

Budget 2008: the economy and public finances – supplementary material

March 2008



HM TREASURY



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**Budget 2008:
the economy and public finances –
supplementary material**

March 2008

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THE ECONOMY

The 2008 Financial Statement and Budget Report (FSBR), published by HM Treasury on 12 March 2008, includes a discussion of economic developments and prospects (Chapter B). The present document reproduces charts and tables contained in Chapter B, and also includes additional information in the form of more detailed charts and tables. The charts and tables are consistent with National Accounts data to the fourth quarter of 2007 released by the Office for National Statistics (ONS) on 27 February 2008.

INTRODUCTION

Forecast ranges **1.1** As in previous Budget and Pre-Budget Reports, the economic forecast is presented in terms of forecast ranges, based on alternative assumptions about the supply-side performance of the economy. The forecast ranges do not represent general forecast uncertainties: the key short-term risks are described in Chapter B of the 2008 FSBR.

1.2 The mid-points of the forecast ranges represent the Government's neutral case view of economic prospects, and are anchored around an assumption for trend output growth of $2\frac{3}{4}$ per cent a year. Details of this neutral assumption are set out in Table B2 of the FSBR and the accompanying text, as well as Table 1 of this document. A paper published by the Treasury alongside Budget 2002¹ discussed the Treasury's trend output growth framework, while a further paper published alongside the 2006 Pre-Budget Report² provided an updated assessment and projections.

1.3 Consistent with past practice, projections for the public finances (set out in Chapter C of the FSBR) are based on the lower end of the economic forecast ranges, which are consistent with a deliberately cautious assumption for annual trend output growth a $\frac{1}{4}$ percentage point lower than the neutral view. The upper end of the forecast ranges is symmetrical, illustrating the potential for stronger growth based at least in part on the Government's policies to raise productivity growth and to increase employment opportunity.

¹ *Trend growth: recent developments and prospects*, HM Treasury, April 2002.

² *Trend growth: new evidence and prospects*, HM Treasury, December 2006.

THE DEGREE OF SPARE CAPACITY

Chart 1a: CBI capacity utilisation in manufacturing

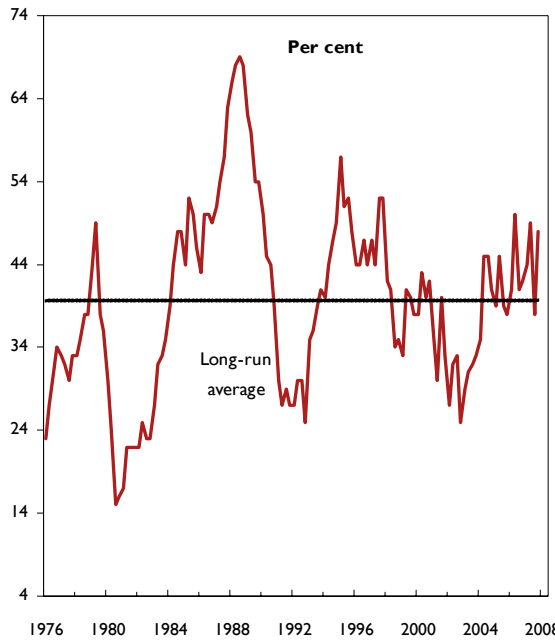


Chart 1b: BCC survey of capacity utilisation

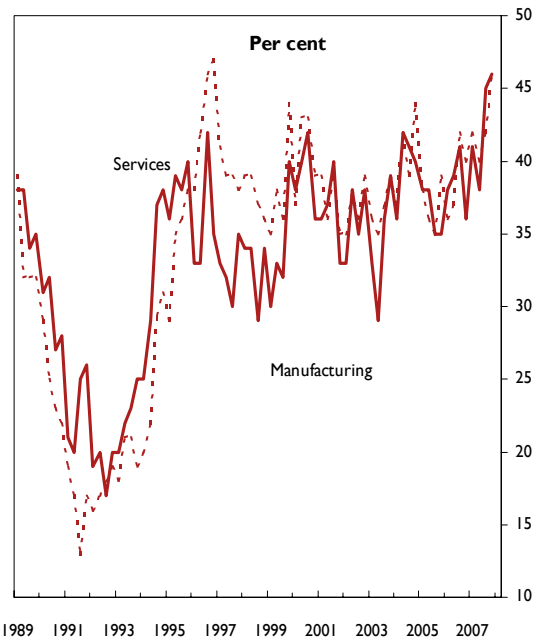


Chart 2a: CBI survey of skilled labour shortages in manufacturing

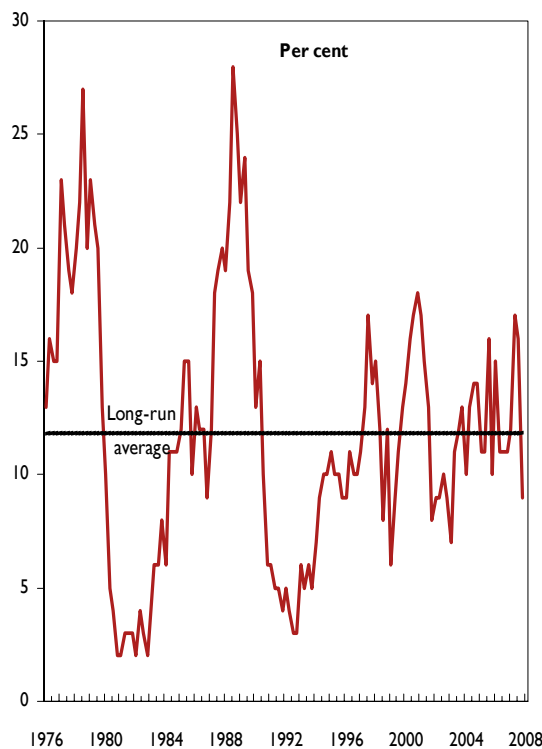


Chart 2b: BCC survey of recruitment difficulties

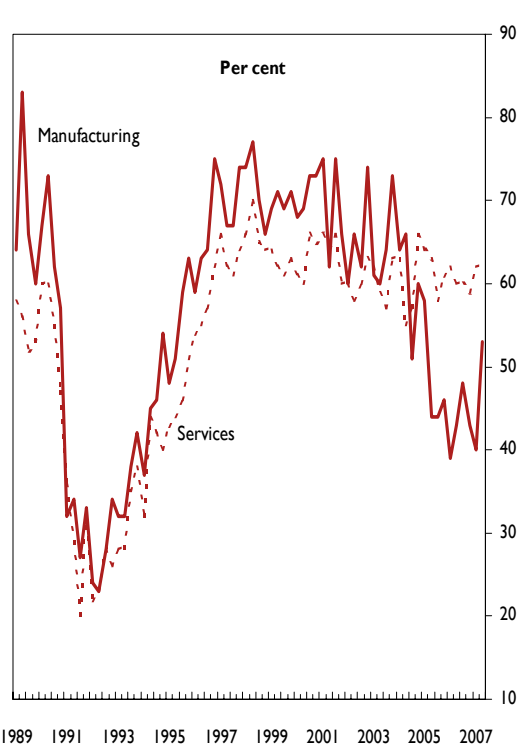
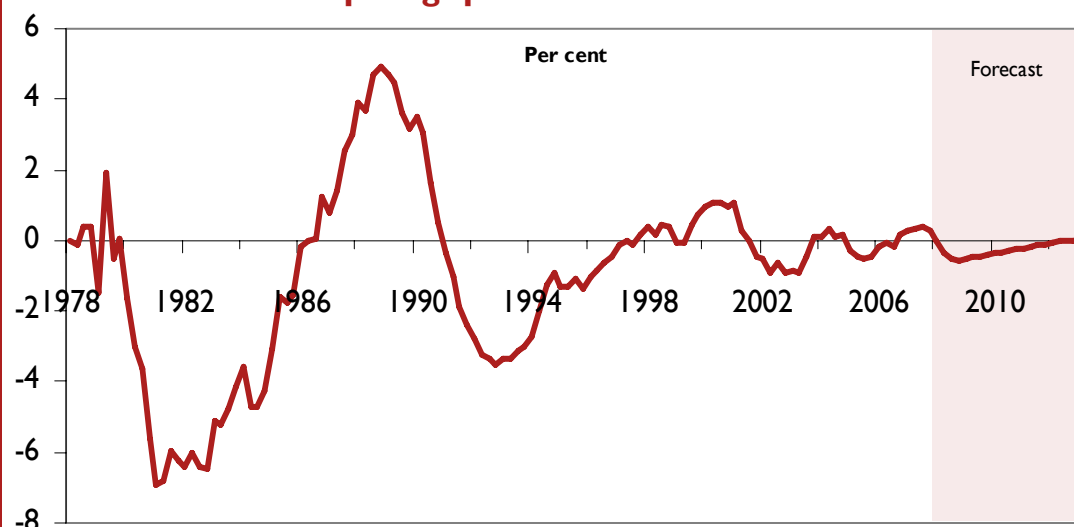


Chart 3: The output gap

¹ Actual output less trend output as a percent of trend output (non-oil basis). From 2008Q2 until the output gap is forecast to remain closed, from 2012Q2, the figures presented in this chart are -0.4, -0.5, -0.6, -0.5, -0.5, -0.4, -0.4, -0.4, -0.3, -0.3, -0.2, -0.2, -0.2, -0.1, -0.1, -0.1.

Table 1a: Contributions to trend output growth^{1,2}

	Estimated trend rates of growth, per cent per annum					Trend output ⁶
	Trend output per hour worked ^{3,4}		Trend average hours worked ³	Trend employment rate ³	Population ⁵	
	Underlying (1)	Unadjusted (2)				
1986Q2 to 1997H1						
Latest Data						
Working-age population ⁶	2.13	1.95	-0.11	0.36	0.25	2.46
Adult population ⁶	2.12	1.93	-0.11	0.37	0.26	2.46
Over the recent past						
1997H1 to 2001Q3						
Latest Data						
Working-age population	2.89	2.70	-0.45	0.38	0.53	3.17
Adult population	2.86	2.61	-0.45	0.49	0.51	3.17
2001Q3 to 2006H2						
Latest Data ⁷						
Working-age population	2.36	2.36	-0.31	0.00	0.70	2.76
Adult population	2.26	2.21	-0.31	0.09	0.75	2.76
Projection⁸						
2006H2 onwards						
Budget 2008 ⁹						
Working-age population	2.35	2.30	-0.25	0.1	0.6	2%
Adult population	2.25	2.30	-0.25	-0.1	0.8	2%

¹ Treasury analysis based on judgement that 1986Q2, 1997H1 and 2001Q3 were on-trend points of the output cycle. Figures independently rounded. Trend output growth is estimated as growth of non-oil gross value added between on-trend points for the past, and by projecting components going forward. Columns (2) + (3) + (4) + (5) = (6).

Full data definitions and sources are set out in Annex A of 'Trend growth: new evidence and prospects', HM Treasury, December 2006.

² Interim projections between Budget 2002 and PBR 2007 are provided in Table 1b in this document.

³ The underlying trend rate is the unadjusted trend rate adjusted for changes in the employment rate, i.e. assuming the employment rate had remained constant.

Column (1) = column (2) + (1-a).column (4), where a is the ratio of new to average worker productivity levels. The figuring is consistent with this ratio being of the order of 50 per cent, informed by econometric evidence and LFS data on relative entry wages.

⁴ The decomposition makes allowances for employment and hours worked lagging output. Employment is assumed to lag output by around three quarters, so that on-trend points for employment come three quarters after on-trend points for output, an assumption which can be supported by econometric evidence. Hours are easier to adjust than employment, and the decomposition assumes that average hours worked lag output by just one quarter, though this lag is harder to support by econometric evidence.

⁵ UK resident household basis.

⁶ Working-age population defined as population aged 16 to State Pension age. Adult population defined as population aged 16 and over.

⁷ Estimates based on the assumption that the economy passed up through trend in the second half of 2006.

⁸ Neutral case assumptions for trend from 2006H2.

⁹ Underlying trend assumptions around which the mid-points of the GDP forecast growth ranges from 2006H2 are anchored.

Table Ib: Contributions to trend output growth¹

	Estimated trend rates of growth, per cent per annum					Trend output (6)
	Trend output per hour worked ^{2,3}		Trend average hours worked ³ (3)	Trend employment rate ³ (4)	Population of working age ⁴ (5)	
	Underlying (1)	Unadjusted (2)				
1986Q2 to 1997H1						
Budget 2007	2.10	1.92	-0.11	0.36	0.24	2.43
Latest data	2.13	1.95	-0.11	0.36	0.25	2.46
Over the recent past						
1997H1 to 2001Q3						
Budget 2002	2.14	1.96	-0.37	0.36	0.66	2.63
PBR 2002 and Budget 2003	2.35	2.14	-0.47	0.43	0.50	2.61
PBR 2003 and Budget 2004	2.65	2.44	-0.47	0.42	0.54	2.94
PBR 2004 and Budget 2005	2.70	2.50	-0.43	0.41	0.58	3.06
PBR 2005 and Budget 2006	2.79	2.59	-0.44	0.42	0.58	3.15
PBR 2006 and Budget 2007	2.81	2.60	-0.44	0.42	0.58	3.16
Latest data	2.89	2.70	-0.46	0.38	0.53	3.17
2001Q3 to 2006Q4						
Budget 2002	2.10	2.00	-0.1	0.2	0.6	2¾
PBR 2002 to Budget 2005	2.35	2.25	-0.1	0.2	0.5	2¾
PBR 2005 and Budget 2006	2.25	2.15	-0.2	0.2	0.6	2¾
PBR 2006 and Budget 2007	2.25	2.15	-0.2	0.2	0.7	2¾
Latest data ^{5,6}	2.32	2.29	-0.27	0.05	0.69	2.77
Projection⁷						
2006Q4 onwards						
PBR 2004 and Budget 2005	2.35	2.25	-0.1	0.2	0.3	2½
PBR 2005 and Budget 2006	2.25	2.15	-0.2	0.2	0.4	2½
PBR 2006 and Budget 2007	2.25	2.15	-0.2	0.2	0.6	2¾
PBR 2007 ⁸	2.35	2.30	-0.25	0.1	0.6	2¾

¹ Treasury analysis based on judgement that 1986Q2, 1997H1, 2001Q3 and 2006Q4 were on-trend points of the output cycle. Figures independently rounded. Trend output growth is estimated as growth of non-oil gross value added between on-trend points for the past, and by projecting components going forward. Columns (2) + (3) + (4) + (5) = (6).

Full data definitions and sources are set out in Annex A of 'Trend growth: new evidence and prospects', HM Treasury, December 2006.

² The underlying trend rate is the unadjusted trend rate adjusted for changes in the employment rate, i.e. assuming the employment rate had remained constant. Column (1) = column (2) + (1-a).column (4), where a is the ratio of new to average worker productivity levels. The figuring is consistent with this ratio being of the order of 50 per cent, informed by econometric evidence and LFS data on relative entry wages.

³ The decomposition makes allowances for employment and hours worked lagging output. Employment is assumed to lag output by around three quarters, so that on-trend points for employment come three quarters after on-trend points for output, an assumption which can be supported by econometric evidence. Hours are easier to adjust than employment, and the decomposition assumes that average hours worked lag output by just one quarter, though this lag is harder to support by econometric evidence. Hours worked and the employment rate are measured on a working-age basis.

⁴ UK resident household basis.

⁵ Estimates based on the assumption that the economy passed up through trend in the final quarter of 2006.

⁶ Estimates have been adjusted in line with the mid-year population estimates published in August 2007. Labour market statistics consistent with the latest population estimates will be published by the ONS in due course.

⁷ Neutral case assumptions for trend from 2006Q4.

⁸ Underlying trend assumptions around which the mid-points of the GDP forecast growth ranges from 2006Q4 are anchored.

GROSS DOMESTIC PRODUCT (GDP)

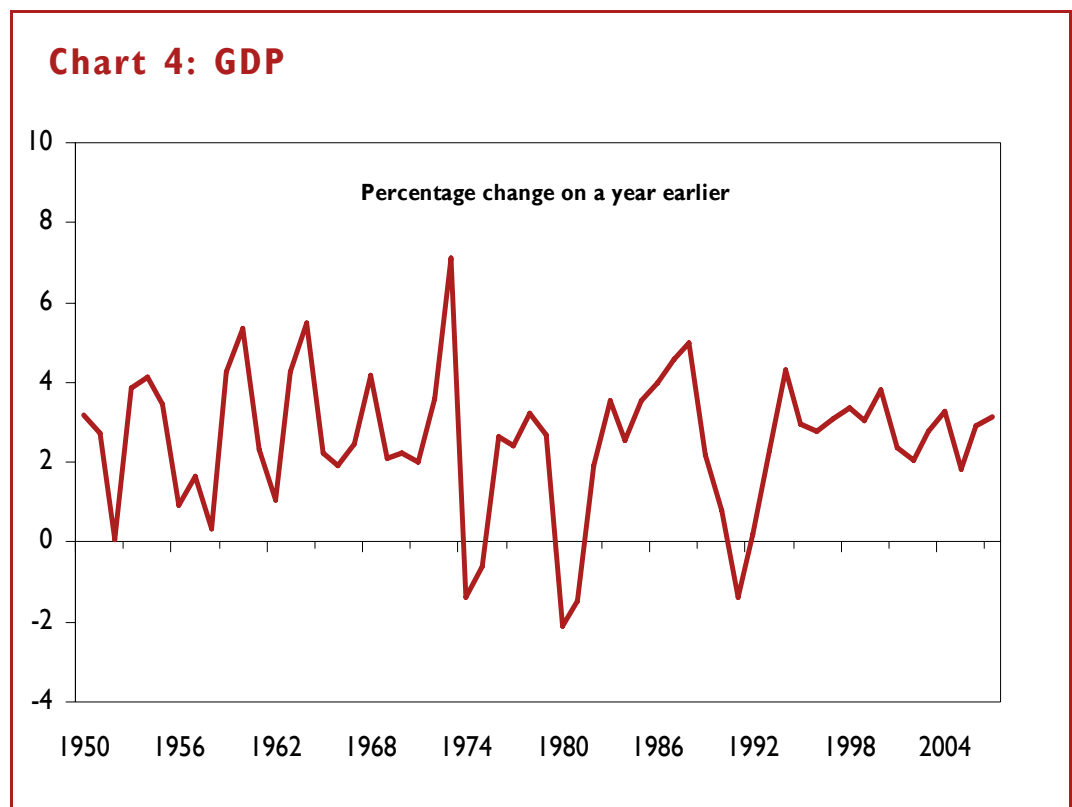


Table 2: Quarterly GDP and non-oil GVA growth

	Percentage change on previous quarter							
	2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP	0.9	0.7	0.6	1.0	0.8	0.8	0.7	0.6
Non-oil GVA	1.0	0.8	0.6	1.0	0.8	0.8	0.7	0.5

Chart 5: GDP forecast¹

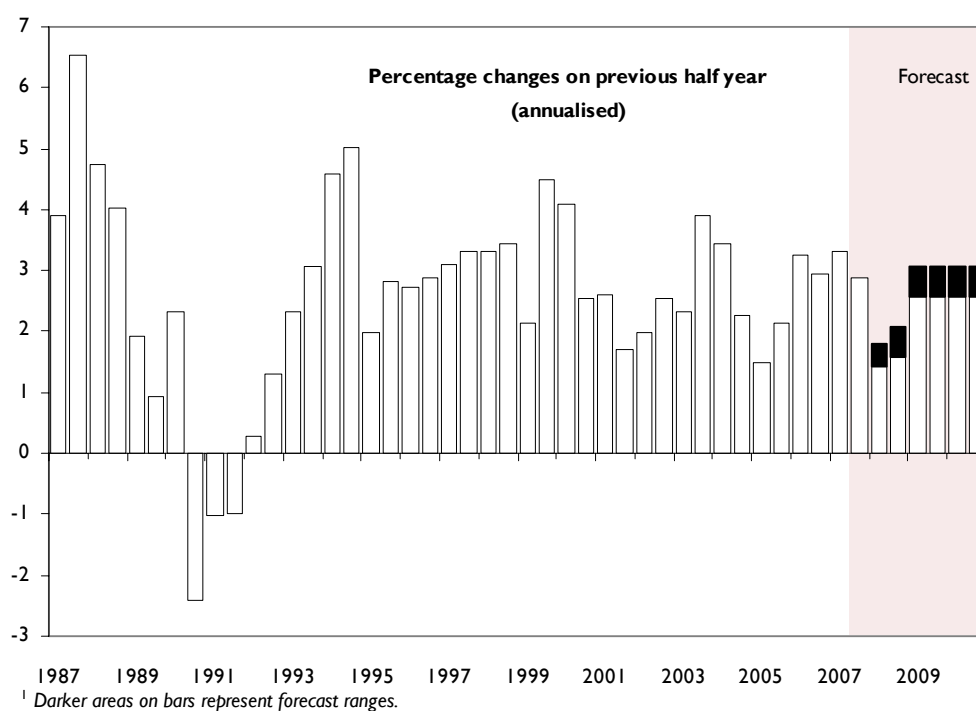


Table 3: Contributions² to GDP growth^{1,2}

	Percentage points, unless otherwise stated						
	Average			Forecast			
	2000 to 2004	2005	2006	2007	2008	2009	2010
GDP growth, per cent	2¾	1¾	3	3	1¾ to 2¼	2¼ to 2¾	2½ to 3
Main contributions							
Private consumption	2¼	1	1¼	2	1	1½	1¾
Business investment	¼	¼	¾	¾	¼	½	½
Government ³	¾	½	½	½	½	½	½
Change in inventories	0	0	-¼	½	0	0	0
Net trade	-½	0	0	-½	¼	¼	0

¹Components may not sum to total due to rounding and omission of private residential investment, transfer costs of land and existing buildings and the statistical discrepancy.

²Based on central case. For the purpose of projecting public finances, forecasts are based on the bottom of the GDP forecast range.

³The sum of government consumption and government investment.

THE HOUSEHOLD SECTOR

Table 4: Household sector¹ expenditure and income

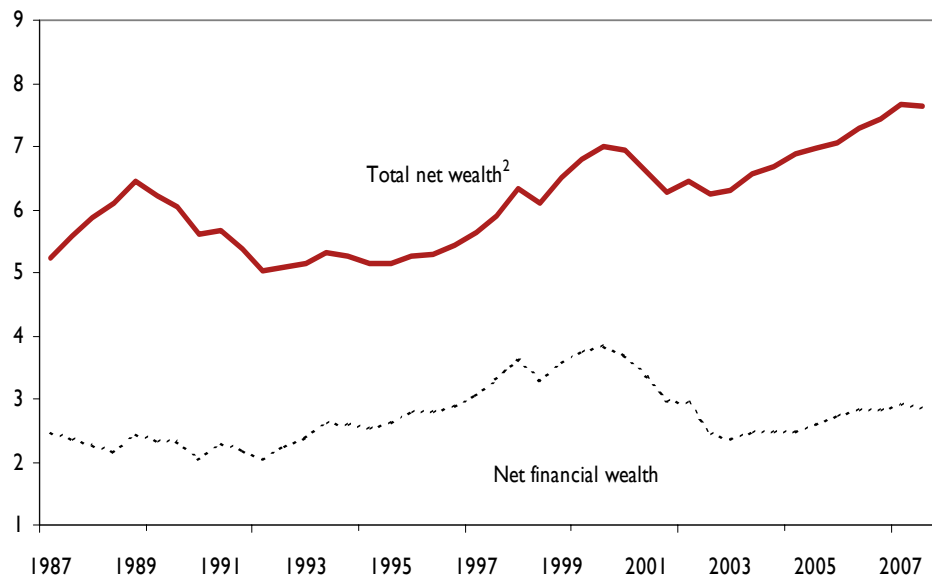
	Percentage change on a year earlier, unless otherwise stated			
	2007	Forecast		
		2008	2009	2010
Household consumption ²	3¼	1¼ to 1¾	2 to 2½	2¼ to 2¾
Real household disposable income	1¼	1½ to 2	2 to 2½	2¼ to 2¾
Saving ratio ³ (level, per cent)	3	3½	3½	3¾

¹ Including non-profit institutions serving households.

² Chained volume measures.

³ Total household resources less consumption expenditure as a percent of total resources, where total resources comprise households' disposable income plus the increase in their net equity in pension funds.

Chart 6: Household sector wealth to income ratios¹



¹ Semi-annual.

² Includes tangible (mainly housing) wealth. 2007 is part forecast.

Chart 7: Monthly housing turnover and prices

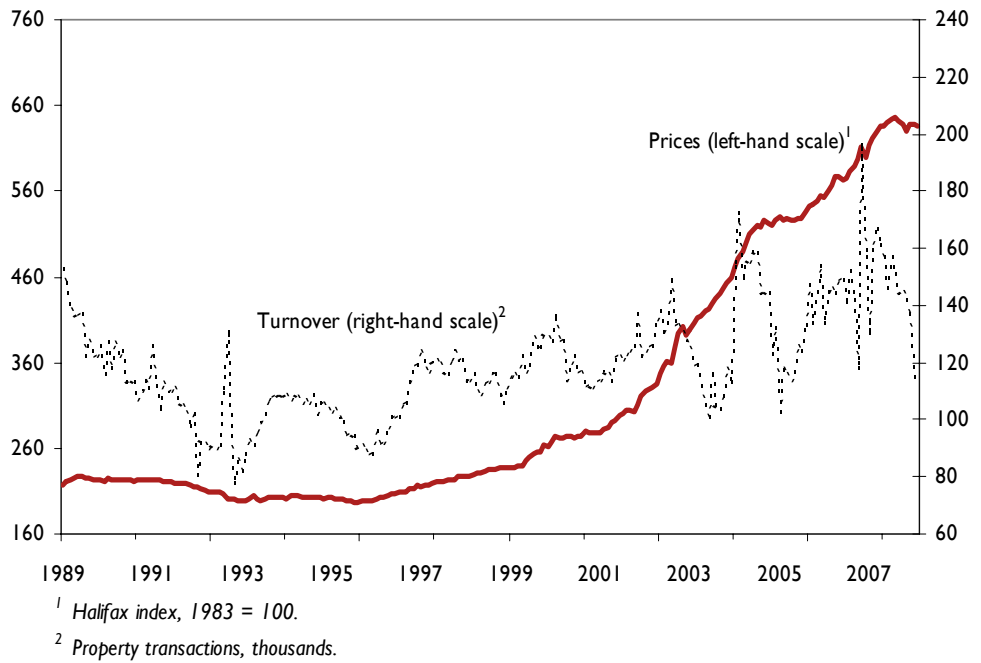


Chart 8: House price-earnings ratio¹

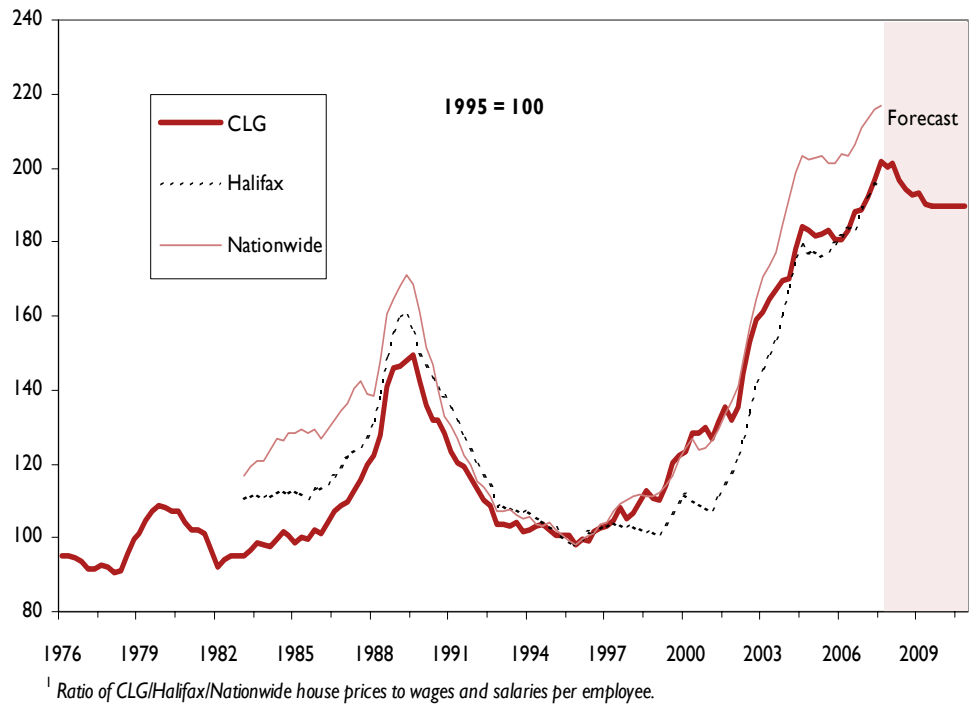
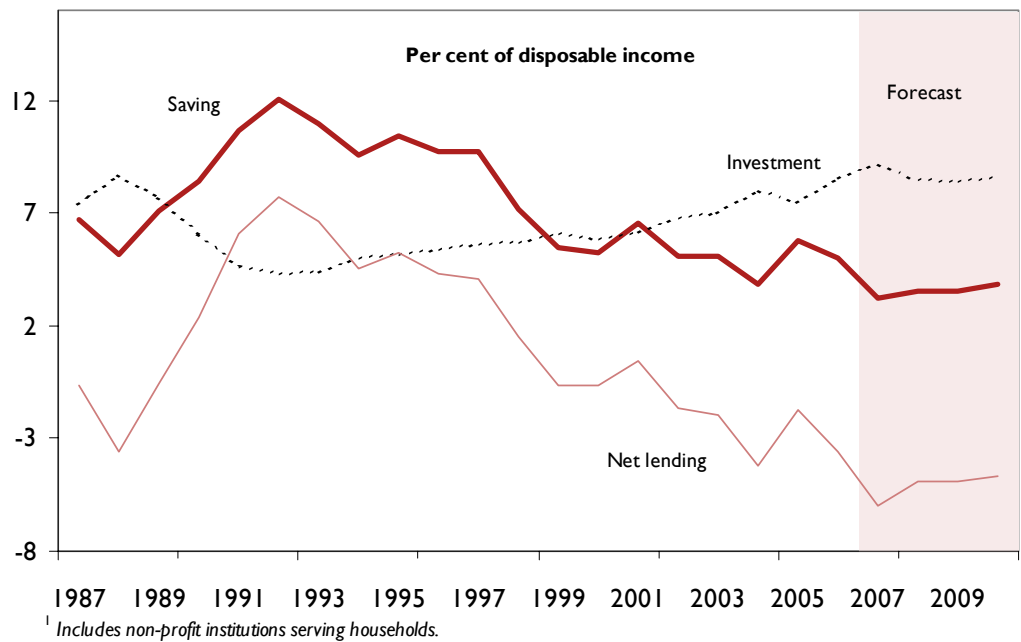
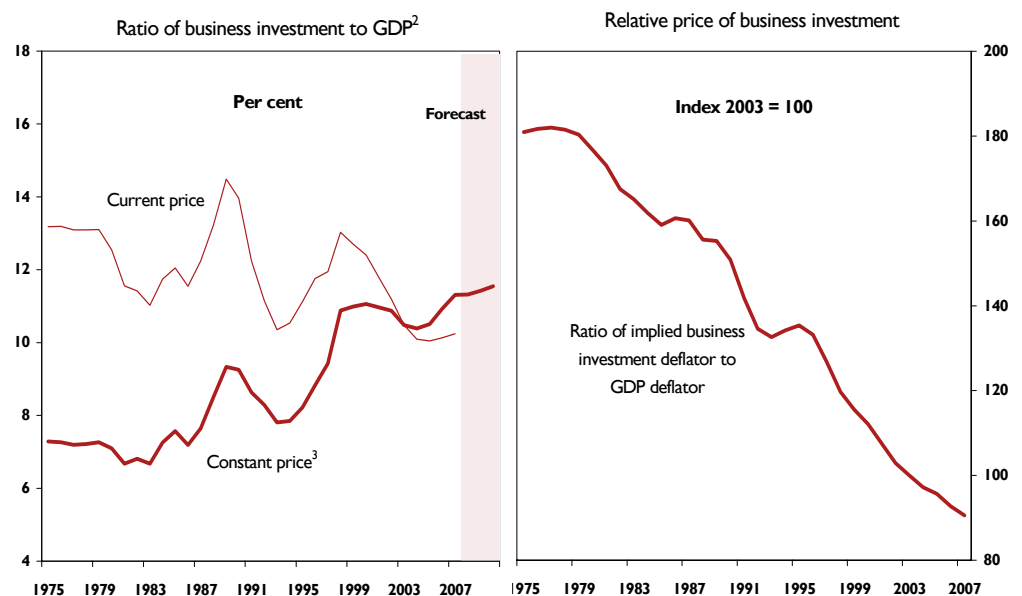


Chart 9: Household sector¹ net lending



INVESTMENT

Chart 10: Business investment¹



¹ Includes investment by public corporations and investment under the Private Finance Initiative.

² Excludes exceptional transfer of BNFL nuclear reactors to central government in 2005Q2.

³ Ratio of business investment to GDP in chained volume measures.

Table 5: Gross fixed capital formation

	Percentage change on a year earlier			
	2007	Forecast		
		2008	2009	2010
Whole economy ¹	5	1¾ to 2¼	2¾ to 3¼	3½ to 4
of which:				
Business ^{2,3}	6¾	1¾ to 2¼	3¼ to 3¾	3¾ to 4¼
Private dwellings ³	2	-¼ to ¼	1¼ to 1¾	2¾ to 3¼
General government ³	4	7	3½	5

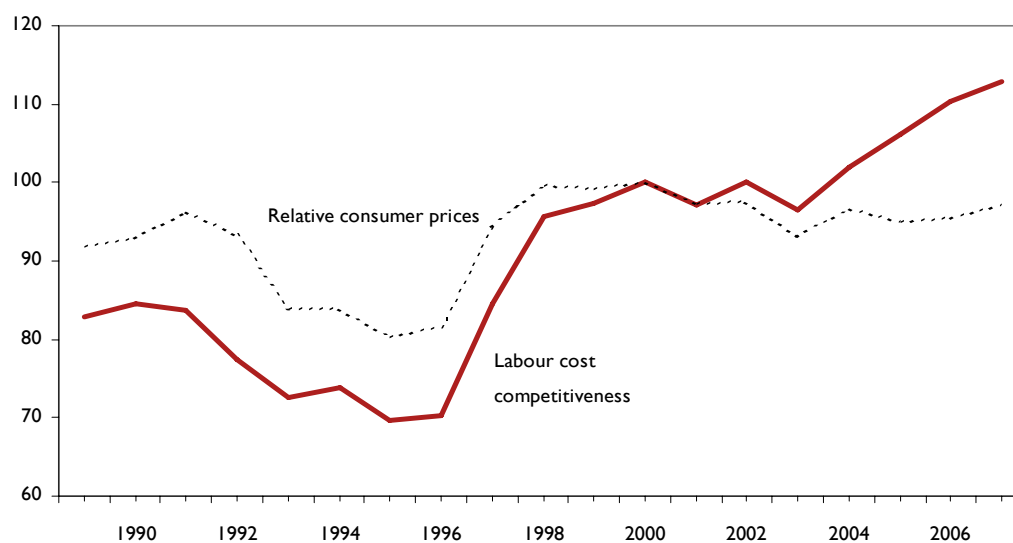
¹ Includes costs associated with the transfer of ownership of land and existing buildings.

² Private sector and public corporations' non-residential investment. Includes investment under the Private Finance Initiative.

³ Excludes purchases less sales of land and existing buildings.

TRADE AND THE BALANCE OF PAYMENTS

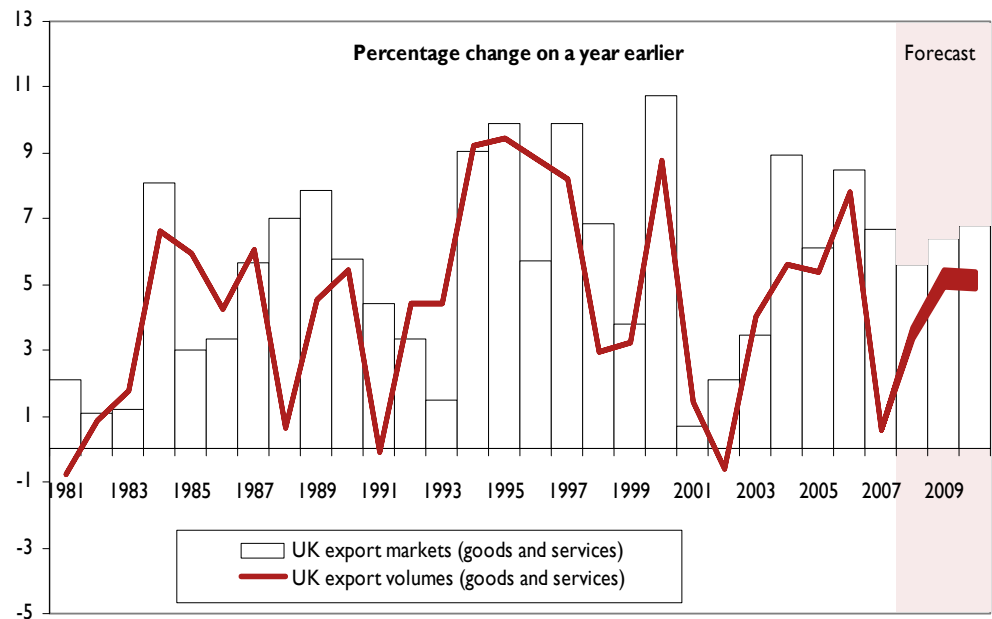
Chart 11: Competitive positions: relative unit labour costs¹ and consumer prices



¹ Relating to trade in manufactures: a fall means that competitiveness has improved.

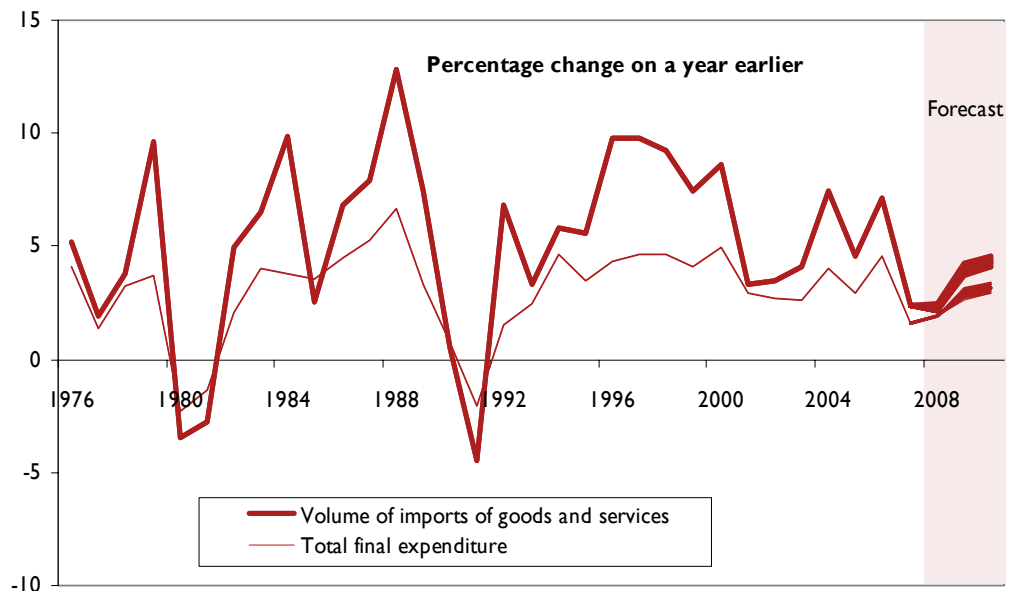
Source: OECD Economic Outlook 82, December 2007.

Chart 12: Exports¹ and overseas demand



¹Volumes excluding the effects of activity relating to Missing Trader Intra-Community (MTIC) Fraud.

Chart 13: Imports¹ and total final expenditure



¹Volumes excluding the effects of activity relating to Missing Trader Intra-Community (MTIC) Fraud.

Table 6: Trade in goods and services

	Percentage change on a year earlier					£ billion Goods and services balance
	Volumes (MTIC adjusted) ¹		Prices ²		Terms of trade ³	
	Exports	Imports	Exports	Imports		
2007	1/2	2 1/2	2 1/4	3/4	1 1/4	-48 3/4
Forecast						
2008	3 1/4 to 3 3/4	2 to 2 1/2	2 1/2	3	-1/2	-48 3/4
2009	5 to 5 1/2	3 3/4 to 4 1/4	1 1/2	2	-3/4	-49 3/4
2010	5 to 5 1/2	4 to 4 1/2	2 1/4	2 1/4	0	-50

¹Table 11 contains figures including the effects of Missing Trader Intra Community (MTIC) Fraud-related activity. The forecast is therefore based on the neutral assumption that the level of MTIC-related activity stays flat at the latest quarterly estimate throughout the forecast.

²Average value indices.

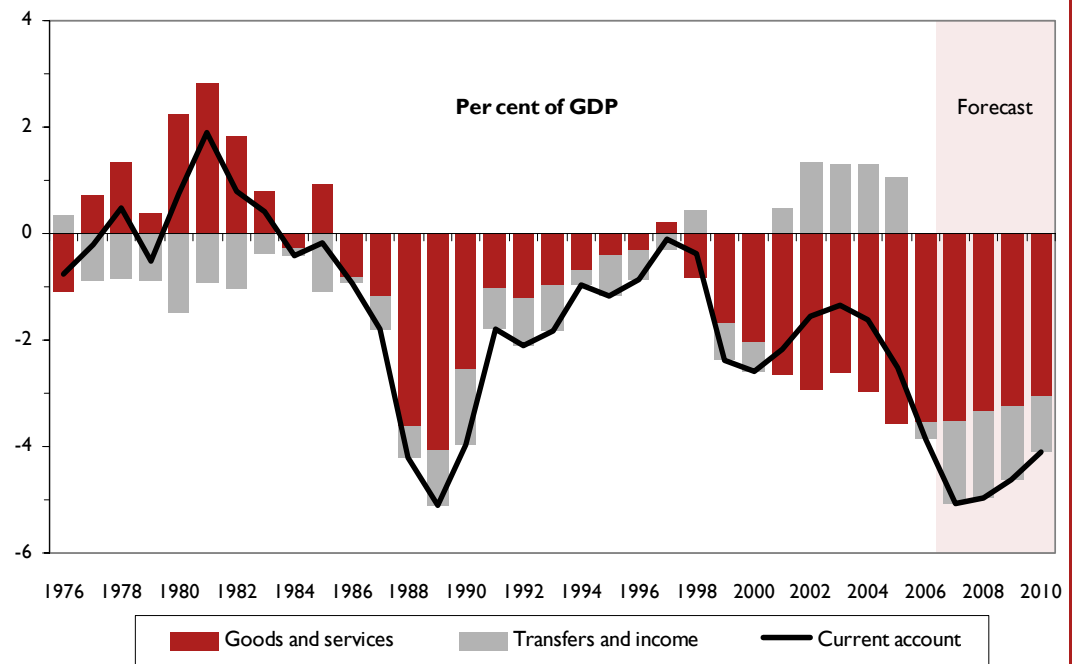
³Ratio of export to import prices.

Table 7: The current account

	£ billion					
	Trade in Goods and services			Transfers	Income balance ¹	Current balance
	Non-oil	Oil	Total			
2006	-43	-3 1/2	-46 1/2	-12	8 1/4	-50 1/4
Forecast						
2007	-45 1/2	-3 1/4	-48 3/4	-13 1/4	-8 1/2	-70 1/4
2008	-43 1/4	-5 1/2	-48 3/4	-12 3/4	-11	-72 1/2
2009	-42 1/2	-7 1/4	-49 3/4	-13 1/2	-7 3/4	-71
2010	-41	-9	-50	-15	-1 1/2	-66 1/4

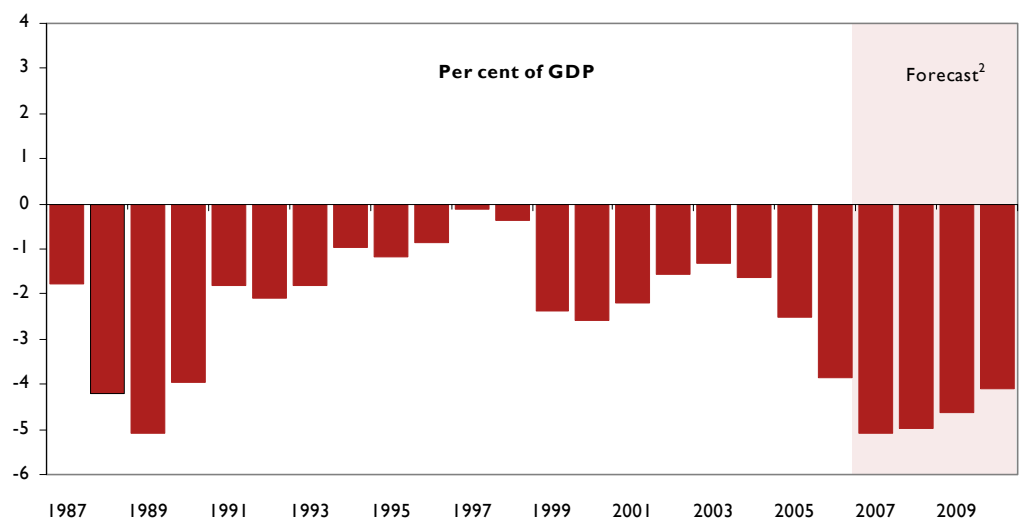
¹ Includes investment and employee income.

Chart 14: Balance of payments current account



PATTERN OF NET LENDING

Chart 15a: Balance of payments current account balance



¹ The current account balance approximately equals net lending to the rest of the world, adjusted for net capital transfers and net acquisition of non-produced non-financial assets.

² At mid-points of forecast ranges.

Chart 15b: Private sector net lending

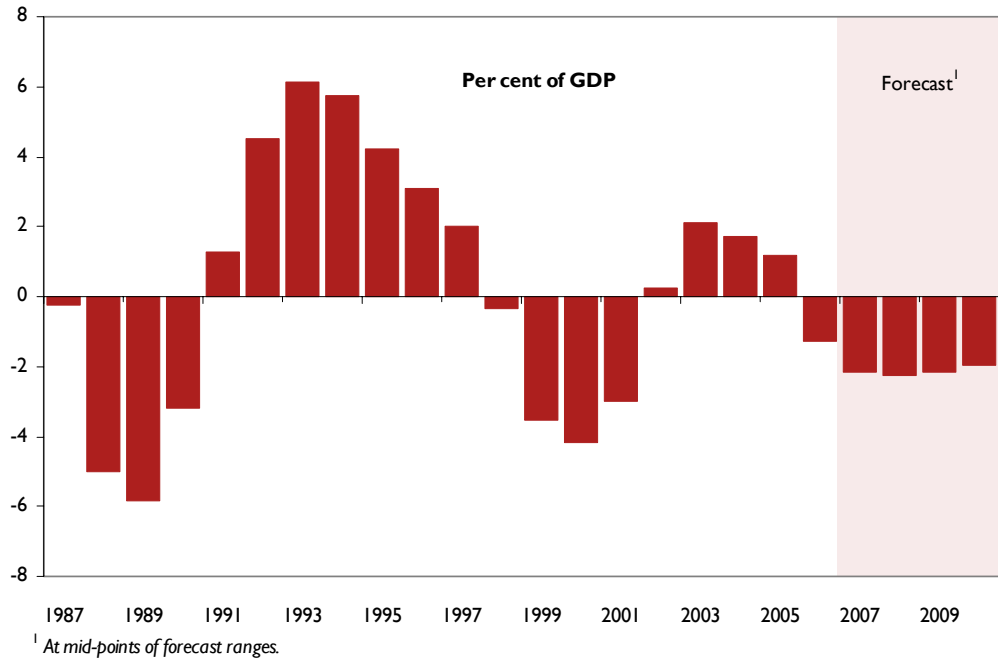
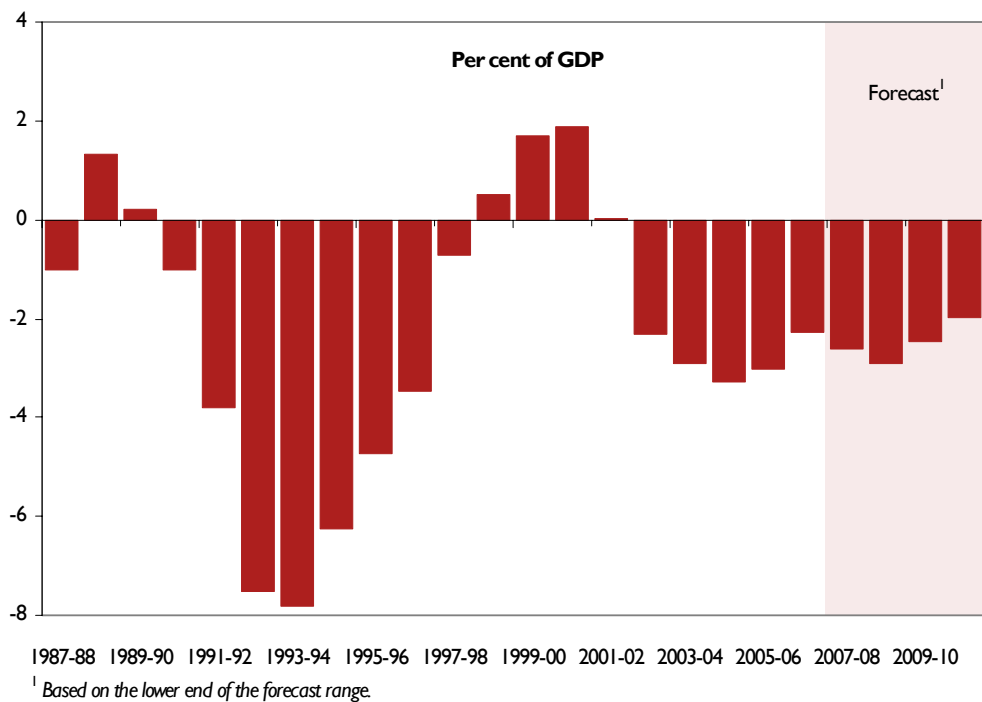
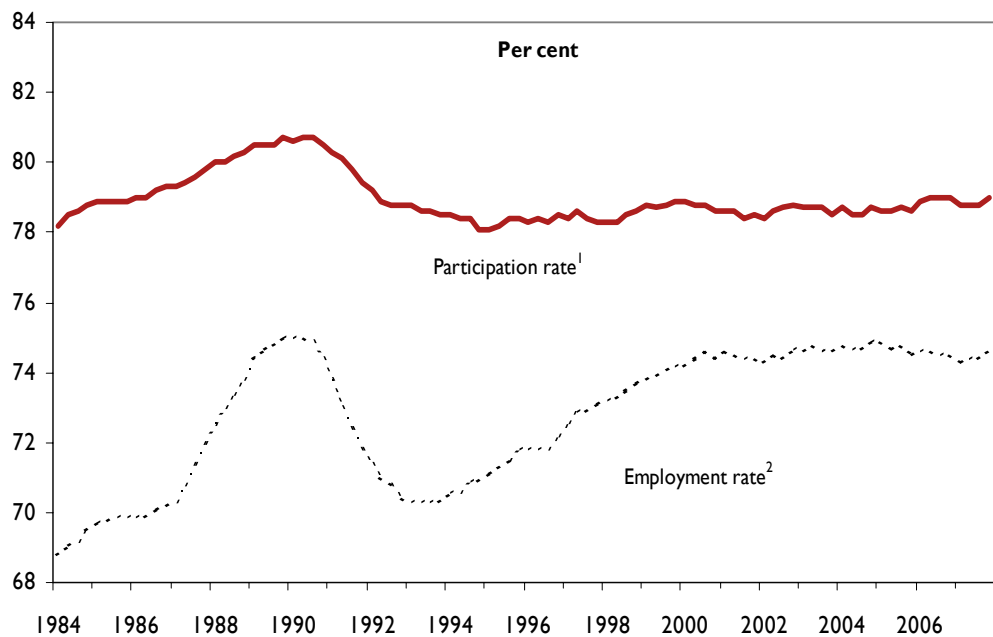


Chart 15c: Public sector net lending



THE LABOUR MARKET

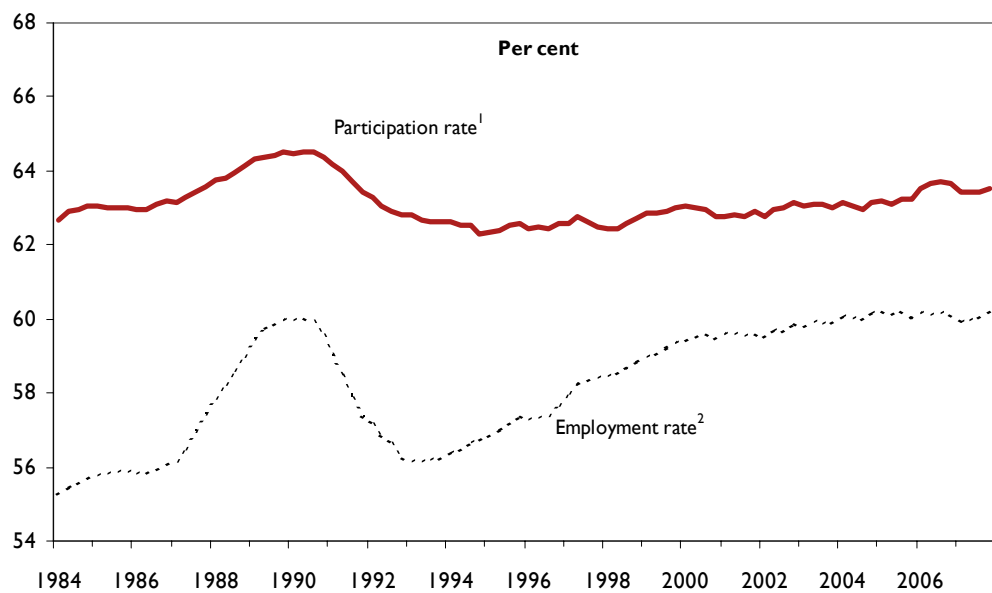
Chart 16a: LFS working-age participation and



¹ Percentage of the working-age population that are economically active (i.e. employed or unemployed).

² Percentage of the working-age population in employment.

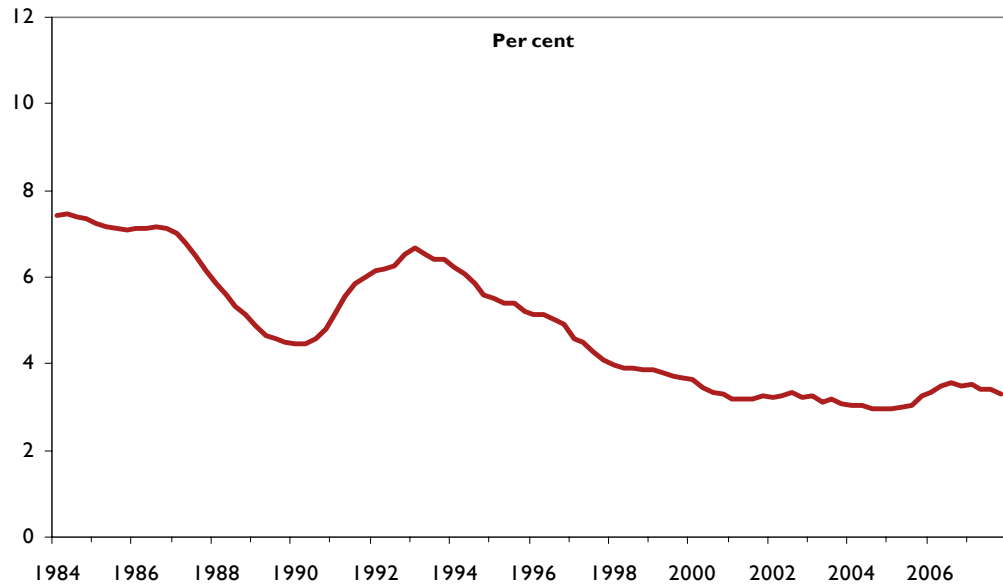
Chart 16b: LFS adult population participation and employment



¹ Percentage of the population over 16 years of age that are economically active (i.e. employed or unemployed).

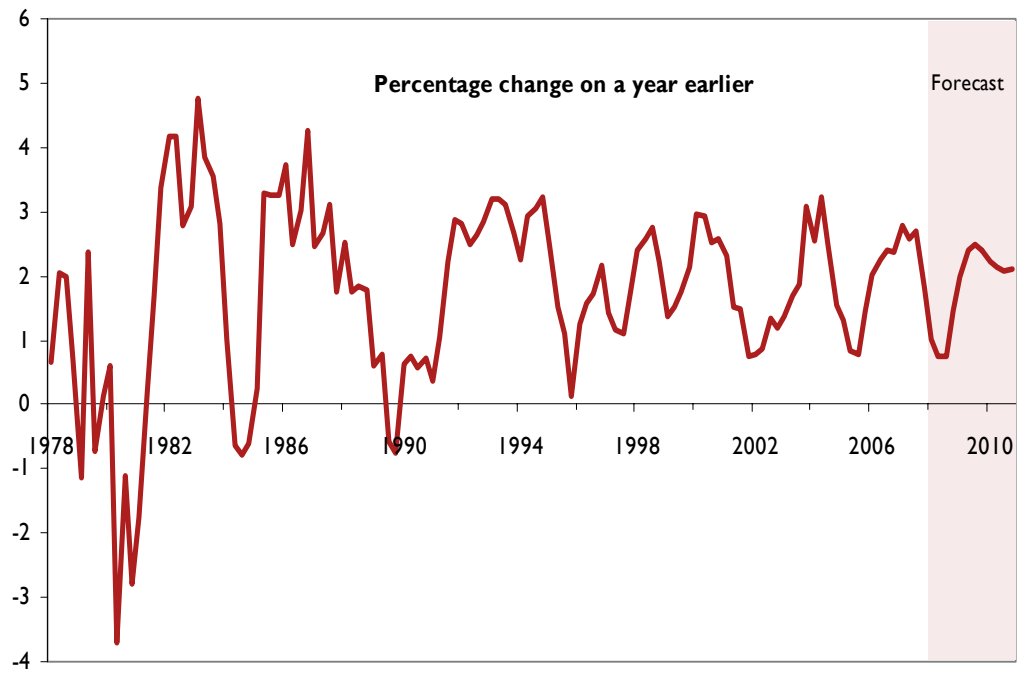
² Percentage of the population over 16 years of age in employment.

Chart 16c: LFS unemployment rate¹

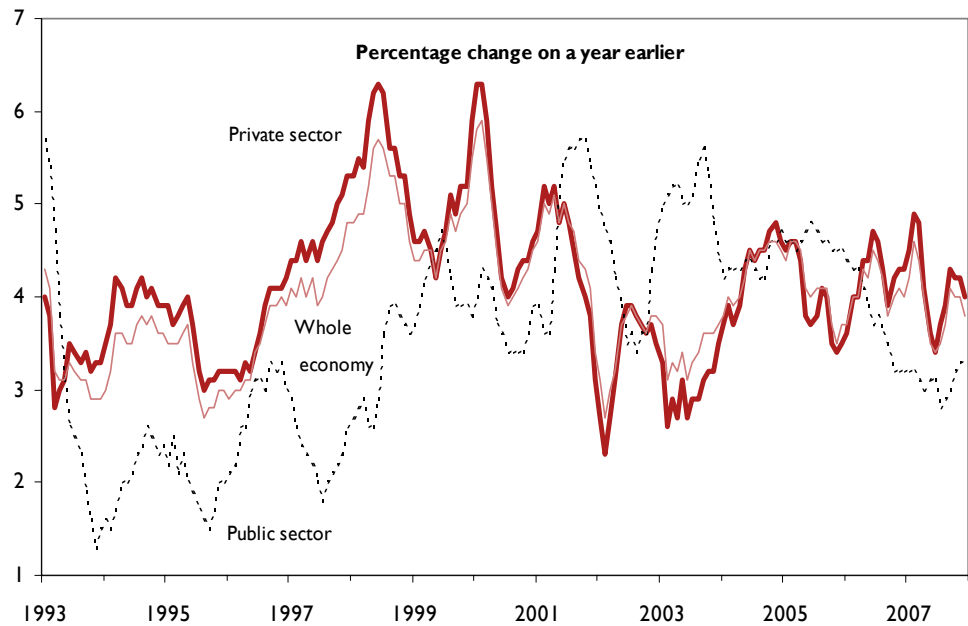


¹ Total unemployment as a percentage of total unemployment plus total employment.

Chart 17: Output per worker¹



¹ Estimated non-oil output (GVA) per LFS worker.

Chart 18: Average earnings by sector¹

¹ Growth in the Average Earnings Index (AEI), Latest three months, including bonuses, seasonally

FINANCIAL DEVELOPMENTS

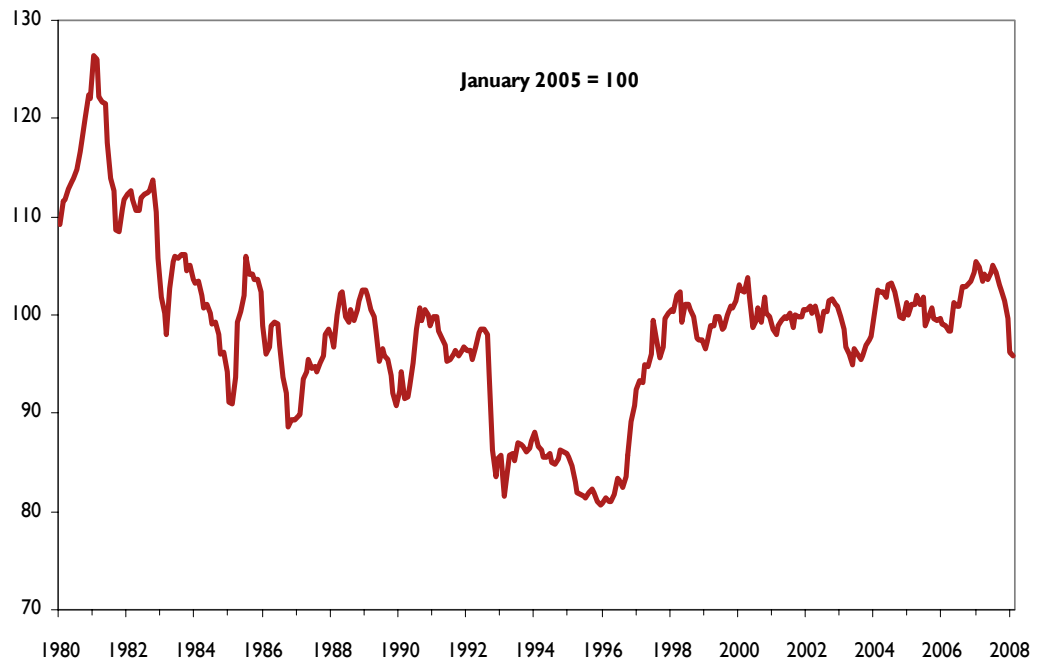
Chart 19: Sterling effective exchange rate index

Chart 20: UK interest rates

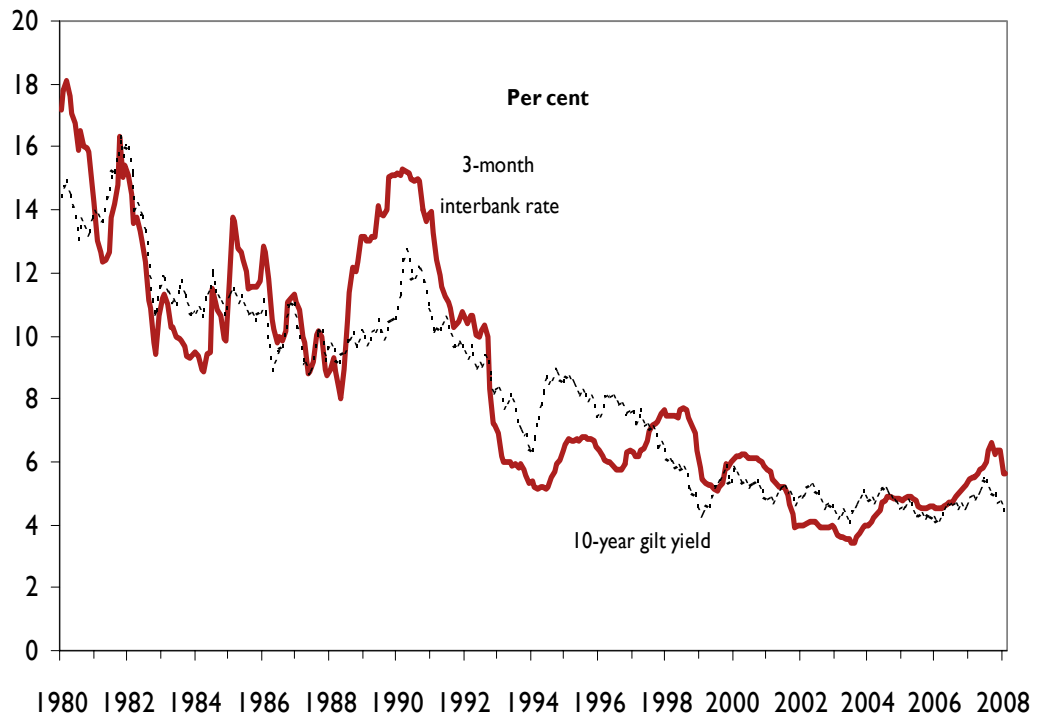
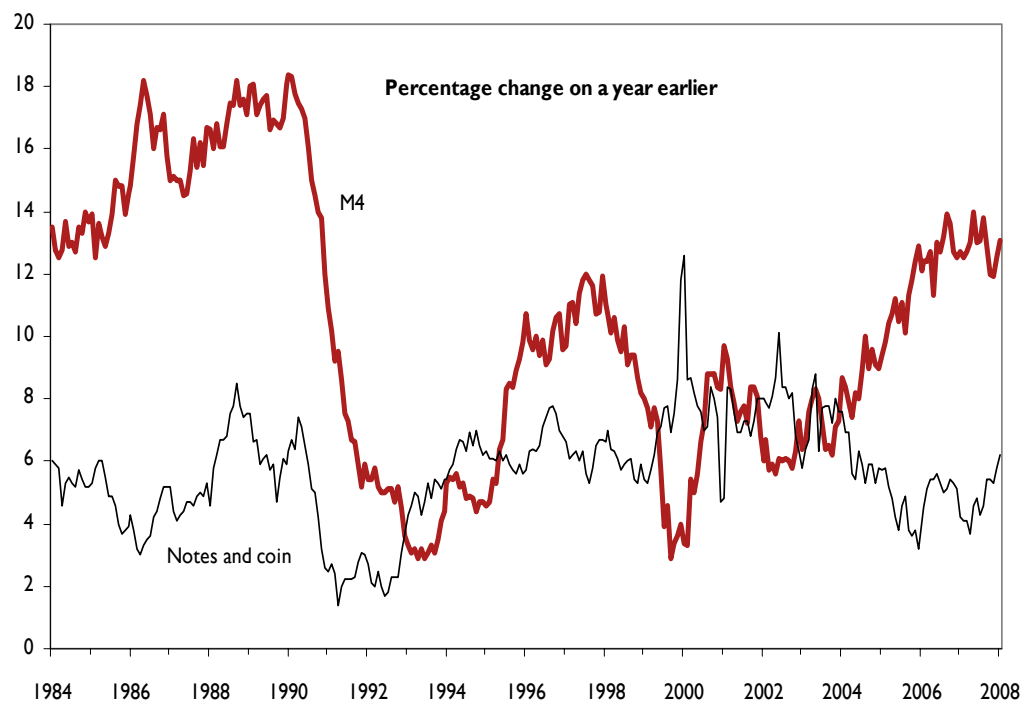


Chart 21: Monetary indicators



INFLATION

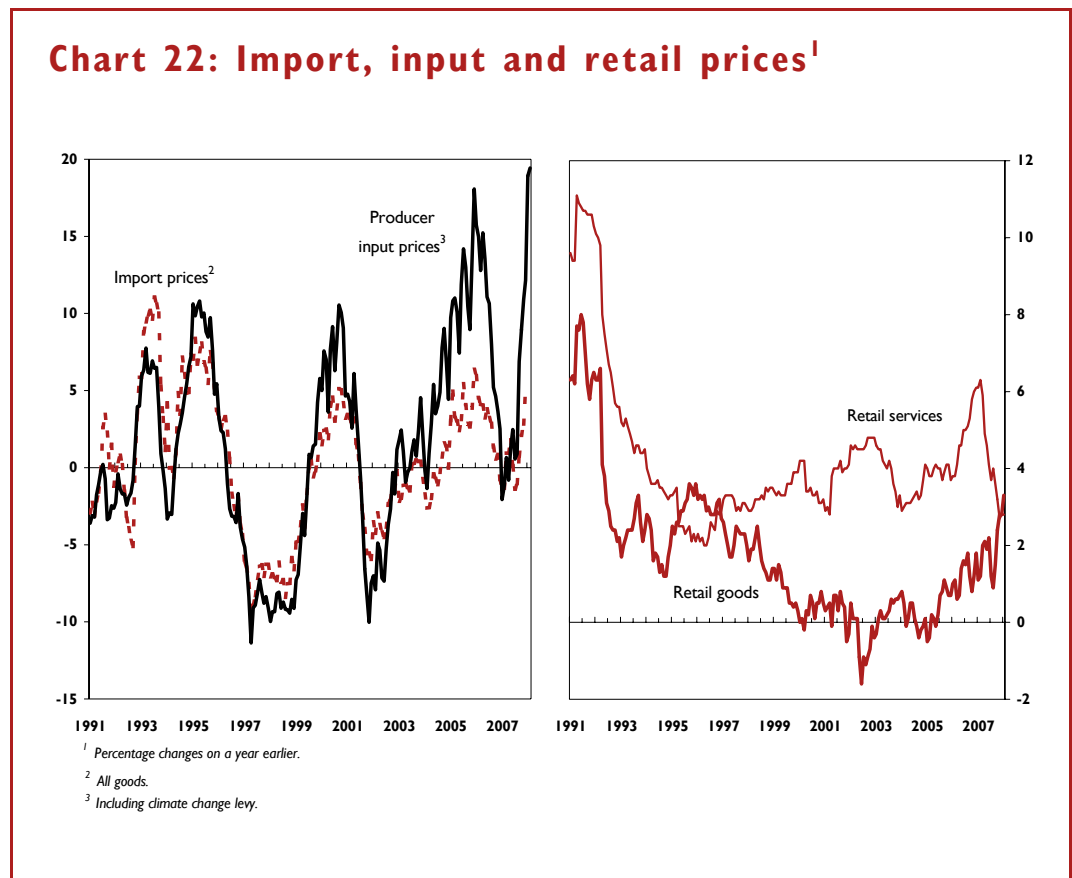
Chart 22: Import, input and retail prices¹

Table 8a: Consumer and producer output prices

	Percentage change on a year earlier							
	2007		2008		Forecast		2010	
	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4
CPI	2¾	2	2¾	2½	2¼	2	2	2
Producer output prices ¹	2¼	4¾	4½	2¾	2¼	2	2	2

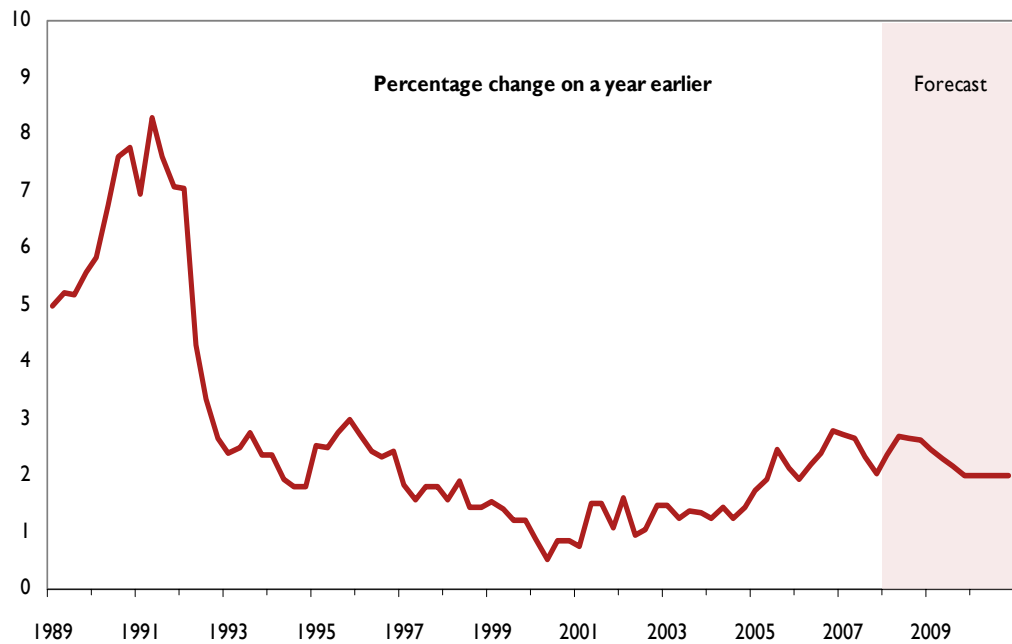
¹ Excludes excise duties.

Table 8b: Consumers' expenditure deflator

	Percentage change on a year earlier, unless otherwise stated					
	2007		2008		Forecast	
	Level					
CED ²	110½	2½	3¼	2¾	2¾	2¾

² Consumers' expenditure deflator, Q4.

Chart 23: CPI



¹ Outturns until 2007Q4; forecasts for every second quarter 2008Q2 to 2010Q4.

COMPARISON WITH INDEPENDENT FORECASTS

Table 9: Budget and independent¹ forecasts

	Percentage change on a year earlier, unless otherwise stated					
	2008			2009		
	2008 Budget	Independent		2008 Budget	Independent	
		Average	Range		Average	Range
GDP growth	1¾ to 2¼	1.7	-0.1 to 2.1	2¼ to 2¾	1.9	-1.3 to 2.7
CPI (Q4)	2½	2.4	1.9 to 3.0	2	2.0	1.3 to 3.3
Current account (£ billion)	-72½	-59.1	-88.0 to -40.2	-71	-53.5	-90.7 to -35.0

¹ 'Forecasts for the UK economy: A comparison of independent forecasts', March 2008, compiled by HM Treasury.

COMPARISON WITH PRE-BUDGET REPORT 2007 FORECAST

Table 10: Comparison with Pre-Budget Report 2007 forecast

		Percentage change on a year earlier, unless otherwise stated	
		October 2007 PBR	March 2008 Budget
Gross domestic product	2008	2 to 2½	1¾ to 2¼
	2009	2½ to 3	2¼ to 2¾
	2010	2½ to 3	2½ to 3
CPI inflation (per cent, Q4)	2008	2	2½
	2009	2	2
	2010	2	2
Current account (£ billion)	2008	-41	-72½
	2009	-41	-71
	2010	-42½	-66¼

SUMMARY TABLES

Table I I: Summary of economic prospects

	Percentage change on a year earlier, unless otherwise stated					
	2007	Forecast ^{2, 3, 4}			Average errors from past forecasts ⁵	Average errors from past forecasts ⁵
		2008	2009	2010	2008	2009
Output at constant market prices						
Gross domestic product (GDP)	3	1¾ to 2¼	2¼ to 2¾	2½ to 3	¾	½
Manufacturing output	½	¾ to 1¼	1¾ to 2¼	1¾ to 2¼	1¼	1¾
Expenditure components of GDP at constant market prices⁶						
Domestic demand	3¾	1½ to 1¾	2 to 2½	2½ to 3	¾	¾
Household consumption ⁷	3¾	1¼ to 1¾	2 to 2½	2¼ to 2¾	½	1
General government consumption	2	2¼	2	2	¾	¾
Fixed investment	5	1¾ to 2¼	2¾ to 3¼	3½ to 4	3	2¼
Change in inventories ⁸	½	0	0	0	¼	¼
Exports of goods and services ⁹	-5½	3¼ to 3½	5 to 5½	5 to 5½	2½	4
Imports of goods and services ⁹	-3¼	2 to 2¼	3¾ to 4¼	4 to 4½	3	3
Exports of goods and services (excluding MTIC)	½	3¼ to 3¾	5 to 5½	5 to 5½	-	-
Imports of goods and services (excluding MTIC)	2½	2 to 2½	3¾ to 4¼	4 to 4½	-	-
Balance of payments current account						
£ billion	-70¼	-72½	-71	-66¼	13	14¾
per cent of GDP	-5	-5	-4½	-4	1	1
Inflation						
CPI (Q4)	2	2½	2	2	¼	½
Producer output prices (Q4) ¹⁰	4¾	2¾	2	2	1¼	1½
GDP deflator at market prices	3	3¼	2¾	2¾	½	½
Money GDP at market prices						
£ billion	1385	1457 to 1461	1531 to 1543	1611 to 1632	11¼	8
percentage change	6¼	5¼ to 5½	5 to 5½	5¼ to 5¾	¾	½

¹ The forecast is consistent with the income, output and expenditure data for the fourth quarter of 2007, released by the Office for National Statistics on 27 February 2008.

² All growth rates in tables throughout this document are rounded to the nearest ¼ percentage point.

³ As in previous Budget and Pre-Budget Reports, the economic forecast is presented in terms of forecast ranges, based on alternative assumptions about the supply-side performance of the economy. The mid-points of the forecast ranges are anchored around the neutral assumption for the trend rate of output growth of 2¾ per cent. The figures at the lower end of the ranges are consistent with the deliberately cautious assumption of trend growth used as the basis for projecting the public finances, which is ¼ percentage point below the neutral assumption.

⁴ The size of the growth ranges for GDP components may differ from those for total GDP growth because of rounding and the assumed invariance of the levels of public spending within the forecast ranges.

⁵ Average absolute errors for current year and year-ahead projections made in spring forecasts over the past 10 years. The average errors for the current account are calculated as a percent of GDP, with £ billion figures calculated by scaling the errors by forecast money GDP in 2008.

⁶ Further detail on the expenditure components of GDP is given in Table 12.

⁷ Includes households and non-profit institutions serving households.

⁸ Contribution to GDP growth, percentage points.

⁹ Figures up to and including 2007 are distorted by estimates of MTIC-related activity. Growth rates excluding MTIC are shown in subsequent lines of this table and in Table 6.

¹⁰ Excluding excise duties.

Table 12: Gross domestic product and its components

£ billion, chained volume measures at market prices, seasonally adjusted										
	Household consumption ¹	General government consumption	Fixed investment	Change in inventories	Domestic demand ²	Exports of goods and services	Total final expenditure	Less imports of goods and services	Plus statistical discrepancy ³	GDP at market prices
2007	800.4	255.8	227.4	6.5	1290.6	339.8	1630.4	382.9	0.3	1247.9
2008	811.1 to 813.6	261.8	231.5 to 232.2	5.8 to 6.6	1310.3 to 1314.3	350.9 to 352.0	1661.1 to 1666.2	390.7 to 391.9	0.2	1270.6 to 1274.5
2009	828.1 to 834.7	267.0	237.6 to 239.5	4.3 to 6.5	1337.0 to 1347.6	368.2 to 371.1	1705.2 to 1718.7	405.4 to 408.6	0.2	1300.0 to 1310.4
2010	847.4 to 858.3	272.3	245.7 to 248.9	3.3 to 6.9	1368.8 to 1386.5	386.1 to 391.1	1755.0 to 1777.6	421.8 to 427.3	0.2	1333.3 to 1350.5
2007 1st half	397.4	127.4	113.2	0.6	639.0	168.8	807.9	188.6	0.2	619.5
2nd half	402.9	128.4	114.2	5.9	651.5	171.0	822.6	194.3	0.1	628.4
2008 1st half	404.3 to 405.1	130.1	115.2 to 115.4	4.1 to 4.4	653.8 to 655.0	173.4 to 173.7	827.3 to 828.8	194.5 to 194.9	0.1	632.8 to 634.0
2nd half	406.8 to 408.5	131.7	116.3 to 116.8	1.7 to 2.2	656.4 to 659.2	177.4 to 178.2	833.9 to 837.4	196.2 to 197.0	0.1	637.8 to 640.5
2009 1st half	411.3 to 414.1	132.9	117.9 to 118.7	2.1 to 3.0	664.2 to 668.7	181.8 to 183.0	846.0 to 851.7	200.2 to 201.6	0.1	645.9 to 650.2
2nd half	416.7 to 420.6	134.1	119.8 to 120.8	2.2 to 3.5	672.8 to 679.0	186.4 to 188.1	859.2 to 867.0	205.1 to 207.0	0.1	654.1 to 660.1
2010 1st half	421.6 to 426.5	135.4	121.8 to 123.2	1.7 to 3.3	680.6 to 688.5	190.9 to 193.1	871.4 to 881.5	209.1 to 211.5	0.1	662.5 to 670.2
2nd half	425.8 to 431.8	136.9	124.0 to 125.7	1.6 to 3.5	688.3 to 698.0	195.3 to 198.0	883.6 to 896.0	212.8 to 215.8	0.1	670.9 to 680.3
Percentage changes on previous year ^{4,5}										
2007	3¼	2	5	½	3¼	-5½	1½	-3¼	0	3
2008	1¼ to 1¾	2¼	1¾ to 2¼	0	1½ to 1¾	3¼ to 3½	2 to 2¼	2 to 2¼	0	1¼ to 2¼
2009	2 to 2½	2	2¾ to 3¼	0	2 to 2½	5 to 5½	2¾ to 3¼	3¾ to 4¼	0	2¼ to 2¾
2010	2¼ to 2¾	2	3½ to 4	0	2½ to 3	5 to 5½	3 to 3½	4 to 4½	0	2¼ to 3

¹ Includes households and non-profit institutions serving households.

² Also includes acquisitions less disposals of valuables.

³ Expenditure adjustment.

⁴ For change in inventories and the statistical discrepancy, changes are expressed as a percent of GDP.

⁵ Growth ranges for GDP components do not necessarily sum to the ½ percentage point ranges for GDP growth because of rounding and the assumed invariance of the levels of public spending within the forecast ranges.

THE WORLD ECONOMY

Table 13: The world economy

	Percentage change on a year earlier, unless otherwise stated				
	2006	2007	Forecast		
			2008	2009	2010
World GDP ¹	4¾	4¾	4	4¼	4½
Major 7 countries ² :					
Real GDP	2¾	2¼	1½	2	2½
Consumer price inflation ³	1½	3	2	2½	2¼
Euro area GDP	2¾	2½	1¾	2	2¼
World trade in goods and services	9½	7½	7	7¼	7¾
UK export markets ⁴	8½	6¾	5¾	6¼	6¾

¹ For the Budget 2008 forecast, historical world GDP growth estimates have been revised due to the application of new weights to calculate the Treasury's world growth aggregate. This reflects improvements to World Bank estimates of Purchasing Power Parity exchange rates (PPPs) that are used to weight growth in different regions. The revised PPPs give a lower weight to fast-growing emerging economies and a higher weight to slower-growing advanced economies. The effect of these revisions was to lower estimated world GDP growth in 2006 by about ½ a percentage point compared with the estimate reported in the 2007 Pre-Budget Report.

² G7: US, Japan, Germany, UK, France, Italy and Canada.

³ Per cent, Q4.

⁴ Other countries' imports of goods and services weighted according to the importance of imports from the UK in those countries' total imports.

Table 14: Consensus forecasts for GDP growth in major economies¹

	Percentage change on a year earlier			
	Oct-07		Feb-08	
	2007	2008	2008	2009
USA	2.4	3.0	1.6	2.6
Euro-area	2.3	2.1	1.6	1.9
Japan	2.1	2.2	1.4	1.9

¹ 'Consensus forecasts', Consensus Economics Inc.

Chart 24: G7 GDP and world trade

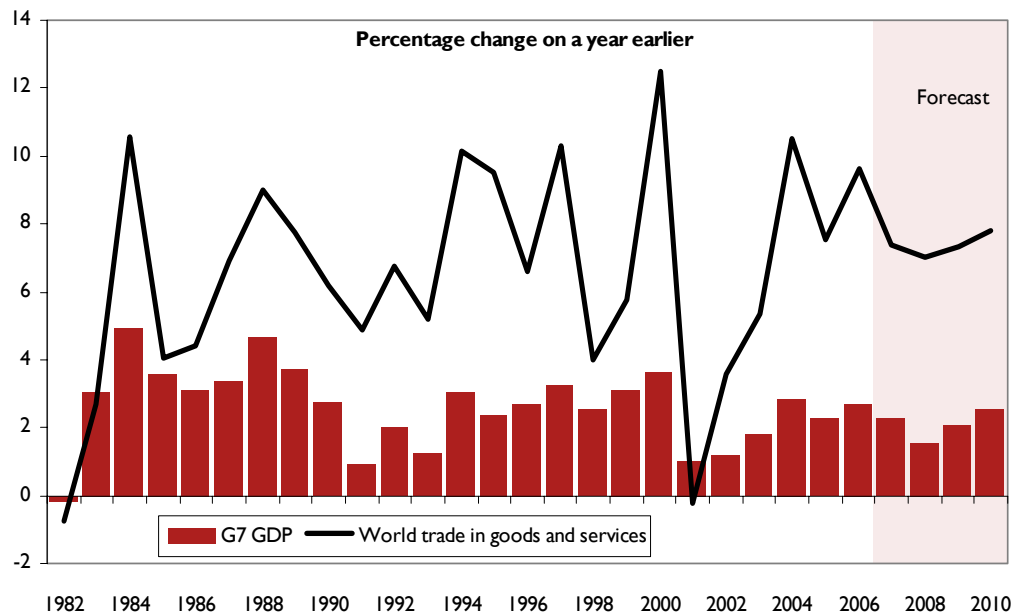
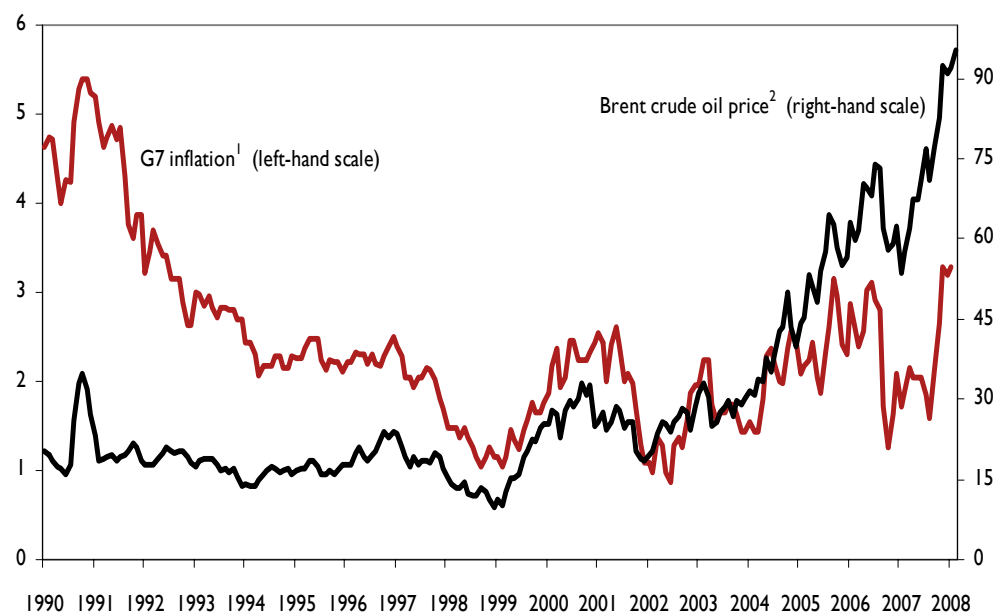


Chart 25: G7 inflation and oil prices



¹ Consumer price index, percentage change on a year earlier, weighted by GDP at market exchange rates

² US dollar per barrel

2

THE PUBLIC FINANCES

The Financial Statement and Budget Report (FSBR), published by HM Treasury on 12 March 2008, includes a discussion of fiscal developments and prospects (Chapter C). The present document contains additional information to Chapter C, in the form of more detailed charts and tables, along with a detailed description of the conventions used in presenting the public finances. The charts and tables are consistent with data in the January 2008 *Public sector finances First Release*, released jointly by the Office for National Statistics (ONS) and HM Treasury on 20 February 2008.

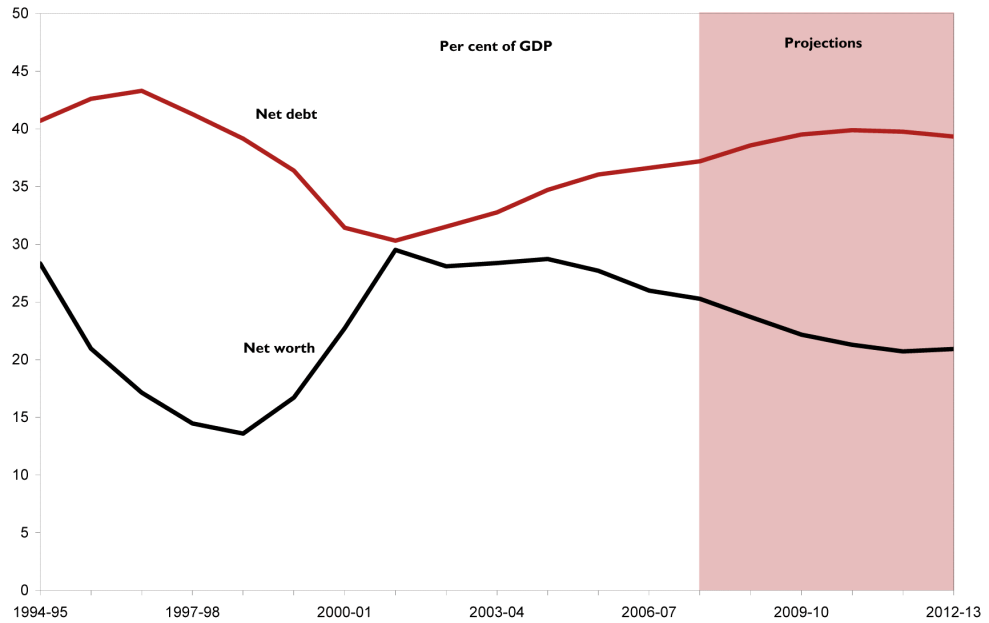
INTRODUCTION

2.1 Budget 2008 updates the projections of the public finances contained in the 2007 Pre-Budget Report and Comprehensive Spending Review, to take account of subsequent developments in both the public finances and the world and UK economies.

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

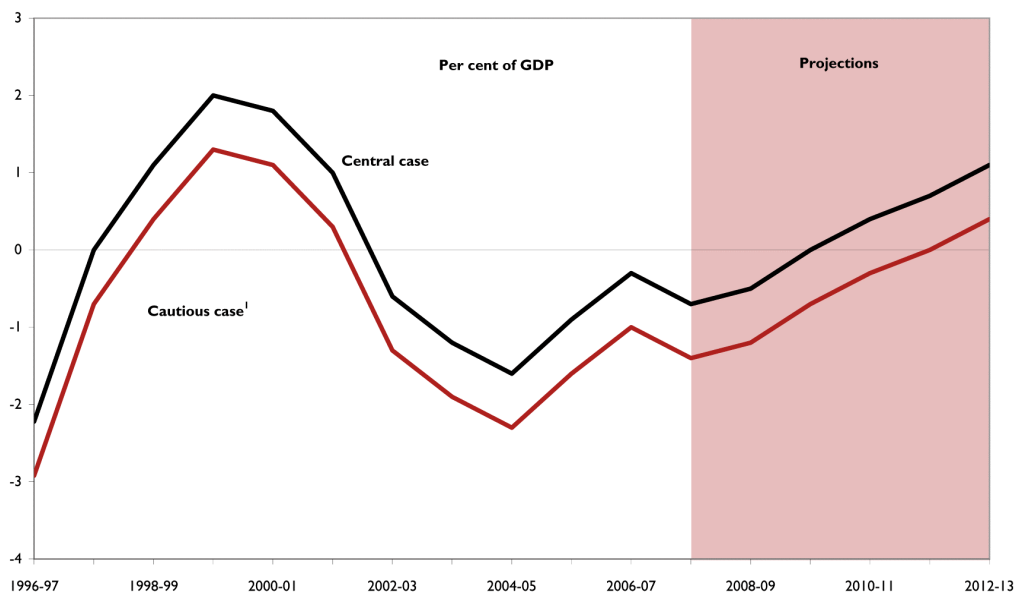
MEETING THE FISCAL RULES

Chart 26: Public sector net debt and net worth



Current projection for the cautious case

Chart 27: Cyclically adjusted surplus on current budget



¹ Cautious case assumes trend output 1 percentage point lower in relation to actual output than in the central case

SUPPLEMENTARY DEL AND AME ANALYSIS

Table 15: Accounting adjustments¹

	£ billion				
	Outturn	Estimate	Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
Resource accounting adjustments					
VAT refunds	9.4	9.8	10.7	11.5	12.4
Central government capital consumption	5.9	6.2	6.6	7.1	7.5
Non-cash items not in TME	-18.6	-23.2	-20.7	-22.1	-23.8
Expenditure financed by revenue receipts	0.5	0.5	0.6	0.6	0.6
Resource items treated as capital in national accounts	-0.8	-1.1	-1.2	-1.3	-1.2
Capital budget items treated as current in national accounts	6.5	6.5	6.5	6.6	7.1
Local authorities	5.9	8.4	8.4	9.1	9.8
General government consolidation	-5.0	-5.2	-5.3	-5.9	-6.1
Public corporations	0.7	0.6	0.3	-0.1	-0.1
Financial transactions	0.0	-0.2	-0.2	-0.1	-0.1
Other accounting adjustments	-0.4	-0.5	-0.7	-0.3	-0.2
Total resource accounting adjustments	4.1	1.9	5.1	5.0	6.0
Capital accounting adjustments					
VAT refunds	1.7	1.8	1.9	2.0	2.1
Resource items treated as capital in national accounts	0.8	1.1	1.2	1.3	1.2
Capital budget items treated as current in national accounts	-6.5	-6.5	-6.5	-6.6	-7.1
Local authorities	-3.6	-3.5	-3.6	-3.7	-4.0
Financial transactions	-0.7	-0.2	-0.9	-1.1	-1.2
Other accounting adjustments	1.4	0.2	0.3	0.1	-0.1
Total capital accounting adjustments	-6.8	-7.1	-7.6	-7.9	-9.1

¹ This table is the break down of accounting adjustments found in Table C9 of Budget 2008.

Table 16: Public sector capital expenditure

	£ billion				
	Outturn	Estimate	Projection		
	2006-07	2007-08	2008-09	2009-10	2010-11
Capital Budget DEL	38.9	43.9	48.1	50.7	55.3
Locally-financed expenditure	4.7	4.2	4.6	4.0	3.4
National Lottery	0.7	0.8	0.6	0.9	0.8
Public corporations' own-financed capital expenditure	5.4	4.7	5.2	5.6	5.7
Other capital spending in AME	-0.2	-0.3	0.6	0.8	1.1
AME margin	0.0	0.0	0.1	0.2	0.3
Accounting adjustments	-6.8	-7.1	-7.6	-7.9	-9.1
Public sector gross investment¹	42.7	46.2	51.5	54.3	57.4
Less depreciation	16.9	17.7	18.6	19.6	20.7
Public sector net investment	25.8	28.5	32.9	34.7	36.7
Proceeds from the sale of fixed assets ²	5.8	6.3	5.3	5.1	4.8

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

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

Table 17: Loans and sales of assets

	£ billion				
	Outturn	Estimate	Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
Sales of fixed assets					
Sale of Chelsea Barracks ¹	0.0	1.0	0.0	0.0	0.0
Central government	1.6	1.2	1.4	1.2	1.0
Local authorities	2.1	2.2	2.1	2.1	2.1
Housing Revenue Account ²	2.1	1.9	1.8	1.7	1.7
Total sales of fixed assets	5.8	6.3	5.3	5.1	4.8
Loans and sales of financial assets³					
Sale of student loans portfolio ⁴	0.0	0.0	3.4	1.3	1.6
Sale of shares in British Energy	0.0	2.3	0.0	0.0	0.0
Other loans and sales of financial assets	-5.7	-4.5	-5.2	-5.1	-5.0
Total loans and sales of financial assets	-5.7	-2.1	-1.8	-3.7	-3.3
Total loans and sales of assets	0.1	4.1	3.5	1.3	1.5

¹ Sale completed January 2008, but cash receipts are phased with final payment due in January 2011.

² Capital transactions by local authorities' Housing Revenue Accounts are no longer classified to the local authority sub-sector and so are shown separately.

³ As this table only covers general government it does not include the \$5.4 billion (£3.0 billion) sale by British Nuclear Fuels Limited (BNFL) of Westinghouse finalised in October 2006. However it does include the transfer of most of the proceeds to central government by special dividends (£1.8 billion in 2006-07 and £0.3 billion in 2007-08). The repayment of a £0.5 billion BNFL debenture in 2006-07 counted within on-lending to PCs. The remaining proceeds are expected to be transferred in 2008-09.

⁴ The programme of sales will resume in 2008-09. The profile of actual sale proceeds will be dependent on market conditions.

PRIVATE FINANCE INITIATIVE

Table 18: Departmental estimate of capital spending by the private sector (signed deals)^{1,2,3}

	£ million	
	Projections	
	2007-08	2008-09
Defence	642	338
Business, Enterprise and Regulatory Reform	4	0
Children, Schools and Families	592	294
Communities and Local Government	234	280
Culture, Media and Sport	22	36
Environment, Food and Rural Affairs	230	193
Health	1,202	1,345
Home Office	28	13
Ministry of Justice	42	0
Northern Ireland	171	118
Scotland	899	820
Transport	1,116	961
Wales	30	13
Work and Pensions	55	55
Total	5,267	4,466

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 government department.

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

Table 19: Estimated aggregated capital value of projects reaching preferred bidder stage^{1,2}

	£ million	
	Projections	
	2007-08	2008-09
Children, Schools and Families	661	606
Communities and Local Government	299	870
Culture, Media and Sport	0	153
Defence	0	0
Environment, Food and Rural Affairs	329	456
Health	344	2,361
Home Office	55	0
Ministry of Justice	0	196
Northern Ireland	267	480
Scotland	443	474
Transport	2,614	1,696
Total	5,011	7,293

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 20: Estimated payments under PFI contracts - January 2008 (signed deals)¹

	£ million		
	Projections		
2007-08	7,015	2020-21	7,019
2008-09	7,725	2021-22	6,731
2009-10	8,520	2022-23	6,778
2010-11	8,970	2023-24	6,758
2011-12	9,174	2024-25	6,708
2012-13	9,126	2025-26	6,551
2013-14	9,224	2026-27	6,287
2014-15	9,273	2027-28	6,146
2015-16	9,390	2028-29	5,894
2016-17	9,492	2029-30	5,634
2017-18	8,885	2030-31	5,084
2018-19	7,033	2031-32	4,425
2019-20	7,124	2032-33	4,062

¹ The figures between 2007-08 and 2017-18 include estimated payments for the LUL PPP PFI contract. These contracts contain periodic reviews every 7.5 years and therefore the service payments are not fixed after 2009-10.

ANALYSIS BY SUB-SECTOR AND ECONOMIC CATEGORY

Table 21: General government transactions by economic category

	£ billion				
	Outturn	Estimate	Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
Current receipts					
Taxes on income and wealth	194.4	207.3	217.5	229.8	247.6
Taxes on production and imports	170.0	176.7	184.5	195.7	206.6
Other current taxes	30.3	32.2	33.9	36.1	38.1
Taxes on capital	3.6	3.9	3.2	3.1	3.1
Compulsory social contributions	91.0	96.7	102.6	108.7	115.1
Gross operating surplus	12.4	13.0	13.8	14.6	15.5
Rent and other current transfers	1.9	1.9	2.0	2.0	2.2
Interest and dividends from private sector and abroad	5.5	7.2	6.0	5.9	6.2
Interest and dividends from public sector	1.6	1.2	1.7	2.0	2.0
Total current receipts	510.6	540.0	565.2	597.8	636.4
Current expenditure					
Current expenditure on goods and services	287.4	305.9	320.0	334.5	349.7
Subsidies	8.8	9.2	9.5	9.3	9.4
Net social benefits	148.3	156.8	166.5	174.8	181.6
Net current grants abroad	0.0	-0.1	-0.9	-1.6	-0.9
Other current grants	34.1	37.2	39.2	42.6	45.4
Interest and dividends paid	28.1	30.7	30.9	31.0	34.6
AME margin	0.0	0.0	0.9	1.8	2.7
Total current expenditure	506.5	539.7	566.1	592.4	622.5
Depreciation	12.4	13.0	13.8	14.6	15.5
Surplus on current budget	-8.2	-12.6	-14.7	-9.1	-1.6
Capital expenditure					
Gross domestic fixed capital formation	23.0	25.8	28.9	30.4	33.1
Less depreciation	-12.4	-13.0	-13.8	-14.6	-15.5
Increase in inventories	0.0	0.0	0.0	0.0	0.0
Capital grants (net) within public sector	1.5	0.8	0.4	0.5	0.5
Capital grants to private sector	15.1	15.0	17.6	18.6	18.7
Capital grants from private sector	-1.4	-1.3	-1.4	-1.4	-1.1
AME margin	0.0	0.0	0.1	0.2	0.3
Net investment	26.0	27.4	31.9	33.7	35.9
Net borrowing¹	34.2	40.0	46.6	42.8	37.5
<i>of which:</i>					
Central government net borrowing	31.9	38.3	43.7	40.6	36.5
Local authority net borrowing	2.3	1.7	2.8	2.2	1.0
Gross debt (Maastricht basis)					
Central government	511.7	554.3	618.3	668.5	714.4
Local government	62.7	61.6	60.7	59.3	56.8

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

	£ billion			
	2006-07			
	General government		Public corporations	Public sector
Central government	Local authorities			
Current receipts				
Taxes on income and wealth	194.4	0.0	-0.3	194.1
Taxes on production and imports	169.8	0.2	0.0	170.0
Other current taxes	8.9	21.4	0.0	30.3
Taxes on capital	3.6	0.0	0.0	3.6
Compulsory social contributions	91.0	0.0	0.0	91.0
Gross operating surplus	5.9	6.5	10.1	22.5
Rent and other current transfers	1.8	0.0	0.0	1.9
Interest and dividends from private sector and abroad	4.2	1.3	0.8	6.3
Interest and dividends from public sector	3.8	-2.2	-1.6	0.0
Total current receipts	483.5	27.2	9.0	519.7
Current expenditure				
Current expenditure on goods and services	174.6	112.8	0.0	287.4
Subsidies	5.4	3.4	0.0	8.8
Net social benefits	132.2	16.1	0.0	148.3
Net current grants abroad	0.1	-0.2	0.0	0.0
Current grants (net) within public sector	109.1	-109.1	0.0	0.0
Other current grants	34.0	0.0	0.0	34.1
Interest and dividends paid	27.6	0.5	0.5	28.6
AME margin	0.0	0.0	0.0	0.0
Total current expenditure	482.9	23.6	0.5	507.0
Depreciation	5.9	6.5	4.6	16.9
Surplus on current budget	-5.3	-2.9	4.0	-4.3
Capital expenditure				
Gross domestic fixed capital formation	10.4	12.6	6.0	29.0
Less depreciation	-5.9	-6.5	-4.6	-16.9
Increase in inventories	0.0	0.0	0.0	0.0
Capital grants (net) within public sector	9.2	-7.6	-1.5	0.0
Capital grants to private sector	13.5	1.6	0.0	15.1
Capital grants from private sector	-0.6	-0.8	0.0	-1.4
AME margin	0.0	0.0	0.0	0.0
Net investment	26.6	-0.6	-0.1	25.8
Net borrowing	31.9	2.3	-4.1	30.1

Table 22: Public sector transactions by sub-sector and economic category

	£ billion			
	2007-08			
	General government		Public corporations	Public sector
Central government	Local authorities			
Current receipts				
Taxes on income and wealth	207.3	0.0	-0.2	207.1
Taxes on production and imports	176.5	0.2	0.0	176.7
Other current taxes	9.6	22.6	0.0	32.2
Taxes on capital	3.9	0.0	0.0	3.9
Compulsory social contributions	96.7	0.0	0.0	96.7
Gross operating surplus	6.2	6.8	10.5	23.5
Rent and other current transfers	1.9	0.0	0.0	1.9
Interest and dividends from private sector and abroad	5.6	1.5	0.8	7.9
Interest and dividends from public sector	3.9	-2.6	-1.2	0.0
Total current receipts	511.5	28.5	9.9	549.9
Current expenditure				
Current expenditure on goods and services	186.2	119.7	0.0	305.9
Subsidies	5.4	3.8	0.0	9.2
Net social benefits	139.9	16.8	0.0	156.8
Net current grants abroad	0.2	-0.2	0.0	-0.1
Current grants (net) within public sector	114.1	-114.1	0.0	0.0
Other current grants	37.1	0.0	0.0	37.2
Interest and dividends paid	29.9	0.8	0.5	31.2
AME margin	0.0	0.0	0.0	0.0
Total current expenditure	512.9	26.7	0.5	540.1
Depreciation	6.2	6.8	4.7	17.7
Surplus on current budget	-7.6	-5.0	4.7	-7.9
Capital expenditure				
Gross domestic fixed capital formation	12.0	13.8	6.6	32.4
Less depreciation	-6.2	-6.8	-4.7	-17.7
Increase in inventories	0.0	0.0	0.0	0.0
Capital grants (net) within public sector	12.2	-11.4	-0.8	0.0
Capital grants to private sector	13.1	1.9	0.0	15.0
Capital grants from private sector	-0.4	-0.9	0.0	-1.3
AME margin	0.0	0.0	0.0	0.0
Net investment	30.7	-3.3	1.1	28.5
Net borrowing	38.3	1.7	-3.6	36.4

Table 22: Public sector transactions by sub-sector and economic category

	£ billion			
	2008-09			
	General government		Public corporations	Public sector
Central government	Local authorities			
Current receipts				
Taxes on income and wealth	217.5	0.0	-0.2	217.3
Taxes on production and imports	184.3	0.2	0.0	184.5
Other current taxes	10.3	23.6	0.0	33.9
Taxes on capital	3.2	0.0	0.0	3.2
Compulsory social contributions	102.6	0.0	0.0	102.6
Gross operating surplus	6.6	7.1	10.9	24.6
Rent and other current transfers	2.0	0.0	0.0	2.0
Interest and dividends from private sector and abroad	4.8	1.2	1.0	7.0
Interest and dividends from public sector	4.1	-2.4	-1.7	0.0
Total current receipts	535.4	29.9	10.0	575.2
Current expenditure				
Current expenditure on goods and services	195.1	124.9	0.0	320.0
Subsidies	5.3	4.2	0.0	9.5
Net social benefits	148.9	17.6	0.0	166.5
Net current grants abroad	-0.7	-0.2	0.0	-0.9
Current grants (net) within public sector	119.7	-119.7	0.0	0.0
Other current grants	39.2	0.0	0.0	39.2
Interest and dividends paid	30.3	0.7	0.1	31.1
AME margin	0.9	0.0	0.0	0.9
Total current expenditure	538.7	27.5	0.1	566.2
Depreciation	6.6	7.1	4.8	18.6
Surplus on current budget	-9.9	-4.7	5.0	-9.6
Capital expenditure				
Gross domestic fixed capital formation	14.3	14.5	6.3	35.1
Less depreciation	-6.6	-7.1	-4.8	-18.6
Increase in inventories	0.0	0.0	0.0	0.0
Capital grants (net) within public sector	11.1	-10.7	-0.4	0.0
Capital grants to private sector	15.3	2.3	0.0	17.6
Capital grants from private sector	-0.4	-1.0	0.0	-1.4
AME margin	0.1	0.0	0.0	0.1
Net investment	33.8	-1.9	1.0	32.9
Net borrowing	43.7	2.8	-4.0	42.5

CONVENTIONS USED IN PRESENTING THE PUBLIC FINANCES

Format for the public finances

The June 1998 Economic and Fiscal Strategy Report (EFSR), set out a new format for presenting the public finances that corresponded more closely to the two fiscal rules. The three principal measures are:

- the surplus on current budget (relevant to the golden rule);
- public sector net borrowing; and
- the public sector net debt ratio (relevant to the sustainable investment rule).

These measures are based on the National Accounts and are consistent with the European System of Accounts 1995 (ESA95). Estimates and forecasts of the public sector net cash requirement (formerly called the public sector borrowing requirement) are still shown in the FFSR, but they are given less prominence.

The fiscal rules are similar to the criteria for deficits and debt laid down in the EU Treaty but there are important definitional differences:

- UK fiscal rules cover the whole public sector, whereas the Treaty deficit and debt only includes general (i.e. central and local) government;
- the fiscal rules apply over the whole economic cycle, not year to year;
- the current budget excludes capital spending, which is included in the Treaty deficit measure; and
- the UK debt measure is net of liquid assets, whereas the Treaty measure uses gross debt.

From February 2000 the Treaty deficit moved to being reported on an ESA95 basis.

National Accounts

2.3 The National Accounts record most transactions on an accruals basis, including most taxes. Corporation tax, self-assessment income tax and some other HMRC taxes are scored on a cash basis due to practical difficulties. The National Accounts also impute the value of some transactions where no money changes hands, for example, non-trading capital consumption.

2.4 Full details of the sources for each table in Budget 2008 are included in *Budget 2008: data sources*, available on the Treasury's internet site and on request from the Treasury's Public Enquiry Unit (020 7270 4558).

2.5 The outturn figures are based on series published in the monthly Public Sector Finance release, last published on 20 February 2008.

2.6 The principal measures drawn from the National Accounts are described below.

Fiscal aggregates

2.7 The current budget, formerly known as the current balance, measures the balance of current account revenue over current expenditure, including depreciation.

This definition of the current budget is very similar to the National Accounts concept of net saving. It differs only in that it includes taxes on capital (mainly inheritance tax) in current rather than capital receipts. The current budget is used to measure progress against the golden rule. The actual measure is the average surplus on the current budget expressed as a ratio to GDP over the economic cycle.

2.8 Public sector net borrowing, formerly known as the financial deficit in the UK National Accounts, is the balance between expenditure and income in the consolidated current and capital accounts. It differs from the public sector net cash requirement in that it is measured on an accruals basis and because certain fiscal transactions (notably net lending and net acquisition of other financial assets, which affect the level of borrowing but not the public sector's net financial indebtedness) are excluded from public sector net borrowing but included in the public sector net cash requirement.

2.9 Public sector net debt is approximately the stock analogue of the public sector net cash requirement. It measures the public sector's financial liabilities to the private sector and abroad, including liabilities for on-balance sheet finance leases, net of short-term financial assets such as bank deposits and foreign exchange reserves.

2.10 General government gross debt is the measure of debt used in the European Union's Excessive Deficit Procedure. As a general government measure, it excludes the debt of public corporations. It measures general government's total financial liabilities before netting off short-term financial assets.

2.11 Public sector net worth represents the public sector's overall net balance sheet position. It is equal to the sum of the public sector's financial and non-financial assets less its total financial liabilities. The estimates of tangible assets are subject to wide margins of error, because they depend on broad assumptions, for example about asset lives, which may not be appropriate in all cases. The introduction of resource accounting for central government departments will lead in time to an improvement in data quality, as audited information compiled from detailed asset registers becomes available.

Public sector receipts

2.12 Net taxes and national insurance contributions (NTNIC) is a measure of net cash payments made to the UK government and differs in several respects from the National Accounts measure of total public sector current receipts (PSCR). A reconciliation between the two aggregates is given in the lower half of Table C6 of Budget 2008. The main adjustments are:

- accruals adjustments, mainly on income tax, national insurance contributions and VAT, are added to change the basis of figures from cash to National Accounts accruals;
- payments of customs duties and agricultural and sugar levies that are collected by the government, but then paid to the EU, are subtracted as they do not score as government receipts in the National Accounts. These receipts make up the traditional own resources element of net payments to the EU;
- tax paid by public corporations is also subtracted, as it has no impact on overall public sector receipts;

- an adjustment is made for tax credits. In NTNIC, all tax credits are scored as negative tax to the extent that they are less than or equal to the tax liability of the household, and as public expenditure where they exceed the liability, in line with OECD Revenue Statistics guidelines. Although the ONS has adopted this treatment for the Working Tax Credit and Child Tax Credit, they have continued to treat enhanced and payable company tax credits entirely as public expenditure in the National Accounts. Those parts of tax credits that offset tax liability in NTNIC are added back into current receipts in Table C6 of Budget 2008;
- a similar adjustment is made for TV licences, which the ONS treat as tax receipts in the National Accounts. They score as non-tax receipts in NTNIC, in line with OECD Revenue Statistics guidelines;
- interest and other non-tax receipts, which are excluded from NTNIC, are added. This excludes oil royalties, as they are already included in NTNIC, even though the National Accounts treat them as non-tax receipts; and
- business rates paid by local authorities are included in the calculation of NTNIC but not PSCR. These are therefore deducted from NTNIC before this series enters the PSCR calculation.

Total managed expenditure

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

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

2.15 Public sector capital expenditure is shown in Table 16. It includes:

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

2.16 Public sector net investment, in Table C1 of Budget 2008, nets off depreciation of the public sector's stock of fixed assets.

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

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

2.19 DELs are firm three-year spending limits for departments. In general DELs will cover all running costs and all programme expenditure except spending that is included

in departmental AME. DEL has distinct resource and capital budgets, as shown in Table C11 of Budget 2008.

2.20 AME is spending that cannot be reasonably subject to firm multi-year limits. AME components are shown in Table C9 of Budget 2008 and are defined as follows.

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

2.22 Tax credits for individuals scored as expenditure includes spending on the Working Tax Credit and the Child Tax Credit that is classified as public expenditure under National Accounts definitions.

2.23 Net public service pensions expenditure is reported on a National Accounts basis and represents the difference between the cash paid out during the year and any contributions received for the main unfunded public service pension schemes.

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

2.25 BBC domestic services includes the current and capital spending of the BBC home broadcasting service i.e. the BBC excluding the World Service and its commercial subsidiaries.

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

2.27 Net expenditure transfers to EU institutions include the AME spending component of the UK's contribution to the EU, comprising the Gross National Income (GNI) based contribution less the UK abatement. The other components of UK net payments to EU institutions are either included in DEL, or in public sector current receipts via the VAT based contribution. Some contributions, such as common agricultural policy expenditure and receipts, have no impact on public sector fiscal aggregates as they score as direct transactions between the EU and farmers in National Accounts.

2.28 Locally financed expenditure consists of local authority self-financed expenditure (LASFE) and Scottish spending financed by local taxation (non-domestic rates and, if and when levied, the Scottish variable rate of income tax). LASFE is the difference between total local authority expenditure, including most gross debt but net of capital receipts, and central government support to local authorities i.e. Aggregate External Finance (AEF), specific grants and credit approvals.

2.29 Central government debt interest is shown gross, and only interest paid within the public sector is netted off. All other receipts of interest and dividends are included in current receipts. Interest payments also include the uplift on the capital value of index-linked gilts accrued each month of the gilt's life and an allowance (amortisation) over the life of a gilt not issued at par.

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

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

Accounting adjustments

2.32 The accounting adjustments reconcile the DEL and AME framework of departmental budgets to the national accounts measure of TME, and are shown in Table 15.

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

2.34 *Central government non-trading capital consumption* (i.e. depreciation) as measured by the ONS for the National Accounts is added.

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

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

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

2.38 *General government consolidation* adjusts for the fact that payments of certain taxes, grants and interest that are within the public sector do not score in TME, as TME is a consolidated public sector concept. This includes the cost of over-75 TV licences in AME social security, as these represent payments within central government, from DWP to BBC.

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

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

2.41 *Other accounting adjustments* deducts depreciation and impairments in AME. An adjustment is also made to reconcile to actual and expected National Accounts outturn. Difference can arise, for example, because of difficulties in the timing of data.

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