

The Government's fiscal policy objectives are:

- over the medium term, to ensure sound public finances and that spending and taxation impact fairly within and between generations; and
- over the short term, to support monetary policy and, in particular, to allow the automatic stabilisers to help smooth the path of the economy.

Chapter 2 sets out the action the Government is taking to achieve these goals. This Annex presents more detailed information on the fiscal projections, consistent with the *Code for fiscal stability*.

The 2008 *End of year fiscal report* is published alongside this Pre-Budget Report, underlining the Government's commitment to transparency in fiscal policy by providing detailed information on the public finances in 2006-07 and 2007-08.

INTRODUCTION

B.1 Since August 2007 the world's economies have been subject to unprecedented global economic shocks. In this challenging economic and fiscal climate, the Government's immediate priority is to support the economy. Over the medium term, the Government's fiscal policy objective is to ensure the sustainability of the public finances, in order to protect economic stability, employment and growth. Chapter 2 sets out the action the Government is taking to achieve these goals consistent with the fiscal framework. This Annex explains the latest public finance outturns and the fiscal projections in more detail¹. It includes:

- five-year projections of the current budget, the cyclically-adjusted current budget, public sector net borrowing and public sector net debt, the key aggregates for assessing performance against the fiscal framework and the impact of fiscal policy on the economy; and
- detailed analyses of the outlook for government receipts and expenditure.

FORECAST ASSUMPTIONS AND RISKS

Key assumptions

B.2 This section sets out the key assumptions on which the fiscal projections are based:

- the economy follows the path described in Annex A. The fiscal projections continue to be based on the assumption that trend output growth will be ¼ percentage point lower than the Government's neutral view, which is designed to add caution;
- there are no tax or spending policy changes beyond those announced in or before this Pre-Budget Report. Rates, thresholds and limits, including for 2008-09, increase in line with projected indexation or announced policy. 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;

¹ For further detail see, *2008 Pre-Budget Report: the economy and public finances – supplementary charts and tables*. This includes tables on public expenditure, sub-sector and economic category analyses.

- Departmental Expenditure Limits (DEL) to 2010-11 are adjusted as set out in Chapter 2, in order to bring forward spending to support the economy and help to ensure fiscal consolidation in the medium term;
- total Annually Managed Expenditure (AME) programmes to 2010-11 have been forecast consistent with the economic assumptions and policy decisions in this Pre-Budget Report;
- public sector current expenditure is projected to grow at 1.2 per cent on average in real terms from 2011-12 to 2013-14; and
- net investment is projected to move to 1.8 per cent of GDP in 2013-14.

Table B1: Economic assumptions for the public finance projections

	Percentage changes on previous year unless otherwise specified						
	Outturn	Estimate	Projections				
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Output (GDP)	3	- ¼	- ½	2	3	3	3
Prices							
CPI	2 ¼	3 ¾	1	2	2	2	2
GDP deflator	3	3 ¼	1 ½	2 ¾	2 ¾	2 ¾	2 ¾
RPI ¹ (September)	4	5	-2 ¼	2 ½	4	3 ½	3
Rossi ² (September)	2 ¼	6 ¼	0	1 ¾	2 ½	2 ½	2 ½
Money GDP ³ (£ billion)	1,421	1,463	1,480	1,549	1,638	1,735	1,836

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. Unless a fall is specifically allowed for in statute, tax parameters and benefit levels depending on the negative RPI value for 2009 are assumed to remain unchanged from their previous values.

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

³ Not seasonally adjusted.

B.3 The projections for 2008-09 are based on all available data within the Treasury and other government departments involved in producing tax and spending forecasts.

The use of NAO audited assumptions

B.4 The use of assumptions audited by the National Audit Office (NAO) under the three-year rolling review process is designed to add caution into the public finance projections. Details of the audited assumptions are given in Box B1. The trend rate of GDP growth is assumed to be ¼ per cent below the neutral view, which means that the rate of economic growth on which the public finances projections are based is the lower end of the forecast range, as set out in Table B1.

B.5 For the 2008 Pre-Budget Report, the Comptroller and Auditor General has audited the Treasury’s judgement that the end date of the previous economic cycle was in the second half of 2006. Taking all the evidence as a whole, he judged that it is reasonable to conclude that the second half of 2006 marked the end date of the most recently completed economic cycle, which was judged to have started in the first half of 1997. The Comptroller and Auditor General recommended, given the uncertainties in dating the economic cycles, including looking ahead and the impact new data might have in the future, that the Treasury keep this assessment under review. The NAO will be asked to audit the end date of the current and future cycles once the Treasury has made a firm judgement.

B.6 The Comptroller and Auditor General also audited the oil price assumption used for the Treasury's public finance projections. The report concluded that the convention was cautious over the past three years, is designed to provide caution in the future, and remains a reasonable assumption to use going forward. No other assumptions were due for review in this Pre-Budget Report.

**Forecast
differences and
risks**

B.7 Over the past ten years, the average absolute difference between year-ahead forecasts of net borrowing and subsequent outturns has been around 1 per cent of GDP. This difference tends to grow as the forecast horizon lengthens. The fiscal balances represent the difference between two large aggregates of expenditure and receipts, and forecasts are inevitably subject to wide margins of uncertainty. This is particularly the case at times such as now when the economy has been subject to significant shocks and there is increased uncertainty about its future path. The uncertainty surrounding economic prospects at the current time, therefore implies greater than usual risks surrounding the public finance projections. This Annex supplements the analysis of the main risks to the economic forecast in Annex A and Chapter 2 by providing further detail in the analysis of tax and spending of the risks to the public finances forecast.

B.8 The 2008 *End of year fiscal report* (EYFR) is published alongside this Pre-Budget Report. The EYFR underlines the Government's commitment to transparency in fiscal policy by providing detailed retrospective information on the public finances in 2006-07 and 2007-08, including an explanation for differences between forecasts and outturn in those years. The information set out in the 2008 *End of year fiscal report* supplements the historical and provisional outturn data published in this Annex.

Box B1: Key assumptions audited by the NAO^a

Trend GDP growth ^c	2½ per cent a year to 2014.
Dating of the cycle ^f	The previous economic cycle, which began in the first half of 1997, ended in the second half of 2006.
Composition of GDP ^d	Shares of labour income and profits in national income are broadly constant in the medium term.
Consistency of price indices ^c	Projections of price indices used to project the public finances are consistent with CPI.
Oil prices ^f	\$60.1 a barrel in 2009, the average for the month to 19 November, and then constant in real terms. This is lower than the \$71.8 average of independent forecasts for 2009.
Equity prices ^c	FTSE All-share index rises from 1998 (close 19 November) in line with money GDP.
VAT ^d	The underlying VAT gap will rise by 0.5 percentage points per year from the estimated outturn for the current year.
Tobacco ^d	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 ^{e, g}	Rising from recent levels of 0.98 million to 1.41 million at the end of 2009, and to 1.55 million at the end of 2010, based on the average of independent forecasts.
Interest rates ^b	3-month market rates change in line with market expectations (as of 13 November).
Funding ^d	Funding assumptions used to project debt interest are consistent with the forecast level of government borrowing and with financing policy.
Privatisation proceeds ^b	Credit is taken only for proceeds from sales that have been announced.

^a For details of all NAO audits before Budget 2006, see the 2005 Pre-Budget Report, 5 December 2005 (HC 707).

^b Audit of Assumptions for Budget 2006, 22 March 2006 (HC 937).

^c Audit of Assumptions for the 2006 Pre-Budget Report, 6 December 2006 (HC 125).

^d Audit of Assumptions for Budget 2007, 21 March 2007 (HC 393).

^e Audit of Assumptions for Budget 2008, 12 March 2008 (HC 345).

^f Audit of Assumptions for the 2008 Pre-Budget Report, 24 November 2008 (HC 1150).

^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.

MEETING THE FISCAL RULES OVER THE PREVIOUS CYCLE

B.9 As set out above, the Treasury's assessment, audited by the NAO, is that the previous economic cycle, judged to have started in the first half of 1997, ended during the second half of 2006. Table B2 shows that the Government met both of its fiscal rules over the economic cycle from 1997-98 to 2006-07.

Table B2: Summary of performance of fiscal policy over the previous cycle

	Per cent of GDP										
	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Golden rule											
Surplus on current budget		-0.1	1.2	2.2	2.4	1.2	-1.0	-1.5	-1.6	-1.1	-0.3
Average surplus since 1997-1998		-0.1	0.5	1.1	1.4	1.4	1.0	0.6	0.3	0.2	0.1
Cyclically-adjusted surplus on current budget		-0.1	0.9	1.7	1.6	0.9	-0.7	-1.3	-1.5	-1.0	-0.3
Sustainable investment rule¹											
Public sector net debt ²	42.5	40.6	38.4	35.6	30.7	29.7	30.8	32.2	34.1	35.4	36.0
Core debt ²	41.1	39.2	37.4	35.1	31.0	30.2	31.0	32.2	34.0	35.2	35.9

¹ As debt is a stock measure, performance against the sustainable investment rule is measured against the end point of the previous cycle.

² Debt at end March; GDP centred on end March.

The golden rule over the previous cycle

B.10 The golden rule required, over the previous economic cycle, the average surplus on the current budget expressed as a ratio to GDP to be equal to or greater than zero². Table B2 shows that on this basis, the Government met the golden rule for the cycle that began in 1997-98, with an average surplus of 0.1 per cent of GDP.

The sustainable investment rule over the previous cycle

B.11 The sustainable investment rule required public sector net debt (PSND) as a proportion of GDP to be held at a stable and prudent level over the previous economic cycle. In 1998, the Government announced that it would maintain net debt below 40 per cent of GDP over the course of the economic cycle beginning in 1997-98. In 2003, the Government stated that to meet the sustainable investment rule with confidence, net debt would be maintained below 40 per cent of GDP in each and every year of the economic cycle. Table B2 shows that net debt was maintained below 40 per cent of GDP on average over the previous cycle, and was below 40 per cent of GDP in every year from 1998-99 onwards, therefore meeting the sustainable investment rule.

² Measuring the fiscal rules is discussed in Chapter 9 of *Reforming Britain's economic and financial policy*, Balls and O'Donnell (eds.), 2002. Performance over past cycles is described further in Chapter 2 of the 2008 Pre-Budget Report.

FISCAL PROJECTIONS

B.12 Table B3 shows five-year projections for the current budget, cyclically-adjusted current budget, public sector net borrowing and public sector net debt³, the key aggregates for assessing performance against the new fiscal framework. Outturns and projections of other important measures of the public finances are also shown.

Table B3: Summary of public sector finances

	Per cent of GDP						
	Outturn	Estimate	Projections				
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Fiscal consolidation							
Surplus on current budget	-0.5	-2.8	-5.3	-4.7	-3.3	-2.2	-1.1
Cyclically-adjusted surplus on current budget	-0.8	-2.8	-4.4	-3.4	-2.3	-1.6	-1.0
Consolidation in the cyclically-adjusted surplus on current budget ¹	-	-	-	1.0	1.2	0.7	0.6
Economic impact							
Net investment	2.1	2.5	2.7	2.1	2.0	1.9	1.8
Public sector net borrowing (PSNB)	2.6	5.3	8.0	6.8	5.3	4.1	2.9
Cyclically-adjusted PSNB	2.9	5.3	7.2	5.6	4.3	3.5	2.8
Sustainability							
Public sector net debt ^{2,3}	36.3	41.2	48.2	52.9	55.6	57.1	57.4
Core debt ^{2,3}	36.5	41.3	47.5	51.0	52.8	53.9	54.2
Net worth ⁴	28.8	23.5	16.6	12.9	10.6	9.1	8.7
Primary balance	-1.0	-3.6	-6.7	-4.7	-3.0	-1.6	-0.5
Financing							
Central government net cash requirement	2.3	10.5	8.5	6.9	5.9	4.6	3.7
Public sector net cash requirement ³	1.5	4.8	8.9	6.9	5.7	4.3	3.4
European commitments							
Treaty deficit ⁵	2.8	5.4	8.1	7.0	5.6	4.4	3.3
Cyclically-adjusted Treaty deficit ⁵	3.1	5.4	7.3	5.8	4.5	3.8	3.1
Treaty debt ratio ⁶	43.2	52.9	60.5	65.1	67.5	68.6	68.5
Memo: Output gap	0.6	-0.3	-1.5	-1.9	-1.3	-0.7	-0.1
Memo: PSND including financial sector interventions	42.8	48.9	54.7				
Memo: PSNCR including financial sector interventions	1.5	6.1	8.0				

¹ Change in the cyclically-adjusted surplus on the previous year.

² Debt at end March; GDP centred on end March.

³ Excluding financial sector interventions.

⁴ Estimate at end December; GDP centred on end December.

⁵ General government net borrowing on a Maastricht basis.

⁶ General government gross debt measures on a Maastricht basis.

Current budget **B.13** The Pre-Budget Report projections show that the current budget is in deficit throughout the forecast period, peaking at 5.3 per cent of GDP in 2009-10, and then falling to 1.1 per cent by 2013-14. The cyclically-adjusted surplus removes the estimated effects of the economic cycle on the current balance. The cyclically-adjusted deficit falls from 4.4 per cent of GDP in 2009-10 to 1.0 per cent in 2013-14 when the economy is projected to return to trend, driven by a recovery of tax receipts and lower spending growth. A further adjustment of ½ a per cent a year in 2014-15 and 2015-16 would eliminate the deficit on the current budget by 2015-16.

³ As set out in Budget 2008 and Chapter 2, the measure of public sector net debt used for the assessment of fiscal sustainability excludes the impact of financial sector interventions. Table B3 also reports on PSND including the impact of these interventions.

Net debt to GDP ratio **B.14** PSND is projected to grow over the forecast period and stabilise just over 57 per cent of GDP in 2013-14. The projections for core debt, which excludes the estimated impact of the economic cycle, rise to 54.2 per cent of GDP in 2013-14.

B.15 This Pre-Budget Report puts the public finances on a path that will ensure public sector net debt will fall as a proportion of GDP in the medium term. Chapter 2 sets out illustrative projections based on a further improvement of ½ per cent a year in the cyclically-adjusted current balance and net investment held constant at 1.8 per cent of GDP, that show the public debt to GDP ratio will be declining in 2015-16.

Contingent liabilities **B.16** Fiscal aggregates published by Government, such as net debt and net worth, reflect public sector liabilities that have been accrued in the past and are certain to require future transfers to meet the obligations. In addition, there are provisions or contingent liabilities that may have to be met in the future but where the timing or existence of the liability is not certain, these include for example nuclear decommissioning liabilities. The Government considers these types of liabilities in the sustainability analysis published in the *Long-term public finance report*. For example, the report publishes estimates of net liabilities, which include provisions and are based on dry run Whole of Government Accounts (WGA). When WGA are published for the year 2009-10, contingent liabilities will be disclosed as a note to the accounts. However, measures of contingent liability are subject to significant uncertainties, which limits the extent to which they can be used to determine fiscal policy in the short run.

Net investment **B.17** 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 this Pre-Budget Report, net investment will increase to 2¾ per cent in 2009-10 before falling back to 1.8 per cent of GDP in 2013-14.

Public sector net borrowing **B.18** Public sector net borrowing (PSNB) is projected to increase to 5.3 per cent of GDP in 2008-09 and then to 8.0 per cent in 2009-10, as the economic downturn reduces tax receipts, the automatic stabilisers increase spending, and borrowing rises to finance the temporary fiscal action to support the economy. PSNB is then expected to fall each year to 2.9 per cent in 2013-14 as a result of recovery of the economy and the Government's action to ensure the sustainability of the public finances.

Financing **B.19** The central government net cash requirement (CGNCR) was 2.3 per cent of GDP in 2007-08. It is projected to be around 10.5 per cent in 2008-09 as a result of additional borrowing and the financial costs of the Government's action to preserve financial stability and protect retail depositors, set out in Chapter 3. The CGNCR then falls to 3.7 per cent of GDP by 2013-14. Further details of the impact on the public finance projections of the Government's measures to ensure financial stability are set out in Box B3.

European commitments **B.20** Table B3 shows the Treaty measures of debt and deficit used for the purposes of the Excessive Deficit Procedure – Article 104 of the Treaty. The Pre-Budget Report projections meet the EU Treaty reference value for general government gross debt (60 per cent of GDP) in 2008-09, but rise above it in subsequent years. The treaty deficit in 2007-08 was 2.8 per cent of GDP. The deficit is expected to rise to 8.3 per cent of GDP in 2009-10. The treaty deficit is then expected to fall to 3.3 per cent of GDP in 2013-14.

CHANGES TO THE FISCAL BALANCES

B.21 Table B4 compares the latest estimates for the main fiscal balances with those in Budget 2008.

Table B4: Fiscal balances compared with Budget 2008

	Outturn ¹	Estimate ²	Projections			
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Net borrowing (£ billion)						
Budget 2008	36.4	42.5	38	32	27	23
Changes to current budget	-1.2	31.6	74	77	65	56
Changes to net investment	1.4	3.5	5 ½	-4	-5 ½	-8
2008 Pre-Budget Report	36.6	77.6	118	105	87	70
Surplus on current budget (£ billion)						
Budget 2008	-7.9	-9.6	-4	4	11	18
Effect of revisions and forecasting changes	1.2	-23.3	-61	-78	-75	-72
Effect of discretionary changes ³	0.0	-8.3	-13	1	10	16
2008 Pre-Budget Report	-6.7	-41.2	-78	-73	-54	-37
Net investment (£ billion)						
Budget 2008	28.5	32.9	35	37	38	41
Effect of revisions and forecasting changes	1.4	2.5	2 ½	- ½	-2	-1 ½
Effect of discretionary changes ³	0.0	1.0	3 ½	-3 ½	-4	-6 ½
2008 Pre-Budget Report	29.9	36.5	40	33	33	33
Cyclically-adjusted surplus on current budget (per cent of GDP)						
Budget 2008	-0.7	-0.5	0.1	0.5	0.8	1.0
2008 Pre-Budget Report	-0.8	-2.8	-4.4	-3.4	-2.3	-1.6
Cyclically-adjusted net borrowing (per cent of GDP)						
Budget 2008	2.7	2.7	2.2	1.8	1.5	1.2
2008 Pre-Budget Report	2.9	5.3	7.2	5.6	4.3	3.5
Net debt (per cent of GDP)⁴						
Budget 2008	37.1	38.5	39.4	39.8	39.7	39.3
2008 Pre-Budget Report	36.3	41.2	48.2	52.9	55.6	57.1

Note - Totals may not sum due to rounding.

¹ The 2007-08 figures were estimates in Budget 2008.

² The 2008-09 figures were projections in Budget 2008.

³ Including changes to forecasting assumptions on spending growth in 2011-12 and 2012-13.

⁴ Debt at end March; GDP centred on end March; excluding financial sector interventions.

Changes to 2007-08 B.22 The outturn for the current budget in 2007-08 shows a deficit of £6.7 billion, a £1.2 billion lower deficit than expected at Budget 2008. The changes since the Budget largely reflect revisions following reclassification of some central and local government expenditure from current to capital expenditure, which was partly offset by downward revisions to current receipts. The 2007-08 outturn for net borrowing is £0.2 billion higher than the Budget 2008 estimate, due to the revised capital expenditure.

Changes to 2008-09 B.23 The current deficit in 2008-09 is higher than forecast in Budget 2008 due to falls in receipts and higher spending driven by the economic downturn, and by additional borrowing to support the economy. Receipts are lower than expected at the Budget from the housing and financial sectors, and from the wider economy due to lower wages, consumption and profits growth. The impact of the fiscal stimulus and other measures increases the current deficit in 2008-09 by £8.3 billion. Net borrowing in 2008-09 is expected to be £35.1 billion above the Budget forecast driven by the higher current budget deficit and by higher net investment. As

a result of increased borrowing, PSND, excluding financial sector interventions, for 2008-09 is forecast to be 41.2 per cent of GDP, 2.7 per cent of GDP higher than the Budget 2008 forecast.

Changes from 2009-10

B.24 Net borrowing peaks in 2009-10 at £118 billion, which is £80 billion above the Budget forecast, due to the continuing downturn and further borrowing to support the economy. Net borrowing in 2009-10 is 8.0 per cent of GDP. Of this, the temporary fiscal action that the Government is taking to support the economy accounts for 1.1 per cent of GDP, of which around 0.2 per cent of GDP is capital spending. In total, borrowing for capital investment accounts for 2.7 per cent of GDP in 2009-10. Therefore, excluding borrowing for investment and for discretionary action, net borrowing in 2009-10 would be 4.4 per cent of GDP.

B.25 Net borrowing falls to 2.9 per cent by the end of the forecast period, reflecting the action the Government is taking to ensure the sustainability of the public finances over the medium term, including through discretionary action, as shown in Table B4. PSND increases over the forecast period in particular in 2009-10 and 2010-11, reflecting the additional borrowing in these years, then begins to stabilise at 57.4 per cent by the end of the forecast period.

PRE-BUDGET REPORT POLICY DECISIONS

B.26 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 this 2008 Pre-Budget Report or since Budget 2008. The fiscal impacts of these measures are set out in Table B5.

B.27 Expenditure measures affecting AME and DEL in 2008-09 have been added to total AME and total DEL, respectively.

B.28 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 where consultation is proposed in this Pre-Budget Report, or where final decisions have yet to be taken.

Table B5: Estimated costs for Pre-Budget Report policy decisions and others announced since Budget 2008¹

	£ million			
	2008-09	2009-10	2010-11	2011-12
Measures announced since Budget 2008²				
Personal allowance and basic rate limit changes for 2008-09	-2,650	-270	+90	0
September housing package: spending measures	-200	-665	+865	0
SDLT holiday for residential homes	-130	-150	0	0
Local Housing Allowance: cap benefit at 5 bedroom rate	0	+5	+15	+15
Class 3 NICs: Pensions Bill amendment	0	+230	+10	+10
Supporting the economy and ensuring sustainability of public finances				
VAT rate reduction	-3,800	-8,600	0	0
Alcohol duties: increase in rates	+160	+640	+645	+675
Tobacco duties: increase in rates	+115	+340	+360	+365
Capital spending brought forward	-365	-2,545	+2,910	0
Indexation of personal allowance and basic rate limit	0	-2,930	-3,310	-3,270
£130 increase in personal allowance in 2009-10 and 2010-11	0	-630	-770	-100
Freeze basic rate limit in 2011-12	0	0	0	+180
Restrict personal allowance by half from £100,000 and to zero from £140,000 from 2010-11	0	0	+830	+1,320
Additional higher income tax rate of 45% above £150,000 and raise trust rate to 45% from 2011-12	0	0	0	+670
Align the NICs primary threshold with personal allowance in 2011-12	0	0	0	-1,610
Increase main employee NICs rate by 0.5% from 2011-12	0	0	0	+2,050
Increase additional employee NICs rate by 0.5% from 2011-12	0	0	0	+440
Increase employer NICs rate by 0.5% from 2011-12	0	0	0	+2,650
Increase main self-employed rate of NICs by 0.5% from 2011-12	0	0	0	+170
Increase additional self-employed NICs rate by 0.5% from 2011-12	0	0	0	+80
Public spending: additional value for money savings	0	0	+5,000	+5,000
Supporting business				
Foreign profits	0	+75	+25	-275
Loss carry back: temporary extension	-10	-175	-20	+15
Small Companies Rate of corporation tax: defer increase to April 2010	0	-20	-460	-130
Rates on empty property: temporary exemption	0	-185	+10	0
Backdated business rates bills	-80	-55	+25	+20
Income shifting: defer action	0	-25	-260	-200
Insurance claims equalisation reserves	-15	-35	-35	-35
Helping people fairly				
Child benefit: bring forward uprating from April 2009 to January 2009	-170	0	0	0
Child element of Child Tax Credit: bring forward £25 increase from 2010 to April 2009	0	-190	0	0
DWP Job Centre Plus funding ⁴	0	-400	-400	0
Uprating of pension credit above indexation	0	-260	-300	-310
Additional payment to pensioners and others	-900	0	0	0
Freeze pension lifetime and annual allowance from 2011-12 for 5 years	+25	+100	+200	+400
Index housing benefit disregard in tax credits	0	-5	-5	-5
Support for mortgage interest	-30	-15	0	0
Further support for debt advice	-5	-10	-5	0
Protecting revenues				
Change of Accounting Practice Regulations	0	+10	+15	+15
Enhance tax avoidance disclosure regime	0	+10	+15	+10
Delivering on environmental goals				
Air passenger duty	0	-60	-160	-50
Vehicle excise duty - cars and vans	0	-465	-515	-545
Vehicle excise duty - heavy goods vehicles	0	-10	-10	-10
Fuel duty	-180	0	0	0
Additional spending on Warm Front	-50	-50	0	0
Capital allowances: business cars	0	+10	+10	+5
Other policy decisions				
Addition to DEL reserve	-1,000	0	0	0
TOTAL POLICY DECISIONS	-9,285	-16,330	+4,775	+7,550
Memo: Resetting AME margin	0	-1,000	-2,000	-2,000

¹ Costings shown relative to an indexed base.

² Costings reflect Pre-Budget Report economic forecast and assumptions.

³ Yield increases due to lagged effects of self-assessment. For 2011-12 onwards, yield is £670 million / £1650 million / £1600 million.

⁴ The remainder of the employment package totalling £1.3 billion announced in Chapter 5 is funded from DWP End of Year flexibility

- Bands, rates and personal allowances** **B.29** The income tax personal allowance available for the under 65s will be increased by £130 above statutory indexation to £6,475 for 2009-10.
- B.30** Age related allowances and limits will rise in line with statutory indexation in 2009-10.
- B.31** Both the basic and higher rate of tax will remain the same in 2009-10, at 20 per cent and 40 per cent respectively.
- B.32** The starting rate limit for savings will be increased in line with statutory indexation, and as announced in Budget 2007, the basic rate limit will be increased by £800 above statutory indexation to £37,400 in 2009-10.
- B.33** As announced in Budget 2004, the lifetime allowance for pensions tax relief will be £1.75 million in 2009-10. The annual allowance will be £245,000 for 2009-10.

Table B6: Bands of taxable income

2008-09	£ a year	2009-10	£ a year
Starting rate 10 per cent ¹	0-2320	Starting rate 10 per cent ¹	0-2,440
Basic rate 20 per cent	0 - 34,800	Basic rate 20 per cent	0-37,400
Higher rate 40 per cent	over 34,800	Higher rate 40 per cent	over 37,400

¹ There is a starting rate for savings only. If an individual's non savings taxable income exceeds the starting rate limit, the 10p starting rate for savings will not be available for savings income.

Table B7: Income tax allowances 2009-10

	£ per year		
	2008-09	2009-10	Increase
Personal allowance			
age under 65	6,035	6,475	440
age 65-74	9,030	9,490	460
age 75 and over	9,180	9,640	460
Married couple's allowance ¹			
aged less than 75 and born before 6 April 1935	6,535	6,865	330
age 75 and over	6,625	6,965	340
minumum amount ²	2,540	2,670	130
Income limit for age-related allowances	21,800	22,900	1,100
Blind person's allowance	1,800	1,890	90

¹ Tax relief for this allowance is restricted to 10 per cent.

² This is also the maximum relief for maintenance payments where at least one of the parties is born before 6 April 1935.

- National insurance contributions** **B.34** The national insurance contributions (NICs) threshold, limit and self-employed flat rate will increase in line with statutory indexation for 2009-10, with the exception of the Upper Earnings and Upper Profit Limits (UEL/UPL). These will rise to £844 per week, £43,875 per year, to align with the level at which higher rate tax begins to be paid.

Table B8: National insurance contribution rates 2009-10

Earnings ¹ £ per week	Class 1 rates		Profits ¹ £ per year	Self employed NICs	
	Employee (primary) NIC rate ² per cent	Employer (secondary) NIC rate ³ per cent		Class 2 £ per week	Class 4 per cent
Below 95 (LEL)	0	0	Below 5075 (SEE) ⁴	0.00	0
95 to 110 (PT/ST) ⁵	0	0	5075 to 5,715 (LPL) ⁵	2.40	0
110 to 844 (UEL)	11	12.8	5,715 to 43875 (UPL)	2.40	8
Above 844	1	12.8	Above 43875	2.40	1

¹ The limits are defined as LEL - lower earnings limit; PT - primary threshold; ST - secondary threshold; UEL - upper earnings limit; LPL - lower profits limit; UPL - upper profits limit; SEE - small earnings exception.

² The contracted-out rebate for primary contributions in 2007-08 is 1.6 per cent of earnings between the LEL and UEL for contracted-out salary-related schemes (COSRS) and contracted-out money purchase schemes (COMPS).

³ The contracted-out rebate for secondary contributions is 3.7 per cent of earnings between the LEL and UEL for COSRS and 1.4 per cent for COMPS. For COMPS, an additional age-related rebate is paid direct to the scheme following the end of the tax year. For appropriate personal pensions, the employee and employer pay NICs at the standard, not contracted-out rate. An age-related rebate is paid direct to the personal pension provider following the end of the year.

⁴ The self-employed may apply for exception from paying Class 2 contributions if their earnings are less than, or expected to be less than, the level of the small earnings exception.

⁵ No NICs are actually payable but a Class 1 NIC is treated as having been paid in respect of earnings between the LEL and PT to protect benefit entitlement.

Working and child tax credit rates

B.35 From April 2009, the child element of the Child Tax Credit (CTC) is increasing by £75 above average earnings growth, by £125 to £2,235 per year. This builds on the Government's commitment to increase the child element by £50 above indexation in April 2009 by bringing forward the Government's commitment to increase the child element by £25 above indexation in April 2010 to April 2009. The elements for both disabled children and severely disabled children will increase in line with inflation (the increase in the RPI in the year to September 2008), as set out in Table B9. The income threshold for receiving maximum CTC only is increasing to £16,040. The Government is maintaining the childcare element of Working Tax Credit (WTC), and the other WTC elements are increasing in line with inflation. All other tax credit rates and thresholds are unchanged. Child Benefit is increasing to £20 for the first child, and in line with inflation for subsequent children. These increases are being brought forward from April 2009 to January 2009. The Guardian's Allowance will increase in line with inflation in April 2009.

Table B9: Working and Child Tax Credit rates and thresholds

	£ per year		
	2008-09	2009-10	Increase
Working Tax Credit			
Basic Element	1,800	1,890	90
Couple and lone parent element	1,770	1,860	90
30 hour element	735	775	40
Disabled worker element	2,405	2,530	125
Severe disability element	1,020	1,075	55
50 plus element, 16–29 hours	1,235	1,300	65
50 plus element, 30+ hours	1,840	1,935	95
Childcare element			
maximum eligible cost for one child	£175 per week	£175 per week	-
maximum eligible cost for two or more children	£300 per week	£300 per week	-
<i>per cent of eligible costs covered</i>	80%	80%	-
Child Tax Credit			
Family element	545	545	-
Family element, baby addition	545	545	-
Child element	2,085	2,235	150
Disabled child element	2,540	2,670	130
Severely disabled child element	1,020	1,075	55
Income thresholds and withdrawal rates			
First income threshold	6,420	6,420	-
<i>First withdrawal rate (per cent)</i>	39%	39%	-
Second income threshold	50,000	50,000	-
<i>Second withdrawal rate (per cent)</i>	6.67%	6.67%	-
First threshold for those entitled to Child Tax Credit only	15,575	16,040	465
Income disregard	25,000	25,000	-

FISCAL AGGREGATES

B.36 Tables B10 and B11 provide more detail on the projections for the current and capital budgets.

Table B10: Current and capital budgets

	£ billion						
	Outturn	Estimate	Projections				
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Current budget							
Current receipts	547.5	545.5	535	576	621	664	708
Current expenditure	536.4	568.0	594	628	653	679	705
Depreciation	17.8	18.7	20	21	22	23	24
Surplus on current budget	-6.7	-41.2	-78	-73	-54	-37	-21
Capital budget							
Gross investment ¹	47.7	55.1	60	54	55	56	57
Less depreciation	-17.8	-18.7	-20	-21	-22	-23	-24
Net investment	29.9	36.5	40	33	33	33	33
Net borrowing	36.6	77.6	118	105	87	70	54
Public sector net debt - end year²	526.8	602.0	729	842	938	1020	1084
Memos:							
Treaty deficit ³	39.4	79.5	120	109	91	75	60
Treaty debt ⁴	614.4	773.8	896	1008	1106	1191	1258

¹ Net of asset sales; for a breakdown see Table 17 in 2008 Pre-Budget Report: the economy and public finances - supplementary material.

² Debt at end March; excluding financial sector interventions.

³ General government net borrowing on a Maastricht basis.

⁴ General government gross debt on a Maastricht basis.

Table B11: Current and capital budgets

	Per cent of GDP						
	Outturn	Estimate	Projections				
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Current budget							
Current receipts	38.5	37.3	36.2	37.2	37.9	38.3	38.6
Current expenditure	37.8	38.8	40.1	40.6	39.9	39.1	38.4
Depreciation	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Surplus on current budget	-0.5	-2.8	-5.3	-4.7	-3.3	-2.2	-1.1
Capital budget							
Gross investment ¹	3.4	3.8	4.1	3.5	3.3	3.2	3.1
Less depreciation	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Net investment	2.1	2.5	2.7	2.1	2.0	1.9	1.8
Net borrowing	2.6	5.3	8.0	6.8	5.3	4.1	2.9
Public sector net debt - end year²	36.3	41.2	48.2	52.9	55.6	57.1	57.4
Memos:							
Treaty deficit ³	2.8	5.4	8.1	7.0	5.6	4.4	3.3
Treaty debt ratio ⁴	43.2	52.9	60.5	65.1	67.5	68.6	68.5

¹ Net of asset sales; for a breakdown see Table 17 in PBR 2008: the economy and public finances - supplementary material.

² Debt at end March; GDP centred on end March; excluding financial sector interventions.

³ General government net borrowing on a Maastricht basis.

⁴ General government gross debt on a Maastricht basis.

B.37 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. The current deficit peaks at £77.6 billion in 2009-10 as the impact of the downturn reduces receipts and as a result of discretionary action to support the economy. The current deficit then declines to £21 billion in 2013-14 as the economy recovers and current expenditure grows at lower rates.

B.38 Table B11 also shows that net investment is projected to increase from 2.1 per cent of GDP in 2007-08 to around 2¾ per cent in 2009-10, as the Government brings forward capital spending from 2010-11 to 2008-09 and 2009-10, and then moves to around 1.8 per cent of GDP in 2013-14 ensuring the medium-term sustainability of the public finances.

RECEIPTS

B.39 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 2008, before looking in detail at changes in the projections of individual tax receipts. Finally, it provides updated forecasts for the tax-GDP ratios.

B.40 With the impact of the global credit and commodity shocks slowing the economy rapidly, receipts growth in the first part of 2008-09 was weak. Net taxes and national insurance contributions (NICs) were up just 1.8 per cent year-on-year in the first seven months of 2008-09. With the economy having entered a downturn, receipts growth on a year earlier is likely to turn negative over the remainder of 2008-09. Receipts are expected to weaken further in 2009-10 with net taxes and NICs projected to fall by 3.3 per cent on 2008-09.

Changes in total receipts since Budget 2008

B.41 Lower levels of output across the economy act to significantly reduce tax receipts, in particular from income tax, NICs, VAT and corporation tax due to lower incomes, consumption and profits. With income tax and NICs accounting for around 45 per cent of total receipts, lower labour income results in a shortfall in receipts in 2009-10 of £16 billion, compared with Budget 2008 forecast. By 2010-11, lower consumer spending and profits of industrial and commercial companies reduce receipts by £4½ billion and £7½ billion respectively. Total economic growth over the forecast period is lower than assumed in Budget 2008. Coupled with a recovery led by investment and exports, which is likely to generate less receipts than a consumer-led rebound, a substantial element of the receipts shortfall due to economic factors persists.

Impact of the financial market crisis on receipts

B.42 Box B2 looks at the impact of the financial and housing sectors on the public finances. The intensification of the global financial crisis since Budget 2008 will significantly reduce receipts from the financial sector. The impact on corporation tax, income tax and VAT from the financial sector is likely to reduce receipts by £7½ billion in 2008-09 and by around £10 billion in 2009-10, relative to the Budget 2008 forecast. The Budget had assumed that the negative impact on receipts from financial sector disruption would be at its greatest in 2008-09 before the sector picked up as credit conditions normalised in mid-2009. Consistent with the assumption underlying the Pre-Budget Report economic forecast that credit conditions will ease only slowly through 2009 and stabilise in 2010, no rebound in financial sector profits and City bonuses is assumed in 2009. Thereafter, activity in the sector recovers but remains lower than assumed in earlier Budgets and Pre-Budget Reports.

B.43 Equity prices have fallen sharply since Budget 2008. The public finances forecast uses a 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 35 per cent lower than assumed in the Budget throughout the forecast horizon. Equity prices have a direct impact on stamp duty on shares, onshore corporation tax, and with a lag, capital gains tax and inheritance tax. Receipts driven by equity prices are expected to be £1 billion lower in 2008-09 and around £3½ billion a year lower in 2009-10 and thereafter.

Impact of housing market downturn on receipts

B.44 Residential and commercial property markets have also been affected by the global credit shock. The availability of property finance has declined rapidly, impacting on both house prices and transactions. Allied with a continued drop in commercial property prices, stamp duty land tax has fallen sharply in 2008-09. The public finance forecasts have used external forecasts, from the Treasury's published *Comparison of independent forecasts* as the basis for the Treasury's assumptions. The average of independent forecasts is for house prices to fall by 20 per cent in the two years to the end of 2009. Coupled with continued weakness in property transactions and a lagged impact on receipts of capital gains tax and inheritance tax, housing-related receipts are likely to be £7 billion lower in 2009-10, relative to the Budget 2008 forecast. With the level of house prices lower throughout the forecast than assumed in the Budget, a sizeable element of the shortfall persists.

Risks and uncertainty

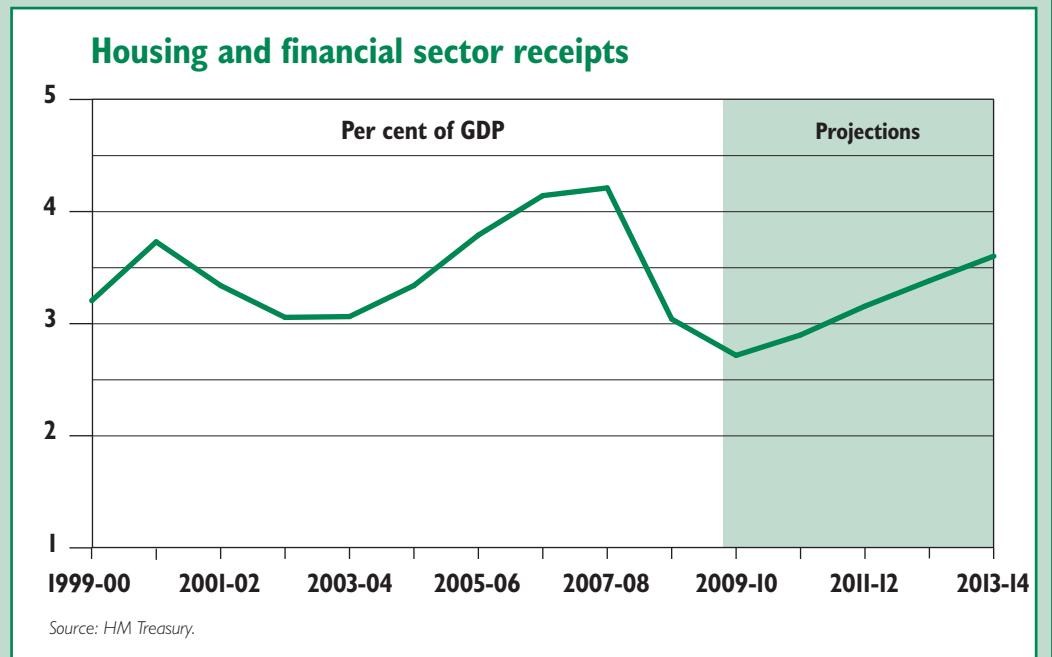
B.45 The uncertainty surrounding economic prospects in turn implies greater than usual risks surrounding the public finance projections. The projections are based on the key forecast judgment that credit conditions will normalise in 2010 at a level where risk is more appropriately priced. Downside risks to the public finance projections include that the economic downturn is sharper or longer than expected, the economic recovery is slower than expected or that the contraction in the financial sector or the adjustment in the housing market are more protracted. If, however, the substantial stimulus from monetary and fiscal policy, sterling's depreciation and lower commodity prices, takes hold sooner than forecast, the public finance projections would be subject to upside risks.

Box B2: The impact of the financial and housing sector on the public finances

The global credit shock has particularly affected the financial and housing sectors in the UK – both of which are typically a significant source of tax receipts. Financial company corporation tax has accounted for around 25 per cent of overall corporation tax, and the sector provides significant amounts of income tax and NICs on salaries and bonuses. The housing sector provides revenue directly through stamp duty, inheritance tax and capital gains tax and indirectly through the VAT collected on housing-related consumption.

In recent years, the financial and housing sectors saw rapid growth in activity and asset values. This growth was reflected in receipts from taxes linked to the two sectors^a. In 2002-03, financial and housing sector receipts were equivalent to 3 per cent of GDP. By 2007-08, these receipts had increased to 4¼ per cent of GDP. The rise in housing and financial sector receipts from 2002-03 to 2007-08 accounted for half of the increase in total current receipts over this period.

Consistent with the economic forecast, the public finance projections assume a sharp drop in receipts from the housing and financial sectors in the next two years and then a recovery in the medium term. However, over the forecast horizon the sectors do not recover to the levels of activity, and associated receipts, experienced in 2007-08. Receipts from the two sectors are predicted to decline from 4¼ per cent of GDP in 2007-08 to 2¾ per cent in 2009-10, before rising to 3½ per cent of GDP in 2013-14.



^a These revenues include receipts from financial sector corporation tax, financial sector PAYE and NICs, Capital Gains Tax, Inheritance Tax and stamp duties.

Tax by tax analysis

B.46 Table B12 shows outturns for cash receipts in the first seven months of 2008-09 and estimated receipts for the remainder of the year, along with percentage changes over the corresponding period in 2007-08. These growth rates can vary considerably across the year, partly because of the rules governing payment of each tax and the various time lags.

B.47 Table B13 contains updated projections for the main components of public sector receipts for 2007-08, 2008-09 and 2009-10, as well as the changes to the projections of individual taxes since Budget 2008.

Table B12: 2008-09 Net taxes and national insurance contributions

	£ billion			Percentage change on 2007-08		
	Outturn ¹	Estimates		Outturn ¹	Estimates	
	Apr-Oct	Nov-Mar	Full year	Apr-Oct	Nov-Mar	Full year
HM Revenue & Customs						
Income tax, NICs and capital gains tax ²	138.8	114.9	253.8	1.9	-1.7	0.2
Value added tax	51.0	31.6	82.6	4.3	-0.5	2.4
Corporation tax ²	30.7	14.2	44.8	2.1	-13.3	-3.3
Petroleum revenue tax	1.8	0.8	2.6	120.6	-6.0	55.4
Fuel duties	14.5	10.6	25.1	0.0	1.4	0.6
Inheritance tax	1.9	1.2	3.1	-19.8	-18.7	-19.4
Stamp duties	5.6	2.7	8.3	-38.0	-47.6	-41.5
Tobacco duties	4.8	3.4	8.2	-0.4	3.0	1.0
Alcohol duties	4.8	3.6	8.4	2.0	-0.2	1.1
Other Customs duties and levies	6.1	4.2	10.3	2.8	0.2	1.7
Total HMRC	259.9	187.2	447.1	1.0	-3.5	-0.9
Vehicle excise duties	3.4	2.3	5.8	5.4	8.9	6.8
Business rates	16.2	7.3	23.5	7.0	15.9	9.6
Council tax	16.4	8.2	24.6	5.3	7.1	5.9
Other taxes and royalties	8.7	7.0	15.7	8.0	6.7	7.4
Net taxes and NICs	304.6	212.0	516.6	1.8	-2.1	0.1

¹ Provisional.

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

Table B13: Current receipts

	£ billion			Changes since Budget 2008 (£ billion)		
	Outturn 2007-08	Estimate 2008-09	Projection 2009-10	Outturn 2007-08	Estimate 2008-09	Projection 2009-10
HM Revenue and Customs						
Income tax (gross of tax credits)	151.9	156.7	151.2	-3.7	-3.5	-19.9
Income tax credits	-4.4	-5.5	-6.0	0.2	-0.3	-0.5
National insurance contributions	100.4	97.7	100.8	3.0	-6.9	-7.1
Value added tax	80.6	82.6	72.6	0.1	-1.2	-16.3
Corporation tax ¹	46.9	45.5	42.4	-0.1	-6.4	-13.9
Corporation tax credits ²	-0.6	-0.6	-0.7	0.0	0.0	0.0
Petroleum revenue tax	1.7	2.6	1.5	0.0	0.9	-0.3
Fuel duties	24.9	25.1	26.2	0.0	-0.7	-0.9
Capital gains tax	5.3	4.9	2.4	0.5	-0.1	-1.8
Inheritance tax	3.8	3.1	2.4	-0.1	-0.1	-0.7
Stamp duties	14.1	8.3	6.9	-0.2	-5.2	-8.3
Tobacco duties	8.1	8.2	8.2	0.0	0.6	0.4
Spirits duties	2.4	2.3	2.5	0.1	0.0	0.2
Wine duties	2.6	2.8	2.9	0.1	-0.2	-0.2
Beer and cider duties	3.3	3.4	3.3	0.0	-0.1	-0.3
Betting and gaming duties	1.5	1.5	1.4	0.0	0.0	0.0
Air passenger duty	2.0	1.9	1.9	0.0	-0.1	-0.5
Insurance premium tax	2.3	2.3	2.5	0.0	-0.1	0.0
Landfill tax	0.9	0.9	1.2	0.0	-0.2	-0.1
Climate change levy	0.7	0.7	0.7	0.0	0.0	0.0
Aggregates levy	0.3	0.4	0.3	0.0	-0.1	-0.1
Customs duties and levies	2.5	2.6	2.8	0.0	0.1	0.2
Total HMRC	451.2	447.1	427.5	0.0	-23.4	-69.9
Vehicle excise duties	5.4	5.8	6.0	-0.2	-0.4	-1.1
Business rates	21.4	23.5	24.6	-0.4	-0.3	-0.2
Council tax ³	23.2	24.6	25.7	-0.5	-0.3	-0.4
Other taxes and royalties ⁴	14.6	15.7	15.9	-0.1	-0.1	-0.9
Net taxes and NICs⁵	515.9	516.6	499.6	-1.2	-24.4	-72.5
Accruals adjustments on taxes	1.0	-3.1	2.5	-0.4	-5.1	0.0
Less own resources contribution to EC budget	-5.0	-4.3	-4.8	0.0	0.4	0.2
Less PC corporation tax payments	-0.3	-0.2	-0.2	-0.1	0.0	0.0
Tax credits adjustment ⁶	0.6	0.7	0.7	0.0	0.0	0.0
Interest and dividends	8.3	7.7	8.1	0.4	0.7	1.1
Other receipts ⁷	27.0	28.0	29.5	-1.1	-1.4	-1.6
Current receipts	547.5	545.5	535.5	-2.4	-29.8	-72.7
Memo:						
North Sea revenues ⁸	7.8	13.2	8.7	0.1	3.3	-1.1

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 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

B.48 Cash receipts of income tax and NICs in 2008-09 are expected to be £10.4 billion below the Budget projection, of which around £2.7 billion relates to the £600 rise in the personal allowance announced in May. With the labour market already slowing and earnings growth subdued, growth in PAYE and NIC receipts from wages and salaries in the first seven months of 2008-09 has been weaker than assumed in the Budget forecast. Receipts from sectors such as the financial sector, construction, retail and manufacturing have been particularly weak. The year-on-year drop assumed in income tax, NICs and capital gains tax receipts over the remainder of 2008-09 reflects a continuation of recent trends and a projected sharp reduction in receipts from financial sector bonuses.

B.49 Receipts of PAYE and NIC are forecast to remain weak in 2009-10, reflecting the response of the labour market to the contraction in the economy in late 2008 and early 2009. Overall labour income is only expected to rise by 2½ per cent in 2009-10. With credit conditions only assumed to ease slowly in 2009, receipts from financial sector bonuses are not expected to recover in 2009-10. In addition, there is a sharp drop in tax on savings income in 2009-10, related to the recent base rate reductions and a decline in self assessment receipts. The latter will be affected by weaker growth in self-employment income, and a drop in savings income and dividends.

B.50 Income tax and NIC receipts recover from 2010-11 as the economy picks up momentum and the financial sector recovers. However, receipts remain significantly lower than in the Budget 2008 projection.

Non-North Sea corporation tax

B.51 Non-North Sea corporation tax has historically been one of the more cyclical of taxes with receipts expected to fall by almost 15 per cent in 2008-09, due to the downturn in the economy and the financial sectors. With profits in the financial sector forecast to fall by 14 per cent, financial sector corporation tax in 2008-09 is likely to be around 35 per cent down on 2007-08. Profits from industrial and commercial companies are forecast to fall by ½ per cent in 2008 with corporation tax from the larger companies who pay quarterly instalments projected to be down around 10 per cent in 2008-09.

B.52 Onshore corporation tax receipts are not expected to recover in 2009-10. Financial sector profits are assumed to remain flat, while other non-oil profits are expected to fall a further 2¼ per cent. From 2010-11, profits in the financial sector are forecast to increase from very low levels, growing at above-trend growth rates of 14 per cent per year, consistent with the sector recovering but activity remaining lower than assumed in earlier Budgets and Pre-Budget Reports. Onshore corporation tax increases as a proportion of GDP, but remains well below the Budget 2008 projection. This reflects lower projected levels of economic output throughout the forecast period resulting in lower profit levels for non-financial firms, while the contribution of the financial sector to overall activity is likely to be smaller than previously envisaged.

North Sea revenues

B.53 North Sea revenues in 2008-09 are expected to be £3.3 billion above the Budget 2008 forecast, reflecting the rapid rise in both oil and gas prices up to July. Since then, oil prices have fallen back sharply, but are likely to still average just over \$100 a barrel in 2008 as a whole, well above the \$83.8 a barrel assumed in the Budget 2008 forecast. There are a number of offsets that limit the overall impact of high oil prices on the public finances and mean that there is no significant windfall to the government. Temporarily higher inflation will push up the indexation of tax thresholds and benefits and increase the cost of servicing index-linked gilts, whilst increased costs will reduce tax yields by squeezing the profit margins in the remainder of the economy and any drop in the demand for fuel will reduce fuel duties.

B.54 The projections of North Sea revenues for 2009 and beyond use the NAO audited oil price assumption. This is either the average of independent forecasts for the year ahead, or if lower, the average of the past month's oil price in nominal dollar terms, as is the case with this forecast. This gives an oil price of \$60.1 a barrel for 2009, which is the key driver of the projected 33 per cent fall in North Sea revenues in 2009-10. The depreciation of sterling against the dollar means that the drop in the oil price in sterling terms is less steep than in dollar terms. This helps limit the downward revision in North Sea revenues in 2009-10 since the Budget to £1.1 billion.

Capital gains tax and inheritance tax

B.55 Receipts from capital gains tax (CGT) are expected to halve between 2007-08 and 2009-10, reflecting the sensitivity of CGT to equity price changes. Such a fall would not be unprecedented, as receipts fell by 50 per cent between 2001-02 and 2002-03, reflecting the dotcom-related drop in equity prices. CGT is particularly volatile because financial assets account for around two-thirds of chargeable gains and it is charged on the gain rather than the whole disposal price. With CGT paid in 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. CGT receipts will also be affected by the downturn in the property market.

B.56 Declines in asset prices will also affect inheritance tax, which is particularly affected by developments in the property market. Housing accounts for around 50 per cent of assets in estates notified for probate. The lagged response of inheritance tax to the drops in both equity and house prices in 2008 is expected to reduce receipts by £0.7 billion in 2009-10, relative to the Budget 2008 forecast.

Stamp duties

B.57 Total stamp duty is expected to fall by over 40 per cent in 2008-09. The sharp drop in stamp duty land tax is from a combination of falls in house prices, the commercial property market and in particular that residential property transactions in 2008-09 are likely to be less than half their 2007-08 level. Stamp duty on shares has also been adversely affected by the steep drop in equity prices. With much of the drop occurring through the autumn, substantial year-on-year falls in stamp duty on shares are likely over the remainder of 2008-09.

B.58 A further decline in stamp duties is likely in 2009-10. The average of independent forecasts is for a fall in house prices of just over 20 per cent in the two years to the end of 2009. In addition, property transactions are likely to remain low given that credit conditions are only expected to ease slowly through 2009. Thereafter, the economy and the housing market are expected to pick up, with house prices assumed to grow by 6 per cent per year broadly in line with long term average growth in house prices, but stamp duty receipts remain well below Budget 2008 projections. This reflects lower house and equity prices throughout the forecast.

VAT receipts

B.59 Year-on-year growth in cash receipts of VAT in the first seven months of 2008-09 was 4.3 per cent, stronger than the overall growth in receipts, partly reflecting one-off factors and that nominal consumer expenditure held up in the early part of the year. With growing evidence of weaker consumer spending, VAT receipts are expected to slow over the remainder of the financial year. The reduction in VAT from 17½ per cent to 15 per cent at the start of December will reduce cash receipts of VAT by around £1.9 billion in 2008-09. Some of the VAT relating to the last four months of 2008-09 will be paid in the first few months of 2009-10 and accrue back to 2008-09. This is incorporated in the 'accruals adjustments on taxes' line in Table B13.

B.60 With the VAT rate at 15 per cent until the end of December 2009, receipts are expected to be over 12 per cent lower in 2009-10 than in 2008-09. The sharp fall in VAT receipts in 2009-10 also reflects the impact of economic developments on the VAT base. Consumer spending which accounts for around two-thirds of the total VAT base is expected to decline in real terms in 2009, although the reduction in the VAT rate partly ameliorates this. In nominal terms, consumer spending is expected to grow by just 0.7 per cent in 2009. The VAT base will

also be affected by the financial sector crisis. While financial sector businesses do not charge VAT on final products they cannot claim back the VAT incurred from buying other business inputs to produce these exempt products. These partially-exempt businesses thus incur 'stuck VAT' and this is likely to be affected by the downturn in the sector.

B.61 Beyond 2009-10, growth in the VAT base is held back by consumer spending growing at rates slightly below that of the whole economy, as households adjust their finances. In addition, the forecast assumes a 0.5 percentage point rise per year in the underlying VAT gap (the difference between the theoretical tax liability and actual receipts), in line with the NAO audited assumption.

Excise duties B.62 Fuel duties in 2008-09 are expected to be £0.7 billion below the Budget 2008 projection. This partly reflects that the Budget 2008 duty rise was deferred from October to December, but also the effect on the demand for fuel from the higher pump prices earlier in 2008. With fuel duty charged on a per litre basis, lower demand for fuel reduces receipts. While pump prices have fallen in recent months, the demand for fuel in 2009-10 is likely to be affected by the near-term contraction in the economy.

B.63 Alcohol duties in 2008-09 are expected to be £0.3 billion below their Budget 2008 forecast. Forestalling ahead of Budget 2008 brought forward some receipts expected in 2008-09 into 2007-08. With the economic forecast assuming a decline in overall consumer spending in 2009, alcohol sales are likely to be affected. Lower consumer spending could reduce alcohol receipts by £0.5 billion in 2009-10. However, there will be an offset from the decision to raise alcohol duty.

B.64 Tobacco receipts in 2008-09 are expected to be £0.6 billion above the Budget 2008 projection. This reflects that duty paid consumption is not expected to fall by as much as assumed in the Budget 2008 forecast. The impact from the smoking ban could be less than was incorporated into the Budget projection, or alternatively there could have been a fall in cross border shopping or the illicit market share. Tobacco receipts will also be affected by the decision to raise tobacco duty.

Business rates B.65 Receipts from business rates are expected to be £0.3 billion below the Budget 2008 forecast. Year-on-year growth is expected to be stronger in the remainder of the year reflecting the timing of payments and repayments. Business rate bills are calculated by multiplying the rateable value by the multiplier, which is uprated in line with inflation each year. The higher than expected RPI inflation for September 2008 will be reflected in the multiplier used for 2009-10. However, in line with legislation, a negative RPI in September 2009 would reduce the multiplier used for 2010-11, exercising downward pressure on business rates receipts.

Council tax B.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 2009-10 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 taxes and royalties B.67 The 'other taxes and royalties' line in Table B13 includes the auction receipts from the EU Emissions Trading Scheme. This line also includes VAT refunds to central and local government. The reduction in VAT until the end of December 2009 will lower such refunds. VAT refunds also score as public expenditure and thus have no impact on net borrowing.

Other taxes and receipts B.68 Interest and dividend receipts will be boosted in 2009-10 by interest from the preference shares related to the Bank Recapitalisation Fund. However, the gross operating surpluses of public corporations have been revised down, reflecting the weaker economic outlook. This is included in the 'other receipts' line in Table B13.

Tax-GDP ratio

B.69 Table B14 shows projections of receipts from major taxes as a per cent of GDP; and Table B15 sets out projections of the overall tax-GDP ratio, based on net tax and national insurance contributions.

B.70 The tax-GDP ratio drops sharply through 2008-09 and 2009-10 reflecting the downturn in the economy, lower receipts from the housing market and the financial sector, and the temporary reduction in VAT from 17.5 per cent to 15 per cent. The ratio falls to just under 34 per cent in 2009-10, the lowest since 1996-97.

B.71 With growth expected to pick up through 2010 and 2011 to a little above trend rates, the tax-GDP ratio is forecast to start to rise from 2010-11 onwards. The increase in the tax-GDP ratio also reflects the VAT rate returning to 17½ per cent at the start of 2010 and the fiscal consolidation measures from 2011-12. At the end of the forecast period, the tax-GDP ratio remains significantly below the Budget projection, reflecting the lower level of economic output, less financial sector activity and lower levels of asset prices than previously assumed.

Table B14: Current receipts as a proportion of GDP

	Per cent of GDP						
	Outturn	Estimate	Projections				
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Income tax (gross of tax credits)	10.7	10.7	10.2	10.5	10.8	11.1	11.3
National insurance contributions	7.1	6.7	6.8	6.8	7.0	7.1	7.2
Non-North Sea corporation tax ¹	2.9	2.4	2.4	2.5	2.5	2.6	2.7
Tax credits ²	-0.4	-0.4	-0.5	-0.4	-0.4	-0.4	-0.4
North Sea revenues ³	0.5	0.9	0.6	0.6	0.5	0.5	0.4
Value added tax	5.7	5.6	4.9	5.5	5.5	5.4	5.4
Excise duties ⁴	2.9	2.8	2.9	2.9	2.8	2.8	2.7
Other taxes and royalties ⁵	6.9	6.6	6.4	6.5	6.6	6.7	6.7
Net taxes and NICs⁶	36.3	35.3	33.8	34.8	35.4	35.7	36.0
Accruals adjustments on taxes	0.1	-0.2	0.2	0.2	0.2	0.3	0.2
Less EU transfers	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Other receipts ⁷	2.5	2.5	2.6	2.6	2.7	2.7	2.7
Current receipts	38.5	37.3	36.2	37.2	37.9	38.3	38.6

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.

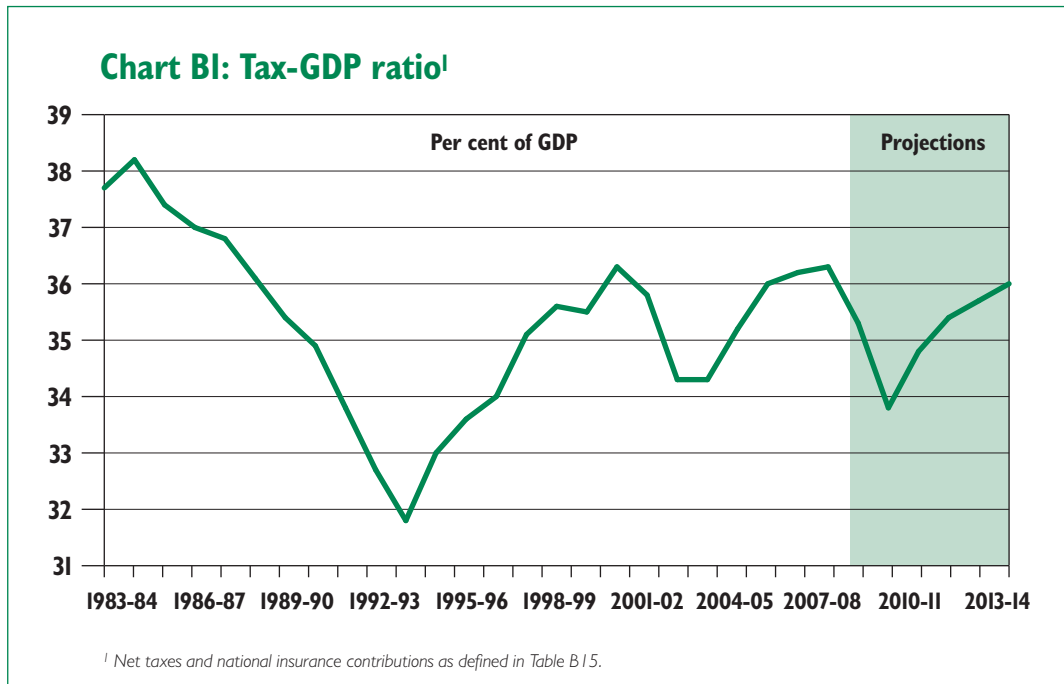
Table B15: Net taxes and national insurance contributions¹

	Per cent of GDP						
	Outturn ²	Estimate ³	Projections				
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Budget 2008	36.8	36.7	36.9	37.3	37.4	37.4	-
2008 Pre-Budget Report	36.3	35.3	33.8	34.8	35.4	35.7	36.0

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

² The 2007-08 figures were estimates in Budget 2008.

³ The 2008-09 figures were projections in Budget 2008.



PUBLIC EXPENDITURE

B.72 This section looks in detail at the projections for public expenditure. It includes provisional outturns for 2007-08, the latest estimates for 2008-09 and public expenditure plans for 2009-10 to 2010-11. The spending projections cover the whole of the public sector, using the national accounts aggregate Total Managed Expenditure (TME).

B.73 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.

B.74 Table B16 sets out projected spending on DEL and the main components of AME to the end of the 2007 Comprehensive Spending Review period in 2010-11. Table B17 shows changes since Budget 2008.

Changes in TME since Budget 2008

B.75 The provisional outturn for TME in 2007-08 was £2.3 billion lower than estimated in Budget 2008. Current expenditure was lower by £3.8 billion, mainly due to larger than expected departmental underspends. Public sector net investment was higher by £1.4 billion mainly due to a reclassification of Ministry of Defence (MoD) expenditure from current to capital expenditure.

B.76 The main changes to TME in the 2007 Comprehensive Spending Review period since Budget 2008 are to DEL, where the totals for 2008-09 to 2010-11 have been revised as a result of changes to spending announced in this Pre-Budget Report, and changes to the forecasts of individual AME components.

B.77 TME for 2008-09 is estimated to be around £5.3 billion higher than at Budget 2008 and then higher over the forecast period, mainly due to increased spending on social security benefits, and increased forecasts of local authority self-financed expenditure. The reasons for changes in TME are explained in more detail in the projections of individual DEL and AME components.

B.78 Chart B2 shows TME as a percentage of GDP from 1971-72 to the end of the CSR period in 2010-11.

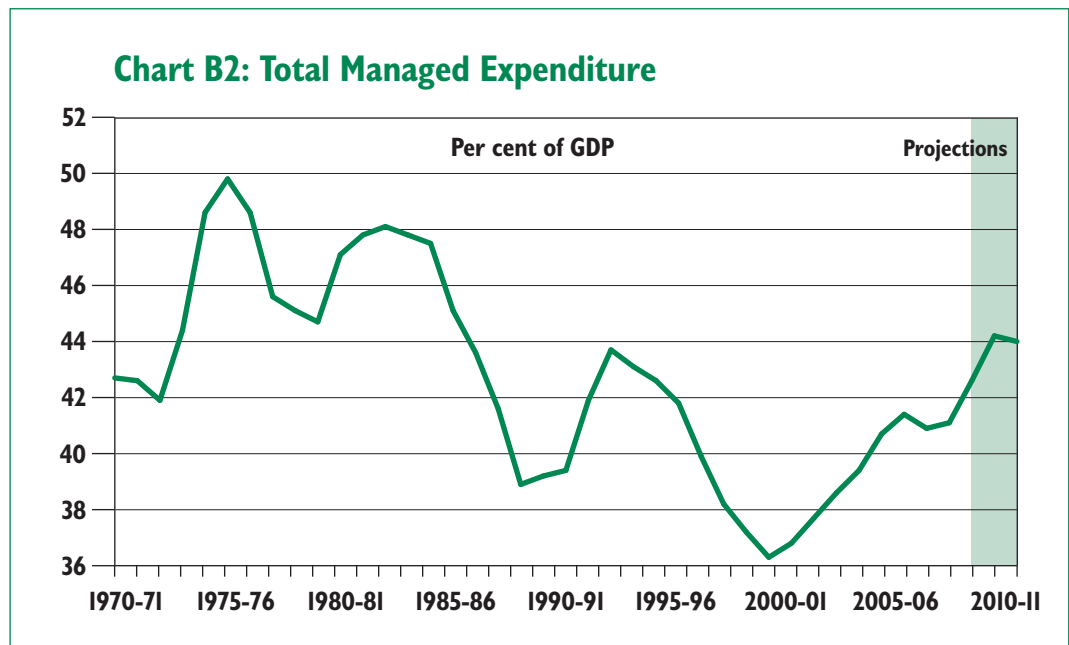


Table B16: Total Managed Expenditure 2007-08 to 2010-11

	£ billion			
	Outturn 2007-08	Estimate 2008-09	Projections 2009-10	2010-11
CURRENT EXPENDITURE				
Resource Departmental Expenditure Limits	310.0	325.3	339.2	350.0
of which:				
Near-cash Departmental Expenditure Limits	288.7	304.4	317.3	326.5
Non-cash	21.4	20.9	21.9	23.5
Resource Annually Managed Expenditure	226.3	242.6	254.5	278.2
of which:				
Social security benefits ¹	138.8	149.2	159.6	164.0
Tax credits ¹	17.1	19.5	20.6	20.4
Net public service pensions ²	2.3	2.9	3.8	3.9
National Lottery	0.9	1.0	0.8	0.8
BBC domestic services	3.3	3.5	3.6	3.7
Other departmental expenditure	2.6	2.1	2.2	1.6
Net expenditure transfers to EC institutions ³	5.4	3.8	5.3	7.1
Locally-financed expenditure ⁴	24.4	26.1	26.8	28.3
Central government gross debt interest	29.9	30.8	26.6	40.0
AME margin	0.0	0.0	0.9	1.8
Accounting adjustments	1.6	3.8	4.4	6.4
Public sector current expenditure	536.4	568.0	593.7	628.2
CAPITAL EXPENDITURE				
Capital Departmental Expenditure Limits	44.1	48.8	53.8	50.1
Capital Annually Managed Expenditure	3.6	6.3	6.3	3.5
of which:				
National Lottery	0.8	0.7	0.9	0.8
Locally-financed expenditure ⁴	3.6	5.3	4.6	3.5
Public corporations' own-financed capital expenditure	5.9	6.4	7.1	6.0
Other capital expenditure	-1.2	-0.4	0.5	0.6
AME margin	0.0	0.0	0.1	0.2
Accounting adjustments	-5.4	-5.6	-6.8	-7.6
Public sector gross investment	47.7	55.1	60.1	53.6
Less public sector depreciation	-17.8	-18.7	-19.7	-20.9
Public sector net investment	29.9	36.5	40.4	32.7
TOTAL MANAGED EXPENDITURE⁵	584.1	623.1	653.8	681.8
of which:				
Departmental Expenditure Limits	343.5	362.1	380.6	386.8
Annually Managed Expenditure	240.6	261.0	273.1	295.0

¹ For 2007-08 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):

	2007-08	2008-09	2009-10	2010-11
Net payments to EC institutions	3.5	1.2	3.2	5.7
Net contribution to EC Budget	4.2	2.0	4.0	6.5

⁴ This expenditure is mainly financed by council tax revenues. See footnote to Table B13 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 B17: Changes to Total Managed Expenditure since Budget 2008

	£ billion			
	Outturn 2007-08	Estimate 2008-09	Projections 2009-10	2010-11
CURRENT EXPENDITURE				
Resource Departmental Expenditure Limits	-3.1	1.1	0.5	-4.6
<i>of which:</i>				
Near-cash Departmental Expenditure Limits	-1.6	0.6	0.5	-4.6
Non-cash	-1.5	0.4	0.0	0.0
Resource Annually Managed Expenditure	-0.7	0.6	0.9	10.5
<i>of which:</i>				
Social security benefits	0.2	2.8	5.9	4.3
Tax credits	0.0	0.5	0.6	-0.1
Net public service pensions	0.0	0.0	0.2	-0.1
National Lottery	0.0	0.1	0.0	0.1
BBC domestic services	0.0	0.0	0.0	0.0
Other departmental expenditure	-0.3	0.1	0.3	-0.2
Net expenditure transfers to EC institutions	0.0	-1.7	-1.0	0.4
Locally-financed expenditure	-0.3	0.5	0.2	0.5
Central government gross debt interest	0.0	0.5	-3.8	6.1
AME margin	0.0	-0.9	-0.9	-0.9
Accounting adjustments	-0.3	-1.3	-0.6	0.4
Public sector current expenditure	-3.8	1.7	1.4	5.9
CAPITAL EXPENDITURE				
Capital Departmental Expenditure Limits	0.2	0.7	3.0	-5.2
Capital Annually Managed Expenditure	1.3	2.9	2.8	1.3
<i>of which:</i>				
National Lottery	0.0	0.1	0.0	0.0
Locally-financed expenditure	-0.6	0.7	0.6	0.2
Public corporations' own-financed capital expenditure	1.2	1.2	1.5	0.3
Other capital expenditure	-0.9	-1.0	-0.3	-0.5
AME margin	0.0	-0.1	-0.1	-0.1
Accounting adjustments	1.7	2.0	1.1	1.4
Public sector gross investment	1.5	3.6	5.8	-3.9
Less public sector depreciation	-0.1	-0.1	-0.1	-0.2
Public sector net investment	1.4	3.5	5.7	-4.1
TOTAL MANAGED EXPENDITURE	-2.3	5.3	7.2	2.0
<i>of which:</i>				
Departmental Expenditure Limits	-1.8	1.3	2.8	-10.7
Annually Managed Expenditure	-0.5	4.1	4.4	12.7

Central Government spending in 2008-09

B.79 Monthly spending information is only available for central government. The provisional outturn for current expenditure in the first seven months of 2008-09 is 6.0 per cent higher than in the corresponding period in 2007-08. Growth is slightly higher in the year to date than the Pre-Budget Report estimate for the year as a whole, as a result of higher debt interest spending.

B.80 Debt interest payments for the year to date are 14.4 per cent higher than the same period last year, largely because of the impact of higher RPI inflation on the accruing uplift of index-linked gilts payments. However, debt interest payments are expected to grow more slowly for the year as a whole because payments in the remaining five months of the year are expected to be lower than in the corresponding period in 2007-08, as a result of falls in interest rates and RPI.

B.81 Provisional outturn data for net social benefit expenditure for the first seven months of 2008-09 show growth of 7.0 per cent over the same period in 2007-08, as a result of the economic downturn. Net social benefit expenditure is estimated to grow at a slightly higher rate for the year as a whole in the Pre-Budget forecast, in line with the NAO audited assumption for unemployment and the rest of the economic forecast, and reflecting the additional spending announced to support pensioners through the economic downturn.

B.82 Other current expenditure is 4.9 per cent higher for the year to date, compared to the relevant period a year ago. This is broadly comparable with the Pre-Budget Report estimate of 5.0 per cent growth for the year as a whole.

DEL and AME analysis

B.83 The detailed allocation of DEL is shown in Table B18. The departmental groupings have been updated to reflect the machinery of government changes announced in October 2008, and outturn years restated on the basis of current departmental responsibilities.

B.84 Final outturn spending for total DEL in 2007-08 was £343.5 billion, £1.8 billion below the Budget 2008 forecast of £345.3 billion. Within this total underspend, capital DEL was £0.2 billion higher than forecast, near-cash resource DEL was £1.6 billion lower than forecast, and non-cash resource DEL was £1.5 billion lower than forecast. The near-cash resource DEL underspend reflected larger than expected underspending by a number of departments, most notably an additional underspend of £0.6 billion by the Department of Business, Enterprise & Regulatory Reform (BERR), which reflected the receipt of additional income late in the financial year by the Nuclear Decommissioning Authority. The £1.5 billion non-cash resource DEL underspend was mainly due to a £1.0 billion underspend in defence, from lower than expected depreciation and future liabilities.

B.85 There have been a number of changes to DEL budgets since Budget 08:

- the inclusion of a £5.0 billion allowance for Additional Value for Money Savings in 2010-11 Resource DEL;
- an additional £400m in both 2009-10 and 2010-11 for Department for Work and Pensions (DWP) DEL, which, alongside DWP End-Year Flexibility (EYF), fund the additional resources to respond to rising unemployment, set out in Chapter 5.
- adjustments to the capital budgets of a number of departments, set out in Chapter 6, bringing forward spending from 2010-11 to 2009-10 and 2008-09 in order to support the economy;
- an addition to the Resource Reserve of £600m and to the Capital Reserve of £400m to provide an adequate contingency for 2008-09. Funding from the

Resource Reserve has been allocated to the Capital Reserve to account for the capital cost of military operations in 2008-09; and

- changes in public sector investment in 2010-11 are a result of revised forecasts for local authority self-financed capital spending, bringing forward capital spending, the updating of Department of Health (DH) capital plans to a level consistent with the latest planned spend and adjustments to Devolved Administrations DEL plans in line with the normal application of the Barnett formula.

B.86 The latest figures also include classification and budgetary changes, which have no impact on national accounts definitions or TME. The only significant change is the reclassification from DEL to AME of Scotland and Northern Ireland Executive transactions relating to student loans.

Table B18: Departmental Expenditure Limits - resource and capital budgets

	Outturn 2007-08	Estimate 2008-09	Plans 2009-10	2010-11
Resource DEL¹				
Children, Schools and Families	44.9	46.9	49.2	51.9
Health	88.4	94.0	99.9	106.3
of which: NHS England	86.4	92.5	98.3	104.6
Transport	6.8	6.4	6.4	6.6
Innovation, Universities and Skills	15.5	16.4	17.2	18.2
CLG Communities	4.2	4.4	4.5	4.6
CLG Local Government	22.8	24.7	25.6	26.4
Home Office	8.5	9.0	9.4	9.6
Justice	8.8	9.5	9.4	9.4
Law Officers' Departments	0.7	0.7	0.7	0.7
Defence	35.8	37.3	35.2	36.7
Foreign and Commonwealth Office	1.9	2.0	1.6	1.6
International Development	4.5	4.9	5.5	6.4
Energy and Climate Change	0.6	0.9	1.0	1.1
Business, Enterprise and Regulatory Reform	1.8	1.6	1.5	1.4
Environment, Food and Rural Affairs	2.7	2.7	2.8	2.8
Culture, Media and Sport	1.6	1.6	1.7	1.8
Work and Pensions	8.1	8.0	8.2	7.9
Scotland	23.8	24.6	25.4	26.5
Wales	12.3	13.0	13.5	14.2
Northern Ireland Executive	7.7	8.1	8.4	8.8
Northern Ireland Office	1.3	1.2	1.2	1.2
Chancellor's Departments	4.8	4.8	4.6	4.5
Cabinet Office	1.8	2.1	2.2	2.4
Independent Bodies	0.8	0.9	0.8	0.9
Moderisation Funding	0.0	0.4	0.4	0.1
Reserve	0.0	0.5	2.8	2.9
Allowance for shortfall	0.0	-1.2	0.0	0.0
Additional Value for Money savings	0.0	0.0	0.0	-5.0
Total resource DEL	310.0	325.3	339.2	350.0
Capital DEL^{1,2}				
Children, Schools and Families	5.2	6.0	7.2	6.8
Health	3.8	4.7	5.6	4.8
of which: NHS England	3.6	4.6	5.4	4.7
Transport	7.1	7.3	8.3	7.4
Innovation, Universities and Skills	2.1	2.2	2.5	1.8
CLG Communities	6.1	7.4	8.4	6.0
CLG Local Government	0.0	0.2	0.1	0.1
Home Office	0.7	0.9	0.8	0.8
Justice	0.8	0.9	0.8	0.7
Law Officers' Departments	0.0	0.0	0.0	0.0
Defence	7.9	8.0	8.2	8.9
Foreign and Commonwealth Office	0.2	0.2	0.2	0.2
International Development	0.7	0.9	1.4	1.6
Energy and Climate Change	1.5	1.7	1.7	1.8
Business, Enterprise and Regulatory Reform	0.0	0.0	0.0	0.0
Environment, Food and Rural Affairs	0.6	0.6	0.7	0.6
Culture, Media and Sport	0.5	1.0	0.4	0.6
Work and Pensions	0.1	0.1	0.1	0.1
Scotland	3.6	3.3	3.3	3.5
Wales	1.5	1.6	1.7	1.8
Northern Ireland Executive	1.0	1.0	1.1	1.1
Northern Ireland Office	0.0	0.1	0.1	0.1
Chancellor's Departments	0.3	0.3	0.3	0.3
Cabinet Office	0.3	0.4	0.4	0.4
Independent Bodies	0.1	0.1	0.1	0.0
Reserve	0.0	0.8	0.6	0.8
Allowance for shortfall	0.0	-0.6	0.0	0.0
Total capital DEL	44.1	48.8	53.8	50.1
Depreciation	10.7	12.0	12.3	13.3
Total Departmental Expenditure Limits	343.5	362.1	380.6	386.8
Total Education spending ³	77.8	83.0	87.7	90.4

¹ Figures for the Departments for Business, Enterprise and Regulatory Reform, Environment, Food and Rural Affairs, and Energy and Climate Change are provisional.

² The 2010-11 capital figures reflect changes including updating Department of Health's capital plans to a level consistent with the latest planned spend and adjustments to Devolved Administrations DEL plans in line with the normal application of the Barnett formula, as set out in paragraph B.85.

³ The definition of education is now more closely aligned to the UN's Classification of the Functions of Government, including education not definable by level. The total DCSF budget, although reprofiled to bring forward capital spending, is unchanged over the 2008-09 to 2010-11 period. Projections also reflect updated information in respect of Devolved Administration and Local Authority spending plans

- AME B.87** AME spending is forecast on the basis of the economic assumptions set out in Table B1 and the NAO audited assumptions set out in Box B1. The main changes to these assumptions since Budget 2008 that affect AME are changes to RPI and Rossi inflation, which affect benefit and public sector pensions upratings, and a higher NAO audited assumption for unemployment.
- Social security benefits B.88** Forecasts for social security expenditure have been increased since Budget 2008, due to the impact of the economic downturn, measures announced in this Pre-Budget Report, and higher inflation outturns for September 2008, which have increased the level of benefits for 2009-10. Apart from the basic state pension, which is increased by 2.5 per cent when this is higher than RPI inflation, benefit levels in 2010, which depend on the negative RPI value for September 2009, are assumed for the purposes of these forecasts to remain unchanged from their previous level. The higher projection of claimant count unemployment from the NAO audited assumption, have also contributed to higher social security spending from 2009-10 onwards, and higher projections of several benefit caseloads have contributed to the increase in for 2009-10 onwards.
- Tax credits B.89** The forecast for expenditure on Child and Working Tax credits has increased since the Budget 2008, reflecting the impact of the economic downturn. 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, and lower than expected growth in earnings among those in receipt of tax credits.
- Public service pensions B.90** Net public service pensions are measured on a National Accounts basis, and report 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 forecast for net public service pensions expenditure is broadly unchanged since Budget 2008. The increase in the forecast for net expenditure in 2009-10 is largely due to higher inflation outturn for September 2008, which increases the projected level of payment of pensions.
- National Lottery B.91** The National Lottery figures reflect the latest view on timing of drawdown by the distributing bodies. The 2008-09 estimates are broadly unchanged from Budget 2008. The forecasts for 2009-10 to 2010-11 are consistent with projections of revenue from ticket sales.
- Other departmental expenditure B.92** Other departmental capital expenditure was lower in 2007-08 than forecast in Budget 2008, and is projected at lower levels in future years mainly because of reductions in net lending to public corporations and other bodies. These reductions are offset elsewhere in AME, either in public corporations own-financed capital expenditure (which removes departments' finance to public corporations, as set out below), or in the capital accounting adjustments (where other departmental lending is removed because loans are financing transactions, which are not included in public sector net investment or TME).
- EU contributions B.93** Net expenditure transfers to EU Institutions, which consist of Gross National Income (GNI) based contributions less the UK abatement, are unchanged the 2008 Budget estimate in 2007-08, lower in 2008-09 and 2009-10 and higher in 2010-11. The main factors are the use of updated information on the size of the EC Budget for 2008 and the likely level of payments to the 2009 EC Budget, changes in UK GNI-based contributions resulting from use of the latest economic assumptions and changes to the value of the UK abatement as a result of new information from the European Commission.
- Locally financed expenditure B.94** Locally financed expenditure mainly consists of local authority self-financed expenditure (LASFE) and Scottish spending financed by local taxation. LASFE is the local authority spending financed by local authorities' own sources of net income, other than central government support. The main determinant of the LASFE forecast is council tax. The

council tax projections used to derive current LASFE from 2008-09 onwards are based on stylised assumptions, which are not government forecasts, and are mirrored in the projections for council tax included within current receipts, so that these assumptions have no material effect on the fiscal aggregates. 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, private sector contributions and self-financed borrowing. Capital LASFE is net of local authority asset sales.

B.95 The increases in current LASFE projections since Budget 2008 mainly reflect the impact of higher levels of local authority reserves on forecast spending. The increases in capital LASFE projections since Budget 2008 are largely because of forecast falls in local authority asset sales, particularly in 2008-09 and 2009-10.

CG debt interest B.96 Forecasts for central government gross debt interest payments have been revised in the light of latest economic determinant assumptions. With the exception of 2009-10, the projections for central government gross debt interest payments over the 2007 Comprehensive Spending Review period have increased since Budget 2008. A rise in forecast RPI inflation for 2008-09 has increased the debt interest payments on index-linked gilts. Forecast market interest rates have fallen since Budget 2008, which has the effect of reducing debt interest payment costs. However, these reductions are more than offset by the effects of higher borrowing in 2008-09 and 2010-11. The decrease in forecast debt interest payments for 2009-10 is due to a combination of lower forecast inflation and market interest rates.

PC capital expenditure B.97 Public corporations' own-financed capital expenditure (PCOFCE) measures the total amount of public corporations' net capital expenditure, less the amount of this spending that is financed by central government departments, which is already included in DEL and elsewhere in AME. PCOFCE is higher in 2007-08 and across the forecast years reflecting public corporations' higher capital spending in 2007-08 outturn, and lower forecast sales of housing from local authority Housing Revenue Accounts.

AME margin B.98 The AME margin has been reset at £1 billion and £2 billion for the years 2009-10 and 2010-11 respectively.

Accounting adjustments B.99 The accounting adjustments reconcile the budgeting aggregates DEL and AME with the National Accounts definition of TME, 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 the *2008 Pre-Budget Report: the economy and public finances – supplementary material*. Changes to the current and capital accounting adjustments since Budget 2008 are mainly due to lower estimates of the amount of defence capital spending that is classified as 'single use military equipment', which is treated as current spending in the National Accounts. This spending is included in capital DEL budgets, but is then switched out of capital and into current spending in the national accounting adjustments. Since Budget 2008, sizable reductions in estimates of this spending in 2007-08 and all future years have reduced the current accounting adjustments and increased capital accounting adjustments.

B.100 The projections of the capital accounting adjustments have also increased to reflect reductions in the adjustments that remove student loan transactions included within capital DEL, following the classification and budgetary changes reported above.

FINANCING REQUIREMENT

Central government net cash requirement

B.101 Table B19 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.

B.102 The central government net cash requirement in 2008-09 is projected to be £93.6 billion higher than at Budget 2008, reflecting higher net borrowing and changes to financial transactions. Details of financial sector interventions outlined in Chapter 3 are given in Box B3. Cash expenditure on company securities now includes:

- £37 billion for the Government's Bank Recapitalisation Fund; and
- receipts of £4.7 billion from the sale of the Government's holdings in Qinetiq and British Energy.

B.103 Miscellaneous financial transactions now include:

- £21 billion to refinance the Bank of England's loans to the Financial Services Compensation Scheme (FSCS) for retail depositors in Bradford & Bingley and UK subsidiaries of Icelandic banks eligible for payments from the FSCS and the Icelandic Depositors' and Investors' Guarantee Fund (ICS);
- £5.7 billion to refinance the Bank of England's working capital loan to Bradford & Bingley;
- a payment of £5.4 billion for retail depositors in Bradford & Bingley and UK subsidiaries of Icelandic banks covering that part of the deposits above the compensation limits; and
- a downward revision in the forecast of the amount outstanding on the Government's loan to Northern Rock, at 31 March 2009 from £14 billion at Budget 2008 (when it was included in lending within the public sector) to £12.2 billion.

B.104 In the main, these central government miscellaneous financial transactions offset in the public corporations (PC) sub-sector as they have been treated as loans (the FSCS is still regarded as a PC for this purpose pending decisions by ONS on how its transactions should be scored). For the public sector as a whole miscellaneous financial transactions includes Northern Rock's contribution to the net cash requirement.

Table B19: Public sector net cash requirement

	£ billion 2008-09				£ billion 2009-10			
	General government				General government			
	Central government	Local authorities	Public corporations	Public sector	Central government	Local authorities	Public corporations	Public sector
Net borrowing	75.3	4.2	-1.8	77.6	116.4	3.8	-1.9	118.3
<i>Financial transactions</i>								
Net lending to private sector and abroad	4.6	0.1	-0.3	4.4	3.9	0.1	-0.3	3.7
Cash expenditure on company securities	33.0	-0.9	0.9	33.0	0.7	-0.9	0.9	0.7
Accounts receivable/payable	-1.9	0.2	0.3	-1.4	3.3	0.2	0.3	3.8
Adjustment for interest on gilts	-5.0	0.0	0.0	-5.0	5.1	0.0	0.0	5.1
Miscellaneous financial transactions	44.0	0.0	-63.9	-19.9	-6.4	0.0	-7.3	-13.7
Own account net cash requirement	150.0	3.6	-64.8	88.8	122.9	3.2	-8.3	117.8
Net lending within the public sector	2.9	-2.2	-0.7	0.0	2.9	-2.2	-0.7	0.0
Net cash requirement¹	152.9	1.4	-65.5	88.8	125.9	1.0	-9.0	117.8

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

Net financing requirement

B.105 In line with the updated fiscal forecasts, the revised financing arithmetic for 2008-09 is shown in Table B20. The central government net cash requirement (CGNCR) for 2008-09 is now forecast to be £152.9 billion, an increase of £93.6 billion from the Budget 2008 forecast. The net financing requirement (NFR) for 2008-09 is now forecast to be £157.7 billion compared with £78.8 billion at Budget. The increase of £78.9 billion in the NFR is the net effect of:

- an increase in the CGNCR of £93.6 billion;
- an increase in the forecast net contribution to financing of £7 billion from National Savings and Investments (NS&I);
- a reduction of £6.7 billion in the planned short-term financing adjustment;
- the Government’s decision not to refinance the official reserves by £2 billion; and
- an increase in gilt redemptions of £1 billion.

Debt Management Office’s remit

B.106 In order to meet the increase in the NFR, the Debt Management Office’s (DMO’s) remit has been revised as follows:

- forecast gross gilt issuance has increased by £66.4 billion to £146.4 billion. £30 billion of this increase was announced on 14 October 2008. The increase in gross gilt issuance will be met by an increase in conventional and index-linked gilt issuance with the majority of the increase in gilt issuance accounted for by an increase in short maturity conventional gilt issuance (from £25 billion at Budget to £62.8 billion); and
- the stock of Treasury bills will be increased by £14.5 billion instead of £5.8 billion as announced at Budget. £7 billion of this increase was announced on 14 October 2008.

B.107 The financing arithmetic set out in Table B20 also takes account of the change in the projected remaining balance of the Ways and Means Advance as at 31 March 2009 from £0.4 billion at Budget 2008 to £4.2 billion.

B.108 Details of changes to the financing arithmetic and a revised financing table for 2008-09 together with information on the progress of gilts sales so far this year against the DMO's financing remit can be found on the DMO's website at www.dmo.gov.uk

Table B20: Financing requirement forecast

	£ billion		
	Original Remit Budget 2008	Revised Remit April 2008 ¹	2008 Pre-Budget Report ²
Central government net cash requirement	59.3	59.3	152.9
Gilt redemptions	17.3	17.3	18.3
Financing for the official reserves ³	2.0	2.0	0.0
Buy-backs ⁴	0.0	0.0	0.0
Planned short-term financing adjustment ⁵	4.2	-2.5	-2.5
Gross financing requirement	82.8	76.1	168.7
Less Assumed net contribution from NS&I	4.0	4.0	11.0
Net financing requirement	78.8	72.1	157.7
<i>Financed by:</i>			
1. Debt issuance by the Debt Management Office			
(a) Treasury bills ⁶	5.8	-0.9	14.5
(b) Gilts	80.0	80.0	146.4
2. Other planned changes in short-term debt⁷			
Changes in Ways & Means ⁸	-7.0	-7.0	-3.2
3. Unanticipated changes in short-term cash position⁹			
Total financing	78.8	72.1	157.7
Short-term debt levels at end of financial year			
Treasury bill stock in market hands	22.0	16.7	32.1
Ways & Means	0.4	0.4	4.2
DMO net cash position	0.5	0.5	0.5

¹ The financing arithmetic in Budget 2008 was revised on 18 April 2008 to reflect outturn data for 2007-08.

² The Debt Management Office's (DMO's) remit for 2008-09 was revised on 14 October 2008 to reflect the need to raise £37 billion for the Bank Recapitalisation Fund. The financing will be raised through £30 billion of additional gilt issuance in the third quarter of 2008-09 and £7 billion of additional Treasury bill issuance.

³ The change in the financing of the official reserve reflects a changed assumption about financing for the foreign exchange reserves, in line with the monthly gross reserves outturn: http://www.hm-treasury.gov.uk/d/pn_115_08_reserves.pdf.

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 (iii) carry over of unanticipated changes to the cash position from the previous year.

⁶ The projected change in the stock of Treasury bills is a planning assumption and may change slightly depending primarily on the extent to which other short-term cash instruments are used to raise finance.

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 The plan to repay the Ways and Means Advance has been revised from £7 billion at Budget 2008 to £3.2 billion. The Government repaid £7 billion of the Ways and Means Advance on 17 April 2008. It subsequently decided to increase the balance of the Ways and Means Advance temporarily, by £3.8 billion, in order to smooth the impact of the refinancing of part of the Bank of England's loans to the Financial Services Compensation Scheme.

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

Box B3: Impact of financial stability measures on the public finances projections

As set out in Chapter 2, the main public finance projections exclude the impact of recent support measures for the financial sector, as these are exceptional and mostly temporary. This is an extension of the approach adopted in Budget 2008 to exclude Northern Rock from net debt. The independent Office for National Statistics (ONS) has yet to rule on how some of the transactions should be scored and issued a special background note on 16 October 2008 (*Financial Support for the banking industry: classification issues*). These classification decisions will take some time as a large volume of detailed information and legal documents will need to be examined before definitive rulings can be made. ONS are also in consultation with Eurostat (the Statistical Office of the European Union) and statistical offices in other member states to ensure consistent interpretation of international statistical guidance. Chapter 3 sets out financial stability measures taken by the Government in support of the wider economy.

Northern Rock: The projections are consistent with the company's Business Plan published after Budget 2008 and assume a reduction in both the size of its balance sheet and in the loan from the Government, which was projected in Budget 2008 to remain at £14 billion from end 2008-09.

Special Liquidity Scheme (SLS): The scheme was introduced in April 2008, and extended in October 2008, to provide liquidity support from the Bank of England to the banking system. The Government is lending Treasury bills to the Bank of England to run the scheme. The classification of the scheme is a matter for the ONS, and until there is a ruling, it has been assumed that there will be no impact on PSND as the transaction is back-to-back stock lending (for a fee) and therefore no debt is regarded as having been issued.

Bradford & Bingley: The company was taken into public ownership in September 2008 and restructured. This has added £18.2 billion to CGNCR through transactions associated with transfer of retail deposits to Abbey. £14.2 billion of this represents the assumption by Government of a loan from the Bank of England to cover the liabilities borne by the Financial Services Compensation Scheme (FSCS) and the remaining £4 billion is Government compensation for deposits above the FSCS depositor compensation limit. In addition there is a further £5.7 billion for the provision of a working capital facility. The company is currently producing a business plan, and the exact size of the working capital will be finalised as a part of that process. Although ONS announced on 14 November 2008 the classification of Bradford & Bingley to the public sector they have not yet been able to publish relevant data so no allowance can be made for including the debt of remainder of the company on the Government's balance sheet.

Kaupthing Singer & Friedlander (KSF) and Heritable: These were taken into public ownership in October 2008 and restructured. This has added £3.6 billion to CGNCR through transactions associated with transfer of retail deposits to ING Direct. £3 billion of this represents a Government loan to cover the liabilities borne by the FSCS.

Landsbanki (Icesave accounts): Transactions are taking place in November to compensate retail depositors in this account. These are expected to add around £4.5 billion to CGNCR. £3.8 billion of this represents Government refinancing of Bank of England loans to cover the liabilities borne by the FSCS and the Icelandic Depositors' and Investors' Guarantee Fund (ICS).

Bank Recapitalisation Fund: The Chancellor made a statement on 18 November 2008 detailing how future applications to the scheme would be dealt with from those banks which may seek to negotiate a substantively new proposal or new agreement with HM Treasury about the terms of any recapitalisation. Given the banks have agreed to raise capital, and the Government has given a commitment to support this, the Pre-Budget Report projections assume that the Government will acquire preference shares, and underwrite the issuance of ordinary shares, in Royal Bank of Scotland Group, Lloyds and HBOS at the terms set out in the statement on 13 October 2008, at a total cost of £37 billion, in 2008-09. In line with the NAO audited assumption (on privatisation proceeds) no disposal of these shares has been assumed over the entire projection period. However the impact on debt interest payments is largely offset by return on the preference shares.

Credit Guarantee Scheme (CGS): This scheme was introduced in October 2008. It is an insurance contract to repay new senior bank debt should the participating bank default. ONS have indicated that generally guarantees are contingent liabilities of Government and so do not score in the accounts unless the guarantee was called. No transactions from the CGS have been recorded in the Pre-Budget Report projections.

ADDITIONAL ANALYSES

B.109 Historical series for the main fiscal aggregates are included in Table B19. Further information on general government transactions and more detailed breakdowns of the public sector are included in *2008 Pre-Budget Report: the economy and public finances – supplementary material*, along with a detailed description of the conventions used in presenting the public finances.

HISTORICAL SERIES

Table B2I: 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 ¹	Net taxes and national insurance contributions	Public sector current receipts	Public sector net debt ^{1,2}	Public sector net worth ³
1970-71	6.8		-0.6		1.2	36.3	43.3		
1971-72	4.2		1.1		1.4	35.0	41.5		
1972-73	2.0		2.8		3.6	32.6	39.0		
1973-74	0.4	-0.7	4.9	6.0	5.8	31.9	39.5		
1974-75	-0.9	-2.5	6.5	8.1	8.9	34.5	42.1	52.1	
1975-76	-1.4	-1.6	7.0	7.2	9.2	35.3	42.8	53.8	
1976-77	-1.1	-0.6	5.5	5.0	6.3	35.1	43.2	52.3	
1977-78	-1.3	-1.2	4.3	4.1	3.6	34.1	41.4	49.0	
1978-79	-2.5	-2.3	5.0	4.8	5.2	33.1	40.1	47.1	
1979-80	-1.8	-1.7	4.1	4.0	4.6	33.5	40.6	43.9	
1980-81	-2.9	-1.5	4.8	3.4	5.1	35.5	42.2	46.0	
1981-82	-1.3	2.5	2.3	-1.5	3.3	38.0	45.5	46.2	
1982-83	-1.4	2.9	3.0	-1.4	3.1	38.2	45.2	44.8	
1983-84	-1.9	1.8	3.7	0.0	3.1	37.7	44.1	45.1	
1984-85	-2.1	0.9	3.6	0.6	3.0	38.2	43.9	45.3	
1985-86	-1.2	0.6	2.4	0.6	1.6	37.4	42.7	43.5	
1986-87	-1.4	-1.2	2.0	1.9	0.9	37.0	41.6	41.0	
1987-88	-0.4	-1.7	1.0	2.2	-0.7	36.8	40.6	36.8	72.2
1988-89	1.6	-1.0	-1.3	1.3	-3.0	36.1	40.2	30.5	77.4
1989-90	1.4	-1.4	-0.2	2.6	-1.3	35.4	39.4	27.7	69.3
1990-91	0.3	-1.2	1.0	2.6	-0.1	34.9	38.4	26.2	59.0
1991-92	-2.0	-1.5	3.7	3.3	2.3	33.8	38.1	27.4	51.9
1992-93	-5.6	-3.7	7.4	5.5	5.8	32.7	36.3	31.8	39.2
1993-94	-6.3	-4.0	7.7	5.4	6.9	31.8	35.4	36.5	28.7
1994-95	-4.8	-3.3	6.2	4.7	5.2	33.0	36.4	40.1	28.0
1995-96	-3.3	-2.4	4.7	3.8	4.2	33.6	37.2	41.9	20.7
1996-97	-2.7	-2.2	3.4	2.8	2.9	34.0	36.4	42.5	16.9
1997-98	-0.1	-0.1	0.7	0.6	0.1	35.1	37.5	40.6	14.2
1998-99	1.2	0.9	-0.5	-0.2	-0.7	35.6	37.7	38.4	13.4
1999-00	2.2	1.7	-1.6	-1.1	-0.9	35.5	37.9	35.6	16.4
2000-01	2.4	1.6	-1.9	-1.1	-3.7	36.3	38.6	30.7	22.3
2001-02	1.2	0.9	0.0	0.2	0.4	35.8	37.8	29.7	29.0
2002-03	-1.0	-0.7	2.3	2.0	2.2	34.3	36.3	30.8	27.6
2003-04	-1.5	-1.3	2.9	2.7	3.3	34.3	36.5	32.2	27.9
2004-05	-1.6	-1.5	3.3	3.2	3.2	35.2	37.4	34.1	28.3
2005-06	-1.1	-1.0	3.0	2.8	3.2	36.0	38.4	35.4	27.3
2006-07	-0.3	-0.3	2.3	2.3	2.6	36.2	38.6	36.0	25.6
2007-08	-0.5	-0.8	2.6	2.9	1.5	36.3	38.5	36.3	28.8

¹ Excluding measures to ensure financial stability.

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

³ At end-December; GDP centred on end-December.

Table B22: Historical series of government expenditure

	£ billion (2007-08 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	190.8	36.4	58.3	249.1	32.7	6.2	10.0	42.7
1971-72	200.6	31.8	54.8	255.4	33.4	5.3	9.1	42.6
1972-73	207.8	30.4	54.3	262.1	33.2	4.9	8.7	41.9
1973-74	229.1	34.2	61.1	290.1	35.0	5.2	9.3	44.4
1974-75	252.0	36.6	64.8	316.8	38.7	5.6	10.0	48.6
1975-76	257.9	36.0	64.4	322.3	39.8	5.6	9.9	49.8
1976-77	265.4	29.6	59.0	324.3	39.8	4.4	8.8	48.6
1977-78	260.9	20.2	49.8	310.7	38.3	3.0	7.3	45.6
1978-79	268.7	17.6	47.9	316.6	38.3	2.5	6.8	45.1
1979-80	275.7	16.4	47.1	322.8	38.1	2.3	6.5	44.7
1980-81	283.2	13.1	44.3	327.5	40.7	1.9	6.4	47.1
1981-82	296.0	7.0	38.0	334.1	42.3	1.0	5.4	47.8
1982-83	302.6	11.1	41.2	343.8	42.4	1.6	5.8	48.1
1983-84	312.2	13.6	43.5	355.7	42.0	1.8	5.9	47.8
1984-85	320.3	11.9	40.4	360.7	42.2	1.6	5.3	47.5
1985-86	320.4	9.2	35.4	355.8	40.6	1.2	4.5	45.1
1986-87	325.3	5.6	31.9	357.2	39.7	0.7	3.9	43.6
1987-88	328.7	5.0	29.8	358.5	38.1	0.6	3.5	41.6
1988-89	321.4	3.1	28.0	349.3	35.8	0.3	3.1	38.9
1989-90	323.7	11.3	35.8	359.5	35.3	1.2	3.9	39.2
1990-91	325.7	12.3	34.7	360.4	35.6	1.3	3.8	39.4
1991-92	345.3	16.1	35.0	380.3	38.0	1.8	3.8	41.9
1992-93	362.7	16.8	35.2	397.9	39.8	1.8	3.9	43.7
1993-94	372.8	13.3	31.6	404.4	39.7	1.4	3.4	43.1
1994-95	384.3	13.6	31.8	416.2	39.3	1.4	3.3	42.6
1995-96	389.5	13.7	31.4	420.9	38.7	1.4	3.1	41.8
1996-97	388.4	7.1	23.3	411.6	37.6	0.7	2.3	39.9
1997-98	387.4	6.1	21.7	409.0	36.2	0.6	2.0	38.2
1998-99	389.0	7.4	22.4	411.5	35.1	0.7	2.0	37.2
1999-00	396.6	6.7	21.8	418.4	34.4	0.6	1.9	36.3
2000-01	416.9	6.2	21.4	438.3	35.0	0.5	1.8	36.8
2001-02	428.9	14.0	29.4	458.3	35.3	1.2	2.4	37.7
2002-03	448.8	15.7	31.7	480.5	36.0	1.3	2.5	38.6
2003-04	471.9	17.4	33.6	505.5	36.8	1.4	2.6	39.4
2004-05	493.4	22.4	38.7	532.1	37.7	1.7	3.0	40.7
2005-06	513.0	25.1	42.1	555.1	38.2	1.9	3.1	41.4
2006-07	522.6	26.6	44.0	566.6	37.7	1.9	3.2	40.9
2007-08	536.4	29.9	47.7	584.1	37.8	2.1	3.4	41.1

¹ Net of sales of fixed assets.

