

The Budget 2007 projections for the public finances 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 2006-07 of 0.1 per cent of GDP, showing the Government is meeting the golden rule on the basis of cautious assumptions. Beyond the end of the current economic cycle the current budget moves clearly into surplus; and
- public sector net debt is projected to be low and stable over the projection period, stabilising at under 39 per cent of GDP, below the 40 per cent ceiling set by the sustainable investment rule.

INTRODUCTION

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

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

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

MEETING THE FISCAL RULES

C.3 Table C1 shows five-year projections for the current budget and public sector net debt, the key aggregates for assessing performance against the golden rule and the sustainable investment rule. Outturns and projections of other important measures of the public finances, including net borrowing and cyclically-adjusted fiscal balances, are also shown.

C.4 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 is expected to have returned to trend in early 2007.

Table CI: Summary of public sector finances

	Per cent of GDP							
	Outturn		Estimate	Projections				
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Fairness and prudence								
Surplus on current budget	-1.6	-1.2	-0.7	-0.3	0.2	0.4	0.6	0.8
Average surplus since 1997-1998	0.3	0.2	0.1	0.0	0.1	0.1	0.1	0.2
Cyclically-adjusted surplus on current budget	-1.5	-1.0	-0.5	-0.3	0.2	0.4	0.6	0.8
Long-term sustainability								
Public sector net debt ¹	35.0	36.5	37.2	38.2	38.5	38.8	38.8	38.6
Core debt ¹	34.5	35.8	36.4	37.4	37.7	38.0	38.1	38.0
Net worth ²	28.8	27.0	25.7	24.9	24.9	24.5	24.4	24.4
Primary balance	-1.7	-1.4	-1.0	-0.8	-0.5	-0.3	0.0	0.2
Economic impact								
Net investment	1.7	1.8	2.0	2.1	2.2	2.2	2.2	2.2
Public sector net borrowing (PSNB)	3.3	3.0	2.7	2.4	2.0	1.8	1.6	1.4
Cyclically-adjusted PSNB	3.2	2.8	2.5	2.4	2.0	1.8	1.6	1.4
Financing								
Central government net cash requirement	3.2	3.3	2.8	2.7	2.0	2.2	1.8	1.8
Public sector net cash requirement	3.2	3.2	2.6	2.6	1.9	2.1	1.6	1.7
European commitments								
Treaty deficit ³	3.2	2.9	2.8	2.5	2.1	1.9	1.7	1.5
Cyclically-adjusted Treaty deficit ³	3.1	2.7	2.6	2.5	2.1	1.9	1.7	1.5
Treaty debt ratio ⁴	40.5	42.7	43.5	44.3	44.4	44.5	44.4	44.1
Memo: Output gap	0.0	-0.5	-0.2	0.0	0.0	0.0	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.

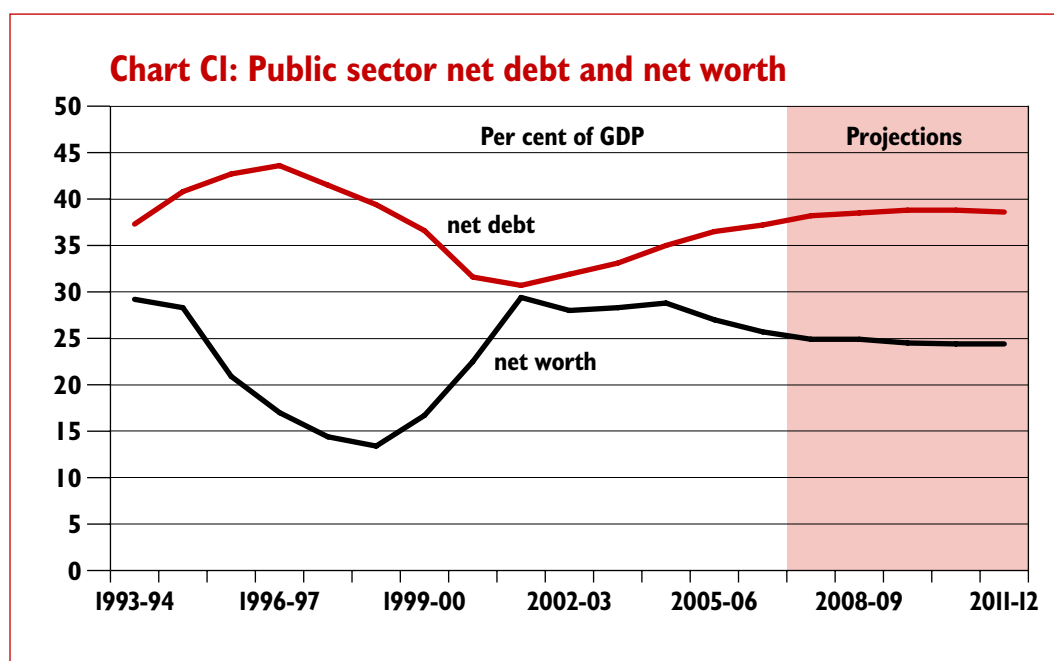
The golden rule C.5 The projections show that the Government is meeting the golden rule, on the basis of cautious assumptions, with an average annual surplus on the current budget over this economic cycle of 0.1 per cent of GDP. On this basis, and based on cautious assumptions, the Government is meeting the golden rule and there is a margin against the golden rule of £11 billion in this cycle.

C.6 Based on cautious assumptions, the Government will continue to meet the golden rule after the end of this economic cycle with the current budget returning to surplus by 2008-09.

The sustainable investment rule C.7 The sustainable investment rule is also forecast to be met over the current economic cycle. In 1996-97, public sector net debt stood at almost 44 per cent of GDP. The tough decisions on taxation and expenditure taken by the Government, including the decision to use the proceeds from the auction of spectrum licences to repay debt, reduced debt to about 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, rising from 37.2 per cent of GDP in 2006-07 to 38.8 per cent in 2010-11, before falling back to 38.6 per cent by 2011-12. The projections for core debt, which exclude the estimated impact of the economic cycle, remain below 38.8 per cent of GDP in 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 C.8 Net worth is the approximate stock counterpart of the current budget. Modest falls in net worth are expected for the remainder of the projection period from the high level of 28.8 per cent of GDP in 2004-05. At present, net worth is not used as a key indicator of the public finances, mainly due to the difficulties involved in accurately measuring many government assets and liabilities.

C.9 Chart C1 shows public sector net debt and net worth as a per cent of GDP from 1993-94 to 2011-12.



Net investment C.10 As a result of decisions taken in the 2004 Spending Review public sector net investment is projected to rise from 1¼ per cent of GDP in 2003-04 to 2¼ per cent from 2008-09 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 C.11 Public sector net borrowing has fallen in every year since 2004-05 and is expected to continue to fall in each year of the forecast period, from 3.0 per cent of GDP in 2005-06 to 2.7 per cent in 2006-07, and then to a level of 1.4 per cent of GDP by 2011-12.

Financing C.12 The central government net cash requirement was 3.3 per cent of GDP in 2005-06. It is projected to fall over the forecast period, reaching a level of 1.8 per cent of GDP by 2011-12.

European commitments C.13 Table C1 shows the Treaty measures of debt and deficit used for the purposes of the Excessive Deficit Procedure – Article 104 of the Treaty. The 2007 Budget projections meet the EU Treaty reference value for general government gross debt (60 per cent of GDP) by a considerable margin. The Treaty deficit is expected to be 2.8 per cent of GDP in 2006-07 and is forecast to fall further over the projection period. In addition, the cyclically adjusted level of general government net borrowing is 2.6 per cent of GDP in 2006-07 and falls throughout the projection period, reaching 1.5 per cent of GDP by 2011-12. The projections are therefore consistent with the Government's prudent interpretation of the Stability and Growth Pact.

CHANGES TO THE FISCAL BALANCES

C.14 Table C2 compares the latest estimates for the main fiscal balances with those in Budget 2006 and the 2006 Pre-Budget Report.

Table C2: Fiscal balances compared with Budget 2006 and the 2006 Pre-Budget Report

	Outturn ¹	Estimate ²	Projections				
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Surplus on current budget (£ billion)							
Budget 2006	-11.4	-7.1	1	7	10	12	
Effect of revisions and forecasting changes	-3.7	-1.0	-5	-5 1/2	-5	-4	
Effect of discretionary changes	0.0	0.2	2	2 1/2	2	2	
2006 Pre-Budget Report	-15.1	-7.9	-1	4	7	10	14
Effect of revisions and forecasting changes	0.1	-1.6	-2 1/2	-1 1/2	-1 1/2	-1 1/2	-2
Effect of discretionary changes	0.0	0.0	- 1/2	1/2	0	1/2	1/2
Budget 2007	-15.0	-9.5	-4	3	6	9	13
Net borrowing (£ billion)							
Budget 2006	37.1	35.8	30	25	24	23	
Changes to current budget	3.7	0.8	3	3	3	1 1/2	
Changes to net investment	-3.3	0.1	-1	- 1/2	-1	-1	
2006 Pre-Budget Report	37.5	36.8	31	27	26	24	22
Changes to current budget	-0.1	1.6	3	1 1/2	1 1/2	1	1 1/2
Changes to net investment	0.3	-3.4	- 1/2	1	1	0	0
Budget 2007	37.8	35.0	34	30	28	26	24
Cyclically-adjusted surplus on current budget (per cent of GDP)							
Budget 2006	-0.3	0.4	0.7	0.7	0.7	0.8	
2006 Pre-Budget Report	-1.0	-0.4	-0.1	0.3	0.5	0.6	0.8
Budget 2007	-1.0	-0.5	-0.3	0.2	0.4	0.6	0.8
Cyclically-adjusted net borrowing (per cent of GDP)							
Budget 2006	2.4	1.9	1.6	1.6	1.6	1.5	
2006 Pre-Budget Report	2.8	2.6	2.2	1.9	1.7	1.5	1.3
Budget 2007	2.8	2.5	2.4	2.0	1.8	1.6	1.4
Net debt (per cent of GDP)							
Budget 2006	36.4	37.5	38.1	38.3	38.4	38.4	
2006 Pre-Budget Report	36.4	37.5	38.2	38.6	38.7	38.7	38.5
Budget 2007	36.5	37.2	38.2	38.5	38.8	38.8	38.6

¹ The 2005-06 figures were estimates in Budget 2006.

² The 2006-07 figures were projections in Budget 2006.

Changes between Budget 2006 and the 2006 Pre-Budget Report **C.15** In the 2006 Pre-Budget Report, the current budget was revised due to a combination of expenditure and receipts effects. Expenditure was revised up in every year of the projection period. Receipts were revised up in 2006-07 and, mainly due to lower projections of North Sea receipts, down from 2007-08 onwards.

C.16 Overall, the current budget was revised from a deficit of £7.1 billion to a deficit of £7.9 billion in 2006-07. In 2007-08 the deficit was £1 billion compared with a surplus of £1 billion in the Budget 2006 projections. The current budget was projected to return to surplus in 2008-09.

C.17 Public sector net investment was revised down by £3.3 billion in 2005-06, was broadly unchanged in 2006-07, and was slightly lower for subsequent years. These reductions in projected net investment partially offset the reductions in the current budget, but overall net borrowing was revised up.

Changes between the 2006 Pre-Budget Report and Budget 2007

C.18 The estimated outturn for the current budget in 2006-07 is a deficit of £9.5 billion, compared with a deficit of £7.9 billion projected in the 2006 Pre-Budget Report. The current budget has been revised down by £3 billion compared to the 2006 Pre-Budget Report to a deficit of £4 billion in 2007-08. The downward revisions become smaller in later years, as the current budget returns towards previously projected levels.

C.19 The revisions to the current budget are due to a combination of expenditure and receipts effects. Expenditure is higher in 2007-08 and all subsequent years. Lower than expected North Sea revenues more than account for the shortfall in forecast receipts, before discretionary measures, relative to the 2006 Pre-Budget Report.

C.20 Net investment in 2006-07 has been revised from £28.9 billion at the 2006 Pre-Budget Report to £25.5 billion. This is partly due to departmental underspends against capital budgets and partly because of changes in the treatment of Nigerian debt changes in write-off.

C.21 Discretionary changes since the 2006 Pre-Budget Report include a major package of reforms to the corporate tax system, simplification of the income tax system including removing the starting rate of tax and cutting the basic rate, reforms to tax credits, restricting the tax relief available on empty commercial properties, and other policy decisions. They also include measures to tackle climate change, measures to tackle tax fraud and avoidance, and resetting the AME margin.

FORECAST DIFFERENCES AND RISKS

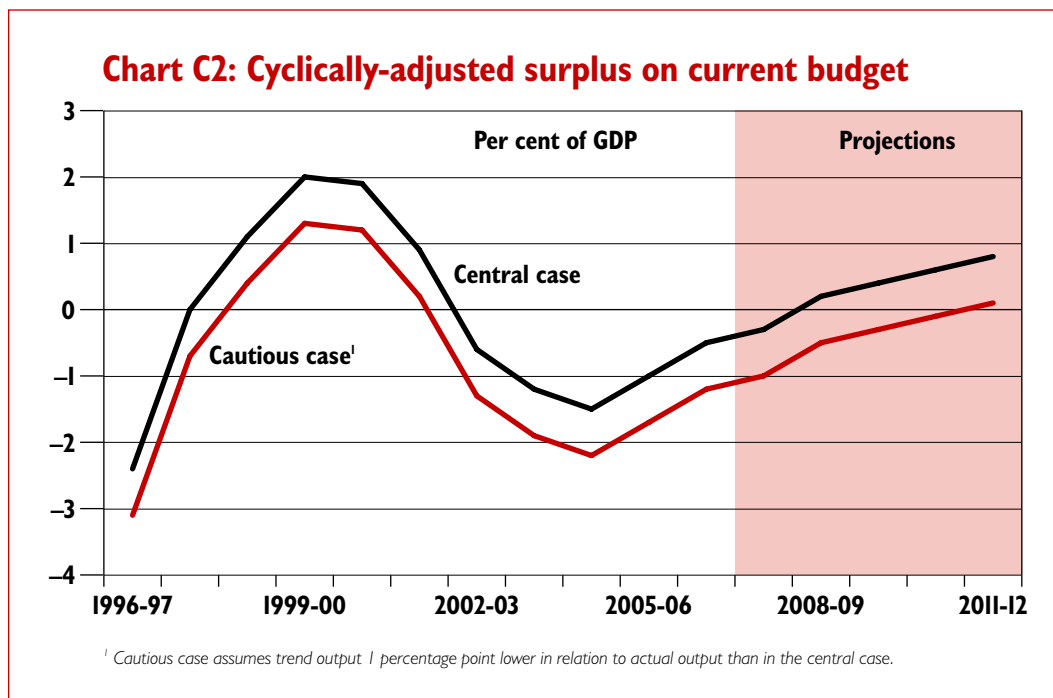
C.22 The fiscal balances represent the difference between two large aggregates of expenditure and receipts, and forecasts are inevitably subject to wide margins of uncertainty. Over the past ten years, the average absolute difference between year-ahead forecasts of net borrowing and subsequent outturns has been about 1 per cent of GDP. This difference tends to grow as the forecast horizon lengthens. A full account of differences between the projections made in Budget 2004 and Budget 2005, and the subsequent outturns is provided in the *End of year fiscal report*, published alongside the 2006 Pre-Budget Report.

C.23 As explained in Chapter B, the Budget 2007 economic forecast is little changed from the 2006 Pre-Budget Report. UK GDP is expected to grow by $2\frac{3}{4}$ to $3\frac{1}{4}$ per cent in 2007. Growth is expected to remain close to trend at $2\frac{1}{2}$ to 3 per cent a year to the end of the projection period. The rebalancing of domestic demand already evident during 2006 is expected to continue to a somewhat greater degree than was envisaged in the 2006 Pre-Budget Report forecast. Private consumption growth is expected to moderate as recent interest rate rises feed through to disposable income growth and households' desire to save, while business investment growth, which has surprised on the upside recently, is expected to carry some of its recent momentum into 2007.

C.24 Risks to the Budget 2007 economic forecast appear balanced, given broadly offsetting developments since the 2006 Pre-Budget Report. Risks to the consumption forecast are balanced between the upside risk from recent momentum and the downside risk that developments in interest rates and saving intentions will have a larger than expected impact on consumer spending. In terms of business investment, to the extent that internal and external financing conditions remain supportive, and firms' margins recover as input cost pressures ease, there is scope for growth to exceed expectations. With inflation expected to

remain above target during the first half of 2007, a risk remains that higher rates of actual inflation could feed through to inflation expectations and earnings growth, although the available evidence suggests there has been no discernable impact on earnings growth thus far.

C.25 A further important source of potential error results from misjudging the position of the economy in relation to trend output. To minimise this risk, the robustness of the projections is tested against an alternative scenario in which the level of trend output is assumed to be one percentage point lower than in the central case. Chart C2 illustrates the Budget projection for this cautious case.



ASSUMPTIONS

C.26 The fiscal projections are based on the following assumptions:

- the economy follows the path described in Chapter B. The fiscal projections assume that trend growth will be 2½ per cent to 2011-12. In the interests of caution, these projections continue to be based on the assumption that trend output growth will be ¼ percentage point lower than the Government's neutral view;
- there are no tax or spending policy changes beyond those announced in or before this Budget, and the indexation of rates and allowances. Consistent with the *Code for fiscal stability*, the forecast does not take account of measures proposed in this Budget for consultation or other proposals where final decisions have yet to be taken;
- firm Departmental Expenditure Limits (DELs) are as set out in the 2004 Spending Review to 2007-08, adjusted for the impact of policy decisions and reclassifications;
- total Annually Managed Expenditure (AME) programmes to 2007-08 have been reviewed in this Budget.

- although DEL and AME totals for 2008-09 onwards have not yet been determined, Budget 2007 sets firm overall spending limits for the 2007 Comprehensive Spending Review (CSR 07) period. Taking account of time-limited items announced in this Budget, public sector current expenditure is forecast to grow at 2.0 per cent in real terms in 2008-09, and by 1.9 per cent in 2009-10 and 2010-11, unchanged from the 2006 Pre-Budget Report. This means that, on average, public sector current expenditure is forecast to grow by 2¼ per cent per year in real terms between 2006-07 and the end of the CSR 07 period. Public sector current expenditure is assumed to grow by 2.0 per cent in real terms in 2011-12;
- the capital expenditure envelope for the CSR 07 period is fixed, based on public sector net investment at 2¼ per cent of GDP over the period, unchanged from the 2006 Pre-Budget Report. Net investment remains at 2¼ per cent of GDP in the spending projection for 2011-12; and
- as a result of these decisions on the firm overall limits for current and capital expenditure in the CSR 07 period, Total Managed Expenditure (TME) grows by 2.0 per cent a year on average over the CSR. In each year of the CSR 07 period, TME as a per cent of GDP is broadly unchanged from the 2006 Pre-Budget Report.

Table C3: Economic assumptions for the public finance projections

	Percentage changes on previous year						
	Outturn	Estimate	Projections				
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Output (GDP)	2	3	2 3/4	2 1/2	2 1/2	2 1/2	2 1/2
Prices							
CPI	2	2 1/2	2	2	2	2	2
GDP deflator	2	2 1/2	2 3/4	2 3/4	2 3/4	2 3/4	2 3/4
RPI ¹ (September)	2 3/4	3 1/2	3 1/2	2 3/4	2 3/4	2 3/4	2 3/4
Rossi ² (September)	2	3	2 1/4	2 1/2	2 1/2	2 1/2	2 1/4
Money GDP ³ (£ billion)	1,240	1,306	1,378	1,450	1,525	1,604	1,687

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

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

³ Not seasonally adjusted.

C.27 The estimates for 2006-07 are based on all available data within the Treasury and other government departments involved in producing tax and spending forecasts.

The audited assumptions **C.28** The key assumptions underlying the fiscal projections are audited by the National Audit Office (NAO) under the three-year rolling review process. Details of the audited assumptions are given in Box C1.

C.29 Consistent with the *Code for fiscal stability*, the projections do not take account of decisions where the impact cannot yet be quantified, of measures proposed in this Budget, or where final decisions have yet to be taken. These include:

- further extensions to maternity and paternity leave; and
- further reforms to incapacity benefit.

C.30 The Comptroller and Auditor General has audited the assumptions for forecasting VAT revenues. He concluded that the use of the VAT gap assumption had resulted in forecasts that were cautious in three of the four years of the rolling review period since Budget 2003, and cautious over the period as a whole. The Comptroller and Auditor General was not able to draw a conclusion on the reasonableness of the allowance made in the VAT forecast for the impact of the 2002 VAT Compliance Strategy due to difficulties in identifying the separate contributions of the underlying trend in the VAT gap, the Compliance Strategy, and the impact of legislative measures on VAT receipts.

C.31 The Treasury has adopted a new assumption in Budget 2007 for forecasting VAT receipts, set out in Box C1. HMRC now considers the measures in the original VAT Compliance Strategy to have reached a broadly steady state. Although HMRC is continuing to strengthen its VAT compliance activities, it no longer proposes to make a specific downward adjustment to the VAT gap for compliance related activities in the Budget 2007 assumption.

C.32 The new assumption is based on the 'underlying' VAT gap, which builds in adjustments, where applicable, to take account of the impact of large one-off VAT payments and repayments that relate to past liabilities. This will allow for timing differences that in the past have contributed to volatility in the VAT gap and to errors in the forecast. The Comptroller and Auditor General has audited the revised assumption and concluded that it is a reasonable one for the purposes of forecasting future VAT revenues, and that it will be cautious to the extent that historical trends in the VAT gap are a good indicator of future trends.

C.33 In this Budget, the assumption for forecasting tobacco revenues, that the illicit market share is set at least at the latest published outturn level, has been audited by the Comptroller and Auditor General under the rolling review process for the period since Budget 2003. Due to the absence of firm data for the illicit market share for 2005-06 and 2006-07, it has not been possible to reach a conclusion for the rolling review period as a whole. The Comptroller and Auditor General has therefore reviewed the evidence for 2003-04 and 2004-05, concluding that the assumption has proved cautious in these years.

C.34 Following the agreed postponement of the rolling review process at Budget 2006, HMRC agreed to undertake a review of the process by which the illicit market share was calculated. This work concluded that the underlying data used was no longer robust enough to produce the point estimate of the illicit market share required for the audited assumption. An alternative forecasting methodology was proposed based on an assumption on duty paid clearances, adjusted for timing effects. The Comptroller and Auditor General has audited the revised assumption and concluded that it is a reasonable one, and though there are a number of uncertainties as to how cautious the assumption will be in practice, it introduces an element of caution into the forecast. This revised assumption is set out in Box C1.

C.35 Under the rolling review process, for Budget 2007 the Comptroller and Auditor General has also audited the assumptions relating to factor income shares and government financing. In both cases the review concluded that the assumptions were reasonable and continue to be so for the future.

C.36 The Comptroller and Auditor General reviewed the yield from the Budget 2004 compliance package for direct tax and national insurance contributions and found that the estimated yield from the package was greater than the Treasury's forecasts, and that the forecasts were therefore cautious.

Box CI: Key assumptions audited by the NAO^a

Trend GDP growth^e	2½ per cent a year.
Dating of the cycle^c	The end date of the previous economic cycle was in the first half of 1997.
Privatisation proceeds^d	Credit is taken only for proceeds from sales that have been announced.
UK claimant unemployment^b	Rising slowly to 0.95 million in 2007-08, from recent levels of 0.93 million. ^g
Interest rates^d	3-month market rates change in line with market expectations (as of 9 March).
Equity prices^e	FTSE All-share index rises from 3244 (close 9 March) in line with money GDP.
VAT^f	The underlying VAT gap will rise by 0.5 percentage points per year from the estimated outturn for the current year.
Consistency of price indices^e	Projections of price indices used to project the public finances are consistent with CPI.
Composition of GDP^f	Shares of labour income and profits in national income are broadly constant in the medium term.
Funding^f	Funding assumptions used to project debt interest are consistent with the forecast level of government borrowing and with financing policy.
Oil prices^c	\$58.1 a barrel in 2007, the average for the three months to March 9, and then constant in real terms. This is lower than the \$58.6 average of independent forecasts for 2007.
Tobacco^f	The underlying level of duty paid consumption of cigarettes will be set at least three per cent per year lower than the estimated outturn for the current year.
Budget 2004 compliance and enforcement package^f	The projected revenue impacts of the Budget 2004 compliance and enforcement package will, for the purposes of the fiscal projections, be reasonable and cautious.

^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 Budget 2005, 16 March 2005 (HC452).

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

^d Audit of Assumptions for Budget 2006, 16 March 2005 (HC452).

^e Audit of Assumptions for the 2006 Pre-Budget Report, 5 December 2005 (HC125).

^f Audit of Assumptions for Budget 2007, 21 March 2007 (HC393).

^g This is a cautious assumption based on the average of external forecasts and is not the Treasury's central economic forecast.

FISCAL AGGREGATES

C.37 Tables C4 and C5 provide more detail on the projections for the current and capital budgets.

Table C4: Current and capital budgets

	£ billion						
	Outturn	Estimate	Projections				
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Current budget							
Current receipts	485.7	517.2	553	586	616	648	682
Current expenditure	484.2	509.0	539	564	590	617	646
Depreciation	16.5	17.7	19	20	21	22	23
Surplus on current budget	-15.0	-9.5	-4	3	6	9	13
Capital budget							
Gross investment ¹	39.2	43.2	48	52	55	57	60
Less depreciation	-16.5	-17.7	-19	-20	-21	-22	-23
Net investment	22.7	25.5	29	32	34	35	37
Net borrowing	37.8	35.0	34	30	28	26	24
Public sector net debt - end year	463.4	500.0	540	572	607	638	668
Memos:							
Treaty deficit ²	35.8	36.3	35	31	29	27	25
Treaty debt ³	529.2	567.9	611	644	679	712	744

¹ Includes asset sales, for a breakdown see table C16.

² General government net borrowing on a Maastricht basis.

³ General government gross debt on a Maastricht basis.

Table C5: Current and capital budgets

	Per cent of GDP						
	Outturn	Estimate	Projections				
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Current budget							
Current receipts	39.2	39.6	40.1	40.4	40.4	40.4	40.4
Current expenditure	39.1	39.0	39.1	38.9	38.7	38.5	38.3
Depreciation	1.3	1.4	1.4	1.4	1.4	1.4	1.4
Surplus on current budget	-1.2	-0.7	-0.3	0.2	0.4	0.6	0.8
Capital budget							
Gross investment ¹	3.2	3.3	3.5	3.6	3.6	3.5	3.5
Less depreciation	-1.3	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4
Net investment	1.8	2.0	2.1	2.2	2.2	2.2	2.2
Net borrowing	3.0	2.7	2.4	2.0	1.8	1.6	1.4
Public sector net debt - end year	36.5	37.2	38.2	38.5	38.8	38.8	38.6
Memos:							
Treaty deficit ²	2.9	2.8	2.5	2.1	1.9	1.7	1.5
Treaty debt ratio ³	42.7	43.5	44.3	44.4	44.5	44.4	44.1

¹ Includes asset sales, for a breakdown see table C16.

² General government net borrowing on a Maastricht basis.

³ General government gross debt on a Maastricht basis.

C.38 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 2007-08 and then move back into surplus in 2008-09, with increasingly larger surpluses in later years, reaching 0.8 per cent of GDP in 2011-12.

C.39 The current budget surplus is equal to public sector current receipts less public sector current expenditure and depreciation. The reasons for changes in receipts and current expenditure are explained in later sections.

C.40 Table C4 also shows that net investment is projected to increase throughout the projection period from £22.7 billion in 2005-06 to £37 billion by 2011-12 as the Government seeks to rectify historical underinvestment in public infrastructure. These increases are sustainable and the Government will still be able to meet its strict fiscal rules, as debt is being held below 39 per cent of GDP, within the 40 per cent limit imposed by the sustainable investment rule.

RECEIPTS

C.41 This section looks in detail at the projections for public sector receipts. It begins by analysing the main determinants of changes in the overall projections since the 2006 Pre-Budget Report, before looking in detail at changes in the projections of individual tax receipts. Finally, it provides updated forecasts for the tax-GDP ratios.

Changes in total receipts since the 2006 Pre-Budget Report

C.42 Total current receipts in 2006-07 are estimated to grow by 6.6 per cent on 2005-06, only slightly below the growth of 6.8 per cent in the 2006 Pre-Budget Report projection, and in line with the growth in provisional outturns for the first 11 months of 2006-07. Table C6 provides a detailed breakdown of the main factors that have led to changes in the overall projections since the 2006 Pre-Budget Report.

Table C6: Changes in current receipts since the 2006 Pre-Budget Report

	£ billion					
	Estimate		Projections			
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Effect on receipts of non-discretionary changes in:						
North Sea taxes	-1 1/2	-2 1/2	-2 1/2	-2 1/2	-2	-1 1/2
Other forecasting changes	1/2	2	1 1/2	1	1	1
Total before discretionary changes¹	- 1/2	- 1/2	-1	-1 1/2	-1	-1
Discretionary changes ¹	0	0	1 1/2	1 1/2	2	2
Total change²	- 1/2	-1	0	0	1	1 1/2

¹ Includes measures announced since the 2006 Pre-Budget Report.

² Total may not sum due to rounding.

North Sea taxes C.43 The impacts on North Sea revenues from changes in the dollar oil price, the dollar-sterling exchange rate, production, and capital and operating expenditure are analysed later in this chapter.

Other forecasting changes C.44 A large number of different factors contribute to other forecasting changes and together are expected to increase current receipts by an average of about £1 billion per year to the end of the projection period.

Tax by tax analysis

C.45 Table C7 shows the changes to the projections of individual taxes since Budget 2006 and the 2006 Pre-Budget Report. Table C8 contains updated projections for the main components of public sector receipts for 2005-06, 2006-07 and 2007-08.

Table C7: Changes in current receipts by tax since Budget 2006 and the 2006 Pre-Budget Report

	£ billion			
	Budget 2006		2006 PBR	
	2006-07	2007-08	2006-07	2007-08
Income tax (gross of tax credits)	2.9	3.1	0.9	1.2
Income tax credits	0.0	0.0	0.0	0.0
National insurance contributions	-1.6	0.7	-0.5	0.9
Non-North Sea corporation tax ¹	-2.6	-2.2	-1.9	-1.4
North Sea revenues	-1.2	-5.5	-1.3	-2.7
Capital taxes ²	0.1	0.4	-0.1	-0.3
Stamp duty	1.2	1.0	0.6	0.6
Value added tax	0.9	-0.6	1.2	-0.1
Excise duties ³	-0.5	-0.1	0.0	-0.2
Other taxes and royalties ⁴	0.1	1.1	-0.2	-0.1
Net taxes and national insurance contributions	-0.8	-2.1	-1.4	-2.3
Other receipts and accounting adjustments	1.6	1.8	0.8	1.5
Current receipts	0.8	-0.2	-0.7	-0.8

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.

Table C8: Current receipts

	£ billion		
	Outturn 2005-06	Estimate 2006-07	Projection 2007-08
HM Revenue and Customs			
Income tax (gross of tax credits)	135.0	146.9	156.9
Income tax credits	-4.5	-4.7	-4.4
National insurance contributions	85.5	88.0	95.1
Value added tax	72.9	77.3	80.0
Corporation tax ¹	42.4	44.9	50.0
Corporation tax credits ²	-0.5	-0.5	-0.5
Petroleum revenue tax	2.0	2.2	1.6
Fuel duties	23.4	23.6	25.1
Capital gains tax	3.0	3.9	4.6
Inheritance tax	3.3	3.6	4.0
Stamp duties	10.9	13.4	14.3
Tobacco duties	8.0	8.1	8.1
Spirits duties	2.3	2.2	2.3
Wine duties	2.3	2.4	2.5
Beer and cider duties	3.2	3.3	3.4
Betting and gaming duties	1.4	1.4	1.4
Air passenger duty	0.9	1.0	2.1
Insurance premium tax	2.3	2.3	2.4
Landfill tax	0.7	0.8	0.9
Climate change levy	0.7	0.7	0.7
Aggregates levy	0.3	0.3	0.3
Customs duties and levies	2.3	2.3	2.4
Total HMRC	398.0	423.6	453.4
Vehicle excise duties	5.0	5.1	5.6
Business rates	19.9	21.3	22.1
Council tax ³	21.4	22.4	23.5
Other taxes and royalties ⁴	12.7	13.4	14.5
Net taxes and national insurance contributions⁵	456.8	485.7	519.2
Accruals adjustments on taxes	1.4	3.4	2.4
Less own resources contribution to European Commission (EC) budget	-4.3	-4.7	-4.1
Less PC corporation tax payments	-0.2	-0.2	-0.2
Tax credits adjustment ⁶	0.6	0.5	0.6
Interest and dividends	6.7	6.0	7.1
Other receipts ⁷	24.7	26.5	28.0
Current receipts	485.7	517.2	553.0
<i>Memo:</i>			
North Sea revenues ⁸	9.7	9.1	8.1

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

² Includes enhanced company tax credits.

³ Council tax increases are determined annually by local authorities, not by the Government. As in previous years, council tax figures are projections based on stylised assumptions and are not Government forecasts.

⁴ Includes VAT refunds and money paid into the National Lottery Distribution Fund.

⁵ Includes VAT and 'traditional own resources' contributions to EC budget.

⁶ Tax credits which are scored as negative tax in the calculation of NTNIC but expenditure in the National Accounts.

⁷ Includes gross operating surplus and rent; net of oil royalties and business rate payments by local authorities.

⁸ Consists of North Sea corporation tax, petroleum revenue tax and royalties.

Income tax and national insurance contributions **C.46** Accrued receipts of income tax and national insurance contributions (NICs) in 2006-07 are expected to be £0.7 billion above their 2006 Pre-Budget Report projection. Relative to the 2006 Pre-Budget Report, both self assessment receipts and PAYE and NIC receipts from wages and salaries have been stronger than expected. Evidence from January and February 2007 suggests that bonus growth is likely to be at least as strong as assumed in the 2006 Pre-Budget Report.

C.47 The continuation of solid employment growth through 2007 should underpin PAYE and NIC receipts in 2007-08. Consistent with the corporation tax forecast, bonuses paid by financial companies are expected to grow in line with the long-term trend growth rate of the financial sector from 2007-08 onwards. In addition, tax on saving income is likely to be higher as a result of higher projected interest rates, as set by the NAO audited assumption. The combination of stronger receipts in 2006-07, faster growth in self-employment income, and the anti-avoidance measure on sideways loss relief should also boost self assessment receipts.

Non-North Sea corporation tax **C.48** Non-North Sea corporation tax receipts are estimated to have grown by about 10 per cent in 2006-07, with strong growth in receipts from both the industrial and commercial sector and financial sector partly offset by a reduction in receipts from the life assurance sector. The latter is mainly a result of falls in bond prices observed in 2006. Receipts in 2006-07 are now estimated to be about £1.9 billion lower than estimated in the 2006 Pre-Budget Report. This is mainly a result of higher than expected repayments in relation to previous years' accounting periods, and companies changing their corporation tax instalment patterns such that a higher proportion of their overall liabilities on 2006 profits were paid in their initial quarterly instalments.

C.49 Corporation tax receipts from onshore companies are forecast to increase by 14 per cent in 2007-08. Growth in receipts from the industrial and commercial sector will benefit from the one-off conversion charge for property firms converting to real estate investment trust status and buoyant receipts from small companies. Given the longer payment lag, such companies will still be paying tax on their 2006 profits. In addition, receipts from the life assurance sector are expected to recover from the falls observed in 2006-07. With the economy back on trend and profit growth in the financial sector expected to return to its long-run trend from 2007 onwards, onshore corporation tax receipts are expected to stabilise at 3.2 to 3.3 per cent of GDP from 2008-09 onwards.

North Sea revenues **C.50** High oil prices have resulted in continuing high profitability for companies engaged in North Sea activity, with recent ONS figures showing that net rates of return on capital employed in the sector remain well above the return for other non-financial companies. However, further increases in capital and operating expenditure within the North Sea, combined with a much greater than expected decline in North Sea production and a strengthening of the dollar-sterling exchange rate, have seen the prospects for North Sea revenues alter significantly since the 2006 Pre-Budget Report, with revenues for 2006-07 likely to be £1.3 billion below the previously forecast level. These various effects are also expected to have an ongoing impact on North Sea revenues throughout the forecast period.

C.51 The forecast for North Sea revenues uses an NAO audited assumption for the dollar oil price linked to the average of independent forecasts for the coming year. As set out in Box C1, this gives a dollar oil price of \$58.1 a barrel for 2007, down from the \$60.3 a barrel assumed in the 2006 Pre-Budget Report, although similar to the level assumed in Budget 2006. In addition, the appreciation of sterling against the dollar over the past year means that the oil price in sterling terms is markedly below Budget 2006 and the 2006 Pre-Budget Report levels throughout the forecast. This explains over £1 billion of the shortfall in 2007-08 relative to the Budget 2006 projection.

C.52 North Sea production fell by about 10 per cent in 2006, a more pronounced fall than assumed in the Budget 2006 and 2006 Pre-Budget Report forecasts. The steeper fall reflects lower than expected reservoir performance in existing fields, rising maintenance requirements for North Sea infrastructure, delays in the start-up of several new developments and a drop in UK gas demand. Following lower than expected production in 2006, oil companies have reduced their estimates, forward production levels, particularly in 2007 and 2008, and this has been incorporated into the forecast. This explains more than half of the shortfall in 2007-08 receipts relative to the Budget 2006 projection.

C.53 Both operating and capital expenditure, which benefits from capital allowances, by North Sea firms were also substantially higher in 2006 than assumed in either Budget 2006 or the 2006 Pre-Budget Report. North Sea capital expenditure is higher than the projections incorporated into the North Sea revenues forecast made prior to the announcement of the increase in the supplementary charge. The rise in capital expenditure is likely to be a combination of both volume and price increases, with capacity constraints having impacted on rig rates and wages as operators seek to maximise global production. Although supply constraints are forecast to ease, this is likely to take time, so the forecast assumes higher operating and capital expenditure, particularly in 2007 and 2008. These higher levels of expenditure explain around a quarter of the shortfall in 2007-08 relative to the Budget 2006 forecast.

Capital gains tax and inheritance tax **C.54** Initial analysis of self assessment returns suggests that capital gains tax showed robust growth in 2006-07, with receipts up by about 28 per cent on a year earlier. Receipts were buoyed by the strong growth in the equity market in 2005-06 and the continuing effects from the disposal of business assets following the maturing of the business asset taper relief.

Stamp duties **C.55** Receipts from stamp duties in 2006-07 have been revised up by £0.6 billion since the 2006 Pre-Budget Report, primarily because of higher receipts from stamp duty land tax. Receipts have benefited from the strength of the housing market in 2006-07. Growth in stamp duty land tax is likely to slow in 2007-08 with house price inflation likely to moderate during the year. In addition, the forecast assumes that the number of property transactions will stabilise in 2007-08. Stamp duty on shares has benefited from the rise in the equity market through 2006-07. This has helped to offset a fall in the volume of equity trades subject to stamp duty. With equity prices assumed to rise in line with money GDP, growth in stamp duty on shares is also expected to moderate through 2007-08.

VAT receipts C.56 VAT receipts in 2006-07 are expected to be £1.2 billion above their 2006 Pre-Budget Report projection. In part, this reflects the above-trend growth in the economy in recent quarters and that consumer spending, around two-thirds of the total VAT tax base, was strong in the final quarter of 2006. HMRC's strengthened operational strategy to counter Missing Trader Intra-Community (MTIC) fraud is reflected in the trade statistics which indicate a reduction in the level of attempted fraud during 2006-07. As a result, the VAT gap (the difference between the theoretical liability to tax and actual receipts) is likely to have fallen in 2006-07, offsetting some of the increase in the gap recorded during 2005-06.

C.57 Growth in VAT receipts is likely to slow in 2007-08 as consumer spending growth moderates. The VAT forecast for 2007-08 includes an allowance for increased repayments arising as a result of recent judicial rulings relating to the 3-year cap for making claims of previously overpaid or underclaimed VAT. The Government is appealing these decisions and, if successful, taxpayers would subsequently be required to repay these claims. No allowance is made in the forecast for any such recoveries. Slower growth in VAT receipts in 2007-08 also results from the forecast incorporating a rise in the underlying VAT gap, in line with the NAO audited assumption.

Excise duties C.58 Receipts of fuel duty are expected to be £0.1 billion below the 2006 Pre-Budget Report projections in both 2006-07 and 2007-08. The decision to raise fuel duty in October 2007 will reduce revenues in 2007-08. Thereafter, the increases in fuel duty announced in Budget 2007 up to 2009-10 will result in higher receipts of fuel duty, compared with the 2006 Pre-Budget Report.

C.59 The forecast for tobacco receipts uses the revised NAO audited assumption. This assumes that the underlying level of duty paid consumption of cigarettes will be set at least 3 per cent lower per year than the estimated outturn for the current year. The Comptroller and Auditor General agreed there were sound reasons for adopting this assumption, and concluded it is reasonable and cautious. The impact on receipts from the smoking ban in enclosed workplaces has been updated and the forecast assumes a loss of revenues of £0.1 billion in 2007-08 and about £0.5 billion in 2008-09. Receipts from alcohol duty are little changed from the 2006 Pre-Budget Report projection.

Council tax C.60 Council tax increases are determined annually by local authorities, not by the Government. The council tax projections are based on stylised assumptions and are not government forecasts. The projected increase in 2007-08 is based on the latest available estimates released by the Chartered Institute for Public Finance and Accountancy (CIPFA) and the increases for later years on the arithmetic average of council tax increases over the past three years. Since changes to council tax are broadly balanced by changes to locally financed expenditure (LASFE), they have little material impact on the current balance or net borrowing.

Other taxes and receipts C.61 Interest and dividend receipts are higher than forecast at the 2006 Pre-Budget Report. This reflects the inclusion of the interest accruing on student loans. Future years' forecasts take account of the announced programme of student loan sales, as described in Chapter 6.

Tax-GDP ratio

C.62 Table C9 shows projections of receipts from major taxes as a per cent of GDP. Chart C3 shows the tax-GDP ratio from 1981-82 to 2011-12.

C.63 Table C10 sets out current and previous projections of the overall tax-GDP ratio, based on net taxes and national insurance contributions. The tax-GDP ratio is broadly unchanged from the 2006 Pre-Budget Report projections.

Table C9: Current receipts as a proportion of GDP

	Per cent of GDP						
	Outturn	Estimate	Projections				
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Income tax (gross of tax credits)	10.9	11.3	11.4	11.5	11.5	11.6	11.7
National insurance contributions	6.9	6.7	6.9	7.0	7.0	7.0	7.1
Non-North Sea corporation tax ¹	2.8	2.9	3.2	3.2	3.2	3.3	3.3
Tax credits ²	-0.4	-0.4	-0.4	-0.4	-0.4	-0.3	-0.3
North Sea revenues ³	0.8	0.7	0.6	0.6	0.6	0.6	0.6
Value added tax	5.9	5.9	5.8	5.9	5.9	5.8	5.8
Excise duties ⁴	3.2	3.0	3.0	3.0	2.9	2.9	2.8
Other taxes and royalties ⁵	6.8	7.0	7.2	7.2	7.2	7.2	7.2
Net taxes and national insurance contributions⁶	36.9	37.2	37.7	38.0	38.1	38.1	38.1
Accruals adjustments on taxes	0.1	0.3	0.2	0.2	0.1	0.1	0.1
Less EU transfers	-0.3	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3
Other receipts ⁷	2.6	2.5	2.6	2.5	2.5	2.5	2.5
Current receipts	39.2	39.6	40.1	40.4	40.4	40.4	40.4

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 EC budget. Cash basis.

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

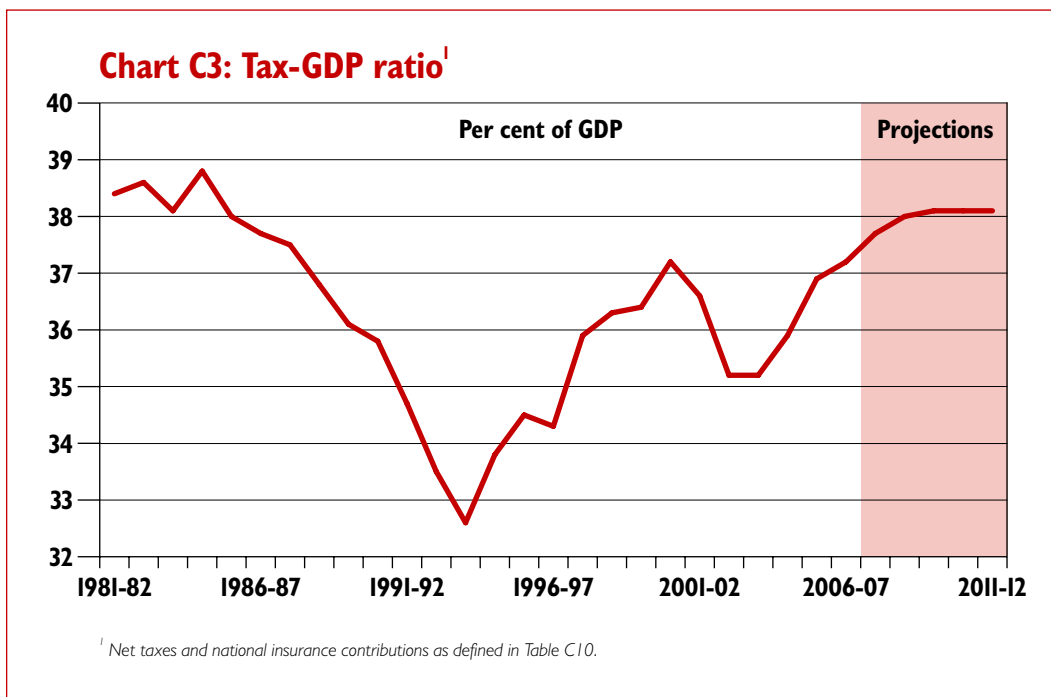


Table C10: Net taxes and national insurance contributions¹

	Per cent of GDP						
	Outturn ²	Estimate ³	Projections				
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Budget 2006	37.5	38.0	38.5	38.7	38.7	38.7	
2006 Pre-Budget Report	36.9	37.3	37.8	38.1	38.1	38.1	38.1
Budget 2007	36.9	37.2	37.7	38.0	38.1	38.1	38.1

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

² The 2005-06 figures were estimates in Budget 2006.

³ The 2006-07 figures were projections in Budget 2006.

PUBLIC EXPENDITURE

C.64 This section looks in detail at the projections for public expenditure. The spending projections cover the whole of the public sector, using the National Accounts aggregate Total Managed Expenditure (TME).

C.65 For fiscal aggregates purposes, TME is split into National Accounts components covering public sector current expenditure, public sector net investment and depreciation. For budgeting and other purposes, TME is split into DEL – firm three-year limits for departments' programme expenditure, and AME – expenditure that is not easily subject to firm multi-year limits. Departments have separate resource budgets for current and capital expenditure.

Changes in TME since the 2006 Pre-Budget Report

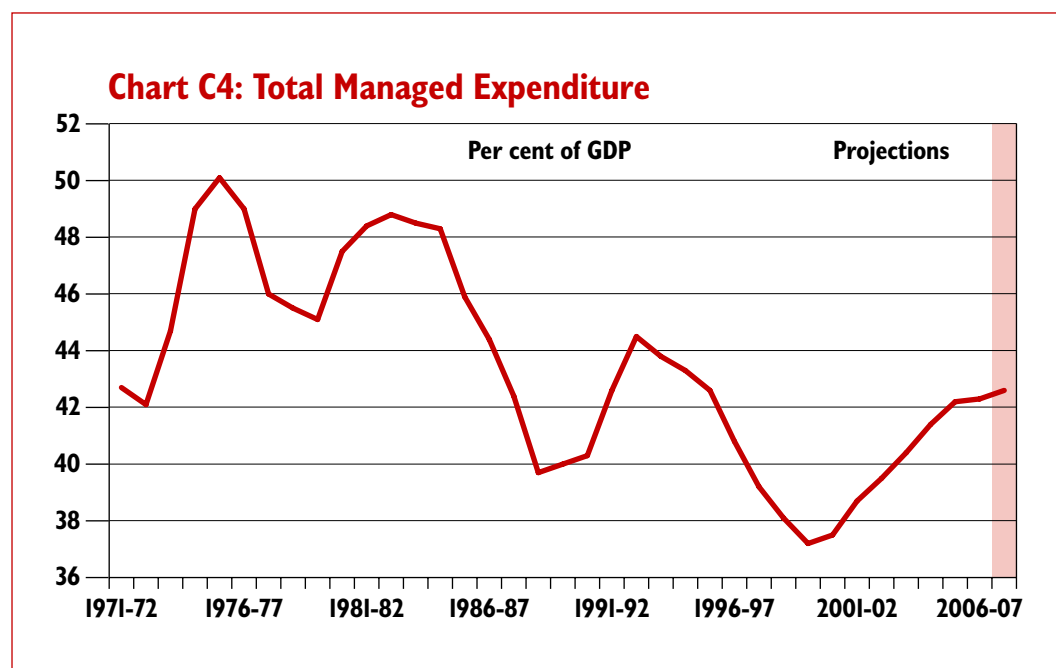
C.66 The main forecasting changes to TME in the 2004 Spending Review period since the 2006 Pre-Budget Report are to AME, where the totals for 2006-07 and 2007-08 have been revised as a result of changes to the forecasts of individual AME components. The changes in 2006-07 are consistent with the available outturn data for the first 11 months of the year. Central government current expenditure for the first 11 months is 5.6 per cent up on the same period in 2005-06, but spending growth is expected to be slightly lower for the year as a whole, partly because of changes to the monthly profile of grants from central government to local authorities.

C.67 Discretionary changes to TME in the 2004 Spending Review period since the 2006 Pre-Budget Report forecast reflect the Budget 2007 spending measures set out in Chapter A. The allocation to the special reserve increases spending by £0.4 billion in total in 2007-08.

C.68 Public sector current expenditure is expected to be almost £1 billion higher in 2006-07 compared with the 2006 Pre-Budget Report projections. This is more than offset by a fall of £3½ billion in public sector net investment. Current expenditure is expected to be about £2 billion higher in 2007-08 compared to the 2006 Pre-Budget Report. In line with normal practice, the AME margin has been reset to £1 billion. The remaining increase reflects the time-limited increase in the special reserve and forecasting changes to AME components.

C.69 Budget 2007 sets firm overall spending limits for the 2007 Comprehensive Spending Review period. DEL and AME totals for 2008-09 onwards have not yet been determined, but current expenditure growth rates are unchanged from the 2006 Pre-Budget Report projections, taking account of time-limited items announced in this Budget, as set out earlier in this chapter.

C.70 Chart C4 shows TME as a per cent of GDP from 1971-72 to 2007-08.



DEL and AME analysis

C.71 Table C11 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 C12 shows changes since the 2006 Pre-Budget Report.

DEL C.72 The detailed allocation of DEL is shown in Table C13. In line with previous practice, resource and capital DEL for 2006-07 include an allowance for shortfall reflecting likely underspending against departmental provision.

C.73 Estimated outturn on capital DEL is lower than forecast in the 2006 Pre-Budget Report, partly as a result of classification changes, but also because of lower capital expenditure than planned by the Department for Education and Skills (DfES), Department of Health (DH), and other departments. Estimated outturn for capital expenditure in DEL represents an increase in nominal investment of 12 per cent on 2005-06.

C.74 The latest figures include a number of classification and budgetary changes, which have no impact on National Accounts definitions or TME. The main changes are:

- the movement of Education Maintenance Allowances (EMAs) from AME into DEL in all years, increasing the Department for Education and Skills (DfES) resource budget DEL by about £0.6 billion;
- the movement from DEL into AME of some types of impairments and revaluations of tangible and intangible fixed assets where the causes are independent of departments' management decisions;
- the movement of contributions to international development organisations that are treated as financial transactions in the National Accounts from resource DEL to capital DEL to align more closely the budgeting treatment with the National Accounts treatment;
- adjustments to take account of changes in the Department for Transport's budget for the treatment of London and Continental Railways (LCR). LCR was reclassified by the ONS as a public corporation in February 2006; and
- the movement of profit or loss on asset disposal from resource budgets to capital budgets, which reduces capital budgets and increases resource budgets in both outturn and 2007-08. This better aligns the budgeting treatment with the fiscal framework and improves incentives to dispose of surplus assets.

C.75 Changes in public sector net investment in 2007-08 are a result of revised forecasts for local authority self-financed capital spending, and the updating of local government DEL and DH capital plans to a level consistent with the latest estimates of outturn spending, excluding exceptional items. This reflects changes to the balance of DH capital procurement and technical, classification, and other changes. Capital underspends will be rolled forward as end-year flexibility and NHS and local authority spending plans will be unaffected.

AME C.76 The main assumptions underpinning the AME forecast are set out in Box C1 and Table C3.

C.77 Social security expenditure is forecast to be slightly lower than expected at the 2006 Pre-Budget Report, mainly because of lower state retirement pension payments. Forecasts of housing benefit, council tax benefit, and Jobseeker's Allowance (caused by lower unemployment assumptions) have also decreased in 2007-08.

Table C11: Total Managed Expenditure 2005-06 to 2007-08

	£ billion		
	Outturn 2005-06	Estimate 2006-07	Projection 2007-08
<i>Departmental Expenditure Limits</i>			
Resource Budget	277.8	293.4	310.0
Capital Budget	34.6	38.8	44.3
Less depreciation	-9.5	-10.5	-10.6
Total Departmental Expenditure Limits	302.9	321.7	343.7
<i>Annually Managed Expenditure</i>			
Social security benefits ¹	127.4	132.0	139.2
Tax credits ¹	15.5	16.2	16.5
Net public service pensions ²	0.2	1.1	1.7
National Lottery	1.8	1.7	1.6
BBC domestic services	3.2	3.3	3.3
Other departmental expenditure	3.3	3.6	3.1
Net expenditure transfers to EU institutions ³	4.4	4.7	5.0
Locally-financed expenditure ⁴	25.8	25.9	27.8
Central government gross debt interest	25.8	27.4	29.1
Public corporations' own-financed capital expenditure	5.4	4.3	4.6
AME margin	0.0	0.0	1.0
Accounting adjustments ⁵	7.6	10.4	10.0
Total Annually Managed Expenditure	220.5	230.5	242.9
Total Managed Expenditure	523.4	552.2	586.6
<i>of which:</i>			
Public sector current expenditure	484.2	509.0	538.6
Public sector net investment	22.7	25.5	29.4
Public sector depreciation	16.5	17.7	18.7

¹ For 2005-06 to 2007-08, 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.

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

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

	2005-06	2006-07	2007-08
Net payments to EU institutions	3.7	2.6	2.6
Net contribution to EC Budget	4.4	3.3	3.3

⁴ This expenditure is mainly financed by council tax revenues. See footnote to table C8 for an explanation of how the council tax projections are derived.

⁵ Excludes depreciation.

C.78 Forecasts for expenditure on the Child and Working Tax Credits are higher than in the 2006 Pre-Budget Report. Expected average earnings growth for tax credit recipients has been revised down to reflect the high degree of turnover into and out of the system. The most significant component of the 2007-08 increase is upward revisions to child support.

C.79 National lottery figures reflect the latest view on timing of drawdown by the distributing bodies. These estimates are broadly unchanged from the 2006 Pre-Budget Report.

C.80 Other departmental expenditure has increased in 2006-07 and 2007-08, with the net increases largely reflecting some £0.3 billion of additional specific grants being paid to local authorities in respect of additional pensions costs for police and fire services. In 2007-08 there is an additional increase in coal health liabilities, largely reflecting re-profiling of the remaining payments as the schemes wind up. The net increases in other departmental expenditure also includes additional net lending, which is treated as a financial transaction in

Table C12: Changes to Total Managed Expenditure since the 2006 Pre-Budget Report

	£ billion		
	Outturn 2005-06	Estimate 2006-07	Projections 2007-08
<i>Departmental Expenditure Limits</i>			
Resource Budget	0.8	-1.1	0.1
Capital Budget	-1.2	-3.8	-1.4
Less depreciation	0.8	1.3	0.9
Total Departmental Expenditure Limits	0.4	-3.6	-0.5
<i>Annually Managed Expenditure</i>			
Social security benefits	0.0	-0.1	-0.3
Tax credits	0.0	0.2	0.8
Net public service pensions	0.0	0.2	0.8
National Lottery	0.0	0.0	0.1
BBC domestic services	0.0	0.0	-0.1
Other departmental expenditure	-0.3	0.3	0.3
Net expenditure transfers to EU institutions	0.0	0.5	-1.0
Locally-financed expenditure	0.4	-0.5	0.0
Central government gross debt interest	0.0	0.0	0.8
Public corporations' own-financed capital expenditure	-0.7	-2.7	0.3
AME margin	0.0	0.0	1.0
Accounting adjustments	0.8	3.3	-0.7
Total Annually Managed Expenditure	0.2	1.2	2.1
Total Managed Expenditure	0.6	-2.4	1.6
<i>of which:</i>			
Public sector current expenditure	0.3	0.9	2.0
Public sector net investment	0.3	-3.4	-0.5
Public sector depreciation	0.0	0.1	0.0

the National Accounts, and is therefore offset in the National Accounts adjustments. The transfer of Education Maintenance Allowances into DEL is reflected in the changes to the DEL budget regime described previously.

C.81 Net public service pensions figures are reported on a National Accounts basis, which reflects the differences between the payments to pensioners during the year and contributions received for the main unfunded public service pension schemes. Spending in 2007-08 is expected to be higher than forecast at the 2006 Pre-Budget Report. The increase reflects improvements made to the forecasting methodology.

C.82 Changes to local authority self financed expenditure (LASFE) reflect the limited amount of information available on outturns for local authority expenditure in the first 11 months of 2006-07, which suggest an improvement in the overall fiscal position of local authorities, and changes to the forecasting assumption on council tax increases in 2007-08. Council tax increases are determined annually by local authorities, not by the Government, and since changes to LASFE are broadly balanced by changes to council tax and other income, they have little material impact on the overall fiscal aggregates.

C.83 Net expenditure transfers to EU institutions comprise the Gross National Income (GNI) based contribution less the UK abatement. The net expenditure transfers made in 2006-07 will be higher than expected at the time of the 2006 Pre-Budget Report because of the drawing forward of Member States' 2007 contributions into the first quarter of the year due to

the amount of Common Agricultural Policy payments made in that period. Net expenditure transfers are expected to be lower in 2007-08 than forecast in the 2006 Pre-Budget Report due to a reduction in the expected size of the 2008 EC budget, which will reduce the contributions required from Member States.

C.84 The 2006-07 estimate for central government debt interest payments is unchanged from the 2006 Pre-Budget Report. The increase in 2007-08 is due to higher market expectations of interest rates and the use of a more detailed forecasting method, based on a specific analysis of the different types of financing instruments.

C.85 The 2006-07 estimate for public corporations' own financed capital expenditure (PCOFCE) is lower than the 2006 Pre-Budget Report projection, mainly because of changes in the treatment of the write-off of Nigerian debt in the National Accounts. In the 2006 Pre-Budget Report this write-off was scored as a capital grant by Export Credits Guarantee Department (ECGD) in 2006-07, but is now treated as a capital grant by central government, and is included in accounting adjustments. PCOFCE has also been reduced for all years by the classification change to include LCR capital expenditure within capital DEL. PCOFCE has also been revised in line with public corporations' latest spending plans.

C.86 The main accounting adjustments, which reconcile the DEL and AME measures of spending with the National Accounts measure, are shown in Table C14. Changes to the accounting adjustments since the last forecast are mainly due to:

- classification changes to the DEL budget regime, mainly in connection with LCR;
- the change in the National Accounts treatment of the write-off of Nigerian debt, which is now included as an imputed capital grant within National Accounts adjustments and is split between 2005-06 and 2006-07;
- increases in net lending (which is scored within other departmental expenditure but removed in the National Accounts adjustments); and
- changes to the adjustments for non-cash items in resource budgets as a result of changes in the composition of departmental spending.

C.87 Table C15 shows public sector capital expenditure from 2004-05 to 2007-08.

C.88 Table C16 shows estimated receipts from loans and sales of assets from 2005-06 to 2007-08. The figures for sales of fixed assets continue to include housing receipts for local authority housing stocks, even though these have been classified as sales of assets by public corporations. These receipts are included to show a consistent measure of public sector fixed asset sales.

C.89 The figures for sales of financial assets include proceeds in the final quarter of 2005-06 of £0.3 billion from the sale of part of the Government's shareholding in QinetiQ (formerly the Defence Evaluation and Research Agency).

C.90 Table C16 only covers general government and so does not include the sale by British Nuclear Fuels Limited (BNFL) of its Westinghouse subsidiary, which was finalised in October 2006. The proceeds from this sale are included in the public corporation column of Table C20 (public sector net cash requirement). The bulk of the proceeds have been transferred to central government during 2006-07 in two public sector neutral transactions: the repayment of a £0.5 billion BNFL debenture and a special dividend of £1.8 billion. The remaining proceeds are expected to be transferred in 2007-08 and 2008-09.

C.91 The programme of sales of the Department for Education and Skills (DfES) student loan portfolio, announced in Budget 2007, is not included in the table this year as the first sales in this resumed programme will be in 2008-09. As there is a stock of loans suitable for sale, the portfolio to be sold in 2008-09 will include more loans than will be offered in subsequent years.

Table CI3: Departmental Expenditure Limits - resource and capital budgets

	£ billion		
	Outturn	Estimate	Projection
	2005-06	2006-07	2007-08
<i>Resource Budget</i>			
Education and Skills	25.1	53.6	57.4
Health	76.4	81.1	89.7
<i>of which : NHS</i>	74.2	79.2	87.6
Transport	6.1	6.9	6.7
Department for Communities and Local Government	3.5	3.7	4.3
Local Government	46.2	22.5	22.8
Home Office	12.7	13.2	13.5
Departments for Constitutional Affairs	3.6	3.7	4.0
Law Officers' Departments	0.7	0.7	0.7
Defence	33.4	33.7	32.8
Foreign and Commonwealth Office	1.9	2.0	1.9
International Development	4.1	4.3	4.6
Trade and Industry	5.2	5.8	6.2
Environment, Food and Rural Affairs	2.8	3.3	3.0
Culture, Media and Sport	1.4	1.6	1.6
Work and Pensions	7.8	7.7	7.7
Scotland ¹	20.8	22.3	23.5
Wales ¹	11.0	11.9	12.4
Northern Ireland Executive ¹	6.7	7.2	7.6
Northern Ireland Office	1.2	1.3	1.1
Chancellor's Departments	4.9	5.2	5.0
Cabinet Office	2.2	2.4	2.4
Invest to Save Budget	0.0	0.0	0.0
Reserve	0.0	0.0	0.6
Unallocated special reserve ²	0.0	0.0	0.4
Allowance for shortfall	0.0	-0.7	0.0
Total Resource Budget DEL	277.8	293.4	310.0
<i>Capital Budget³</i>			
Education and Skills	5.7	5.2	7.0
Health	2.2	3.8	4.3
<i>of which : NHS</i>	2.2	3.7	4.2
Transport	5.0	6.5	6.6
Department for Communities and Local Government	5.5	5.4	5.9
Local Government	0.3	0.2	0.1
Home Office	1.0	1.3	1.3
Departments for Constitutional Affairs	0.1	0.2	0.1
Law Officers' Departments	0.0	0.0	0.0
Defence	6.4	7.1	7.6
Foreign and Commonwealth Office	0.1	0.1	0.1
International Development	0.4	0.7	0.6
Trade and Industry	1.2	1.2	1.2
Environment, Food and Rural Affairs	0.8	0.9	0.9
Culture, Media and Sport	0.1	0.2	0.4
Work and Pensions	0.4	0.2	0.1
Scotland ¹	2.4	3.1	3.1
Wales ¹	1.2	1.4	1.6
Northern Ireland Executive ¹	0.8	0.9	1.0
Northern Ireland Office	0.1	0.1	0.1
Chancellor's Departments	0.4	0.3	0.3
Cabinet Office	0.3	0.4	0.3
Invest to Save Budget	0.0	0.0	0.0
Reserve	0.0	0.0	1.5
Allowance for shortfall	0.0	-0.4	0.0
Total Capital Budget DEL	34.6	38.8	44.3
Depreciation	9.5	10.5	10.6
Total Departmental Expenditure Limits	302.9	321.7	343.7
Total education spending	67.4	71.1	77.4

¹ For Scotland, Wales and Northern Ireland, the split between resource and capital budgets is indicative and reflects the consequentials 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.

³ The 2007-08 figures reflect changes including the updating of the Department of Health and local authority DEL capital plans to a level consistent with latest estimates of outturn spending, as set out in paragraph C75. Capital underspends will be rolled forward in end-year flexibility and the NHS and local authorities spending plans will be unaffected.

Table CI4: Accounting adjustments

	£ billion		
	Outturn	Estimate	Projection
	2005-06	2006-07	2007-08
Central government programmes	0.0	0.4	0.5
VAT refunds	10.2	10.9	12.5
Central government non-trading capital consumption	6.1	6.5	6.7
Non-cash items in resource budgets and not in TME	-8.2	-8.4	-9.6
Expenditure financed by revenue receipts	0.6	0.6	0.5
Local authorities	4.6	5.0	5.7
General government consolidation	-6.3	-6.5	-6.8
Public corporations	0.5	0.4	0.5
Financial transactions	-0.2	-0.5	-0.4
Other accounting adjustments	0.3	2.0	0.4
Total accounting adjustments	7.6	10.4	10.0

Table CI5: Public sector capital expenditure

	£ billion		
	Outturn	Estimate	Projection
	2005-06	2006-07	2007-08
Capital Budget DEL	34.6	38.8	44.3
Locally-financed expenditure	1.2	2.0	1.9
National Lottery	1.0	1.0	0.8
Public corporations ¹ own-financed capital expenditure	5.4	4.3	4.6
Other capital spending in AME	0.8	0.3	0.4
AME margin	0.0	0.0	0.1
Accounting adjustments	-3.8	-3.2	-4.2
Public sector gross investment¹	39.2	43.2	48.0
Less depreciation	16.5	17.7	18.7
Public sector net investment	22.7	25.5	29.4
Proceeds from the sale of fixed assets ²	6.1	6.2	6.2

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.

PRIVATE FINANCE INITIATIVE

C.92 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 while frontline services are retained within the public sector. The Government's position on PFI is set out in the document *PFI: Strengthening Long Term Partnerships*.

C.93 The Government only uses PFI when 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.

C.94 Table C17 shows a breakdown by department of the estimated capital investment in public services resulting from signed PFI contracts. Table C18 shows the estimated total capital value of contracts that are at preferred bidder stage and are expected to reach financial close within the next two 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 C17 and C18 report the capital value of projects, in order to show investment on a basis comparable with conventional capital procurement.

C.95 Table C19 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 when signed. Payments are only projected to fall due in the years shown. Payments may also 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 public sector debt liability.

C.96 In this Budget, the Government sets the local authority PFI credit envelope for the CSR 07 period, in order to provide greater certainty to local authorities on the level of capital investment. PFI credits will be held constant in cash terms at £3.6 billion a year over the CSR 07 period. This will enable local authorities, departments and PFI suppliers to plan for the delivery of PFI projects, while ensuring that payments under local authority PFI contracts remain affordable. Allocations of PFI credits to individual departments will be announced in the 2007 Comprehensive Spending Review.

Table CI6: Loans and sales of assets

	£ billion		
	Outturn 2005-06	Estimate 2006-07	Projection 2007-08
Sales of fixed assets			
Central government	1.8	1.6	1.6
Local authorities	1.8	2.4	2.4
Housing Revenue Account ¹	2.5	2.2	2.2
Total sales of fixed assets	6.1	6.2	6.2
Loans and sales of financial assets			
Sale of student loans portfolio ²	0.0	0.0	0.0
Other loans and sales of financial assets	-1.8	-2.8	-3.7
Total loans and sales of financial assets	-1.8	-2.8	-3.7
Total loans and sales of assets	4.2	3.5	2.5

¹ Capital transactions by local authorities' Housing Revenue Accounts are no longer classified to the local authority sub-sector and so are shown separately.

² The programme of sales will resume in 2008-09.

Table CI7: Departmental estimate of capital spending by the private sector (signed deals)^{1,2,3}

	£ million	
	Projections	
	2006-07	2007-08
Education and Skills ⁴	759	454
Health	1,025	1,008
Transport ⁵	1,435	1,110
Communities and Local Government	107	140
Home Office	23	20
Constitutional Affairs	15	2
Defence	557	643
Foreign and Commonwealth Office	5	0
Trade and Industry	1	4
Environment, Food and Rural Affairs	128	249
Culture, Media and Sport	38	12
Work and Pensions	46	55
Scotland	595	618
Wales	0	20
Northern Ireland Executive	98	114
Chancellor's Departments	2	2
Total	4,834	4,450

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 (LUL PPP) PFI contracts in the years that investments are expected to take place.

Table CI8: Estimated aggregated capital value of projects at preferred bidder stage^{1,2}

	£ million	
	Projections	
	2006-07	2007-08
Education and Skills	253	417
Health	340	2,299
Transport	0	56
Department for Communities and Local Government	334	160
Home Office	62	0
Defence	3,278	1,501
Environment, Food and Rural Affairs	0	332
Culture, Media and Sport	0	60
Scotland	704	94
Wales	0	38
Northern Ireland Executive	122	465
Total	5,093	5,420

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 CI9: Estimated payments under PFI contracts - March 2007 (signed deals)¹

£ billion			
Projections			
2006-07	6.9	2019-20	5.8
2007-08	7.3	2020-21	5.9
2008-09	7.8	2021-22	5.5
2009-10	8.2	2022-23	5.4
2010-11	8.5	2023-24	5.4
2011-12	8.6	2024-25	5.4
2012-13	8.7	2025-26	5.2
2013-14	8.8	2026-27	5.0
2014-15	8.8	2027-28	4.8
2015-16	8.8	2028-29	4.5
2016-17	8.9	2029-30	4.2
2017-18	8.2	2030-31	3.8
2018-19	5.8	2031-32	3.4

¹ The figures between 2006-07 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.

Table C20: Public sector net cash requirement

£ billion								
	2006-07				2007-08			
	General government				General government			
	Central government	Local authorities	Public corporations	Public sector	Central government	Local authorities	Public corporations	Public sector
Net borrowing	34.8	1.6	-1.4	35.0	33.2	2.0	-1.5	33.7
<i>Financial transactions</i>								
Net lending to private sector and abroad	2.7	0.0	-2.0	0.7	3.6	0.1	-0.3	3.4
Cash expenditure on company securities	0.2	-0.1	-2.4	-2.3	0.1	0.0	0.0	0.1
Accounts receivable/payable	1.9	0.0	0.0	1.9	2.9	0.2	0.0	3.1
Adjustment for interest on gilts	-1.3	0.0	0.0	-1.3	-4.1	0.0	0.0	-4.1
Miscellaneous financial transactions	-2.0	0.5	0.9	-0.5	-0.4	0.0	-0.4	-0.8
Own account net cash requirement	36.3	2.0	-4.9	33.4	35.2	2.3	-2.1	35.4
Net lending within the public sector	0.7	-1.2	0.5	0.0	2.4	-1.6	-0.8	0.0
Net cash requirement¹	37.0	0.8	-4.4	33.4	37.6	0.7	-3.0	35.4

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

FINANCING REQUIREMENT

C.97 Table C20 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.

C.98 Table C21 updates the financing arithmetic for both 2006-07 and 2007-08 in line with the updated fiscal forecasts. The central government net cash requirement (CGNCR) for 2006-07 is now forecast to be £37.0 billion, a decrease of £4.2 billion from the 2006 Pre-Budget Report forecast of £41.2 billion. The net financing requirement is expected to be £54.8 billion, a reduction of £4.2 billion from the 2006 Pre-Budget Report. It is also £4.2 billion below total financing, resulting in an increase of £4.2 billion in the forecast level of the Debt Management Office's (DMO's) short-term cash position at end March 2007.

C.99 The forecast for the CGNCR for 2007-08 is £37.6 billion. Gross gilt redemptions are £29.2 billion and National Savings and Investments' net contribution to financing is estimated to be £2.8 billion. This means that the net financing requirement for 2007-08 is forecast to be £59.8 billion. The DMO will aim to meet this net financing requirement by:

- gross gilt issuance of £58.4 billion; and
- an increase in the Treasury bill stock to £17.0 billion.

C.100 Gross gilt issuance will continue to be skewed towards long-conventional and index-linked gilts. In 2007-08, issuance in long-conventional gilts is forecast to be £23.4 billion (or 40 per cent of total issuance) and issuance in index-linked gilts is forecast to be £15.0 billion (or 26 per cent of total issuance).

Table C2I: Financing requirement forecast

	£ billion			
	April 2006	2006-07	March 2007	2007-08
	Revised Remit ¹	December 2006 Pre-Budget Report	Budget	March 2007 Budget
Central government net cash requirement	41.2	41.2	37.0	37.6
Gilt redemptions	29.9	29.9	29.9	29.2
Restructuring nuclear liabilities ²	0.0	-3.8	-3.5	0.0
Financing for the Official Reserves	0.0	0.0	0.0	0.0
Buy-backs ³	0.0	0.2	0.2	0.0
Planned short-term financing adjustment ⁴	-3.6	-3.3	-3.3	-4.2
Gross Financing Requirement	67.5	64.2	60.3	62.6
less				
Assumed net contribution from National Savings and Investments	3.0	5.2	5.5	2.8
Net Financing Requirement	64.5	59.0	54.8	59.8
<i>Financed by:</i>				
1. Debt issuance by the Debt Management Office				
(a) Treasury bills	1.5	-3.5	-3.5	1.4
(b) Gilts	63.0	62.5	62.5	58.4
2. Other planned changes in short-term debt⁵				
Change in Ways & Means	0.0	0.0	0.0	0.0
3. Unanticipated changes in short-term cash position⁶				
	0.0	0.0	4.2	0.0
Total financing	64.5	59.0	59.0	59.8
Short-term debt levels at end of financial year				
Treasury bill stock in market hands ⁷	20.6	15.6	15.6	17.0
Ways & Means	13.4	13.4	13.4	13.4
DMO net cash position ⁸	0.2	0.5	4.7	0.5

¹ The financing arithmetic in Budget 2006 was revised on 24 April 2006 to reflect outturn data for 2005-06.

² Proceeds from the disposal of financial assets in the Nuclear Liabilities Investment Portfolio (NLIP) held by British Nuclear Fuels Limited (BNFL). There has been a small reduction in the value since the 2006 Pre-Budget Report reflecting improved information on the composition of the liquidation proceeds.

³ Purchases of "rump" gilts which are older, small gilts, declared as such by the DMO and in which Gilt-edged Market Makers (GEMMs) are not required to make two-way markets. The Government will not sell further amounts of such gilts to the market but the DMO is prepared, when asked by a GEMM, to make a price to purchase such gilts.

⁴ To accommodate changes to the current year's financing requirement resulting from: (i) publication of the previous year's outturn CGNCR; (ii) an increase in the DMO's cash position at the Bank of England; and / or (iii) carry over of unanticipated changes to the cash position from the previous year.

⁵ 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.

⁶ A negative (positive) number indicates an addition to (reduction in) the financing requirement for the following financial year.

⁷ The DMO has operational flexibility to vary the end-financial year stock subject to its operational requirements from 2007-08.

⁸ There is an increase in the DMO's net cash position at the Bank of England of £0.3 billion (reflecting a move from an end-day target balance of £0.2 billion prior to the implementation of the Bank of England's money market reforms to an average daily target balance of £0.5 billion) in 2006-07.

C.10I Full details of the DMO's financing remit including further information on the structure of gilts issuance and the gilt auction calendar for 2007-08 can be found in the *Debt and reserves management report 2007-08* which is published alongside the Budget and is available on HM Treasury's website.

ANALYSIS BY SUB-SECTOR AND ECONOMIC CATEGORY

C.102 Table C22 shows a breakdown of general government transactions by economic category for 2005-06 to 2007-08. Table C23 shows a more detailed breakdown for public sector transactions by sub-sector and economic category for 2005-06, 2006-07 and 2007-08. The latest data published by the ONS for 2005-06 (and the first quarter of 2006-07) reflect revisions to both the classification and timing of the write off of part of Nigeria's Paris Club debt owed to the Export Credits Guarantee Department (ECGD).

C.103 The Nigerian debt write-off had originally been scored in the National Accounts as an imputed capital grant of £2.3 billion from the public corporation sector (ECGD is a trading body and so is classified to this sector for National Accounts purposes) with an offsetting imputed repayment of the relevant loans. The transaction has now been re-routed to the central government (CG) sector as the UK Government, rather than ECGD, was the principal in the decision to write off the debt. It has also been scored in two stages, one of £1.1 billion (33 per cent of eligible debt) in October 2005 when the bilateral agreement was signed and £1.2 billion (34 per cent of eligible debt) in April 2006 when the International Monetary Fund (IMF) Board signed off on the first review of Nigeria's IMF Programme. As a result the impact on public sector net borrowing is now split between 2005-06 and 2006-07, rather than all falling in the latter year. The remaining 33 per cent of eligible debt was repaid in cash, in January 2006 and April 2006.

Table C22: General government transactions by economic category

	£ billion		
	Outturn 2005-06	Estimate 2006-07	Projection 2007-08
Current receipts			
Taxes on income and wealth	180.3	194.9	211.1
Taxes on production and imports	159.5	168.7	178.4
Other current taxes	28.7	30.0	31.7
Taxes on capital	3.3	3.6	4.0
Compulsory social contributions	85.4	90.3	95.6
Gross operating surplus	12.1	13.1	13.8
Rent and other current transfers	2.0	2.3	2.3
Interest and dividends from private sector and abroad	4.8	5.4	6.6
Interest and dividends from public sector	2.6	3.0	2.9
Total current receipts	478.7	511.4	546.3
Current expenditure			
Current expenditure on goods and services	274.7	288.4	306.5
Subsidies	6.4	6.9	6.8
Net social benefits	143.8	148.8	157.1
Net current grants abroad	-0.5	0.6	0.2
Other current grants	33.3	35.9	37.1
Interest and dividends paid	26.2	27.9	29.7
AME margin	0.0	0.0	0.9
Total current expenditure	483.9	508.7	538.3
Depreciation	12.1	13.1	13.8
Surplus on current budget	-17.3	-10.3	-5.7
Capital expenditure			
Gross domestic fixed capital formation	6.5	24.5	29.0
Less depreciation	-12.1	-13.1	-13.8
Increase in inventories	0.0	0.0	0.0
Capital grants (net) within public sector	13.1	1.3	0.4
Capital grants to private sector	12.6	14.9	15.2
Capital grants from private sector	-1.5	-1.5	-1.5
AME margin	0.0	0.0	0.1
Net investment	18.6	26.1	29.4
Net borrowing¹	35.9	36.4	35.1
of which:			
Central government net borrowing	32.9	34.8	33.2
Local authority net borrowing	3.0	1.6	2.0
Gross debt (Maastricht basis)			
Central government	469.1	506.9	548.9
Local government	60.1	60.9	61.6

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 C23: Public sector transactions by sub-sector and economic category

	£ billion			
	2005-06			
	General government		Public corporations	Public sector
Central government	Local authorities			
Current receipts				
Taxes on income and wealth	180.3	0.0	-0.2	180.1
Taxes on production and imports	159.3	0.2	0.0	159.5
Other current taxes	8.1	20.6	0.0	28.7
Taxes on capital	3.3	0.0	0.0	3.3
Compulsory social contributions	85.4	0.0	0.0	85.4
Gross operating surplus	6.1	6.0	8.0	20.1
Rent and other current transfers	1.9	0.0	0.0	2.0
Interest and dividends from private sector and abroad	3.8	1.0	1.8	6.7
Interest and dividends from public sector	3.8	-1.3	-2.6	0.0
Total current receipts	452.1	26.6	7.0	485.7
Current expenditure				
Current expenditure on goods and services	166.5	108.2	0.0	274.7
Subsidies	4.7	1.7	0.0	6.4
Net social benefits	128.4	15.4	0.0	143.8
Net current grants abroad	-0.5	0.0	0.0	-0.5
Current grants (net) within public sector	102.3	-102.3	0.0	0.0
Other current grants	33.3	0.0	0.0	33.3
Interest and dividends paid	25.8	0.4	0.3	26.6
AME margin	0.0	0.0	0.0	0.0
Total current expenditure	460.3	23.5	0.3	484.2
Depreciation	6.1	6.0	4.4	16.5
Surplus on current budget	-14.3	-3.0	2.3	-15.0
Capital expenditure				
Gross domestic fixed capital formation	-6.8	13.3	21.8	28.3
Less depreciation	-6.1	-6.0	-4.4	-16.5
Increase in inventories	0.0	0.0	-0.2	-0.2
Capital grants (net) within public sector	20.6	-7.5	-13.1	0.0
Capital grants to private sector	11.3	1.3	0.0	12.6
Capital grants from private sector	-0.4	-1.1	0.0	-1.5
AME margin	0.0	0.0	0.0	0.0
Net investment	18.6	0.0	4.1	22.7
Net borrowing	32.9	3.0	1.8	37.8

Table C23: 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	194.9	0.0	-0.2	194.7
Taxes on production and imports	168.5	0.2	0.0	168.7
Other current taxes	8.5	21.5	0.0	30.0
Taxes on capital	3.6	0.0	0.0	3.6
Compulsory social contributions	90.3	0.0	0.0	90.3
Gross operating surplus	6.5	6.6	8.5	21.6
Rent and other current transfers	2.3	0.0	0.0	2.3
Interest and dividends from private sector and abroad	3.9	1.5	0.6	6.0
Interest and dividends from public sector	3.5	-0.5	-3.0	0.0
Total current receipts	482.1	29.3	5.8	517.2
Current expenditure				
Current expenditure on goods and services	176.3	112.2	0.0	288.4
Subsidies	5.1	1.9	0.0	6.9
Net social benefits	132.8	16.1	0.0	148.8
Net current grants abroad	0.6	0.0	0.0	0.6
Current grants (net) within public sector	106.4	-106.4	0.0	0.0
Other current grants	35.9	0.0	0.0	35.9
Interest and dividends paid	27.4	0.5	0.3	28.3
AME margin	0.0	0.0	0.0	0.0
Total current expenditure	484.4	24.3	0.3	509.0
Depreciation	6.5	6.6	4.6	17.7
Surplus on current budget	-8.8	-1.5	0.9	-9.5
Capital expenditure				
Gross domestic fixed capital formation	10.1	14.4	5.2	29.7
Less depreciation	-6.5	-6.6	-4.6	-17.7
Increase in inventories	0.0	0.0	0.0	0.0
Capital grants (net) within public sector	9.6	-8.3	-1.3	0.0
Capital grants to private sector	13.1	1.7	0.1	15.0
Capital grants from private sector	-0.3	-1.2	0.0	-1.5
AME margin	0.0	0.0	0.0	0.0
Net investment	26.0	0.1	-0.6	25.5
Net borrowing	34.8	1.6	-1.4	35.0

Table C23: 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	211.1	0.0	-0.2	210.9
Taxes on production and imports	178.2	0.2	0.0	178.4
Other current taxes	9.1	22.6	0.0	31.7
Taxes on capital	4.0	0.0	0.0	4.0
Compulsory social contributions	95.6	0.0	0.0	95.6
Gross operating surplus	6.7	7.1	9.2	23.0
Rent and other current transfers	2.3	0.0	0.0	2.3
Interest and dividends from private sector and abroad	4.9	1.6	0.6	7.1
Interest and dividends from public sector	3.8	-0.8	-2.9	0.0
Total current receipts	515.7	30.7	6.6	553.0
Current expenditure				
Current expenditure on goods and services	185.3	121.2	0.0	306.5
Subsidies	4.7	2.0	0.0	6.8
Net social benefits	139.7	17.4	0.0	157.1
Net current grants abroad	0.2	0.0	0.0	0.2
Current grants (net) within public sector	114.8	-114.8	0.0	0.0
Other current grants	37.1	0.0	0.0	37.1
Interest and dividends paid	29.1	0.6	0.3	30.0
AME margin	0.9	0.0	0.0	0.9
Total current expenditure	511.9	26.4	0.3	538.6
Depreciation	6.7	7.1	4.9	18.7
Surplus on current budget	-2.9	-2.8	1.4	-4.3
Capital expenditure				
Gross domestic fixed capital formation	13.3	15.8	5.2	34.2
Less depreciation	-6.7	-7.1	-4.9	-18.7
Increase in inventories	0.0	0.0	0.0	0.0
Capital grants (net) within public sector	11.0	-10.6	-0.4	0.0
Capital grants to private sector	12.8	2.4	0.1	15.3
Capital grants from private sector	-0.2	-1.3	0.0	-1.5
AME margin	0.1	0.0	0.0	0.1
Net investment	30.2	-0.8	-0.1	29.4
Net borrowing	33.2	2.0	-1.5	33.7

HISTORICAL SERIES

Table C24: Historical series of public sector balances, receipts and debt

	Per cent of GDP								
	Public sector current budget	Cyclically adjusted surplus on current budget	Public sector net borrowing	Cyclically adjusted public sector net borrowing	Public sector net cash requirement	Net taxes and national insurance contributions	Public sector current receipts	Public sector net debt ¹	Public sector net worth ²
1970-71	6.9		-0.6		1.2	36.5	43.5		
1971-72	4.2		1.1		1.4	35.2	41.6		
1972-73	2.0	2.5	2.8	2.3	3.6	32.8	39.2		
1973-74	0.4	-0.8	4.9	6.1	5.8	32.1	39.8		
1974-75	-0.9	-2.5	6.6	8.1	9.0	34.8	42.5	52.1	
1975-76	-1.4	-1.7	7.0	7.3	9.2	35.5	43.1	53.8	
1976-77	-1.1	-0.6	5.5	5.1	6.4	35.4	43.5	52.3	
1977-78	-1.3	-1.2	4.3	4.2	3.7	34.3	41.7	49.0	
1978-79	-2.5	-2.4	5.1	4.9	5.2	33.3	40.4	47.1	
1979-80	-1.8	-1.7	4.1	4.0	4.7	33.7	40.9	43.9	
1980-81	-3.0	-1.5	4.9	3.4	5.2	35.8	42.7	46.0	
1981-82	-1.3	2.5	2.3	-1.5	3.3	38.4	46.1	46.2	
1982-83	-1.4	2.9	3.0	-1.3	3.2	38.6	45.8	44.8	
1983-84	-2.0	1.8	3.8	0.1	3.2	38.1	44.7	45.1	
1984-85	-2.1	0.9	3.7	0.7	3.1	38.8	44.6	45.3	
1985-86	-1.2	0.5	2.4	0.7	1.6	38.0	43.5	43.5	
1986-87	-1.4	-1.2	2.1	1.9	0.9	37.7	42.4	41.0	
1987-88	-0.4	-1.7	1.0	2.3	-0.7	37.5	41.4	36.8	73.4
1988-89	1.7	-0.9	-1.3	1.3	-3.0	36.8	41.0	30.5	78.9
1989-90	1.5	-1.4	-0.2	2.6	-1.3	36.1	40.2	27.7	70.7
1990-91	0.3	-1.2	1.0	2.6	-0.1	35.8	39.2	26.2	60.2
1991-92	-2.0	-1.5	3.8	3.4	2.3	34.7	38.8	27.4	52.8
1992-93	-5.7	-3.8	7.6	5.7	5.9	33.5	36.9	32.0	39.9
1993-94	-6.4	-4.2	7.8	5.6	7.1	32.6	36.0	37.3	29.2
1994-95	-4.8	-3.4	6.3	4.9	5.3	33.8	37.1	40.8	28.3
1995-96	-3.4	-2.5	4.7	3.9	4.3	34.5	37.8	42.7	20.9
1996-97	-2.8	-2.3	3.5	3.0	2.9	34.8	37.3	43.6	17.0
1997-98	-0.1	0.0	0.8	0.7	0.2	35.9	38.4	41.6	14.3
1998-99	1.2	1.1	-0.5	-0.3	-0.7	36.3	38.6	39.3	13.4
1999-00	2.3	2.0	-1.7	-1.5	-0.9	36.4	38.9	36.6	16.6
2000-01	2.5	1.9	-2.1	-1.5	-3.8	37.2	39.6	31.7	22.6
2001-02	1.1	0.9	0.0	0.2	0.4	36.6	38.7	30.7	29.4
2002-03	-1.1	-0.6	2.3	1.9	2.4	35.2	37.2	32.0	28.0
2003-04	-1.6	-1.2	3.0	2.6	3.5	35.2	37.4	33.1	28.3
2004-05	-1.6	-1.5	3.3	3.2	3.2	35.9	38.1	35.0	28.8
2005-06	-1.2	-1.0	3.0	2.8	3.2	36.9	39.2	36.5	27.0

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

Table C25: Historical series of government expenditure

	£ billion (2005-06 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	180.6	34.5	55.2	235.7	32.8	6.3	10.0	42.8
1971-72	189.4	30.0	51.8	241.2	33.5	5.3	9.2	42.7
1972-73	197.8	28.9	51.7	249.5	33.4	4.9	8.7	42.1
1973-74	216.7	32.4	57.8	274.4	35.3	5.3	9.4	44.7
1974-75	239.9	34.9	61.7	301.6	39.0	5.7	10.0	49.0
1975-76	244.9	34.2	61.2	306.1	40.1	5.6	10.0	50.1
1976-77	251.7	28.1	56.0	307.7	40.1	4.5	8.9	49.0
1977-78	248.2	19.2	47.4	295.6	38.6	3.0	7.4	46.0
1978-79	255.4	16.7	45.5	301.0	38.6	2.5	6.9	45.5
1979-80	261.7	15.6	44.8	306.5	38.5	2.3	6.6	45.1
1980-81	269.5	12.5	42.2	311.8	41.1	1.9	6.4	47.5
1981-82	281.6	6.7	36.2	317.8	42.9	1.0	5.5	48.4
1982-83	287.8	10.6	39.2	327.0	42.9	1.6	5.9	48.8
1983-84	296.8	12.9	41.4	338.2	42.6	1.9	5.9	48.5
1984-85	304.8	11.3	38.5	343.3	42.9	1.6	5.4	48.3
1985-86	305.3	8.8	33.7	339.1	41.3	1.2	4.6	45.9
1986-87	310.1	5.3	30.4	340.5	40.5	0.7	4.0	44.4
1987-88	313.6	4.8	28.4	342.1	38.9	0.6	3.5	42.4
1988-89	306.1	2.9	26.5	332.6	36.5	0.3	3.2	39.7
1989-90	308.1	10.8	34.1	342.2	36.0	1.3	4.0	40.0
1990-91	310.2	11.7	33.0	343.2	36.4	1.4	3.9	40.3
1991-92	328.4	15.3	33.2	361.7	38.7	1.8	3.9	42.6
1992-93	344.5	15.9	33.4	377.9	40.5	1.9	3.9	44.5
1993-94	354.5	12.6	30.0	384.5	40.4	1.4	3.4	43.8
1994-95	365.7	13.0	30.3	395.9	40.0	1.4	3.3	43.3
1995-96	370.2	13.0	29.9	400.0	39.4	1.4	3.2	42.6
1996-97	370.1	6.8	22.2	392.3	38.5	0.7	2.3	40.8
1997-98	368.5	6.3	21.2	389.7	37.0	0.6	2.1	39.2
1998-99	368.9	7.7	21.9	390.8	36.0	0.7	2.1	38.1
1999-00	374.9	6.2	20.5	395.4	35.2	0.6	1.9	37.2
2000-01	393.3	4.6	19.2	412.4	35.8	0.4	1.7	37.5
2001-02	405.8	12.3	27.0	432.8	36.3	1.1	2.4	38.7
2002-03	424.3	14.4	29.6	453.9	37.0	1.3	2.6	39.5
2003-04	445.9	16.2	31.5	477.4	37.7	1.4	2.7	40.4
2004-05	464.2	20.7	36.4	500.6	38.4	1.7	3.0	41.4
2005-06	484.2	22.7	39.2	523.4	39.1	1.8	3.2	42.2

¹ Net of sales of fixed assets.

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 FSBR, 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

CI04 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.

CI05 Full details of the sources for each table are included in Budget 2007: data sources, available on the Treasury's internet site, and on request from the Treasury's Public Enquiry Unit (020 7270 4558).

CI06 The outturn figures are based on series published in the monthly Public Sector Finance release, last published on 20 March 2007.

CI07 The principal measures drawn from the National Accounts are described below.

Fiscal aggregates

CI08 The current budget, formerly known as the current balance, measures the balance of current account revenue over current expenditure, including depreciation. The definition of the current budget presented in this chapter 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.

CI09 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 financial 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 are included in the public sector net cash requirement.

CI10 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, net of short-term financial assets such as bank deposits and foreign exchange reserves.

CI11 General government gross debt, the Treaty debt ratio, 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.

CI12 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

CI13 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 C8. 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 NTCNIC, 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 company tax credits that offset tax liability in NTCNIC are added back into current receipts in Table C8;

- a similar adjustment is made for TV licences, which the ONS treats 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

CI14 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.

CI15 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.

CI16 Public sector capital expenditure is shown in Table C14. 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.

CI17 Public sector net investment in Table C1 nets off depreciation of the public sector's stock of fixed assets.

CI18 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.

CI19 For budgeting purposes, TME is further split into Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME).

CI20 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 C13.

CI21 AME is spending that cannot be reasonably subject to firm multi-year limits. AME components are shown in Table C11 and are defined as follows.

CI22 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.

CI23 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.

CI24 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.

CI25 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.

CI26 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.

CI27 Other departmental expenditure aggregates all other expenditure made by departments that is not separately identified in the AME table.

CI28 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 the National Accounts.

CI29 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.

CI30 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.

CI31 Public corporations' own-financed capital expenditure is the amount of capital expenditure by public corporations that is not financed by general government.

CI32 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.

CI33 The accounting adjustments reconcile the DEL and AME framework of departmental budgets to the National Accounts measure of TME, and are shown in Table C14.

CI34 *Central government programmes* covers various items which relate to central government programme expenditure and where budgeting and National Accounts treatments differ, for example the depreciation costs of NHS Trusts and tax credits for companies.

- CI35** *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.
- CI36** *Central government non-trading capital consumption* (i.e. depreciation) as measured by the ONS for National Accounts is added.
- CI37** *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.
- CI38** *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.
- CI39** *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.
- CI40** *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. The cost of over-75 TV licences in AME social security, as these represent payments within central government, from DWP to BBC.
- CI41** *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.
- CI42** *Financial transactions* deducts net lending, acquisition of securities and profit or loss on sale of financial assets.
- CI43** *Other accounting adjustments* deducts depreciation and impairments in AME. An adjustment is also made to reconcile to actual and expected National Accounts outturn. Differences can arise, for example, because of differences in the timing of data.

