B THE PUBLIC FINANCES

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

- **the current budget since the start of the current economic cycle in 1999-2000 show an average surplus up to 2005-06 of 0.1 per cent of GDP, showing the Government is meeting the golden rule on the basis of cautious assumptions. The average annual current surplus from 2005-06 to the end of the forecast period is about 1/4 per cent of GDP; and**
- **public sector net debt is projected to be low and stable over the forecast period stabilising at 37 per cent of GDP, well below the 40 per cent ceiling set in the sustainable investment rule.**

The 2004 *End of year fiscal report* is published alongside this Pre-Budget Report, underlining the Government's commitment to transparency in fiscal policy by providing detailed retrospective information on the public finances in 2002-03 and 2003-04.

INTRODUCTION

B1 Chapter 2 describes the Government's fiscal policy framework and shows how the projections of the public finances presented in this Pre-Budget Report are consistent with the fiscal rules. This annex explains the fiscal projections in more detail. It includes:

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

B2 The fiscal projections continue to be based on deliberately cautious key assumptions audited by the National Audit Office (NAO).

B3 As described in Chapter 2, an *End of year fiscal report* is published alongside this Pre-Budget Report. The report underlines the Government's commitment to transparency in fiscal policy by providing detailed retrospective information on the state of the public finances in 2002-03 and 2003-04, including their performance against the fiscal rules and against published forecasts and plans. The information set out in the *End of year fiscal report* supplements the historical and provisional outturn data published in this annex.

B4 The Pre-Budget Report updates the projections of the public finances contained in Budget 2004, to take account of subsequent developments in both the public finances and the world and UK economies. The projections represent an interim forecast update and are not necessarily the outcome the Government is seeking.

MEETING THE FISCAL RULES

B5 Table B1 shows five-year projections for the current budget and public sector net debt, the key aggregates for assessing the performance against the golden rule and the sustainable investment rule respectively. Outturns and projections of other important measures of the public finances, including net investment and net borrowing, are also shown.

B6 As explained in Chapter 2, the Government's provisional view is that the current economic cycle started in 1999-2000. Based on the assumptions used in these projections, the economy will next return to trend levels, ending the current cycle, in 2005-06.

Table B1: Summary of public sector finances

	Per cent of GDP							
	Outturns		Estimate	Projections				
	2002–03	2003–04	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10
Fairness and prudence								
Surplus on current budget	–1.3	–1.9	–1.1	–0.6	0.0	0.3	0.6	0.8
Average surplus since 1999-2000	1.0	0.4	0.2	0.1	0.1	0.1	0.1	0.2
Cyclically-adjusted surplus on current budget	–0.7	–1.0	–0.4	–0.4	0.1	0.3	0.6	0.8
Long-term sustainability								
Public sector net debt[1]	31.5	32.9	34.3	35.4	36.2	36.8	37.0	37.1
Core debt[1]	31.1	31.6	32.4	33.4	34.3	35.0	35.3	35.4
Net worth[2]	24.2	22.0	19.6	17.1	16.5	15.4	15.5	14.8
Primary balance	–0.8	–1.5	–1.3	–1.0	–0.5	–0.3	0.0	0.2
Economic impact								
Net investment	1.1	1.2	1.8	2.1	2.2	2.3	2.2	2.3
Public sector net borrowing (PSNB)	2.4	3.1	2.9	2.7	2.2	2.0	1.6	1.5
Cyclically-adjusted PSNB	1.8	2.2	2.2	2.5	2.2	2.0	1.6	1.5
Financing								
Central government net cash requirement	2.1	3.5	3.4	2.9	2.5	2.1	1.7	1.8
Public sector net cash requirement	2.3	3.6	3.1	2.8	2.5	2.2	1.8	1.8
European commitments								
Treaty deficit[3]	2.2	3.1	2.8	2.7	2.2	2.0	1.6	1.5
Cyclically-adjusted Treaty deficit[3]	1.6	2.2	2.2	2.5	2.2	2.0	1.6	1.5
Treaty debt ratio[4]	37.8	39.5	40.9	41.8	42.4	42.8	42.8	42.6
Memo: Output gap	–1.2	–1.4	–0.8	–0.1	0.0	0.0	0.0	0.0

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

[2] *Estimate at end December; GDP centered 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

B7 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 around 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 £8 billion in this cycle, including the AME margin.

B8 The economy is projected to return to trend by early 2006. With the economy assumed to be on trend from then on, the projections show, based on cautious assumptions, that the average surplus over the period 2005-06 to 2009-10 is $^1/_4$ per cent of GDP. At this early stage, and based on cautious assumptions, the Government is therefore on course to meet the golden rule after the end of this economic cycle.

Box B1: Measuring the golden rule

The golden rule will be met if the average annual surplus on the current budget expressed as a ratio to GDP, measured from the year in which the economic cycle begins up to and including the year in which the economic cycle ends, is in balance or surplus.[a] This is shown in Table B1, which reports the average surplus since the beginning of the cycle, rounded to one decimal place. When the economic cycle has been judged to have finished, it will be this measure that is used to determine whether the golden rule has been met.

The rationale for the Government's fiscal rules and their measurement is discussed in detail in Chapter 9 of *Reforming Britain's economic and financial policy*.[b] The golden rule helps to promote intergenerational fairness and is fully consistent with the Government's objective of sustainable public finances.

The margin against the golden rule shows the amount by which receipts can be lower than projected or spending higher than projected over the remainder of the economic cycle and the Government continue to meet the golden rule. The margin against the golden rule includes the AME margin, which is a safety margin within Total Managed Expenditure (TME) to guard against unexpected events. Any AME Margin that remains unspent at the end of the year will add to the current surplus.

[a] This measure has been used since the beginning of the framework: Budget 1997 used this measure when commenting on the golden rule over the then most recently completed economic cycle; the Economic and Fiscal Strategy Report 1998, which adopted the current format for the presentation of the public finances that corresponds more closely to the fiscal rules, included the average annual surplus on the current budget as a ratio to GDP since the beginning of the cycle; and Budget 2000 reported on performance against the golden rule over the short economic cycle that ran from 1997-98 to 1999-2000 using this measure.
[b] Balls and O'Donnell (eds.), 2002.

The sustainable investment rule

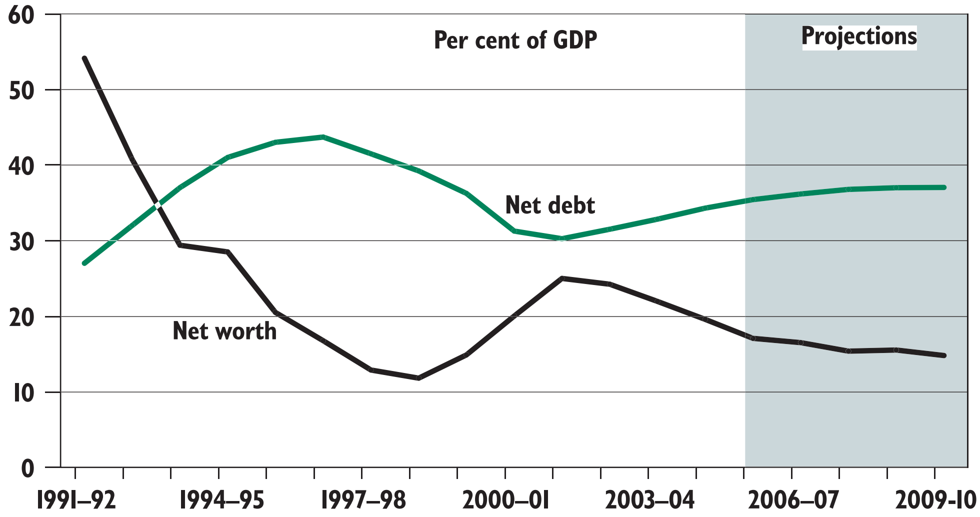
B9 The sustainable investment rule is also met over the economic cycle. In 1996-97, public sector net debt stood at 44 per cent of GDP. The tough decisions on taxation and expenditure taken by the Government, including the decision to use the proceeds from the auction of spectrum licences to repay debt, reduced debt to around 30 per cent of GDP by the end of 2001-02. It is now projected to grow slowly, as the Government borrows modestly to fund increased investment in public services, reaching 35.4 per cent of GDP at the end of this economic cycle, £59 billion below the 40 per cent level, and stabilising at around 37 percent at the end of the projection period. The projections for net debt take account of the full impact of the Graduate Contributions scheme. The projections for core debt, which exclude the estimated impact of the economic cycle, increase to just over 35 per cent of GDP. This is consistent with the fiscal rules, and with the key objective of intergenerational fairness that underpins the fiscal framework.

Net worth

B10 Net worth is the approximate stock counterpart of the current budget balance. Modest falls in net worth are expected for the remainder of the projection period from the high level of 25 per cent of GDP in 2001-02. At present, net worth is not used as a key indicator of the public finances, mainly as a result of the difficulties involved in accurately measuring many government assets and liabilities.

B11 Chart B1 shows public sector net debt and net worth as a per cent of GDP from 1991-92 to 2009-10.

Chart B1: Public sector net debt and net worth



Net investment

B12 As a result of decisions taken in the 2004 Spending Review public sector net investment is projected to rise to 2¼ per cent by 2007-08. 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, well below 40 per cent of GDP.

Net borrowing

B13 Public sector net borrowing is expected to fall from 2.9 per cent of GDP in 2004-05, reaching a level of around 1.5 per cent of GDP by 2009-10.

Financing

B14 The central government net cash requirement was 3.5 per cent of GDP in 2003-04. It is projected to decrease to 3.1 per cent in 2004-05, and decreasing further to 1.8 per cent of GDP by 2009-10, mirroring the profile of net borrowing.

European commitments

B15 Table B1 shows the Treaty measures of debt and deficit used for the purposes of the Excessive Deficit Procedure – Article 104 of the Treaty. The Pre-Budget Report projections meet the EU Treaty reference value for general government gross debt (60 per cent of GDP) by a considerable margin. In addition, the cyclically adjusted level of general government net borrowing does not exceed 2.5 per cent of GDP throughout the projection period. The projections are therefore consistent with the Government's prudent interpretation of the Stability and Growth Pact.

CHANGES TO THE FISCAL BALANCES

B16 Table B2 compares the latest estimates for the main fiscal balances with those in Budget 2004.

Table B2: Fiscal balances compared with Budget 2004

	Outturn[1]	Estimate[2]	Projections			
	2003–04	2004–05	2005–06	2006–07	2007–08	2008–09
Surplus on current budget (£ billion)						
Budget 2004	–21.3	–10.5	–5	0	4	9
Effect of revisions and forecasting changes	0.2	–1.2	–1	1	–½	–1
Effect of discretionary changes	0.0	–0.8	–½	0	–½	0
PBR 2004	**–21.1**	**–12.5**	**–7**	**1**	**4**	**9**
Net borrowing (£ billion)						
Budget 2004	37.5	32.9	31	27	27	23
Changes to current budget	–0.2	2.0	1½	–½	½	½
Forecasting changes to net investment	–2.5	–0.7	1½	2	½	0
PBR 2004	**34.8**	**34.2**	**33**	**29**	**28**	**24**
Cyclically-adjusted surplus on current budget (per cent of GDP)						
Budget 2004	–1.0	–0.2	–0.2	0.0	0.3	0.7
PBR 2004	**–1.0**	**–0.4**	**–0.4**	**0.1**	**0.3**	**0.6**
Cyclically-adjusted net borrowing (per cent of GDP)						
Budget 2004	2.4	2.1	2.3	2.1	1.9	1.6
PBR 2004	**2.2**	**2.2**	**2.5**	**2.2**	**2.0**	**1.6**
Net debt (per cent of GDP)						
Budget 2004	33.2	34.4	35.3	35.9	36.3	36.4
PBR 2004	**32.9**	**34.3**	**35.4**	**36.2**	**36.8**	**37.0**

[1] *The 2003–04 figures were estimates in Budget 2004.*
[2] *The 2004–05 figures were projections in Budget 2004.*

B17 The revisions to the public sector current budget in this Pre-Budget Report are mainly due to changes to receipts, especially corporation tax.

B18 Overall, the current budget has been revised from a deficit of £10.5 billion to a deficit of £12.5 billion in 2004-05, and from a deficit of £5 billion to a deficit of £7 billion in 2005-06. In subsequent years there are only small changes.

B19 Net borrowing increases by about £1 billion in 2004-05 as changes to the current budget are partly offset by changes to forecast of net investment in the light of recent outturn data.

FORECAST DIFFERENCES AND RISKS

B20 The fiscal balances represent the difference between large aggregates of expenditure and receipts, and forecasts are inevitably subject to wide margins of uncertainty. Over the past ten years, the average absolute difference between year-ahead forecasts of net borrowing and subsequent outturns has been around 1 per cent of GDP. These tend to grow as the forecast horizon lengthens. A full account of differences between the projections made in Budget 2002 and Budget 2003 and the subsequent outturns is provided in the *End of year fiscal report.*

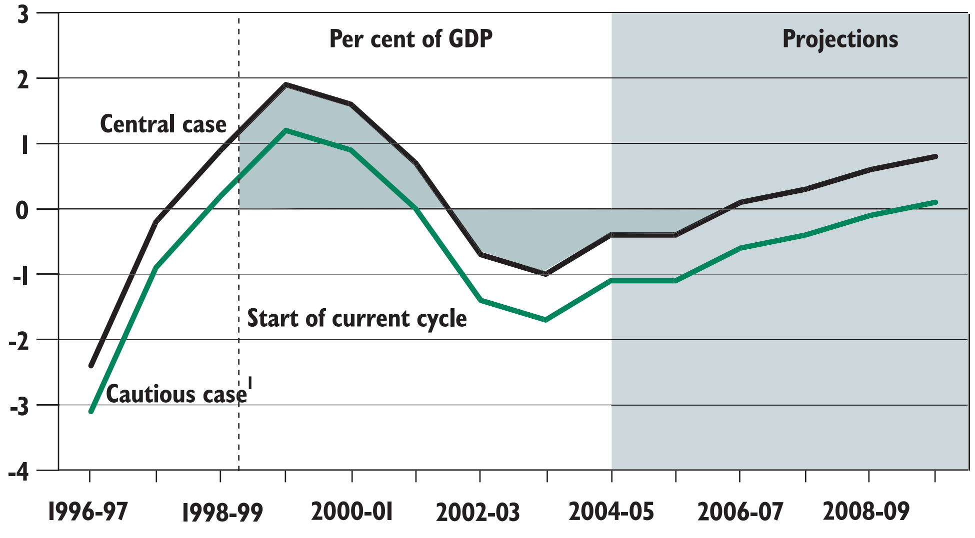
B21 As explained in Annex A, UK GDP growth began to pick up sharply during the second quarter of 2003, as some of the previous major international uncertainties diminished, and recovery in the world economy became more firmly entrenched. Sound macroeconomic fundamentals, recent underlying growth at above trend rates, and continued strong growth in the world economy point to a further period of robust growth in demand for UK output. On the supply side, evidence of remaining slack in the economy supports the judgement that the economy has the potential for a period of further above trend growth in the short term, without risking inflationary pressures.

B22 However, although the overall shape of the economic forecast is broadly unchanged from Budget time, the configuration of the surrounding risks and uncertainties has changed. In particular, high oil prices – if sustained – would tend to dampen growth, though to the extent that they partly reflect strong global demand rather than supply-side or risk premia shocks there are likely to be offsetting effects. Global developments remain an influence on the UK outlook, and challenging judgements will continue to be faced in setting monetary and fiscal policy. In the UK forecast, as has been the case in 2004, business investment could continue to surprise on the upside, and there may be headroom for stronger consumer spending.

B23 The use of cautious assumptions audited by the NAO builds a margin into the public finance projections to guard against unexpected events. One of the key audited assumptions is that for the trend of GDP growth, which is assumed to be $^1/_4$ of a percentage point below the neutral view. This means that the rate of economic growth used to forecast the public finances is the bottom end of the projection range. For example, in this Pre-Budget Report, the forecast for economic growth used in the public finance projections over the period 2005-06 to 2009-10 averages under $2^1/_2$ per cent, $^1/_4$ per cent below the central case, implying the level of GDP used in the public finance forecast is 1.4 per cent below the neutral view in 2009-10.

B24 A second important source of potential error results from misjudging the position of the economy in relation to trend output. To minimise this risk, the robustness of the projections is tested against an alternative scenario in which the level of trend output is assumed to be one percentage point lower than in the central case. Chart B2 illustrates the Pre-Budget Report projection for this cautious case.

Chart B.2: Cyclically-adjusted surplus on current budget



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

B25 The Government has used the cautious case and cautious, audited assumptions to build a safety margin against unexpected events. This was combined with the decision to consolidate the public finances when the economy was above trend, which resulted in low debt. This has allowed the Government to safeguard the increase in investment in priority public services, allow the automatic stabilisers to work in full during the period of global economic uncertainty that began in 2000 and meet in full the UK's international commitments, while continuing to meet the fiscal rules.

ASSUMPTIONS

B26 The fiscal projections are based on the following assumptions:

- the economy follows the path in Annex A. In the interests of caution, the fiscal projections continue to be based on the deliberately prudent and cautious assumption of trend output growth of $2^1/_2$ per cent up to 2006-07, $^1/_4$ percentage point lower than the Government's neutral view. The Government's neutral view of trend output growth is reduced to $2^1/_2$ per cent between 2007-08 and 2009-10, and so, to maintain a cautious approach, an assumption of $2^1/_4$ per cent is used in the public finances projections, still $^1/_4$ percentage point lower than the Government's neutral view;
- there are no tax or spending policy changes beyond those announced since Budget 2004 or in this Pre-Budget Report (see Table B4), and the indexation of rates and allowances. Consistent with the *Code for fiscal stability*, the forecast does not take account of measures proposed in this Pre-Budget Report for consultation or other proposals where final decisions have yet to be taken;
- firm Departmental Expenditure Limits (DEL) as set out in the 2004 Spending Review up to 2007-08, but adjusted for the impact of policy decisions and reclassifications;
- total Annually Managed Expenditure (AME) is as set out in 2004 Spending Review up until 2007-08, but adjusted for reclassifications, re-profiling of capital expenditure and the impact of policy decisions. Forecasts of individual components have been updated with changes absorbed by the AME margin within set total AME;
- As is normal, the Treasury is setting out its assumption for public sector current expenditure for the period beyond the next Spending Review. Public sector current expenditure in 2008-09 is assumed to grow by 1.9 per cent in real terms, in line with the assumed growth rate in the 2003 Pre-Budget Report, and, by the same rate in 2009-10. Taken together, these assumptions imply public sector current expenditure grows on average in line with the cautious view of trend GDP growth used in the public finance projections for the three year period starting in 2007-08; and
- net investment is assumed to remain at $2^1/_4$ per cent of GDP in 2008-09 and 2009-10.

Table B3: Economic assumptions for the public finance projections

	Percentage changes on previous year						
	Outturn	Estimate			Projections		
	2003–04	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10
Output (GDP)	2¾	3¼	3	2½	2¼	2¼	2¼
Prices							
CPI	1¼	1¼	1¾	2	2	2	2
GDP deflator	2¾	2¼	2½	2¾	2¾	2¾	2¾
RPI[1] (September)	3	3	2¼	2½	2¾	2¾	2¾
Rossi[2] (September)	2	1¼	2¼	2½	2¼	2¼	2¼
Money GDP[3] (£ billion)	1116	1176	1243	1308	1373	1440	1511

[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.*

B27 The key assumptions underlying the fiscal projections are audited by the National Audit Office (NAO) and details of the main audited assumptions are given in Box B2. All these assumptions are subject to review by the NAO under the three-year rolling review process, but none were due for review in this Pre-Budget Report.

Box B2: Key assumptions audited by the NAO[a]

• Privatisation proceeds	Credit is taken only for proceeds from sales that have been announced.
• Trend GDP growth	$2^1/_2$ per cent a year to 2006-07 and $2^1/_4$ per cent in subsequent years.
• UK claimant unemployment	Rising slowly to 0.89 million in 2007-08, from recent levels of 0.84 million.
• Interest rates	3-month market rates change in line with market expectations (as of 19 November).
• Equity prices[b]	FTSE All-Share index rises from 2,389 (close 18 November) in line with money GDP.
• VAT[b,c]	The VAT gap will rise by 0.5 percentage points per year from a level that is at least as high as the estimated outturn for the current year.
• Consistency of price indicies[b]	Projections of price indices used to project the public finances are consistent with CPI.
• Composition of GDP[c]	Shares of labour income and profits in national income are broadly constant in the medium term.
• Funding[c]	Funding assumptions used to project debt interest are consistent with the forecast level of government borrowing and with financing policy.
• Oil prices	$38.2 a barrel in 2005, the average of independent forecasts, and then constant in real terms.
• Tobacco	The underlying market share of smuggled cigarettes will be set at least at the latest published outturn. A share of 14.5 per cent, in line with the latest outturn for 2003-04, is used for 2005-06 onwards.

[a] For details of all NAO audits before the 2003 Pre-Budget Report, see Budget 2003, 9 April 2003 (HC500).
[b] Audit of Assumptions for the 2003 Pre-Budget Report, 10 December 2003 (HC35).
[c] Audit of Assumptions for the 2004 Budget, 17 March 2004 (HC434).

PRE-BUDGET REPORT POLICY DECISIONS

B28 Consistent with the requirements of the *Code for fiscal stability*, the updated projections take into account the fiscal effects of all firm decisions announced in the Pre-Budget Report or since Budget 2004. The fiscal impact of these measures is set out in Table B4. They include:

- a continuation of the freeze on the Budget 2004 annual duty increases for main road fuels;
- a ten year strategy for childcare;
- a National Employer Training Programme;
- a further addition to the special reserve to meet the cost of military operations in Iraq and the UK's other international obligations; and
- action to protect tax revenues and modernise the tax system, including measures to combat tax fraud and avoidance.

B29 In line with the conventions in previous Pre-Budget Reports, expenditure measures in AME for future years have been added to total AME, and to current expenditure in 2008-09 and 2009-10, and measures in DEL have been added to total DEL.

B30 The projections do not take account of decisions where the impact cannot yet be quantified, such as the Pension Protection Fund, or of measures proposed in the Pre-Budget Report where final decisions have yet to be taken, these include:

- further extensions to paid maternity leave;
- extending financial support for young people;
- changes to Individual Savings Account limits from 2006-07; and
- increasing Child Trust Fund Payments.

B31 The measures in Table B4 that either close tax loopholes or tackle tax fraud represent the estimated direct Exchequer effect of the measure on existing levels of avoidance or fraud activity. Further details explaining the conventions used in Table B4 can be found in Appendix A2 of the Financial Statement and Budget Report 2004.

Table B4: Estimated costs of Pre-Budget Report policy decisions and others announced since Budget 2004[1]

				£ million
	2004–05	2005–06	2006–07	2007–08
Meeting the productivity challenge				
National Employer Training Programme	0	0	–80	–160
New Deal for Skills	0	–10	–10	–25
Increasing employment opportunity for all				
Incapacity benefit: additional Pathways to Work	0	*	–60	–65
Increasing Working Tax Credit thresholds	0	–140	–140	–140
Building a fairer society				
Social Fund reform	0	0	–5	–5
£50 payment for the over 70s	0	–260	0	0
Tax consequences of the Civil Partnerships Act	0	–10	–25	–30
VAT: grant to Band Aid 20	0	–5	*	*
Modernising the taxation of leasing	0	0	65	170
10 year Childcare Strategy				
Working Tax Credit: increase childcare element to 80%	0	0	–130	–130
Working Tax Credit: increase childcare limits to £175/£300 per week	0	–30	–30	–30
Extension of paid maternity leave to 9 months	0	0	0	–285
Improving childcare quality and sustainability	0	0	–240	–155
Protecting revenues				
Capital gains options avoidance	10	50	80	80
Remuneration based avoidance	200	500	500	500
Reform of film tax reliefs	20	90	110	120
Life insurance companies avoidance	0	35	50	50
Abuse of Controlled Foreign Companies regime	0	30	50	80
Abuse of double tax relief	0	145	200	200
VAT: abuse of input tax rules	15	45	45	50
Loans and financial instruments avoidance	10	115	150	150
Protecting the environment				
Company car tax: reform of diesel supplement	0	0	40	100
Fuel duties: freeze of main rates	–370	–665	–685	–710
Rebated oils: narrowing of the differential	–80	–105	–110	–110
Other Pre-Budget Report policy decisions				
Addition to local authorities	0	–150	0	0
Addition to special reserve	–520	0	0	0
TOTAL POLICY DECISIONS	**–715**	**–365**	**–225**	**–345**

** Negligible.*

[1] Costings shown relative to an indexed base.

B32 For 2005-06 the income tax personal allowances for those aged under 65 will increase in line with inflation. The NICs threshold and limits will also increase in line with inflation. There will be no change in NICs rates for employers and employees, or the profit-related NICs paid by the self-employed. Other NICs rates for 2005-06 will increase in line with inflation, for the self-employed the rate of Class 2 contributions will be £2.10, the special rate of Class 2 contributions for share fisherman will be £2.75, the rate of class 3 voluntary contributions will be £7.35 and the special rate of Class 2 contributions for volunteer development workers will be £4.10. Tables B5 and B6 set this out in greater detail.

Table B5: National insurance contribution rates 2005–06

	Class 1 rates			Self employed NICs	
Earnings[1]	Employee (primary) NIC rate[2]	Employer (secondary) NIC rate[3]	Profits[1]	Class 2	Class 4
£ per week	per cent	per cent	£ per year	£ per year	per cent
Below 82 (LEL)	0	0	below 4,345 (SEE)	0[5]	0
82 to 94 (PT/ST)	0[4]	0	4,345 to 4,895 (LPL)	2.10	0
94 to 630 (UEL)	11	12.8	4,895 to 32,760 (UPL)	2.10	8
Above 630	1	12.8	Above 32,760	2.10	1

[1] *The limits are defined as LEL – lower earnings limit; PT - primary threshold; ST – secondary threshold; UEL – upper earnings limit; LPL – lower profits limit; UPL – upper profits limit.*

[2] *The contracted-out rebate for primary contributions in 2004–05 is 1.6 per cent of earning between the LEL and UEL for contracted-out-salary-related schemes (CORS) and contracted out money purchase schemes (COMPS).*

[3] *The contracted-out rebate for secondary contributions is 3.5 per cent of earnings between the LEL and UEL for CORS and 1.0 per cent for COMPS. For COMPS, an additional age related rebate is paid direct to the scheme following the end of the tax year. For appropriate personal pensions, the employee and employer pay NICs at the standard, not contracted out rate. An age and earnings-rebate is paid direct to the personal pension provder following the end of the tax year.*

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

[5] *The self-employed may apply for exception from paying Class 2 contributions if their earnings are less than, or expected to be less than, the level of the small earning exceptions (SEE).*

Table B6: Income tax allowances 2005–06

	£ a year		
	2004–05	2005–06	Increase
Personal allowance			
age under 65	4,745	4,895	150
age 65–74	6,830	7,090	260
age 75 and over	6,950	7,220	270
Married couple's allowance[1]			
aged less than 75 and born before 6 April 1935	5,725	5,905	180
age 75 and over	5,795	5,975	180
minimum amount[2]	2,210	2,280	70
Income limit for age-related allowances	18,900	19,500	600
Blind person's allowance	1,560	1,610	50

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

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

B33 As set out in Table B7, the child element of the Child Tax Credit will be increased by £65 to £1,690 a year from 6 April 2005, in line with earnings growth. The other elements of tax credits which are increasing in 2005-06 rise in line with inflation (the increase in the RPI in the year to September 2004): the disabled child elements and the elements of the Working Tax Credit. The first income threshold will also increase in line with inflation, as will the rates of Child Benefit and Guardian's Allowance. The limits on eligible childcare costs in Working Tax Credit will rise to £175 per week for one child and £300 per week for two or more children, from April 2005.

Table B7: Working and Child Tax Credit rates and thresholds

	£ a year		
	2004–05	2005–06	Increase
Working Tax Credit			
Basic Element	1,570	1,620	50
Couple and lone parent element	1,545	1,595	50
30 hour element	640	660	20
Disabled worker element	2,100	2,165	65
Severe disability element	890	920	30
50 plus element,16-29 hours	1,075	1,110	35
50 plus element, 30+ hours	1,610	1,660	50
Childcare element			
– maximum eligible cost for one child	*£135 per week*	*£175 per week*	*40*
– maximum eligible cost for two or more children	*£200 per week*	*£300 per week*	*100*
– *per cent of eligible costs covered*	*70%*	*70%*	–
Child Tax Credit			
Family element	545	545	–
Family element, baby addition	545	545	–
Child element	1,625	1,690	65
Disabled child element	2,215	2,285	70
Severely disabled child element	890	920	30
Income thresholds and withdrawal rates			
First income threshold	5,060	5,220	160
First withdrawal rate (per cent)	*37%*	*37%*	–
Second income threshold	50,000	50,000	–
Second withdrawal rate (per cent)	*6.67%*	*6.67%*	–
First threshold for those entitled to Child Tax Credit only	13,480	13,910	430
Income disregard	2,500	2,500	–

FISCAL AGGREGATES

B34 Tables B8 and B9 provide more detail on the projections for the current and capital budgets.

Table B8: Current and capital budgets (£ billion)

	£billion						
	Outturn	Estimate		Projections			
	2003–04	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10
Current budget							
Current receipts	418.7	451.0	487	520	552	582	612
Current expenditure	425.5	448.6	478	503	531	555	581
Depreciation	14.3	14.9	16	17	18	19	20
Surplus on current budget	**–21.1**	**–12.5**	**–7**	**1**	**4**	**9**	**12**
Capital budget							
Gross investment	34.0	42.1	48	50	53	55	54
Less asset sales	–6.0	–5.5	–6	–4	–4	–4	0
Less depreciation	–14.3	–14.9	–16	–17	–18	–19	–20
Net investment	13.7	21.7	27	29	31	32	34
Net borrowing	**34.8**	**34.2**	**33**	**29**	**28**	**24**	**22**
Public sector net debt – end year	**375.7**	**414.6**	**452**	**484**	**517**	**546**	**574**
Memos:							
Treaty deficit[1]	34.9	33.5	34	29	28	24	23
Treaty debt[2]	441.2	480.6	520	554	587	616	644

[1] *General government net borrowing on a Maastricht basis.*
[2] *General government gross debt on a Maastricht basis.*

Table B9: Current and capital budgets (per cent of GDP)

	Per cent of GDP						
	Outturn	Estimate		Projections			
	2003–04	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10
Current budget							
Current receipts	37.5	38.3	39.2	39.8	40.2	40.4	40.5
Current expenditure	38.1	38.1	38.5	38.4	38.6	38.5	38.4
Depreciation	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Surplus on current budget	**–1.9**	**–1.1**	**–0.6**	**0.0**	**0.3**	**0.6**	**0.8**
Capital budget							
Gross investment	3.0	3.6	3.8	3.8	3.8	3.8	3.6
Less asset sales	–0.5	–0.5	–0.4	–0.3	–0.3	–0.3	0.0
Less depreciation	–1.3	–1.3	–1.3	–1.3	–1.3	–1.3	–1.3
Net investment	1.2	1.8	2.1	2.2	2.3	2.2	2.3
Net borrowing	**3.1**	**2.9**	**2.7**	**2.2**	**2.0**	**1.6**	**1.5**
Public sector net debt – end year	**32.9**	**34.3**	**35.4**	**36.2**	**36.8**	**37.0**	**37.1**
Memos:							
Treaty deficit[1]	3.1	2.8	2.7	2.2	2.0	1.6	1.5
Treaty debt ratio[2]	39.5	40.9	41.8	42.4	42.8	42.8	42.6

[1] *General government net borrowing on a Maastricht basis.*
[2] *General government gross debt on a Maastricht basis.*

B35 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 2005-06 and then move back into surplus in 2006-07, with increasingly larger surpluses in later years, reaching 0.8 per cent of GDP in 2009-10.

B36 The current budget surplus is equal to public sector receipts minus public sector current expenditure and depreciation. Underlying the projections of the current budget are steady increases in the ratio of current receipts to GDP. This partly reflects measures taken to protect revenues. The other reasons behind this are explained in later sections.

B37 Table B8 also shows that net investment is projected to increase from £14 billion in 2003-04 to £31 billion in 2007-08, as the Government seeks to rectify historical under-investment in public infrastructure. These increases are sustainable and fully consistent with the Government's long-term approach and the fiscal rules, as debt is being held at 37 per cent of GDP or less throughout the projection period, well within the 40 per cent limit set by the sustainable investment rule.

RECEIPTS

B38 This section looks in detail at the projections for public sector tax receipts. It begins by looking at the main determinants of changes in the overall projections since Budget 2004, before looking in detail at changes in the projections of individual tax receipts. Finally, it provides updated forecasts for the tax-GDP ratios.

Changes in total receipts since Budget 2004

B39 The forecast for public sector current receipts for 2004-05 has been revised down by £3.7 billion since Budget 2004. However about £1½ billion of this change is due to the fiscally neutral reclassification of NHS trusts from the public corporation sector to central government (see Other factors paragraph below). Current receipts remain lower throughout the forecast, although the shortfall in receipts relative to Budget 2004 gradually diminishes. Table B10 breaks down the causes of these revisions between economic assumptions audited by the NAO, other economic determinants, fiscal forecasting changes, and other factors.

Table B10: Changes in current receipts since Budget 2004

	£ billion				
	Estimate	Projections			
	2004–05	2005–06	2006–07	2007–08	2008–09
Effect on receipts of non-discretionary changes in:					
Assumptions audited by the NAO	1½	2	2	1½	1½
of which:					
Oil price	*1½*	*2*	*2*	*2*	*2*
Other economic determinants	½	–1	–1	–½	–½
Fiscal forecasting changes	–4.0	–2½	–1½	–1½	–1½
Other	–1½	–1	–1	–1	–1
Total before discretionary changes[1]	**–3½**	**–3**	**–2**	**–1**	**–1½**
Discretionary changes	0	0	½	½	½
Total change[1]	**–3½**	**–3**	**–1½**	**–½**	**–½**

[1] *Total may not sum due to rounding.*

Economic determinants audited by the NAO

B40 Changes in economic determinants audited by the NAO increase public sector receipts by between £1½ billion and £2 billion from 2004-05 onwards. The main impact from the NAO assumptions is through the higher oil price. Oil prices are expected to average $38.2 a barrel in 2005, around $10 higher than assumed in Budget 2004. Only the direct effect of this increase on North Sea corporation tax and petroleum revenue tax is included in this category. The overall effect on the public finances as outlined in Chapter 2 is likely to be limited due to a number of offsetting effects from higher oil prices on fuel duties, inflation and the wider economy. In particular higher pump prices are expected to reduce demand for road fuel and lead to a reduction in fuel duties of around £½ billion a year in fuel duties. This is included in other economic determinants here.

Other economic determinants

B41 For 2005-06 onwards, changes to current price GDP components have a small downward effect on receipts over the forecast period mainly due to slower growth in the GDP components that are used to project the VAT tax base, including modestly lower growth in nominal consumer expenditure.

Fiscal forecasting changes

B42 These include all changes to corporation tax other than those directly applicable to GDP components. Further details are given in the tax by tax analysis section.

Other factors

B43 In the 2004 Blue Book, the ONS reclassified NHS Trusts to the central government sector rather than public corporations. This classification change has no effect on the public sector as a whole, but does reduce the public sector gross operating surplus and VAT refunds. This has the effect of reducing both receipts and expenditure by around £1½ billion each year and is included in the other category in Table B10. Details of other fiscally neutral changes are included in paragraph B68.

Tax-by-tax analysis

B44 Table B11 shows outturns for cash receipts in the first 7 months of 2004-05 and estimated receipts for the remainder of the year, along with percentage changes over the corresponding period in 2003-04. These growth rates can vary considerably across the year, reflecting the rules for payment of each tax and the various time lags. Table B12 shows the changes to the projections of individual taxes since Budget 2004, while B13 contains updated projections for the main components of public sector receipts for 2003-04, 2004-05 and 2005-06.

Table B11: Net taxes and national insurance contributions 2004–05

	£ billion			Percentage change on 2003–04		
	Outturn[1] Apr–Oct	Estimate Nov–Mar	2004–05	Outturn[1] Apr–Oct	Estimate Nov–Mar	Estimate Full year
Inland Revenue						
Income tax, NICs and capital gains tax[2]	110.3	93.1	203.4	7.1	8.7	7.8
Corporation tax[2]	21.8	10.6	32.4	12.5	21.5	15.3
Petroleum revenue tax	0.7	0.7	1.5	–0.3	62.9	23.0
Inheritance tax	1.7	1.2	2.9	17.9	12.8	15.7
Stamp duties	5.4	3.4	8.8	23.8	6.1	16.4
Total Inland Revenue (net of tax credits)	**139.9**	**109.0**	**249.0**	**8.6**	**10**	**9.2**
Customs and Excise						
Value added tax	43.3	30.3	73.5	6.2	6.9	6.5
Fuel duties	13.8	9.8	23.6	3.5	3.9	3.7
Tobacco duties	4.9	3.3	8.1	1.2	–0.3	0.6
Alcohol duties	4.5	3.3	7.8	5.1	0.6	3.2
Other Customs duties and levies	4.9	3.6	8.5	6.1	2.5	4.5
Total Customs and Excise	**71.3**	**50.3**	**121.6**	**5.2**	**5.1**	**5.2**
Vehicle excise duties	3.0	2.0	5.0	6.8	0.7	4.2
Business rates	13.5	5.5	19.0	3.7	3.1	3.5
Council tax	13.1	6.6	19.7	4.0	6.9	5.0
Other taxes and royalties	6.8	4.5	11.3	2.4	–2.3	0.5
Net taxes and national insurance contributions	**247.6**	**177.9**	**425.5**	**6.9**	**7.8**	**7.3**

[1] *Provisional.*

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

Table B12: Changes in current receipts by tax since Budget 2004

		£ billion	
	2003–04	2004–05	2005–06
Income tax (gross of tax credits)	–0.8	–0.5	0.4
National insurance contributions	0.2	0.1	0.1
Non-North Sea corporation tax[1]	0.0	–3.1	–2.5
Less tax credits[2]	0.0	–0.1	–0.1
North Sea revenues	0.0	1.7	2.2
Capital taxes[3]	1.0	0.6	0.9
Stamp duty	0.0	–0.6	–0.9
Value added tax	–0.7	0.5	–0.1
Excise duties[4]	0.0	–0.6	–0.7
Other taxes and royalties[5]	–1.1	–1.7	–1.8
Net taxes and national insurance contributions	**–1.5**	**–3.9**	**–2.4**
Other receipts and accounting adjustments	–1.3	0.2	–0.4
Current receipts	**–2.8**	**–3.7**	**–2.8**

[1] *National Accounts measure: gross of enhanced and payable tax credits.*
[2] *Includes enhanced company tax credits.*
[3] *Capital gains tax and inheritance 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.*

Table B13: Current receipts

	£ billion		
	Outturn 2003–04	Estimate 2004–05	Projection 2005–06
Inland Revenue			
Income tax (gross of tax credits)	118.3	127.4	137.8
Income tax credits	–4.3	–3.7	–3.7
National insurance contributions	72.5	77.7	82.3
Corporation tax[1]	28.6	32.9	41.3
Corporation tax credits[2]	–0.5	–0.5	–0.5
Petroleum revenue tax	1.2	1.5	1.6
Capital gains tax	2.2	2.0	2.8
Inheritance tax	2.5	2.9	3.3
Stamp duties	7.5	8.8	9.5
Total Inland Revenue (net of tax credits)	**228.0**	**249.0**	**274.3**
Customs and Excise			
Value added tax	69.1	73.5	77.3
Fuel duties	22.8	23.6	24.9
Tobacco duties	8.1	8.1	8.4
Spirits duties	2.4	2.4	2.4
Wine duties	2.0	2.1	2.3
Beer and cider duties	3.2	3.3	3.4
Betting and gaming duties	1.3	1.4	1.4
Air passenger duty	0.8	0.9	1.0
Insurance premium tax	2.3	2.5	2.6
Landfill tax	0.6	0.7	0.7
Climate change levy	0.8	0.8	0.8
Aggregates levy	0.3	0.3	0.3
Customs duties and levies	1.9	2.1	2.1
Total Customs and Excise	**115.7**	**121.6**	**127.6**
Vehicle excise duties	4.8	5.0	5.3
Business rates[3]	18.4	19.0	20.1
Council tax[4]	18.8	19.7	21.3
Other taxes and royalties[5]	11.2	11.3	12.5
Net taxes and national insurance contributions[6]	**396.7**	**425.5**	**461.1**
Accruals adjustments on taxes	2.9	1.9	0.8
Less own resources contribution to European Communities (EC) budget	–4.6	–3.9	–3.8
Less PC corporation tax payments	–0.1	–0.1	–0.1
Tax credits adjustment[7]	0.5	0.6	0.6
Interest and dividends	4.4	5.1	5.1
Other receipts[8]	18.8	21.9	23.3
Current receipts	**418.7**	**451.0**	**487.0**
Memo:			
North Sea revenues[9]	4.3	5.3	5.9

[1] *National Accounts measure: gross of enhanced and payable tax credits.*
[2] *Includes enhanced company tax credits.*
[3] *Includes district council rates in Northern Ireland paid by business.*
[4] *Council Tax increases are determined annually by local authorities, not by the Government. As in Budget 2004 the council tax figures for 2005-06 onwards are projections based on stylised assumptions and are not government forecasts. The assumption used here is a 6.8 per cent annual increase in council tax each year – the average for 1993-04 to 2003-04. The Government expects council tax rises in 2005-06 to be significantly below last year's 5.9 per cent rise, since changes to council tax are broadly balanced by changes to locally financed expenditure, they have no material impact on the current balance or net borrowing.*
[5] *Includes VAT refunds and money paid into the National Lottery Distribution Fund.*
[6] *Includes VAT and 'traditional own resources' contributions to EC budget.*
[7] *Tax credits which are scored as negative tax in the calculation of NTNIC but expenditure in the national accounts.*
[8] *Includes gross operating surplus and rent; net of oil royalties and business rate payments by Local Authorities.*
[9] *Consists of North Sea corporation tax, petroleum revenue tax and royalties.*

Income tax and national insurance contributions

B45 Cash receipts from income tax and NICs are expected to be about £½ billion lower in 2004-05 than forecast in Budget 2004. There was a strong increase in self-assessment receipts in early 2004 which was included in income tax in 2004 and projected forward. However about £1 billion of the increase was, in fact, capital gains tax and as a result the level of income tax expected from self-assessment in the forecast has been reduced throughout the forecast period. Although cash PAYE and NICs paid on wages and salaries is lower in 2004-05 much of the shortfall relates to liabilities for 2003-04. On the accruals basis used in national accounts, PAYE and NICs for 2004-05 are higher than forecast in Budget 2004.

B46 For the first 7 months of 2004-05 cash income tax (net of tax credits) and NICs are up 7.1 per cent on the same period in 2003. Growth is expected to be modestly higher for the remainder of this year. Self assessment income tax and NIC payments made so far in 2004-05 are based on the amounts due for the 2002-03 tax year, but those due on 31 January 2005 will reflect tax due on 2003-04 income. This is expected to lead to higher growth rates for January onwards and income tax and NIC payments made by employers are also expected to show higher growth from January because of growth in bonuses.

B47 Receipts for 2005-06 and subsequent years are expected to be slightly higher than in Budget 2004, largely reflecting the improved underlying accruals position in 2004-05 and measures to protect tax revenues included in Table B4 which add around £½ billion a year to income tax and NICs revenues.

Non-North sea corporation tax

B48 Non-North Sea corporation tax receipts in 2004-05 are estimated to be around £3 billion below the Budget projection. Although receipts have grown strongly over the year to date and are expected to grow slightly more rapidly over the remainder of 2004-05, the overall growth in receipts in 2004-05 is slower than in the Budget forecast, mainly due to weaker growth in corporation tax receipts from financial companies. A number of factors may be responsible, including a larger than expected backlog of unused losses or allowances which have temporarily depressed taxable profits.

B49 The higher growth in total corporation tax receipts over the rest of 2004-05 mainly reflects increases in receipts for North Sea Oil companies. However, growth is also expected to be slightly higher for onshore companies, because of the impact of the quarterly instalment payment system for large companies. Quarterly instalment payments by large companies account for the majority of corporation tax receipts, and most payments on 2004 accounts fall due first in July, next in October and then in January. Between July and October there was a marked improvement in the level of payments compared to last year, and payments in January are expected to continue this trend, producing the greater growth over the rest of the year shown in table B11.

North Sea revenues

B50 North Sea revenues are expected to be about £1¾ billion higher in 2004-05 than forecast in Budget 2004, largely because of higher oil prices for calendar year 2004, oil prices are now expected to average almost $12 a barrel above the NAO audited assumption in Budget 2004 of $28.4 a barrel. The full impact of higher oil prices on North Sea revenues will not be felt until towards the end of 2004-05, because of lags built into the tax system. Petroleum revenue tax (PRT) and North Sea Corporation Tax have different regimes, which allow for some payments for a liability period to be made in that period and some in the following period. The average lag for calendar year liabilities is about 8½ months from the start of the year for PRT and 11 months for Corporation Tax.

B51 PRT is based on 6-month chargeable periods with a system of monthly instalment payments, these payments start 2 months after the beginning of the chargeable period, but are based on tax liabilities for the preceding period. A balancing payment is then made 2 months after the end of the period. This system means that tax received in the first 7 months of 2004-05 reflects tax due for the first half of 2004 or earlier, and is slightly lower than in 2003 because of lower oil production. The high oil prices in the second half of 2004 will have no impact on PRT receipts until the balancing payment is received in March 2005, but by then are expected to show very high growth on the same period in 2003-04.

B52 The October 2004 instalment payments of North Sea corporation tax will have reflected the higher oil prices to some extent as they will have been based on company estimates of profits for the whole year. However, the full effect will not be seen until further instalments in respect of 2004 profits are paid in January and April 2005, by which time receipts to date are expected to show a much larger increase on the preceding year than so far apparent.

B53 North Sea revenues are expected to be over £2 billion a year higher from 2005-06 onwards than in Budget 2004. Oil prices in the Pre-Budget Report forecast are assumed to average $38.2 a barrel in 2005, in line with the average of independent forecasts and then remain constant in real terms. This is just over $10 a barrel higher than assumed in Budget 2004 and explains most of the increase in North Sea revenues.

Capital gains tax and inheritance tax

B54 Receipts from capital gains tax in 2003-04 were £1 billion higher than forecast in the Budget. The increase in receipts was probably caused by larger than expected disposals of business assets arising from the maturing of the business asset taper in 2002-03. Some of this effect is likely to continue into 2004-05 and later years. Changes in house and other asset prices and turnover levels are expected to lead to modest increases in both capital gains tax and inheritance tax. However tax payment lags means that most of these effects will be delayed until 2005-06.

Stamp duties

B55 Stamp duty in the first seven months of 2004-05 benefited from the strong housing market, with robust gains recorded in both housing transactions and prices. With recent data indicating a more subdued market going forward, growth in stamp duty receipts is expected to be more modest. Overall stamp duties are expected to be down £0.6 billion in 2004-05 relative to Budget 2004. This is due to lower than expected stamp duty on shares, due in part to lower equity prices and volumes in the first part of 2004-05.

VAT receipts

B56 VAT receipts on a cash basis are expected to be £0.5 billion higher in 2004-05 than the Budget 2004 forecast. Since Budget 2004, VAT revenue projections have been based on a new assumption audited by NAO (see Box B2). The new method takes account of the whole VAT tax base rather than just consumers' expenditure and makes a cautious assumption about the VAT gap, the difference between the theoretical tax liability and actual receipts. The lower VAT projection from 2005-06 onwards compared with the Budget 2004 forecast reflects slower growth in the VAT tax base. This in part reflects lower growth in nominal consumers' expenditure but also slower growth in the economic determinants driving the non-consumer elements of the tax base. Further detail on the new VAT forecasting methodology can be found in Annex A of the *End of year fiscal report*.

Excise duties

B57 Receipts from excise duties are expected to be £0.6 billion lower in 2004-05 than forecast in the Budget. This is more than explained by the expected drop in fuel duties. This is partly the result of the decision in the Pre-Budget Report to continue to freeze the level of fuel duty. The Budget 2004 forecast assumed that fuel duties would be raised in line with inflation at the start of September. In addition, fuel duty forecasts will be lower from 2004-05 onwards by about £$^1/_2$ billion a year due to the impact of higher oil prices on the demand for fuel.

B58 Tobacco duties are likely to be close to the Budget forecast in 2004-05. Over the forecast horizon, the positive impact on revenues from the lower market share of smuggled cigarettes is largely offset by lower overall tobacco consumption. Receipts from excise duties on alcohol are higher than expected in Budget 2004 mainly as a result of stronger receipts from duties on wine.

Council tax

B59 Council tax increases are determined annually by local authorities, not by the Government. As in Budget 2004 the council tax figures for 2005-06 onwards are projections based on stylised assumptions and are not Government forecasts. The assumption used here is a 6.8 per cent annual increase in council tax each year, the average for 1993-04 to 2003-04. The Government expects council tax rises in 2005-06 to be significantly below last year's 5.9 per cent rise, since changes to council tax are broadly balanced by changes to locally financed expenditure, they have no material impact on the current balance or net borrowing.

Other receipts

B60 Other receipts are expected to be £1.7 billion lower in 2004-05 than projected in Budget 2004. This is largely the effect of the NHS Trusts reclassification.

Tax-GDP ratio

B61 Table B14 shows projections of receipts from major taxes as a per cent of GDP, and Table B15 sets out current and previous projections of the overall tax-GDP ratio.

B62 The tax-GDP ratio is expected to rise in 2004-05, mainly because of higher receipts from income tax, corporation tax and stamp duties.

B63 The increase in the ratio from 2004-05 onwards is largely driven by the recovery in receipts arising from financial company profits and the normal fiscal forecasting convention for the treatment of fiscal drag.

Table B14: Current receipts as a proportion of GDP

	Per cent of GDP						
	Outturn	Estimate		Projections			
	2003–04	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10
Income tax (gross of tax credits)	10.6	10.8	11.1	11.3	11.5	11.7	11.8
National insurance contributions	6.5	6.6	6.6	6.7	6.7	6.8	6.8
Non-North Sea corporation tax[1]	2.3	2.5	3.0	3.3	3.4	3.4	3.4
Tax credits[2]	–0.4	–0.4	–0.3	–0.3	–0.3	–0.3	–0.2
North Sea revenues[3]	0.4	0.4	0.5	0.5	0.5	0.5	0.4
Value added tax	6.2	6.3	6.2	6.2	6.2	6.2	6.1
Excise duties[4]	3.4	3.4	3.3	3.3	3.2	3.2	3.1
Other taxes and royalties[5]	6.6	6.6	6.7	6.8	6.9	7.0	7.1
Net taxes and national insurance contributions[6]	**35.6**	**36.2**	**37.1**	**37.7**	**38.1**	**38.3**	**38.4**
Accruals adjustments on taxes	0.3	0.2	0.1	0.1	0.2	0.1	0.1
Less EC transfers	–0.4	–0.3	–0.3	–0.3	–0.3	–0.3	–0.3
Tax credits[7]	0.1	0.0	0.0	0.0	0.0	0.0	0.1
Other receipts[8]	2.1	2.2	2.2	2.2	2.2	2.2	2.2
Current receipts	**37.5**	**38.3**	**39.2**	**39.8**	**40.2**	**40.4**	**40.5**

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 *Tax credits scored as negative tax in net taxes and national insurance contributions but expenditure in the National Accounts.*
8 *Mainly gross operating surplus and rent, excluding oil royalties.*

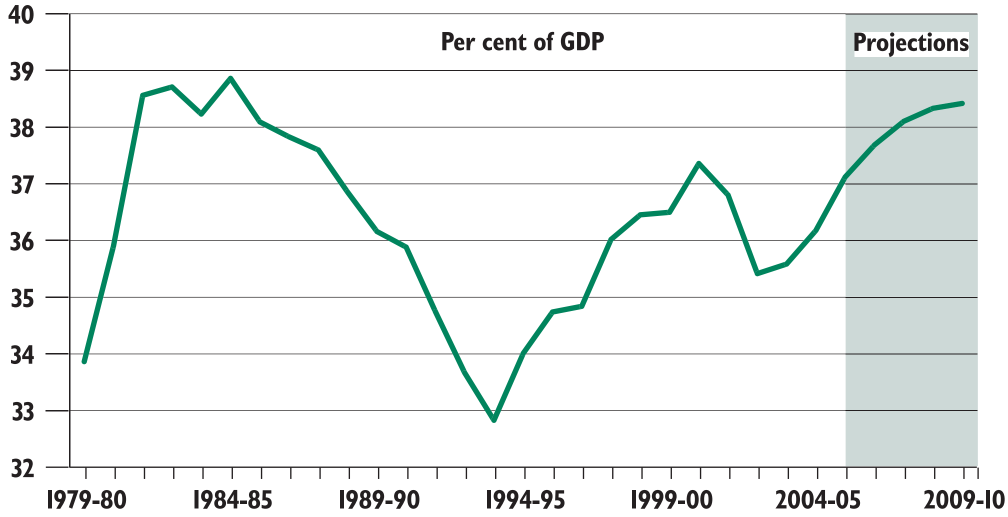
Table B15: Net taxes and national insurance contributions[1]

	Per cent of GDP						
	Outturn[2]	Estimate[3]		Projections			
	2003–04	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10
Budget 2004	35.7	36.5	37.3	37.8	38.1	38.3	
PBR 2004	**35.6**	**36.2**	**37.1**	**37.7**	**38.1**	**38.3**	**38.4**

1 *Cash basis. Uses OECD definition of negative tax credits.*
2 *The 2003–04 figures were estimates in Budget 2004.*
3 *The 2004–05 figures were projections in Budget 2004.*

B64 Chart B3 shows the tax-GDP ratio from 1978-79 to 2009-10.

Chart B3: Tax-GDP ratio[1]



[1] Net taxes and national insurance contributions as defined in Table B15.

PUBLIC EXPENDITURE

B65 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).

B66 For fiscal aggregates purposes, TME is split into national accounts components covering public sector current expenditure, public sector net investment and depreciation. For budgeting and other purposes, TME is split into Departmental Expenditure Limits (DEL) – firm three year limits for departments' programme expenditure – and Annually Managed Expenditure (AME) – expenditure that is not easily subject to firm multi-year limits.

Changes in TME since Budget 2004

B67 The only forecasting changes to TME for 2004-05 to 2007-08, the last year of the Spending Review 2004 period, since Budget 2004 relate to reclassifications and carrying forward of expenditure between years.

B68 Public sector current expenditure has been reduced because of reclassifications incorporated since Budget 2004. This is mainly due to the reclassification of NHS Trusts from public corporations to central government introduced by ONS in June 2004, which reduced both current expenditure and receipts by about £1½ billion each year. This was partially offset by the decision announced in the 2004 Spending Review to bring the Nuclear Decommissioning Authority into the public spending framework, which increases expenditure and receipts by around £½ billion a year.

B69 As announced in the 2004 Spending Review, about £1 billion of current expenditure was carried forward from 2006-07 to 2007-08 in order to better meet the Government's spending priorities. These changes also have no effect on the golden rule across the forecast period.

B70 Apart from minor switches from current to capital spending, the only other forecasting change to current expenditure since the Budget reflects the effects of the assumption used to project current expenditure following the end of the 2004 Spending Review period.

B71 Public sector net investment in 2003-04 fell £2½ billion short of the estimate made in Budget 2004, but was still 21 per cent higher than in 2002-03. Net investment to date in 2004-05 is 13 per cent higher than in the same period of 2003-04 and, in line with previous experiences, is expected to increase significantly over the remainder of the year. However, lower than expected investment, especially by local authorities and public corporations, means that overall investment is unlikely to meet the Budget 2004 forecast and the forecast for capital expenditure in 2004-05 has been reduced by £1¼ billion. To reinforce the Government's commitment to increasing public sector investment, this expenditure has been carried forward to 2005-06 and 2006-07, consistent with the overall intention to increase public sector net investment to 2¼ per cent of GDP by 2007-08.

B72 The other changes to net investment over the 2004 Spending Review period reflect the timing changes, capital expenditure announced then and changes to National Accounts depreciation. Although net investment remains at 2¼ per cent of GDP in 2008-09, gross investment is about £½ billion lower because of the reduction in depreciation.

B73 Discretionary changes to TME include the spending measures in Table B4.

Table B16: Total Managed Expenditure 2003-04 to 2007-08

	Outturn 2003–04	Estimate 2004–05	2005–06	Projections 2006–07	2007-08
				£ billion	
Departmental Expenditure Limits					
Resource Budget	250.5	266.7	286.6	304.2	319.6
Capital Budget	23.2	26.2	29.1	31.5	34.9
Less depreciation	–9.1	–11.0	–11.7	–12.1	–11.8
Total Departmental Expenditure Limits	**264.6**	**281.9**	**304.0**	**323.6**	**342.7**
Annually Managed Expenditure					
Social security benefits[1,2]	117.0	121.2	126.4	131.2	138.6
Tax credits[1]	13.3	14.8	14.3	13.7	13.2
Common Agricultural Policy	2.8	3.1	3.1	3.2	3.2
Net public service pensions[3]	1.8	0.5	–0.3	–0.9	–1.4
National Lottery	1.9	1.8	1.7	1.5	1.3
Non-cash items in AME	27.2	26.9	27.6	29.8	31.4
Other departmental expenditure	1.8	3.5	4.0	3.4	3.4
Net payments to EC institutions[4]	2.4	2.0	3.0	4.1	4.5
Locally-financed expenditures[5]	21.9	24.0	25.6	27.6	29.7
Central government gross debt interest	22.2	23.8	25.1	26.6	27.8
Public corporations' own-financed capital expenditure	2.5	2.3	2.2	2.2	2.3
Total AME before margin and accounting adjustments	**214.7**	**224.0**	**232.7**	**242.4**	**254.0**
AME margin	0.0	1.0	2.9	2.4	2.7
Accounting adjustments[6]	–25.8	–21.7	–19.1	–19.5	–20.0
Annually Managed Expenditure	**189.0**	**203.3**	**216.4**	**225.3**	**236.7**
Total Managed Expenditure	**453.6**	**485.3**	**520.5**	**548.9**	**579.4**
of which:					
Public sector current expenditure	425.5	448.6	478.1	502.8	530.6
Public sector net investment	13.7	21.7	26.5	29.3	31.2
Public sector depreciation	14.3	14.9	15.8	16.7	17.7

[1] *Child allowances in Income Support and Jobseekers' Allowance, which will be paid as part of the Child Tax Credit, have been included in the tax credits line and excluded from the social security benefits line. This is in order to give figures on a consistent definition over the forecast period.*

[2] *For 2003-04, the rent rebate element of Housing Revenue Account subsidies, which, from 2004-05 are administered by DWP, have been included in the social security benefits line. This is in order to give figures on a consistent definition over the forecast period.*

[3] *Net public service pensions expenditure is reported under FRS17 accounting requirements.*

[4] *Net payments to EC Institutions exclude the UK's contribution to the cost of EC aid to non-Member States (which is attributed to the aid programme). Net payments therefore differ from the UK's net contribution to the EC Budget, latest estimates for which are (in £ billion):*

2003-04	2004-05	2005-06	2006-07	2007-08
3.3	2.6	3.6	4.8	5.1

[5] *This expenditure is mainly financed by council tax revenues. The Council Tax projection figures for 2005-06 onwards are based on stylised assumptions and are not government forecasts. The assumption here is a 6.8 per cent annual increase in Council Tax each year, the average for 1993-2004 to 2003-04. The Government expects Council Tax rises in 2005-06 to be significantly below last year's 5.9 per cent rise, since changes to council tax are broadly balanced by changes to locally financed expenditure, they have no material impact on the current balance or net borrowing.*

[6] *Excludes depreciation.*

B74 Chart B4 shows TME as a per cent of GDP from 1970-71 to 2007-08.

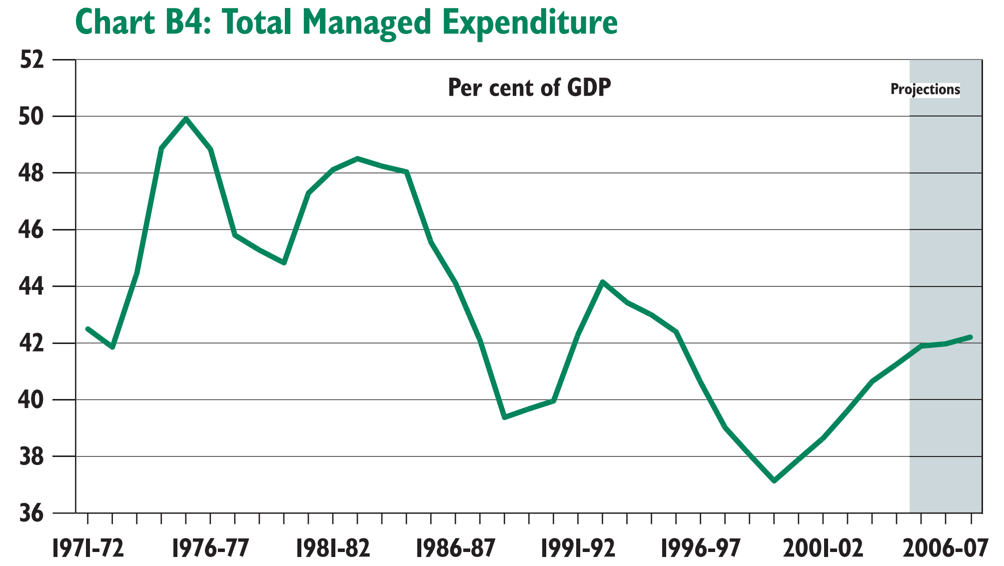


Table B17: Changes to Total Managed Expenditure since 2004 Spending Review

			£ billion		
	Outturn 2003–04	**Estimate 2004–05**	**Projections 2005–06**	**2006–07**	**2007–08**
Departmental Expenditure Limits					
Resource Budget	–1.4	2.8	2.1	2.3	2.3
Capital Budget	–0.7	–0.1	0.0	0.0	0.0
Less depreciation	1.4	0.0	0.2	0.0	0.0
Total Departmental Expenditure Limits	**–0.7**	**2.7**	**2.3**	**2.3**	**2.3**
Annually Managed Expenditure					
Social security benefits	0.3	–2.0	–1.4	–1.8	–1.4
Tax credits	–0.7	1.0	0.0	–0.8	–1.3
Common Agricultural Policy	0.3	0.6	0.6	0.7	0.6
Net public service pensions[1]	1.1	0.2	0.1	–0.5	–0.6
National Lottery	–0.1	–0.2	0.1	0.1	0.0
Non-cash items in AME	–2.8	–1.1	–2.1	–1.5	–1.6
Other departmental expenditure	–0.1	0.8	1.2	0.8	0.7
Net payments to EC institutions	0.0	–0.7	–0.7	0.0	0.1
Locally-financed expenditure	–0.5	–0.2	–0.4	–0.3	–0.3
Central government gross debt interest	0.0	–0.1	–0.3	0.1	0.4
Public corporations' own–financed capital expenditure	0.0	–0.4	0.0	0.1	0.2
Total AME before margin and accounting adjustments	**–2.6**	**–2.0**	**–2.9**	**–3.1**	**–3.3**
AME margin	0.0	–0.2	0.8	0.4	–0.2
Accounting Adjustments[2]	–2.2	–2.8	–0.6	0.1	0.6
Annually Managed Expenditure	**–4.8**	**–5.0**	**–2.6**	**–2.6**	**–2.9**
Total Managed Expenditure	**–5.4**	**–2.3**	**–0.3**	**–0.4**	**–0.6**
of which:					
Public sector current expenditure	–2.5	–1.1	–1.2	–1.2	–0.9
Public sector net investment	–2.5	–0.7	1.4	1.4	0.7
Public sector depreciation	–0.5	–0.6	–0.5	–0.5	–0.5

[1] *Net public sector pensions expenditure is reported under FRS17 accounting requirements.*
[2] *Accounting Adjustments are net of depreciation.*

Central Government spending in 2004-05

B75 Monthly spending outturn information is only available for central government. Current expenditure in the first 7 months of 2004-05 was 6.7 per cent higher than in the corresponding period of 2003-04, higher growth than in the Pre-Budget Report estimate for 2004-05 as a whole, reflecting the many different factors which affect the pattern of spending across the year.

B76 Debt interest payments for the year to date are up only 2.8 per cent on the corresponding period in 2003, but are expected to grow at a higher rate over the remainder of the financial year. The main reason is the impact of monthly changes RPI on the pattern of index linked gilts payments.

B77 Net social benefits for the year to date are 7.0 per cent higher than in April – October 2003, partly reflecting increased take-up of income tax credits.

B78 Other current expenditure is 6.8 per cent up for the year to date, but growth is expected to slow over the next few months, with average growth for the year as a whole at around 4 per cent. This expenditure is largely DEL and is expected to show a flatter profile this year with only 42 per cent of the annual total being spent in the last 5 months of the year compared with 43 per cent in 2003-04.

DEL and AME analysis

B79 Table B16 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 B17 shows changes since the 2004 Spending Review.

B80 Changes to resource DEL in 2003-04 since the Budget reflect revised depreciation figures for the Ministry of Defence. The reduction in capital DEL of £0.7 billion reflects lower than expected capital spending, particularly on transport and defence. Unspent capital allocations were carried forward under the EYF arrangements to maintain the Government's investment plans. Changes in other years reflect discretionary measures including the new special reserve allocation, employer training pilots and improving childcare quality, and reclassification of expenditure on the Supporting People programme from AME to DEL.

B81 The detailed allocations of DELs are shown in Table B18. In line with previous practice, resource and capital DEL for 2004-05 includes an allowance for shortfall reflecting likely underspends against departmental prevision.

B82 The main economic assumptions underpinning the AME projections are set out in Box B2 and Table B3. In particular it is assumed that the UK claimant count unemployment rises slowly to 0.89 million in 2007-08, from recent levels of 0.84 million. The AME total is also affected by the reclassifications described in paragraphs B67 and B68 and the reclassification of expenditure on the Supporting People programme from AME to DEL.

B83 After allowing for the reclassification of expenditure on the Supporting People programme social security expenditure is slightly higher. Pension Credit expenditure is up, largely reflecting improvements in forecast methodology, which exploit newly available outturn data. These changes are partly offset by lower expenditure on unemployment related benefits.

B84 Forecast spending on the Child and Working Tax Credits differs from Budget 2004. In 2004-05 and 2005-06 forecast costs have increased because of higher than expected take up and because of re-profiling of payment schedules. The latter means that forecast costs from 2006-07 onwards are lower than at the 2004 Spending Review. The forecast also incorporates the changes to Child and Working Tax Credits spending outlined in paragraph B33.

B85 Common Agricultural Policy payments have increased by around £½ billion a year. This reflects a number of factors including movements in exchange rates and the phased introduction of the dairy premium from 2003-04 to compensate for institutional price cuts in the dairy sector. These increases are largely offset by higher receipts from the EU, which are included in the net payments to EC institutions component of AME.

B86 Net public service pensions figures are reported on a FRS17 basis and record changes in the accruing liabilities of the various pensions schemes. National accounts pensions expenditure, which is recorded on a transactions basis, shows only small changes in 2004-05 and 2005-06, but increases in 2006-07 by £0.3 billion and by £0.9 billion in 2007-08. This reflects decreased estimates for the NHS pensions scheme and, in particular, the Principal Civil Service Pensions Scheme (PCSPS), accounting for the impact of the efficiency gains outlined in Chapter 2 of the 2004 Spending Review.

B87 National Lottery figures reflect the latest view on the timing of draw down by the distributing bodies.

B88 Changes to non-cash items in AME reflect a presentational change to include the release of provisions. Non-cash items do not score in TME and are removed in the accounting adjustments. Therefore these changes have no impact on TME.

B89 Changes in other departmental expenditure since the 2004 Spending Review reflect a number of changes, including revised expectations of coal health liabilities expenditure on chronic obstructive pulmonary disease claims and the inclusion of spending on Local Authority business growth incentives measure announced in Budget 2004, which was formerly included in the local authority self-financed expenditure forecast.

B90 The net payments to EC institutions forecast reflects increases in departmental estimates of CAP and Structural Funds receipts. It also takes account of more recent information on the EC Budget than was available at the time of the Spending Review and of changes in assumptions about the timing of payments made to the EC Budget.

B91 Changes to local authority self-financed expenditure mainly reflect the reclassification of the Local Authority business growth incentives measure. This expenditure is mainly financed by council tax revenues. The council tax projections figures for 2005-06 onwards are based on stylised assumptions and are not Government forecasts. The assumption used here is of 6.8 per cent annual increase in council tax each year, the average for 1993-04 to 2003-04. The Government expects council tax rises in 2005-06 to be significantly below last year's 5.9 per cent rise, since changes to council tax are broadly balanced by changes to locally financed expenditure, they have no material impact on the current balance or net borrowing.

Table B18: Departmental Expenditure Limits – resource and capital budgets

	Outturn	Estimate		Plans	
£ billion	2003–04	2004–05	2005–06	2006–07	2007-08
Resource Budget					
Education and Skills	23.0	24.5	26.7	28.4	30.0
Health	62.7	69.3	74.8	81.4	88.8
of which: NHS	60.9	67.1	72.7	79.5	86.9
Transport	7.9	7.8	8.9	10.8	9.9
Office of the Deputy Prime Minister	4.7	6.4	6.6	6.8	7.3
Local Government	40.9	43.4	45.8	48.3	50.8
Home Office	11.7	12.4	12.5	13.3	14.0
Departments for Constitutional Affairs	3.2	3.5	3.7	3.8	3.8
Attorney General's Departments	0.5	0.6	0.6	0.7	0.7
Defence	31.5	32.0	32.7	32.7	33.0
Foreign and Commonwealth Office	1.6	1.8	1.7	1.7	1.7
International Development	3.8	3.8	4.5	5.0	5.3
Trade and Industry	4.5	5.5	5.9	6.1	6.3
Environment, Food and Rural Affairs	2.8	3.2	3.2	3.3	3.4
Culture, Media and Sport	1.3	1.5	1.5	1.6	1.6
Work and Pensions	8.3	8.3	8.4	8.3	8.3
Scotland[1]	18.5	20.5	21.3	22.9	24.1
Wales[1]	9.8	10.6	11.3	12.0	12.7
Northern Ireland Executive[1]	6.4	6.8	7.2	7.6	7.9
Northern Ireland Office	1.1	1.2	1.2	1.1	1.1
Chancellor's Departments	4.6	5.0	5.2	5.2	5.2
Cabinet Office	1.8	1.9	1.9	2.0	2.0
Invest to Save Budget	0.0	0.0	0.0	0.0	0.0
Reserve	0.0	0.3	0.9	1.1	1.5
Unallocated special reserve[2]	0.0	0.7	0.0	0.0	0.0
Allowance for shortfall	0.0	–4.0	0.0	0.0	0.0
Total Resource Budget DEL	**250.5**	**266.7**	**286.6**	**304.2**	**319.6**
Capital Budget					
Education and Skills	3.3	3.8	4.4	4.8	5.5
Health	2.6	3.1	4.3	5.3	6.3
of which: NHS	2.5	3.0	4.2	5.2	6.1
Transport	3.0	3.5	3.3	4.1	4.2
Office of the Deputy Prime Minister	2.3	2.3	2.4	2.5	2.5
Local Government	0.2	0.4	0.3	0.2	0.2
Home Office	0.9	1.2	1.1	1.2	1.3
Departments for Constitutional Affairs	0.1	0.2	0.1	0.1	0.1
Attorney General's Departments	0.0	0.0	0.0	0.0	0.0
Defence	5.9	6.4	6.9	7.0	7.6
Foreign and Commonwealth Office	0.1	0.1	0.1	0.1	0.1
International Development	0.0	0.0	0.0	0.0	0.0
Trade and Industry	0.6	0.2	0.3	0.5	0.5
Environment, Food and Rural Affairs	0.4	0.3	0.3	0.3	0.3
Culture, Media and Sport	0.1	0.2	0.1	0.1	0.1
Work and Pensions	0.2	0.3	0.3	0.2	0.1
Scotland[1]	1.4	2.0	2.1	2.0	2.2
Wales[1]	0.8	0.9	1.0	1.1	1.2
Northern Ireland Executive[1]	0.4	0.4	0.4	0.5	0.5
Northern Ireland Office	0.1	0.1	0.1	0.1	0.1
Chancellor's Departments	0.3	0.4	0.3	0.4	0.5
Cabinet Office	0.6	0.3	0.2	0.2	0.3
Invest to Save Budget	0.0	0.0	0.0	0.0	0.0
Reserve	0.0	0.6	0.8	0.7	1.2
Allowance for shortfall	0.0	–0.4	0.0	0.0	0.0
Total Capital Budget DEL	**23.2**	**26.2**	**29.1**	**31.5**	**34.9**
Depreciation	**–9.1**	**–11.0**	**–11.7**	**–12.1**	**–11.8**
Total Departmental Expenditure Limits	**264.6**	**281.9**	**304.0**	**323.6**	**342.7**
Total education spending	59.5	64.5	68.1	72.3	76.8

[1] *For Scotland, Wales and Northern Ireland, the split between current and capital budgets is decided by the respective executives.*
[2] *This represents provision for the costs of Iraq and other International obligations.*

B92 Central government debt interest payments for 2005-06 are lower than in Budget 2004, largely as a result of the impact of lower RPI on indexed linked gilt payments. In 2006-07 and 2007-08 payments are higher mainly because of the cumulative effects of higher cash requirement.

B93 Public corporations' own financed capital expenditure forecasts have been revised in line with public corporations' latest spending plans.

B94 The main accounting adjustments, which reconcile the DEL and AME measures of spending with the national accounts measure, are shown in Table B19. Changes to the accounting adjustments since the last forecast are mainly due to:

- reclassification of NHS Trusts, removing Trusts' notional profits and reducing their VAT refunds;
- presentational changes to non-cash items in AME; and
- differences between the national accounts and FRS17 estimates for public sector pensions.

B95 Table B20 shows public sector capital expenditure from 2003-04 to 2006-07.

Table B19: Accounting adjustments

	£ billion				
	Outturn	Estimate		Projections	
	2003–04	2004–05	2005–06	2006–07	2007-08
Tax credits for individuals	0.1	0.0	0.0	0.0	0.0
Pensions	–22.4	–22.2	–23.5	–24.3	–25.2
European Community contributions	–4.7	–3.9	–3.8	–4.0	–3.9
Other central government programmes	0.4	0.4	0.4	0.4	0.4
VAT refunds	9.2	9.4	10.7	11.7	12.9
Central government non-trading capital consumption	5.6	6.0	6.3	6.7	7.2
Non-cash items in resource budgets and not in TME	–11.6	–10.8	–11.1	–12.5	–13.4
Expenditure financed by revenue receipts	0.2	0.3	0.3	0.3	0.3
Local authorities	4.5	4.9	5.3	5.8	6.2
General government consolidation	–5.2	–4.9	–5.0	–5.1	–5.2
Public corporations	0.1	0.2	0.2	0.3	0.3
Financial transactions	0.9	–0.7	1.4	1.6	0.8
Other accounting adjustments	–2.8	–0.3	–0.3	–0.3	–0.3
Total accounting adjustments	**–25.8**	**–21.7**	**–19.1**	**–19.5**	**–20.0**

Table B20: Public sector capital expenditure

	£ billion			
	Outturn	Estimate	Projections	
	2003–04	2004–05	2005–06	2006–07
Capital Budget DEL	23.2	26.2	29.1	31.5
Locally-financed expenditure	0.3	2.1	2.1	2.3
National Lottery	1.2	0.9	0.9	0.8
Public corporations' own-financed capital expenditure	2.5	2.3	2.2	2.2
Other capital spending in AME	0.8	4.7	7.8	8.7
AME margin	0.0	0.4	0.0	0.6
Public sector gross investment[1]	**28.0**	**36.6**	**42.3**	**46.0**
Less depreciation	14.3	14.9	15.8	16.7
Public sector net investment	**13.7**	**21.7**	**26.5**	**29.3**
Proceeds from the sale of fixed assets[2]	6.0	5.5	5.5	3.8

[1] *This and previous lines are all net of sales of fixed assets.*
[2] *Projections of total receipts from the sale of fixed assets by public sector.*

B96 Table B21 shows estimated receipts from loans and sales of assets from 2003-04 to 2007-08.

Table B21: Loans and sales of assets

	£ billion			
	Outturn	Estimate		
	2003–04	2004–05	2005–06	2006–07
Sales of fixed assets				
Central government	1.1	1.0	1.0	1.0
Local authorities	3.8	4.5	4.5	4.5
Total sales of fixed assets	**4.9**	**5.5**	**5.5**	**5.5**
Total loans and sales of financial assets	**–2.3**	**–1.9**	**–2.0**	**–2.3**
Total loans and sales of assets	**2.7**	**3.6**	**3.5**	**3.2**

FINANCING REQUIREMENT

B97 Table B22 presents projections of the net cash requirement by sector, giving details of financial transactions that do not affect net borrowing (the change in the sector's net financial indebtedness) but do affect its financing requirement.

Table B22: Public sector net cash requirement

	2004–05				2005–06			
	General government				General government			
£ billion	Central government	Local authorities	Public corporations	Public sector	Central government	Local authorities	Public corporations	Public sector
Net borrowing	**35.4**	**–1.8**	**0.7**	**34.2**	**31.7**	**2.0**	**–0.3**	**33.4**
Financial transactions								
Net lending to private sector and abroad	1.9	–0.1	0.0	1.9	2.1	–0.1	0.0	2.0
Cash expenditure on company securities	0.1	0.0	0.0	0.1	0.1	0.0	0.0	0.1
Accounts receivable/payable	3.6	0.0	–0.7	2.9	2.4	0.0	–0.7	1.7
Adjustment for interest on gilts	–2.4	0.0	0.0	–2.4	–2.4	0.0	0.0	–2.4
Miscellaneous financial transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Own account net cash requirement	38.7	–1.9	0.0	36.7	33.8	1.9	–1.0	34.8
Net lending within the public sector	1.0	–0.5	–0.5	0.0	1.9	–1.0	–0.9	0.0
Net cash requirement[1]	**39.7**	**–2.4**	**–0.6**	**36.7**	**35.8**	**0.9**	**–1.9**	**34.8**

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

B98 Table B23 updates the financing arithmetic for 2004-05 in line with the updated fiscal forecasts. The central government net cash requirement (CGNCR) for 2004-05 is now forecast to be £39.7 billion, an increase of £4.1 billion from the Budget 2004 forecast. The increase in the CGNCR means that the net financing requirement for 2004-05 is now forecast to be £52.4 billion, an increase of £4.1 billion from the forecast published in Budget 2004.

B99 In order to meet the increase in the financing requirement, the Debt Management Office's (DMO's) remit has been revised as follows:

- forecast gross gilts issuance has been increased by £3.2 billion to £50.3 billion. This increase is being split as follows:
  - an additional short conventional gilt issuance of £2.8 billion;
  - an incremental increase to long maturity gilt issuance of £0.2 billion; and
  - an incremental increase to index-linked gilt issuance of £0.2 billion.
- an additional conventional gilt auction has been scheduled for 20 January 2005; and
- The stock of Treasury bills will now be run down by £0.8 billion instead of the original reduction of £1.8 billion.

B100 The latest financing arithmetic set out in table B23 also takes account of a £0.1 billion smaller contribution to financing in 2003-04 from National Savings & Investments than envisaged when the revised 2004-05 financing arithmetic was published in April.

B101 The Government has also instructed the DMO formally to consult the market about the possible issuance of ultra-long (circa 50-year maturity) conventional and index-linked gilts, perhaps in the alternative format of fixed-term annuities. The DMO announced the consultation with the PBR and this will commence immediately with the deadline for responses being 21 January 2005.

B102 Full details of the DMO's consultation on possible new gilt products, together with details of changes to the financing arithmetic and a revised financing table for 2004-05 can be found on the DMO's website at www.dmo.gov.uk/news/flnews.htm.

Table B23: Financing requirement forecast

	2004–05		
£ billion	**Original remit March 2003**	**Revised remit April 2004**	**Pre-Budget Report**
Central government net cash requirement	**35.6**	**35.6**	**39.7**
Gilt redemptions	14.7	14.7	14.7
Financing for the Official Reserves	0.0	0.0	**0.0**
Buy-backs	0.0	0.0	0.0
Gross Financing requirement	**50.3**	**50.3**	**54.4**
less			
National Savings and Investments	2.0	2.0	2.0
DMO cash deposit at the Bank of England	0.0	0.1	0.0
Net financing requirement	**48.3**	**48.3**	**52.4**
Planned net short-term debt sales			
Change in T bill stock	0.1	–1.8	–0.8
Change in Ways and Means	0.0	0.0	0.0
Change in short-term cash position[1]	0.2	3.0	2.9
Gilt sales requirement	**0.3**	**1.2**	**2.1**
Planned gross gilt sales	**48.0**	**47.1**	**50.3**
Gilt sales to date (April–November 2004)			
of which:			
Short conventionals (1–7 years)			11.8
Medium conventionals (7–15 years)			7.8
Long conventionals (>15 years)			9.5
Index-linked			3.4
Further planned gilt sales			
Short conventionals (1–7 years)			5.9
Medium conventionals (7–15 years)			2.5
Long conventionals (>15 years)			5.0
Index-linked			4.6

Note: Figures may not sum due to rounding.

[1] *Excluding changes in the DMO's cash deposit at the Bank of England.*

ANALYSIS BY SUBSECTOR AND ECONOMIC CATEGORY

B103 Table B24 shows a breakdown of general government transactions by economic category for 2003-04 to 2007-08. Table B25 shows a more detailed breakdown for public sector transactions by sub-sector and economic category for 2003-04, 2004-05 and 2005-06.

Table B24: General government transactions by economic category

	£ billion				
	Outturn	Estimate	Projections		
	2003–04	2004–05	2005–06	2006–07	2007-08
Current receipts					
Taxes on income and wealth	145.6	162.1	180.0	197.2	211.3
Taxes on production and imports	148.7	157.0	166.0	174.0	182.3
Other current taxes	23.2	24.0	26.0	27.9	30.0
Taxes on capital	2.5	2.9	3.3	3.6	3.9
National insurance contributions	75.1	78.0	82.7	87.6	93.1
Gross operating surplus	10.5	11.2	12.0	12.9	13.8
Rent and other current transfers	1.6	1.7	1.7	1.7	1.7
Interest and dividends from private sector and abroad	3.8	4.5	4.4	4.4	4.4
Interest and dividends from public sector	5.8	7.0	7.4	7.8	8.1
Total current receipts	**416.8**	**448.4**	**484.1**	**517.1**	**548.7**
Current expenditure					
Current expenditure on goods and services	232.8	248.2	263.6	281.3	299.4
Subsidies	7.4	5.3	5.7	6.1	6.5
Net social benefits	135.2	145.8	152.0	156.2	162.3
Net current grants abroad	–0.9	–3.9	–2.4	–3.4	–4.6
Other current grants	28.3	28.3	30.7	33.5	36.1
Interest and dividends paid	22.6	24.2	25.5	27.0	28.1
AME margin	0.0	0.6	2.9	1.8	2.5
Total current expenditure	**425.4**	**448.5**	**477.9**	**502.5**	**530.2**
Depreciation	10.5	11.2	12.0	12.9	13.8
Surplus on current budget	**–19.0**	**–11.3**	**–5.8**	**1.7**	**4.7**
Capital expenditure					
Gross domestic fixed capital formation	17.6	22.3	27.8	30.3	33.3
Less depreciation	–10.5	–11.2	–12.0	–12.9	–13.8
Increase in inventories	0.0	–0.0	0.0	0.0	0.0
Capital grants (net) within public sector	1.2	0.9	0.5	0.5	0.5
Capital grants to private sector	8.7	11.1	12.6	13.3	13.1
Capital grants from private sector	–1.3	–1.2	–1.1	–1.0	–0.9
AME margin	0.0	0.4	0.0	0.6	0.3
Net investment	**15.9**	**22.3**	**27.9**	**30.8**	**32.6**
Net borrowing[1]	**34.9**	**33.6**	**33.7**	**29.1**	**27.9**
of which:					
Central government net borrowing	37.0	35.4	31.7	26.9	25.7
Local authority net borrowing	–2.1	–1.8	2.0	2.2	2.2
Gross debt (Maastricht basis)					
Central government	386.2	428.0	466.4	499.2	531.4
Local government	55.0	52.6	53.6	54.7	55.7

[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 B25: Public sector transactions by sub-sector and economic category

	£ billion			
	2003–04			
	General government			
	Central government	Local authorities	Public corporations	Public sector
Current Receipts				
Taxes on income and wealth	145.6	0.0	–0.1	145.5
Taxes on production and imports	148.6	0.1	0.0	148.7
Other current taxes	5.1	18.2	0.0	23.2
Taxes on capital	2.5	0.0	0.0	2.5
National insurance contributions	75.1	0.0	0.0	75.1
Gross operating surplus	5.6	4.9	7.2	17.6
Rent and other current transfers	1.6	0.0	0.0	1.6
Interest and dividends from private sector and abroad	3.1	0.7	0.6	4.4
Interest and dividends from public sector	4.8	1.0	–5.8	0.0
Total current receipts	**392.0**	**24.9**	**1.9**	**418.7**
Current expenditure				
Current expenditure on goods and services	141.5	91.3	0.0	232.8
Subsidies	6.1	1.3	0.0	7.4
Net social benefits	121.8	13.4	0.0	135.2
Net current grants abroad	–0.9	0.0	0.0	–0.9
Current grants (net) within public sector	86.1	–86.1	0.0	0.0
Other current grants	28.2	0.0	0.0	28.3
Interest and dividends paid	22.2	0.4	0.1	22.7
AME margin	0.0	0.0	0.0	0.0
Total current expenditure	**405.1**	**20.3**	**0.1**	**425.5**
Depreciation	5.6	4.9	3.9	14.3
Surplus on current budget	**–18.8**	**–0.2**	**–2.1**	**–21.1**
Capital expenditure				
Gross domestic fixed capital formation	8.8	8.8	2.7	20.3
Less depreciation	–5.6	–4.9	–3.9	–14.3
Increase in inventories	0.0	0.0	0.0	0.1
Capital grants (net) within public sector	7.5	–6.2	–1.2	0.0
Capital grants to private sector	7.9	0.9	0.3	9.0
Capital grants from private sector	–0.4	–0.9	0.0	–1.3
AME margin	0.0	0.0	0.0	0.0
Net investment	**18.2**	**–2.3**	**–2.1**	**13.7**
Net borrowing	**37.0**	**–2.1**	**–0.1**	**34.8**

Table B25: Public sector transactions by sub-sector and economic category

	£ billion			
	2004–05			
	General government			
	Central government	Local authorities	Public corporations	Public sector
Current Receipts				
Taxes on income and wealth	162.1	0.0	–0.1	162.1
Taxes on production and imports	156.8	0.2	0.0	157.0
Other current taxes	5.2	18.8	0.0	24.0
Taxes on capital	2.9	0.0	0.0	2.9
National insurance contributions	78.0	0.0	0.0	78.0
Gross operating surplus	6.0	5.3	9.0	20.2
Rent and other current transfers	1.7	0.0	0.0	1.7
Interest and dividends from private sector and abroad	3.5	0.9	0.6	5.0
Interest and dividends from public sector	4.0	3.0	–7.0	0.0
Total current receipts	**420.3**	**28.2**	**2.6**	**451.0**
Current expenditure				
Current expenditure on goods and services	150.5	97.7	0.0	248.2
Subsidies	4.1	1.2	0.0	5.3
Net social benefits	130.5	15.3	0.0	145.8
Net current grants abroad	–3.9	0.0	0.0	–3.9
Current grants (net) within public sector	93.0	–93.0	0.0	0.0
Other current grants	28.3	0.0	0.0	28.3
Interest and dividends paid	23.8	0.4	0.2	24.3
AME margin	0.6	0.0	0.0	0.6
Total current expenditure	**426.8**	**21.6**	**0.2**	**448.6**
Depreciation	6.0	5.3	3.7	14.9
Surplus on current budget	**–12.5**	**1.2**	**–1.3**	**–12.5**
Capital expenditure				
Gross domestic fixed capital formation	10.3	12.0	3.7	26.0
Less depreciation	–6.0	–5.3	–3.7	–14.9
Increase in inventories	0.0	0.0	0.0	0.0
Capital grants (net) within public sector	8.6	–7.7	–0.9	0.0
Capital grants to private sector	9.8	1.3	0.3	11.4
Capital grants from private sector	–0.3	–0.9	0.0	–1.2
AME margin	0.4	0.0	0.0	0.4
Net investment	**22.9**	**–0.6**	**–0.6**	**21.7**
Net borrowing	**35.4**	**–1.8**	**0.7**	**34.2**

Table B25: Public sector transactions by sub-sector and economic category

	£ billion			
	2005–06			
	General government			
	Central government	Local authorities	Public corporations	Public sector
Current receipts				
Taxes on income and wealth	180.6	0.0	–0.1	180.5
Taxes on production and imports	165.9	0.2	0.0	166.0
Other current taxes	5.6	20.4	0.0	26.0
Taxes on capital	3.3	0.0	0.0	3.3
National insurance contributions	82.7	0.0	0.0	82.7
Gross operating surplus	6.3	5.7	9.6	21.6
Rent and other current transfers	1.7	0.0	0.0	1.7
Interest and dividends from private sector and abroad	3.6	0.7	0.7	5.1
Interest and dividends from public sector	3.3	4.0	–7.4	0.0
Total current receipts	**453.1**	**31.0**	**2.9**	**487.0**
Current expenditure				
Current expenditure on goods and services	159.2	104.4	0.0	263.6
Subsidies	4.3	1.3	0.0	5.7
Net social benefits	134.0	18.0	0.0	152.0
Net current grants abroad	–2.4	0.0	0.0	–2.4
Current grants (net) within public sector	98.3	–98.3	0.0	0.0
Other current grants	30.6	0.0	0.0	30.7
Interest and dividends paid	25.1	0.4	0.2	25.7
AME margin	2.9	0.0	0.0	2.9
Total current expenditure	**452.1**	**25.8**	**0.2**	**478.1**
Depreciation	6.3	5.7	3.8	15.8
Surplus on current budget	**–5.3**	**–0.5**	**–1.1**	**–6.9**
Capital expenditure				
Gross domestic fixed capital formation	12.6	15.1	2.7	30.4
Less depreciation	–6.3	–5.7	–3.8	–15.8
Increase in inventories	0.0	0.0	0.0	0.0
Capital grants (net) within public sector	9.1	–8.5	–0.5	0.0
Capital grants to private sector	11.2	1.4	0.3	12.9
Capital grants from private sector	–0.3	–0.8	0.0	–1.1
AME margin	0.0	0.0	0.0	0.0
Net investment	**26.4**	**1.5**	**–1.4**	**26.5**
Net borrowing	**31.7**	**2.0**	**–0.3**	**33.4**

HISTORICAL SERIES

Table B26: Historical series of public sector balances, receipts and debt

Per cent of GDP

	Public sector current budget	Cyclically-adjusted surplus on current budget	Public sector net borrowing	Cyclically-adjusted public sector net borrowing	Public sector net cash requirement	Net taxes and national insurance contributions	Public sector current receipts	Public sector net debt[1]	Public sector net worth[2]
1970–71	6.7	7.3	–0.6	–1.2	1.2		43.3		
1971–72	4.2	5.2	1.0	0.0	1.4		41.4		
1972–73	2.0	2.3	2.8	2.6	3.6		39.0		
1973–74	0.3	–0.8	5.0	6.0	5.9		39.6		
1974–75	–1.1	–1.8	6.6	7.3	9.0		42.3	52.1	
1975–76	–1.6	–0.4	7.0	5.9	9.3		42.9	53.8	
1976–77	–1.2	0.5	5.6	3.8	6.4		43.3	52.3	
1977–78	–1.4	–0.7	4.3	3.6	3.7		41.5	49.0	
1978–79	–2.6	–2.5	5.0	4.9	5.2	33.5	40.2	47.1	
1979–80	–1.9	–1.8	4.1	4.0	4.7	33.9	40.7	43.9	
1980–81	–3.0	–1.1	4.9	2.9	5.2	35.9	42.4	46.0	
1981–82	–1.4	2.6	2.3	–1.7	3.3	38.6	45.8	46.2	
1982–83	–1.5	2.8	3.0	–1.3	3.2	38.7	45.5	44.8	
1983–84	–2.0	1.6	3.8	0.2	3.2	38.2	44.4	45.1	
1984–85	–2.2	0.8	3.7	0.7	3.1	38.9	44.3	45.3	
1985–86	–1.2	0.6	2.4	0.6	1.6	38.1	43.2	43.5	
1986–87	–1.4	–1.2	2.1	1.9	0.9	37.8	42.0	41.0	
1987–88	–0.3	–1.6	1.0	2.2	–0.7	37.6	41.1	36.8	77.9
1988–89	1.7	–0.9	–1.3	1.3	–3.0	36.9	40.7	30.5	82.6
1989–90	1.4	–1.4	–0.2	2.6	–1.3	36.2	39.9	27.7	73.8
1990–91	0.4	–1.2	1.0	2.6	–0.1	35.9	38.9	26.2	61.4
1991–92	–2.0	–1.5	3.8	3.3	2.3	34.7	38.5	27.4	54.1
1992–93	–5.6	–3.6	7.6	5.6	5.9	33.7	36.6	32.0	40.7
1993–94	–6.2	–3.9	7.8	5.5	7.1	32.8	35.6	40.8	29.4
1994–95	–4.8	–3.3	6.3	4.8	5.3	34.0	36.7	42.7	28.5
1995–96	–3.4	–2.6	4.8	3.9	4.3	34.7	37.6	43.6	20.5
1996–97	–2.8	–2.3	3.6	3.0	2.9	34.8	37.1	41.6	16.8
1997–98	–0.2	–0.1	0.8	0.7	0.2	36.0	38.2	39.1	13.3
1998–99	1.2	0.9	–0.4	–0.2	–0.8	36.5	38.5	36.3	12.1
1999–00	2.1	1.9	–1.7	–1.4	–0.9	36.5	38.9	31.3	15.3
2000–01	2.1	1.6	–1.6	–1.0	–3.9	37.4	39.5	30.2	20.5
2001–02	0.9	0.7	0.0	0.3	0.3	36.8	38.6	31.5	25.6
2002–03	–1.3	–0.7	2.4	1.8	2.3	35.4	37.2	32.9	24.2
2003–04	–1.9	–1.0	3.1	2.2	3.6	35.6	37.5	33.0	22.0

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

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

Table B27: Historical series of government expenditure

	£ billion (2003–04 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	170.2	31.9	50.9	222.5	32.6	6.1	9.8	42.7
1971–72	178.2	28.2	47.6	227.3	33.3	5.3	8.9	42.5
1972–73	185.8	27.0	47.2	234.7	33.1	4.8	8.4	41.9
1973–74	204.3	30.4	53.2	259.3	35.1	5.2	9.1	44.5
1974–75	226.2	32.2	56.0	284.6	38.8	5.5	9.6	48.9
1975–76	230.9	31.6	56.5	289.0	39.9	5.5	9.8	49.9
1976–77	237.8	25.8	51.7	291.0	39.9	4.3	8.7	48.8
1977–78	234.4	17.5	43.1	279.4	38.4	2.9	7.1	45.8
1978–79	241.4	15.3	41.8	284.7	38.4	2.4	6.7	45.3
1979–80	247.6	14.2	41.0	290.2	38.2	2.2	6.3	44.8
1980–81	254.9	11.4	38.4	295.1	40.8	1.8	6.1	47.3
1981–82	266.4	5.8	32.7	300.8	42.6	0.9	5.2	48.1
1982–83	272.1	9.6	35.4	309.4	42.7	1.5	5.6	48.5
1983–84	280.6	11.8	37.4	320.0	42.3	1.8	5.6	48.2
1984–85	288.3	10.4	34.7	325.0	42.6	1.5	5.1	48.0
1985–86	288.5	8.8	30.7	320.6	41.0	1.2	4.4	45.6
1986–87	292.9	5.2	30.4	321.9	40.1	0.7	4.2	44.1
1987–88	259.3	4.4	23.6	282.9	38.6	0.7	3.5	42.1
1988–89	289.1	2.8	25.5	314.6	36.2	0.4	3.2	39.4
1989–90	291.4	9.7	33.3	324.0	35.7	1.2	4.1	39.7
1990–91	293.0	11.7	31.5	324.6	36.1	1.4	3.9	40.0
1991–92	310.4	14.8	31.8	342.1	38.4	1.8	3.9	42.3
1992–93	325.5	16.2	36.1	357.5	40.2	2.0	4.5	44.2
1993–94	334.9	13.1	34.2	363.5	40.0	1.6	4.1	43.4
1994–95	345.8	12.7	33.1	374.7	39.7	1.5	3.8	43.0
1995–96	350.9	12.2	32.5	379.4	39.2	1.4	3.6	42.4
1996–97	352.1	6.6	26.4	373.3	38.3	0.7	2.9	40.6
1997–98	351.7	6.0	24.9	372.0	36.9	0.6	2.6	39.0
1998–99	351.1	7.2	25.0	372.2	35.9	0.7	2.6	38.1
1999–00	357.4	4.9	21.6	376.2	35.3	0.5	2.1	37.1
2000–01	377.4	5.6	25.7	397.2	36.0	0.5	2.4	37.9
2001–02	387.5	10.5	29.4	412.3	36.3	1.0	2.8	38.6
2002–03	404.0	11.6	32.6	430.0	37.2	1.1	3.0	39.6
2003–04	425.5	13.7	31.3	453.6	38.1	1.2	2.8	40.6

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