



HM TREASURY

# Budget 2010:

the economy and public finances  
– supplementary material

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March 2010



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# 1

## The economy

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The 2010 Financial Statement and Budget Report (FSBR), published by HM Treasury on 24 March 2010, includes a discussion of economic developments and prospects (Chapter B). The present document reproduces charts and tables contained in Chapter B, and also includes additional information in the form of more detailed charts and tables. The charts and tables are consistent with output, income and expenditure data to the fourth quarter of 2009, released by the Office for National Statistics (ONS) on 26 February 2010. This release also contained revisions to earlier quarters of 2009, which the Treasury has carried through to other National Accounts series that the ONS has not yet revised, in particular sectoral saving and borrowing. A fully consistent National Accounts dataset will be published by the ONS on 30 March.

### Introduction

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

**1.2** The mid-points of the forecast ranges represent the Government's neutral case view of economic prospects, and are anchored around the Treasury's neutral trend output projection. This assumption for trend output is discussed in Chapter B of the FSBR, and details are also set out in Table 1.1 of this document. A paper published by the Treasury alongside Budget 2002<sup>1</sup> discussed the Treasury's trend output growth framework, while a further paper published alongside the 2006 Pre-Budget Report<sup>2</sup> provided an updated assessment and projections. For the FSBR 2010, to take account of the impact of the global credit shock on trend output, a phased reduction to the trend level of output of just over 5 per cent has been assumed over the three years from mid-2007.

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

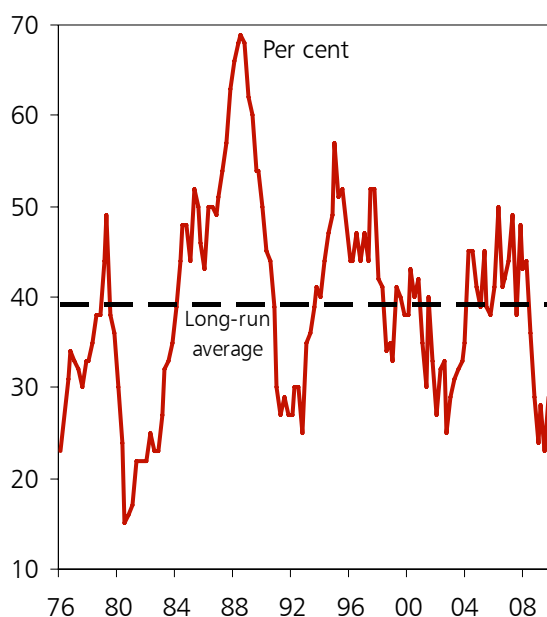
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<sup>1</sup> *Trend growth: recent developments and prospects*, HM Treasury, April 2002.

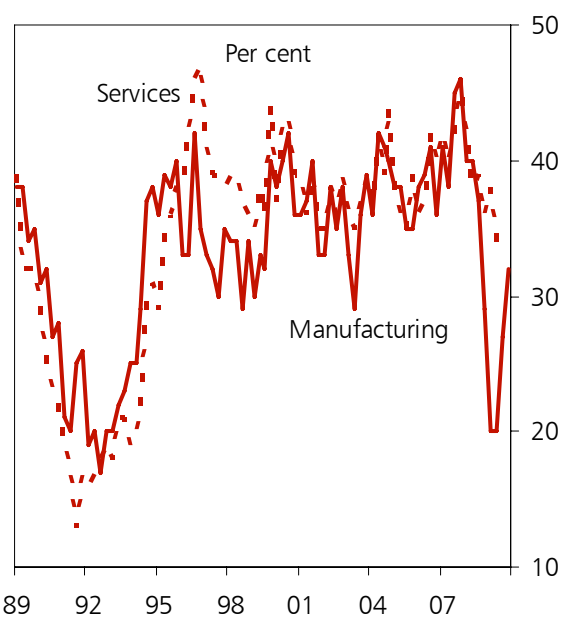
<sup>2</sup> *Trend growth: new evidence and prospects*, HM Treasury, December 2006.

## The degree of spare capacity

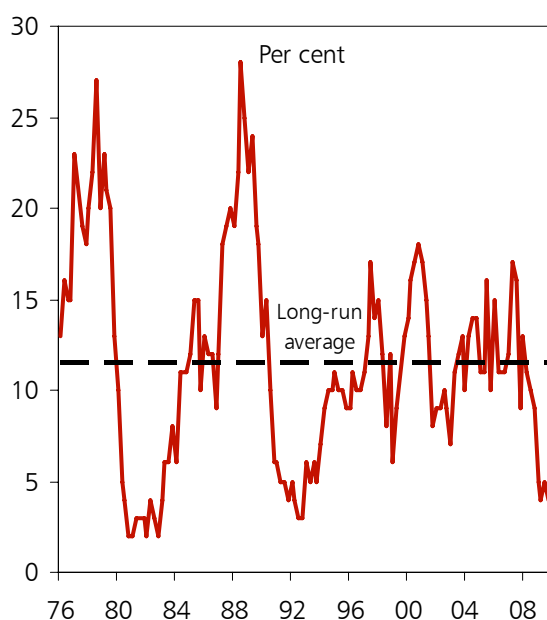
**Chart 1.1A: CBI capacity utilisation in manufacturing**



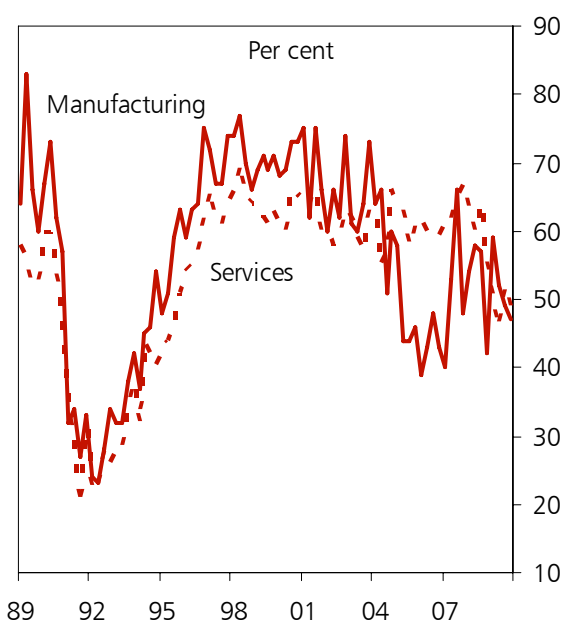
**Chart 1.1B: BCC survey of capacity utilisation**



**Chart 1.2A: CBI survey of skilled labour shortages in manufacturing**

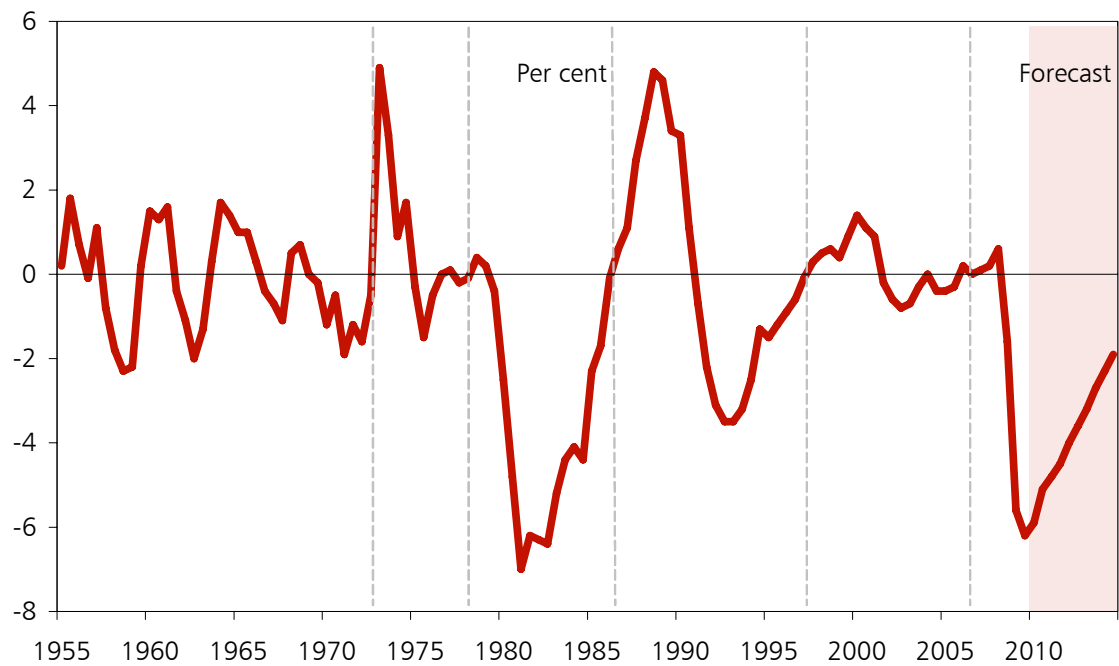


**Chart 1.2B: BCC survey of recruitment difficulties**





**Chart 1.3: The output gap**



<sup>1</sup> Mechanical output gap estimates on a semi-annual basis, based on the latest National Accounts data and expressed as actual output less trend output as a percentage of trend output (non-oil basis). Estimates post-1972 based on the Treasury's assessment of on-trend points using a broad range of economic indicators as set out in *'Evidence on the economic cycle'*, published alongside the 2008 Pre-Budget Report. Estimates prior to 1972 derived using a Hodrick-Prescott filter as sufficient data from the cyclical indicators monitored by the Treasury are not available to assess on-trend points for this period.

<sup>2</sup> From the first half of 2010 the figures presented for each half-year are -5.9, -5.1, -4.8, -4.5, -4.0, -3.6, -3.2, -2.7, -2.3, -1.9.

<sup>3</sup> Vertical lines indicate start and end-cycle points as identified by HM Treasury.

**Table 1.1: Contributions to trend growth<sup>1, 2</sup>**

	Estimated trend rates of growth, per cent per annum, unless otherwise stated					
	Trend output per hour worked <sup>3, 4</sup>		Trend average hours worked <sup>4</sup>	Trend employment rate <sup>4</sup>	Trend Population <sup>5</sup>	Trend output
	Underlying (1)	Unadjusted (2)	(3)	(4)	(5)	(6)
<b>1986Q2 to 1997H1</b>						
Budget 2009	2.13	1.95	-0.11	0.36	0.26	<b>2.47</b>
Latest data	2.13	1.95	-0.11	0.36	0.26	<b>2.47</b>
<b>Over the recent past</b>						
<b>1997H1 to 2001Q3</b>						
Budget 2009	3.12	2.87	-0.46	0.50	0.52	<b>3.45</b>
2009 PBR and Budget 2010	3.12	2.88	-0.46	0.50	0.52	<b>3.45</b>
<b>2001Q3 to 2006H2</b>						
Budget 2009	2.12	2.07	-0.26	0.11	0.75	<b>2.68</b>
PBR 2009	2.23	2.18	-0.26	0.11	0.75	<b>2.80</b>
Latest data	2.21	2.16	-0.24	0.10	0.76	<b>2.80</b>
<b>Projection<sup>6</sup></b>						
<b>2006H2 onwards</b>						
Budget 2009	2.25	2.3	-0.25	-0.10	0.80	<b>2¾</b>
Level effect from 2007Q3 to 2010Q3 <sup>7</sup>	-4½	-4½	0	0	-½	<b>-5</b>
2009 PBR	2.23	2.3	-0.20	-0.15	0.80	<b>2¾</b>
Level effect from 2007Q3 to 2010Q3 <sup>7</sup>	-4½	-4½	0	0	-½	<b>-5</b>
Budget 2010 <sup>8</sup>	2.23	2.3	-0.20	-0.15	0.80	<b>2¾</b>
Level effect from 2007Q3 to 2010Q3 <sup>7, 8</sup>	-4¾	-4¾	0	0	-½	<b>-5¼</b>

<sup>1</sup> Treasury analysis based on judgement that 1986Q2, 1997H1, 2001Q3 and 2006H2 were on-trend points of the output cycle. Figures independently rounded. Trend output growth is estimated as growth of non-oil gross value added between on-trend points for the past, and by projecting components going forward. Full data definitions and sources are set out in Annex A of 'Trend growth: new evidence and prospects', HM Treasury, December 2006.

<sup>2</sup> Interim projections between Budget 2002 and the 2008 Pre-Budget Report are set out in 'Budget 2008: the economy and public finances - supplementary material' and the 2008 Pre-Budget Report.

<sup>3</sup> The underlying trend rate is the unadjusted trend rate adjusted for changes in the employment rate, i.e. assuming the employment rate had remained constant. Column (1) = column (2) + (1-a).column (4), where a is the ratio of new to average worker productivity levels. The figuring is consistent with this ratio being of the order of 50 per cent, informed by econometric evidence and LFS data on relative entry wages.

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

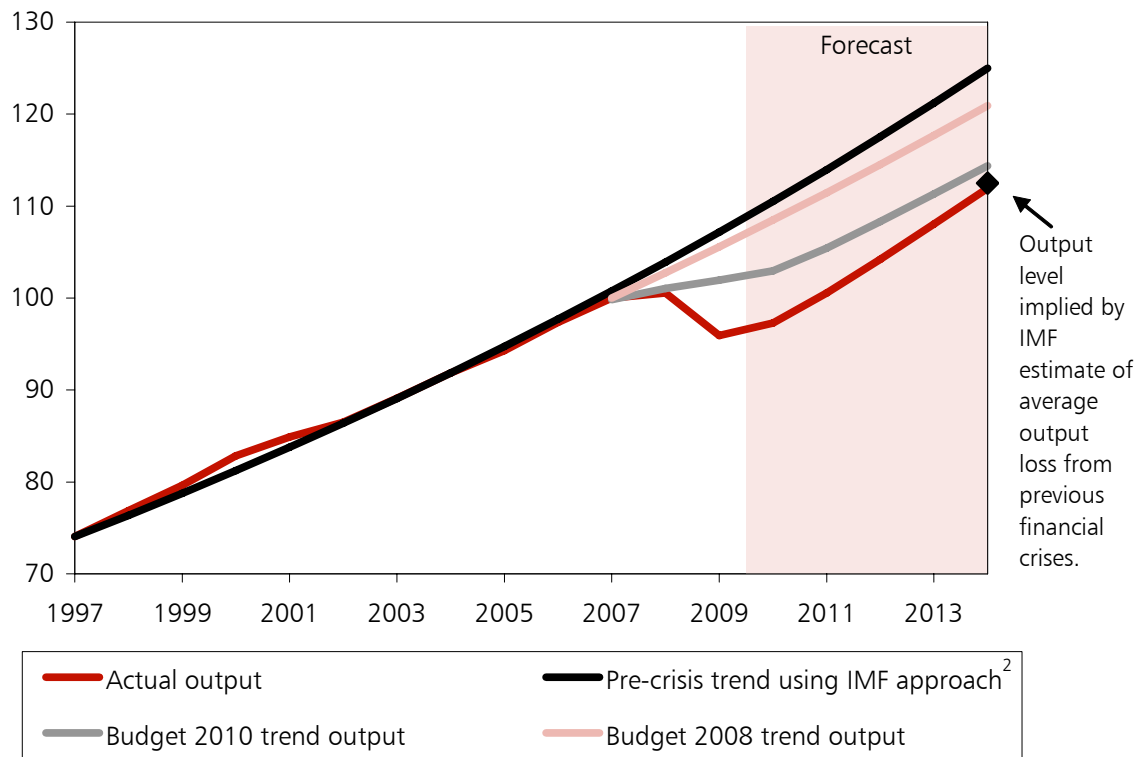
<sup>5</sup> UK resident household basis (LFS). Population aged 16 and over.

<sup>6</sup> Neutral case assumptions for trend from 2006H2.

<sup>7</sup> Adjustment reflecting a phased reduction to the level of trend output between mid-2007 and mid-2010.

<sup>8</sup> Underlying trend assumptions around which the mid-points of the GDP forecast growth ranges from 2006H2 are anchored.

**Chart 1.4: Output profiles<sup>1</sup>**



<sup>1</sup> 100=actual output (non-oil GVA) in 2007. Estimates presented on a non-oil GVA basis to allow comparisons with the Treasury's trend output assumptions.

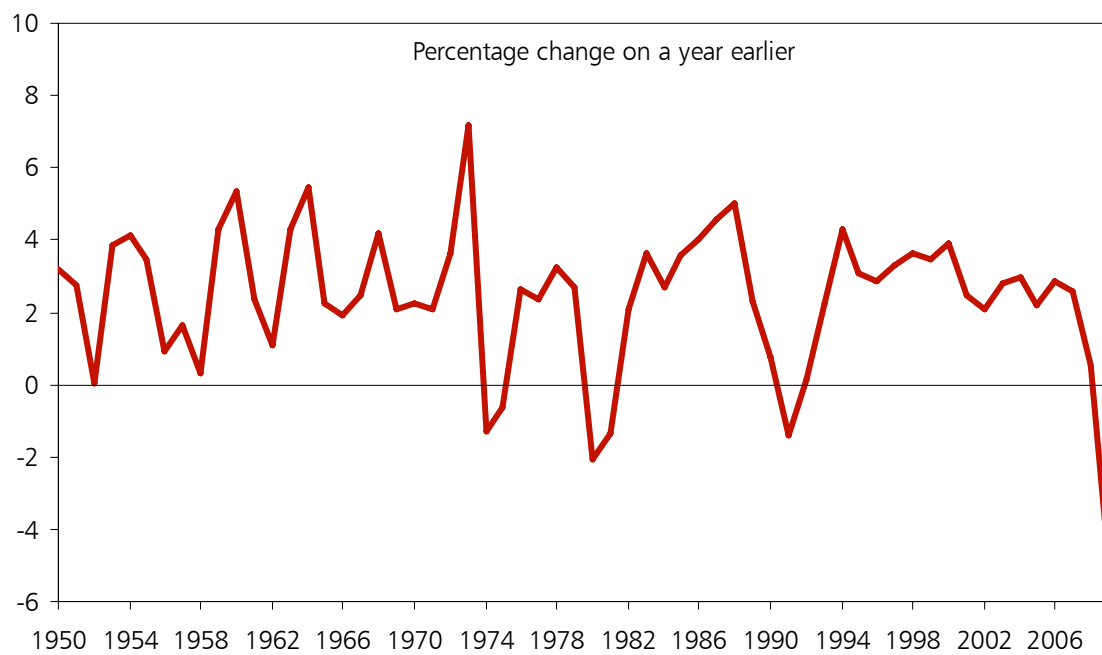
<sup>2</sup> IMF pre-crisis trend constructed by extrapolating forward the UK's average growth rate of non-oil GVA between 1997 and 2004 (around 3 per cent).

## Gross domestic product (GDP)

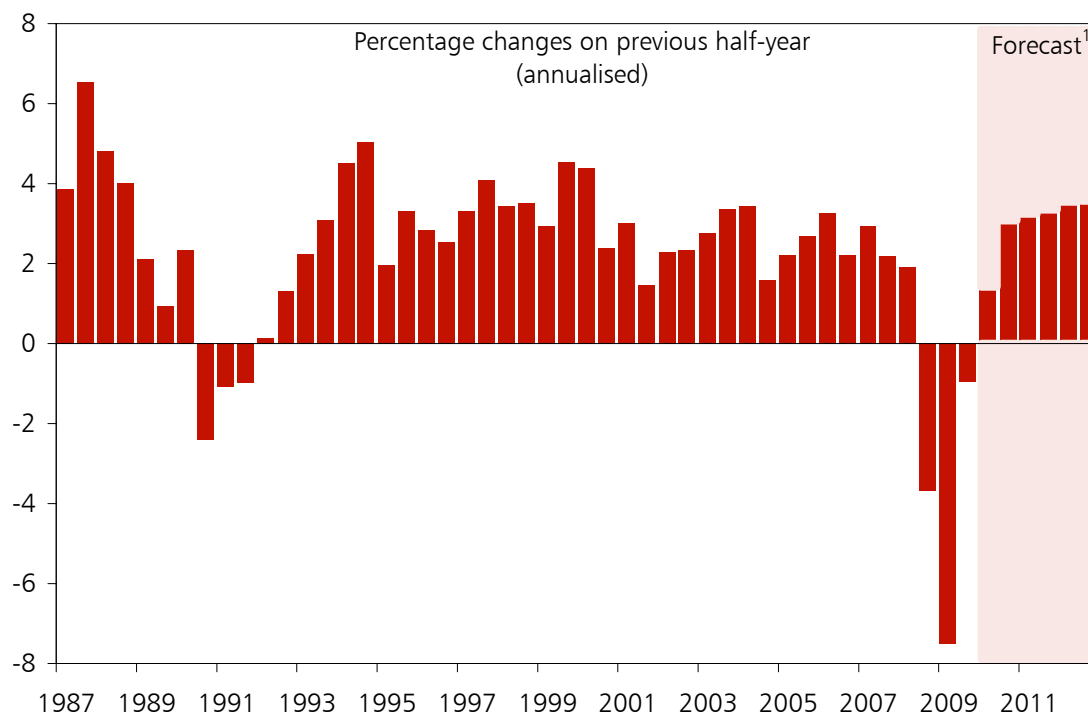
**Table 1.2: Quarterly GDP and non-oil GVA growth**

	Percentage change on previous quarter							
	2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP	0.7	-0.1	-0.9	-1.8	-2.6	-0.6	-0.3	0.3
Non-oil GVA	0.6	-0.1	-0.9	-1.8	-2.5	-0.5	-0.2	0.3

**Chart 1.5: Annual GDP growth**

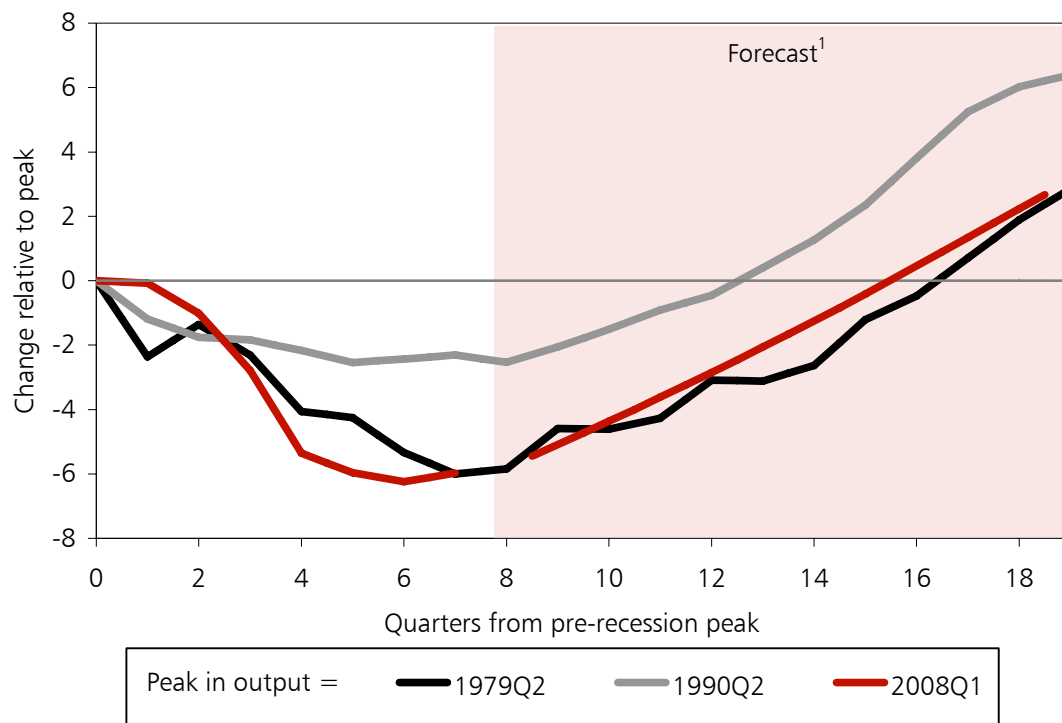


**Chart 1.6: GDP forecast**



<sup>1</sup> At mid-points of forecast ranges.

**Chart 1.7: The path of GDP through recoveries in the 1980s and 1990s**



<sup>1</sup> Forecasts for 2008Q1 curve only, showing average semi-annual GDP relative to peak from 2010H1.

**Table 1.3: Contributions<sup>1</sup> to GDP growth<sup>2</sup>**

	Percentage points, unless otherwise stated					
	Average	2008	2009	Forecast		
	2000 to 2007			2010	2011	2012
GDP growth, per cent	2¾	½	-5	1 to 1½	3 to 3½	3¼ to 3¾
<b>Main contributions</b>						
Private consumption	1¾	½	-2	¼	1¾	1¾
Business investment	¼	0	-2	-½	¾	1
Dwellings investment <sup>3</sup>	¼	-½	-½	0	¼	¼
Government <sup>4</sup>	¾	1	¾	¼	-¾	-¾
Change in inventories	0	-½	-1 ¼	1 ¼	½	0
Net trade	-¼	½	¾	¼	¾	¾

<sup>1</sup> Based on central case. For the purpose of projecting the public finances, forecasts are based on the bottom of the GDP forecast range.

<sup>2</sup> Components may not sum to total due to rounding, omission of transfer costs of land and existing buildings, and the statistical discrepancy.

<sup>3</sup> The sum of public corporations and private sector investment in new dwellings and improvements to dwellings.

<sup>4</sup> The sum of government consumption and general government investment.

## The household sector

**Table 1.4: Household sector<sup>1</sup> expenditure and income**

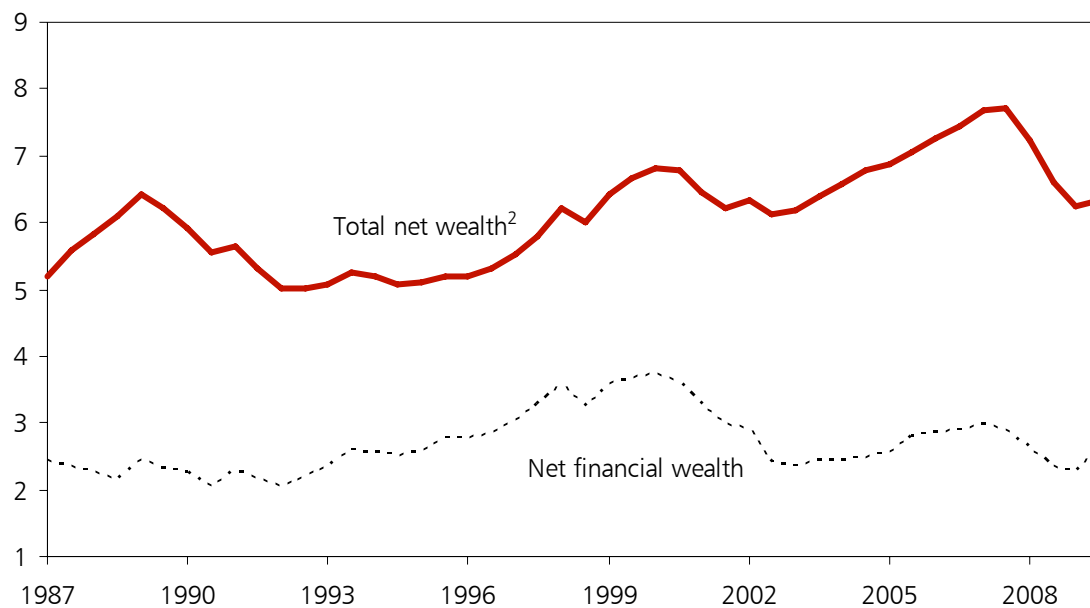
	Percentage change on a year earlier, unless otherwise stated					
	Average	2008	2009	Forecast		
	2000 to 2007			2010	2011	2012
Household consumption <sup>2</sup>	3	1	-3	0 to ½	2¼ to 2¾	2½ to 3
Real household disposable income	2¼	1½	4¼	2 to 2½	1 to 1½	1¼ to 1¾
Saving ratio <sup>3</sup> (level, per cent)	4¼	1½	7¾	9¼	8	6¾

<sup>1</sup> Including non-profit institutions serving households.

<sup>2</sup> Chained volume measure.

<sup>3</sup> Total household resources less consumption expenditure as a per cent of total resources, where total resources comprise households' disposable income plus the change in their net equity in pension funds.

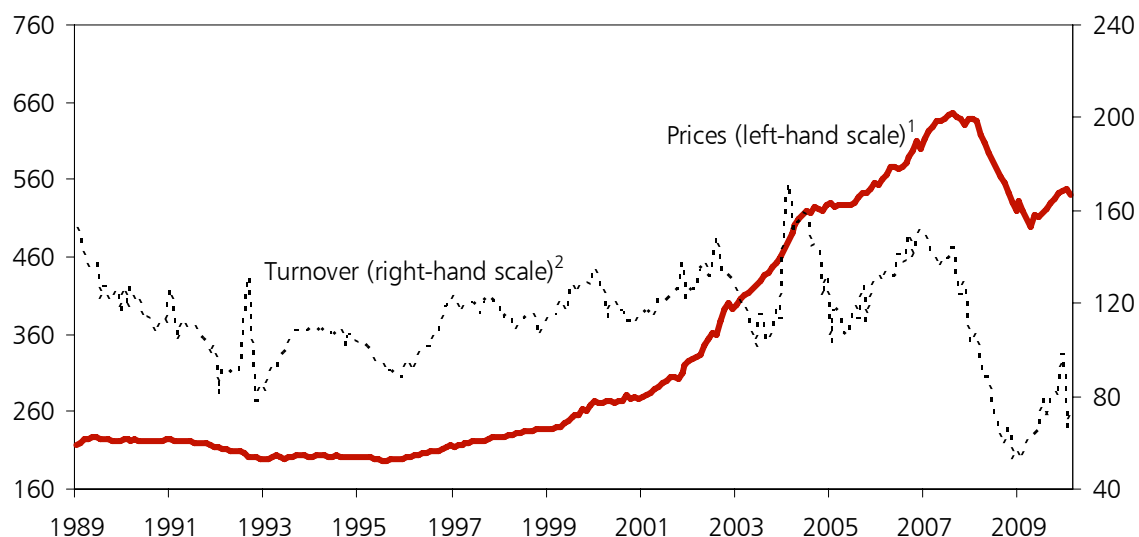
**Chart 1.8: Household sector wealth to income ratios<sup>1</sup>**



<sup>1</sup> Semi-annual.

<sup>2</sup> Includes tangible (mainly housing) wealth.

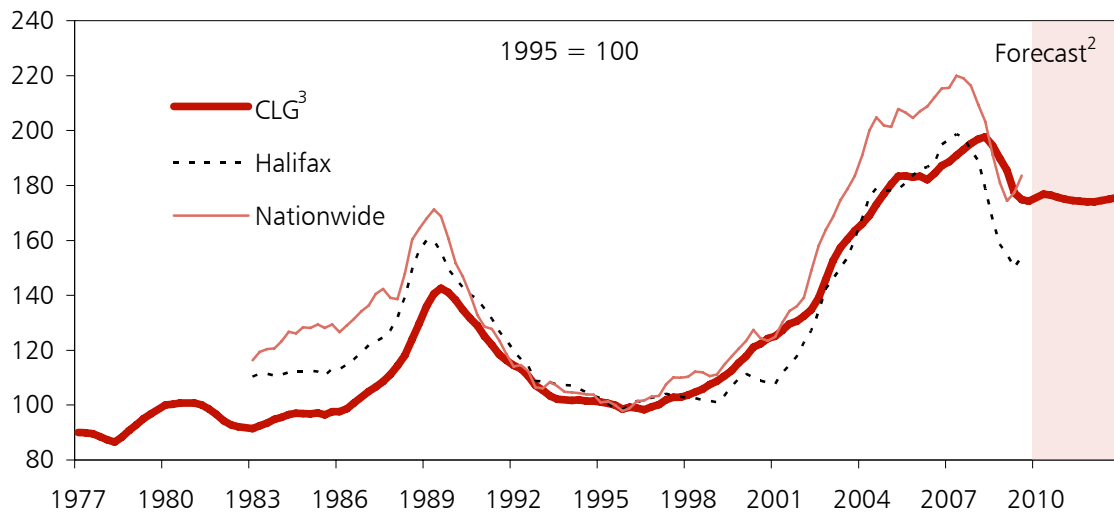
**Chart 1.9: Monthly housing turnover and prices**



<sup>1</sup> Halifax index, 1983 = 100.

<sup>2</sup> Seasonally adjusted transactions, thousands. Prior to April 2005, total property transactions in England & Wales. Post April 2005, figures refer to the number of completed residential property transactions in the UK over £40,000 in value.

**Chart 1.10: House price-earnings ratio<sup>1</sup>**

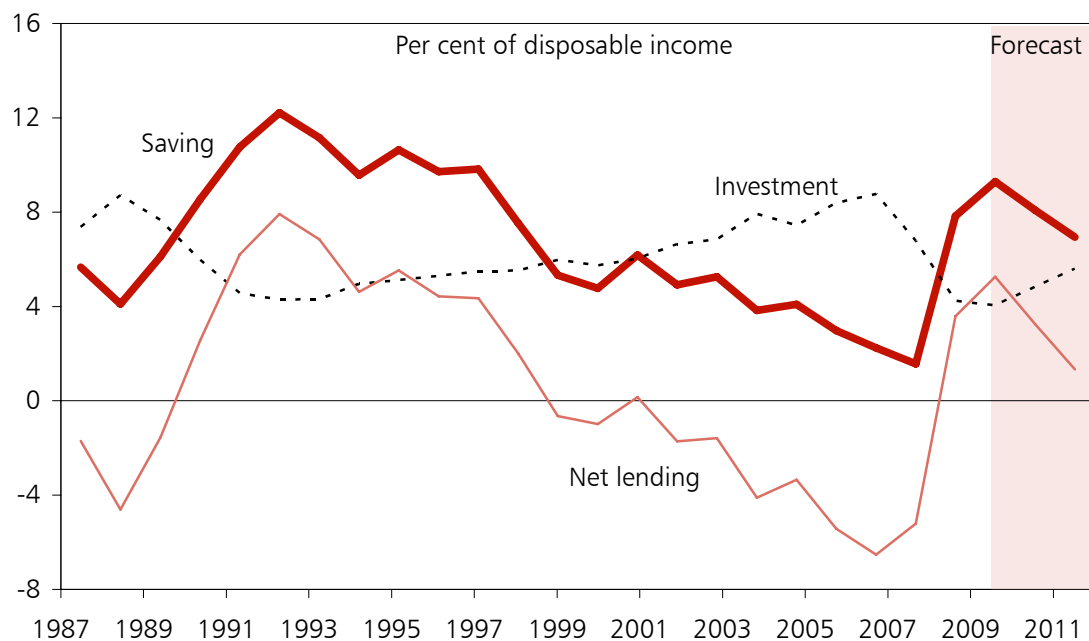


<sup>1</sup> Ratio of CLG / Halifax / Nationwide house prices to wages and salaries per employee.

<sup>2</sup> Consistent with the forecast for house price inflation as discussed in Chapter B of Budget 2010, and in particular the median of independent forecasts to late 2011.

<sup>3</sup> Four-quarter moving average.

**Chart 1.11: Household sector<sup>1</sup> net lending**

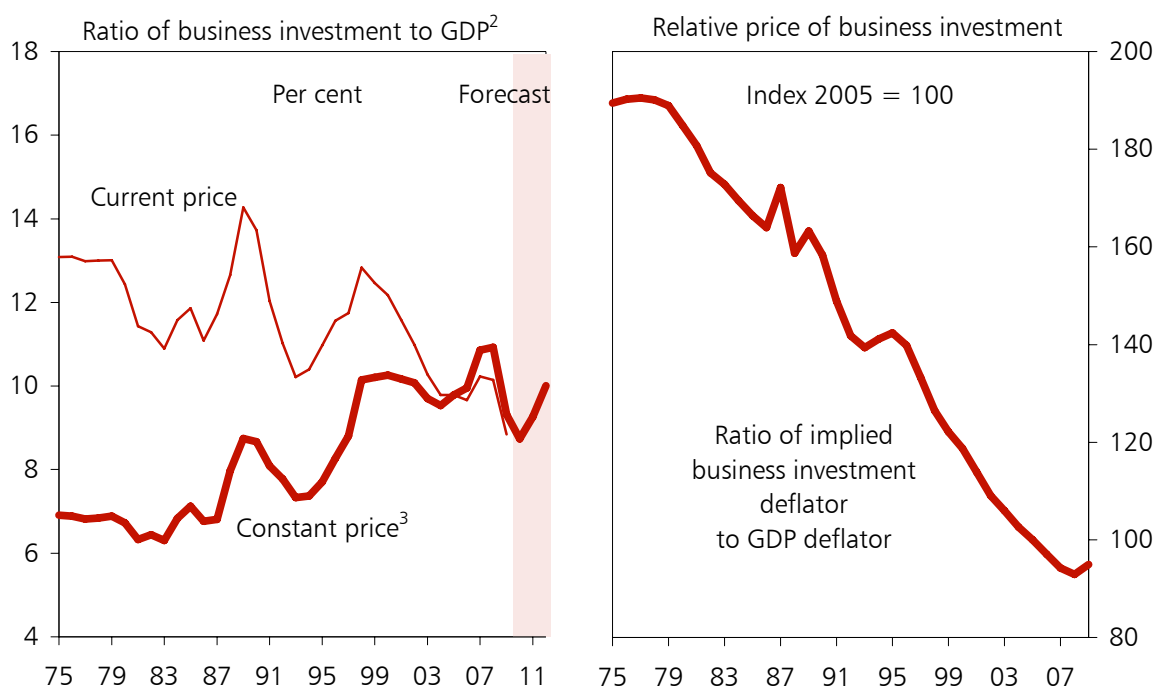


<sup>1</sup> Includes non-profit institutions serving households.



## Investment

**Chart 1.12: Business investment<sup>1</sup>**



<sup>1</sup> Includes investment by public corporations and investment under the Private Finance Initiative.

<sup>2</sup> Excludes exceptional transfer of BNFL liabilities to central government in 2005Q2.

<sup>3</sup> Ratio of business investment to GDP in chained volume measures.

**Table 1.5: Gross fixed capital formation**

	Average 2000 to 2007	Percentage change on a year earlier				
		2008	2009	Forecast		
				2010	2011	2012
Whole economy <sup>1</sup>	4	-3½	-14½	-2¾ to -2¼	4½ to 5	9 to 9½
of which:						
Business <sup>2,3</sup>	3½	1¼	-19	-5¼ to -4¾	9¼ to 9¾	11½ to 12
Private dwellings <sup>3</sup>	4¼	-11½	-19¼	¼ to ¾	7½ to 8	10¼ to 10¾
General government <sup>3</sup>	5¼	17¾	16½	-2½	-19	-8½

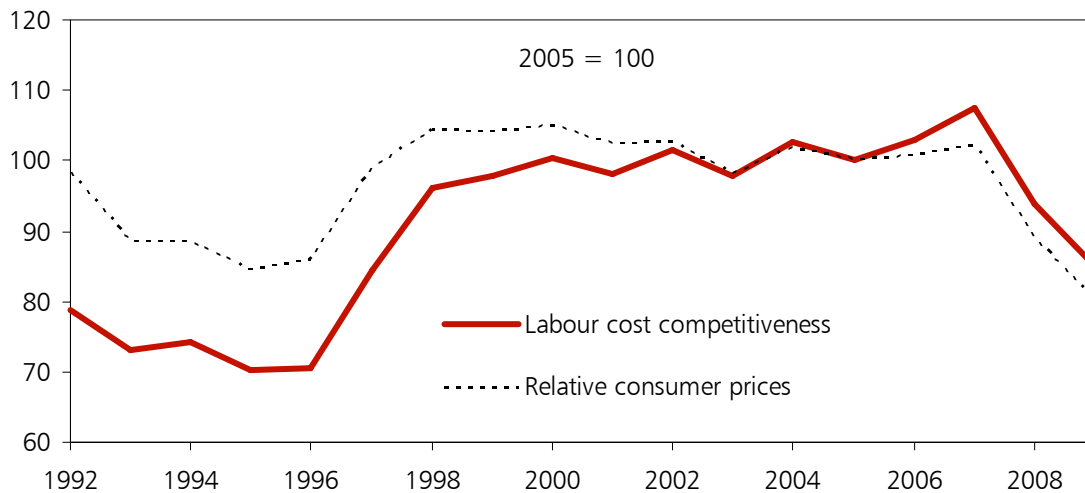
<sup>1</sup> Includes costs associated with the transfer of ownership of land and existing buildings.

<sup>2</sup> Private sector and public corporations' non-residential investment; includes investment under the Private Finance Initiative.

<sup>3</sup> Excludes purchases less sales of land and existing buildings.

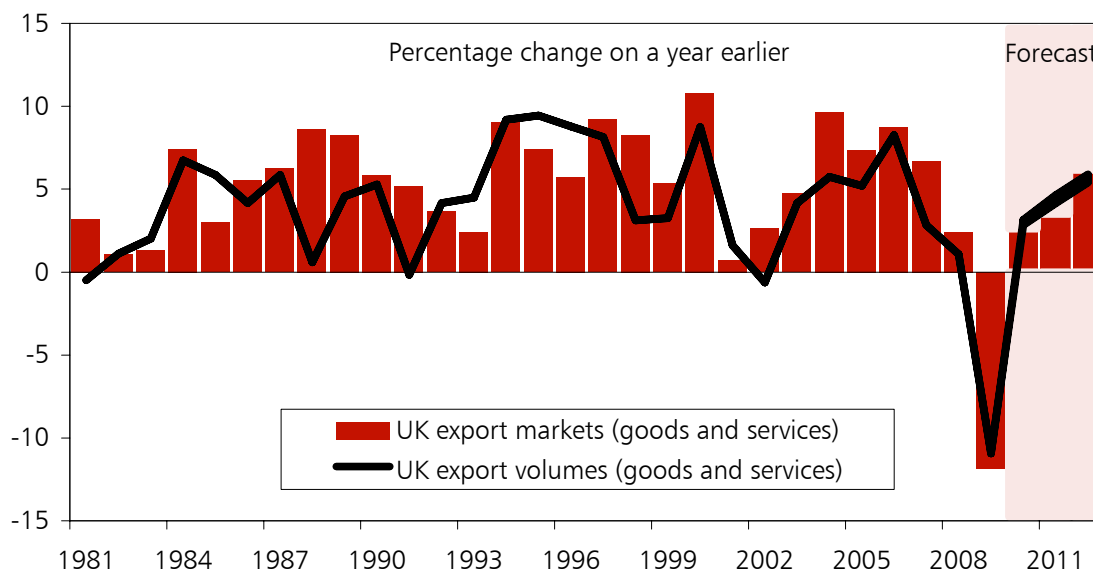
## Trade and the balance of payments

**Chart 1.13: Competitive positions: relative unit labour costs<sup>1</sup> and consumer prices**



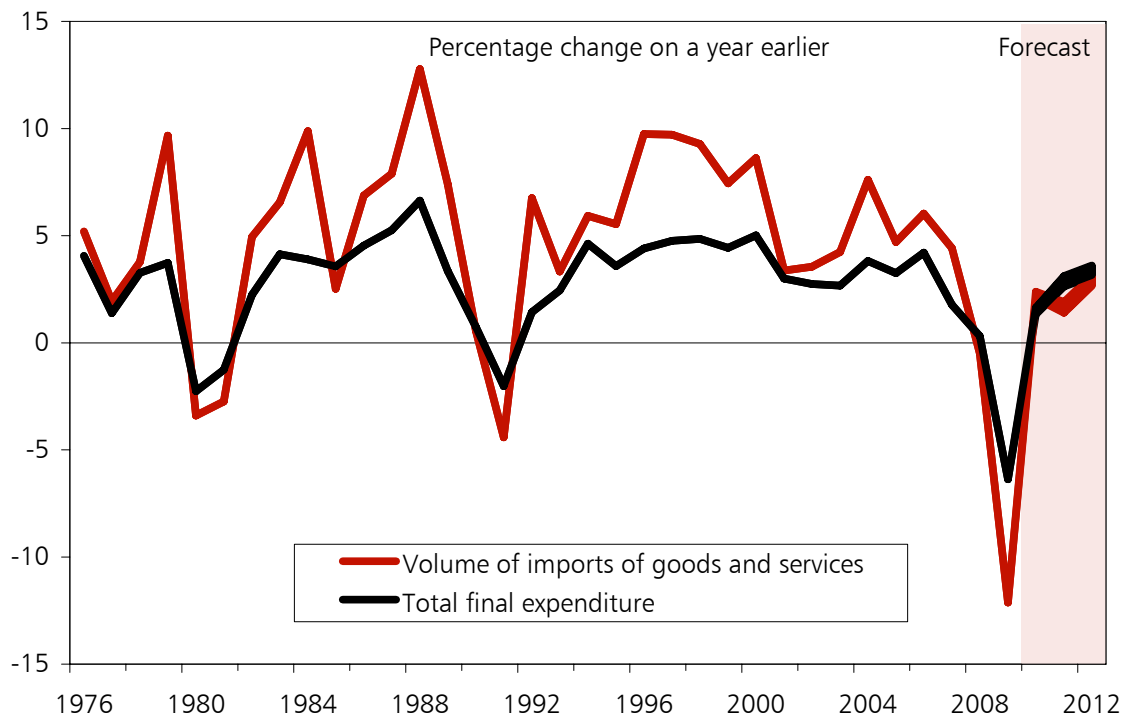
<sup>1</sup> Relating to trade in manufactures; a fall means that competitiveness has improved.  
Source: OECD Economic Outlook 86, December 2009.

**Chart 1.14: Exports<sup>1</sup> and overseas demand**



<sup>1</sup> Volumes excluding the effects of activity relating to Missing Trader Intra-Community (MTIC) fraud.

**Chart 1.15: Imports<sup>1</sup> and total final expenditure**



<sup>1</sup> Volumes excluding the effects of activity relating to Missing Trader Intra-Community (MTIC) fraud.

**Table 1.6: Trade in goods and services**

	Percentage change on a year earlier, unless otherwise stated					
	Average	2008	2009	Forecast		
	2000 to 2007			2010	2011	2012
Volumes (excluding MTIC) <sup>1</sup>						
Exports	4½	1	-11	2¾ to 3¼	4 to 4½	5¼ to 5¾
Imports	5¼	-½	-12	2 to 2½	1½ to 2	2¾ to 3¼
Prices <sup>2</sup>						
Exports	1	12½	2¾	¾	¾	1¼
Imports	1	11¼	3¾	2¾	2½	2
Terms of trade <sup>3</sup>	0	1	-1	-2	-1½	-¾
Goods and service balance (£ billion)	-32¼	-38¼	-33¼	-40¼	-37½	-30½

<sup>1</sup> Table 1.11 contains figures including the effects of MTIC-related activity. The forecast is therefore based on the neutral assumption that the level of MTIC-related activity stays flat at the latest quarterly estimate throughout the forecast.

<sup>2</sup> Average value indices.

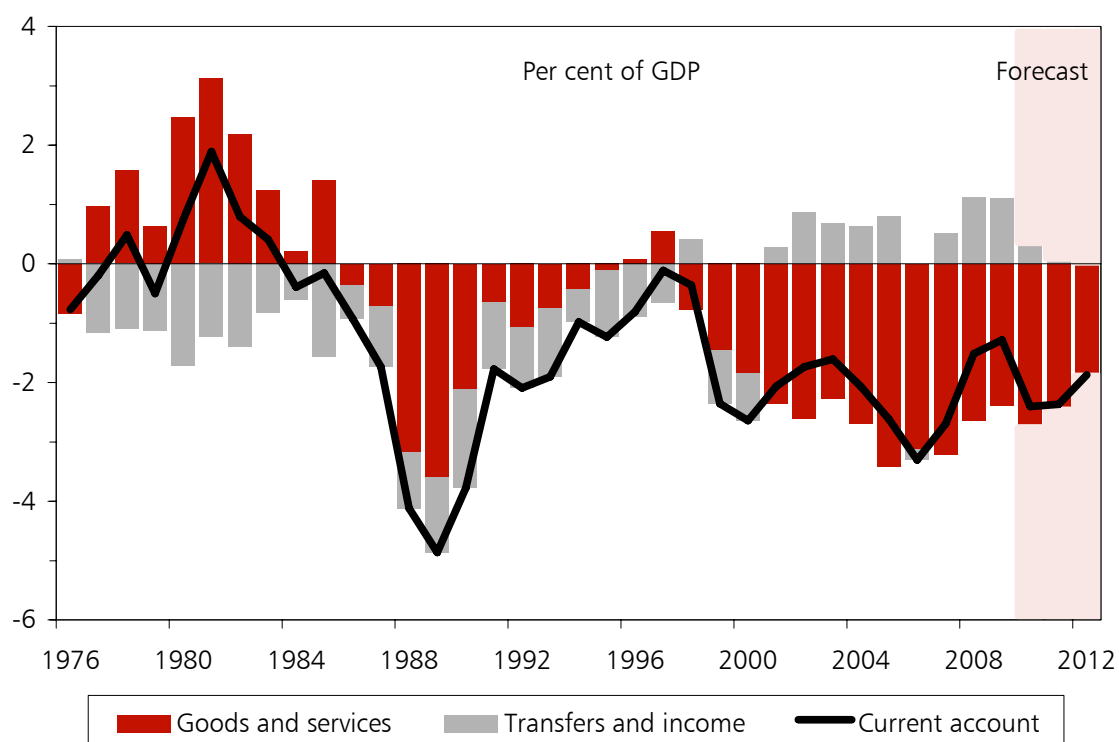
<sup>3</sup> Ratio of export to import prices.

**Table 1.7: The current account**

	£ billion				
	2008	2009	Forecast		
			2010	2011	2012
Trade in goods and services	-38¼	-33¼	-40¼	-37½	-30½
Non-oil	-32¼	-30	-37	-32½	-24
Oil	-5¾	-3¼	-3¼	-5	-6½
Transfers	-14	-15½	-17¼	-19¼	-19¾
Income balance <sup>1</sup>	30¼	31	22½	20¾	20¼
Current balance	-22	-18	-35	-36	-30

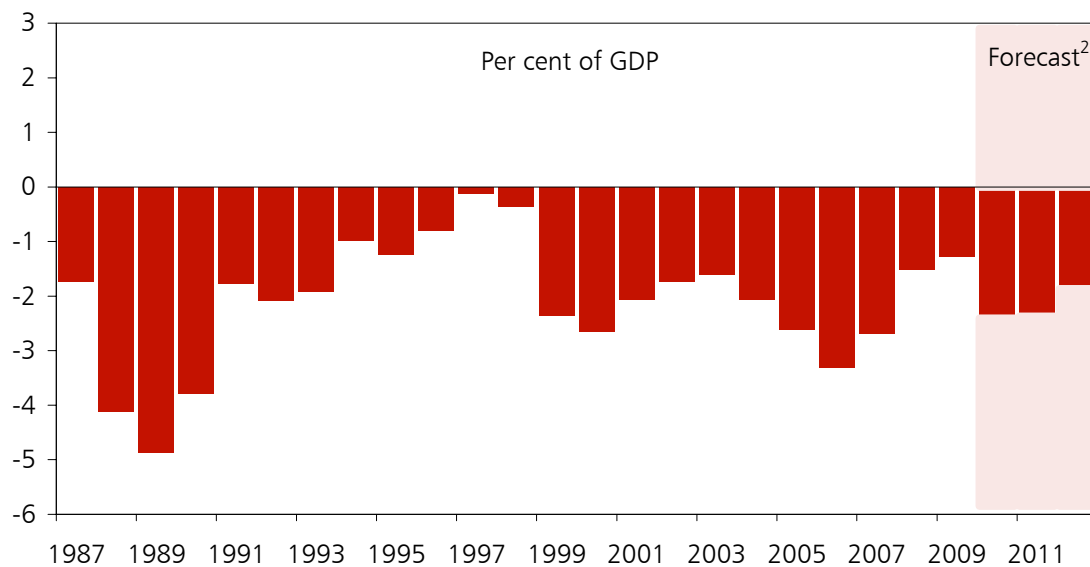
<sup>1</sup> Includes investment and employee income.

**Chart 1.16: The current account**



## Net lending by sector

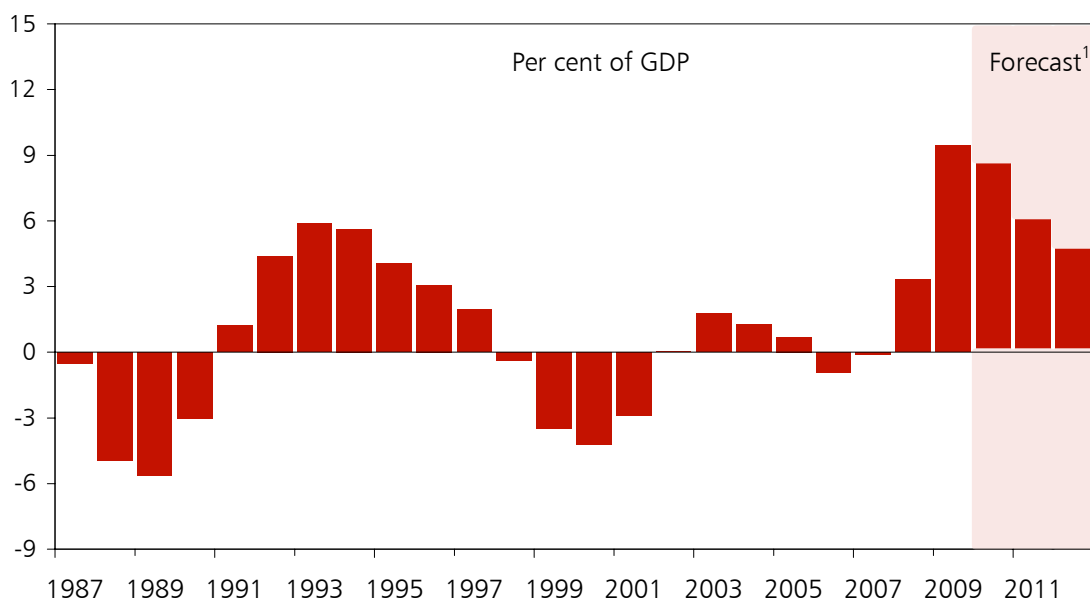
**Chart 1.17A: The current account balance<sup>1</sup>**



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

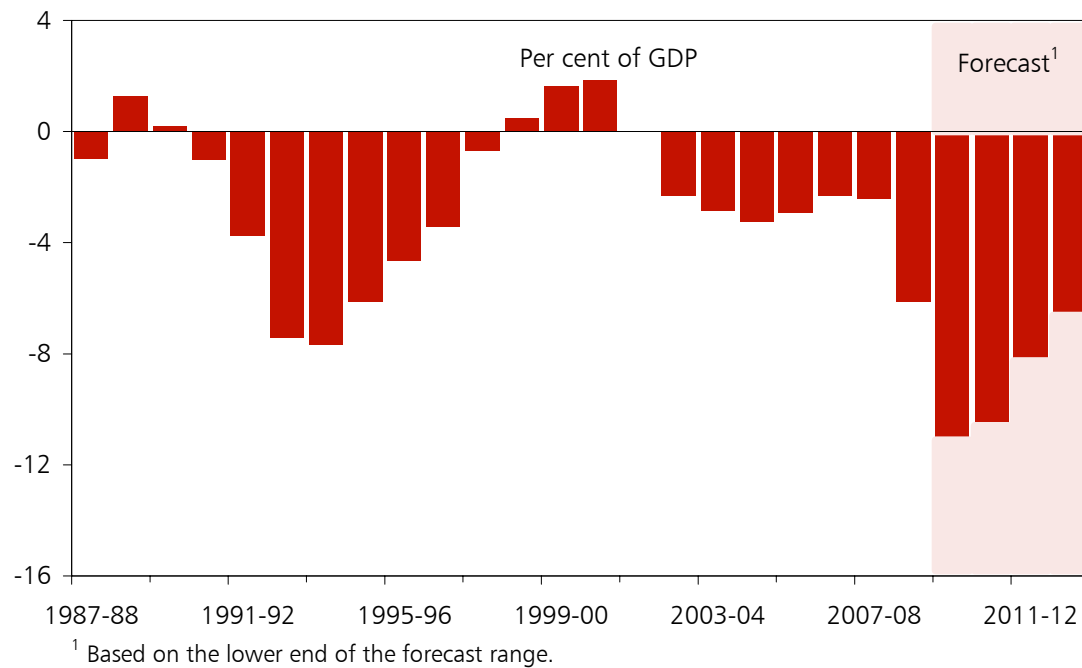
<sup>2</sup> At mid-points of forecast ranges.

**Chart 1.17B: Private sector net lending**



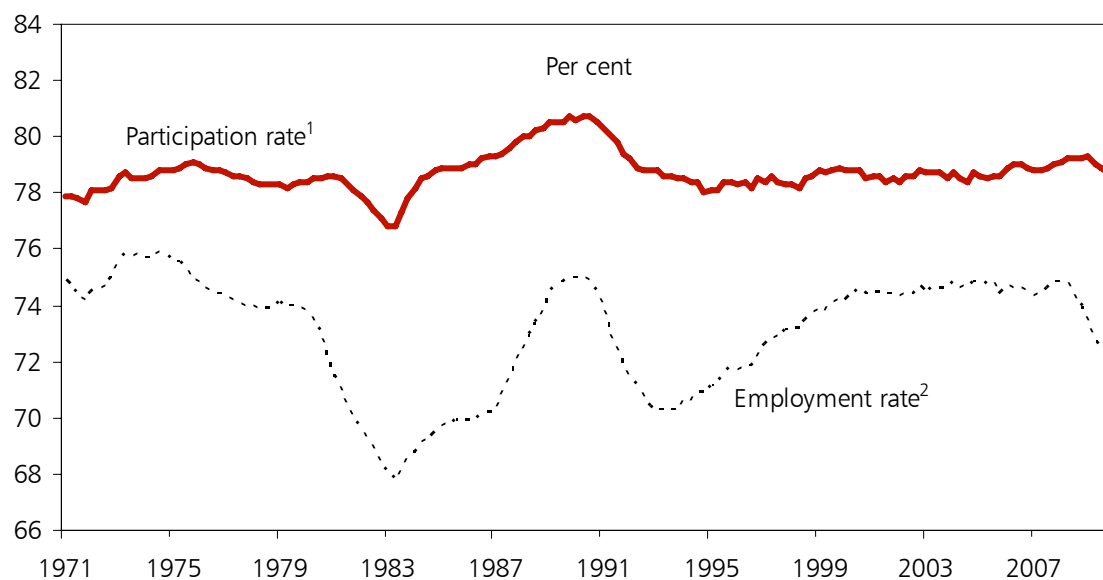
<sup>1</sup> At mid-points of forecast ranges.

**Chart 1.17C: Public sector net lending**



## The labour market

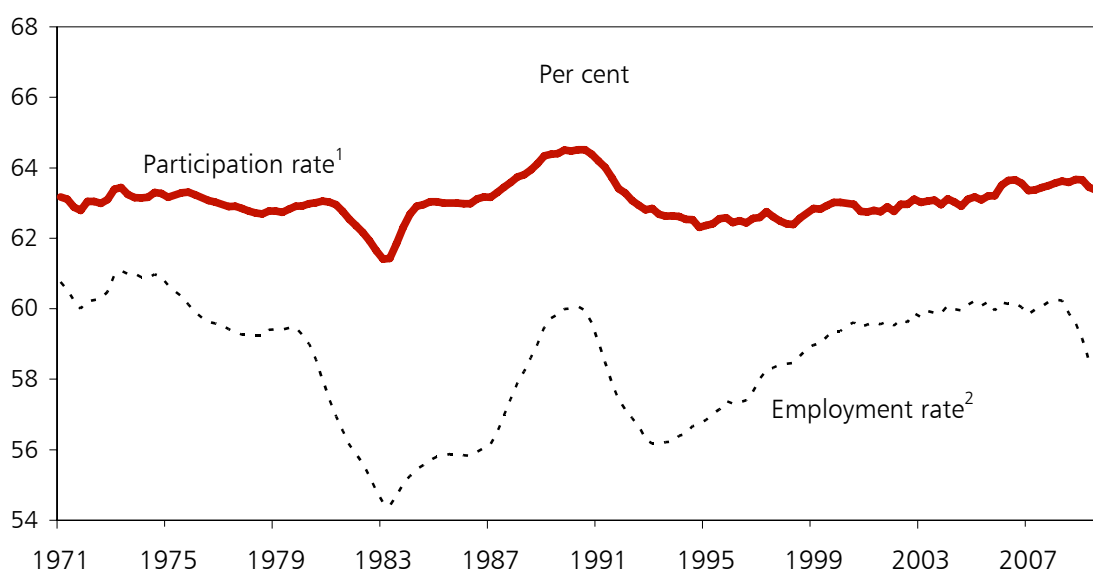
**Chart 1.18A: LFS working-age participation and employment rates**



<sup>1</sup> Percentage of the working-age population (all aged 16 to 59 (women) / 64 (men)) that are economically active (i.e. employed or unemployed).

<sup>2</sup> Percentage of the working-age population in employment.

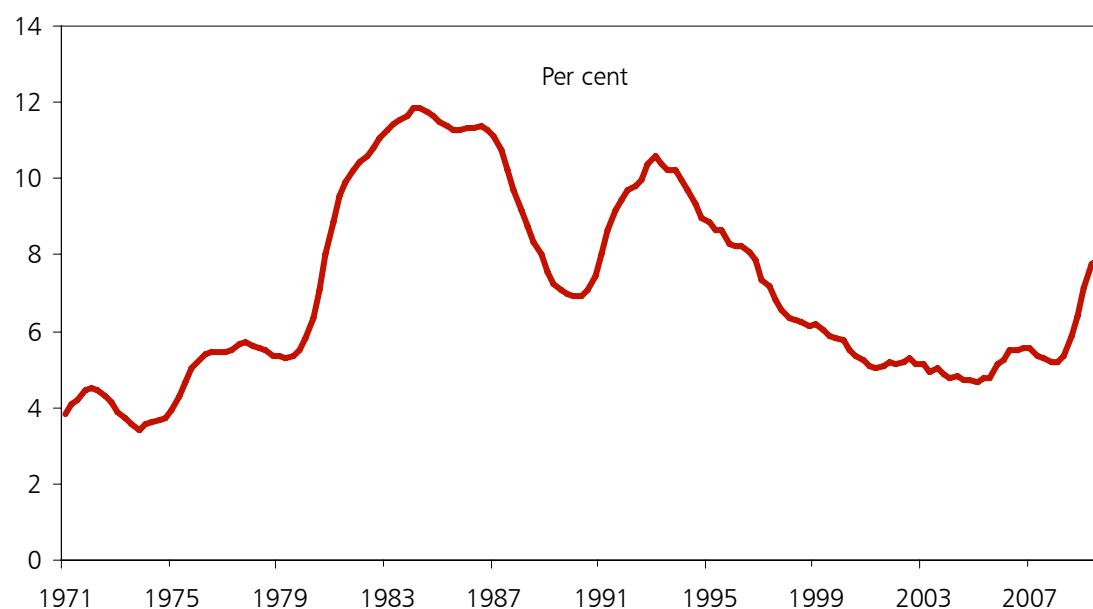
**Chart 1.18B: LFS adult population participation and employment rates**



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

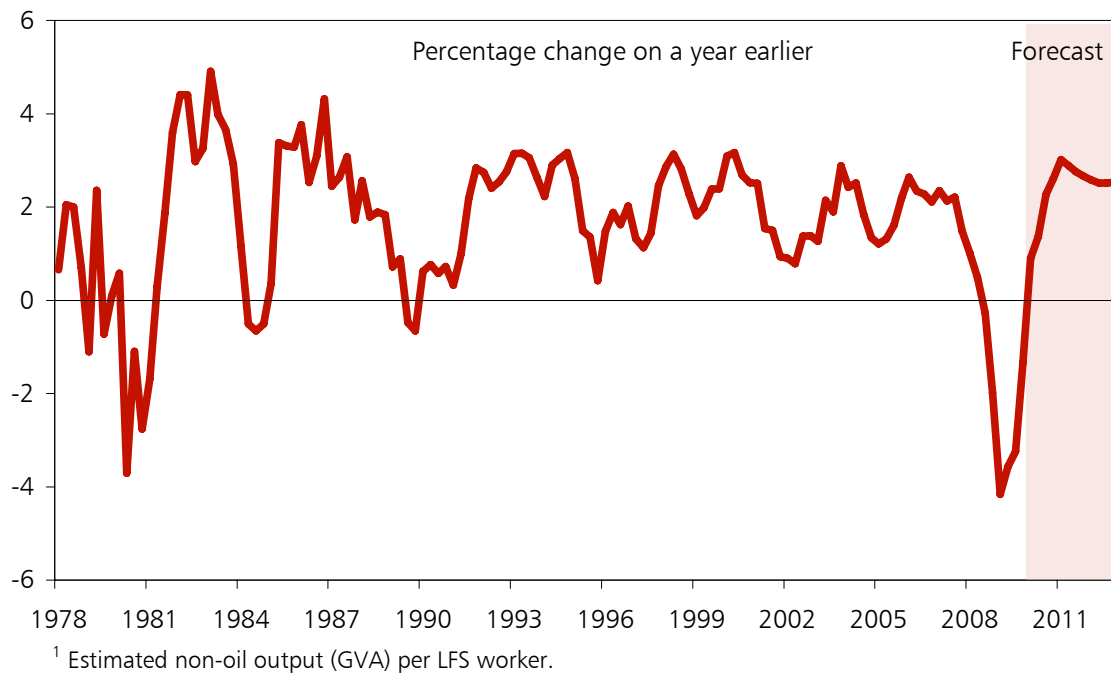
<sup>2</sup> Percentage of the population over 16 years of age in employment.

**Chart 1.18C: LFS unemployment rate<sup>1</sup>**

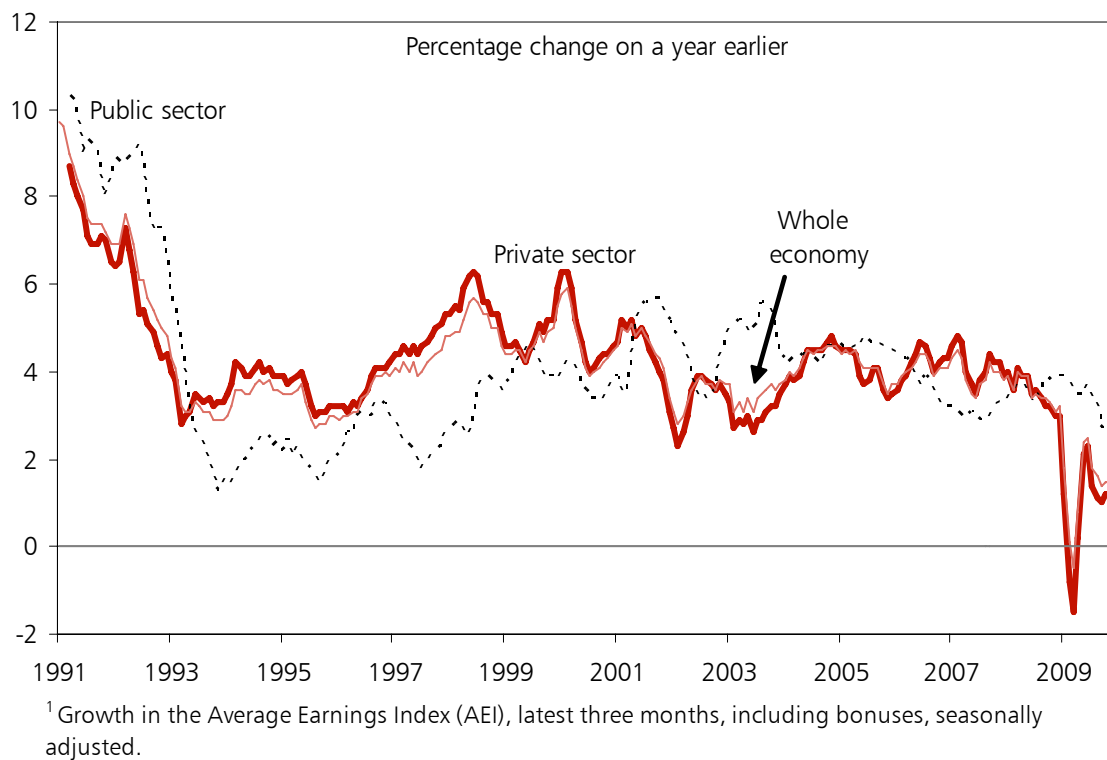


<sup>1</sup> Total unemployment as a percentage of total unemployment plus total employment.

**Chart 1.19: Output per worker<sup>1</sup>**



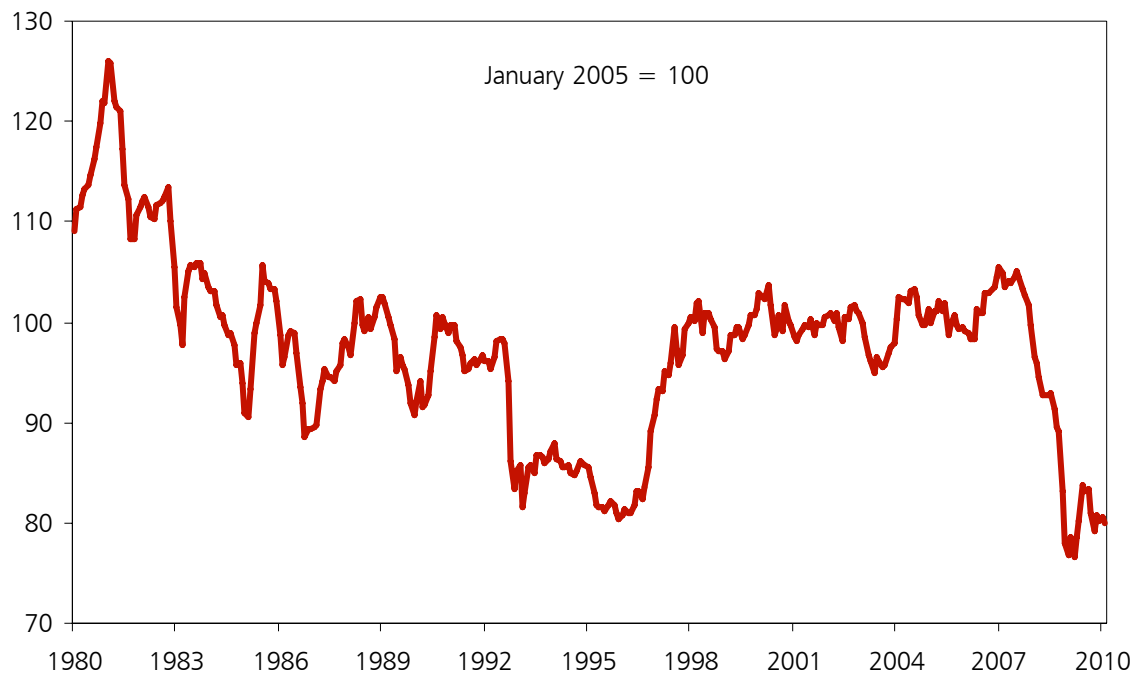
**Chart 1.20: Average earnings by sector<sup>1</sup>**



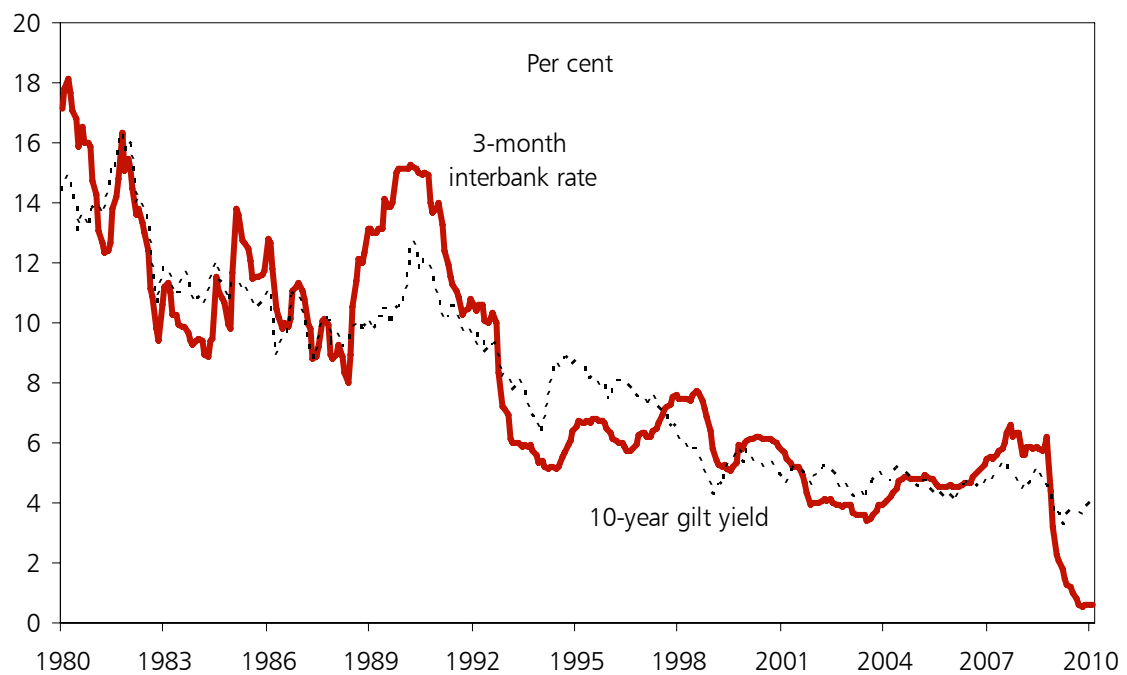


## Financial developments

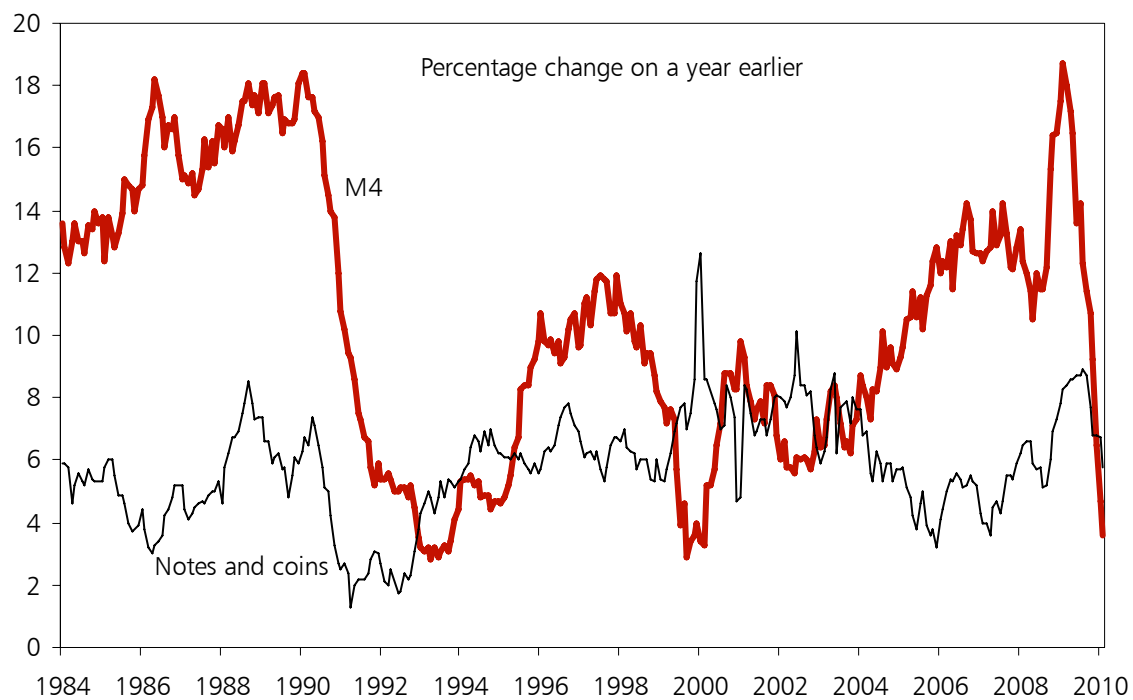
**Chart 1.21: Sterling effective exchange rate index**



**Chart 1.22: UK interest rates**

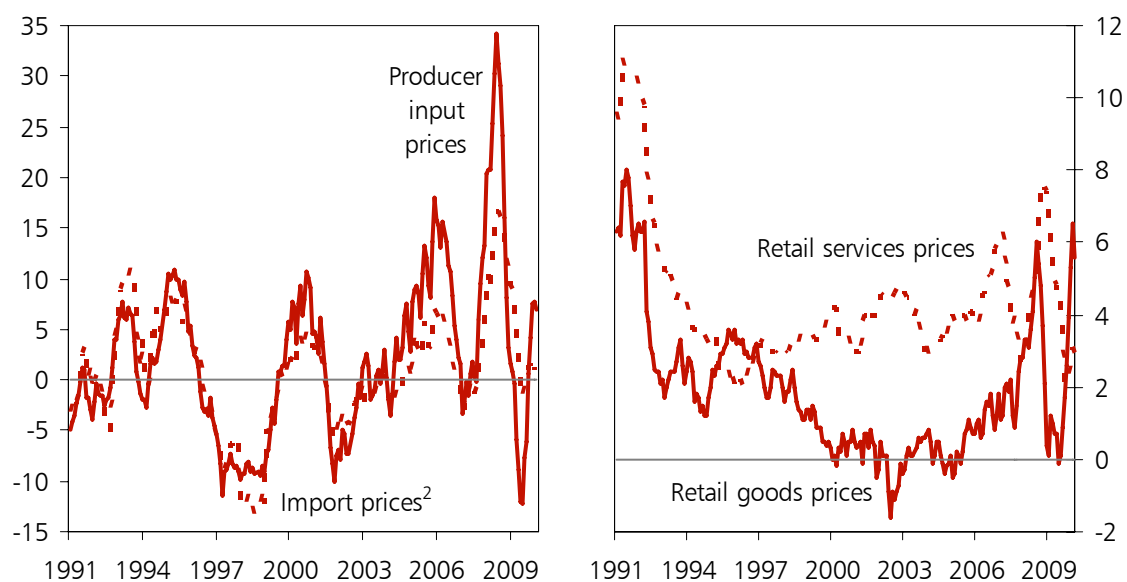


**Chart 1.23: Monetary indicators**



## Inflation

**Chart 1.24: Import, input and retail prices<sup>1</sup>**



<sup>1</sup> Percentage changes on a year earlier.

<sup>2</sup> All goods.

**Table 1.8A: Consumer prices and producer output prices**

	Percentage change on a year earlier									
	Forecast									
	2008		2009		2010		2011		2012	
	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4
CPI	3¼	4	2	2	3	2	1¼	1½	1¾	2
Producer output prices <sup>1</sup>	8¾	5½	-½	2¼	3¾	2½	1½	1¼	1¾	2

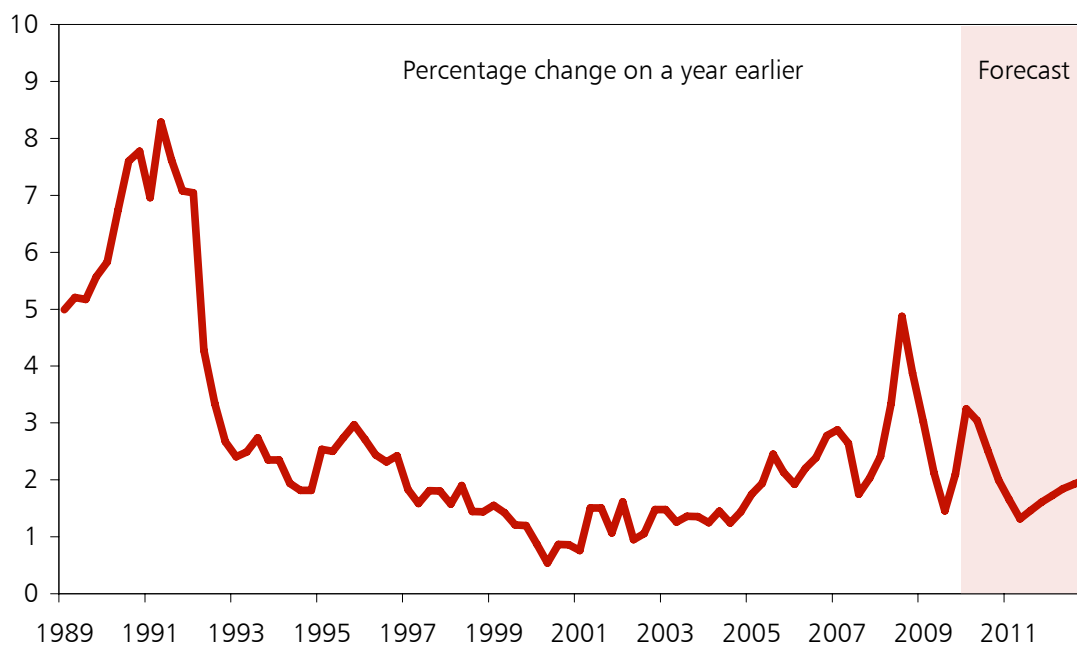
<sup>1</sup> Excludes excise duties.

**Table 1.8B: Consumers' expenditure deflator**

	Percentage change on a year earlier, unless otherwise stated									
	Forecast									
	2008		2009		2010		2011		2012	
	Level									
CED <sup>1</sup>	109½	3		1¾		2½		2		2½

<sup>1</sup> Consumers' expenditure deflator, Q4.

**Chart 1.25: CPI**



<sup>1</sup> Outturns until 2009Q4; the average of January and February CPI inflation for 2010Q1 and forecasts for every second quarter from 2010Q2 to 2012Q4.

## Comparison with the 2009 Pre-Budget Report forecast

**Table 1.9: Comparison with the 2009 Pre-Budget Report forecast**

		Percentage change on a year earlier, unless otherwise stated	
		December 2009	March 2010
		PBR	Budget
Gross domestic product	2010	1 to 1½	1 to 1½
	2011	3¼ to 3¾	3 to 3½
	2012	3¼ to 3¾	3¼ to 3¾
CPI inflation (per cent, Q4)	2010	1¾	2
	2011	1½	1½
	2012	2	2
Current account (£ billion)	2010	-31	-35
	2011	-32	-36
	2012	-28¾	-30

## Comparison with independent forecasts

**Table 1.10: Budget 2010 and independent forecasts<sup>1</sup>**

		Percentage change on a year earlier, unless otherwise stated				
		2010			2011	
		Independent		Budget 2010	Independent	
	Budget 2010	Average	Range		Average	Range
GDP growth	1 to 1½	1.3	0.7 to 2.2	3 to 3½	2.1	0.9 to 3.4
CPI (Q4)	2	2.1	1.4 to 3.8	1½	1.8	0.0 to 3.3
Current account (£ billion)	-35	-23.8	-49.5 to -10.0	-36	-22.8	-54.4 to -5.0
Claimant count (Q4, millions)	1¾	1.7	1.44 to 2.10	1½	1.7	1.35 to 2.30

<sup>1</sup> 'Forecasts for the UK economy: A comparison of independent forecasts', March 2010.

## Summary tables

**Table 1.11: Summary of economic prospects<sup>1</sup>**

	Percentage change on a year earlier, unless otherwise stated						Average errors from past forecasts <sup>5</sup>	
	Forecast <sup>2, 3, 5</sup>							
	2008	2009	2010	2011	2012	2010	2011	
<b>Output at constant market prices</b>								
Gross domestic product (GDP)	½	-5	1 to 1½	3 to 3½	3¼ to 3¾	¾	1½	
Manufacturing output	-2¾	-10½	1½ to 2	3½ to 4	3½ to 4	1¾	3¼	
<b>Expenditure components of GDP at constant market prices<sup>6</sup></b>								
Domestic demand	0	-5¼	¾ to 1¼	2¼ to 2¾	2½ to 3	½	1½	
Household consumption <sup>7</sup>	1	-3	0 to ½	2¼ to 2¾	2½ to 3	½	1¼	
General government consumption	2½	2	1¼	-1½	-2	1	½	
Fixed investment	-3½	-14½	-2¾ to -2¼	4½ to 5	9 to 9½	2¾	4	
Change in inventories <sup>8</sup>	-½	-1¼	1¼	½	0	¼	¼	
Exports of goods and services <sup>9</sup>	1	-11	2¾ to 3¼	4 to 4½	5¼ to 5¾	2¼	5½	
Imports of goods and services <sup>9</sup>	-½	-12	2 to 2½	1½ to 2	2¾ to 3¼	2¾	4¼	
<b>Balance of payments current account</b>								
£ billion	-22	-18	-35	-36	-30	11¾	10	
Per cent of GDP	-1½	-1¼	-2½	-2¼	-1¾	¾	¾	
<b>Inflation</b>								
CPI (Q4)	4	2	2	1½	2	¾	½	
Producer output prices (Q4) <sup>10</sup>	5½	2¼	2½	1¼	2	1½	1½	
GDP deflator at market prices	3	1½	2¾	1½	2¼	¼	½	
<b>Labour market</b>								
Claimant count (Q4, millions) <sup>11</sup>	1	1½	1¾	1½	1¼			
<b>Money GDP at market prices</b>								
£ billion	1448	1396	1449 to 1454	1514 to 1526	1598 to 1619	11¼	21½	
Percentage change	3½	-3½	3¾ to 4¼	4½ to 5	5½ to 6	¾	1½	

<sup>1</sup> The forecast is consistent with output, income and expenditure data for the fourth quarter of 2009, released by the Office for National Statistics on 26 February 2010.

<sup>2</sup> All growth rates in this table are rounded to the nearest ¼ percentage point.

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

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

<sup>5</sup> Average absolute errors for current year and year-ahead projections made in spring forecasts over the past 10 years. The average errors for the current account are calculated as a per cent of GDP, with £ billion figures calculated by scaling the errors by forecast money GDP in 2010 and 2011. The CPI average has been derived from only five years of data.

<sup>6</sup> Further detail on the expenditure components of GDP is given in Table 1.12.

<sup>7</sup> Includes households and non-profit institutions serving households.

<sup>8</sup> Contribution to GDP growth, percentage points.

<sup>9</sup> Exports levels up to and including 2009 are distorted by MTIC fraud, though published growth rates are unaffected.

<sup>10</sup> Excluding excise duties.

<sup>11</sup> The claimant count is projected to be 1¼ million and 1 million in 2013Q4 and 2014Q4 respectively.

**Table 1.12: Gross domestic product and its components**

£ billion chained volume measures at market prices, seasonally adjusted										
	Household consumption <sup>1</sup>	General government consumption	Fixed investment	Change in inventories	Domestic demand <sup>2</sup>	Exports of goods and services	Total final expenditure	Less imports of goods and services	Plus statistical discrepancy <sup>3</sup>	GDP at market prices
<b>2008</b>	852.9	282.7	232.2	0.9	1370.0	361.5	1731.5	401.1	-0.3	1330.1
<b>2009</b>	826.5	288.4	198.3	-15.2	1299.2	322.0	1621.2	352.5	-4.6	1264.1
<b>2010</b>	827.2 to 829.8	292.1	193.0 to 193.6	-0.8 to 0.1	1311.6 to 1315.6	331.2 to 332.2	1642.7 to 1647.7	359.9 to 361.0	-5.1	1277.7 to 1281.6
<b>2011</b>	846.4 to 853.2	288.0	201.9 to 203.5	4.6 to 6.9	1341.0 to 1351.6	344.8 to 347.5	1685.7 to 1699.1	364.9 to 367.8	-5.1	1315.6 to 1326.1
<b>2012</b>	868.6 to 879.7	282.0	219.9 to 222.8	4.4 to 8.0	1374.8 to 1392.5	363.2 to 367.9	1738.1 to 1760.4	374.6 to 379.4	-5.1	1358.4 to 1375.9
<b>2008</b> 1st half	428.6	140.3	118.9	4.8	693.2	183.2	876.4	205.2	0.1	671.3
2nd half	424.3	142.4	113.3	-3.9	676.8	178.3	855.1	196.0	-0.4	658.8
<b>2009</b> 1st half	413.8	143.2	100.7	-8.2	650.1	160.1	810.2	174.6	-2.1	633.6
2nd half	412.8	145.1	97.6	-7.0	649.1	161.9	811.0	178.0	-2.5	630.5
<b>2010</b> 1st half	412.2 to 412.9	146.3	96.1 to 96.3	-1.7 to -1.4	652.9 to 654.1	163.8 to 164.1	816.7 to 818.2	179.7 to 180.1	-2.6	634.4 to 635.5
2nd half	415.1 to 416.8	145.8	96.9 to 97.3	0.9 to 1.5	658.7 to 661.5	167.3 to 168.1	826.0 to 829.5	180.2 to 180.9	-2.6	643.3 to 646.0
<b>2011</b> 1st half	420.3 to 423.1	144.7	99.0 to 99.6	2.2 to 3.2	666.2 to 670.7	170.6 to 171.7	836.8 to 842.4	181.4 to 182.7	-2.6	652.8 to 657.2
2nd half	426.1 to 430.0	143.3	102.9 to 103.8	2.4 to 3.7	674.7 to 680.9	174.2 to 175.8	848.9 to 856.7	183.5 to 185.2	-2.6	662.8 to 668.9
<b>2012</b> 1st half	431.6 to 436.7	141.7	107.5 to 108.8	2.3 to 3.9	683.1 to 691.0	179.0 to 181.1	862.1 to 872.1	185.9 to 188.0	-2.6	673.7 to 681.5
2nd half	436.9 to 443.1	140.3	112.4 to 114.0	2.1 to 4.1	691.7 to 701.4	184.3 to 186.9	876.0 to 888.3	188.7 to 191.3	-2.6	684.7 to 694.4
Percentage change on a year earlier <sup>4,5</sup>										
<b>2008</b>	1	2½	-3½	-½	0	1	¼	-½	0	½
<b>2009</b>	-3	2	-14½	-1¼	-5¼	-11	-6¼	-12	-¼	-5
<b>2010</b>	0 to ½	1¼	-2¾ to -2¼	1¼	¾ to 1¼	2¾ to 3¼	1¼ to 1¾	2 to 2½	0	1 to 1½
<b>2011</b>	2¼ to 2¾	-1½	4½ to 5	½	2¼ to 2¾	4 to 4½	2½ to 3	1½ to 2	0	3 to 3½
<b>2012</b>	2½ to 3	-2	9 to 9½	0	2½ to 3	5¼ to 5¾	3 to 3½	2¾ to 3¼	0	3¼ to 3¾

<sup>1</sup> Includes households and non-profit institutions serving households.

<sup>2</sup> Also includes acquisitions less disposals of valuables.

<sup>3</sup> Expenditure adjustment.

<sup>4</sup> For change in inventories and the statistical discrepancy, changes are expressed as a per cent of GDP.

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

## The world economy

**Table 1.13: The world economy**

	Percentage change on a year earlier, unless otherwise stated				
	2008	2009	Forecast		
			2010	2011	2012
World GDP at purchasing power parity	3	-1	3¼	4¼	4¼
Major 7 countries <sup>1</sup> :					
Real GDP	¼	-3½	1¾	3	3¼
Consumer price inflation <sup>2</sup>	1¾	¾	1	1½	1¾
Euro area GDP	½	-4	¾	1¾	2¼
World trade in goods and services	3	-12¼	4½	5½	7¼
UK export markets <sup>3</sup>	2½	-12	2½	3½	6¼

<sup>1</sup> G7: US, Japan, Germany, UK, France, Italy and Canada.

<sup>2</sup> Per cent, Q4.

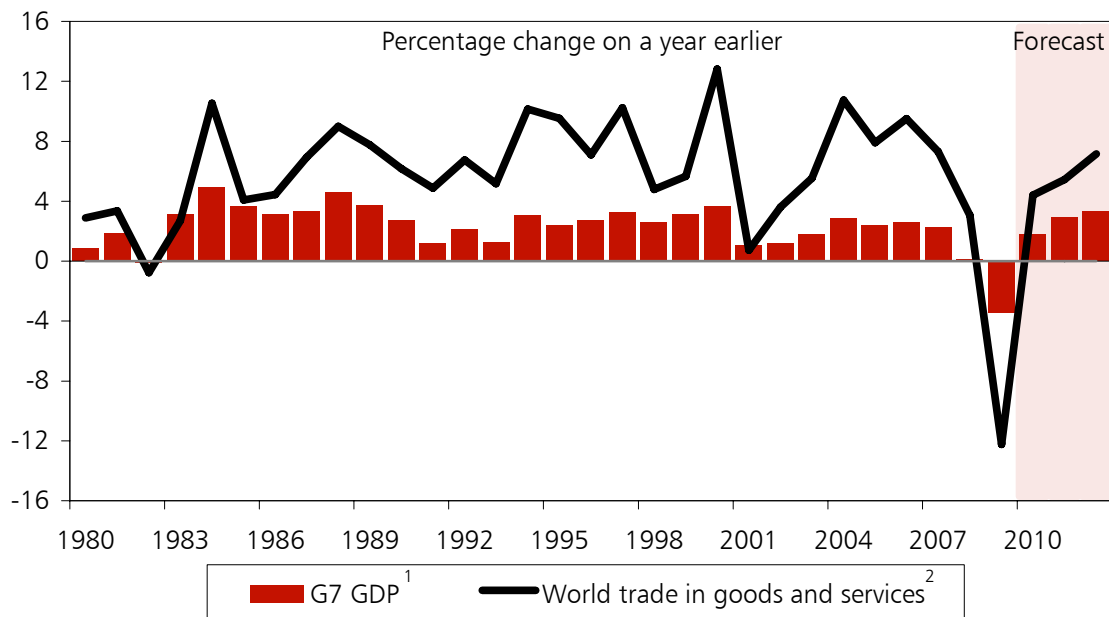
<sup>3</sup> Other countries' imports of goods and services weighted according to the importance of those countries in the UK's total exports.

**Table 1.14: Consensus forecasts for GDP growth in major economies<sup>1</sup>**

	Percentage change on a year earlier			
	November 2009		February 2010	
	2009	2010	2010	2011
USA	-2.4	2.7	3.1	3.0
Euro-area	-3.8	1.2	1.3	1.5
Japan	-5.7	1.4	1.5	1.5

<sup>1</sup> 'Consensus forecasts', Consensus Economics Inc.

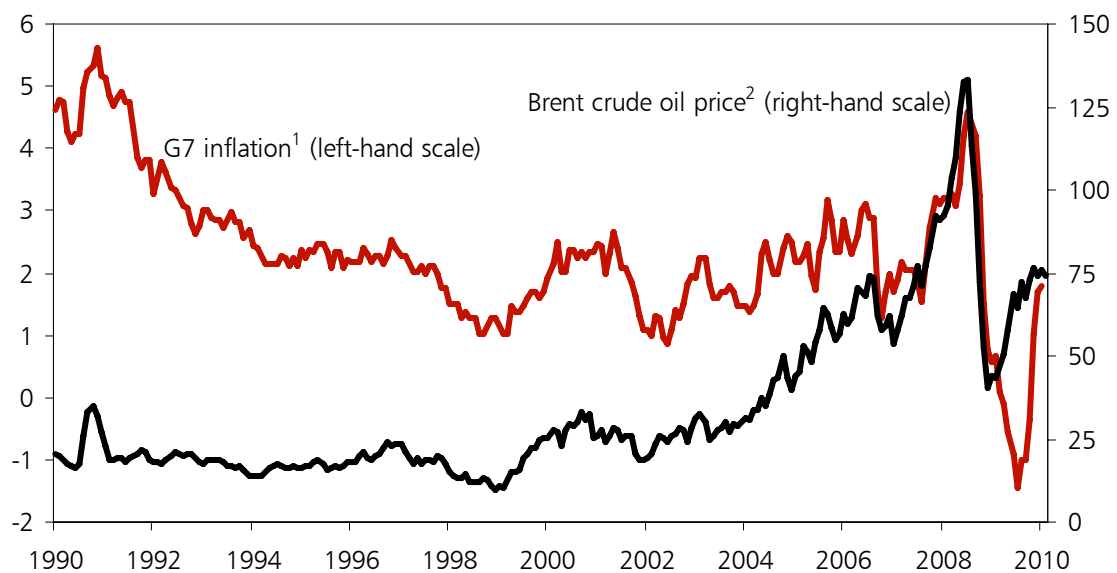
**Chart 1.26: G7 GDP and world trade**



<sup>1</sup> Real GDP (major 7 countries) at constant prices.

<sup>2</sup> HM Treasury estimates based on OECD data.

**Chart 1.27: G7 inflation and oil prices**

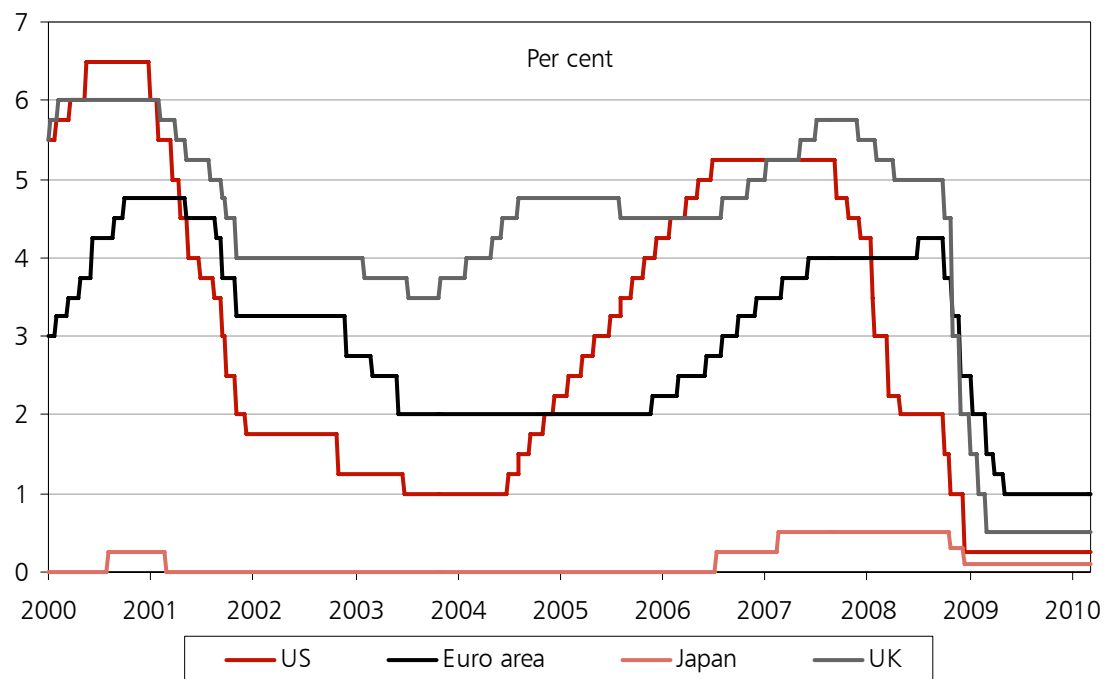


<sup>1</sup> Consumer price indices, percentage change on a year earlier, weighted by GDP at market exchange rates.

<sup>2</sup> US dollars per barrel.



**Chart 1.28: Official interest rates in the major advanced economies**





# 2

## The public finances

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The 2010 Financial Statement and Budget Report (FSBR), published by HM Treasury on 24 March 2010, includes a discussion of fiscal developments and prospects (Chapter C). The present document contains additional information to Chapter C, in the form of more detailed charts and tables. The charts and tables are consistent with data in the February 2010 *Public sector finances Statistical Bulletin*, released jointly by the Office for National Statistics (ONS) and HM Treasury on 18 March 2010.

### Introduction

**2.1** FSBR 2010 updates the projections of the public finances contained in the 2009 Pre-Budget Report, to take account of subsequent developments in both the public finances and the world and UK economies.

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

## Supplementary DEL and AME analysis

**Table 2.1: Accounting adjustments<sup>1</sup>**

	£ billion		
	Outturn	Estimate	Projections
	2008-09	2009-10	2010-11
<b>Resource accounting adjustments</b>			
VAT refunds	10.0	9.4	12.0
Central government capital consumption	6.5	6.8	7.2
Non-cash items not in TME	-19.7	-24.1	-25.3
Expenditure financed by revenue receipts	0.7	0.6	0.7
Resource items <sup>2</sup>	-0.5	-0.2	-0.3
Capital budget items <sup>3</sup>	5.7	5.4	7.4
Local authorities	6.6	9.0	9.1
General government consolidation	-5.4	-5.1	-5.2
Public corporations	0.7	0.8	0.9
Financial transactions	-0.2	-0.1	-0.1
Other accounting adjustments	-0.5	0.3	0.4
<b>Total resource accounting adjustments</b>	<b>3.9</b>	<b>2.8</b>	<b>6.8</b>
<b>Capital accounting adjustments</b>			
VAT refunds	2.0	1.8	2.1
Resource items <sup>2</sup>	0.5	0.2	0.3
Capital budget items <sup>3</sup>	-5.7	-5.4	-7.4
Local authorities	-4.1	-2.1	-2.4
Financial transactions	0.1	-1.6	-1.3
Other accounting adjustments	-0.5	-0.9	-0.4
<b>Total capital accounting adjustments</b>	<b>-7.6</b>	<b>-8.0</b>	<b>-9.2</b>

<sup>1</sup> This table is the break down of accounting adjustments found in Table C.9 of *Budget 2010*.

<sup>2</sup> Treated as capital in the National Accounts.

<sup>3</sup> Treated as current in the National Accounts.

**Table 2.2: Public sector capital expenditure**

	£ billion		
	Outturn	Estimate	Projection
	2008-09	2009-10	2010-11
Capital Budget DEL	48.1	56.6	53.0
Locally-financed expenditure	7.5	6.5	5.1
National Lottery	0.5	1.0	0.9
Public corporations' own-financed capital expenditure	7.8	7.0	7.6
Other capital spending in AME	9.6	6.3	2.5
AME margin	0.0	0.0	0.1
Accounting adjustments	-7.6	-8.0	-9.2
<b>Public sector gross investment<sup>1</sup></b>	<b>65.9</b>	<b>69.5</b>	<b>60.0</b>
Less depreciation	18.7	19.5	20.5
<b>Public sector net investment</b>	<b>47.2</b>	<b>50.0</b>	<b>39.5</b>
Proceeds from the sale of fixed assets <sup>2</sup>	2.6	2.2	3.5
Note: All measures excluding financial interventions			
<sup>1</sup> This and previous lines are all net of sales of fixed assets.			
<sup>2</sup> Projections of total receipts from the sale of fixed assets by public sector.			

**Table 2.3: Loans and sales of assets**

	£ billion		
	Outturn	Estimate	Projections
	2008-09	2009-10	2010-11
<b>Sales of fixed assets</b>			
Other Central government	1.0	0.8	1.4
Local authorities	1.0	1.0	1.5
Housing Revenue Account <sup>1</sup>	0.6	0.5	0.6
<b>Total sales of fixed assets</b>	<b>2.6</b>	<b>2.2</b>	<b>3.5</b>
<b>Loans and sales of financial assets</b>			
Sale of shares in British Energy	4.4	0.0	0.0
Sale of shares in QinetiQ	0.3	0.0	0.0
Sale of shares in UKAEA	0.0	0.1	0.0
Other loans and transactions in financial assets <sup>2</sup>	-5.8	-6.7	-7.1
<b>Total loans and sales of financial assets</b>	<b>-1.1</b>	<b>-6.6</b>	<b>-7.1</b>
<b>Total loans and sales of assets</b>	<b>1.5</b>	<b>-4.4</b>	<b>-3.6</b>
<sup>1</sup> Capital transactions by local authorities' Housing Revenue Accounts are no longer classified to the local authority sub sector and so are shown separately.			
<sup>2</sup> Excluding purchases of RBS and Lloyds shares.			

## Private finance initiative

**Table 2.4: Departmental estimate of capital spending by the private sector (signed deals)<sup>1, 2, 3, 4</sup>**

	£ million	
	Projections	
	2010-11	2011-12
Communities and Local Government	230	92
Culture, Media and Sport	51	8
Children, Schools and Families	574	143
Environment, Food and Rural Affairs	325	166
Transport	749	838
Health	584	356
Work and Pensions	56	55
Home Office	40	0
Defence	702	542
Northern Ireland Executive	242	109
Scotland	156	44
Wales	0	0
Other Departments <sup>5</sup>	8	3
<b>Total</b>	<b>3722</b>	<b>2363</b>

<sup>1</sup> Figures based on departmental returns

<sup>2</sup> Investment in assets scored on the public sector balance sheet also score as public sector net investment.

<sup>3</sup> PFI activity in local authority projects is included under the sponsoring government department.

<sup>4</sup> Figures do not include PFI projects undertaken by public corporations.

<sup>5</sup> Other departments include BIS, CPS, FCO, GCHQ, HMT, HMRC, MOJ and NSG.

**Table 2.5: Estimated aggregated capital value of projects reaching preferred bidder stage<sup>1, 2</sup>**

	Projections	
	2010-11	2011-12
Communities and Local Government	424	438
Children, Schools and Families	917	450
Environment, Food and Rural Affairs	1101	1496
Health	13	1094
Transport	1649	1156
Home Office	69	188
Ministry of Justice	0	500
Northern Ireland Executive	703	0
Scottish Assembly	0	621
<b>Total</b>	<b>4876</b>	<b>5943</b>

<sup>1</sup> Figures based on departmental returns.

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

**Table 2.6: Estimated payments under PFI contracts – February 2010 (signed deals)<sup>1, 2</sup>**

£ million				
Projections				
2010-11	8555	2023-24	8403	
2011-12	8936	2024-25	8552	
2012-13	9175	2025-26	8443	
2013-14	9593	2026-27	8196	
2014-15	9667	2027-28	8100	
2015-16	9854	2028-29	7883	
2016-17	9859	2029-30	7587	
2017-18	10043	2030-31	7003	
2018-19	8688	2031-32	6462	
2019-20	8817	2032-33	6073	
2020-21	8710	2033-34	5387	
2021-22	8411	2034-35	4993	
2022-23	8368	2035-36	4333	

<sup>1</sup> The figures between 2010-11 and 2017-18 include estimated payments for the LUL tube lines PPP PFI contracts. These contracts contain periodic reviews every 7.5 years and therefore the service payments are not fixed after 2017-18.

<sup>2</sup> Figures based on departmental retruns

## Analysis by sub-sector and economic category

**Table 2.7: General government transactions by economic category**

	£ billion		
	Outturn	Estimate	Projections
	2008-09	2009-10	2010-11
<b>Current receipts</b>			
Taxes on income and wealth	200.8	177.7	189.4
Taxes on production and imports	167.9	168.6	185.5
Other current taxes	33.3	34.0	35.4
Taxes on capital	2.9	2.4	2.3
Compulsory social contributions	97.0	95.1	97.5
Gross operating surplus	13.8	14.4	15.2
Rent and other current transfers	1.5	1.7	1.7
Interest and dividends from private sector and abroad	6.7	3.2	3.0
Interest and dividends from public sector	1.8	2.0	1.5
<b>Total current receipts</b>	<b>525.7</b>	<b>499.0</b>	<b>531.5</b>
<b>Current expenditure</b>			
Current expenditure on goods and services	316.7	333.7	350.5
Subsidies	8.5	10.8	10.2
Net social benefits	172.1	187.4	196.4
Net current grants abroad	-1.4	0.2	1.5
Other current grants	37.1	41.0	41.9
Interest and dividends paid	31.0	30.9	41.8
AME margin	0.0	0.0	0.9
<b>Total current expenditure</b>	<b>564.0</b>	<b>604.0</b>	<b>643.2</b>
Depreciation	13.8	14.4	15.2
<b>Surplus on current budget</b>	<b>-52.1</b>	<b>-119.4</b>	<b>-126.9</b>
<b>Capital expenditure</b>			
Gross domestic fixed capital formation	33.2	38.2	35.3
Less depreciation	-13.8	-14.4	-15.2
Increase in inventories	0.0	0.0	0.0
Capital grants (net) within public sector	-9.0	4.6	0.4
Capital grants to private sector	41.4	23.9	17.0
Capital grants from private sector	-8.0	-0.8	-0.7
AME margin	0.0	0.0	0.1
<b>Net investment</b>	<b>43.8</b>	<b>51.5</b>	<b>37.0</b>
<b>Net borrowing<sup>1</sup></b>	<b>95.9</b>	<b>170.9</b>	<b>163.9</b>
<i>of which:</i>			
Central government net borrowing	91.2	163.0	158.9
Local authority net borrowing	4.7	7.9	5.0
<b>Gross debt (Maastricht basis)</b>			
Central government	729.6	929.8	1101.9
Local government	67.3	74.3	77.3

Note: The data in this table are on a basis which excludes the temporary effect of financial interventions except for 2008/09. As the table shows General Government transactions, it is only the sectoral breakdown of capital grants within net investment that is inconsistent for this year.

<sup>1</sup>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 2.8: Public sector transactions by sub-sector and economic category**

	£ billion			
	2008-09			
	General government		Public corporations	Public sector
	Central government	Local authorities		
<b>Current receipts</b>				
Taxes on income and wealth	200.8	0.0	-0.2	200.6
Taxes on production and imports	167.6	0.2	0.0	167.9
Other current taxes	9.7	23.6	0.0	33.3
Taxes on capital	2.9	0.0	0.0	2.9
Compulsory social contributions	97.0	0.0	0.0	97.0
Gross operating surplus	6.5	7.2	9.3	23.1
Rent and other current transfers	1.5	0.0	0.0	1.5
Interest and dividends from private sector and abroad	5.4	1.3	1.0	7.7
Interest and dividends from public sector	4.3	-2.5	-1.8	0.0
<b>Total current receipts</b>	<b>495.8</b>	<b>29.9</b>	<b>8.4</b>	<b>534.0</b>
<b>Current expenditure</b>				
Current expenditure on goods and services	191.3	125.3	0.0	316.7
Subsidies	5.3	3.3	0.0	8.5
Net social benefits	153.6	18.5	0.0	172.1
Net current grants abroad	-1.3	-0.1	0.0	-1.4
Current grants (net) within public sector	120.2	-120.2	0.0	0.0
Other current grants	37.1	0.0	0.0	37.1
Interest and dividends paid	30.5	0.5	0.5	31.6
AME margin	0.0	0.0	0.0	0.0
<b>Total current expenditure</b>	<b>536.8</b>	<b>27.2</b>	<b>0.5</b>	<b>564.5</b>
Depreciation	6.5	7.2	5.1	18.8
<b>Surplus on current budget</b>	<b>-47.5</b>	<b>-4.6</b>	<b>2.7</b>	<b>-49.3</b>
<b>Capital expenditure</b>				
Gross domestic fixed capital formation	15.8	17.4	8.5	41.7
Less depreciation	-6.5	-7.2	-5.1	-18.8
Increase in inventories	0.0	0.0	0.0	0.0
Capital grants (net) within public sector	2.6	-11.6	9.0	0.0
Capital grants to private sector	38.9	2.4	0.0	41.4
Capital grants from private sector	-7.1	-0.8	-19.1	-27.1
AME margin	0.0	0.0	0.0	0.0
<b>Net investment</b>	<b>43.7</b>	<b>0.1</b>	<b>-6.7</b>	<b>37.2</b>
<b>PSNB including temporary effects of financial interventions</b>	<b>91.2</b>	<b>4.7</b>	<b>-9.4</b>	<b>86.5</b>

**Table 2.8: Public sector transactions by sub-sector and economic category**

	£ billion			
	2009-10			
	General government		Public corporations	Public sector
	Central government	Local authorities		
<b>Current receipts</b>				
Taxes on income and wealth	177.7	0.0	-0.2	177.4
Taxes on production and imports	168.3	0.3	0.0	168.6
Other current taxes	9.9	24.1	0.0	34.0
Taxes on capital	2.4	0.0	0.0	2.4
Compulsory social contributions	95.1	0.0	0.0	95.1
Gross operating surplus	6.8	7.6	9.8	24.1
Rent and other current transfers	1.7	0.0	0.0	1.7
Interest and dividends from private sector and abroad	2.9	0.3	1.0	4.2
Interest and dividends from public sector	4.3	-2.3	-2.0	0.0
<b>Total current receipts</b>	<b>469.1</b>	<b>29.9</b>	<b>8.5</b>	<b>507.5</b>
<b>Current expenditure</b>				
Current expenditure on goods and services	202.0	131.8	0.0	333.7
Subsidies	6.6	4.1	0.0	10.8
Net social benefits	167.3	20.1	0.0	187.4
Net current grants abroad	0.3	-0.1	0.0	0.2
Current grants (net) within public sector	126.7	-126.7	0.0	0.0
Other current grants	41.0	0.0	0.0	41.0
Interest and dividends paid	30.8	0.1	0.6	31.5
AME margin	0.0	0.0	0.0	0.0
<b>Total current expenditure</b>	<b>574.7</b>	<b>29.3</b>	<b>0.6</b>	<b>604.6</b>
Depreciation	6.8	7.6	5.1	19.5
<b>Surplus on current budget</b>	<b>-112.4</b>	<b>-7.0</b>	<b>2.8</b>	<b>-116.6</b>
<b>Capital expenditure</b>				
Gross domestic fixed capital formation	19.0	19.2	8.2	46.4
Less depreciation	-6.8	-7.6	-5.1	-19.5
Increase in inventories	0.0	0.0	0.0	0.0
Capital grants (net) within public sector	17.4	-12.8	-4.6	0.0
Capital grants to private sector	21.2	2.7	0.0	23.9
Capital grants from private sector	-0.2	-0.6	0.0	-0.8
AME margin	0.0	0.0	0.0	0.0
<b>Net investment</b>	<b>50.6</b>	<b>0.9</b>	<b>-1.5</b>	<b>50.0</b>
<b>PSNB excluding temporary effects of financial interventions</b>	<b>163.0</b>	<b>7.9</b>	<b>-4.3</b>	<b>166.5</b>

**Table 2.8: Public sector transactions by sub-sector and economic category**

	£ billion			
	2010-11			
	General government		Public corporations	Public sector
	Central government	Local authorities		
<b>Current receipts</b>				
Taxes on income and wealth	189.4	0.0	-0.2	189.1
Taxes on production and imports	185.0	0.5	0.0	185.5
Other current taxes	10.4	24.9	0.0	35.4
Taxes on capital	2.3	0.0	0.0	2.3
Compulsory social contributions	97.5	0.0	0.0	97.5
Gross operating surplus	7.2	8.0	9.6	24.8
Rent and other current transfers	1.7	0.0	0.0	1.7
Interest and dividends from private sector and abroad	2.3	0.8	1.4	4.4
Interest and dividends from public sector	3.6	-2.1	-1.5	0.0
<b>Total current receipts</b>	<b>499.4</b>	<b>32.1</b>	<b>9.3</b>	<b>540.8</b>
<b>Current expenditure</b>				
Current expenditure on goods and services	210.2	140.3	0.0	350.5
Subsidies	5.9	4.3	0.0	10.2
Net social benefits	172.9	23.5	0.0	196.4
Net current grants abroad	1.6	-0.1	0.0	1.5
Current grants (net) within public sector	137.3	-137.3	0.0	0.0
Other current grants	41.9	0.0	0.0	41.9
Interest and dividends paid	41.6	0.2	0.7	42.5
AME margin	0.9	0.0	0.0	0.9
<b>Total current expenditure</b>	<b>612.3</b>	<b>31.0</b>	<b>0.7</b>	<b>644.0</b>
Depreciation	7.2	8.0	5.3	20.5
<b>Surplus on current budget</b>	<b>-120.1</b>	<b>-6.9</b>	<b>3.3</b>	<b>-123.6</b>
<b>Capital expenditure</b>				
Gross domestic fixed capital formation	16.7	18.6	8.2	43.5
Less depreciation	-7.2	-8.0	-5.3	-20.5
Increase in inventories	0.0	0.0	0.0	0.0
Capital grants (net) within public sector	14.8	-14.4	-0.4	0.0
Capital grants to private sector	14.4	2.6	0.0	17.0
Capital grants from private sector	-0.1	-0.6	0.0	-0.7
AME margin	0.1	0.0	0.0	0.1
<b>Net investment</b>	<b>38.8</b>	<b>-1.8</b>	<b>2.5</b>	<b>39.5</b>
<b>PSNB excluding temporary effects of financial interventions</b>	<b>158.9</b>	<b>5.0</b>	<b>-0.8</b>	<b>163.2</b>

## Current receipts

**Table 2.9: Current receipts**

	£ billion						
	Outturn	Estimate	Projections				
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
<b>HM Revenue and Customs</b>							
Income tax (gross of tax credits)	153.4	144.4	146.4	159.9	172.9	185.9	200.5
Income tax credits	-5.6	-5.6	-5.9	-6.1	-6.3	-6.6	-7.0
National insurance contributions	96.9	94.9	97.0	105.6	111.9	120.1	127.2
Value added tax	78.4	70.0	78.0	84.6	87.4	90.5	94.0
Corporation tax <sup>1</sup>	43.7	36.0	42.1	46.2	49.1	51.1	53.6
Corporation tax credits <sup>2</sup>	-0.6	-0.7	-0.8	-0.8	-0.8	-0.8	-0.8
Petroleum revenue tax	2.6	0.8	1.6	1.6	1.5	1.4	1.2
Fuel duties	24.6	26.2	27.5	29.1	30.6	32.2	33.9
Capital gains tax	7.8	2.5	2.7	3.0	3.4	3.8	4.2
Inheritance tax	2.8	2.4	2.3	2.4	2.6	2.8	3.1
Stamp duties	8.0	7.7	9.8	11.4	13.7	15.8	17.5
Tobacco duties	8.2	8.8	8.8	8.8	8.9	9.0	9.0
Alcohol duties	8.5	9.0	9.3	9.7	10.0	10.5	11.1
Betting and gaming duties	1.5	1.4	1.4	1.4	1.4	1.5	1.5
Air passenger duty	1.9	1.9	2.4	2.9	3.2	3.4	3.7
Insurance premium tax	2.3	2.3	2.3	2.3	2.3	2.3	2.4
Landfill tax	1.0	0.8	1.1	1.3	1.4	1.5	1.6
Climate change levy	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Aggregates levy	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Customs duties and levies	2.7	2.6	2.6	2.8	2.9	3.0	3.1
Temporary bank payroll tax <sup>3</sup>	0.0	0.0	2.0	0.0	0.0	0.0	0.0
<b>Total HMRC</b>	<b>439.1</b>	<b>406.5</b>	<b>431.8</b>	<b>467.0</b>	<b>497.2</b>	<b>528.5</b>	<b>560.9</b>
Vehicle excise duties	5.6	5.7	6.0	6.1	6.2	6.3	6.4
Business rates	22.9	23.7	24.7	25.7	26.3	27.5	28.8
Council tax <sup>4</sup>	24.4	24.8	25.8	27.0	28.3	29.6	31.1
Other taxes and royalties <sup>5</sup>	16.0	15.7	18.7	19.7	21.0	23.6	24.8
<b>Net taxes and NICs<sup>6</sup></b>	<b>507.9</b>	<b>476.4</b>	<b>507.0</b>	<b>545.5</b>	<b>578.9</b>	<b>615.5</b>	<b>652.0</b>
Accruals adjustments on taxes	-4.2	1.4	4.0	2.1	4.4	3.1	3.4
Less own resources contribution to EC	-5.1	-3.8	-4.6	-4.8	-4.9	-5.1	-5.3
Less PC corporation tax payments	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Tax credits adjustment <sup>7</sup>	0.7	0.7	0.8	0.8	0.8	0.8	0.8
Interest and dividends	7.7	4.2	4.4	7.7	9.6	11.8	12.6
Other receipts <sup>8</sup>	26.8	28.7	29.5	30.9	32.4	34.0	35.5
<b>Current receipts</b>	<b>533.5</b>	<b>507.5</b>	<b>540.8</b>	<b>582.0</b>	<b>621.0</b>	<b>659.8</b>	<b>698.8</b>
<i>Memo:</i>							
North Sea revenues <sup>9</sup>	12.9	6.4	8.5	8.4	8.7	8.6	8.1

<sup>1</sup> National Accounts measure, gross of enhanced and payable tax credits.

<sup>2</sup> Includes enhanced company tax credits.

<sup>3</sup> Bank payroll tax on a cash basis. On an accrued basis, the change from the 2009 Pre-Budget Report estimate is -£0.9 billion in 2009-10 and £2 billion in 2010-11.

<sup>4</sup> Council tax increases are determined annually by local authorities, not by the Government. As in previous years, council tax figures are projections based on assumptions and are not Government forecasts.

<sup>5</sup> Includes VAT refunds and money paid into the National Lottery Distribution Fund.

<sup>6</sup> Includes VAT and 'traditional own resources' contributions to EU budget.

<sup>7</sup> Tax credits which are scored as negative tax in the calculation of Net Taxes and NICs but expenditure in the National Accounts.

<sup>8</sup> Includes gross operating surplus, rent and business rate payments by local authorities.

<sup>9</sup> Consists of North Sea corporation tax and petroleum revenue tax.

## Conventions used in presenting the public finances

### Format for the public finances

The principal fiscal aggregates used to present the public finances are:

- public sector net borrowing; and
- public sector net debt as a percentage of GDP.

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

The fiscal aggregates are similar to the criteria for deficits and debt laid down in the Treaty on the European Union but there are important definitional differences, including:

- UK fiscal aggregates cover the whole public sector, whereas the Treaty deficit and debt only includes general (i.e. central and local) government;
- the UK debt measure is net of liquid assets, whereas the Treaty measure uses gross debt.

At the 2009 Pre-Budget Report the Government announced that its Fiscal Consolidation Plan will target measures of borrowing and debt on a basis which excludes the temporary effects of financial interventions, i.e. those which will be reversed when the interventions have unwound. As set out in Chapter C, Budget 2010 presents information on the public sector net borrowing and net debt on two different bases:

- Including financial interventions on a National Accounts basis. These measures reflect the treatment of financial interventions as determined by the national accounts; and
- Excluding the temporary effects from financial interventions but retaining the permanent effects. Temporary effects, which will eventually be reversed, arise from, for example, the inclusion of public sector banks balance sheets in net debt<sup>3</sup>.

## National Accounts

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

**2.4** Full details of the sources for each table in Budget 2010 are included in *Budget 2010: Data sources*, available on the Treasury's website and on request from the Treasury's Public Enquiry Unit (020 7270 4558).

**2.5** The outturn figures are based on series published in the monthly Public Sector Finance release, last published on 18 March 2010.

<sup>3</sup> The Office for National Statistics has published a detailed note (<http://www.statistics.gov.uk/articles/nojournal/excluding-financial-interventions.pdf>) setting out the definitions of the coverage of public sector net debt and net borrowing including and excluding temporary effects of financial interventions.

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

## Fiscal aggregates

**2.7** The current budget, formerly known as the current balance, measures the balance of current account revenue over current expenditure, including depreciation. This definition of the current budget is very similar to the National Accounts concept of net saving. It differs only in that it includes taxes on capital (mainly inheritance tax) in current rather than capital receipts.

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

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

**2.10** General government gross debt is the measure of debt used in the European Union's Excessive Deficit Procedure. This differs from public sector net debt as it excludes public corporations and does not net off liquid financial assets.

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

**2.12** Cyclically-adjusted estimates of key fiscal aggregates remove the estimated effects of the economic cycle. Under the *Code for fiscal stability*, the Government is required to publish these estimates, and since the 1998 Pre-Budget Report, all public finance forecasts have published cyclically-adjusted forecasts of the current budget balance and public sector net borrowing (PSNB). Cyclically-adjusted fiscal aggregates play an important role in assessing the sustainability of the public finances, since they provide a measure of the underlying, or structural, fiscal position. The methodology used for calculating the cyclically-adjusted estimates is included in *Public finances and the cycle: Treasury Economic Working Paper No.5* as published alongside the 2008 Pre-Budget Report.

## Public sector receipts

**2.13** Net taxes and national insurance contributions (NTNIC) is a measure of net cash payments made to the UK government and differs in several respects from the National Accounts measure of total public sector current receipts (PSCR). Reconciliation between the two aggregates is given in the lower half of Table 2.9. The main adjustments are:

- accruals adjustments, mainly on income tax, national insurance contributions and VAT, are added to change the basis of figures from cash to National Accounts accruals;

- payments of customs duties and agricultural and sugar levies that are collected by the government, but then paid to the EU, are subtracted as they do not score as government receipts in the National Accounts. These receipts make up the traditional own resources element of net payments to the EU;
- tax paid by public corporations is also subtracted, as it has no impact on overall public sector receipts;
- an adjustment is made for tax credits. In NTNIC, all tax credits are scored as negative tax to the extent that they are less than or equal to the tax liability of the household, and as public expenditure where they exceed the liability, in line with OECD Revenue Statistics guidelines. Although the ONS has adopted this treatment for the Working Tax Credit and Child Tax Credit, they have continued to treat enhanced and payable company tax credits entirely as public expenditure in the National Accounts. Those parts of tax credits that offset tax liability in NTNIC are added back into current receipts in Table 2.9;
- a similar adjustment is made for TV licences, which the ONS treat as tax receipts in the National Accounts. They score as non-tax receipts in NTNIC, in line with OECD Revenue Statistics guidelines;
- interest and other non-tax receipts, which are excluded from NTNIC, are added. This excludes oil royalties, as they are already included in NTNIC, even though the National Accounts treat them as non-tax receipts; and
- business rates paid by local authorities are included in the calculation of NTNIC but not PSCR. These are therefore deducted from NTNIC before this series enters the PSCR calculation.

## Total managed expenditure

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

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

**2.16** Public sector capital expenditure is shown in Table 2.2. It includes:

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

**2.17** Public sector net investment, in Table C.3 of Budget 2010, nets off depreciation of the public sector's stock of fixed assets.

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

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

**2.20** DELs are firm three-year spending limits for departments. In general DELs will cover all running costs and all programme expenditure except spending that is included in departmental AME. DEL has distinct resource and capital budgets, as shown in Table C.11 of Budget 2010.

**2.21** AME is spending that cannot be reasonably subject to firm multi-year limits. AME components are shown in Table C.9 of Budget 2010 and are defined as follows.

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

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

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

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

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

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

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

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

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



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

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

## Accounting adjustments

**2.33** The accounting adjustments reconcile the DEL and AME framework of departmental budgets to the national accounts measure of TME, and are shown in Table 2.1.

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

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

**2.36** Non-cash items in resource budgets and not in TME include write-offs, notional audit fees, take-up, movements in the value, and release of provisions, the subsidy and bad debt element of student loans, and movement in stocks.

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

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

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

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

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

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

## Classification changes

**2.43** On 7 February 2008 the Office for National Statistics (ONS) announced that the Bank of England would be included in Public Sector Finances statistics. This decision is solely for the purpose of producing National Accounts consistent Public Sector Finance statistics and other

statistical products based on them. It is not a comment on, or has any implication for, the independence of the Bank of England.<sup>4</sup>

**2.44** At the same time ONS also announced the decision to reclassify Northern Rock plc from the private sector to the public sector from 9 October 2007.<sup>5</sup>

**2.45** Since Budget 2008, the ONS have implemented a number of classification changes to the reporting of the Public Sector Finances.

**2.46** The sector classification of the Financial Services Compensation Scheme (FSCS) from public corporation to central government, and the classification of Bradford & Bingley as a public financial corporation from 26 September 2008.<sup>6</sup>

**2.47** The Bank of England's Asset Purchase Facility Fund started operating in February 2009. ONS has judged that the Fund does not qualify as an institutional unit and that its activities should be classified with the sector that controls it. The Fund has operated in two phases and is classified to a different sector for each. The £1.0 billion of commercial paper purchased in 2008-09 under the first phase has been classified as a central government (liquid) asset with no impact on the public sector net cash requirement or net debt. Subsequent asset purchases for monetary policy purposes, on the other hand, have been classified as central bank operations.

**2.48** On 19 February 2009, ONS announced the classification of Royal Bank of Scotland and Lloyds Banking Group as public corporations from 13 October 2008. Data for the two banking groups will be fully incorporated into the public sector finances as soon as is practicable, but they are large, complex organisations, and this may take some time.<sup>7</sup>

**2.49** Other measures announced by the Government and Bank of England to support the banking industry include:

- the Bank of England's Special Liquidity Scheme;
- the Government's Credit guarantee scheme for new lending between banks; and
- the Government's Asset Protection Scheme.

**2.50** The independent ONS will determine how measures to maintain financial stability and support the effective functioning of the financial sector are classified within the National Accounts, in consultation with Eurostat (the Statistical Office of the European Union) and statistical offices in other Members States to ensure consistent interpretation of international statistical guidance.<sup>8</sup>

**2.51** As with the announced treatment of reporting Northern Rock at Budget 2008, public sector net debt is presented both including and excluding the financial sector interventions. The financial sector interventions are temporary measures to support the banking industry. The Code for Fiscal Stability provides for such circumstances.

## Financial sector interventions

**2.52** At Budget 2008 it was announced that public sector net debt would be presented both including and excluding the effect of Northern Rock and from September 2008 statistics on public sector net debt (PSND) both including and excluding the temporary effects of financial

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<sup>4</sup> [http://www.statistics.gov.uk/articles/nojournal/boe\\_article.pdf](http://www.statistics.gov.uk/articles/nojournal/boe_article.pdf)

<sup>5</sup> [http://www.statistics.gov.uk/articles/nojournal/Rock\\_article.pdf](http://www.statistics.gov.uk/articles/nojournal/Rock_article.pdf)

<sup>6</sup> <http://www.statistics.gov.uk/pdffdir/cbb1108.pdf>

<sup>7</sup> <http://www.statistics.gov.uk/pdffdir/crbslbg0209.pdf>

<sup>8</sup> <http://www.statistics.gov.uk/pdffdir/fbc1008.pdf>

interventions were published in the joint HMT/ONS Statistical Bulletin. In the 2008 Pre-Budget Report this treatment was extended to cover subsequent, financial interventions.

**2.53** In the 2009 Pre-Budget Report this presentation was extended to Public Sector Net Borrowing, which is also now published on both bases in the monthly Statistical Bulletin.

**2.54** A reconciliation between the measures of borrowing is shown in Table C.12 of Budget 2010 and for net debt in Table C.13. The following paragraphs briefly explain each row in these tables. For PSNB, each component is classified as either a current or capital transaction.

**2.55** In Table C.12 on the reconciliation of PSNB and PSNB ex the line Public sector banks, Special Liquidity Scheme and Asset Purchase Facility: transactions with private sector comprises:

- Northern Rock and Bradford & Bingley contribution to net borrowing (mainly current);
- Net fee receipts of the Bank of England in respect of the SLS (current);
- Net interest receipts of the BEAPFF (current).

**2.56** The line Public sector banks: transactions with government comprises:

- Underwriting fees from RBS and Lloyds (current).
- Preference shares; interest receipts from RBS and LBG (current).
- Credit guarantee scheme fees from RBS and LBG (current).
- Asset protection scheme fees (mixture of current and capital- 2009 q4 only).
- Contingent capital fees from RBS (all current).
- SLS and BEAPFF indemnity payments (no payments yet)
- APS guarantee payments (no payments yet)

**2.57** The line Equity injections into RBS and Lloyds consists of the cost of acquiring shares at a price above the market price (all capital).

**2.58** The line Capital injection into Northern Rock is the full cost, in December 2009, of the equity put in when the company was separated into two businesses NR plc and NR (Asset Management) Ltd,

**2.59** The line Depositor compensation: Bradford & Bingley comprises the compensation paid out to depositors by HM Treasury in excess of FSCS limit (all capital).

**2.60** The reconciliation of PSND to PSND ex is broadly similar. The line Public sector banks balance sheets comprises

- Northern Rock and Bradford & Bingley contributions to net debt;
- Central government loans advanced to Northern Rock and Bradford & Bingley;
- Bradford & Bingley's amount owing to FSCS and HM Treasury;
- Lloyds shares purchased by the private sector at public share offerings.

**2.61** Depositor compensation: Icelandic banks and Dunfermline Building Society comprises compensation paid out to depositors in these institutions by FSCS and HM Treasury that has yet to be recovered.

**2.62** The line Special Liquidity Scheme and Asset Purchase Facility comprises:

- Cumulative sum of net fees paid to participate in the SLS
- The contribution to net debt from the Bank of England Asset Purchase Facility Fund (BEAPFF), including net interest receipts

**2.63** The other four categories in the table cover the same financial interventions as in the PSNB to PSNB ex reconciliation.



## HM Treasury contacts

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