C THE PUBLIC FINANCES

Budget 2008 projections for the public finances show that the Government is meeting its strict fiscal rules over the economic cycle:

- **the current budget shows an average surplus as a percentage of GDP over the economic cycle which began in 1997-98, ensuring the Government is meeting the golden rule. The current budget moves clearly into surplus from 2010-11 onwards; and**
- **public sector net debt remains below 40 per cent of GDP throughout the projection period and starts to decline by 2012-13, meeting the sustainable investment rule.**

The reclassification of Northern Rock to the public sector will bring its assets and liabilities temporarily into the public finances. In line with the *Code for Fiscal Stability*, while Northern Rock remains in the public sector the Government will measure performance against the sustainable investment rule using figures excluding its impact.

INTRODUCTION

C.1 Chapter 2 describes the Government's fiscal policy framework and shows how the projections of the public finances presented in this Budget are consistent with meeting the fiscal rules. This chapter explains the latest outturns and the fiscal projections in more detail.[1] 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.

C.2 At the time of the 2007 Pre-Budget Report, there were considerable uncertainties around the impact of the disruption in financial markets on the economy and public finances. Despite this, allowances made in the Pre-Budget Report public finance projections for 2007-08 have proved to be reasonable. Public sector net debt is now forecast to be 37.1 per cent of GDP in 2007-08, lower than projected in the Pre-Budget Report and Budget 2007. Both net borrowing, at £36.4 billion and the current budget deficit of £7.9 billion are lower than estimated in the 2007 Pre-Budget Report projections.

C.3 Since the Pre-Budget Report, disruption in financial markets has continued, and the Budget 2008 forecast assumes the negative impact on growth and the public finances from these developments will be somewhat larger and more prolonged than expected in the 2007 Pre-Budget Report.

[1] For further detail, see *Budget 2008: the economy and public finances – supplementary material*. This includes tables on public expenditure, sub-sector and economic category analyses, and conventions used in presenting the public finances.

C.4 Fiscal policy will continue to support the economy in the short term, with a modest discretionary fiscal tightening as the economy returns to trend ensuring sound public finances in the medium term. Public sector net borrowing is now forecast to be higher from 2008-09 onwards, with the current budget projected to return to surplus from 2010-11, before both return close to levels forecast at the time of the Pre-Budget Report by the end of the forecast period. Budget 2008 projections show that the Government is meeting its strict fiscal rules over the cycle.

C.5 The fiscal projections continue to be based on deliberately cautious key assumptions audited by the National Audit Office (NAO).

Treatment of Northern Rock

C.6 As outlined in Chapter 2, the Office for National Statistics (ONS) has announced its intention to classify Northern Rock as a public corporation with effect from 9 October 2007. This will temporarily increase public sector net debt by the company's gross liabilities to the private sector net of its liquid assets. The ONS are yet to compile an estimate of the change, and so in line with usual practice the forecasts presented in this Budget do not include an estimate of the impact in future years. The Government will, in any future Budgets and Pre-Budget Reports in which the company remains classified as a public corporation, report public sector net debt both including and excluding Northern Rock.

C.7 As set out in Chapter 2, the sustainable investment rule ensures sound public finances and fairness by protecting future generations from the costs of debt incurred by this generation. Northern Rock is temporarily in public ownership and its liabilities are fully backed by other financial assets held by the company, and therefore its impact on public sector net debt does not reflect future calls on the taxpayer or affect sustainability. For the purpose of measuring performance against the sustainable investment rule, the Government will use a measure of public sector net debt excluding Northern Rock's assets and liabilities.

C.8 The *Code for Fiscal Stability* provides for such circumstances. While Northern Rock remains in temporary public ownership, operating at arms length from the Government, the Treasury will provide financing to the company and continue to provide guarantee arrangements where appropriate. It will continue to record a contingent liability for these arrangements. Any economic profit or loss will be included within both measures of public sector net debt (and thus within the sustainable investment rule) when that profit or loss crystallises for central government.

MEETING THE FISCAL RULES

C.9 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.

C.10 The fiscal rules are set over the economic cycle to allow fiscal policy to support monetary policy over the short term, while meeting the Government's primary objective of ensuring sound public finances over the medium term. Chapter 2 describes the Government's fiscal policy framework in further detail.

C.11 The Government's judgment is that 1997-98 represented the beginning of a new economic cycle. As explained in Chapter B, the latest National Accounts data and the Treasury's trend output assumptions imply that output passed through trend in the second half of 2006. However, it is too soon to assess whether or not the economic cycle has ended.

Table C1: Summary of public sector finances

	Per cent of GDP							
	Outturn		Estimate	Projections				
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Fairness and prudence								
Surplus on current budget	-1.1	-0.3	-0.6	-0.7	-0.2	0.3	0.6	1.0
Average surplus since 1997-1998	0.2	0.1	0.1	0.0	0.0	0.0	0.1	0.1
Cyclically-adjusted surplus on current budget	-0.9	-0.3	-0.7	-0.5	0.1	0.5	0.8	1.0
Long-term sustainability								
Public sector net debt[1]	36.0	36.6	37.1	38.5	39.4	39.8	39.7	39.3
Core debt[1]	35.4	35.9	36.6	37.7	38.4	38.6	38.5	38.2
Net worth[2]	27.7	26.0	25.3	23.7	22.2	21.3	20.7	20.9
Primary balance	-1.4	-0.6	-0.9	-1.3	-0.9	-0.3	0.1	0.4
Economic impact								
Net investment	1.9	1.9	2.0	2.2	2.2	2.3	2.2	2.3
Public sector net borrowing (PSNB)	3.0	2.3	2.6	2.9	2.5	2.0	1.6	1.3
Cyclically-adjusted PSNB	2.8	2.2	2.7	2.7	2.2	1.8	1.5	1.2
Financing								
Central government net cash requirement	3.3	2.8	2.7	4.0	3.2	2.5	2.3	1.8
Public sector net cash requirement	3.2	2.7	2.3	2.8	2.9	2.1	1.9	1.4
European commitments								
Treaty deficit[3]	3.1	2.6	2.8	3.2	2.8	2.3	1.9	1.6
Cyclically-adjusted Treaty deficit[3]	2.9	2.5	3.0	3.0	2.5	2.1	1.8	1.5
Treaty debt ratio[4]	42.5	43.3	43.8	46.1	46.9	47.2	47.0	46.6
Memo: Output gap	-0.4	0.0	0.3	-0.5	-0.4	-0.3	-0.1	0.0

[1] Debt at end March; GDP centred on end March.
[2] Estimate 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.

The golden rule

C.12 Progress against the golden rule is measured by the average annual surplus on the current budget as a percentage of GDP since the cycle began. On this basis, and on the basis of cautious assumptions, the Government has met the golden rule for the cycle that began in 1997-98.

C.13 The projections show that the deficit on the current budget remains significantly below the 1.1 per cent deficit recorded in 2005-06 and moves into surplus in 2010-11, with the surplus rising to 1.0 per cent of GDP by 2012-13. At this early stage, and based on cautious assumptions, the Government is therefore on course to meet the golden rule in the next economic cycle. The cyclically-adjusted surplus, which allows a clearer view of underlying or structural trends in the public finances by removing the estimated effects of the economic cycle, shows a rising surplus from 2009-10, as the economy returns to trend.

The sustainable investment rule

C.14 The Government's primary objective for fiscal policy is to ensure sound public finances in the medium term. This means maintaining public sector net debt at a low and sustainable level. Public sector net debt is estimated to be 37.1 per cent of GDP in 2007-08, ½ per cent below the 2007 Pre-Budget Report estimate and just over 1 per cent below the Budget 2007 projection. Public sector net debt remains below 40 per cent of GDP throughout the projection period and starts to decline by 2012-13, reaching 39.3 per cent of GDP. Therefore the Government meets its sustainable investment rule while continuing to fund increased long-term capital investment in public services. The projections for core debt, which exclude the estimated impact of the economic cycle, remain below 39 per cent of GDP. This is consistent with the fiscal rules, and with the key objective of intergenerational fairness that underpins the fiscal framework.

Net worth **C.15** Net worth is the approximate stock counterpart of the current budget. Modest falls in net worth are expected for the remainder of the projection period from the high level of 26 per cent of GDP in 2006-07. 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.

Net investment **C.16** Public sector net investment has increased rapidly in recent years from 1¼ per cent of GDP in 2003-04 to 2 per cent of GDP in 2007-08. As a result of decisions taken in the 2007 Pre-Budget Report and Comprehensive Spending Review, net investment will increase further and then remain at around 2¼ per cent of GDP from 2008-09 onwards.

Net borrowing **C.17** Public sector net borrowing fell sharply from 3.0 per cent of GDP in 2005-06 to 2.3 per cent in 2006-07. It is expected to rise to 2.6 per cent of GDP in 2007-08, a smaller increase than expected in the 2007 Pre-Budget Report. After a further modest rise in 2008-09, net borrowing then falls steadily over the remainder of the forecast period from 2.9 per cent of GDP in 2008-09 to 2.5 per cent in 2009-10, and then to 1.3 per cent of GDP by 2012-13. From 2010-11, public sector net borrowing is more than accounted for by net investment.

Financing **C.18** The central government net cash requirement (CGNCR) was 2.8 per cent of GDP in 2006-07 and is expected to be around 2.7 per cent in 2007-08, lower than forecast in the 2007 Pre-Budget Report. CGNCR is projected to be around 4.0 per cent in 2008-09, with part of the increase reflecting the impact of the refinancing of the Bank of England's loans to Northern Rock, and 3.2 per cent in 2009-10. It then falls steadily to 1.8 per cent of GDP by 2012-13, as net borrowing falls.

European commitments **C.19** Table C1 shows the Treaty measures of debt and deficit used for the purposes of the Excessive Deficit Procedure – Article 104 of the Treaty. The Government supports a prudent interpretation of the Stability and Growth Pact, as described in Box B3 and as reflected in reforms to the Pact agreed in March 2005. This takes into account the economic cycle, the long-term sustainability of the public finances and the important role of public investment. The public finance projections set out in Budget 2008, which show the Government is meeting its fiscal rules over the cycle, maintaining low debt and sustainable public finances, combined with sustained increases in public investment, are consistent with a prudent interpretation of the Pact. As set out in paragraph C.97, the Government will be replacing the Bank of England's loans to Northern Rock with Treasury funding. This will have no impact on public sector net debt but will temporarily increase central government gross debt and hence the Treaty debt ratio by around 1 per cent a year. The Treaty debt ratio remains well below the 60 per cent reference value set out in the Stability and Growth Pact.

C.20 Table C2 compares the latest estimates for the main fiscal balances with those in Budget 2007 and the 2007 Pre-Budget Report.

Table C2: Fiscal balances compared with Budget 2007 and the 2007 Pre-Budget Report

	Outturn[1]	Estimate[2]	Projections				
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Surplus on current budget (£ billion)							
Budget 2007	-9.5	-4.3	3	6	9	13	
Effect of revisions and forecasting changes	*4.7*	*-3.6*	*-6 ½*	*-4*	*-1 ½*	*-1*	
Effect of discretionary changes	*0.0*	*-0.4*	*- ½*	*1*	*1 ½*	*1 ½*	
2007 Pre-Budget Report	-4.7	-8.3	-4	3	9	14	20
Effect of revisions and forecasting changes [3]	*0.5*	*0.4*	*-5 ½*	*-7 ½*	*-6 ½*	*-5*	*-3 ½*
Effect of discretionary changes	*0.0*	*0.0*	*0*	*1*	*2*	*2 ½*	*2 ½*
Budget 2008	**-4.3**	**-7.9**	**-10**	**-4**	**4**	**11**	**18**
Net borrowing (£ billion)							
Budget 2007	35.0	33.7	30	28	26	24	
Changes to current budget	*-4.7*	*4.0*	*7*	*2 ½*	*0*	*-1*	
Changes to net investment	*0.8*	*0.4*	*0*	*0*	*2*	*2*	
2007 Pre-Budget Report	31.0	38.0	36	31	28	25	23
Changes to current budget	*-0.5*	*-0.4*	*5 ½*	*7*	*5*	*2 ½*	*1*
Changes to net investment	*-0.5*	*-1.2*	*½*	*½*	*0*	*0*	*-1*
Budget 2008	**30.1**	**36.4**	**43**	**38**	**32**	**27**	**23**
Cyclically-adjusted surplus on current budget (per cent of GDP)							
Budget 2007	-0.5	-0.3	0.2	0.4	0.6	0.8	
2007 Pre-Budget Report	-0.2	-0.7	-0.2	0.3	0.6	0.8	1.1
Budget 2008	**-0.3**	**-0.7**	**-0.5**	**0.1**	**0.5**	**0.8**	**1.0**
Cyclically-adjusted net borrowing (per cent of GDP)							
Budget 2007	2.5	2.4	2.0	1.8	1.6	1.4	
2007 Pre-Budget Report	2.2	2.8	2.4	1.9	1.7	1.5	1.3
Budget 2008	**2.2**	**2.7**	**2.7**	**2.2**	**1.8**	**1.5**	**1.2**
Net debt (per cent of GDP)							
Budget 2007	37.2	38.2	38.5	38.8	38.8	38.6	
2007 Pre-Budget Report	36.7	37.6	38.4	38.8	38.9	38.8	38.6
Budget 2008	**36.6**	**37.1**	**38.5**	**39.4**	**39.8**	**39.7**	**39.3**

[1] The 2006-07 figures were estimates in Budget 2007.
[2] The 2007-08 figures were projections in Budget 2007.
[3] Including changes to forecasting assumptions on spending growth in 2011-12 and 2012-13.

Changes between Budget 2007 and the 2007 Pre-Budget Report

C.21 At the time of the 2007 Pre-Budget Report, outturn for the current budget in 2006-07 showed a deficit of £4.7 billion, which was £4.7 billion lower than expected at Budget 2007, reflecting higher receipts and lower current expenditure for central government and a deficit across the rest of the public sector that was lower than forecast.

C.22 At the 2007 Pre-Budget Report the current budget was revised downwards from 2007-08 onwards, largely due to financial market developments subsequent to Budget 2007. The public finance projections allowed for an impact from financial market disruption on receipts, as a consequence of both subdued financial sector profitability and a slowdown in economic growth in 2008. However, the Pre-Budget Report made clear that the impact was uncertain.

Changes between the 2007 Pre-Budget Report and Budget 2008

C.23 The latest outturn data shows that both the current budget deficit and net borrowing were lower in 2006-07 than indicated in the 2007 Pre-Budget Report, as a result of lower central government current expenditure and revisions to public sector net investment. The current budget deficit is now £5.2 billion lower and net borrowing £4.9 billion lower than expected at Budget 2007.

C.24 The Budget 2008 estimate for the balance on the current surplus for 2007-08 is marginally lower than forecast in the 2007 Pre-Budget Report. Lower than expected public sector current expenditure has been largely offset by lower public sector current receipts. Overall tax receipts are slightly higher than the 2007 Pre-Budget Report estimates. Non-tax receipts are lower but are largely balanced by related changes to public spending.

C.25 The current budget has been revised down by around £6 billion in 2008-09 and around £7 billion in 2009-10, with smaller downward revisions in later years. As the disruption to financial markets has continued, and with its effects expected to persist for a longer duration than assumed at the 2007 Pre-Budget Report, it is likely to have a wider impact on receipts than previously envisaged. The allowance for subdued financial sector profitability incorporated in the Pre-Budget Report projections, which proved reasonable for 2007-08, has been re-assessed for subsequent years. Receipts related to the property market, equity prices and interest rates have also been revised.

C.26 Net borrowing in 2007-08 is expected to be £1.6 billion below the 2007 Pre-Budget forecast, mainly due to lower than projected net investment. Downward revisions to net investment in the early part of the year since the Pre-Budget Report and partly unspent capital reserves largely explain this shortfall. Net debt for 2007-08 is now forecast to be 37.1 per cent of GDP, ½ per cent of GDP lower than the 2007 Pre-Budget Report level and just over 1 per cent below the Budget 2007 forecast.

C.27 Discretionary fiscal measures set out in Chapter 1 allow for a fiscal policy stance that protects economic stability in the short term, and takes action to maintain sound public finances in the medium term. Budget changes are fiscally neutral in 2008-09 and 2009-10. As the economy returns to trend, discretionary tightening reduces the deficit in later years of the projection period.

FORECAST DIFFERENCES AND RISKS

C.28 The fiscal balances represent the difference between two large aggregates of expenditure and receipts, and forecasts are inevitably subject to wide margins of uncertainty. A full account of differences between the projections made in Budget 2005 and Budget 2006, and the subsequent outturns is provided in the 2007 *End of year fiscal report*, published alongside the 2007 Pre-Budget Report.

C.29 As explained in Chapter B, UK GDP is expected to grow by 1¾ to 2¼ per cent in 2008, picking up to 2¼ to 2¾ per cent in 2009 before returning close to trend rates of 2½ to 3 per cent from 2010. The Budget 2008 economic forecast is made against a backdrop of considerable uncertainty related to the ongoing disruption in global financial markets.

C.30 As the disruption has continued in credit markets, so credit conditions facing households and companies have tightened. For the UK economy, there are clear downside risks to growth if credit conditions were to deteriorate further, raising the price of and limiting access to finance for companies and households by more or for longer than has been assumed. There are upside risks from the weaker exchange rate providing support for export growth and from the strength of the labour market, which could support income growth and consumer spending by more than has been assumed. Recent private business survey indicators suggest that the economy may have carried more momentum into 2008 than the forecast assumes.

The use of audited assumptions

C.31 The use of cautious assumptions audited by the National Audit Office (NAO) builds a margin into the public finance projections to guard against unexpected events. One of the key audited assumptions is that for the trend rate of GDP growth, which is assumed to be ¼ per cent below the neutral view. This means that the rate of economic growth used to forecast the public finances is the bottom end of the projection range. As detailed in Table C3, the forecast for economic growth used in the public finances projections over the period 2008-09 to 2012-13 averages a cautious 2¼ per cent.

C.32 A further important source of potential error results from misjudging the position of the economy in relation to trend output. To minimise this risk, the robustness of the projections is tested against an alternative scenario in which the level of trend output is assumed to be one percentage point lower than in the central case.

C.33 The NAO audit the assumption on equity prices which assumes that prices rise in line with money GDP from their current level. This has a key impact on the Budget forecast, effectively locking in the decline in equity prices since the Pre-Budget Report. Equity prices are assumed to be around 14 per cent below the Pre-Budget Report projection throughout the forecast horizon.

C.34 The Government uses cautious NAO audited assumptions, including a cautious view of trend growth, to build a safety margin in the public finances against unexpected events. Combined with the decision to consolidate the public finances when the economy was above trend, this has resulted in low debt. As a result, this has allowed the Government to safeguard the increase in investment in priority public services, to allow the automatic stabilisers to work fully during a period of global economic uncertainty, and to meet in full the UK's international commitments, while continuing to meet the fiscal rules.

ASSUMPTIONS

C.35 The fiscal projections are based on the following assumptions:

- the economy follows the path described in Chapter B. The fiscal projections assume that trend growth will be 2½ per cent to 2012-13. In the interests of caution, these projections continue to be based on the assumption that trend output growth will be ¼ percentage point lower than the Government's neutral view;
- there are no tax or spending policy changes beyond those announced in or before this Budget, and all rates and allowances remain constant in real terms;
- firm Departmental Expenditure Limits (DEL) to 2010-11 are as set out in the 2007 Comprehensive Spending Review, adjusted for the impact of policy decisions and reclassifications;
- total Annually Managed Expenditure (AME) programmes to 2010-11 have been reviewed in this report and adjusted for the impact of policy decisions and reclassifications; and

- growth in public sector current expenditure over 2011-12 and 2012-13 of 1.8 per cent per year in real terms and net investment of 2¼ per cent of GDP in 2011-12 and 2012-13. Taken together, these assumptions mean Total Managed Expenditure (TME) grows by 1.9 per cent over 2011-12 and 2012-13.

Table C3: Economic assumptions for the public finance projections

	Percentage changes on previous year						
	Outturn	Estimate	Projections				
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Output (GDP)	3	3	1 ¾	2 ½	2 ½	2 ½	2 ½
Prices							
CPI	2 ½	2 ¼	2 ¾	2	2	2	2
GDP deflator	2 ¾	3 ¼	3	2 ¾	2 ¾	2 ¾	2 ¾
RPI[1] (September)	3 ½	4	3 ¼	2 ¼	3	2 ¾	2 ¾
Rossi[2] (September)	3	2 ¼	3 ¾	2 ½	2 ¼	2 ¼	2 ¼
Money GDP[3] (£ billion)	1,325	1,405	1,473	1,550	1,632	1,719	1,811

[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.*

C.36 The projections for 2007-08 are based on all available data within the Treasury and other government departments involved in producing tax and spending forecasts.

C.37 As well as reclassifying Northern Rock to the public sector, the ONS have also announced that the Bank of England is to be included in statistics for the public sector. This will be retrospective, but as with Northern Rock, the ONS have yet to compile estimates of the change and so in line with usual practice the forecasts presented in this Budget do not include the Bank of England as a public corporation. The Government will include it in future Budgets and Pre-Budget Reports. The ONS have indicated that the impact on the public sector current budget will not be material and that there may be a small reduction to the level of public sector net debt.

The audited assumptions

C.38 The key assumptions underlying the fiscal projections are audited by the National Audit Office (NAO) under the three-year rolling review process. Details of the audited assumptions are given in Box C1.

C.39 For Budget 2008, the Comptroller and Auditor General has audited the assumption relating to unemployment, which requires projections to be based on outside forecasts when these are higher than recent outturns. He concluded that the assumption proved to be cautious in the later part of the Rolling Review period since Budget 2005, though in the earlier part actual unemployment in the initial parts of the projections exceeded the level projected by outside forecasters. He concluded that the assumption draws on a wide range of external views of the future and is a reasonable one to have used and to continue to use. No other assumptions were due for review in this Budget.

C.40 Consistent with the *Code for Fiscal Stability*, the projections do not take account of decisions where the impact cannot yet be quantified, or of measures proposed in this Budget where final decisions have yet to be taken. These include:

- further extensions to maternity and paternity leave;
- further reforms to incapacity benefits; and
- the EU Emissions Trading Scheme.

Box C1: Key assumptions audited by the NAO[a]

Trend GDP growth[d]	2½ per cent a year to 2012-13.
Dating of the cycle[b]	The end date of the previous economic cycle was in the first half of 1997.
Composition of GDP[e]	Shares of labour income and profits in national income are broadly constant in the medium term.
Consistency of price indices[d]	Projections of price indices used to project the public finances are consistent with CPI.
Oil prices[b]	$83.8 a barrel in 2008, the average of independent forecasts, and then constant in real terms.
Equity prices[d]	FTSE All-share index rises from 2959 (close 6 March) in line with money GDP.
VAT[e]	The underlying VAT gap will rise by 0.5 percentage points per year from the estimated outturn for the current year.
Tobacco[e]	The underlying level of duty paid consumption of cigarettes will be set at least three per cent per year lower than the estimated outturn for the current year.
UK claimant unemployment[f, g]	Rising from recent average levels of 0.80 million to 0.99 million at the end of 2009, and to 1.00 million at the end of 2010.
Interest rates[c]	3-month market rates change in line with market expectations (as of 28 February).
Funding[e]	Funding assumptions used to project debt interest are consistent with the forecast level of government borrowing and with financing policy.
Privatisation proceeds[c]	Credit is taken only for proceeds from sales that have been announced.

[a] For details of all NAO audits before the 2005 Pre-Budget Report, see Budget 2005, 16 March 2005 (HC 372).
[b] Audit of Assumptions for 2005 Pre-Budget Report, 5 December 2005 (HC 707).
[c] Audit of Assumptions for the Budget 2006, 22 March 2006 (HC 937).
[d] Audit of Assumptions for 2006 Pre-Budget Report, 6 December 2006 (HC 125).
[e] Audit of Assumptions for the Budget 2007, 21 March 2007 (HC 393).
[f] Audit of Assumptions for Budget 2008, 12 March 2008 (HC 345)
[g] Seasonally-adjusted UK claimant unemployment. This is a cautious assumption based on the average of external forecasts and is not the Treasury's economic forecast.

FISCAL AGGREGATES

C.41 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				
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Current budget							
Current receipts	519.7	549.9	575	608	647	683	721
Current expenditure	507.0	540.1	566	592	622	650	680
Depreciation	16.9	17.7	19	20	21	22	23
Surplus on current budget	**-4.3**	**-7.9**	**-10**	**-4**	**4**	**11**	**18**
Capital budget							
Gross investment[1]	42.7	46.2	52	54	57	60	64
Less depreciation	-16.9	-17.7	-19	-20	-21	-22	-23
Net investment	25.8	28.5	33	35	37	38	41
Net borrowing	**30.1**	**36.4**	**43**	**38**	**32**	**27**	**23**
Public sector net debt - end year	**499.7**	**534.5**	**581**	**627**	**666**	**700**	**731**
Memos:							
Treaty deficit[2]	34.0	39.8	47	43	38	33	28
Treaty debt[3]	574.4	615.9	679	728	771	809	844

[1] *Net of asset sales; for a breakdown see Table 17 in Budget 2008: the economy and public finances - supplementary material.*
[2] *General government net borrowing on a Maastricht basis.*
[3] *General government gross debt on a Maastricht basis.*

Table C5: Current and capital budgets

	Per cent of GDP						
	Outturn	Estimate	Projections				
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Current budget							
Current receipts	39.2	39.1	39.0	39.2	39.7	39.7	39.8
Current expenditure	38.3	38.4	38.4	38.2	38.1	37.8	37.5
Depreciation	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Surplus on current budget	**-0.3**	**-0.6**	**-0.7**	**-0.2**	**0.3**	**0.6**	**1.0**
Capital budget							
Gross investment[1]	3.2	3.3	3.5	3.5	3.5	3.5	3.5
Less depreciation	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Net investment	1.9	2.0	2.2	2.2	2.3	2.2	2.3
Net borrowing	**2.3**	**2.6**	**2.9**	**2.5**	**2.0**	**1.6**	**1.3**
Public sector net debt - end year	**36.6**	**37.1**	**38.5**	**39.4**	**39.8**	**39.7**	**39.3**
Memos:							
Treaty deficit[2]	2.6	2.8	3.2	2.8	2.3	1.9	1.6
Treaty debt ratio[3]	43.3	43.8	46.1	46.9	47.2	47.0	46.6

[1] *Net of asset sales; for a breakdown see Table 17 in Budget 2008: the economy and public finances - supplementary material.*
[2] *General government net borrowing on a Maastricht basis.*
[3] *General government gross debt on a Maastricht basis.*

C.42 Following a deficit of close to 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 allowed the Government to use fiscal policy to support monetary policy during the economic slowdown in 2001 and 2002, and as a result the current budget moved into deficit. The current budget is expected to remain in deficit until 2009-10 and then move back into surplus in 2010-11, with increasingly larger surpluses in later years, reaching 1 per cent in 2012-13.

C.43 The current budget surplus is equal to public sector current receipts less public sector current expenditure and depreciation. The reasons for changes in receipts and current expenditure are explained in later sections.

C.44 Table C5 also shows that net investment is projected to increase from 2 per cent of GDP in 2006-07 to 2¼ per cent of GDP from 2008-09 to 2012-13 as the Government seeks to rectify historical underinvestment in public infrastructure. These increases are sustainable within the fiscal rules, with debt falling to 39.3 per cent of GDP by the end of the forecast period.

RECEIPTS

C.45 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 2007 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 ratio.

Changes in total receipts since the 2007 Pre-Budget Report

C.46 Net taxes and national insurance contributions (NICs) are estimated to be £0.3 billion higher in 2007-08 than expected in the Pre-Budget Report. Higher receipts from income tax and NICs, primarily from stronger than expected self-assessment receipts, more than offset weaker receipts from both VAT and stamp duty land tax. The impact from financial market disruption in the Pre-Budget Report was assumed to be mainly on profitability and bonus payments from the financial sector. Both income tax and corporation tax receipts data have been broadly consistent with the adjustment made in the Pre-Budget Report.

C.47 The Pre-Budget Report assumed that growth in net taxes and NICs in 2008-09 would slow to 5.4 per cent from 6.4 per cent in 2007-08, reflecting both the slowdown in economic growth and subdued prospects for financial sector profitability. Growth in receipts is now expected to slow more markedly to around 4.6 per cent in 2008-09, the lowest rate of growth since 2002-03. Tighter credit conditions are likely to have a wider impact on receipts than envisaged in the Pre-Budget Report. Receipts related to the property market, equity prices and interest rates have all been revised down.

C.48 The decline in residential property transactions and the downturn in the commercial property market means that related tax receipts are likely to be around £1 billion lower in 2007-08 than assumed in the Pre-Budget Report. The disruption in money markets and the effective closure of the mortgage-backed securities market are impacting on the volume of transactions and this is expected to persist during 2008. Allied with further near-term weakness in commercial property and sluggish or flat house price growth, receipts related to the property market, such as stamp duty land tax, inheritance tax and capital gains tax, are expected to be £2¼ billion lower in 2008-09 than in the Pre-Budget Report. With a recovery in property transactions forecast through 2009 and 2010, the shortfall diminishes somewhat.

C.49 Equity prices held up prior to the Pre-Budget Report, despite the disruption in other financial markets. However, equity prices have fallen since the Pre-Budget Report. The forecast uses an NAO audited assumption for equity prices, which assumes that prices will rise in line with money GDP from their current level. Equity prices are around 14 per cent lower than assumed in the Pre-Budget Report forecast throughout the forecast period. This will have a direct impact on stamp duty on shares, onshore corporation tax, and with a lag, capital gains tax and inheritance tax. Receipts are expected to be £1¼ billion lower in 2008-09 and £2¼ billion lower in 2009-10, with the shortfall diminishing a little over the rest of the forecast horizon.

C.50 With financial market disruption impacting on near-term growth prospects, market expectations of interest rates have fallen relative to the Pre-Budget Report, particularly for 2008 and 2009. Interest rates will impact on tax on savings income and on interest and dividend receipts, with lower receipts over the forecast period. There will be an offsetting effect on the public finances from lower debt interest payments within AME.

Tax by tax analysis

C.51 Table C6 contains updated projections for the main components of public sector receipts for 2006-07, 2007-08 and 2008-09, as well as the changes to the projections of individual taxes since the 2007 Pre-Budget Report.

Table C6: Current receipts

	£ billion			Changes since 2007 PBR £ billion		
	Outturn 2006-07	Estimate 2007-08	Projection 2008-09	Outturn 2006-07	Estimate 2007-08	Projection 2008-09
HM Revenue and Customs						
Income tax (gross of tax credits)	147.8	155.6	160.2	0.0	1.6	-1.6
Income tax credits	-4.4	-4.7	-5.2	0.0	-0.2	-0.3
National insurance contributions	87.3	97.4	104.6	0.0	0.9	3.5
Value added tax	77.4	80.5	83.8	0.0	-0.9	-2.0
Corporation tax[1]	44.8	47.0	51.9	0.0	0.2	0.4
Corporation tax credits[2]	-0.5	-0.6	-0.6	0.0	0.0	0.0
Petroleum revenue tax	2.2	1.7	1.7	0.0	0.1	0.2
Fuel duties	23.6	24.9	25.7	0.0	0.0	-0.5
Capital gains tax	3.8	4.8	5.0	0.0	0.0	-0.4
Inheritance tax	3.6	3.9	3.2	0.0	0.0	-0.1
Stamp duties	13.4	14.3	13.5	0.0	-0.8	-2.4
Tobacco duties	8.1	8.1	7.6	0.0	0.0	-0.2
Spirits duties	2.3	2.3	2.3	0.0	0.0	0.0
Wine duties	2.4	2.6	2.9	0.0	-0.1	0.1
Beer and cider duties	3.3	3.3	3.4	0.0	0.0	0.1
Betting and gaming duties	1.4	1.5	1.5	0.0	0.0	0.0
Air passenger duty	1.0	2.0	2.1	0.0	0.0	0.0
Insurance premium tax	2.3	2.3	2.4	0.0	-0.1	-0.1
Landfill tax	0.8	0.9	1.1	0.0	0.0	0.0
Climate change levy	0.7	0.7	0.7	0.0	0.0	0.0
Aggregates levy	0.3	0.3	0.4	0.0	0.0	0.0
Customs duties and levies	2.3	2.4	2.5	0.0	0.1	0.1
Total HMRC	**423.6**	**451.2**	**470.5**	**0.0**	**0.8**	**-3.2**
Vehicle excise duties	5.1	5.6	6.1	0.0	0.1	0.2
Business rates	21.0	21.8	23.7	0.0	-0.1	-0.4
Council tax[3]	22.2	23.7	24.9	0.0	0.0	0.0
Other taxes and royalties[4]	13.9	14.7	15.7	0.0	-0.6	-0.2
Net taxes and NICs[5]	**485.8**	**517.1**	**541.0**	**0.0**	**0.3**	**-3.5**
Accruals adjustments on taxes	5.0	1.4	2.0	0.3	0.0	-0.4
Less own resources contribution to EC budget	-4.6	-5.0	-4.7	0.0	-0.3	0.1
Less PC corporation tax payments	-0.3	-0.2	-0.2	0.0	0.0	0.0
Tax credits adjustment[6]	0.6	0.6	0.7	0.0	0.0	0.0
Interest and dividends	6.3	7.9	7.0	0.1	0.3	-0.5
Other receipts[7]	26.9	28.1	29.4	0.3	-1.6	-1.6
Current receipts	**519.7**	**549.9**	**575.2**	**0.6**	**-1.2**	**-5.8**
Memo:						
North Sea revenues[8]	9.0	7.7	9.9	0.0	0.2	0.9

[1] National Accounts measure, gross of enhanced and payable tax credits.
[2] Includes enhanced company tax credits.
[3] Council tax increases are determined annually by local authorities, not by the Government. As in previous years, council tax figures are projections based on stylised assumptions and are not Government forecasts.
[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 NTNIC but expenditure in the National Accounts.
[7] Includes gross operating surplus, rent and business rate payments by local authorities.
[8] Consists of North Sea corporation tax and petroleum revenue tax.

Income tax and national insurance contributions

C.52 Cash receipts of income tax and national insurance contributions (NICs) in 2007-08 are expected to be £2.5 billion above their 2007 Pre-Budget Report projection. This largely stems from higher receipts from self-assessment, which, because of the tax payment lag, reflect 2006-07 tax liabilities and incomes. PAYE and NIC receipts from wages and salaries are also higher than expected, reflecting the pick up of employment growth during 2007 and relatively buoyant receipts from the financial and business services sectors. Early indications are that receipts from City bonuses are showing a moderate decline from 2006-07, consistent with the assumption made in the Pre-Budget Report.

C.53 Growth in income tax and NICs is expected to slow from 7.7 per cent in 2007-08 to 4.6 per cent in 2008-09. The forecast allows for a more substantial reduction in receipts from the financial sector in 2008-09 than in 2007-08, due to the ongoing disruption in the sector. With a longer period of output below trend incorporated into the Budget forecast, earnings growth is expected to be subdued for longer than assumed in the Pre-Budget Report. This lowers PAYE and NICs receipts. Tax on savings income is likely to be lower in 2008-09 as a result of lower projected interest rates, as set by the NAO audited assumption.

Non-North Sea corporation tax

C.54 Non-North Sea corporation tax receipts are estimated to have grown by about 8 per cent in 2007-08. However, growth in receipts during 2007-08 has been held back by over £2 billion higher repayments than in 2006-07. This partly reflects that some companies overpaid tax for recent accounting periods by more than expected and also efforts by HMRC to finalise tax liabilities relating to historic accounting periods. The latter is likely to be a temporary effect. The strongest growth in receipts in 2007-08 was from small companies and the life assurance sector. The increase in life sector receipts is mainly the result of flat bond prices through 2007, compared to falls in 2006. Financial sector receipts related to 2007 profits were in line with Pre-Budget Report expectations, with the full year profits helped by the buoyant profit growth recorded in the first half of 2007.

C.55 Corporation tax receipts from onshore companies are expected to grow by about 7 per cent in 2008-09. Lower repayments than in 2007-08 add to growth in 2008-09, although the Budget 2008 forecast assumes that these remain at a higher level than previously assumed. Corporation tax from small companies is paid with a lag and is expected to remain strong in 2008-09 reflecting robust profit growth in 2007. However, onshore corporation tax receipts, particularly in the life assurance sector will be affected by the decline in equity prices while, as in the 2007 Pre-Budget Report, the forecast assumes the disruption in financial markets will have a larger impact on receipts in 2008-09 than in 2007-08. Thereafter, financial sector profits are projected to recover as financial markets are assumed to normalise.

North Sea revenues

C.56 With oil and gas prices rising ahead of the Pre-Budget Report, it was expected that North Sea revenues would improve over the remainder of the year and this was evident in the final January corporation tax instalment payment made by North Sea firms on their 2007 profits. Despite the increase in oil and gas prices in the final three months of 2007, North Sea revenues were just £0.2 billion higher in 2007-08 than expected in the Pre-Budget Report. This reflected high levels of North Sea operating and investment expenditure pushed up by high cost inflation.

C.57 The projections for North Sea revenues use the NAO audited assumption on oil prices. In line with the average of independent forecasts, oil prices are expected to be $83.8 a barrel in 2008, nearly $16 a barrel higher than assumed in the Pre-Budget Report. With dollar oil prices currently trading at close to $100 a barrel, this assumes a fall back in prices over the rest of the year. North Sea revenues are expected to be £0.9 billion higher in 2008-09 than projected in the Pre-Budget Report and up 28 per cent on 2007-08. As in 2007-08, the impact from higher oil and gas prices is partly offset by lower production forecasts and overall capital and operating expenditure which is now expected to persist at a substantially higher level than previously expected.

Capital gains tax and inheritance tax

C.58 Capital gains tax receipts are particularly sensitive to equity price changes. Financial assets account for almost two-thirds of chargeable gains and there is a gearing effect because capital gains tax is charged on the gain rather than the whole disposal price. This means capital gains tax receipts arising from the sale of shares rise or fall by more than the movement in equity prices. The strong rise in equity prices, along with a buoyant economy and housing market during 2006-07 led to strong growth in capital gains tax in 2007-08.

C.59 As most capital gains tax is paid in the final quarter of the financial year following the year in which the gains were realised, the main impact from lower equity prices will not be felt until 2009-10. Inheritance tax receipts are also likely to be adversely affected by recent equity price and property market developments

Stamp duties

C.60 Stamp duties in 2007-08 are expected to be around £0.8 billion below their Pre-Budget Report forecast, almost entirely due to a shortfall in stamp duty land tax, primarily reflecting a decline in residential property transactions and weakness in the commercial property sector. Property transactions processed in December and January were down 13 per cent on a year earlier, while commercial property prices on transactions liable for stamp duty have fallen, in line with the declines recorded in external indices of commercial property prices.

C.61 Stamp duties are expected to fall by around 6 per cent in 2008-09, reflecting falls in both stamp duty land tax and stamp duty on shares. With leading indicators such as mortgage approvals, new buyer enquiries and the ratio of reported sales to stocks of available property all easing since the Pre-Budget Report, a period of sluggish or flat house price growth is expected in 2008. Property transactions are expected to be low in 2008 and the forecast allows for a further near-term decline in commercial property prices. With the economy picking up in 2009 as financial markets normalise, a rebound in residential transactions and an upturn in commercial property is projected. The fall in equity prices in early 2008 means that stamp duty on shares is likely to be down in 2008-09.

VAT

C.62 The Pre-Budget Report assumed that the year-on-year growth in VAT receipts would slow over the remainder of 2007-08, in part reflecting a deceleration in consumer spending growth. However, receipts growth has slowed by more than expected, with VAT likely to be £0.9 billion lower in 2007-08 than projected in the Pre-Budget Report.

C.63 Growth in VAT receipts is expected to be 4.1 per cent in 2008-09. Modest real growth in household consumption of 1¼ to 1¾ per cent during 2008 is likely to constrain VAT receipts growth. In addition, recent price trends such as rising food inflation (usually zero-rated), higher gas and electricity prices (subject to the reduced rate of VAT) but falling inflation on consumer durables (usually standard-rated) could shift the composition of spending away from standard-rated goods. The forecast assumes a fall in the share of consumer spending subject to the standard rate of VAT in 2008-09. VAT receipts in 2008-09 are also likely to be affected by repayments relating to the recent judicial ruling on the 3-year cap for making claims of previously overdeclared or underclaimed VAT. The forecast also incorporates a 0.5 percentage point rise in the underlying VAT gap (the difference between the theoretical tax liability and actual receipts), in line with the NAO audited assumption.

Excise duties

C.64 Fuel duties in 2007-08 are expected to be in line with the Pre-Budget Report projection, but £0.5 billion lower in 2008-09. This reflects the Budget decision to delay the pre-announced duty rise for six months and that higher pump prices, related to the rise in oil prices are likely to reduce the demand for fuel. With fuel duties charged on a per litre basis, this reduces fuel duty receipts by around £0.3bn in a full year.

C.65 Tobacco duties in 2007-08 are expected to be as forecast in the Pre-Budget Report, but this partly reflects receipt brought forward from 2008-09, and receipts in later years have been reduced slightly. Receipts fell by around 0.7 per cent in 2007-08 and are expected to fall 6.0 per cent in 2008-09, despite the revalorisation of duties announced in this Budget. The forecast has allowed for an impact from the smoking ban in enclosed workplaces and this assumes a greater impact in 2008-09, the first full year of the ban. Alcohol duties are expected to be £0.1 billion below their 2007 Pre-Budget Report forecast in 2007-08. Thereafter, alcohol duties are increased by the measures announced in this Budget.

Council tax **C.66** Council tax increases are determined annually by local authorities, not by the Government. The council tax projections are based on stylised assumptions and are not Government forecasts. The council tax figures for 2008-09 onwards are based on the arithmetic average of council tax increases over the past three years. Since changes to council tax are broadly balanced by changes to locally financed expenditure, they have little material impact on the current balance or on net borrowing.

Other receipts **C.67** Other receipts have been revised down by over £1 billion in 2007-08. This reflects reductions in general government depreciation and a lower forecast for VAT refunds. Under National Accounts rules, current receipts include gross operating surpluses for all taxes. For non-market bodies, such as most of general government, this is imputed and equals depreciation. The forecasts for general government depreciation have been reduced by around £1 billion in each year, reflecting significant downward revisions to ONS published outturns. The reductions in depreciation and VAT refunds reduce both current expenditure and current receipts and are neutral across the public finances as a whole.

Tax-GDP ratio

C.68 Table C7 shows projections of receipts from major taxes as a per cent of GDP and Table C8 sets out current and previous projections of the overall tax-GDP ratio, based on net taxes and national insurance contributions. Chart C1 shows the tax-GDP ratio from 1982-83 to 2012-13.

C.69 With fiscal policy accommodating the impact on the public finances of the continued disruption in global financial markets, the tax-GDP ratio falls in 2008-09.

C.70 The tax-GDP ratio then starts to rise in 2009-10, before stabilising just below the Pre-Budget Report projections from 2010-11. The rises in 2009-10 and 2010-11 partly reflect the recovery in financial sector receipts as conditions normalise. It also reflects the measures announced in this Budget and the normal fiscal forecasting conventions on tax allowances and fiscal drag.

Table C7: Current receipts as a proportion of GDP

	Per cent of GDP						
	Outturn	Estimate	Projections				
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Income tax (gross of tax credits)	11.1	11.1	10.9	11.0	11.2	11.3	11.5
National insurance contributions	6.6	6.9	7.1	7.0	7.0	7.0	7.0
Non-North Sea corporation tax[1]	2.9	2.9	3.0	3.1	3.2	3.3	3.3
Tax credits[2]	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
North Sea revenues[3]	0.7	0.5	0.7	0.6	0.6	0.6	0.5
Value added tax	5.8	5.7	5.7	5.7	5.7	5.7	5.6
Excise duties[4]	3.0	2.9	2.8	2.8	2.8	2.8	2.7
Other taxes and royalties[5]	6.9	7.0	7.0	7.0	7.1	7.1	7.1
Net taxes and NICs[6]	**36.7**	**36.8**	**36.7**	**36.9**	**37.3**	**37.4**	**37.4**
Accruals adjustments on taxes	0.4	0.1	0.1	0.2	0.2	0.2	0.3
Less EU transfers	-0.3	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3
Other receipts[7]	2.5	2.6	2.5	2.5	2.5	2.5	2.5
Current receipts	**39.2**	**39.1**	**39.0**	**39.2**	**39.7**	**39.7**	**39.8**

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

2 Tax credits scored as negative tax in net taxes and national insurance contributions.

3 Includes 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 Mainly gross operating surplus and rent.

Table C8: Net taxes and national insurance contributions[1]

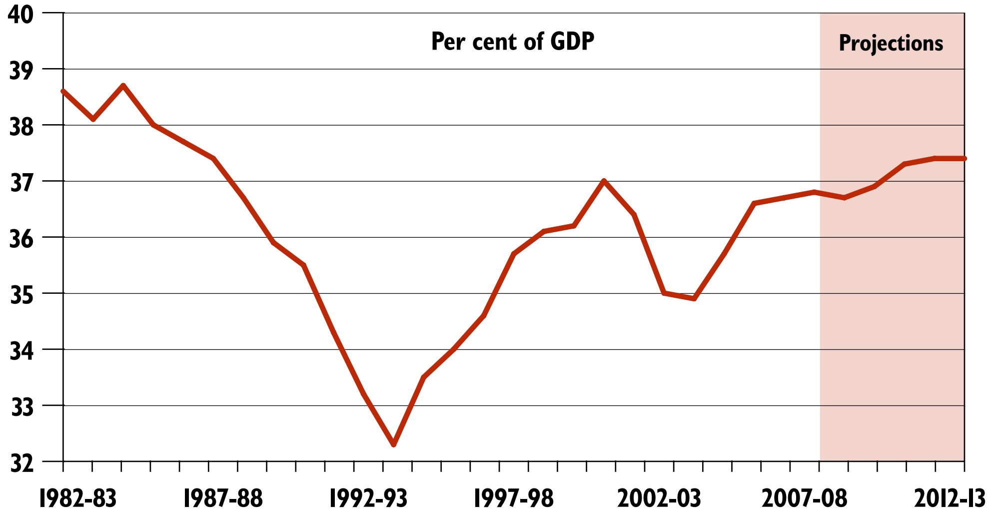
	Per cent of GDP						
	Outturn[2]	Estimate[3]	Projections				
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Budget 2007	37.2	37.7	38.0	38.1	38.1	38.1	
2007 Pre-Budget Report	36.7	36.8	37.0	37.3	37.4	37.5	37.6
Budget 2008	**36.7**	**36.8**	**36.7**	**36.9**	**37.3**	**37.4**	**37.4**

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

2 The 2006-07 figures were estimates in Budget 2007.

3 The 2007-08 figures were projections in Budget 2007.

Chart C1: Tax-GDP ratio[1]



[1] Net taxes and national insurance contributions as defined in Table C8.

PUBLIC EXPENDITURE

C.71 This section looks in detail at the projections for public expenditure. The spending projections cover the whole of the public sector, using the National Accounts aggregate Total Managed Expenditure (TME).

C.72 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 DEL – firm three-year limits for departments' programme expenditure – and AME – expenditure that is not easily subject to firm multi-year limits. Departments have separate resource budgets for current and capital expenditure.

Changes in TME since the 2007 Pre-Budget Report

C.73 The latest available information suggests that TME for 2007-08 will be around £2¾ billion lower than in the 2007 Pre-Budget Report. Current spending is below the 2007 Pre-Budget Report level with slightly higher near-cash DEL spending more than offset by lower AME. The 2007 Pre-Budget Report estimate for 2007-08 included a capital DEL reserve of £1.5 billion and a capital AME margin of £0.9billion, which largely went unallocated, explaining most of the reduction in capital expenditure.

C.74 Apart from transfers between AME and DEL, the only forecasting changes to TME during the 2007 Comprehensive Spending Review period are to AME. Before allowing for measures, current spending in AME is £¼ billion higher in 2008-09, £¼ billion lower in 2009-10 and £2 billion up in 2010-11. These changes are explained in more detail in later paragraphs. Gross capital expenditure in AME is slightly lower in total over these three years, but downward revisions to depreciation mean that net investment is slightly higher than in the 2007 Pre-Budget Report.

C.75 Chart C2 shows TME as a percent of GDP from 1971-72 to 2010-11.

Chart C2: Total Managed Expenditure

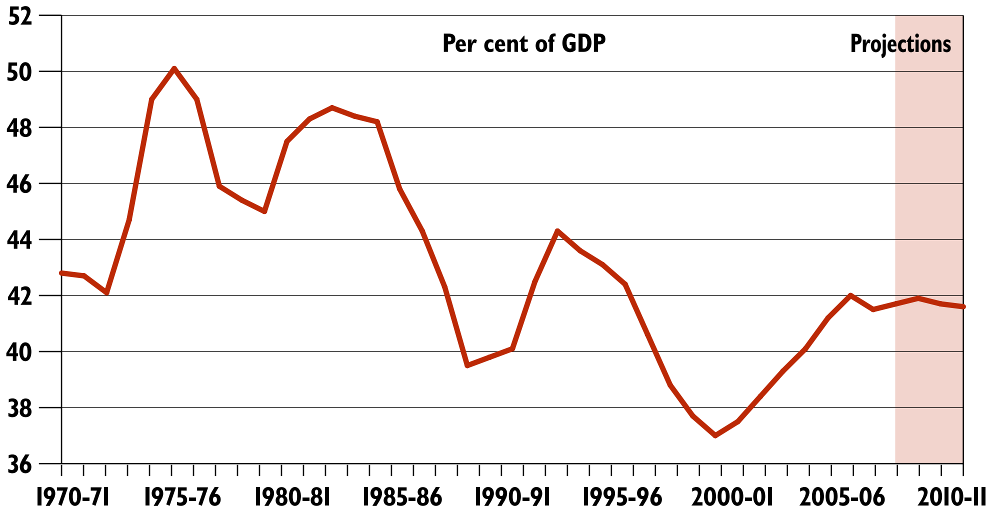


Table C9: Total Managed Expenditure 2006-07 to 2010-11

	£ billion				
	Outturn	Estimate	Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
CURRENT EXPENDITURE					
Resource Departmental Expenditure Limits	**291.2**	**313.2**	**324.3**	**338.7**	**354.6**
of which:					
Near-cash Departmental Expenditure Limits	272.7	290.3	303.8	316.8	331.1
Non-cash	18.5	22.9	20.5	21.9	23.6
Resource Annually Managed Expenditure	**215.9**	**227.0**	**242.0**	**253.6**	**267.7**
of which:					
Social security benefits [1]	131.3	138.5	146.4	153.7	159.7
Tax credits [1]	16.3	17.1	19.0	20.0	20.5
Net public service pensions [2]	1.2	2.3	2.9	3.6	4.0
National Lottery	0.7	0.9	0.9	0.7	0.8
BBC domestic services	3.3	3.3	3.5	3.6	3.7
Other departmental expenditure	3.2	2.9	2.0	1.9	1.9
Net expenditure transfers to EC institutions [3]	4.7	5.4	5.5	6.2	6.7
Locally-financed expenditure [4]	23.4	24.7	25.7	26.7	27.8
Central government gross debt interest	27.6	29.9	30.3	30.3	34.0
AME margin	0.0	0.0	0.9	1.8	2.7
Accounting adjustments	4.1	1.9	5.1	5.0	6.0
Public sector current expenditure	**507.0**	**540.1**	**566.2**	**592.3**	**622.4**
CAPITAL EXPENDITURE					
Capital Departmental Expenditure Limits	**38.9**	**43.9**	**48.1**	**50.7**	**55.3**
Capital Annually Managed Expenditure	**3.8**	**2.3**	**3.4**	**3.5**	**2.1**
of which:					
National Lottery	0.7	0.8	0.6	0.9	0.8
Locally-financed expenditure [4]	4.7	4.2	4.6	4.0	3.4
Public corporations' own-financed capital expenditure	5.4	4.7	5.2	5.6	5.7
Other capital expenditure	-0.2	-0.3	0.6	0.8	1.1
AME margin	0.0	0.0	0.1	0.2	0.3
Accounting adjustments	-6.8	-7.1	-7.6	-7.9	-9.1
Public sector gross investment	**42.7**	**46.2**	**51.5**	**54.3**	**57.4**
Less public sector depreciation	-16.9	-17.7	-18.6	-19.6	-20.7
Public sector net investment	**25.8**	**28.5**	**32.9**	**34.7**	**36.7**
TOTAL MANAGED EXPENDITURE [5]	**549.8**	**586.4**	**617.8**	**646.5**	**679.8**
of which:					
Departmental Expenditure Limits	320.1	345.3	360.9	377.8	397.5
Annually Managed Expenditure	229.7	241.1	256.9	268.7	282.3

[1] For 2006-07 to 2008-09, child allowances in Income Support and Jobseekers' Allowance have been included in the tax credits line and excluded from the social security benefits line.

[2] Net public service pensions expenditure is reported on a National Accounts basis.

[3] AME spending component only. Total net payments to EC institutions also include receipts scored in DEL, VAT based contributions which score as negative receipts and some payments which have no effect on the UK public sector in the National Accounts. Latest estimates for total net payments, which exclude the UK's contribution to the cost of EU aid to non-Member States (which is attributed to the aid programme), and the UK's net contribution to the EC Budget, which includes this aid, are (in £ billion):

	2006-07	2007-08	2008-09	2009-10	2010-11
Net payments to EC institutions	2.9	3.4	3.0	5.2	5.5
Net contribution to EC Budget	3.5	4.1	3.8	6.1	6.4

[4] This expenditure is mainly financed by council tax revenues. See footnote to table C6 for an explanation of how the council tax projections are derived.

[5] Total Managed Expenditure is equal to the sum of public sector current expenditure, public sector net investment, and public sector depreciation.

Table C10: Changes to Total Managed Expenditure since the 2007 Pre-Budget Report

	£ billion				
	Outturn	Estimate	Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
CURRENT EXPENDITURE					
Resource Departmental Expenditure Limits	**0.0**	**2.4**	**0.0**	**-0.1**	**0.0**
of which:					
Near-cash Departmental Expenditure Limits	0.4	0.3	0.4	0.3	0.4
Non-cash	-0.4	2.1	-0.4	-0.4	-0.4
Resource Annually Managed Expenditure	**0.4**	**-3.4**	**0.3**	**-0.2**	**2.0**
of which:					
Social security benefits	-0.5	-0.4	0.4	1.4	1.5
Tax credits	0.0	0.5	0.8	1.2	1.2
Net public service pensions	0.0	0.1	0.3	0.7	0.5
National Lottery	-0.1	0.1	0.2	0.1	0.1
BBC domestic services	0.1	0.0	0.0	0.0	0.0
Other departmental expenditure	0.0	0.1	0.3	0.7	0.8
Net expenditure transfers to EC institutions	0.0	-0.2	0.0	0.5	0.1
Locally-financed expenditure	-2.1	-0.6	-0.6	-0.8	-1.3
Central government gross debt interest	0.0	-0.1	1.1	-0.9	1.0
AME margin	0.0	-0.1	0.0	0.0	0.0
Accounting adjustments	2.9	-2.6	-2.3	-3.1	-1.9
Public sector current expenditure	**0.4**	**-1.0**	**0.2**	**-0.3**	**2.0**
CAPITAL EXPENDITURE					
Capital Departmental Expenditure Limits	**-0.2**	**-0.8**	**0.0**	**0.0**	**0.0**
Capital Annually Managed Expenditure	**-0.6**	**-1.0**	**0.1**	**0.1**	**-0.5**
of which:					
National Lottery	-0.1	-0.1	-0.2	-0.1	-0.1
Locally-financed expenditure	-0.3	0.6	0.5	0.2	0.4
Public corporations' own-financed capital expenditure	-0.4	-0.2	0.2	0.5	0.4
Other capital expenditure	0.2	0.1	0.2	0.2	0.3
AME margin	0.0	-0.9	0.0	0.0	0.0
Accounting adjustments	0.0	-0.6	-0.7	-0.5	-1.6
Public sector gross investment	**-0.7**	**-1.8**	**0.1**	**0.2**	**-0.5**
Less public sector depreciation	0.3	0.6	0.6	0.6	0.5
Public sector net investment	**-0.5**	**-1.2**	**0.6**	**0.7**	**0.0**
TOTAL MANAGED EXPENDITURE	**-0.3**	**-2.8**	**0.3**	**-0.1**	**1.5**
of which:					
Departmental Expenditure Limits	-0.3	0.7	-0.2	0.4	0.6
Annually Managed Expenditure	0.0	-3.5	0.5	-0.5	0.9

DEL and AME analysis

DEL **C.76** The detailed allocation of DEL is shown in table C11. In line with previous practice, resource and capital DEL for 2007-08 include an allowance for shortfall reflecting likely underspends against departmental provisions.

C.77 Estimated outturn for resource DEL is higher than forecast in the 2007 Pre-Budget Report in 2007-08, largely reflecting increased non-cash spending that is mainly due to some departments drawing down elements of their end of year flexibility. These changes are offset by accounting adjustments in AME and have no impact on TME or on National Accounts measures of expenditure.

C.78 Capital DEL in 2007-08 is expected to be lower than forecast in the 2007 Pre-Budget Report, reflecting an unallocated DEL reserve and lower than planned capital expenditure by the Department of Health (DH), Department for Children, Schools and Families (DCSF), and some other departments.

C.79 The latest figures also include a number of classification and budgetary changes. The main changes are:

- the transfer of the Independent Living Fund from Department of Work and Pensions (DWP) AME to DEL, to improve control over this expenditure;
- a reduction in the Department for Transport (DfT) resource DEL to offset the interest payments on borrowing in respect of Metronet, which now fall in AME;
- inclusion of health trust depreciation in Northern Ireland Executive (NIE) resource DEL, which increases non-cash DEL and is offset in the accounting adjustments; and
- the reclassification of Department for Innovation, Universities and Skills (DIUS) non-cash transactions relating to student loans from DEL to AME, which aligns the accounting and budgeting treatments.

Table C11: Departmental Expenditure Limits - resource and capital budgets

	£ billion				
	Outturn	Estimate	Plans		
	2006-07	2007-08	2008-09	2009-10	2010-11
Resource DEL					
Children, Schools and Families	42.1	44.9	46.9	49.2	51.9
Health	80.4	89.2	94.0	99.9	106.3
of which: NHS England	78.5	87.1	91.7	97.4	103.7
Transport	6.9	6.8	6.4	6.4	6.6
Innovation, Universities and Skills	14.0	15.5	16.4	17.2	18.2
CLG Communities	3.6	4.2	4.3	4.5	4.6
CLG Local Government	22.5	22.7	24.7	25.6	26.4
Home Office	8.3	8.7	9.1	9.3	9.6
Justice	8.4	8.9	9.3	9.4	9.4
Law Officers' Departments	0.7	0.7	0.7	0.7	0.7
Defence	33.5	36.7	33.6	35.2	36.7
Foreign and Commonwealth Office	1.8	1.9	1.8	1.6	1.6
International Development	4.2	4.6	4.9	5.5	6.4
Business, Enterprise and Regulatory Reform	2.2	2.9	2.4	2.3	2.3
Environment, Food and Rural Affairs	3.1	3.1	2.9	3.0	3.0
Culture, Media and Sport	1.5	1.7	1.6	1.7	1.8
Work and Pensions	7.9	8.1	8.0	7.8	7.5
Scotland	22.4	23.8	24.4	25.4	26.5
Wales	11.7	12.5	13.0	13.6	14.2
Northern Ireland Executive	7.2	7.6	8.1	8.4	8.7
Northern Ireland Office	1.2	1.4	1.2	1.2	1.2
Chancellor's Departments	5.0	4.8	4.8	4.6	4.5
Cabinet Office	1.7	1.9	2.1	2.2	2.4
Independent Bodies	0.7	0.8	0.9	0.9	1.0
Moderisation Funding	-	-	0.5	0.4	0.1
Reserve	-	-	2.3	2.8	2.9
Allowance for shortfall	-	-0.4	0.0	0.0	0.0
Total resource DEL	**291.2**	**313.2**	**324.3**	**338.7**	**354.6**
Capital DEL					
Children, Schools and Families	4.1	5.5	6.0	6.4	7.7
Health	3.2	3.6	4.7	5.5	6.2
of which: NHS England	3.1	3.3	4.6	5.3	6.1
Transport	6.5	7.1	7.3	7.6	8.1
Innovation, Universities and Skills	1.9	2.0	2.0	2.2	2.3
CLG Communities	5.4	6.1	7.0	7.3	7.5
CLG Local Government	0.2	0.0	0.1	0.1	0.1
Home Office	0.6	0.8	0.9	0.8	0.9
Justice	0.5	1.0	0.7	0.8	0.7
Law Officers' Departments	0.0	0.0	0.0	0.0	0.0
Defence	7.1	8.1	7.9	8.2	8.9
Foreign and Commonwealth Office	0.2	0.2	0.2	0.2	0.2
International Development	0.8	0.7	0.9	1.4	1.6
Business, Enterprise and Regulatory Reform	1.2	1.1	1.2	1.2	1.2
Environment, Food and Rural Affairs	0.9	0.9	1.0	1.1	1.2
Culture, Media and Sport	0.3	0.5	1.0	0.4	0.6
Work and Pensions	0.2	0.1	0.1	0.1	0.1
Scotland	3.0	3.5	3.2	3.3	3.6
Wales	1.3	1.5	1.6	1.7	1.8
Northern Ireland Executive	0.8	1.0	1.0	1.1	1.2
Northern Ireland Office	0.1	0.0	0.1	0.1	0.1
Chancellor's Departments	0.3	0.3	0.3	0.3	0.3
Cabinet Office	0.3	0.4	0.4	0.4	0.4
Independent Bodies	0.1	0.1	0.1	0.1	0.1
Reserve	-	-	0.7	0.7	0.8
Allowance for shortfall	-	-0.7	0.0	0.0	0.0
Total capital DEL	**38.9**	**43.9**	**48.1**	**50.7**	**55.3**
Depreciation	**10.0**	**11.8**	**11.5**	**11.6**	**12.4**
Total Departmental Expenditure Limits	**320.1**	**345.3**	**360.9**	**377.8**	**397.5**
Total Education spending	70.7	76.2	81.9	86.1	91.5

AME **C.80** The main assumptions underpinning the AME projections are set out in Box C1 and Table C3. The main changes to these assumptions since the 2007 Pre-Budget Report are higher RPI and Rossi inflation, especially in 2008, and higher claimant count unemployment, based on the average of independent forecasts, which does not reflect the Treasury's forecast. The AME forecasts for social security benefits and tax credits also reflect the ONS 2006-based population projections, published after the 2007 Pre-Budget Report.

Social security benefits **C.81** Social security expenditure in AME is reduced by around £0.3 billion a year because of the classification change that moves spending on the Independent Living Fund out of AME and into DEL. Other than this transfer, expenditure is forecast to be much the same in 2007-08 as in the 2007 Pre-Budget Report but higher in subsequent years due to higher forecasts for inflation in September 2008, which affect the levels of benefits from 2009-10 onwards, higher claimant count unemployment and increases in maternity and child benefits arising from higher projections of the number of births.

Tax credits **C.82** The forecast for expenditure on Child and Working Tax credits has increased since the 2007 Pre-Budget Report. The revised projection incorporates revisions in line with higher than expected in-work entitlement, due to changes in the composition of the population in receipt of tax credits, lower than expected growth in earnings among those in receipt of tax credits, and higher birth rates.

Public service pensions **C.83** Net public service pensions expenditure is measured on a National Accounts basis and reports benefits paid less contributions received by central government unfunded public service pension schemes. Forecast expenditure from 2008-09 reflects actuarial advice on the rate and level at which benefits are expected to come into payment, the rate of future employer and employee contributions and the latest information relating to scheme demographics. The increase in the forecast level of net expenditure across the period since the 2007 Pre-Budget Report is largely due to revised projections of pensionable pay leading to lower forecasts of contributions received.

National Lottery **C.84** National Lottery figures reflect the latest view on timing of drawdown by the distributing bodies and on the split between capital and current expenditure.

Other departmental expenditure **C.85** Other departmental expenditure is higher than in the 2007 Pre-Budget Report mainly because of higher grants from central government to local authorities in respect of police and fire pension schemes.

EU contributions **C.86** Net expenditure transfers to EU Institutions, which consist of Gross National Income (GNI) based contributions less the UK abatement, are lower than was estimated at the time of the 2007 Pre-Budget Report in 2007-08, unchanged in 2008-09, and higher in both 2009-10 and 2010-11. The main factors are the use of later information on the size of the final EC Budget for 2007, the likely pattern of payments to the 2008 EC Budget and increases in estimates of contributions resulting from changes in the exchange rate forecast. Other factors include changes to forecast receipts from the EC, which affect the UK abatement in the year after the receipts accrue.

Locally financed expenditure **C.87** Locally-financed expenditure mainly consists of local authority self-financed expenditure (LASFE) and Scottish spending financed by local taxation. LASFE is the difference between total local authority expenditure, net of capital receipts, and central government support to local authorities. The main determinant of the LASFE forecast is council tax and the council tax projections used to derive current LASFE from 2007-08 onwards are based on stylised assumptions and are not government forecasts. The current forecast also reflects historical information on movements in reserves, interest receipts and debt repayment. Capital LASFE reflects forecasts on the level of capital expenditure financed by the use of capital receipts, revenue sources of capital finance and prudential borrowing. Capital LASFE is net of local authority asset sales.

C.88 The definition of current LASFE has changed further since the 2007 Pre-Budget Report to improve compatibility with data supplied by local authorities to the Department for Communities and Local Government and the Devolved Administrations. There have been consequential adjustments to the accounting adjustments component of AME. These adjustments explain most of the change in current LASFE since the 2007 Pre-Budget Report.

C.89 The differences between the capital LASFE forecast at the Budget and Pre-Budget Report can largely be attributed to revised forecasts of the use of capital receipts, current expenditure to finance capital expenditure, prudential borrowing and the level of asset sales. These revisions have had the effect of increasing capital LASFE in each year to 2010-11.

CG debt interest

C.90 Forecasts for central government gross debt interest payments have been revised in light of the latest economic assumptions. With the exception of 2009-10, the projections over the CSR period have increased since the 2007 Pre-Budget Report, largely because higher forecast inflation leads to an increase in debt interest payment costs on index-linked gilts. Forecast market interest rates have fallen since the 2007 Pre-Budget Report, which has the effect of reducing debt interest payment costs. However, apart from in 2009-10 these reductions are more than offset by the effects of the rise in inflation and higher borrowing.

C.91 As set out in Chapter 2, the Government will replace the Bank of England loan to Northern Rock with direct Treasury funding. The overall effect of this refinancing will be broadly neural for TME. Increased debt interest paid to the private sector by HM Treasury will be offset by reduced net debt interest paid to the private sector by the Bank of England, making the transaction neutral for the public sector as a whole. Interest payments paid by Northern Rock to HM Treasury mean that the effect of the refinancing is also neutral for both the central government and public corporations sub-sectors.

PC capital expenditure

C.92 This includes the latest forecast for capital expenditure financed by public corporations themselves. This excludes expenditure financed by departments, which is already included in DEL and elsewhere in AME.

Accounting adjustments

C.93 The accounting adjustments reconcile the budgeting aggregates DEL and AME with the National Accounts definition of AME, removing items that score in DEL or AME but not in TME, and adding in items included in TME but not in DEL or AME. A breakdown of these accounting adjustments is given in Table 15 of *Budget 2008: the economy and public finances – supplementary material*. Changes to the accounting adjustments since the Pre-Budget Report are mainly due to:

- lower forecasts for general government depreciation, where the forecast has been reduced by around £1 billion in each year from 2007-08, reflecting significant downward revisions to ONS published outturns; and
- reductions in forecast levels of VAT refunds.

C.94 The reductions in depreciation and VAT refunds reduce both current expenditure and current receipts, and are neutral across the public finances as a whole. The changes to accounting adjustments in 06-07 reflect revisions to total TME.

FINANCING REQUIREMENT

C.95 Table C12 presents projections of the net cash requirement by sub-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. In 2008-09, net lending within the public sector includes the refinancing of the Bank of England's loans to Northern Rock. The resultant change in the Bank of England's net position with the private sector is included in the figure for market and overseas borrowing for the public corporations sub-sector.

Table C12: Public sector net cash requirement

	£ billion							
	2007-08				2008-09			
	General government				General government			
	Central government	Local authorities	Public corporations	Public sector	Central government	Local authorities	Public corporations	Public sector
Net borrowing	**38.3**	**1.7**	**-3.6**	**36.4**	**43.7**	**2.8**	**-4.0**	**42.5**
Financial transactions								
Net lending to private sector and abroad	3.9	0.0	-0.3	3.5	1.2	0.1	-0.3	1.0
Cash expenditure on company securities	-1.4	-2.2	1.7	-1.9	0.5	-1.8	1.8	0.5
Accounts receivable/payable	-0.7	0.2	0.3	-0.2	2.0	0.2	0.3	2.5
Adjustment for interest on gilts	-4.6	0.0	0.0	-4.6	-4.6	0.0	0.0	-4.6
Miscellaneous financial transactions	-0.2	1.5	-1.5	-0.2	-0.2	0.0	0.0	-0.2
Own account net cash requirement	35.3	1.1	-3.4	33.0	42.6	1.3	-2.2	41.7
Net lending within the public sector	2.5	-2.2	-0.3	0.0	16.7	-2.2	-14.5	0.0
Net cash requirement[1]	**37.7**	**-1.1**	**-3.7**	**33.0**	**59.3**	**-0.9**	**-16.7**	**41.7**

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

2007-08 **C.96** Table C13 updates the financing arithmetic for both 2007-08 and 2008-09 in line with the updated fiscal forecasts. The central government net cash requirement (CGNCR) for 2007-08 is now forecast to be £37.7 billion, an increase of £0.4 billion from the 2007 Pre-Budget Report forecast of £37.3 billion. The net financing requirement is expected to be £57.3 billion, a decrease of £1.0 billion from the 2007 Pre-Budget Report. It is also £4.2 billion above total financing, resulting in the forecast level of the Debt Management Office's (DMO's) short-term net cash position at end March 2008 falling to –£3.7 billion.

2008-09 **C.97** The projection for the CGNCR in 2008-09 is £59.3 billion. Following the decision to take Northern Rock into a period of temporary public ownership, the Government will, during 2008-09, replace the Bank of England's loan to Northern Rock with direct Treasury funding, in order to comply with restrictions in the Treaty Establishing the European Community on central bank financing of government undertakings. The projection for the CGNCR in 2008-09 includes the impact of this refinancing. The net amount outstanding on the Treasury loan as at 31 March 2009 is currently projected to be £14 billion, but this amount is subject to revision and will be updated at the 2008 Pre-Budget Report.

C.98 Gross gilt redemptions are £17.3 billion and National Savings and Investments' (NS&I's) net contribution to financing is estimated to be £4.0 billion. The net financing requirement for 2008-09 is forecast to be £78.8 billion. It also includes the impact of the partial repayment in 2007-08 of £6 billion of the Ways and Means Advance at the Bank of England. The Government's decision to repay up to £7 billion of the remaining balance of its Ways and Means Advance at the Bank of England is not reflected in the net financing requirement in 2008-09 but is included as a planned change in the short-term debt level.

DMO **C.99** The DMO will aim to meet this financing requirement by:

- gross gilt issuance of £80.0 billion; and
- an increase in the Treasury bill stock by £5.8 billion to £22.0 billion.

C.100 Gross debt issuance is expected to be £85.8 billion, with the additional amount raised (in excess of the net financing requirement) required to meet the further planned repayment of £7 billion of the Ways and Means Advance.

C.101 Gross gilt issuance will be skewed towards short and long-maturity conventional gilts and index-linked gilts. In 2008-09, issuance of short-maturity gilts is expected to be £25.0 billion (or 31 per cent of total issuance), issuance of long-maturity conventional gilts is forecast to be £24.2 billion (or 30 per cent of total issuance) and issuance of index-linked gilts is expected to be £18.0 billion (or 23 per cent of total issuance).

Table C13: Financing arithmetic for 2007-08 and 2008-09

	£ billion			
	2007-08			2008-09
	April 2007 Revised Remit[1]	October 2007 Pre-Budget Report	March 2008 Budget	March 2008 Budget
Central government net cash requirement	**37.6**	**37.3**	**37.7**	**59.3**
Gilt redemptions[2]	29.2	29.2	29.2	17.3
Financing for the official reserves[3]	0.0	0.0	0.0	2.0
Buy-backs[4]	0.0	0.1	0.1	0.0
Planned short-term financing adjustment[5]	-4.1	-4.1	-4.1	4.2
Gross financing requirement	**62.7**	**62.5**	**62.9**	**82.8**
Less Assumed net contribution from NS&I	2.8	4.2	5.6	4.0
Net financing requirement	**59.9**	**58.3**	**57.3**	**78.8**
Financed by:				
1. Debt issuance by the Debt Management Office				
(a) Treasury bills[6]	**1.5**	**-0.1**	**0.6**	**5.8**
(b) Gilts	**58.4**	**58.4**	**58.5**	**80.0**
2. Other planned changes in short-term debt[7]				
Changes in Ways & Means[8]	0.0	0.0	-6.0	-7.0
3. Unanticipated changes in short-term cash position[9]	**0.0**	**0.0**	**-4.2**	**0.0**
Total financing	**59.9**	**58.3**	**53.1**	**78.8**
Short-term debt levels at end of financial year				
Treasury bill stock in market hands[10]	17.1	15.5	16.2	22.0
Ways & Means	13.4	13.4	7.4	0.4
DMO net cash position	0.5	0.5	-3.7	0.5

[1] The financing arithmetic in Budget 2007 was revised on 24 April 2007 to reflect outturn data for 2006-07.

[2] The total assumes the 5½% 2008-12 conventional gilt will be redeemed in September 2008.

[3] The total includes the sterling refinancing of the US $3.0 billion 5 year bond issued in July 2003, that matures on 8 July 2008. The total also reflects a small increase in the level of the hedged reserves.

[4] Purchases of "rump" gilts which are older, small gilts, declared as such by the DMO and in which Gilt-edged Market Makers (GEMMs) are not required to make two-way markets. The Government will not sell further amounts of such gilts to the market but the DMO is prepared, when asked by a GEMM, to make a price to purchase such gilts.

[5] To accommodate changes to the current year's financing requirement resulting from: (i) publication of the previous year's outturn CGNCR; (ii) an increase in the DMO's cash position at the bank of England; and / or (iii) carry over of unanticipated changes to the cash position from the previous year. In 2008-09 the planned short term financing adjustment includes the impact of the partial repayment of £6 billion of the Government's Way and Means Advance at the Bank of England in 2007-08.

[6] The £0.7 billion change in forecast Treasury bill sales in 2007-08 since the 2007 Pre-Budget Report has been accounted for by bilateral sales of Treasury bills with a maturity date later than 31 March 2008. Bilateral Treasury bill sales have been conducted in accordance with paragraph 4.8 of the Debt and reserves management report 2007-08.

[7] Total planned changes to short-term debt are the sum of: (i) the planned short-term financing adjustment; (ii) Treasury bill sales; and (iii) changes to the level of the Ways & Means Advance.

[8] This number reflects the Governments decision to repay up to £7 billion of the remaining balance of the Way and Means Advance in 2008-09.

[9] A negative (positive) number indicates an addition to (reduction in) the financing requirement for the following financial year.

[10] The DMO has operational flexibility to vary the end-financial year stock subject to its operational requirements from 2007-08.

C.102 Full details of the DMO's financing remit including further information on the structure of gilts issuance and the gilt auction calendar for 2008-09 can be found in the *Debt and reserves management report 2008-09* which is published alongside this Budget and is available on HM Treasury's website.

PUBLIC SECTOR FINANCIAL REPORTING

C.103 As announced in Budget 2007, in order to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice, the annual financial statements of government departments and other public sector bodies will in future be prepared using International Financial Reporting Standards (IFRS) adapted as necessary for the public sector. Following consultation with departments and the Financial Reporting Advisory Board on the technical work needed to implement this change, the Government now intends to move to IFRS from 2009-10 to minimise burdens and to ensure a smooth transition. Whole of Government Accounts (WGA) will now also be published for the first time for 2009-10 to allow time to complete the alignment of local and central government accounting policies and to enable WGA to be published on an IFRS basis.

ADDITIONAL ANALYSES

C.104 Historical series for the main fiscal aggregates are included in Table C14. Further information on general government transactions and more detailed breakdowns of the public sector are included in *Budget 2008: the economy and public finances – supplementary material,* along with a detailed description of the conventions used in presenting the public finances.

HISTORICAL SERIES

Table C14: 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 national insurance contributions	Public sector current receipts	Public sector net debt[1]	Public sector net worth[2]
1970-71	6.9		-0.6		1.2	36.4	43.4		
1971-72	4.2		1.1		1.4	35.1	41.6		
1972-73	2.0		2.8		3.6	32.7	39.2		
1973-74	0.4	-0.7	4.9	6.0	5.8	32.1	39.8		
1974-75	-0.9	-2.5	6.6	8.1	8.9	34.8	42.4	52.1	
1975-76	-1.4	-1.6	7.0	7.2	9.2	35.5	43.0	53.8	
1976-77	-1.1	-0.6	5.5	5.1	6.3	35.4	43.4	52.3	
1977-78	-1.3	-1.2	4.3	4.2	3.7	34.4	41.7	49.0	
1978-79	-2.5	-2.3	5.1	4.9	5.2	33.4	40.4	47.1	
1979-80	-1.8	-1.7	4.1	4.0	4.7	33.8	40.9	43.9	
1980-81	-3.0	-1.5	4.9	3.4	5.2	35.8	42.6	46.0	
1981-82	-1.3	2.5	2.3	-1.5	3.3	38.5	46.0	46.2	
1982-83	-1.4	2.9	3.0	-1.3	3.2	38.6	45.7	44.8	
1983-84	-1.9	1.8	3.8	0.1	3.2	38.1	44.6	45.1	
1984-85	-2.1	0.9	3.7	0.7	3.1	38.7	44.5	45.3	
1985-86	-1.2	0.6	2.4	0.6	1.6	38.0	43.4	43.5	
1986-87	-1.4	-1.2	2.1	1.9	0.9	37.7	42.2	41.0	
1987-88	-0.4	-1.7	1.0	2.3	-0.7	37.4	41.3	36.8	73.5
1988-89	1.7	-1.0	-1.3	1.3	-3.0	36.7	40.8	30.5	78.6
1989-90	1.4	-1.4	-0.2	2.6	-1.3	35.9	40.0	27.7	70.5
1990-91	0.3	-1.2	1.0	2.6	-0.1	35.5	39.1	26.2	59.9
1991-92	-2.0	-1.5	3.8	3.3	2.3	34.3	38.7	27.4	52.5
1992-93	-5.7	-3.7	7.5	5.6	5.9	33.2	36.7	31.9	39.8
1993-94	-6.3	-4.1	7.8	5.5	7.0	32.3	35.8	37.0	29.1
1994-95	-4.8	-3.4	6.2	4.8	5.3	33.5	36.9	40.7	28.3
1995-96	-3.3	-2.5	4.7	3.8	4.3	34.0	37.7	42.6	21.0
1996-97	-2.8	-2.2	3.5	2.9	2.9	34.6	37.1	43.3	17.1
1997-98	-0.1	0.0	0.7	0.6	0.2	35.7	38.1	41.3	14.5
1998-99	1.2	1.1	-0.5	-0.4	-0.7	36.1	38.3	39.2	13.6
1999-00	2.3	2.0	-1.7	-1.4	-0.9	36.2	38.7	36.4	16.7
2000-01	2.4	1.8	-1.9	-1.3	-3.7	37.0	39.4	31.4	22.7
2001-02	1.2	1.0	0.0	0.1	0.4	36.4	38.4	30.3	29.5
2002-03	-1.0	-0.6	2.3	1.9	2.3	35.0	37.0	31.5	28.1
2003-04	-1.5	-1.2	2.9	2.6	3.5	34.9	37.2	32.8	28.4
2004-05	-1.6	-1.6	3.3	3.3	3.2	35.7	37.9	34.7	28.7
2005-06	-1.1	-0.9	3.0	2.8	3.2	36.6	38.9	36.0	27.7
2006-07	-0.3	-0.3	2.3	2.2	2.7	36.7	39.2	36.6	26.0

[1] *At end-March; GDP centred on end-March.*

[2] *At end-December; GDP centred on end-December.*

Table C15: Historical series of government expenditure

	£ billion (2006-07 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	186.0	35.5	56.8	242.8	32.8	6.3	10.0	42.8
1971-72	195.1	30.9	53.3	248.4	33.5	5.3	9.2	42.7
1972-73	203.7	29.8	53.3	257.0	33.3	4.9	8.7	42.1
1973-74	223.6	33.4	59.6	283.2	35.3	5.3	9.4	44.7
1974-75	247.1	35.9	63.6	310.6	39.0	5.7	10.0	49.0
1975-76	252.6	35.3	63.1	315.7	40.1	5.6	10.0	50.1
1976-77	259.2	28.9	57.7	316.9	40.1	4.5	8.9	49.0
1977-78	255.6	19.8	48.8	304.4	38.6	3.0	7.4	45.9
1978-79	263.1	17.2	46.9	310.0	38.6	2.5	6.9	45.4
1979-80	269.6	16.0	46.1	315.7	38.4	2.3	6.6	45.0
1980-81	277.8	12.9	43.5	321.3	41.0	1.9	6.4	47.5
1981-82	290.2	6.9	37.3	327.5	42.8	1.0	5.5	48.3
1982-83	296.6	10.9	40.4	337.0	42.8	1.6	5.8	48.7
1983-84	305.8	13.3	42.7	348.5	42.5	1.8	5.9	48.4
1984-85	313.9	11.7	39.6	353.5	42.8	1.6	5.4	48.2
1985-86	314.6	9.1	34.8	349.4	41.2	1.2	4.6	45.8
1986-87	319.6	5.5	31.3	350.9	40.4	0.7	4.0	44.3
1987-88	323.2	4.9	29.3	352.5	38.8	0.6	3.5	42.3
1988-89	315.5	3.0	27.4	342.8	36.4	0.3	3.2	39.5
1989-90	317.3	11.1	35.1	352.4	35.8	1.3	4.0	39.8
1990-91	319.7	12.1	34.0	353.7	36.2	1.4	3.9	40.1
1991-92	338.4	15.8	34.2	372.6	38.6	1.8	3.9	42.5
1992-93	354.8	16.4	34.4	389.2	40.3	1.9	3.9	44.3
1993-94	365.3	13.0	30.9	396.3	40.2	1.4	3.4	43.6
1994-95	376.7	13.4	31.2	407.9	39.8	1.4	3.3	43.1
1995-96	381.2	13.4	30.8	412.0	39.2	1.4	3.2	42.4
1996-97	381.4	7.0	22.8	404.2	38.3	0.7	2.3	40.6
1997-98	379.3	5.9	21.1	400.4	36.8	0.6	2.0	38.8
1998-99	379.4	7.2	21.8	401.1	35.7	0.7	2.0	37.7
1999-00	386.4	6.4	21.1	407.5	35.1	0.6	1.9	37.0
2000-01	405.9	6.1	20.9	426.8	35.7	0.5	1.8	37.5
2001-02	416.8	13.5	28.5	445.3	35.9	1.2	2.5	38.4
2002-03	436.6	15.2	30.7	467.3	36.7	1.3	2.6	39.3
2003-04	458.9	16.8	32.5	491.4	37.4	1.4	2.7	40.1
2004-05	479.6	21.6	37.5	517.2	38.2	1.7	3.0	41.2
2005-06	498.2	24.2	40.7	538.9	38.8	1.9	3.2	42.0
2006-07	507.0	25.8	42.7	549.8	38.3	1.9	3.2	41.5

[1] *Net of sales of fixed assets.*