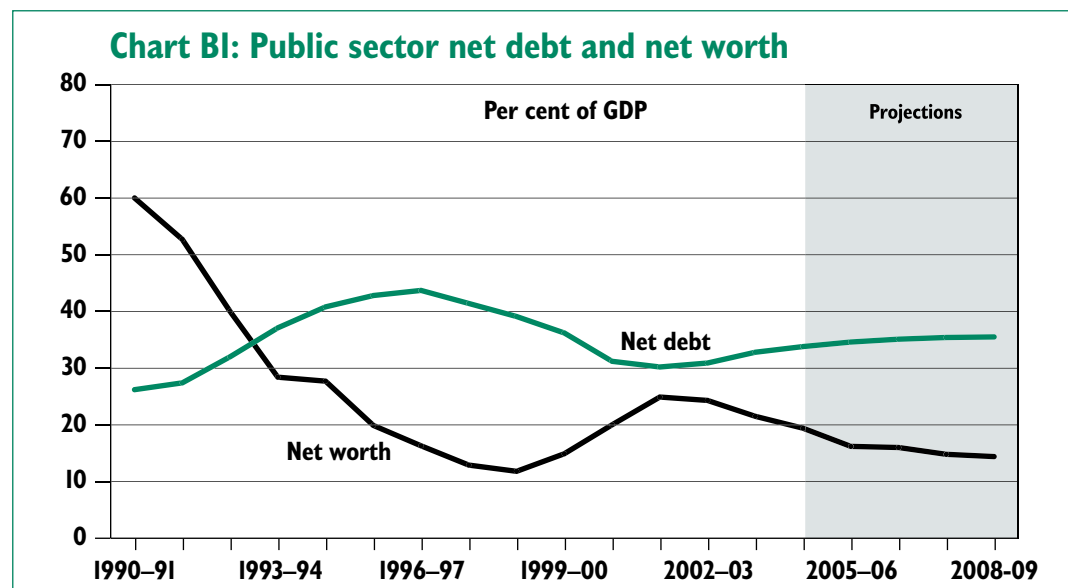
The golden rule B7 The projections show that the Government is on track to meet the golden rule, on the basis of cautious assumptions, with an average annual surplus on the current budget over the whole cycle of around 0.2 per cent of GDP, equivalent to a margin or surplus in this cycle of £14 billion. On this basis, and based on cautious assumptions, the Government is on track to meet the golden rule. If the economic cycle were to have started in 1997-98, the average surplus on the current budget up to 2005-06 would be over 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, but is close to balance in 2004-05 and 2005-06 before returning to balance in 2006-07.

B8 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 cycle.

The sustainable investment rule **B9** The sustainable investment rule is also 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 use the proceeds from the auction of spectrum licences to repay debt, reduced debt to around 30 per cent of GDP by the end of 2001-02. It is now projected to grow slowly, as the Government borrows modestly to fund increased investment in public services, stabilising at 35½ per cent at the end of the projected period – £64 billion below the 40 per cent level. The projections for core debt, which exclude the estimated impact of the economic cycle, increase more slowly to around 34 per cent of GDP.

Net worth **B10** Net worth is the approximate stock counterpart of the current budget balance. Declines of net worth are expected for the remainder of the projection period from the high level of 24.9 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.

B11 Chart B1 shows public sector net debt and net worth as a per cent of GDP from 1990-91 to 2008-09.



Net investment **B12** As a result of decisions taken in the 2002 Spending Review, public sector net investment is projected to rise steadily to 2½ 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 **B13** This increase in net investment, together with the new projections for the current budget, mean that public sector net borrowing is expected to increase to a maximum of around 3½ per cent of GDP in 2003-04 before falling to around 1½ per cent of GDP in 2008-09. Cyclically-adjusted net borrowing is below 2½ per cent of GDP in every year.

Financing BI4 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 1.8 per cent of GDP in 2008-09, mirroring the profile of net borrowing.

European commitments BI5 Table B1 shows the Treaty measures of debt and deficit used for the purposes of the Excessive Deficit Procedure – Article 104 of the Treaty. The public finance projections set out in this Pre-Budget Report and the UK's annual Convergence Programme are consistent with the Government's prudent interpretation of the Stability and Growth Pact, as described in Chapter 2.

CHANGES TO THE FISCAL BALANCES

BI6 Table B2 compares the latest estimates for the main fiscal balances with those in Budget 2003.

Table B2: Fiscal balances compared with Budget 2003

	Outturn ¹	Estimate ²	Projections			
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Surplus on current budget (£ billion)						
Budget 2003	-11.7	-8.4	-1	2	6	9
Effect of non-discretionary changes to:						
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
PBR 2003	-11.8	-19.3	-8	-5	0	4
Net borrowing (£ billion)						
Budget 2003	24.0	27.3	24	23	22	22
Effect of changes in current surplus	0.1	10.9	7	7	6	4
Effect of changes in net investment	-1.5	-0.9	0	0	0	0
PBR 2003	22.5	37.4	31	30	27	27
Cyclically-adjusted surplus on current budget (per cent of GDP)						
Budget 2003	-0.5	0.2	0.5	0.4	0.4	0.6
PBR 2003	-0.6	-0.8	-0.1	-0.1	0.0	0.3
Cyclically-adjusted net borrowing (per cent of GDP)						
Budget 2003	1.7	1.5	1.5	1.7	1.7	1.6
PBR 2003	1.6	2.4	2.0	2.2	2.0	1.9
Net debt (per cent of GDP)						
Budget 2003	30.9	32.2	32.7	33.2	33.5	33.8
PBR 2003	30.9	32.8	33.8	34.6	35.1	35.4

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

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

³Further details given in table B8.

⁴Includes depreciation.

B17 The revisions to the public sector current budget in this Pre-Budget Report are partly due to changes to the forecast of public sector receipts, which have been reduced in all years. As explained in Chapter 2 and Annex A, this reduction is mainly due to changes in the composition of GDP. In particular, lower than expected growth in wages and salaries has reduced receipts from income tax and social security contributions.

B18 The discretionary changes of £2½ billion made in 2003-04 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 is being added in 2004-05 as a prudent allowance against continuing commitments. This will ensure that the Government is able to meet its international commitments in Iraq and elsewhere in the war against terrorism. The discretionary changes for 2004-05 onwards also reflect other measures announced in the Pre-Budget Report, notably the increases to the child element of Child Tax Credit, and measures to protect tax revenues (see Table B4).

B19 Overall, the current budget has been revised from a deficit of £8.4 billion to a deficit of £19.3 billion in 2003-04, and from a deficit of £1 billion to a deficit of £8 billion in 2004-05. In later years, the change in the forecast for current budget since Budget 2003 decreases, with the current budget going into balance or surplus from 2006-07 onwards. However, the tough decisions on taxation and spending taken by the Government over the course of the last Parliament to reduce debt to low and stable levels, means that even after these revisions and based on cautious assumptions, the Government remains on track to meet its strict fiscal rules.

B20 Net borrowing has been revised up since the Budget, from £27.3 billion to £37.4 billion in 2003-04 and from £24 billion to £31 billion in 2004-05 before stabilising around £27 billion at the end of the projection period. The changes in net borrowing since Budget 2003 are largely due to the changes in the current budget, as described above.

FORECAST DIFFERENCES AND RISKS

B21 The fiscal balances represent the difference between 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. These tend to grow as the forecast horizon lengthens. A full account of differences between the projections made in Budget 2001 and Budget 2002 and the subsequent outturns is provided in the 2003 *End of year fiscal report*.

B22 As explained in Annex A, UK demand and activity have strengthened since early 2003 as geo-political uncertainties have receded. Global financial markets have made up considerable ground following sharp falls in 2002 and early 2003 and US GDP growth has rebounded strongly. In the UK, growth picked up strongly in the second and third quarters. The pick-up in activity is expected to be consolidated into 2004.

B23 However, there are also risks to the economic outlook. The uneven nature of the pick-up in global activity, the continued reliance on developments in the US and the relatively disappointing performance of the euro area, present a threat to the sustainability of this recovery over the medium term. These factors also mean that global activity is vulnerable to the possibility of faltering US domestic demand in the short term. On the upside, given the relatively swift turnaround in activity since the spring, the present world recovery may be stronger than currently expected.

B24 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 work¹ (confirmed by more recent analysis in the 2003 *End of year fiscal report*, see Box B1 below) suggested 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. 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.

Box B1: Public Finances and the Cycle

The economic cycle has significant short-term effects on the public finances. This means it is important to distinguish between cyclical and underlying or ‘structural’ effects in the public finances. UK experience suggests that serious mistakes can occur if purely cyclical improvements are treated as if they were structural, or if a structural deterioration is interpreted as cyclical. The *Code for fiscal stability*^a requires the Government to publish estimates of the cyclically-adjusted balances.

Annex A in the 2003 *End of year fiscal report*, published alongside this Pre-Budget Report, examines the relationship between the economic cycle and the public finances. It confirms the results of previous Treasury analysis and supports the current coefficients used to calculate cyclically-adjusted fiscal aggregates. The Treasury’s ready reckoners for calculating cyclically-adjusted estimates of key fiscal indicators are shown below.

Cyclically-Adjusted (CA) Fiscal Aggregate	=	Fiscal Aggregate		Output Gap		Output Gap (-1)
CA net borrowing	=	net borrowing	+	0.50	+	0.20
CA current budget	=	current budget	-	0.50	-	0.20

Overall a 1 per cent increase in output relative to trend is estimated to reduce the ratio of public sector net borrowing to GDP by just under ¾ of a percentage point^b after two years, while increasing the ratio of the surplus on the current budget to GDP by just under ¾ of a percentage point.

These estimates are approximate and are simplified representations of the true dynamic impact of the cycle on the public finances. They are subject to margins of error since estimates of the output gap are based upon a stylised cycle. In practice, every cycle is different and so will be its effect on the public finances.

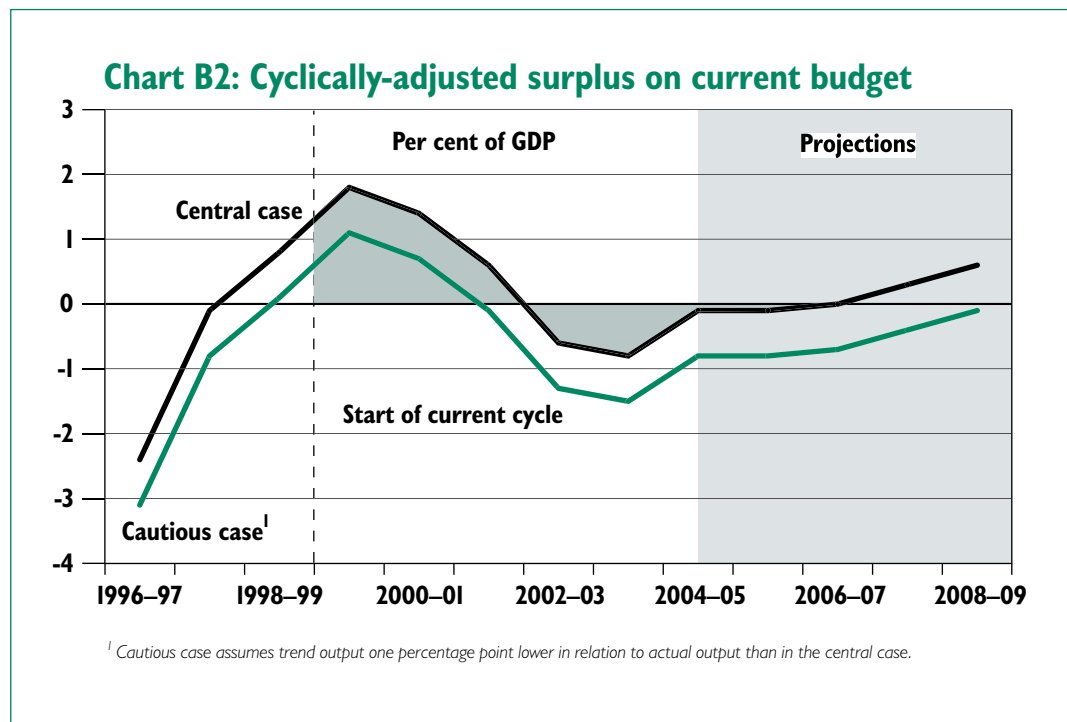
^a HM Treasury, November 1998

^b The same applies to the ratio of public sector net cash requirement, as financial transactions are not expected to be cyclical, and also to the Maastricht definition of deficit.

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

B25 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 little affected on average over the cycle.

B26 However, changes in the estimated cyclical position of the economy in relation to its trend – the output gap – will have a permanent 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 in the cautious case. 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.



ASSUMPTIONS

B27 The fiscal projections are based on the following assumptions:

- the economy follows the path in Annex A. 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 neutral 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 since Budget 2003 or in this Pre-Budget Report (see Table B4), 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 Pre-Budget Report for consultation or other proposals where final decisions have yet to be taken;
- firm Departmental Expenditure Limits (DEL) as set out in the 2002 Spending Review up to 2005-06, but adjusted for 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, for the estimated costs of spending measures announced in this Pre-Budget Report or before (see Table B4) and where necessary to cover changes in the forecasts of individual components;
- prior to setting overall spending limits for the 2004 Spending Review period at the time of the next Budget, the assumed cash growth rates for DEL in 2006-07 and 2007-08 remain the same as set out in Budget 2003. Other current spending in AME is forecast to grow at 1¾ per cent in real terms in line with its recent trend, and net investment is forecast to increase to an assumption of 2¼ per cent of GDP in 2007-08, while remaining consistent with the sustainable investment rule;
- current spending in DEL and AME in 2008-09 is assumed to grow at the same rates as in 2007-08. Net investment remains at 2¼ per cent of GDP; and
- as in Budget 2003, the spending projections include additional amounts to allow for the five-year health settlement of difference between planned health growth and health's long term average growth of 3.6 per cent.

Table B3: 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)	1¼	2¼	3¼	2¾	2½	2¼	2¼
Prices							
CPI	1¼	1¼	1¾	2	2	2	2
GDP deflator	3¼	2¾	2½	2½	2¾	2¾	2¾
RPI ¹ (September)	1½	3	3½	3	2½	2¾	2¾
Rossi ² (September)	1¼	2	2	2¼	2¼	2¼	2¼
Money GDP ³ (£ billion)	1055	1111	1174	1238	1304	1369	1436

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.

B28 The key assumptions underlying the fiscal projections are audited by the NAO under the three-year rolling review process. Details of all the audited assumptions are given in Box B2.

B29 For this Pre-Budget Report, the Comptroller and Auditor General has audited the assumption relating to equity prices. While the assumption was an imprecise one over the last three years, the Comptroller and Auditor General concluded that it remains a sensible and transparent rule for forecasting purposes. In addition, following the change in the measure of inflation used in the inflation target, the Government has revised the assumption on the consistency of price indicators used to project the public finances, and this has also been audited. The assumption was deemed to be reasonable. The Comptroller and Auditor General also audited the assumption for projecting VAT receipts, and found that it had been less cautious than evidence at the time of making the assumption had suggested it would be. The Comptroller and Auditor General will complete the audit of the assumption at the time of Budget 2004, after considering the additional analysis being undertaken by HM Customs and Excise, following the recent data revisions to UK national accounts. In the meantime, the existing assumption has been used for the projections in this Pre-Budget Report, an approach that the Comptroller and Auditor General considers a cautious response.²

B30 The Government launched a comprehensive strategy for tackling VAT fraud, avoidance and non-compliance in the 2002 Pre-Budget Report. This strategy is being extended further, as described in Chapter 5, and consistent with previous practice the VAT ratio assumption takes account of the direct and preventive effects, but not the deterrent effects, and has been audited by the Comptroller and Auditor General who concluded that a reasonable and cautious approach had been adopted in the assumptions underlying the projected extra yield. In line with the cautious approach to the public finances, the Government has included an additional £185 million in 2004-05, rising to £315 million in 2006-07 in the public finance projections from the extension of the strategy.

² *Audit of Assumptions for the 2003 Pre-Budget Report*, National Audit Office, December 2003 (HC 35).

Box B2: Key assumptions audited by the NAO

- **Privatisation proceeds**^{1,6,11} Credit is taken only for proceeds from sales that have been announced.
- **Trend GDP growth**^{1,6,9} 2½ per cent a year to 2006-07 and 2¼ per cent in 2007-08 and 2008-09.
- **UK claimant unemployment**^{1,4,7,9} Rising slowly to 0.95 million in 2005-06, from recent levels of 0.93 million, consistent with the average of independent forecasts.
- **Interest rates**^{1,6,7,11} 3-month market rates change in line with market expectations (as of 27 November).
- **Equity prices**^{2,7,12} FTSE All-Share index rises from 2154 (close 27 November) in line with money GDP.
- **VAT**^{2,7,10,12} Ratio of underlying VAT to consumption falls by 0.05 percentage points a year. Only the direct and preventative effects of the anti-fraud VAT strategy are included in the projections.
- **Consistency of price indices**^{2,7,12} Projections of price indices used to project the public finances are consistent with CPI.
- **Composition of GDP**^{3,8} Shares of labour income and profits in national income are broadly constant in the medium term.
- **Funding**^{3,8} Funding assumptions used to project debt interest are consistent with the forecast level of government borrowing and with financing policy.
- **Oil prices**^{5,10} \$24.9 a barrel in 2004, the average of independent forecasts, and then constant in real terms.
- **Tobacco**^{6,10,11} The underlying market share of smuggled cigarettes will be set at least at the latest published outturn. For the 2003 Pre-Budget Report, a share of 18 per cent has been used in all forecast years.
- **Inland Revenue compliance and enforcement package**¹¹ Only direct and some preventative effects are allowed for.

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

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

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

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

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

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

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

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

⁹ Audit of Assumptions for the April 2002 Budget, 17 April 2002 (HC760).

¹⁰ Audit of Assumptions for the 2002 Pre-Budget Report, 27 November 2002 (HC109).

¹¹ Audit of Assumptions for Budget 2003, 9 April 2003 (HC627).

¹² Audit of Assumptions for the 2003 Pre-Budget Report, 10 December 2003 (HC35).

PRE-BUDGET REPORT POLICY DECISIONS

B31 Consistent with the requirements of the *Code for fiscal stability*, the updated projections take into account the fiscal effects of all firm decisions announced in the Pre-Budget Report or since Budget 2003, including the special reserve allocation in DEL, increases to the Child Tax Credit and measures to protect tax revenues. The fiscal impact of these measures is set out in Table B4.

B32 In line with the conventions in previous Pre-Budget Reports, expenditure measures in AME for future years have been added to total AME, and the 2003-04 and 2004-05 special reserve allocations have been added to total DEL.

B33 The projections do not take account of measures proposed in the Pre-Budget Report where final decisions have yet to be taken prior to Budget 2004, these include:

- the introduction of a scheme allowing local authorities to retain a proportion of increases in local business rates revenues;
- the introduction of a half penny per litre duty differential to the rates for sulphur-free fuels relative to the rates for ultra-low sulphur fuels from 1 September 2004;
- the levy to be charged to pension schemes in respect of the Pensions Protection Fund;
- the introduction of the Graduate Contributions Scheme which will allow graduates to pay back their university tuition fees once they are earning; and
- measures to simplify the taxation of pensions.

B34 The measures in Table B4 that either close tax loopholes or tackle tax fraud represent the estimated direct Exchequer effect of the measure on existing levels of avoidance or fraud activity. Further details explaining the conventions used in Table B4 can be found in Appendix A2 of the Financial Statement and Budget Report 2003.

Table B4: Estimated costs of Pre-Budget Report policy decisions and others announced since Budget 2003¹

	(+ve is an Exchequer yield)			£ million
	2003–04	2004–05	2005–06	2006–07
Raising productivity in an enterprise economy				
Improvements to the VAT flat-rate scheme	0	–10	–25	–30
Improvements to R&D tax credit schemes	0	–15	–25	–25
Capital allowances: increases in the thresholds defining SMEs	0	–100	–170	–125
Corporation tax reform: extension of relief for management expenses	0	–20	–35	–25
Corporation tax reform: transfer pricing and thin capitalisation	0	25	40	25
Interest and royalties directive	0	*	*	5
Increasing employment opportunity for all				
Housing benefit: social sector Pathfinders	0	0	–15	–30
Building a fairer society				
Child Tax Credit: increase above earnings commitment	0	–885	–925	–955
Employer supported childcare	0	0	–20	–25
Working Tax Credit for first time parents	0	–10	–10	–10
State pension: deferral; lump sum and increments	0	0	–10	–25
Modernising National Savings and Investments	0	0	5	5
VAT: cultural bodies	–20	–25	–25	–20
Protecting tax revenues				
Foreign earnings deduction for seafarers (FED)	0	20	50	40
Reform of the Construction Industry Scheme (CIS)	0	20	40	80
Modernising the taxation of trusts	0	40	105	100
VAT: abusive grouping	0	50	70	65
VAT: partial exemption special methods	0	50	55	50
VAT: assignment of bad debts	5	20	20	20
Tackling alcohol fraud	0	5	10	175
Total Pre-Budget Report measures	–15	–835	–865	–705
Additional Pre-Budget Report policy decisions				
Total special reserve allocation	–2500	–300	0	0
TOTAL POLICY DECISIONS	–2515	–1135	–865	–705
Extension of the VAT strategy ²	–5	165	210	290
TOTAL DISCRETIONARY MEASURES	–2520	–970	–655	–415

* Negligible

¹ Costings shown relative to an indexed base.

² Net of additional resources allocated to HM Customs and Excise.

FISCAL AGGREGATES

B35 Tables B5 and B6 provide more detail on the projections for the current and capital budgets.

Table B5: 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	396.5	422.8	456	489	520	550	580
Current expenditure	394.0	427.3	449	478	503	528	553
Depreciation	14.4	14.8	16	16	17	18	19
Surplus on current budget	-11.8	-19.3	-8	-5	0	4	8
Capital budget							
Gross investment	29.7	36.6	42	45	48	53	55
Less asset sales	-4.7	-3.8	-4	-4	-4	-4	-4
Less depreciation	-14.4	-14.8	-16	-16	-17	-18	-19
Net investment	10.7	18.0	23	25	27	31	32
Net borrowing	22.5	37.4	31	30	27	27	24
Public sector net debt – end year	334.1	374.8	408	439	468	497	522
<i>Memos:</i>							
Treaty deficit ¹	21.8	37.1	31	30	28	28	26
Treaty debt ²	399.8	436.8	472	505	536	567	596

¹ General government net borrowing on a Maastricht basis.

² General government gross debt on a Maastricht basis.

Table B6: 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	38.1	38.9	39.5	39.9	40.2	40.4
Current expenditure	37.3	38.5	38.2	38.6	38.5	38.6	38.5
Depreciation	1.4	1.3	1.3	1.3	1.3	1.3	1.3
Surplus on current budget	-1.1	-1.7	-0.7	-0.4	0.0	0.3	0.6
Capital budget							
Gross investment	2.8	3.3	3.6	3.7	3.7	3.8	3.8
Less asset sales	-0.4	-0.3	-0.3	-0.3	-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	1.6	1.9	2.0	2.1	2.2	2.2
Net borrowing	2.1	3.4	2.6	2.4	2.1	1.9	1.7
Public sector net debt – end year	30.9	32.8	33.8	34.6	35.1	35.4	35.5
<i>Memos:</i>							
Treaty deficit ¹	2.1	3.3	2.6	2.4	2.1	2.0	1.8
Treaty debt ratio ²	37.9	39.3	40.2	40.8	41.1	41.4	41.5

¹ General government net borrowing on a Maastricht basis.

² General government gross debt on a Maastricht basis.

B36 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 and of around 1 per cent of GDP in 2001-02. These surpluses have allowed 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.

B37 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 current expenditure projections are based on decisions made in and since the Spending Review 2002, including this Pre-Budget Report. By 2005-06, when the current cycle ends under the assumptions used in these projections, the accumulated total surplus over the economic cycle will be £4½ billion. If the economic cycle were to have started in 1997-98, the accumulated total surplus would be £13½ billion.

B38 Table B5 also shows that net investment is projected to increase from £18 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 at less than 36 per cent of GDP throughout the projection period, well within the 40 per cent limit set by the sustainable investment rule.

RECEIPTS

B39 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 Budget 2003, 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 Budget 2003

B40 Forecasts of public sector current receipts have been revised down in all years since Budget 2003. Table B7 breaks down the causes of these revisions between economic determinants audited by the NAO, changes to the components of GDP, and other factors.

Table B7: Changes in current receipts since Budget 2003

	£ billion				
	Estimate	Projections			
	2003–04	2004–05	2005–06	2006–07	2007–08
Effect on receipts of non-discretionary changes in:					
Economic determinants audited by the NAO ¹	½	1½	2	2	2½
of which:					
Equity price assumption	½	1	1½	1½	1½
GDP components	-4	-5½	-5½	-5	-4
of which:					
Wages & salaries	-3½	-4	-4	-3½	-3
Consumers' expenditure	-½	-½	-1	-1	-½
Other	-2	-½	-1	0	1
Total before discretionary changes	-5½	-4½	-4½	-2½	-½
Discretionary changes	0	0	0	½	½
Total change	-5½	-4	-4	-2	0

¹ Excludes the higher than expected VAT receipts, which is included in other changes. Also excludes extension to VAT strategy which is included in discretionary changes.

Economic determinants audited by the NAO

B41 Changes in economic determinants audited by the NAO have increased public sector receipts by between £1½ billion and £2½ billion per year from 2004-05 onwards. This is largely a result of higher equity prices, which increase receipts from stamp duty, capital taxes, and corporation tax from life assurance companies. The NAO audited assumption on equity prices used in Budget 2003 meant that the projections only assumed equity prices would rise in line with money GDP from a starting level of 1778. However, since the Budget equity prices have actually risen by around 20 per cent.

GDP components

B42 Offsetting the positive impact of the economic determinants audited by the NAO are changes to the composition of GDP. As explained in paragraph B45, growth in wages and salaries in 2003 has been lower than projected, reducing revenues from income tax and NIC by around £3½ billion in 2003-04 and in future years. Lower than expected growth in consumers' expenditure has also had a negative impact on VAT and excise revenues, although as explained in paragraph B53, despite this lower growth, VAT revenues in the first half of 2003-04 have been substantially above the levels projected in Budget 2003, partly reflecting caution in the NAO audited assumptions used to forecast VAT revenues.

Other factors B43 The remaining differences in the forecast of receipts can be explained by various factors including lower than expected levels of housing transactions, the reclassification of business rates paid by local authorities and lower than expected oil production. As explained in paragraph B57, the reclassification of business rates paid by local authorities, which reduces receipts by around £1 billion per year, has no impact on the current budget or net borrowing as it is offset by an equivalent reduction in public expenditure.

Tax-by-tax analysis

B44 Table B8 shows the changes to the projections of individual taxes since Budget 2003. Table B9 contains updated projections for the main components of public sector receipts for 2002-03, 2003-04 and 2004-05, while B10 looks in more detail at changes in receipts between 2002-03 and 2003-04.

Table B8: Changes in current receipts by tax since Budget 2003

	£ billion		
	2002-03	2003-04	2004-05
Income tax (gross of tax credits)	-0.7	-3.3	-3.1
Social security contributions	0.3	-1.9	-2.1
Non-North Sea corporation tax ¹	-0.1	-1.6	-2.0
Less tax credits ²	0.0	0.0	0.5
North Sea revenues	-0.1	0.0	-1.4
Capital taxes ³	-0.1	-0.1	0.4
Stamp duty	0.0	-0.4	0.2
Value added tax	-0.1	2.4	2.1
Excise duties ⁴	0.0	-0.1	1.1
Other taxes and royalties ⁵	0.0	0.6	-0.1
Net taxes and social security contributions	-0.7	-4.3	-4.4
Other receipts and accounting adjustments	0.2	-1.2	0.2
Current receipts	-0.5	-5.5	-4.2

¹ 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 B9: Current receipts

	£ billion		
	Outturn 2002–03	Estimate 2003–04	Projection 2004–05
<i>Inland Revenue</i>			
Income tax (gross of tax credits)	112.6	118.8	128.3
Social security contributions	64.7	72.6	78.4
Corporation tax ¹	29.6	29.4	34.6
Tax credits ²	-3.4	-4.6	-3.9
Petroleum revenue tax	1.0	1.4	1.0
Capital gains tax	1.6	1.0	1.4
Inheritance tax	2.4	2.5	2.8
Stamp duties	7.5	7.5	9.3
Total Inland Revenue (net of tax credits)	216.0	228.6	252.0
<i>Customs and Excise</i>			
Value added tax	63.5	69.0	72.2
Fuel duties	22.1	22.9	24.8
Tobacco duties	8.1	8.0	8.2
Spirits duties	2.3	2.4	2.4
Wine duties	1.9	1.9	2.0
Beer and cider duties	3.1	3.2	3.4
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	2.5
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	115.5	121.3
Vehicle excise duties	4.6	4.9	5.2
Oil royalties	0.4	0.0	0.0
Business rates ³	18.5	18.7	18.9
Council tax	16.7	18.4	19.9
Other taxes and royalties ⁴	10.9	12.5	13.2
Net taxes and social security contributions⁵	375.8	398.6	430.5
Accruals adjustments on taxes	-0.1	2.8	1.0
Less own resources contribution to European Communities (EC) budget	-4.4	-4.5	-4.0
Less PC corporation tax payments	-0.1	-0.1	-0.1
Tax credits adjustment ⁶	1.1	0.5	0.5
Interest and dividends	4.5	4.1	4.9
Other receipts ⁷	19.8	21.4	23.3
Current receipts	396.5	422.8	456.2
<i>Memo:</i>			
North Sea revenues ⁸	4.9	4.7	3.7

¹ Gross of enhanced and payable tax credits.

² Includes enhanced company tax credits that offset tax liability.

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.

Table B10: Net taxes and social security contributions 2003–04

	£ billion			Percentage change on 2002–03		
	Outturn ¹ Apr–Oct	Estimate Nov–Mar	2003–04	Outturn ¹ Apr–Oct	Estimate Nov–Mar	Full year
<i>Inland Revenue</i>						
Income tax and capital gains tax ²	62.6	53.2	115.7	4.0	4.4	4.2
Social security contributions	40.7	31.9	72.6	9.0	16.7	12.3
Corporation tax ²	19.3	9.6	28.9	–3.4	3.1	–1.3
Petroleum revenue tax	0.8	0.6	1.4	34.6	50.4	40.9
Inheritance tax	1.5	1.0	2.5	2.2	6.6	4.0
Stamp duties	4.4	3.2	7.5	–6.6	9.7	–0.4
Total Inland Revenue (net of tax credits)	129.2	99.4	228.6	4.0	8.3	5.9
<i>Customs and Excise</i>						
Value added tax	40.9	28.2	69.0	8.3	9.6	8.8
Fuel duties	13.3	9.6	22.9	2.4	4.5	3.3
Tobacco duties	4.8	3.2	8.0	–2.1	1.4	–0.7
Alcohol duties	4.3	3.2	7.5	3.7	2.4	3.1
Other Customs duties and levies	4.6	3.5	8.1	3.2	4.4	3.7
Total Customs and Excise	67.9	47.6	115.5	5.6	7.1	6.2
Vehicle excise duties	2.9	1.9	4.9	6.3	6.3	6.3
Business rates	13.2	5.4	18.7	0.9	1.8	1.1
Council tax	12.5	5.9	18.4	10.8	9.2	10.3
Other taxes and royalties	7.1	5.3	12.4	8.7	11.5	9.9
Net taxes and social security contributions	232.9	165.6	398.6	4.8	7.8	6.1

¹ Provisional.

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

Income tax and social security contributions

B45 Income tax receipts and social security contributions in 2003-04 are expected to be around £5 billion lower than forecast in Budget 2003. Most of this is the result of lower than expected growth of wages and salaries, which also reduces receipts in future years. As in Budget 2003, the average tax rate on income tax is assumed to recover over the forecast period, as financial company profits recover and corresponding bonuses, which are largely paid by higher-rate tax payers, increase. This bonus effect has less effect on national insurance contributions.

Non-North Sea corporation tax

B46 Non-North Sea corporation tax receipts in 2003-04 are estimated to be around £1½ billion below the Budget projection. This fall is largely due to lower than expected growth in company profits which also reduces receipts in future years. This is partly offset by higher tax receipts from life assurance companies as a result of higher equity prices.

B47 Table B10 shows that total corporation tax receipts (including North Sea corporation tax) in April to October 2003 were 3.4 per cent lower than in the corresponding months of 2002-03 but for the remainder of 2003-04 are expected to be 3.1 per cent higher. The comparison for the April to October period is affected by the final stage of the transition to quarterly instalment payments under which large companies had to make balancing payments in 2002 but not in 2003.

- Tax credits B48** Although the estimates of tax credits that are scored as negative tax in 2003-04 has not changed since the Budget, forecasts for future years have been revised downwards, which increases receipts by around £½ billion per year. This is largely a result of Inland Revenue updating their estimates of the negative tax share of total tax credits. However, the changes in these shares have no overall impact on the fiscal aggregates as they are offset by equal and opposite changes to expenditure, which are discussed in more detail in paragraph B70.
- North Sea revenues B49** North Sea revenues in 2003-04 are estimated to be broadly in line with the Budget projection. However, receipts from 2004-05 onwards are expected to be around £1 to 1½ billion lower, largely a result of lower oil production forecasts, and lower oil prices, as audited by the NAO.
- Capital gains and inheritance tax B50** Although equity prices are much higher than projected in Budget 2003, receipts from capital taxes in 2003-04 are expected to be marginally lower than the Budget projection. This is largely because capital gains tax receipts in 2003-04 are based on gains realised in 2002-03, and are unaffected by recent movements in equity prices. The full impact of higher equity prices and house prices does not feed into capital tax receipts until 2004-05.
- Stamp duties B51** Receipts from stamp duties from April to October in 2003-04 were 6.6 per cent lower than during the same period in 2002-03. This is mainly as a result of lower than expected levels of land and property transactions, which were 20 per cent down on the previous year. However, from the second half of 2003-04, this effect should be offset by the impact of higher equity and house prices.
- VAT receipts B52** Despite lower than expected growth in consumers' expenditure, VAT receipts in the first seven months of 2003-04 were much higher than expected. As a result, the full year projection has been revised up by around 2½ billion. This estimate cautiously makes an allowance of around £320m for the specific risk posed by claims arising from a European Court of Justice Judgment in relation to the three-year cap on repayments. This sum is in addition to around £40m paid from receipts in the 2002-03 financial year.
- B53** It is not yet possible to assess fully the reasons for the higher than expected VAT receipts, although it may reflect caution in the assumptions used to forecast VAT revenues, namely that the underlying VAT to consumers' expenditure falls by 0.05 percentage points a year, and that only the direct and preventive, but not deterrent effects, of the VAT strategy announced in the 2002 Pre-Budget Report were included in the forecast.
- B54** The forecast of VAT revenues from 2004-05 onwards continues to be governed by the assumptions described above, and has been revised upwards in all years.
- Excise duties B55** Excise duties in 2003-04 are estimated to be around £0.1 billion lower than forecast in the Budget. The upward revision to excise duties from 2004-05 onwards reflects upward revisions to the RPI forecast, (which increases forecast duty rates), a downward revision of the oil price forecast, and the introduction of an improved fuel duty model, developed in response to forecasting experience described in the 2003 *End of year fiscal report*.

Other receipts B56 The upward revision to other taxes and royalties in 2003-04 largely reflects higher than expected VAT refunds for the year-to-date. These also score as public expenditure and therefore have no impact on net borrowing. Accruals adjustments in 2003-04 have been revised down by around £0.9 billion. This is mainly a result of lower accruals adjustments for income tax and NIC.

B57 In the Blue Book 2003, the Office for National Statistics (ONS) introduced changes in the definition of public sector current receipts so they no longer included business rates paid by local authorities. This change reduces receipts by around £1 billion and is included in the other receipts line. It is matched by a corresponding reduction in local authority expenditure, such that there is no overall impact on the fiscal aggregates.

Tax-GDP ratio

B58 Table B11 shows projections of receipts from major taxes as a per cent of GDP, and Table B12 sets out current and previous projections of the overall tax-GDP ratio.

B59 The tax-GDP ratio is expected to rise slightly in 2003-04, largely as a result of the NICs rate increase that came into effect on April 2003. The increase in the ratio from 2004-05 onwards is largely driven by the following factors:

- normal fiscal drag;
- the recovery of financial company profits; and
- strong growth in tax receipts such as VAT refunds which have no overall impact on fiscal aggregates.

Table B11: 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	11.3	11.5	11.6
Social security contributions	6.1	6.5	6.7	6.7	6.7	6.8	6.8
Non-North Sea corporation tax ¹	2.5	2.3	2.7	3.0	3.1	3.2	3.2
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	0.2
Value added tax	6.0	6.2	6.1	6.1	6.1	6.1	6.1
Excise duties ⁴	3.6	3.5	3.5	3.4	3.4	3.3	3.2
Other taxes and royalties ⁵	6.6	6.6	6.7	6.9	7.0	7.1	7.2
Net taxes and social security contributions⁶	35.6	35.9	36.7	37.3	37.7	38.0	38.2
Accruals adjustments on taxes	0.0	0.2	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	-0.3
Tax credits ⁷	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other receipts ⁸	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Current receipts	37.6	38.1	38.9	39.5	39.9	40.2	40.4

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 B12: Net taxes and social security contributions¹

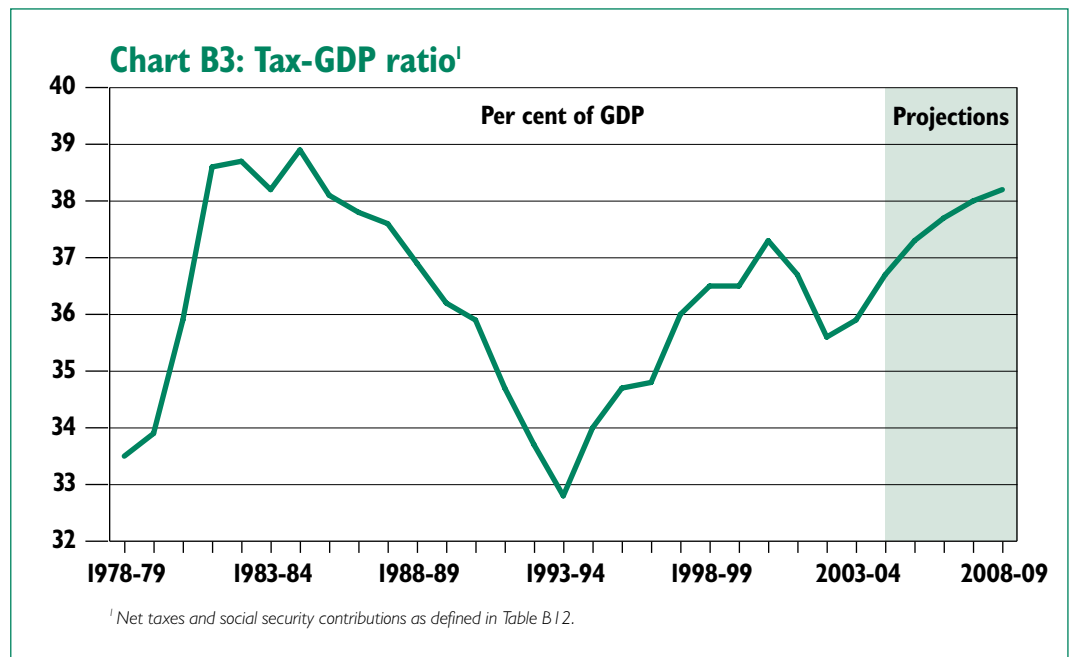
	Per cent of GDP						
	Outturn ² Estimate ³			Projections			
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Budget 2003	35.6	36.3	37.1	37.6	37.9	38.2	
PBR 2003	35.6	35.9	36.7	37.3	37.7	38.0	38.2

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.

B60 Chart B3 shows the tax-GDP ratio from 1978-79 to 2008-09.



PUBLIC EXPENDITURE

B6I Table B13 shows projections for public expenditure up to 2005-06, the last year covered by the 2002 Spending Review. The projections cover the whole of the public sector, using the national accounts aggregate Total Managed Expenditure (TME). 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.

Table B13: 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	235.6	252.1	264.2	283.6
Capital Budget	21.3	24.6	26.7	29.0
Less depreciation	–15.4	–10.5	–11.1	–11.9
Total Departmental Expenditure Limits	241.6	266.3	279.9	300.7
Annually Managed Expenditure				
Social security benefits ¹	105.6	112.8	117.7	123.0
Tax credits ¹	9.8	13.1	13.3	14.2
Housing Revenue Account subsidies	4.4	4.1	3.9	4.0
Common Agricultural Policy	2.7	2.6	2.5	2.5
Net public service pensions	1.3	–3.3	–3.8	–4.3
National Lottery	1.8	2.1	2.0	1.6
Non-cash items in AME	29.5	26.6	28.2	29.6
Other departmental expenditure	2.2	1.9	1.5	2.6
Net payments to EC institutions ²	2.3	1.5	3.0	3.6
Locally financed expenditure	19.6	22.5	24.8	26.4
Central government gross debt interest	20.8	22.4	24.8	25.3
Public corporations' own-financed capital expenditure	2.0	2.5	2.6	2.5
Total AME before margin and accounting adjustments	201.9	208.7	220.6	231.0
AME margin	0.0	0.3	0.0	0.0
Accounting adjustments ³	–24.4	–15.1	–13.2	–12.5
Annually Managed Expenditure	177.5	193.9	207.4	218.4
Total Managed Expenditure	419.1	460.2	487.3	519.1
of which:				
Public sector current expenditure	394.0	427.3	449.0	477.5
Public sector net investment	10.7	18.0	22.7	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 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).

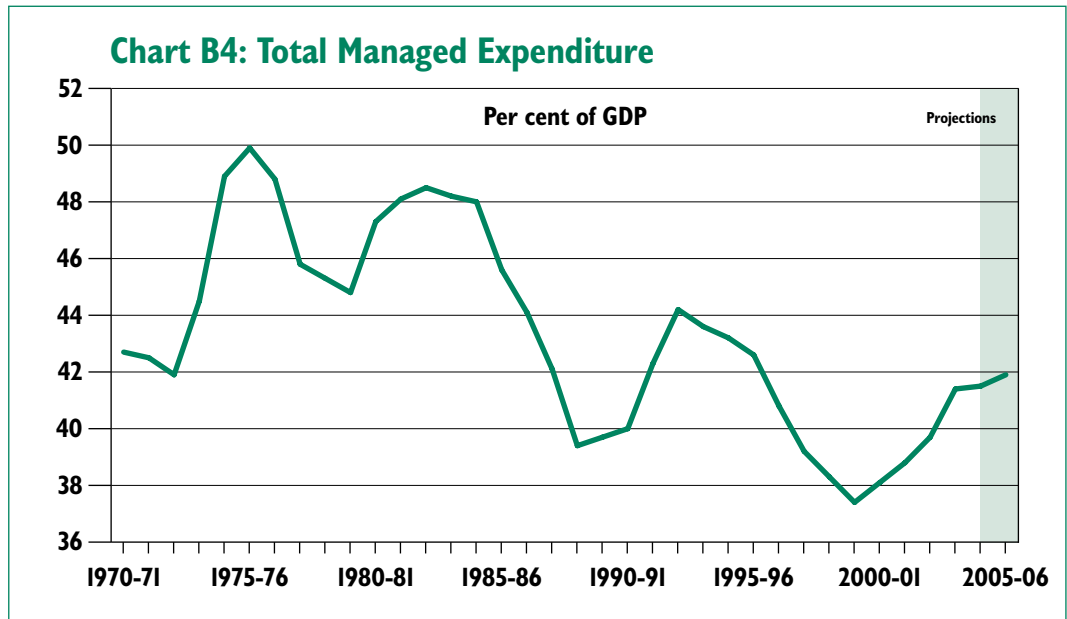
Net payments therefore differ from the UK's net contribution to the EC Budget, latest estimates for which are (in £ billion):

	2002–03	2003–04	2004–05	2005–06
	3.1	2.3	3.6	4.2

The trended forecast for 2003–04 is £3.0 billion.

³ Excludes depreciation.

B62 Chart B4 shows TME as a percentage of GDP from 1970-71 to 2005-06.



B63 Table B14 shows changes to DEL and AME components since the Budget. Figures for both aggregates have been adjusted to take account of reclassifications between DEL and AME, between resource and capital expenditure, and to take account of measures announced in this Pre-Budget Report. Forecasts of individual AME components were reviewed at the Budget and have been reviewed again for this Pre-Budget Report. The main economic assumptions underpinning the AME projections are set out in Box B2 and Table B3. In particular, it is assumed that the UK unemployment claimant count increases to 0.95 million in 2005-06, rising from recent levels of 0.93 million in line with the average of independent forecasts.

Table B14: Changes to Total Managed Expenditure since Budget 2003

	£ billion			
	Outturn 2002-03	Estimate 2003-04	Projections 2004-05	2005-06
Departmental Expenditure Limits				
Resource Budget	-5.9	3.0	0.4	0.1
Capital Budget	0.6	-0.5	-0.1	-0.1
Less depreciation	2.9	-0.1	0.0	-0.1
Total Departmental Expenditure Limits	-2.4	2.5	0.4	-0.1
Annually Managed Expenditure				
Social security benefits	0.1	1.8	1.0	1.1
Tax credits	0.0	1.4	1.2	1.7
Housing Revenue Account subsidies	0.1	-0.1	-0.1	-0.1
Common Agricultural Policy	0.1	0.2	0.2	0.2
Net public service pensions	-2.3	-3.5	-3.9	-4.2
National Lottery	-0.1	-0.1	0.1	0.1
Non-cash items in AME	1.6	1.3	1.9	2.1
Other departmental expenditure	-0.2	-0.3	-0.3	0.6
Net payments to EC institutions	0.0	-0.9	0.0	0.3
Locally financed expenditure	-1.1	-0.4	0.1	0.3
Central government gross debt interest	0.0	0.5	1.6	1.0
Public corporations' own-financed capital expenditure	-0.2	-0.1	0.0	-0.2
Total AME before margin and accounting adjustments	-1.8	-0.2	1.7	2.8
AME margin	0.0	-0.7	-2.0	-3.0
Accounting Adjustments	2.3	3.0	2.5	2.9
Annually Managed Expenditure	0.5	2.1	2.2	2.6
Total Managed Expenditure	-2.0	4.5	2.6	2.6
of which:				
Public sector current expenditure	-1.0	5.1	2.5	2.3
Public sector net investment	-1.5	-0.9	-0.3	-0.2
Public sector depreciation	0.6	0.4	0.3	0.4

B64 Table B15 shows DEL for resource and capital budgets by department. DEL for 2003-04 to 2005-06 was set in the 2002 Spending Review. These budgets are controlled on a full resource budgeting basis, which means that the full economic cost of departmental activity will be recognised in budgets. DEL for 2002-03 was set in the 2000 Spending Review, and was controlled on a near cash basis.

B65 Within DEL, there have been some minor classification changes or switches between capital and resource DEL which have not affected TME. The main change to total DEL is the addition to the special reserve in 2003-04. In Budget 2003, the Government made a special contingency provision of £3 billion to meet the costs of the military conflict in Iraq and its other international obligations. Of that special reserve, £1 billion was allocated to the Ministry of Defence DEL in 2002-03 with the rest remaining unallocated. A further £1.3 billion of current spending has been charged against the special reserve in 2003-04. In this Pre-Budget Report, the Government carries forward the unallocated special reserve into 2003-04 and for prudence, adds a further £500 million, taking provision in the special reserve in 2003-04 to £2.5 billion. A further £300 million will be added in 2004-05 as a prudent allowance against continuing commitments. This will ensure that the Government is able to meet its international commitments in Iraq and elsewhere in the war against terrorism.

B66 As part of the extension to the VAT strategy, an extra £50 million DEL has been allocated to HM Customs and Excise over the Spending Review 2002 period.

B67 It is assumed in this Pre-Budget Report that the outturn for 2003-04 will equal total DEL plans and that over the course of the year, underspends will offset the drawdown of end-year flexibility.

Table B15: Departmental Expenditure Limits – resource and capital budgets

	£ billion			
	Outturn 2002–03	2003–04	Plans 2004–05	2005–06
Resource Budget				
Education and Skills	21.1	22.8	23.9	25.9
Health	55.9	63.1	68.5	74.7
of which: NHS	54.2	61.4	66.5	72.7
Transport	6.1	7.7	7.5	8.4
Office of the Deputy Prime Minister	4.0	5.0	5.2	5.4
Local Government	37.4	41.0	44.4	48.0
Home Office	11.4	11.7	11.6	12.4
Departments for Constitutional Affairs	3.2	3.1	3.3	3.4
Attorney General's Departments	0.5	0.6	0.5	0.5
Defence	36.2 ¹	32.0	31.5	32.3
Foreign and Commonwealth Office	1.5	1.7	1.5	1.6
International Development	3.6	3.8	3.8	4.5
Trade and Industry	4.2	4.9	5.0	5.5
Environment, Food and Rural Affairs	2.6	2.9	2.7	2.8
Culture, Media and Sport	1.2	1.4	1.5	1.5
Work and Pensions	7.3	8.3	8.1	8.2
Scotland ²	16.6	18.7	19.4	20.7
Wales ²	9.1	9.8	10.4	11.1
Northern Ireland Executive ²	6.6	6.4	6.7	7.1
Northern Ireland Office	1.2	1.1	1.2	1.2
Chancellor's Departments	4.3	4.8	4.7	4.9
Cabinet Office	1.6	1.9	1.9	1.9
Invest to Save Budget	0.0	0.0	0.0	0.0
Reserve	0.0	0.3	0.8	1.6
Unallocated special reserve ³	0.0	1.2	0.3	0.0
Allowance for shortfall ⁴	0.0	–2.0	0.0	0.0
Total Resource Budget DEL	235.6	252.1	264.2	283.6
Capital Budget				
Education and Skills	2.7	3.4	3.8	4.3
Health	2.0	2.7	3.5	4.4
of which: NHS	1.9	2.6	3.4	4.4
Transport	3.0	3.3	3.6	3.3
Office of the Deputy Prime Minister	1.5	1.9	2.0	2.1
Local Government	0.2	0.3	0.3	0.3
Home Office	0.8	1.1	1.1	1.1
Departments for Constitutional Affairs	0.1	0.1	0.1	0.1
Attorney General's Departments	0.0	0.0	0.0	0.0
Defence	6.2	6.5	6.4	7.0
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	0.4	0.3	0.3
Culture, Media and Sport	0.0	0.2	0.1	0.1
Work and Pensions	0.2	0.0	0.2	0.1
Scotland ²	2.1	2.1	2.2	2.3
Wales ²	0.7	0.8	0.9	1.0
Northern Ireland Executive ²	0.5	0.4	0.5	0.5
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	0.2	0.8	1.1
Allowance for shortfall ⁴	0.0	–0.5	0.0	0.0
Total Capital Budget DEL	21.3	24.6	26.7	29.0
Depreciation	–15.4	–10.5	–11.1	–11.9
Total Departmental Expenditure Limits	241.6	266.3	279.9	300.7
Total education spending	53.3	58.6	62.9	68.5

¹ Change since Budget is due to application of reduction in cost of capital charge and discount rate previously omitted for 2002–03, and a revision to non cash in line with agreed asset management policy.

² For Scotland, Wales and Northern Ireland, the split between current and capital budgets is decided by the respective executives.

³ £2.5bn allocated to the Special Reserve in 2003–04 against which £1.3bn has been charged to date.

⁴ It is assumed that over the year underspend in total will offset the drawdown of end-year flexibility.

- B68** Changes to AME programmes reflect a combination of factors discussed below.
- B69** There has been a net increase in the social security benefits forecast since the Budget due to a number of factors, including benefit uprating and increases in expenditure on the Supporting People programme, which provides housing related support to vulnerable people. Unemployment related benefit expenditure has partially offset these increases because of a lower unemployment assumption than at the Budget.
- B70** Compared to Budget 2003 forecasts, spending on low and moderate income families with children through the Child Tax Credit (CTC) and the Working Tax Credit (WTC) has increased for 2003-04 because of higher than predicted take-up by working families entitled to more than the family element of CTC. In addition, as shown in Table B4, total payments of CTC will be around £0.9 billion a year higher from 2004-05 because of the increase in the child element announced in this Pre-Budget Report. About £0.8 billion of this scores as spending. Much of the remaining forecast increase in expenditure in 2004-05 and 2005-06 reflects a switch between tax credits scoring as negative tax and those scoring as expenditure.
- B71** 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 pension schemes including the accruing costs as members serve additional years. Changes reflect the initial overestimation of pension scheme liabilities following the introduction of FRS17 at Budget 2003, which have now been re-evaluated. National accounts pensions expenditure, which is recorded on a transactions basis, shows only small changes from Budget 2003.
- B72** Net payments to EC institutions have been reduced by £900 million in 2003-04. This difference is primarily the result of switching from the use of a trend forecast at the Budget to a spot forecast for the Pre-Budget Report.
- B73** Central government gross debt interest payments are higher than at the Budget. This reflects revisions to borrowing and slightly higher projections for inflation, affecting the accrued uplift for index-linked gilts, together with generally higher market expectations for interest rates.
- B74** The main accounting adjustments, which consist of those items within TME but outside DEL and AME main programmes, are shown in Table B16. These adjustments are necessary to reconcile DEL and AME to national accounts. They include changes in respect of the adjustments to net public service pensions figures (see paragraph B71). Increases to the accounting adjustments are mainly the result of higher forecasts for VAT refunded on general government expenditure, due to higher than expected outturn data. Increased VAT refunds are offset by equivalent changes in receipts and are therefore TME neutral.

Table B16: Accounting adjustments

	£ billion			
	Outturn	Estimate	Projections	
	2002-03	2003-04	2004-05	2005-06
Removal of non-cash spending in DEL ¹	-9.5	-6.3	-7.1	-7.5
Financial transactions in DEL	-1.1	-1.6	-1.1	-1.1
Removal of non-cash spending in AME	-28.9	-21.4	-22.8	-23.6
Financial transactions in AME	-0.4	-0.1	0.7	0.6
Adjustments for public corporations	3.2	3.4	3.5	3.7
Central government non-trading capital consumption	9.4	9.7	10.2	10.7
VAT refunded on general government expenditure	8.8	10.4	11.2	12.4
EC contributions	-4.1	-4.5	-4.0	-3.9
Tax credits	1.3	0.8	0.8	0.9
Intra-general government debt interest	-3.6	-2.5	-2.8	-2.8
Other accounting adjustments	0.6	-2.9	-1.6	-1.9
Total accounting adjustments	-24.4	-15.1	-13.2	-12.5

¹ Excluding depreciation in resource DEL.

B75 Table B17 shows public sector capital expenditure from 2002-03 to 2005-06.

Table B17: Public sector capital expenditure

	£ billion			
	Outturn	Estimate	Projections	
	2002-03	2003-04	2004-05	2005-06
Capital Budget DEL	21.3	24.6	26.7	29.0
Locally financed expenditure	0.3	1.4	2.4	2.3
National Lottery	0.9	1.1	1.0	0.8
Public corporations' own-financed capital expenditure	2.0	2.5	2.6	2.5
Other capital spending in AME	0.6	2.9	5.4	7.0
AME margin	0.0	0.3	0.0	0.0
Public sector gross investment¹	25.1	32.9	38.2	41.6
Less depreciation	14.4	14.8	15.5	16.3
Public sector net investment	10.7	18.0	22.7	25.2
Proceeds from the sale of fixed assets ²	4.7	3.8	3.8	3.8

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.

B76 Table B18 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 B18: Loans and sales of assets

	£ billion			
	Outturn	Estimate	Projections	
	2002–03	2003–04	2004–05	2005–06
Sales of fixed assets				
Central government	1.0	1.0	1.0	1.0
Local authorities	3.7	2.8	2.8	2.8
Total sales of fixed assets	4.7	3.8	3.8	3.8
Total loans and sales of financial assets	-2.8	-2.2	-1.5	-1.5
Total loans and sales of assets	1.9	1.5	2.3	2.3

FINANCING REQUIREMENT

B77 Table B19 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 financing requirement.

Table B19: 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	38.0	-0.9	0.2	37.4	30.8	-0.1	0.4	31.1
<i>Financial transactions</i>								
Net lending to private sector and abroad	2.3	-0.1	0.0	2.2	1.5	-0.1	0.0	1.4
Cash expenditure on company securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts receivable/payable	2.2	0.1	0.0	2.3	1.4	0.1	0.0	1.5
Adjustment for interest on gilts	-1.3	0.0	0.0	-1.3	-2.6	0.0	0.0	-2.6
Miscellaneous financial transactions	0.0	0.0	-0.7	-0.7	0.0	0.0	-0.7	-0.7
Own account net cash requirement	41.2	-0.8	-0.5	39.9	31.2	0.0	-0.3	30.8
Net lending within the public sector	-0.7	2.0	-1.3	0.0	2.1	-1.0	-1.1	0.0
Net cash requirement¹	40.5	1.2	-1.8	39.9	33.3	-1.0	-1.4	30.8

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

B78 Changes to the estimates of the accruals adjustments for central government receipts and spending since the Budget mean that the effect of accounts receivable/payable on the 2003-04 central government cash requirement is now £2.5 billion lower. In addition, latest available estimates on net lending to the rest of the public sector reduces the central government cash requirement by £0.7 billion in 2003-04 rather than increasing it by £2.1 billion, as expected at Budget 2003.

B79 Table B20 updates the financing arithmetic for 2003-04 in line with the updated fiscal forecasts. The central government net cash requirement for 2003-04 is now forecast to be £40.5 billion, an increase of £5.2 billion from the Budget 2003 forecast. The issuance of a US\$3 billion bond in order to finance the official reserves and an increase in National Savings and Investments' forecast for their net contribution means that the net financing requirement for 2003-04 is now forecast to be £57.1 billion, an increase of £2.3 billion from the forecast published in Budget 2003.

B80 In order to meet the increase in the financing requirement, the Debt Management Office's gilt remit has been revised and they have been instructed to increase forecast gross gilts issuance by £2.3 billion to £49.7 billion. Full details of all these measures and a revised financing table for 2003-04 can be found on the Debt Management Office's website (www.dmo.gov.uk).

Table B20: Financing requirement forecast

£ billion	2003-04		
	Provisional remit ¹ March 2003	Revised remit April 2003	Pre-Budget Report
Central government net cash requirement	30.2	35.3	40.5
Net financing of official reserves			-1.6
Gilt redemptions	21.1	21.1	21.1
Debt buy-backs			0.2
Gross Financing requirement	51.3	56.4	60.2
<i>Less assumed net National Savings and Investments' contribution</i>	1.5	1.5	3.0
<i>Less change in DMO balance at the Bank of England</i>	0.0	0.1	0.1
Net financing requirement	49.8	54.8	57.1
Changes in short-term debt			
<i>Less changes in Ways and Means facility</i>	0.0	0.0	0.0
<i>Less increase in planned Treasury bill stock</i>	3.2	3.2	3.3
<i>Less change in other net short-term debt²</i>	6.6	4.2	4.1
Planned gross gilt sales	40.0	47.4	49.7
Gilt sales to date (April–December 2003)			40.0
<i>of which:</i>			
Short conventionals (1–7 years)			13.1
Medium conventionals (7–15 years)			13.1
Long conventionals (> 15 years)			8.9
Index-linked			4.9
Further planned gilt sales			
Short conventionals (1–7 years)			5.7
Medium conventionals (7–15 years)			0.0
Long conventionals (> 15 years)			2.5
Index-linked			1.6

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 Excluding DMO cash deposit at the Bank of England.

ANALYSIS BY SUBSECTOR AND ECONOMIC CATEGORY

B8I Table B21 shows a breakdown of general government transactions by economic category for 2002-03 to 2005-06. Table B22 shows a more detailed breakdown for public sector transactions by sub-sector and economic category for each of these years.

Table B21: 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	143.3	147.5	163.1	178.8
Taxes on production and imports	142.2	150.8	160.2	169.8
Other current taxes	19.7	21.5	23.1	25.0
Taxes on capital	2.4	2.5	2.8	3.0
Social contributions	63.5	74.1	78.8	83.1
Gross operating surplus	9.4	9.7	10.2	10.7
Rent and other current transfers	2.0	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	7.7	8.0	8.4
Total current receipts	393.5	418.8	452.2	484.9
<i>Current expenditure</i>				
Current expenditure on goods and services	214.4	234.7	247.6	265.6
Subsidies	6.8	8.6	8.6	9.1
Net social benefits	128.8	138.3	145.2	151.9
Net current grants abroad	-0.6	-0.5	-1.4	-2.2
Other current grants	23.4	23.5	23.7	27.4
Interest and dividends paid	21.2	22.6	25.0	25.5
AME margin	0.0	0.0	0.0	0.0
Total current expenditure	393.9	427.3	448.9	477.3
Depreciation	9.4	9.7	10.2	10.7
Surplus on current budget	-9.8	-18.1	-6.9	-3.1
<i>Capital expenditure</i>				
Gross domestic fixed capital formation	13.0	18.9	23.2	25.2
Less depreciation	-9.4	-9.7	-10.2	-10.7
Increase in inventories	0.0	0.0	0.6	0.3
Capital grants (net) within public sector	1.4	0.5	0.6	0.6
Capital grants to private sector	7.8	9.8	10.6	12.3
Capital grants from private sector	-0.9	-0.9	-1.1	-1.0
AME margin	0.0	0.3	0.0	0.0
Net investment	11.9	19.0	23.9	26.8
Net borrowing¹	21.7	37.2	30.7	29.9
<i>of which:</i>				
Central government net borrowing	23.8	38.0	30.8	30.5
Local authority net borrowing	-2.1	-0.9	-0.1	-0.6
Gross debt (Maastricht basis)				
Central government	347.1	383.0	418.9	453.8
Local government	52.7	53.8	52.8	51.2

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 B22: Public sector transactions by sub-sector and economic category

	£ billion			
	2002–03			
	General government			
	Central government	Local authorities	Public corporations	Public sector
<i>Current receipts</i>				
Taxes on income and wealth	143.3	0.0	–0.1	143.2
Taxes on production and imports	142.0	0.1	0.0	142.2
Other current taxes	3.8	15.8	0.0	19.7
Taxes on capital	2.4	0.0	0.0	2.4
Social contributions	63.5	0.0	0.0	63.5
Gross operating surplus	4.5	4.9	9.1	18.5
Rent and other current transfers	2.0	0.0	0.6	2.6
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	371.0	22.5	3.0	396.5
<i>Current expenditure</i>				
Current expenditure on goods and services	131.1	83.3	0.0	214.4
Subsidies	5.7	1.1	0.0	6.8
Net social benefits	115.6	13.1	0.0	128.8
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	21.3
AME margin	0.0	0.0	0.0	0.0
Total current expenditure	374.7	19.2	0.1	394.0
Depreciation	4.5	4.9	5.0	14.4
Surplus on current budget	–8.2	–1.5	–2.1	–11.8
<i>Capital expenditure</i>				
Gross domestic fixed capital formation	4.9	8.1	5.0	17.9
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	8.8	–7.4	–1.4	0.0
Capital grants to private sector	6.7	1.1	0.3	8.1
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	15.5	–3.6	–1.2	10.7
Net borrowing	23.8	–2.1	0.8	22.5

Table B22: Public sector transactions by sub-sector and economic category

	£ billion			
	2003–04			
	General government			
	Central government	Local authorities	Public corporations	Public sector
Taxes on income and wealth	147.5	0.0	–0.1	147.4
Taxes on production and imports	150.7	0.1	0.0	150.8
Other current taxes	4.0	17.5	0.0	21.5
Taxes on capital	2.5	0.0	0.0	2.5
Social contributions	74.1	0.0	0.0	74.1
Gross operating surplus	4.6	5.1	11.2	20.8
Rent and other current transfers	1.6	0.0	0.0	1.6
Interest and dividends from private sector and abroad	2.7	0.7	0.6	4.1
Interest and dividends from public sector	5.0	2.7	–7.7	0.0
Total current receipts	392.7	26.1	4.1	422.8
<i>Current expenditure</i>				
Current expenditure on goods and services	143.2	91.4	0.0	234.7
Subsidies	7.5	1.1	0.0	8.6
Net social benefits	123.4	14.9	0.0	138.3
Net current grants abroad	–0.5	0.0	0.0	–0.5
Current grants (net) within public sector	86.7	–86.7	0.0	0.0
Other current grants	23.5	0.0	0.0	23.5
Interest and dividends paid	22.4	0.3	0.1	22.7
AME margin	0.0	0.0	0.0	0.0
Total current expenditure	406.2	21.0	0.1	427.3
Depreciation	4.6	5.1	5.2	14.8
Surplus on current budget	–18.2	0.0	–1.2	–19.3
<i>Capital expenditure</i>				
Gross domestic fixed capital formation	8.4	10.5	4.4	23.3
Less depreciation	–4.6	–5.1	–5.2	–14.8
Increase in inventories	0.0	0.0	0.0	0.0
Capital grants (net) within public sector	7.5	–6.9	–0.5	0.0
Capital grants to private sector	8.6	1.2	0.3	10.1
Capital grants from private sector	–0.4	–0.5	0.0	–0.9
AME margin	0.3	0.0	0.0	0.3
Net investment	19.9	–0.9	–1.0	18.0
Net borrowing	38.0	–0.9	0.2	37.4

Table B22: 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	163.1	0.0	–0.1	163.1
Taxes on production and imports	160.1	0.2	0.0	160.2
Other current taxes	4.2	18.9	0.0	23.1
Taxes on capital	2.8	0.0	0.0	2.8
Social contributions	78.8	0.0	0.0	78.8
Gross operating surplus	4.9	5.3	11.5	21.6
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	423.2	29.0	4.0	456.2
<i>Current expenditure</i>				
Current expenditure on goods and services	151.2	96.5	0.0	247.6
Subsidies	7.4	1.2	0.0	8.6
Net social benefits	130.0	15.2	0.0	145.2
Net current grants abroad	–1.4	0.0	0.0	–1.4
Current grants (net) within public sector	91.1	–91.1	0.0	0.0
Other current grants	23.7	0.0	0.0	23.7
Interest and dividends paid	24.8	0.3	0.2	25.2
AME margin	0.0	0.0	0.0	0.0
Total current expenditure	426.7	22.1	0.2	449.0
Depreciation	4.9	5.3	5.4	15.5
Surplus on current budget	–8.4	1.5	–1.5	–8.4
<i>Capital expenditure</i>				
Gross domestic fixed capital formation	9.6	13.6	4.6	27.8
Less depreciation	–4.9	–5.3	–5.4	–15.5
Increase in inventories	0.6	0.0	0.0	0.6
Capital grants (net) within public sector	8.1	–7.5	–0.6	0.0
Capital grants to private sector	9.3	1.3	0.3	10.9
Capital grants from private sector	–0.4	–0.7	0.0	–1.1
AME margin	0.0	0.0	0.0	0.0
Net investment	22.4	1.5	–1.2	22.7
Net borrowing	30.8	–0.1	0.4	31.1

Table B22: 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	178.8	0.0	–0.1	178.8
Taxes on production and imports	169.6	0.2	0.0	169.8
Other current taxes	4.5	20.5	0.0	25.0
Taxes on capital	3.0	0.0	0.0	3.0
Social contributions	83.1	0.0	0.0	83.1
Gross operating surplus	5.2	5.6	12.0	22.8
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	453.7	31.2	4.2	489.2
<i>Current expenditure</i>				
Current expenditure on goods and services	161.9	103.7	0.0	265.6
Subsidies	7.8	1.3	0.0	9.1
Net social benefits	136.4	15.5	0.0	151.9
Net current grants abroad	–2.2	0.0	0.0	–2.2
Current grants (net) within public sector	96.9	–96.9	0.0	0.0
Other current grants	27.4	0.0	0.0	27.4
Interest and dividends paid	25.3	0.3	0.2	25.7
AME margin	0.0	0.0	0.0	0.0
Total current expenditure	453.4	23.9	0.2	477.5
Depreciation	5.2	5.6	5.6	16.3
Surplus on current budget	–4.9	1.7	–1.6	–4.7
<i>Capital expenditure</i>				
Gross domestic fixed capital formation	11.2	14.1	4.4	29.6
Less depreciation	–5.2	–5.6	–5.6	–16.3
Increase in inventories	0.3	0.0	0.0	0.3
Capital grants (net) within public sector	8.8	–8.2	–0.6	0.0
Capital grants to private sector	10.9	1.4	0.3	12.5
Capital grants from private sector	–0.4	–0.6	0.0	–1.0
AME margin	0.0	0.0	0.0	0.0
Net investment	25.7	1.1	–1.5	25.2
Net borrowing	30.5	–0.6	0.0	29.9

HISTORICAL SERIES

Table B23: 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	-0.2	5.5	4.6	6.4		43.3	52.4	
1977–78	-1.4	-0.3	4.3	3.2	3.7		41.5	49.0	
1978–79	-2.6	-1.6	5.0	4.0	5.2	33.5	40.2	47.1	
1979–80	-1.9	-1.2	4.1	3.4	4.7	33.9	40.7	43.9	
1980–81	-3.0	-0.6	4.9	2.4	5.2	35.9	42.4	46.1	
1981–82	-1.4	3.0	2.3	-2.1	3.3	38.6	45.8	46.1	
1982–83	-1.5	2.9	3.0	-1.4	3.2	38.7	45.5	44.8	
1983–84	-2.0	1.5	3.8	0.3	3.2	38.2	44.4	45.3	
1984–85	-2.2	0.6	3.7	0.9	3.1	38.9	44.3	45.2	
1985–86	-1.2	0.4	2.4	0.8	1.6	38.1	43.2	43.4	
1986–87	-1.4	-1.3	2.1	2.0	0.9	37.8	42.0	41.1	
1987–88	-0.3	-1.7	1.0	2.3	-0.7	37.6	41.1	36.8	73.6
1988–89	1.7	-1.0	-1.3	1.3	-3.0	36.9	40.7	30.6	78.7
1989–90	1.4	-1.5	-0.2	2.7	-1.3	36.2	39.9	27.7	70.6
1990–91	0.4	-1.2	1.0	2.7	-0.1	35.9	38.9	26.2	60.0
1991–92	-1.9	-1.5	3.8	3.4	2.3	34.7	38.6	27.4	52.7
1992–93	-5.6	-3.7	7.6	5.7	5.9	33.7	36.6	32.0	40.0
1993–94	-6.2	-4.0	7.8	5.6	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	-2.5	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	0.3	0.3	36.7	38.8	30.2	24.9
2002–03	-1.1	-0.6	2.1	1.6	2.1	35.6	37.6	30.9	24.3

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

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

Table B24: 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	165.8	31.1	50.9	216.7	32.6	6.1	10.0	42.7
1971–72	173.9	27.5	47.9	221.8	33.3	5.3	9.2	42.5
1972–73	181.3	26.4	47.7	229.0	33.1	4.8	8.7	41.9
1973–74	199.6	29.7	53.7	253.3	35.1	5.2	9.4	44.5
1974–75	220.9	31.4	57.1	278.1	38.8	5.5	10.0	48.9
1975–76	225.6	30.8	56.7	282.3	39.9	5.5	10.0	49.9
1976–77	232.1	25.2	51.9	284.1	39.9	4.3	8.9	48.8
1977–78	228.9	17.1	43.9	272.9	38.4	2.9	7.4	45.8
1978–79	235.8	14.9	42.3	278.2	38.4	2.4	6.9	45.3
1979–80	241.5	13.8	41.6	283.1	38.2	2.2	6.6	44.8
1980–81	248.9	11.1	39.3	288.1	40.8	1.8	6.4	47.3
1981–82	260.1	5.7	33.6	293.7	42.6	0.9	5.5	48.1
1982–83	265.5	9.3	36.4	301.9	42.7	1.5	5.9	48.5
1983–84	274.0	11.5	38.5	312.4	42.3	1.8	5.9	48.2
1984–85	281.5	10.1	35.8	317.3	42.6	1.5	5.4	48.0
1985–86	281.6	8.6	31.4	313.0	41.0	1.2	4.6	45.6
1986–87	286.0	5.1	28.3	314.4	40.1	0.7	4.0	44.1
1987–88	289.3	5.0	26.3	315.6	38.6	0.7	3.5	42.1
1988–89	282.3	2.8	24.9	307.2	36.2	0.4	3.2	39.4
1989–90	284.5	9.5	31.8	316.3	35.7	1.2	4.0	39.7
1990–91	286.0	11.5	30.8	316.8	36.1	1.4	3.9	40.0
1991–92	303.3	14.6	30.9	334.2	38.4	1.8	3.9	42.3
1992–93	318.2	15.9	31.1	349.3	40.3	2.0	3.9	44.2
1993–94	327.9	12.9	27.9	355.8	40.1	1.6	3.4	43.6
1994–95	339.0	12.8	28.2	367.2	39.8	1.5	3.3	43.2
1995–96	343.9	12.4	27.8	371.7	39.4	1.4	3.2	42.6
1996–97	344.6	6.8	20.6	365.2	38.5	0.8	2.3	40.8
1997–98	344.5	6.3	19.7	364.2	37.1	0.7	2.1	39.2
1998–99	344.4	7.0	20.6	364.9	36.1	0.7	2.2	38.3
1999–00	350.5	4.5	18.3	368.8	35.5	0.5	1.9	37.4
2000–01	369.6	5.3	19.3	388.9	36.2	0.5	1.9	38.1
2001–02	379.3	9.9	24.1	403.3	36.5	0.9	2.3	38.8
2002–03	394.0	10.7	25.1	419.1	37.3	1.0	2.4	39.7

¹ Net of sales of fixed assets

