

The interim projections for the public finances published in this Pre-Budget Report show that the government is meeting its strict fiscal rules over the economic cycle:

- the current budget since the start of the current economic cycle in 1997-98 shows an annual average surplus up to 2008-09 of 0.1 per cent of GDP, showing the Government is meeting the golden rule on the basis of cautious assumptions. The average annual current surplus from 2008-09 to the end of the forecast period is about 0.7 per cent of GDP; and
- public sector net debt is projected to be low and stable over the forecast period stabilising at just over 38 per cent of GDP, below the 40 per cent ceiling set in the sustainable investment rule.

The 2005 *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 retrospective information on the public finances in 2003-04 and 2004-05.

INTRODUCTION

B.1 Chapter 2 describes the Government's fiscal policy framework and shows how the projections of the public finances presented in this Pre-Budget Report are consistent with the fiscal rules. This annex explains the fiscal projections in more detail. It includes:

- five-year projections of the current budget and public sector net debt, the key aggregates for assessing performance against the golden rule and the sustainable investment rule respectively;
- projections of public sector net borrowing, the fiscal aggregate relevant to assessing the impact of fiscal policy on the economy;
- projections of the cyclically-adjusted fiscal balances; and
- detailed analysis of the outlook for government receipts and expenditure.

B.2 The fiscal projections continue to be based on deliberately cautious key assumptions audited by the National Audit Office (NAO).

B.3 The Pre-Budget Report updates the projections of the public finances contained in Budget 2005, to take account of subsequent developments in both the public finances and the world and UK economies. The projections represent an interim forecast update and are not necessarily the outcome the Government is seeking.

B.4 As described in Chapter 2, an *End of year fiscal report* is published alongside this Pre-Budget Report. The report underlines the Government's commitment to transparency in fiscal policy by providing detailed retrospective information on the state of the public finances in 2003-04 and 2004-05, including their performance against the fiscal rules and against published forecasts and plans. The information set out in the *End of year fiscal report* supplements the historical and provisional outturn data published in this annex.

B.5 The Whole of Government Accounts programme (WGA) is providing an additional and valuable perspective on the public finances and improving the completeness and comparability of public sector financial data. In the 2003 Pre-Budget Report the Government stated its intention to publish WGA for the first time based on figures for 2006-07 once certain methodological issues had been addressed. Good progress has been made in addressing these issues and, on the basis that the remaining challenges can be addressed, the Government reaffirms its commitment to publish WGA balance sheet information for the year ending 31 March 2007. Further detail on developing accruals accounting for public sector bodies is discussed in *Delivering the benefits of accruals accounting for the whole public sector*, published alongside this Pre-Budget Report. The *Long-term public finance report*, also published alongside this Pre-Budget Report considers how WGA will fit in with other indicators of long-term sustainability.

MEETING THE FISCAL RULES

B.6 Table B1 shows five-year projections for the current budget and public sector net debt, the key aggregates for assessing the performance against the golden rule and the sustainable investment rule respectively. Outturns and projections of other important measures of the public finances, including net investment and net borrowing, are also shown.

B.7 As explained in Chapter 2, the Government's judgement is that the current economic cycle started in 1997-98. Based on the assumptions used in these projections, the economy will return to its trend level, ending the current cycle, in 2008-09.

Table B1: Summary of public sector finances

	Per cent of GDP							
	Outturns		Estimate	Projections				
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Fairness and prudence								
Surplus on current budget	-1.9	-1.7	-0.9	-0.3	0.0	0.5	0.7	0.8
Average surplus since 1997-1998	0.5	0.2	0.1	0.1	0.0	0.1	0.1	0.2
Cyclically-adjusted surplus on current budget	-1.4	-1.3	-0.1	0.7	0.7	0.7	0.7	0.8
Long-term sustainability								
Public sector net debt ¹	32.8	34.7	36.5	37.4	37.9	38.2	38.2	38.2
Core debt ¹	32.5	34.1	35.1	35.1	35.1	35.3	35.5	35.6
Net worth ²	28.5	29.1	26.6	25.7	25.3	25.5	24.6	24.0
Primary balance	-1.5	-1.7	-1.3	-0.9	-0.5	-0.1	0.2	0.3
Economic impact								
Net investment	1.2	1.6	2.1	2.3	2.3	2.3	2.3	2.3
Public sector net borrowing (PSNB)	3.1	3.3	3.0	2.6	2.3	1.8	1.6	1.4
Cyclically-adjusted PSNB	2.7	2.9	2.2	1.6	1.6	1.6	1.5	1.4
Financing								
Central government net cash requirement	3.5	3.3	3.5	3.1	2.7	2.2	2.2	1.8
Public sector net cash requirement	3.5	3.3	3.3	2.8	2.4	1.9	1.8	1.5
European commitments								
Treaty deficit ³	3.1	3.3	3.0	2.7	2.4	1.9	1.6	1.5
Cyclically-adjusted Treaty deficit ³	2.6	2.9	2.2	1.7	1.7	1.7	1.6	1.5
Treaty debt ratio ⁴	39.4	40.9	43.3	44.4	44.8	44.7	44.6	44.4
Memo: Output gap	-0.5	-0.5	-1.4	-1.5	-0.7	-0.1	0.0	0.0

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

² Estimate at end December; GDP centred on end December.

³ General government net borrowing on a Maastricht basis.

⁴ General government gross debt measures on a Maastricht basis.

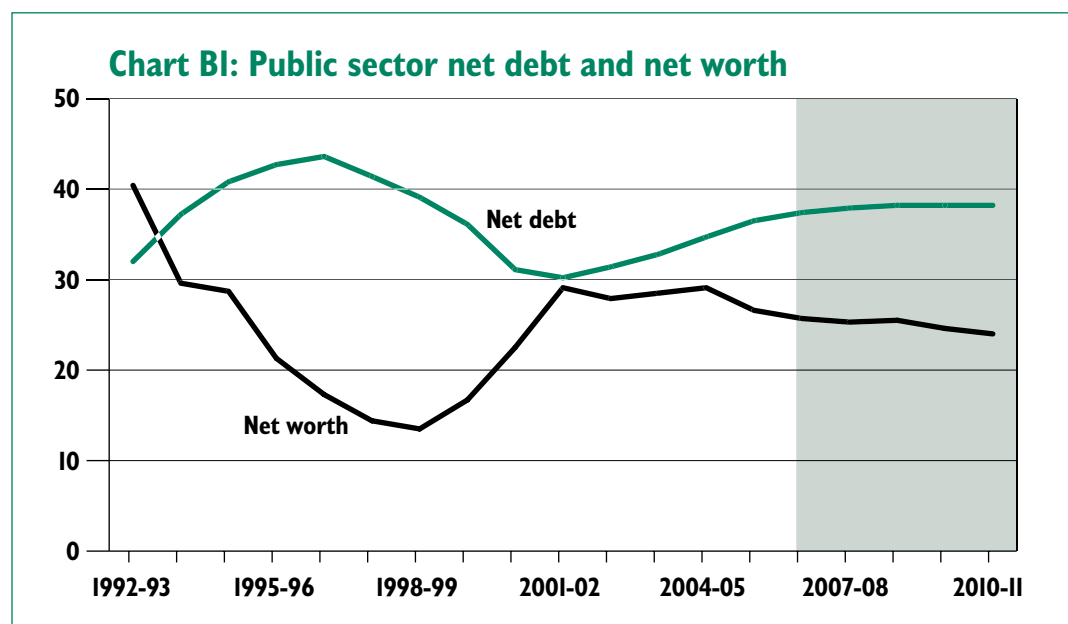
The golden rule B.8 The projections show that the Government is meeting the golden rule, on the basis of cautious assumptions, with an average annual surplus on the current budget over this economic cycle of 0.1 per cent of GDP. On this basis, and based on cautious assumptions, the Government is meeting the golden rule and there is a margin against the golden rule of £16 billion in this cycle, including the AME margin. The cyclically adjusted surplus, which allows underlying or structural trends in the public finances to be seen more clearly by removing the estimated effects of the economic cycle, shows a small deficit in 2005-06, but a surplus of 0.7 per cent of GDP or higher from 2006-07 onwards.

B.9 The economy is projected to return to trend in 2008-09. With the economy assumed to be on trend from then on, the projections show, based on cautious assumptions, that the average surplus over the period 2008-09 to 2010-11 is 0.7 per cent of GDP. At this early stage, and based on cautious assumptions, the Government will therefore continue to meet the golden rule after the end of this economic cycle.

The sustainable investment rule B.10 The sustainable investment rule is also met over the economic cycle. In 1996-97, public sector net debt stood at 44 per cent of GDP. The tough decisions on taxation and expenditure taken by the Government, including the decision to use the proceeds from the auction of spectrum licenses to repay debt, reduced debt to around 30 per cent of GDP by the end of 2001-02. It is now projected to rise slowly, as the Government borrows modestly to fund increased investment in public services, reaching just over 38 per cent by the end of the economic cycle – £27 billion below the 40 per cent level – and stabilising at that level for the remainder of the forecasting period. The projections for core debt, which exclude the estimated impact of the economic cycle, rise to just under 36 per cent of GDP by the end of the projection period. This is consistent with the fiscal rules, and with the key objective of intergenerational fairness that underpins the fiscal framework.

Net worth B.11 Net worth is the approximate stock counterpart of the current budget balance. Modest falls in net worth are expected for the remainder of the projection period from the high level of 29 per cent of GDP in 2004-05. At present, net worth is not used as a key indicator of the public finances, mainly as a result of the difficulties involved in accurately measuring many government assets and liabilities. This will be re-addressed once WGA balance sheet information becomes available

B.12 Chart B1 shows public sector net debt and net worth as a per cent of GDP from 1992-93 to 2010-11.



Net investment B.13 As a result of decisions taken in the 2004 Spending Review public sector net investment is projected to rise from 1.2 per cent of GDP in 2003-04 to 2¼ per cent from 2006-07 onwards. This increase is sustainable and fully consistent with the Government's long-term approach and the fiscal rules, since net debt is being held at a stable and prudent level, below 40 per cent of GDP.

Net borrowing B.14 Public sector net borrowing is expected to fall in every year of the forecast period, from 3.3 per cent of GDP in 2004-05 to 3.0 per cent in 2005-06, and then to a level of around 1½ per cent of GDP by 2009-10.

Financing B.15 The central government net cash requirement was 3.3 per cent of GDP in 2004-05. It is projected to be around 3.5 per cent of GDP in 2005-06, and falls to 1.8 per cent of GDP by 2010-11.

European commitments B.16 Table B1 also 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) by a considerable margin. In addition, the cyclically adjusted level of general government net borrowing is 2.2 per cent of GDP in 2005-06 and below 2 per cent of GDP from 2006-07 onwards. The projections are therefore consistent with the Government's prudent interpretation of the Stability and Growth Pact.

CHANGES TO THE FISCAL BALANCES

B.17 Table B2 compares the latest estimates for the main fiscal balances with those in Budget 2005.

Table B2: Fiscal balances compared with Budget 2005

	Outturn ¹ 2004-05	Estimate ² 2005-06	Projections			
			2006-07	2007-08	2008-09	2009-10
Surplus on current budget (£ billion)						
Budget 2005	-16.1	-5.7	1	4	9	12
Effect of revisions and forecasting changes	-3.8	-4.2	-6 1/2	-6 1/2	-5	-3 1/2
Effect of discretionary changes	0.0	-0.8	2	2 1/2	2 1/2	2
PBR 2005	-19.9	-10.6	-4	0	7	11
Net borrowing (£ billion)						
Budget 2005	34.4	31.9	29	27	24	22
Changes to current budget	3.8	4.9	5	4	2 1/2	1 1/2
Forecasting changes to net investment	0.6	0.1	0	0	0	0
PBR 2005	38.8	37.0	34	31	26	23
Cyclically-adjusted surplus on current budget (per cent of GDP)						
Budget 2005	-0.8	-0.3	0.1	0.3	0.6	0.8
PBR 2005	-1.3	-0.1	0.7	0.7	0.7	0.7
Cyclically-adjusted net borrowing (per cent of GDP)						
Budget 2005	2.4	2.4	2.2	2.0	1.6	1.5
PBR 2005	2.9	2.2	1.6	1.6	1.6	1.5
Net debt (per cent of GDP)						
Budget 2005	34.4	35.5	36.2	36.8	37.1	37.1
PBR 2005	34.7	36.5	37.4	37.9	38.2	38.2

¹ The 2004-05 figures were estimates in Budget 2005.

² The 2005-06 figures were projections in Budget 2005.

B.18 The revisions to the public sector current budget in this Pre-Budget Report are due to a combination of higher expenditure and lower receipts in 2004-05 and mainly to lower projections of receipts, especially non-North sea corporation tax and VAT for 2005-06 onwards.

B.19 Overall, the current budget has been revised from a deficit of £16.1 billion to a deficit of £19.9 billion in 2004-05 and from a deficit of £5.7 billion to a deficit of £10.6 billion in 2005-06. In 2006-07 the deficit is £4 billion, compared with a surplus of £1 billion in the Budget projections. The revisions are smaller in subsequent years and the current balance returns to surplus in 2007-08.

B.20 The cyclically-adjusted current deficit has been revised up in 2004-05 but has been revised down in 2005-06.

B.21 There are only small changes to net investment projections in this Pre-Budget Report and changes to net borrowing mirror those to the current budget.

FORECAST DIFFERENCES AND RISKS

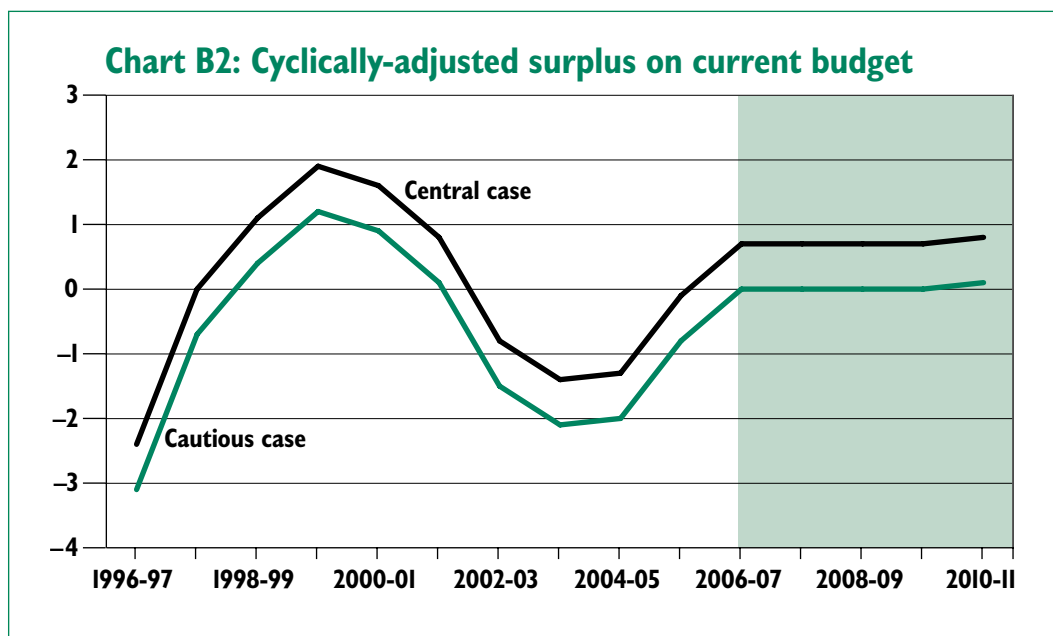
B.22 The fiscal balances represent the difference between large aggregates of expenditure and receipts, and forecasts are inevitably subject to wide margins of uncertainty. Over the past ten years, the average absolute difference between year-ahead forecasts of net borrowing and subsequent outturns has been around 1 per cent of GDP. These tend to grow as the forecast horizon lengthens. A full account of differences between the projections made in Budget 2003 and Budget 2004 and the subsequent outturns is provided in the *End of year fiscal report*.

B.23 As explained in Annex A, UK GDP is now expected to rise by $1\frac{3}{4}$ per cent in 2005 as a whole. Growth in 2006 is forecast to be 2 to $2\frac{1}{2}$ per cent. This reflects the continued drag on real household incomes arising from high oil prices, together with the ongoing effects of subdued earnings growth, acting to keep growth of private consumption at relatively moderate rates.

B.24 A similar set of risks surround the forecast as at Budget time. Risks to the world economy, if realised, would inevitably impinge on the UK. Already high oil prices could hit the UK economy harder than expected in 2006. Were euro area growth to remain weaker than expected, this would continue to have an adverse impact on UK external demand and net trade. There are risks in both directions for private consumption growth, which may continue to undershoot expectations if average earnings growth continues to remain unexpectedly subdued, or could surprise on the upside if, for example, housing market developments prompted a rise in consumer confidence. Business investment growth could also surprise on the upside, given strong rates of profitability allied with a low cost of capital and benign financial conditions.

B.25 The use of cautious assumptions audited by the NAO builds a safety margin into the public finance projections to guard against unexpected events. One of the key audited assumptions is that for trend output growth, which is assumed to be $\frac{1}{4}$ of a percentage point below the neutral view. This means that the rate of economic growth used to forecast the public finances is the bottom end of the projection range. For example, in this Pre-Budget Report, the forecast for economic growth used in the public finance projections over the period 2006-07 to 2010-11 averages $2\frac{1}{2}$ per cent, $\frac{1}{4}$ per cent below the central case. This implies the level of GDP used in the public finance forecast is 1.4 per cent below the neutral view in 2010-11.

B.26 A second important source of potential error results from misjudging the position of the economy in relation to trend output. To minimise this risk, the robustness of the projections is tested against an alternative scenario in which the level of trend output is assumed to be one percentage point lower than in the central case. Chart B2 illustrates the Pre-Budget Report projection for this cautious case.



B.27 The Government has used the cautious case and cautious audited assumptions to build a safety margin against unexpected events. This was combined with the decision to consolidate the public finances when the economy was above trend, which resulted in low debt. This has allowed the Government to safeguard the increase in investment in priority public services, allow the automatic stabilisers to work in full during the period of global economic uncertainty in the early part of the decade and meet in full the UK's international commitments, while continuing to meet the fiscal rules.

ASSUMPTIONS

B.28 The fiscal projections are based on the following assumptions:

- the economy follows the path in Annex A. In the interests of caution, the fiscal projections continue to be based on the deliberately prudent and cautious assumption of trend output growth of $2\frac{1}{2}$ per cent up to 2006-07, $\frac{1}{4}$ percentage point lower than the Government's neutral view. The Government's neutral view of trend output growth is reduced to $2\frac{1}{2}$ per cent between 2007-08 and 2010-11, and so, to maintain a cautious approach, an assumption of $2\frac{1}{4}$ per cent is used in the public finances projections, still $\frac{1}{4}$ percentage points lower than the Government's neutral view;
- there are no tax or spending policy changes beyond those announced since Budget 2005 or in this Pre-Budget Report (see Tables B4 and B5), and the indexation of rates and allowances. Consistent with the Code for fiscal stability, the forecast does not take account of measures proposed in this Pre-Budget Report for consultation or other proposals where final decisions have yet to be taken;

- firm Departmental Expenditure Limits (DEL) as set out in the 2004 Spending Review up to 2007-08, but adjusted for the impact of policy decisions and DEL/AME reclassifications;
- total Annually Managed Expenditure (AME) is as set out in 2004 Spending Review up until 2007-08, but adjusted for reclassifications, re-profiling of capital expenditure, the impact of policy decisions and where necessary to cover changes in the forecasts of individual components. Other changes to the forecasts of individual components are absorbed by the AME margin within set total AME;
- as is normal, the Treasury is setting out its assumption for public sector current expenditure for the period beyond the current Spending Review. Public sector current expenditure in 2008-09 and 2009-10 remains at the same nominal levels as assumed in Budget 2005. Public sector current expenditure in 2010-11 is assumed to grow by 1.9 per cent in real terms, in line with the assumed growth rate for 2008-09 and 2009-10 used in Budget 2005; and
- net investment is assumed to remain at 2¼ per cent of GDP in 2008-09 and subsequent years.

Table B3: Economic assumptions for the public finance projections

	Percentage changes on previous year						
	Outturn	Estimate	Projections				
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Output (GDP)	2 3/4	1 3/4	2 1/4	3	2 3/4	2 1/4	2 1/4
Prices							
CPI	1 1/2	2 1/4	2	2	2	2	2
GDP deflator	2 1/4	2 1/2	2 1/2	2 3/4	2 3/4	2 3/4	2 3/4
RPI ¹ (September)	3	2 3/4	2 1/2	2 3/4	2 3/4	2 3/4	2 3/4
Rossi ² (September)	1 1/4	2	2	2 1/4	2 1/4	2 1/4	2 1/4
Money GDP ³ (£ billion)	1,176	1,225	1,283	1,357	1,431	1,503	1,577

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

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

³ Not seasonally adjusted.

B.29 The key assumptions underlying the fiscal projections are audited by the NAO and details of the main audited assumptions are given in Box B2. All these assumptions are subject to review by the NAO under the three-year rolling review process.

B.30 For this 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 first half of 1997. The review concluded that, though there were uncertainties, there are reasonable grounds to date the end of the previous cycle to 1997 and that this would not reduce the extent of caution in making the fiscal projections. The NAO will also be asked to audit the end date of the current and future cycles once the Treasury has made a firm judgement.

B.31 The Comptroller and Auditor General also audited the oil price assumption and found that it has proved cautious over the three-year rolling review period and remains reasonable.

B.32 In addition the Comptroller and Auditor General audited the extension to the VAT forecasting rule in respect of the 2002 VAT Strategy. He concluded that it was not possible at this stage to evaluate the degree to which the assumption has proved cautious and reasonable. A final assessment would require firmer direct evidence of the revenue effects of the Strategy and would only be possible once final outturn data is available for 2005-06. Many uncertainties remain but HM Revenue and Customs has introduced some caution in the forward estimates by including only part of the forecast impacts in the fiscal projections. In light of the NAO's findings, HM Treasury has indicated that it intends to ask the Comptroller and Auditor General to carry out a further review of the forecasting assumptions that underlie VAT receipts, including those related to the VAT Strategy, as part of his audit of Budget assumptions for Budget 2007 or before.

B.33 Consistent with the Code for fiscal stability, the forecast does not take into account the impact of finance leases on public sector net debt, as the impact cannot be accurately estimated. The Office for National Statistics (ONS) is undertaking a programme of work to quantify the impact of these finance leases and is planning to issue the first estimates in mid-2006.

Box BI: Key assumptions audited by the NAO ^a

<ul style="list-style-type: none"> • Dating of the cycle^e • Privatisation proceeds • Trend GDP growth • UK claimant unemployment^d • Interest rates • Equity prices^b • VAT^{b,c,e} • Consistency of price indices^b • Composition of GDP^c • Funding^c • Oil prices^e • Tobacco 	<p>The end date of the previous economic cycle was in the first half of 1997.</p> <p>Credit is taken only for proceeds from sales that have been announced.</p> <p>2½ per cent a year to 2006-07 and 2¼ per cent in subsequent years.</p> <p>Rising slowly to 0.97 million in 2007-08, from recent levels of 0.87 million.</p> <p>3-month market rates change in line with market expectations (as of 24 November).</p> <p>FTSE All-share index rises from 2776 (close 24 November) in line with money GDP.</p> <p>The VAT gap will rise by 0.5 percentage points per year from a level that is at least as high as the estimated outturn for the current year.</p> <p>Projections of price indices used to project the public finances are consistent with CPI.</p> <p>Shares of labour income and profits in national income are broadly constant in the medium term.</p> <p>Funding assumptions used to project debt interest are consistent with the forecast level of government borrowing and with financing policy.</p> <p>\$56 a barrel in 2006, the average of independent forecasts, and then constant in real terms.</p> <p>The underlying market share of smuggled cigarettes will be set at least at the latest published outturn. For the 2005 Pre-Budget Report, a share of 16 per cent is used for 2003-04 onwards.</p>
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^a For details of all NAO audits before the 2003 Pre-Budget Report, see Budget 2003. 9 April 2003 (HC500).

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

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

^d Audit of Assumptions for the 2005 Budget, 16 March 2005 (HC452).

^e Audit of Assumptions for the 2005 Pre-Budget Report, 5 December 2005 (HC707).

PRE-BUDGET REPORT POLICY DECISIONS

B.34 Consistent with the requirements of the Code for fiscal stability the updated projections take into account the fiscal effects of all firm decisions announced in the 2005 Pre-Budget Report or since Budget 2005. The fiscal impact of these measures are set out in Tables B4 and B5, these include extending Winter Fuel Payments, measures to protect tax revenues, increasing the North Sea supplementary charge and freezing fuel duties.

B.35 In line with conventions in previous Pre-Budget Reports, expenditure measures in AME for future years have been added to total AME, and measures in DEL have been added to total DEL.

B.36 Consistent with the Code for fiscal stability, the projections do not take account of decisions where the impact cannot yet be quantified or of measures proposed in the Pre-Budget Report or where final decisions have yet to be taken, these include:

- further extensions to paid maternity and paternity leave;
- further payments into Child Trust Fund accounts at age 7; and
- Real Estate Investment Trusts for the UK.

B.37 The measures in Table B4 that either close tax loopholes or tackle tax fraud represent the estimated direct Exchequer effect of the measure on existing levels of avoidance or fraud activity. Further details explaining how the Exchequer effects of measures are calculated can be found in Appendix A2 of the Financial Statement and Budget Report 2005.

Table B4: Estimated costs for Pre-Budget Report policy decisions and others announced since Budget 2005¹

	£ million			
	2005–06	2006–07	2007–08	2008–09
Meeting the productivity challenge				
VAT: increased threshold for cash and annual accounting schemes	0	*	–55	0
50% first year capital allowances for small enterprises	0	0	–60	+15
Increasing employment opportunity for all				
Increase in Housing Benefit disregard	0	–5	–5	–5
Building a fairer society				
Tax credits package	0	–100	+200	+50
Reform of film tax incentives	0	+30	–10	+30
Sale of lessors	+10	+35	+85	+155
Oil valuation for tax purposes	0	+40	+80	+80
Tackling tax motivated incorporation ²	0	+10	+390	+530
Class 2 NICs: no increase in flat rate charge for self employed	0	–5	–5	–5
Tax exemption for bank accounts of holocaust survivors	*	–5	*	*
Stamp duty on shares: reconstruction relief	*	–20	–20	–20
Aligning taxation of gambling machines with the Gambling Act	–5	+30	+30	+30
Protecting revenues				
Financial avoidance using stock lending arrangements	+10	+30	+30	+30
Life assurance companies: closing avoidance opportunities	+155	+115	+85	+85
Corporate intangible assets avoidance	+10	+90	+120	+120
Prevention of abuse of corporate capital losses	+20	+210	+300	+300
Capital gains: preventing abuse of capital redemption policies	0	+35	+100	+75
Enhancing the strategy to tackle tobacco smuggling	0	+50	+90	+115
Preventing income tax avoidance from transfer of assets abroad	0	*	+10	+30
Rebated oils: supporting the UK oils fraud strategy	–20	0	0	0
Responding to oil price changes				
North Sea oil: increase in supplementary charge and first year allowance elections	0	+2,000	+2,200	+2,300
Introducing ringfenced expenditure supplement	0	0	*	–5
Continued higher Winter Fuel Payments	0	–665	–680	–690
Tackling pensioner fuel poverty	–25	–150	–125	0
Protecting the environment				
Enhanced Capital Allowances for the cleanest biofuels production plants	0	0	–25	–20
Fuel duties: freeze of main rates	–375	–610	–610	–635
Fuel duties: freeze of biofuel rates	*	–5	–5	–15
Fuel duties: freeze of road fuel gases	–5	–5	–5	–5
Exemption of oils used for electricity generation	*	–5	–5	–5
Other policy decisions				
Addition to the Special Reserve	–580	0	0	0
TOTAL POLICY DECISIONS³	–805	+1,100	+2,110	+2,540

* Negligible

¹ Costings shown relative to an indexed base.

² Alongside the revenue raised by this measure projected tax receipts have been further reduced as a result of an increase in the number of those incorporating simply to reduce their tax and national insurance liability as described in Chapter 5.

³ Excludes the effects of measures taken to manage the transition arising from the move to International Accounting Standards and changes to the income recognition rules in UK GAAP. The impact of these changes is detailed in Table B5.

International Accounting Standards

B.38 As detailed in Chapter 5, the Government has brought in legislation to make the tax system compatible with International Accounting Standards (IAS), and also announced its intention to bring in legislation to spread the impact of changes to the income recognition rules in UK Generally Accepted Accounting Practice (GAAP). The Government continues to work with business to manage the impact of accounting changes. Table B5 details the impact on the underlining profile of tax receipts and the arrangements to manage the transition for tax purposes of the following aspects:

- changes announced in July, spreading over 10 years the majority of the transitional arrangements from the move to International Accounting Standards;
- the treatment of impairment losses under the new International Accounting Standards; and
- the changes in income recognition rules in UK GAAP.

Table B5: Impact of the changes to accounting standards¹

	£ million			
	2005–06	2006–07	2007–08	2008–09
IAS: general transition – impact on corporation tax revenues	0	–340	–80	+50
IAS: general transition – effect of transitional arrangements	0	+340	+80	–50
IAS: treatment of impairment losses – impact on corporation tax revenues	0	–680	–230	0
IAS: treatment of impairment losses – effect of transitional arrangements	0	+610	+140	–90
Income recognition rules: impact on income tax revenues	0	+380	+40	0
Income recognition rules: effect of transitional arrangements	0	–240	+70	+75
TOTAL	0	+70	+20	–15

¹ Costings shown relative to an indexed base.

B.39 The income tax personal allowances will increase in line with inflation in 2006-07. The national insurance contributions (NICs) thresholds and limits will also increase in line with inflation. There will be no change to NICs rates for employers and employees, or to the Class 4 rate paid by the self-employed. The flat rate of Class 2 NICs paid by the self-employed and the special rate of Class 2 for share fisherman will be frozen at this year's levels. The rate of Class 3 contributions and the special rate of Class 2 for volunteer development workers will increase in line with inflation. Tables B6 and B7 set this out in greater detail.

Table B6: National insurance contribution rates 2006-07

Earnings ¹	Class 1 rates		Profits ¹	Self employed NICs	
	Employee (primary)	Employer (secondary)		Class 2	Class 4
	NIC rate ²	NIC rate ³		Class 2	Class 4
£ per week	per cent	per cent	£ per year	£ per week	per cent
Below 84 (LEL)	0	0	Below 4,465 (SEE)	0 ⁵	0
84 to 97 (PT/ST)	0 ⁴	0	4,465 to 5,035 (LPL)	2.10	0
97 to 645 (UEL)	11	12.8	5,035 to 33,540 (UPL)	2.10	8
Above 645	1	12.8	Above 33,540	2.10	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.

² The contracted-out rebate for primary contributions in 2006-07 is 1.6 per cent of earnings between the LEL and UEL for contracted-out-salary-related schemes (CORS) and contracted-out money purchase scheme (COMPS).

³ The contracted-out rebate for secondary contributions is 3.5 per cent of earnings between the LEL and UEL for CORS and 1.0 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 and earnings-rebate is paid direct to the person pension provider following the end of the tax year.

⁴ No NICs are actually payable but a notional Class 1 NIC will be deemed to have been paid in respect of earnings between the LEL and PT to protect benefit entitlement.

⁵ 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 earning exceptions (SEE).

Table B7: Income tax allowances 2006-07

	£ a year		Increase
	2005-06	2006-07	
Personal allowance			
age under 65	4,895	5,035	140
age 65-74	7,090	7,280	190
age 75 and over	7,220	7,420	200
Married couple's allowance ¹			
aged less than 75 and born before 6 April 1935	5,905	6,065	160
age 75 and over	5,975	6,135	160
minumum amount ²	2,280	2,350	70
Income limit for age-related allowances	19,500	20,100	600
Blind person's allowance	1,610	1,660	50

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.

B.40 As set out in Table B8, the child element of the Child Tax Credit will be increased by £75 to £1,765 a year from 6 April 2006, in line with earnings growth. All the elements of Working Tax Credit rise in line with inflation (the increase in the RPI in the year to September 2005), as do the disabled child elements of Child Tax Credit. The rates of Child Benefit and Guardian's Allowance will also increase in line with inflation. The proportion of eligible childcare costs covered by Working Tax Credit increases from 70 per cent to 80 per cent from April 2006. The disregard in Tax Credits for increases in income between one tax year and the next will rise from £2,500 to £25,000 from April 2006.

Table B8: Working and Child Tax Credit rates and thresholds

	£ a year		
	2005-06	2006-07	Increase
Working Tax Credit			
Basic Element	1,620	1,665	45
Couple and lone parent element	1,595	1,640	45
30 hour element	660	680	20
Disabled worker element	2,165	2,225	60
Severe disability element	920	945	25
50 plus element, 16–29 hours	1,110	1,140	30
50 plus element, 30+ hours	1,660	1,705	45
Childcare element			
– maximum eligible cost for one child	<i>£175 per week</i>	<i>£175 per week</i>	-
– maximum eligible cost for two or more children	<i>£300 per week</i>	<i>£300 per week</i>	-
– per cent of eligible costs covered	70%	80%	10
Child Tax Credit			
Family element	545	545	-
Family element, baby addition	545	545	-
Child element	1,690	1,765	75
Disabled child element	2,285	2,350	65
Severely disabled child element	920	945	25
Income thresholds and withdrawal rates			
First income threshold	5,220	5,220	-
First withdrawal rate (per cent)	37%	37%	-
Second income threshold	50,000	50,000	-
Second withdrawal rate (per cent)	6.67%	6.67%	-
First threshold for those entitled to Child Tax Credit only	13,910	14,155	245
Income disregard	2,500	25,000	22,500

FISCAL AGGREGATES

B.4I Tables B9 and B10 provide more detail on the projections for all the current and capital budgets.

Table B9: Current and capital budgets (£ billion)

	Outturn	Estimate	Projections				
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Current budget							
Current receipts	448.4	483.0	517	550	581	612	642
Current expenditure	453.4	477.9	504	532	556	582	608
Depreciation	14.9	15.7	17	18	19	20	21
Surplus on current budget	-19.9	-10.6	-4	0	7	11	13
Capital budget							
Gross investment	40.1	48.1	52	55	55	58	60
Less asset sales	-6.2	-6.1	-6	-6	-5	-4	-4
Less depreciation	-14.9	-15.7	-17	-18	-19	-20	-21
Net investment	18.9	26.3	29	31	32	34	35
Net borrowing	38.8	37.0	34	31	26	23	22
Public sector net debt - end year	416.7	456.6	493	529	560	589	617
Memos:							
Treaty deficit ¹	38.3	37.1	35	32	27	24	23
Treaty debt ²	480.4	530.0	569	607	640	671	701

¹ General government net borrowing on a Maastricht basis.

² General government gross debt on a Maastricht basis.

Table B10: Current and capital budgets (per cent of GDP)

	Per cent of GDP						
	Outturn	Estimate	Projections				
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Current budget							
Current receipts	38.1	39.4	40.2	40.5	40.6	40.7	40.7
Current expenditure	38.6	39.0	39.3	39.2	38.8	38.7	38.6
Depreciation	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Surplus on current budget	-1.7	-0.9	-0.3	0.0	0.5	0.7	0.8
Capital budget							
Gross investment	3.4	3.9	4.1	4.0	3.9	3.9	3.8
Less asset sales	-0.5	-0.5	-0.5	-0.4	-0.3	-0.3	-0.3
Less depreciation	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Net investment	1.6	2.1	2.3	2.3	2.3	2.3	2.3
Net borrowing	3.3	3.0	2.6	2.3	1.8	1.6	1.4
Public sector net debt - end year	34.7	36.5	37.4	37.9	38.2	38.2	38.2
Memos:							
Treaty deficit ¹	3.3	3.0	2.7	2.4	1.9	1.6	1.5
Treaty debt ratio ²	40.9	43.3	44.4	44.8	44.7	44.6	44.4

¹ General government net borrowing on a Maastricht basis.

² General government gross debt on a Maastricht basis.

B.42 Following a deficit of 3 per cent of GDP in 1996-97, current budget surpluses of more than 2 per cent were recorded in 1999-2000 and 2000-01. These surpluses allowed the Government to use fiscal policy to support monetary policy during the economic slowdown in 2001 and 2002, and as a result the current budget moved into deficit. The current budget is expected to remain in deficit until 2006-07 and then move back into balance in 2007-08, with increasingly larger surpluses in later years, reaching 0.8 per cent of GDP in 2010-11.

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

B.44 Table B9 also shows that net investment is projected to increase from £18.9 billion in 2004-05 to £31 billion in 2007-08, as the Government seeks to rectify historical under-investment in public infrastructure. These increases are sustainable and fully consistent with the Government's long-term approach and the fiscal rules, as debt is being held at just over 38 per cent of GDP or less throughout the projection period, within the 40 per cent limit set by the sustainable investment rule.

RECEIPTS

B.45 This section looks in detail at the projections for public sector tax receipts. It begins by looking at the main determinants of changes in the overall projections since Budget 2005, before looking in detail at changes in the projections of individual tax receipts. Finally, it provides updated forecasts for the tax-GDP ratios.

Changes in total receipts since Budget 2005

B.46 The forecast for public sector current receipts for 2005-06 has been revised down by £3½ billion since Budget 2005. Before allowing for discretionary changes, the shortfall increases to £6½ billion in 2006-07. However these shortfalls are lower than would be expected given changes in the level of money GDP and its components, partly because of higher receipts from the North Sea taxes and partly because of the strong performance of the financial sector, which has not been affected by the slower economic growth in the same way as the rest of the economy. Current receipts remain lower throughout the forecast, although the shortfall in receipts relative to Budget 2005 diminishes.

B.47 Table B11 breaks down the causes of these revisions between discretionary changes and non-discretionary changes from oil price effects on oil taxes, other economic assumptions audited by the NAO, changes to money GDP and its components and other forecasting changes.

Table B11: Changes in current receipts since Budget 2005

	£ billion				
	Estimate		Projections		
	2005-06	2006-07	2007-08	2008-09	2009-10
Effect on receipts of non-discretionary changes in:					
Oil prices on oil taxes	2	1 1/2	2	2	2
Assumptions audited by the NAO	1/2	- 1/2	0	0	- 1/2
Money GDP and components	-4	-8	-8	-6 1/2	-5
Other forecasting changes	-2	0	- 1/2	0	0
Total before discretionary changes¹	-3 1/2	-6 1/2	-6 1/2	-4 1/2	-3 1/2
Discretionary changes	0	2 1/2	3	3	3
Total change¹	-3 1/2	-4	-3 1/2	-1 1/2	- 1/2

¹ Total may not sum due to rounding.

Oil prices on oil taxes **B.48** Relative to the Budget forecast, oil prices are around \$15 a barrel higher throughout the forecast. The effect on oil taxes increases receipts by around £2 billion a year. This line in Table B11 includes the oil price impact on North Sea corporation tax and petroleum revenue tax and the partially offsetting impact of higher pump prices on the demand for road fuels and hence on fuel duties. The offsetting effects on the public finances from higher oil prices on the wider economy are included in the money GDP and components line and the effects of any temporary increase in inflation in other forecasting changes. The oil price assumption, but not the consequential demand effect on fuel duties, is audited by the NAO.

Other assumptions audited by NAO **B.49** The main impact from changes to other audited assumptions are on equity prices and on the VAT assumption. These work in opposite directions and the overall impact is broadly neutral. Equity prices are expected to be around 5-7 per cent higher over the projection period than assumed in the Budget, boosting corporation tax receipts from life assurance companies, stamp duty receipts and capital taxes. The effect of the VAT assumption is to reduce revenues from 2006-07 onwards reflecting the higher estimate of the VAT gap in 2005-06.

Money GDP and components **B.50** Moderate growth in average earnings, a slower rise in the profitability of industrial and commercial companies and the impact of a more modest than expected increase in nominal consumer spending lead to substantial reductions in receipts. The combined impact reduces current receipts by £4 billion in 2005-06, by £8 billion in 2006-07 and in 2007-08, before the shortfall diminishes as the economy has a period of above-trend growth during 2007 and 2008. Despite these higher real growth rates, the levels of money GDP and some of its components remain lower than in Budget 2005 and this leads to continued shortfalls even after the economy returns to trend. The data revisions to 2004 GDP estimates, discussed in Annex A, also have a downward impact on receipts throughout the forecast period.

Other forecasting changes **B.51** A large number of different factors contribute to other forecasting changes and together are expected to reduce current receipts by around £2 billion in 2005-06, partly because of the shortfall in VAT not directly explainable by GDP component changes. In later years the effect of this VAT shortfall is scored in the assumptions audited by the NAO line and the other forecasting changes broadly balance. These changes include reductions to corporation tax not directly attributable to GDP component changes and changes to North Sea oil production, which reduce receipts until 2009-10. The offsetting factors include the boost to income tax and National Insurance contributions from the buoyant financial sector and the effects of higher than expected commercial property prices.

Tax-by-tax analysis

B.52 Table B12 shows outturns for cash receipts in the first 7 months of 2005-06 and estimated receipts for the remainder of the year, along with percentage changes over the corresponding period in 2004-05. These growth rates can vary considerably across the year, reflecting the rules for payment of each tax and the various time lags. Table B13 shows the changes to the projections of individual taxes since Budget 2005, while B14 contains updated projections for the main components of public sector receipts for 2004-05, 2005-06 and 2006-07.

Table B12: Net taxes and national insurance contributions 2005-06

	£ billion			Percentage change on 2004-05		
	Outturn ¹	Estimate	2005-06	Outturn ¹	Estimate	Full year
	Apr-Oct	Nov-Mar		Apr-Oct	Nov-Mar	
<i>HM Revenue & Customs</i>						
Income tax, NICs and capital gains tax ²	120.1	98.3	218.4	9.1	5.4	7.4
Value added tax	43.3	31.1	74.4	0.2	4.3	1.9
Corporation tax ²	25.8	15.5	41.3	18.3	30.8	22.7
Petroleum revenue tax	1.1	1.0	2.2	54.4	94.2	71.1
Fuel duties	13.9	10.0	23.9	0.6	5.2	2.5
Inheritance tax	1.9	1.4	3.3	11.2	16.3	13.3
Stamp duties	6.0	4.1	10.2	11.2	16.7	13.4
Tobacco duties	4.8	3.3	8.2	-0.9	3.4	0.8
Alcohol duties	4.6	3.6	8.1	0.7	7.0	3.3
Other Customs duties and levies	5.0	3.9	8.9	2.8	4.2	3.4
Total HMRC	226.6	172.2	398.8	7.3	7.7	7.5
Vehicle excise duties	3.0	1.9	4.9	5.2	0.9	3.4
Business rates	14.0	6.3	20.3	5.2	16.9	8.6
Council tax	14.2	6.8	21.1	5.5	2.9	4.6
Other taxes and royalties	7.3	5.6	12.9	6.5	7.1	6.8
Net taxes and national insurance contributions	265.1	192.9	458.0	7.1	7.7	7.3

¹ Provisional.

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

Table B13: Changes in current receipts by tax since Budget 2005

	£ billion		
	2004-05	2005-06	2006-07
Income tax (gross of tax credits)	0.4	-2.2	-2.9
Income tax credits	-0.3	-0.7	-0.8
National insurance contributions	0.2	1.6	1.6
Non-North Sea corporation tax ¹	0.1	-3.2	-4.1
North Sea revenues	0.0	2.0	4.8
Capital taxes ²	0.0	-0.3	0.0
Stamp duty	0.1	0.5	0.9
Value added tax	0.7	-2.0	-2.8
Excise duties ³	-0.2	-1.0	-1.7
Other taxes and royalties ⁴	0.2	1.3	1.2
Net taxes and national insurance contributions	1.1	-3.9	-3.8
Other receipts and accounting adjustments	-2.4	0.1	-0.1
Current receipts	-1.2	-3.7	-3.8

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

² Capital gains tax and inheritance tax.

³ Fuel, alcohol and tobacco duties.

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

Income tax and national insurance contributions

B.53 Cash receipts of income tax and National Insurance contributions (NICs) for the first 7 months of 2005-06 are 9 per cent higher than in the same period of 2004-05. This reflects strong growth in PAYE and NIC receipts from wages and salaries, especially from the financial sector, but also partly reflects timing effects related to the delay in the processing of personal pension rebates which boosted NICs in the first half of the year, but is expected to unwind over the rest of 2005-06. It is also despite lower growth in total wages and salaries. Employment growth has remained robust, but overall growth in average earnings has slowed from nearly 4½ per cent at the end of 2004 to just under 4 per cent in recent months. However earnings increases remain high in particular sectors of the economy such as the financial sector which has a higher proportion of taxpayers who pay tax at the higher rate than other sectors in the economy.

B.54 Receipts growth in the remainder of 2005-06 is expected to be slower than for April to October, partly because of timing effects, and partly because slower growth in self employment income is likely to lead to lower growth in self assessment receipts in the first quarter of 2006. The forecast assumes a rise in financial sector bonuses given the evidence that activity in the sector has remained buoyant and has avoided the slowdown evident in other sectors of the economy.

B.55 The modest further decline relative to the Budget 2005 forecast in income tax and NICs receipts in 2006-07 reflects that growth in wages and salaries is again likely to be below the Budget projection. Receipts have also been reduced to take account of the net effects of further tax motivated incorporations (see Chapter 5 and Table B4).

Table B I4: Current receipts

	£ billion		
	Outturn 2004-05	Estimate 2005-06	Projection 2006-07
<i>HM Revenue and Customs</i>			
Income tax (gross of tax credits)	127.2	135.9	144.7
Income tax credits	-4.3	-4.6	-4.4
National insurance contributions	78.1	84.2	88.8
Value added tax	73.0	74.4	77.3
Corporation tax ¹	34.1	41.8	50.1
Corporation tax credits ²	-0.5	-0.5	-0.6
Petroleum revenue tax	1.3	2.2	2.1
Fuel duties	23.3	23.9	24.4
Capital gains tax	2.3	2.8	3.6
Inheritance tax	2.9	3.3	3.6
Stamp duties	9.0	10.2	11.4
Tobacco duties	8.1	8.2	8.2
Spirits duties	2.4	2.4	2.5
Wine duties	2.2	2.3	2.5
Beer and cider duties	3.3	3.4	3.4
Betting and gaming duties	1.4	1.4	1.4
Air passenger duty	0.9	1.0	1.0
Insurance premium tax	2.4	2.5	2.6
Landfill tax	0.7	0.8	0.9
Climate change levy	0.8	0.8	0.7
Aggregates levy	0.3	0.3	0.4
Customs duties and levies	2.2	2.2	2.2
Total HMRC	371.0	398.8	426.9
Vehicle excise duties	4.7	4.9	5.2
Oil royalties	0.0	0.0	0.0
Business rates	18.7	20.3	21.4
Council tax*	20.1	21.1	22.6
Other taxes and royalties ³	12.1	12.9	14.2
Net taxes and national insurance contributions⁴	426.7	458.0	490.3
Accruals adjustments on taxes	0.4	1.4	0.8
Less own resources contribution to European Union (EU) budget	-4.1	-3.9	-4.0
Less PC corporation tax payments	-0.1	-0.1	-0.1
Tax credits adjustment ⁵	0.5	0.6	0.6
Interest and dividends	5.7	5.0	5.1
Other receipts ⁶	19.3	21.9	23.8
Current receipts	448.4	483.0	516.6
<i>Memo:</i>			
North Sea revenues ⁷	5.2	9.1	11.7

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

² Includes enhanced company tax credits.

³ Includes VAT refunds and money paid into the National Lottery Distribution Fund.

⁴ Includes VAT and 'traditional own resources' contributions to EU budget.

⁵ Tax credits which are scored as negative tax in the calculation of NTNIC but expenditure in the national accounts.

⁶ Includes gross operating surplus and rent; net of oil royalties and business rate payments by Local Authorities.

⁷ Consists of North Sea corporation tax, petroleum revenue tax and royalties.

*Council tax increases are determined annually by local authorities, not by the Government. As in previous years, council tax figures are projections based on stylised assumptions and are not Government forecasts.

Tax credits **B.56** Paragraph B89 sets out the reasons for the change in the expenditure element of Child and Working Tax Credits since Budget 2005, and these also apply to changes to the tax element.

Non-North Sea corporation tax **B.57** Total corporation tax receipts in the first seven months of 2005-06 are 18 per cent higher than in the comparable period a year ago. Although this in part reflects higher North Sea corporation tax, payments from onshore companies have also shown a substantial rise. However, non-North Sea corporation tax has grown more slowly than anticipated and receipts are expected to be £3¼ billion below their Budget projection. Receipts from financial companies have grown particularly strongly and the bulk of the shortfall reflects weaker than expected receipts from industrial and commercial companies, particularly from firms in the retail and manufacturing sectors. There is likely to have been an impact on input costs and hence on profitability from higher oil prices in oil-intensive sectors.

B.58 Although the shortfall in receipts compared with Budget 2005 increases to £4.1 billion in 2006-07, as a result of lower than expected economic growth, non-North Sea corporation tax is expected to continue to record strong growth in 2006-07. Consistent with the forecast for income tax and NICs receipts, a healthy financial sector is expected to continue to boost receipts in 2006-07. Receipts will also increase as a result of the anti-avoidance measures announced in the 2005 Pre-Budget Report and in earlier Budgets and Pre-Budget Reports and higher equity prices should have a direct effect on receipts from life assurance companies. Growth slows after 2006-07 as financial company profits are expected to moderate somewhat and receipts increase broadly in line with the economy as a whole. The forecast also reflects both the baseline effect of further tax motivated incorporations of small businesses and the corporation tax measures described in Chapter 5.

North Sea revenues **B.59** Although North Sea revenues have been higher than expected in the first seven months of 2005-06, the majority of the additional revenues relative to the Budget will be back-end loaded into the remaining months of the financial year. All the major North Sea companies have calendar year accounting periods and have so far paid their first and second quarterly corporation tax instalment payments in July and October respectively. Each instalment payment is expected to cover 25 per cent of their estimated liability for the whole year, and following the Budget 2005 changes to the payment dates for North Sea oil companies, both remaining instalments for calendar year 2005 accounts will now be due before the end of 2005-06 (rather than partly in April 2006 as in the previous system). With oil prices rising over the Summer, the full effects of higher oil prices on petroleum revenue tax will only be evident in March 2006, when companies pay their balancing payment for the second half of 2005.

B.60 North Sea revenues for 2005-06 as a whole are expected to be £2 billion higher in 2005-06 than in the Budget projection. Oil prices are forecast to average around \$55.5 a barrel in 2005, compared with \$40.6 a barrel assumed in the Budget. The revenue gain from \$15 a barrel higher oil prices is tempered by the drop in North Sea production in 2005 (the Budget forecast had assumed only a very modest decline) and higher than anticipated capital expenditure by producers.

B.61 The forecast for North Sea revenues uses the NAO audited assumption on oil prices. Oil prices are expected to average \$56 a barrel in 2006, in line with the average of independent forecasts, as this is lower than the average of oil prices over the three months prior to this Pre-Budget Report. They are then assumed to be constant in real terms. This is around a \$15 a barrel higher oil price than assumed in Budget. The revised DTI projection of oil production for 2006 remains substantially below the Budget estimate, although the shortfall relative to their projection at Budget time is more than eliminated by the end of the projection period. In addition, the Pre-Budget Report measures to increase the supplementary charge from 10

per cent to 20 per cent from the start of 2006 and the provision for companies to elect to defer 100 per cent capital allowances from 2005 to 2006 will raise North Sea revenues from 2006-07 onwards.

Capital gains tax and inheritance tax **B.62** Receipts from capital gains tax are expected to show a strong increase in 2005-06. Most of capital gains tax is collected in the final quarter of the financial year, but the rise in the equity market in 2004-05 and continuing effects from the disposal of business assets following the maturing of the business asset taper in 2002-03 suggests that a sizeable increase in receipts is likely. Higher than expected equity prices in 2005-06 and for the rest of the projection period will push up receipts from capital gains tax and inheritance tax by around £¼ billion from 2006-07 onwards compared with the Budget forecast.

Stamp duties **B.63** Stamp duties receipts have shown strong growth in the first seven months of 2005-06, helped by buoyant growth in both stamp duty on shares and on land and property. The higher than expected growth in stamp duty on shares reflects higher than projected equity prices in the first half of the financial year, and the stronger growth in stamp duty receipts from land and property chiefly reflects growth in the commercial property market. This has helped offset the impact from the sharp drop in residential property transactions recorded in the first half of 2005.

B.64 Recent data on residential property transactions indicates a pick up in housing market activity. This should help underpin stamp duty receipts over the rest of 2005-06 and into 2006-07. With the starting point for the equity price assumption around 5 per cent higher than in Budget 2005, stamp duty receipts from shares are likely to be higher throughout the forecast period.

VAT receipts **B.65** VAT receipts on a cash basis are expected to be £2.0 billion below the Budget projection for 2005-06. VAT receipts showed little growth on a year earlier in the first seven months of 2005-06. This comparison is affected by unusually high receipts in April 2004, whilst in 2005 receipts were high in March and low in April. However growth in VAT receipts has been affected by slower than expected growth in consumer spending, which represents around two-thirds of the total VAT tax base, a decline in the proportion of consumer spending subject to VAT and increasing losses from fraudulent attacks on the system. Year-on-year growth in VAT receipts over the remainder of 2005-06 is expected to be stronger than in the first part of the financial year, in line with evidence from the last two months of VAT receipts. This in part reflects a comparison with a period of slowing consumer spending in late 2004 and early 2005, but also that retail sales growth in the third quarter indicated firmer growth.

B.66 The projections for VAT receipts are partly determined by the NAO audited assumption whereby the VAT gap (the difference between the theoretical liability to VAT and VAT receipts) will increase by 0.5 percentage points from at least the estimated outturn for the current year, before adjustment for the impacts of the VAT compliance strategy. Partly because of recent increases in Missing Trader Intra-Community (MTIC) losses, the VAT gap in 2005-06, and therefore in 2006-07 and later years will be higher than assumed in Budget 2005, and this VAT gap assumption leads to considerable shortfalls in receipts every year. Although, growth in private consumption is expected to pick up slightly in 2006, it is likely to remain below the overall growth in the economy leading to a widening of the shortfall in VAT receipts relative to Budget 2005. This shortfall narrows a little as the economy grows at above-trend rates in 2007 and 2008 to eliminate the output gap.

Excise duties B.67 Fuel duties are expected to be £0.7 billion lower in 2005-06 than forecast in the Budget. This partly reflects the decision in the Pre-Budget Report to continue to freeze fuel duties as the Budget forecast assumed that fuel duties would be raised in line with inflation at the start of September. The other main factor is the impact of higher pump prices on the demand for fuel. This reduces fuel duty receipts which are charged on a per litre basis. A further deterioration relative to the Budget forecast is assumed in 2006-07, given that there is a lag before the full impact of higher pump prices on the demand for fuel is felt. The negative impact of higher pump prices on fuel duty is around £0.6 billion by 2006-07. Tobacco duties are expected to be £0.3 billion lower in 2005-06 and a similar shortfall is assumed over the rest of the projection period. Alcohol duties are expected to be close to their Budget projection.

Council tax B.68 Council tax increases are determined annually by local authorities, not by the Government and the council tax figures for 2006-07 onwards are based on stylised assumptions and are not government forecasts. Forward projections are simply an arithmetic average of national council tax increases since their introduction. Since changes to council tax are broadly balanced by changes to locally financed expenditure, they have no material impact on the current balance or net borrowing.

Other taxes and receipts B.69 The main change in the 'other taxes' component is higher than expected receipts from business rates. VAT refunds are also expected to be a little higher, but these also score as public expenditure and therefore have no impact on net borrowing. In the 'other receipts' component, accrual adjustments on taxes are slightly higher in 2005-06 chiefly due to income tax and NICs. This offsets a downward revision to the projection for gross operating surplus in 2005-06.

Tax-GDP ratio

B.70 Table B15 shows projections of receipts from major taxes as a per cent of GDP, and Table B16 sets out current and previous projections of the overall tax-GDP ratio. Chart B3 shows the tax-GDP ratio from 1980-81 to 2010-11.

B.71 The tax to GDP ratio is expected to rise from 36.3 per cent in 2004-05 to 37.4 per cent in 2005-06, slightly above the Budget 2005 forecast. This reflects higher growth in receipts than would have been expected given cyclical developments in the economy, because of strong growth in the financial sector and higher receipts of North Sea taxes.

B.72 The tax to GDP ratio rises to 38.2 per cent in 2006-07, partly for the same reasons as in 2005-06 and partly because of measures introduced in this Pre-Budget Report and earlier.

B.73 There is a smaller increase from 2006-07 to 2007-08 due to slight rises in the income tax to GDP ratio, largely arising from the normal fiscal forecasting convention on tax allowances and fiscal drag, the North Sea revenues to GDP ratio and the ratio of non-North Sea corporation tax to GDP, mainly attributable to discretionary measures. From 2007-08 onwards the tax ratio stabilises at around 38½ per cent of GDP.

Table B15: Current receipts as a proportion of GDP

	Per cent of GDP						
	Outturn	Estimate	Projections				
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Income tax (gross of tax credits)	10.8	11.1	11.3	11.3	11.5	11.7	11.8
National insurance contributions	6.6	6.9	6.9	6.9	6.9	7.0	7.0
Non-North Sea corporation tax ¹	2.6	2.9	3.2	3.3	3.3	3.3	3.3
Tax credits ²	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3
North Sea revenues ³	0.4	0.7	0.9	1.0	1.0	0.9	0.8
Value added tax	6.2	6.1	6.0	6.0	5.9	5.9	5.9
Excise duties ⁴	3.3	3.3	3.2	3.1	3.1	3.0	2.9
Other taxes and royalties ⁵	6.7	6.9	7.1	7.1	7.1	7.2	7.2
Net taxes and national insurance contributions⁶	36.3	37.4	38.2	38.5	38.5	38.6	38.6
Accruals adjustments on taxes	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Less EU transfers	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2
Other receipts ⁷	2.1	2.2	2.2	2.2	2.2	2.2	2.2
Current receipts	38.1	39.4	40.2	40.5	40.6	40.7	40.7

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

⁴ Fuel, alcohol and tobacco duties.

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

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

⁷ Mainly gross operating surplus and rent, excluding oil royalties.

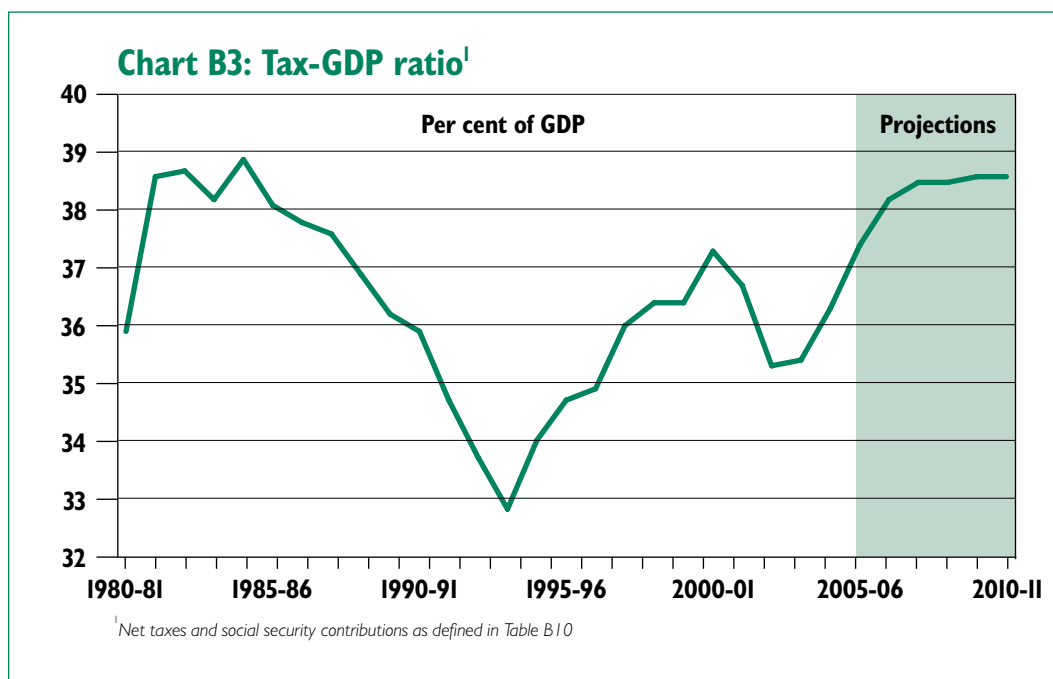
Table B16: Net taxes and national insurance contributions¹

	Per cent of GDP						
	Outturn ²	Estimate ³	Projections				
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Budget 2005	36.3	37.3	37.9	38.3	38.5	38.5	
PBR 2005	36.3	37.4	38.2	38.5	38.5	38.6	38.6

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

² The 2004-05 figures were estimates in Budget 2005.

³ The 2005-06 figures were projections in Budget 2005.



PUBLIC EXPENDITURE

B.74 This section looks in detail at the projections for public expenditure. The spending projections cover the whole of the public sector, using the national accounts based aggregate Total Managed Expenditure (TME).

B.75 For fiscal aggregates purposes, TME is split into national accounts components covering public sector current expenditure, public sector net investment and depreciation. For budgeting and other purposes, TME is split into Departmental Expenditure Limits (DEL) – firm three-year limits for departments’ programme expenditure, and Annually Managed Expenditure (AME) – expenditure that is not easily subject to firm multi-year limits. Departments have separate resource budgets, for current expenditure, and capital budgets.

B.76 Building on the successful public expenditure framework, Pre-Budget Report 2005 confirms further refinements to the budgeting system from 2006-07 – these changes will first impact on the numbers published in Budget 2006. These changes have no impact on National Accounts definitions and therefore have no impact on the definition of current expenditure for fiscal rules purposes. The changes are:

- the coverage of the resource and capital budgets will be altered to align better with the national accounts measures used for the fiscal framework, so that all spending on capital grants is counted in the capital budget;
- departments and devolved administrations will be allowed to offset structural funds and general income from the European Union against their budgets – this change will particularly benefit the Research Councils in bidding for European research funding, as described in Chapter 3; and

- the controls on the level of spending which impact directly on the achievement of the fiscal framework have also been clarified in guidance for departments effective from 2005-06: within resource DEL, departments may make significant switches from non-cash spending, which does not impact directly on the fiscal framework, to spending that does impact only where these would be managerially justified and fiscally affordable.

Changes in TME since Budget 2005

B.77 The only forecasting change to TME in the 2004 Spending Review period since Budget 2005 is in 2005-06, where the AME total has been revised up as a result of changes to the forecasts of individual AME components.

B.78 Discretionary changes to TME since the Budget 2005 forecast reflect the Pre-Budget Report spending measures listed in Table B4. In total these measures increase spending by between £0.6 billion and £0.8 billion a year in the 2004 Spending Review period. The main changes are:

- allocation of £0.6 billion to the Special Reserve in 2005-06 to make prudent provision for the ongoing costs of military operations in Iraq, Afghanistan and for the UK's other international commitments;
- allocation of an additional £0.3 billion to enable pensioners on pension credit to have central heating systems installed free of charge and provide a £300 discount on all central heating systems to all other pensioners who do not already have it in their homes; and
- continuation of winter fuel payments at the current level throughout the forecast period.

Table B17: Total Managed Expenditure 2004-05 to 2007-08

	£ billion			
	Outturn	Estimate	Projections	
	2004-05	2005-06	2006-07	2007-08
Departmental Expenditure Limits				
Resource Budget	266.2	287.0	305.0	320.7
Capital Budget	25.4	29.1	32.0	35.2
Less depreciation	-8.4	-11.8	-12.1	-11.8
Total Departmental Expenditure Limits	283.3	304.3	324.8	344.1
Annually Managed Expenditure				
Social security benefits ¹	121.3	127.1	131.8	138.3
Tax credits ¹	15.3	15.4	14.7	14.6
Common Agricultural Policy	3.1	3.3	3.3	3.4
Net public service pensions ²	1.1	0.8	0.5	0.6
National Lottery	1.8	1.7	1.6	1.4
Non-cash items in AME	2.6	2.4	3.3	4.7
Other departmental expenditure	2.8	4.8	3.6	3.3
Net payments to EU institutions ³	3.3	3.1	2.8	4.5
Locally-financed expenditure*	25.7	27.0	28.1	29.6
Central government gross debt interest	24.0	25.6	26.4	28.0
Public corporations' own-financed capital expenditure	2.5	2.8	2.7	2.8
Total AME before margin and accounting adjustments	203.4	214.2	218.8	231.1
AME margin	0.0	0.0	1.1	1.8
Accounting adjustments ⁴	0.6	1.4	5.4	3.6
Annually Managed Expenditure	204.0	215.6	225.2	236.5
Total Managed Expenditure	487.3	519.9	550.1	580.7
of which:				
Public sector current expenditure	453.4	477.9	504.2	532.0
Public sector net investment	18.9	26.3	29.3	31.1
Public sector depreciation	14.9	15.7	16.6	17.5
¹ For 2004-05 to 2006-07, child allowances in Income Support and Jobseekers' Allowance, which, from 2003-04, are paid as part of the Child Tax Credit, have been included in the tax credits line and excluded from the social security benefits line. This is in order to give figures on a consistent definition over the forecast period.				
² Net public service pensions expenditure is reported on a national accounts basis.				
³ Net payments to EU Institutions exclude the UK's contribution to the cost of EU aid to non-Member States (which is attributed to the aid programme). The estimate for 2005-06 and projections for 2006-07 and 2007-08 have not changed since the Budget. Annual projections are inherently volatile.				
Net Payments therefore differ from the UK's net contribution to the EU Budget, latest estimates for which are (in £ billion):				
	2004-05	2005-06	2006-07	2007-08
	3.9	3.8	3.4	5.2
⁴ Excludes depreciation.				
*This expenditure is mainly financed by council tax revenues. See footnote to table B14 for an explanation of how the council tax projections are derived.				

B.79 Chart B4 shows TME as a per cent of GDP from 1971–72 to 2007–08

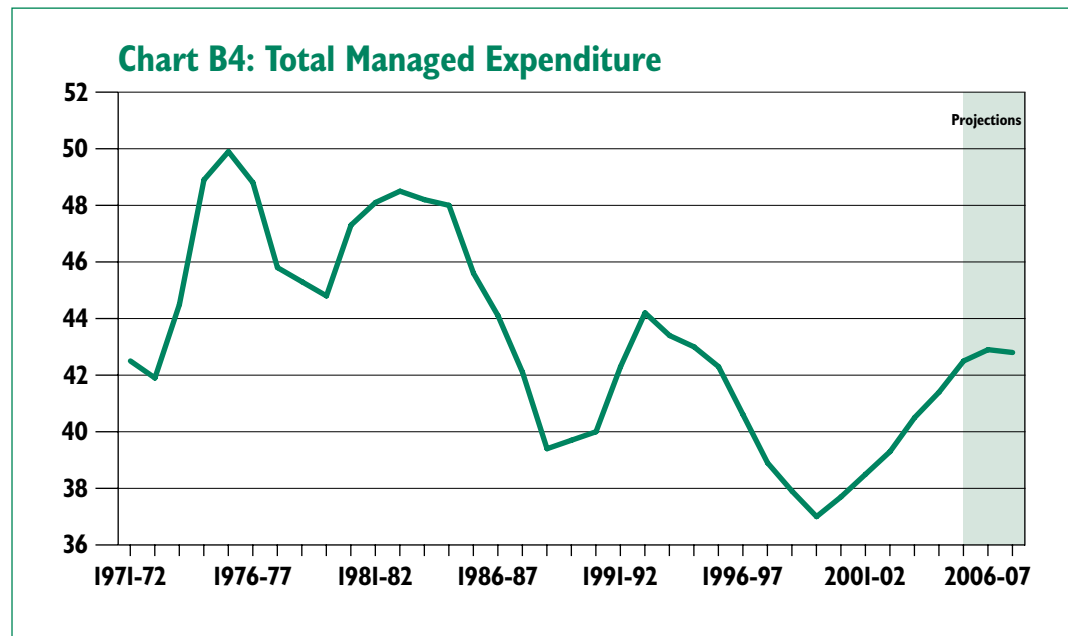


Table B18: Changes to Total Managed Expenditure since Budget 2005

	£ billion			
	Outturn 2004-05	Estimate 2005-06	Projections 2006-07 2007-08	
Departmental Expenditure Limits				
Resource Budget	-2.4	0.1	0.2	0.1
Capital Budget	1.6	0.3	0.0	0.0
Less depreciation	2.9	0.0	0.0	0.0
Total Departmental Expenditure Limits	2.1	0.4	0.1	0.1
Annually Managed Expenditure				
Social security benefits	-0.1	-0.1	0.2	-0.4
Tax credits	0.1	0.8	0.7	0.7
Common Agricultural Policy	-0.1	0.0	0.1	0.2
Net public service pensions	0.1	0.1	0.2	0.3
National Lottery	0.0	0.0	0.1	0.1
Non-cash items in AME	-0.8	0.2	-0.6	0.2
Other departmental expenditure	-1.4	-0.4	0.0	-0.1
Net payments to EU institutions	-0.4	0.0	0.0	0.0
Locally-financed expenditure	1.4	1.6	0.9	0.8
Central government gross debt interest	0.1	0.1	-0.6	-0.4
Public corporations' own-financed capital expenditure	0.3	0.6	0.4	0.3
AME margin	0.0	-1.0	-0.9	-1.2
Accounting adjustments	1.8	-0.9	0.2	0.0
Annually Managed Expenditure	1.1	0.9	0.7	0.5
Total Managed Expenditure	3.2	1.3	0.9	0.7
<i>of which:</i>				
Public sector current expenditure	2.3	1.0	0.8	0.5
Public sector net investment	0.6	0.1	-0.1	0.0
Public sector depreciation	0.2	0.2	0.2	0.1

Central Government spending in 2005-06

B.80 Monthly spending information is only available for central government. Provisional outturn for current expenditure in the first seven months of 2005-06 is 4.1 per cent higher than in the corresponding period of 2004-05, lower growth than in the Pre-Budget Report estimate for 2005-06 as a whole, reflecting the many different factors which affect the pattern of spending across the year.

B.81 Debt interest payments for the year to date are up 11.1 per cent over the same period in 2004-05, but are expected to grow much more slowly over the remainder of the year, largely because of the impact of monthly RPI changes on the pattern of index linked gilts payments.

B.82 Provisional outturns for net social benefit expenditure show growth of 4.0 per cent for the first seven months of 2005-06. Growth is expected to remain at around this level for the remainder of 2005-06.

B.83 Other current expenditure is 3.6 per cent higher for the year to date, below the Pre-Budget Report estimate for 2005-06 as a whole, which shows growth of 5.3 per cent broadly unchanged from the Budget projection.

DEL and AME analysis

B.84 Table B17 sets out projected spending on DEL and the main components of AME to the end of the 2004 Spending Review period in 2007-08. Table B18 shows changes since Budget 2005.

B.85 The detailed allocations of DELs are shown in Table B19. Changes in the forecast period mainly reflect DEL allocations for measures announced in the Pre-Budget Report, as outlined in the previous section. They also reflect switches between capital grants in resource DEL and direct investment by the Office of the Deputy Prime Minister (ODPM) of £0.4 billion, other capital grants switches in the Northern Ireland Executive, and a reduction in the Department of Health's resource DEL allocation of £0.2 billion in respect of reduced take up of provisions. In line with previous practice, resource and capital DEL for 2005-06 includes an allowance for shortfall reflecting likely underspending against departmental provision.

B.86 Changes to DEL in 2004-05 reflect revisions to estimated outturn to bring outturn into line with audited accounts. The reduction in resource DEL of £2.4 billion mainly reflects revisions to depreciation charges in the Ministry of Defence, and reduced take up of provisions by the Department of Health, partly as a result of technical changes in their calculation. Outturn for capital DEL in 2004-05 was £1.6 billion above the estimated outturn reported at Budget 2005, as expected underspending against departmental expenditure limits did not materialise. Outturn remained within planned limits for the year.

B.87 The main economic assumptions underpinning the AME projections are set out in Box B1 and Table B3. In particular, it is assumed that the UK claimant count unemployment rises slowly to 0.97 million in 2007-08, from recent levels of 0.87 million.

B.88 Social security expenditure, before discretionary measures are taken into account, is forecast to be lower than expected at Budget through the forecast period. The upward effect on spending of higher unemployment and RPI assumptions has been more than offset by revised estimated profiles of benefit claim figures. The continuation of winter fuel payments at current levels adds £0.7 billion to spending in 2006-07 and 2007-08

B.89 Projected expenditure on the Child and Working Tax Credits has been revised since Budget 2005. New information about 2004-05 shows greater entitlement than forecast, a result of lower earnings growth among low-income households, increasing subsequent years' expenditure. In addition, as discussed in the 2005 *End of Year Fiscal Report*, the methodology for forecasting tax credits is continually refined in the light of experience.

B.90 Forecasts for expenditure on the Common Agricultural Policy (CAP) are broadly unchanged from the Budget. In the national accounts, most CAP payments are treated as a transaction between the EU and farmers and hence do not score in UK government expenditure – they are removed in the accounting adjustments.

B.91 Net public service pensions figures are reported on a national accounts basis. Spending is expected to be slightly higher than forecast at Budget.

B.92 National lottery figures reflect the latest view on the timing of draw down by the distributing bodies. They also now include assumptions for increased capital expenditure associated with the 2012 Olympic Games.

B.93 Non-cash items in AME are slightly higher than in Budget 2005, apart from a forecasting adjustment in 2006-07. As these non-cash spending items do not score in TME these changes are balanced by changes in the accounting adjustments.

B.94 Other departmental expenditure is expected to be lower in 2005-06 compared to the Budget forecast, partly reflecting a reduction in the adjustment associated with outturn for non-domestic rates.

B.95 The net payments to EU institutions forecast is unchanged from Budget 2005. As described above, CAP payments are treated as a transaction between the EU and farmers and hence do not score in UK government expenditure. Therefore the EU receipts associated with this expenditure are now also removed in the accounting adjustments and do not score in TME.

B.96 Changes to forecasts for local authority self-financed expenditure (LASFE) partly reflect improved availability and timeliness of local authority data. Upward revisions to the outturn for 2004-05 of £1.4 billion carry through to the forecasts for future years, and together with other forecasting changes lead to increases of £1.6 billion in 2005-06, £1.0 billion in 2006-07 and £0.8 billion in 2007-08. The council tax projections used to derive the LASFE projections for 2006-07 onwards are based on stylised assumptions and are not Government forecasts. Forward projections are simply an arithmetic average of national council tax increases since introduction.

B.97 Estimates for central government debt interest payments in 2005-06 are unchanged from the Budget forecast. Payments in 2006-07 and 2007-08 are lower, largely as a result of the impact of lower RPI on indexed linked gilt payments and lower interest rate expectations.

B.98 Public corporations' own financed capital expenditure forecasts have been revised in line with public corporations' latest spending plans.

Table B19: Departmental Expenditure Limits – resource and capital budgets

	£ billion			
	Outturn 2004-05	Estimate 2005-06	Plans 2006-07	Plans 2007-08
Resource Budget				
Education and Skills	24.2	26.3	28.0	29.5
Health	67.9	74.9	81.8	89.2
<i>of which: NHS</i>	65.7	72.6	79.9	87.3
Transport	8.1	8.8	10.7	9.8
Office of the Deputy Prime Minister	6.2	6.0	6.6	7.2
Local Government	43.3	46.3	49.0	51.7
Home Office	12.1	12.8	13.3	14.0
Departments for Constitutional Affairs	3.4	3.8	3.8	3.8
Law Officers' Departments	0.6	0.7	0.7	0.7
Defence	31.3	33.0	32.7	33.0
Foreign and Commonwealth Office	1.7	1.8	1.7	1.7
International Development	3.8	4.5	5.0	5.3
Trade and Industry	5.1	6.2	6.3	6.4
Environment, Food and Rural Affairs	3.1	3.1	3.4	3.5
Culture, Media and Sport	1.4	1.6	1.6	1.7
Work and Pensions	8.4	8.5	8.3	8.3
Scotland ¹	20.0	21.5	22.8	24.1
Wales ¹	10.6	11.3	12.1	12.8
Northern Ireland Executive ¹	6.9	7.3	7.8	8.0
Northern Ireland Office	1.2	1.2	1.1	1.1
Chancellor's Departments	4.9	5.3	5.2	5.2
Cabinet Office	2.0	2.1	2.1	2.1
Invest to Save Budget	0.0	0.0	0.0	0.0
Reserve	0.0	0.4	1.1	1.5
Unallocated special reserve ²	0.0	0.8	0.0	0.0
Allowance for shortfall	0.0	-1.2	0.0	0.0
Total Resource Budget DEL	266.2	287.0	305.0	320.7
Capital Budget				
Education and Skills	3.8	4.4	4.9	5.6
Health	2.6	3.8	5.3	6.3
<i>of which: NHS</i>	2.5	3.7	5.2	6.1
Transport	3.3	3.3	4.1	4.2
Office of the Deputy Prime Minister	2.8	3.5	2.9	2.9
Local Government	0.3	0.4	0.2	0.2
Home Office	1.0	1.2	1.2	1.3
Departments for Constitutional Affairs	0.2	0.2	0.1	0.1
Law Officers' Departments	0.0	0.0	0.0	0.0
Defence	6.8	6.5	7.0	7.6
Foreign and Commonwealth Office	0.1	0.1	0.1	0.1
International Development	0.0	0.0	0.0	0.0
Trade and Industry	0.3	0.4	0.5	0.5
Environment, Food and Rural Affairs	0.3	0.3	0.4	0.4
Culture, Media and Sport	0.1	0.2	0.1	0.1
Work and Pensions	0.3	0.4	0.2	0.1
Scotland ¹	1.7	1.9	2.1	2.2
Wales ¹	0.9	0.9	1.1	1.2
Northern Ireland Executive ¹	0.4	0.4	0.4	0.5
Northern Ireland Office	0.1	0.1	0.1	0.1
Chancellor's Departments	0.4	0.4	0.4	0.5
Cabinet Office	0.2	0.3	0.3	0.3
Invest to Save Budget	0.0	0.0	0.0	0.0
Reserve	0.0	0.9	0.5	1.1
Allowance for shortfall	0.0	-0.6	0.0	0.0
Total Capital Budget DEL	25.4	29.1	31.9	35.2
Depreciation	-8.4	-11.8	-12.1	-11.8
Total Departmental Expenditure Limits	283.3	304.3	324.8	344.1
Total education spending	63.3	69.9	72.9	77.4

¹ For Scotland, Wales and Northern Ireland, the split between resource and capital budgets is indicative and reflects the consequential effects of the application of the Barnett formula to planned changes in UK departments' spending.

² This represents provision for the costs of military operations in Iraq and Afghanistan, as well as the UK's other international obligations.

B.99 The main accounting adjustments, which reconcile the DEL and AME measures of spending with the national accounts measure, are shown in Table B20. Changes to the accounting adjustments since the last forecast are mainly due to:

- revised estimates of VAT refunds;
- a forecasting adjustment in non-cash items in 2006-07;
- an adjustment to local authorities to deduct pooled capital receipts from housing sales; and
- in general government consolidation, revised estimates of local authority debt interest payments to central government.

B.100 Table B21 shows public sector capital expenditure from 2004-05 to 2007-08.

Table B20: Accounting adjustments

	£ billion			
	Outturn	Estimate	Projections	
	2004-05	2005-06	2006-07	2007-08
European Union contributions	-4.1	-3.9	-4.0	-4.0
Other central government programmes	0.9	0.7	0.7	0.7
VAT refunds	9.9	10.8	12.1	13.0
Central government non-trading capital consumption	5.6	6.0	6.4	6.8
Non-cash items in resource budgets and not in TME	-8.9	-10.4	-12.1	-14.3
Expenditure financed by revenue receipts	0.1	0.2	0.1	0.1
Local authorities	3.6	4.1	4.8	5.4
General government consolidation	-4.5	-4.4	-4.5	-4.3
Public corporations	0.2	0.3	0.3	0.4
Financial transactions	0.2	0.2	0.4	0.4
Other accounting adjustments	-2.4	-2.2	1.2	-0.5
Total accounting adjustments	0.6	1.4	5.4	3.7

Table B21: Public sector capital expenditure

	£ billion			
	Outturn	Estimate	Projections	
	2004-05	2005-06	2006-07	2007-08
Capital Budget DEL	25.4	29.1	32.0	35.2
Locally-financed expenditure	1.9	2.3	2.3	2.4
National Lottery	1.1	0.9	0.9	0.8
Public corporations' own-financed capital expenditure	2.5	2.8	2.7	2.8
Other capital spending in AME	3.0	6.9	7.4	7.2
AME margin	0.0	0.0	0.6	0.4
Public sector gross investment¹	33.8	42.0	45.9	48.7
Less depreciation	14.9	15.7	16.6	17.5
Public sector net investment	18.9	26.3	29.3	31.1
Proceeds from the sale of fixed assets ²	6.2	6.1	6.1	6.1

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

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

B.101 Table B22 shows estimated receipts from loans and sales of assets from 2004-05 to 2007-08.

Table B22: Loans and sales of assets

	£ billion			
	Outturn 2004-05	Estimate 2005-06	Projections 2006-07 2007-08	
Sales of fixed assets				
Central government	1.1	1.0	1.0	1.0
Local authorities	5.1	5.1	5.1	5.1
Total sales of fixed assets	6.2	6.1	6.1	6.1
Total loans and sales of financial assets	-2.2	-2.4	-2.8	-3.4
Total loans and sales of assets	4.1	3.7	3.3	2.7

PRIVATE FINANCE INITIATIVE

B.102 Under the Private Finance Initiative (PFI) the public sector contracts to purchase services on a long-term basis so as to take advantage of private sector management skills incentivised by having private finance at risk. The private sector has always been involved in the building and maintenance of public infrastructure, but PFI ensures that contractors are bound into long-term maintenance contracts and shoulder responsibility for the quality of the work they do. With PFI, the public sector defines what is required to meet public needs and ensures delivery of the outputs through the contract. Consequently, the private sector can be harnessed to deliver investment in better quality public services whilst frontline services are retained within the public sector.

B.103 The Government only uses PFI where it is appropriate and where it expects it to deliver value for money. This is based on an assessment of the lifetime costs of both providing and maintaining the underlying asset, and of the running costs of delivering the required level of service. In assessing where PFI is appropriate, the Government's approach is based on its commitment to efficiency, equity and accountability, and on the Prime Minister's principles of public service reform. PFI is only used where it can meet these requirements, and where the value for money it offers is not at the expense of the terms and conditions of staff. The Government is committed to securing the best value for its investment programme by ensuring that there is no inherent bias in favour of one procurement option over another.

B.104 Table B23 shows a breakdown by department of the estimated capital investment in public services resulting from signed PFI contracts. Table B24 shows the estimated total capital value of contracts that are at preferred bidder stage and are expected to reach financial close within the next three years. Under PFI, the public sector contracts for services, including the availability and management of facilities, and not assets. Capital investment is only one of the activities undertaken by the private sector in order to supply these services. The figures in Tables B23 and B24 report the capital value of projects in order to show investment on a basis comparable with conventional capital procurement.

B.105 Table B25 shows a forecast of the estimated payments for services flowing from signed PFI projects. Actual expenditure will depend on the details of the payment mechanism for each contract. Payments may be lower than those estimated as a result of deductions that can be applied if the supplier fails to meet required performance standards. Variances may also occur as a result of agreed changes to the service requirements that are made during the course of the contract, or because of contractual arrangements that trigger compensation on termination. The fact that capital investment only represents one element of the overall contract means that the figures presented in this table should not be taken to be directly comparable with a public sector debt liability.

Table B23: Departmental estimate of capital spending by the private sector (signed deals)^{1,2,3}

	£ million		
	2005-06	Projections	
		2006-07	2007-08
Education and Skills ⁴	316	164	95
Health	872	659	428
Transport ⁵	1525	1573	1299
Office of the Deputy Prime Minister	82	72	47
Home Office	61	0	0
Constitutional Affairs	25	10	0
Defence	486	358	210
Foreign and Commonwealth Office	5	5	0
Trade and Industry	8	1	0
Environment, Food and Rural Affairs	59	47	31
Culture, Media and Sport	31	18	0
Work and Pensions	54	54	0
Scotland	277	164	44
Wales	21	0	0
Northern Ireland Executive	28	24	8
Chancellor's Departments	7	2	2
Total	3857	3151	2164

¹ Investment in assets scored on the public sector balance sheet also score as public sector net investment.

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

³ Figures do not include PFI projects undertaken by public corporations.

⁴ Excludes private finance activity in educational institutions classified to the private sector.

⁵ Includes estimates of the capital expenditure for the London Underground Limited Public Private Partnership PFI contracts in the years that investments are expected to take place.

Table B24: Estimated aggregated capital value of projects at preferred bidder stage^{1,2}

	£ million	
	Projections	
	2005-06	2006-07
Education and Skills	572	246
Health	1018	4147
Transport	49	48
Office of the Deputy Prime Minister	113	23
Defence	0	4146
Environment, Food and Rural Affairs	123	117
Culture, Media and Sport	13	0
Scotland	297	321
Wales	61	0
Northern Ireland Executive	179	110
Total	2425	9158

¹ Figures based on Departmental returns

² These figures are the total capital value of projects; the actual annual capital spending figures will be lower, as capital spending on large projects is typically spread over several years.

Table B25: Estimated payments under PFI contracts – December 2005 (signed deals)¹

Projections	£ billion		
2005-06	6.4	2018-19	4.6
2006-07	6.5	2019-20	4.6
2007-08	6.7	2020-21	4.6
2008-09	6.8	2021-22	4.3
2009-10	7.0	2022-23	4.3
2010-11	7.2	2023-24	4.3
2011-12	7.3	2024-25	4.3
2012-13	7.3	2025-26	4.3
2013-14	7.4	2026-27	3.9
2014-15	7.4	2027-28	3.9
2015-16	7.5	2028-29	3.4
2016-17	7.5	2029-30	3.0
2017-18	6.7	2030-31	2.4

¹ The figures between 2005-06 and 2017-18 include estimated payments for the LUL PPP contract. These contracts contain periodic reviews each 7.5 years and therefore the service payments are not fixed after 2009-10.

FINANCING REQUIREMENT

B.106 Table B26 presents projections of the net cash requirement by sector, giving details of financial transactions that do not affect net borrowing (the change in the sector's net financial indebtedness) but do affect its financing requirement.

Table B26: Public sector net cash requirement

£ billion								
	2005-06				2006-07			
	General government			Public sector	General government			Public sector
	Central government	Local authorities	Public corporations		Central government	Local authorities	Public corporations	
Net borrowing	35.5	1.8	-0.4	37.0	34.0	0.5	-1.0	33.5
<i>Financial transactions</i>								
Net lending to private sector and abroad	2.3	0.1	0.0	2.4	2.6	0.1	0.0	2.7
Cash expenditure on company securities	0.1	0.0	0.0	0.1	0.1	0.0	0.0	0.1
Accounts receivable/payable	4.4	0.0	-1.0	3.4	1.4	0.0	-1.0	0.4
Adjustment for interest on gilts	-2.8	0.0	0.0	-2.8	-0.4	0.0	0.0	-0.4
Miscellaneous financial transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Own account net cash requirement	39.4	1.9	-1.4	39.9	37.7	0.6	-2.0	36.3
Net lending within the public sector	3.9	-3.5	-0.4	0.0	2.5	-2.0	-0.5	0.0
Net cash requirement¹	43.3	-1.6	-1.8	39.9	40.2	-1.4	-2.5	36.3

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

B.107 Table B27 updates the financing arithmetic for 2005-06 in line with the updated fiscal forecasts. The central government net cash requirement (CGNCR) for 2005-06 is now forecast to be £43.3 billion, an increase of £3.1 billion from the Budget 2005 forecast. The increase in the CGNCR means that the net financing requirement for 2005-06 is now forecast to be £51.2 billion, an increase of £2.6 billion from the revised forecast published on 20 April 2005 that reflected publication of outturn CGNCR for 2004-05.

B.108 In order to meet the increase in the financing requirement, the Debt Management Office's (DMO's) remit has been revised as follows:

- forecast gross gilts issuance has been increased by £1.2 billion to £52.3 billion. This increase is being split between an incremental increase in short conventional gilt issuance of £0.2 billion, an incremental increase in medium conventional gilt issuance of £0.2 billion and additional index-linked gilt issuance of £0.8 billion;
- one additional gilt auction has been scheduled for 14 December 2005; and
- the stock of Treasury bills will be reduced by £1.1 billion instead of the reduction of £2.5 billion announced on 20 April 2005.

B.109 The latest financing arithmetic set out in Table B27 also takes account of a £0.7 billion larger contribution to financing in 2005-06 from National Savings & Investments than envisaged at the time of Budget 2005 together with a £0.2 billion reduction in the planned short-term financing adjustment for 2005-06.¹

B.110 Details of changes to the financing arithmetic and a revised financing table for 2005-06, together with information on the progress of gilt sales so far this year against the DMO's financing remit can be found on the DMO's website at: www.dmo.gov.uk.

¹ The change in the planned short-term financing adjustment carried forward from 2004-05 is due to purchases of Treasury bills by the Debt Management Office during March 2005 that reduced the DMO's end-March 2005 net cash position by £0.2 billion and increased the net financing requirement in 2005-06 by the same amount.

Table B27: Financing requirement forecast

£ billion	2005-06		Pre-Budget Report
	Original Remit March 2005	Revised Remit April 2005	
Central government net cash requirement	40.2	40.2	43.3
Gilt redemptions	14.5	14.6	14.6
Financing for the Official Reserves	0.0	0.0	0.0
Buy-backs	0.0	0.0	0.0
Planned short-term financing adjustment ¹	1.3	-2.7	-2.5
Gross Financing Requirement	56.0	52.1	55.4
<i>less</i>			
Assumed net contribution from National Savings and Investments	3.5	3.5	4.2
Net Financing Requirement	52.5	48.6	51.2
<i>Financed by:</i>			
1. Debt issuance by the Debt Management Office			
(a) Treasury bills	-1.0	-2.5	-1.1
(b) Gilts	53.5	51.1	52.3
<i>of which:</i>			
Conventional	Short	12.5	12.1
	Medium	11.5	11.1
	Long	18.5	17.9
Index-linked		11.0	10.0
2. Other planned changes in short-term debt²			
Change in Ways & Means	0.0	0.0	0.0
3. Unanticipated changes in net short-term cash position³			
	0.0	0.0	0.0
Total financing	52.5	48.6	51.2
Short-term debt levels at end of financial year			
Treasury bill stock in market hands	19.5	18.0	19.2
Ways & Means	13.4	13.4	13.4
DMO net cash position	0.2	0.2	0.2

Note: figures may not sum due to rounding.

¹ To accommodate changes to the current year's financing requirement resulting from: (i) publication of the previous year's outturn central government net cash requirement and / or (ii) carry over of unanticipated changes to the cash position from the previous year.

² 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.

³ A negative (positive) number indicates an addition to (reduction in) the financing requirement for the following financial year.

ANALYSIS BY SUBSECTOR AND ECONOMIC CATEGORY

B.III Table B28 shows a breakdown of general government transactions by economic category for 2004-05 to 2007-08. Table B29 shows a more detailed breakdown for public sector transactions by sub-sector and economic category for 2004-05, 2005-06, and 2006-07.

Table B28: General government transactions by economic category

	£ billion			
	Outturn 2004-05	Estimate 2005-06	Projections 2006-07	2007-08
<i>Current receipts</i>				
Taxes on income and wealth	161.8	179.9	197.6	213.2
Taxes on production and imports	154.9	162.4	170.0	178.6
Other current taxes	24.5	25.4	27.2	29.2
Taxes on capital	2.9	3.3	3.6	3.8
National insurance contributions	79.3	85.1	89.3	94.7
Gross operating surplus	10.8	11.6	12.5	13.4
Rent and other current transfers	1.9	1.9	2.0	2.0
Interest and dividends from private sector and abroad	4.5	4.0	3.9	4.0
Interest and dividends from public sector	4.5	5.6	6.2	6.7
Total current receipts	445.1	479.2	512.3	545.4
<i>Current expenditure</i>				
Current expenditure on goods and services	250.8	266.0	281.3	298.8
Subsidies	7.2	7.3	7.7	7.9
Net social benefits	139.6	145.4	149.9	155.5
Net current grants abroad	-0.6	-0.2	-0.7	-1.3
Other current grants	31.9	33.0	38.4	40.9
Interest and dividends paid	24.4	26.1	26.8	28.4
AME margin	0.0	0.0	0.5	1.5
Total current expenditure	453.3	477.7	503.9	531.6
Depreciation	10.8	11.6	12.5	13.4
Surplus on current budget	-18.9	-10.1	-4.1	0.4
<i>Capital expenditure</i>				
Gross domestic fixed capital formation	21.7	27.3	29.8	32.9
Less depreciation	-10.8	-11.6	-12.5	-13.4
Increase in inventories	0.0	0.2	0.1	0.1
Capital grants (net) within public sector	-0.2	0.5	0.6	0.6
Capital grants to private sector	10.0	12.1	13.0	12.9
Capital grants from private sector	-1.2	-1.2	-1.3	-1.2
AME margin	0.0	0.0	0.6	0.4
Net investment	19.5	27.3	30.4	32.2
Net borrowing¹	38.5	37.3	34.5	31.8
<i>of which:</i>				
Central government net borrowing	37.0	35.5	34.0	31.4
Local authority net borrowing	1.4	1.8	0.5	0.4
Gross debt (Maastricht basis)				
Central government	426.7	477.9	519.0	558.9
Local government	53.7	52.1	50.4	48.5

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

Table B29: Public sector transactions by sub-sector and economic category

	£ billion			
	2004-05		Public corporations	Public sector
	General government	Local authorities		
	Central government			
<i>Current receipts</i>				
Taxes on income and wealth	161.8	0.0	-0.1	161.7
Taxes on production and imports	154.7	0.2	0.0	154.9
Other current taxes	5.0	19.5	0.0	24.5
Taxes on capital	2.9	0.0	0.0	2.9
National insurance contributions	79.3	0.0	0.0	79.3
Gross operating surplus	5.6	5.2	6.6	17.5
Rent and other current transfers	1.9	0.0	0.0	1.9
Interest and dividends from private sector and abroad	3.5	1.0	1.2	5.7
Interest and dividends from public sector	3.4	1.1	-4.5	0.0
Total current receipts	418.1	27.0	3.3	448.4
<i>Current expenditure</i>				
Current expenditure on goods and services	151.4	99.4	0.0	250.8
Subsidies	4.7	2.5	0.0	7.2
Net social benefits	125.1	14.5	0.0	139.6
Net current grants abroad	-0.6	0.0	0.0	-0.6
Current grants (net) within public sector	93.7	-93.7	0.0	0.0
Other current grants	31.9	0.0	0.0	31.9
Interest and dividends paid	24.0	0.4	0.2	24.5
AME margin	0.0	0.0	0.0	0.0
Total current expenditure	430.2	23.0	0.2	453.4
Depreciation	5.6	5.2	4.1	14.9
Surplus on current budget	-17.6	-1.3	-1.0	-19.9
<i>Capital expenditure</i>				
Gross domestic fixed capital formation	7.8	13.9	3.1	24.8
Less depreciation	-5.6	-5.2	-4.1	-14.9
Increase in inventories	0.0	0.0	-0.1	0.0
Capital grants (net) within public sector	8.4	-8.6	0.2	0.0
Capital grants to private sector	9.0	1.0	0.3	10.3
Capital grants from private sector	-0.3	-0.9	0.0	-1.2
AME margin	0.0	0.0	0.0	0.0
Net investment	19.4	0.2	-0.6	18.9
Net borrowing	37.0	1.4	0.4	38.8

Table B29: Public sector transactions by sub-sector and economic category

	£ billion			
	2005-06			
	General government		Public corporations	Public sector
Central government	Local authorities			
<i>Current receipts</i>				
Taxes on income and wealth	179.9	0.0	-0.1	179.8
Taxes on production and imports	162.2	0.2	0.0	162.4
Other current taxes	5.2	20.2	0.0	25.4
Taxes on capital	3.3	0.0	0.0	3.3
National insurance contributions	85.1	0.0	0.0	85.1
Gross operating surplus	6.0	5.7	8.3	20.0
Rent and other current transfers	1.9	0.0	0.0	1.9
Interest and dividends from private sector and abroad	3.4	0.5	1.0	5.0
Interest and dividends from public sector	3.2	2.4	-5.6	0.0
Total current receipts	450.2	29.0	3.7	483.0
<i>Current expenditure</i>				
Current expenditure on goods and services	160.6	105.4	0.0	266.0
Subsidies	4.7	2.6	0.0	7.3
Net social benefits	130.0	15.4	0.0	145.4
Net current grants abroad	-0.2	0.0	0.0	-0.2
Current grants (net) within public sector	99.5	-99.5	0.0	0.0
Other current grants	33.0	0.0	0.0	33.0
Interest and dividends paid	25.6	0.5	0.3	26.4
AME margin	0.0	0.0	0.0	0.0
Total current expenditure	453.3	24.4	0.3	477.9
Depreciation	6.0	5.7	4.1	15.7
Surplus on current budget	-9.0	-1.0	-0.6	-10.6
<i>Capital expenditure</i>				
Gross domestic fixed capital formation	12.9	14.4	3.3	30.6
Less depreciation	-6.0	-5.7	-4.1	-15.7
Increase in inventories	0.2	0.0	0.0	0.2
Capital grants (net) within public sector	8.9	-8.4	-0.6	0.0
Capital grants to private sector	10.8	1.3	0.3	12.4
Capital grants from private sector	-0.3	-0.9	0.0	-1.2
AME margin	0.0	0.0	0.0	0.0
Net investment	26.6	0.7	-1.0	26.3
Net borrowing	35.5	1.8	-0.4	37.0

Table B29: Public sector transactions by sub-sector and economic category

	£ billion			
	2006-07		Public corporations	Public sector
	Central government	Local authorities		
<i>Current receipts</i>				
Taxes on income and wealth	197.6	0.0	-0.1	197.6
Taxes on production and imports	169.8	0.2	0.0	170.0
Other current taxes	5.5	21.7	0.0	27.2
Taxes on capital	3.6	0.0	0.0	3.6
National insurance contributions	89.3	0.0	0.0	89.3
Gross operating surplus	6.4	6.2	9.4	21.9
Rent and other current transfers	2.0	0.0	0.0	2.0
Interest and dividends from private sector and abroad	3.2	0.7	1.2	5.1
Interest and dividends from public sector	3.0	3.2	-6.2	0.0
Total current receipts	480.2	32.0	4.3	516.6
<i>Current expenditure</i>				
Current expenditure on goods and services	171.2	110.1	0.0	281.3
Subsidies	5.0	2.7	0.0	7.8
Net social benefits	133.9	16.0	0.0	149.9
Net current grants abroad	-0.7	0.0	0.0	-0.7
Current grants (net) within public sector	103.6	-103.6	0.0	0.0
Other current grants	38.3	0.0	0.0	38.4
Interest and dividends paid	26.4	0.4	0.3	27.2
AME margin	0.5	0.0	0.0	0.5
Total current expenditure	478.2	25.7	0.3	504.2
Depreciation	6.4	6.1	4.1	16.6
Surplus on current budget	-4.3	0.2	-0.1	-4.2
<i>Capital expenditure</i>				
Gross domestic fixed capital formation	14.2	15.6	3.3	33.2
Less depreciation	-6.4	-6.1	-4.1	-16.6
Increase in inventories	0.1	0.0	0.0	0.1
Capital grants (net) within public sector	9.8	-9.3	-0.6	0.0
Capital grants to private sector	11.5	1.5	0.3	13.3
Capital grants from private sector	-0.3	-1.0	0.0	-1.3
AME margin	0.6	0.0	0.0	0.6
Net investment	29.7	0.7	-1.1	29.3
Net borrowing	34.0	0.5	-1.0	33.5

HISTORICAL SERIES

Table B30: Historical series of public sector balances, receipts and debt

	Per cent of GDP								
	Public sector current budget	Cyclically adjusted surplus on current budget	Public sector net borrowing	Cyclically adjusted public sector net borrowing	Public sector net cash requirement	Net taxes and national insurance contributions	Public sector current receipts	Public sector net debt ¹	Public sector net worth ²
1970-71	6.7		-0.6		1.2		43.3		
1971-72	4.2		1.1		1.4		41.4		
1972-73	2.0	2.5	2.8	2.3	3.6		39.0		
1973-74	0.3	-0.8	4.9	6.0	5.9		39.6		
1974-75	-1.1	-2.6	6.6	8.1	9.0		42.3	52.1	
1975-76	-1.6	-1.8	7.0	7.2	9.3		42.9	53.8	
1976-77	-1.2	-0.7	5.5	5.0	6.4		43.3	52.3	
1977-78	-1.4	-1.2	4.3	4.1	3.7		41.5	49.0	
1978-79	-2.6	-2.4	5.0	4.8	5.2	33.5	40.2	47.1	
1979-80	-1.9	-1.8	4.1	4.0	4.7	33.9	40.7	43.9	
1980-81	-3.0	-1.6	4.9	3.4	5.2	35.9	42.4	46.0	
1981-82	-1.4	2.5	2.3	-1.5	3.3	38.6	45.8	46.2	
1982-83	-1.5	2.8	3.0	-1.3	3.2	38.7	45.5	44.8	
1983-84	-2.0	1.7	3.8	0.1	3.2	38.2	44.4	45.1	
1984-85	-2.2	0.9	3.7	0.7	3.1	38.9	44.3	45.3	
1985-86	-1.2	0.6	2.4	0.6	1.6	38.1	43.2	43.5	
1986-87	-1.4	-1.2	2.1	1.9	0.9	37.8	42.0	41.0	
1987-88	-0.3	-1.6	1.0	2.3	-0.7	37.6	41.1	36.8	74.3
1988-89	1.7	-1.0	-1.3	1.3	-3.0	36.9	40.7	30.5	79.3
1989-90	1.4	-1.4	-0.2	2.6	-1.3	36.2	39.9	27.7	71.2
1990-91	0.4	-1.2	1.0	2.6	-0.1	35.9	38.9	26.2	60.6
1991-92	-2.0	-1.5	3.8	3.3	2.3	34.7	38.5	27.4	53.3
1992-93	-5.6	-3.6	7.6	5.6	5.9	33.7	36.6	32.0	40.4
1993-94	-6.2	-4.1	7.8	5.6	7.1	32.8	35.6	37.2	29.6
1994-95	-4.8	-3.5	6.3	4.9	5.3	34.0	36.7	40.8	28.7
1995-96	-3.4	-2.7	4.8	4.0	4.3	34.7	37.6	42.7	21.3
1996-97	-2.8	-2.3	3.5	3.1	2.9	34.8	37.0	43.6	17.3
1997-98	-0.2	0.0	0.8	0.7	0.2	36.0	38.1	41.5	14.4
1998-99	1.2	1.1	-0.4	-0.3	-0.8	36.5	38.3	39.0	13.5
1999-00	2.2	1.9	-1.7	-1.4	-0.9	36.5	38.7	36.2	16.7
2000-01	2.2	1.6	-1.7	-1.0	-3.9	37.4	39.4	31.2	22.5
2001-02	1.0	0.8	0.0	0.2	0.3	36.8	38.5	30.1	29.1
2002-03	-1.2	-0.8	2.3	1.9	2.3	35.4	37.0	31.4	27.9
2003-04	-1.9	-1.4	3.1	2.7	3.5	35.5	37.4	32.8	28.5
2004-05	-1.7	-1.3	3.3	2.9	3.3	36.3	38.1	34.7	29.1

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

Table B3I: Historical series of government expenditure

	£ billion (2004-05 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	172.8	32.4	53.1	225.9	32.6	6.1	10.0	42.7
1971-72	181.7	28.7	50.0	231.7	33.3	5.3	9.2	42.5
1972-73	189.0	27.5	49.8	238.8	33.1	4.8	8.7	41.9
1973-74	207.9	30.9	55.9	263.7	35.1	5.2	9.4	44.5
1974-75	230.0	32.7	59.5	289.5	38.8	5.5	10.0	48.9
1975-76	234.9	32.1	59.0	294.0	39.9	5.5	10.0	49.9
1976-77	242.2	26.3	54.2	296.4	39.9	4.3	8.9	48.8
1977-78	238.8	17.9	45.8	284.6	38.4	2.9	7.4	45.8
1978-79	245.8	15.5	44.1	289.9	38.4	2.4	6.9	45.3
1979-80	252.0	14.4	43.4	295.4	38.2	2.2	6.6	44.8
1980-81	259.5	11.6	40.9	300.4	40.8	1.8	6.4	47.3
1981-82	271.1	5.9	35.1	306.1	42.6	0.9	5.5	48.1
1982-83	276.8	9.7	38.0	314.8	42.7	1.5	5.9	48.5
1983-84	285.5	12.0	40.1	325.6	42.3	1.8	5.9	48.2
1984-85	293.6	10.6	37.3	330.9	42.6	1.5	5.4	48.0
1985-86	293.5	8.9	32.7	326.3	41.0	1.2	4.6	45.6
1986-87	298.1	5.3	29.5	327.6	40.1	0.7	4.0	44.1
1987-88	301.6	5.2	27.4	329.0	38.6	0.7	3.5	42.1
1988-89	294.3	2.9	25.9	320.3	36.2	0.4	3.2	39.4
1989-90	296.4	9.9	33.1	329.5	35.7	1.2	4.0	39.7
1990-91	298.2	12.0	32.2	330.3	36.1	1.4	3.9	40.0
1991-92	315.8	15.1	32.3	348.1	38.4	1.8	3.9	42.3
1992-93	331.6	16.5	32.5	364.1	40.2	2.0	3.9	44.2
1993-94	341.4	13.3	29.2	370.6	40.0	1.6	3.4	43.4
1994-95	352.1	12.9	29.4	381.6	39.7	1.5	3.3	43.0
1995-96	357.7	12.5	29.1	386.8	39.1	1.4	3.2	42.3
1996-97	358.2	6.9	21.6	379.8	38.3	0.7	2.3	40.6
1997-98	356.5	6.2	20.5	377.0	36.8	0.6	2.1	38.9
1998-99	356.6	7.8	21.5	378.1	35.8	0.8	2.2	37.9
1999-00	363.7	5.4	19.1	382.8	35.1	0.5	1.8	37.0
2000-01	383.6	6.1	20.1	403.7	35.9	0.6	1.9	37.7
2001-02	393.6	10.9	25.1	418.7	36.2	1.0	2.3	38.5
2002-03	411.4	12.1	26.8	438.2	36.9	1.1	2.4	39.3
2003-04	435.2	13.9	28.5	463.6	38.0	1.2	2.5	40.5
2004-05	453.4	18.9	33.8	487.3	38.6	1.6	2.9	41.4

¹ Net of sales of fixed assets.