C THE PUBLIC FINANCES

The financial crisis and global downturn have had a profound and persistent impact on the public finances, resulting in a significant increase in government borrowing and debt. Responding to these developments, in line with its fiscal objectives, the Government's fiscal strategy has been to:

- base policy decisions on a realistic fiscal forecast, based on a range of assumptions, some of which are designed to provide caution to allow for uncertainty;
- set out a credible plan for delivering a sustained consolidation over the medium term, to ensure sound public finances and create space in the short term for continued fiscal support;
- ensure that the fiscal policy framework is set to deliver the Government's fiscal policy objectives given the outlook for the public finances and the economy; and
- minimise the long-term cost of debt issuance, subject to risk, and reduce refinancing risk, all else equal, by issuing a larger proportion of long-maturity and index-linked gilts.

Chapter 2 sets out the action the Government is taking to achieve these goals. This chapter presents more detailed information on the fiscal projections, consistent with the *Code for fiscal stability*.

C.1 This chapter explains the latest public finance outturns and the fiscal projections in more detail[1]. It includes:

- five-year projections of the current budget, the cyclically-adjusted current budget, public sector net borrowing and public sector net debt;
- detailed analyses of the outlook for government receipts and expenditure;
- analysis of the impact of the financial interventions on the public finances; and
- information on the financing requirement.

C.2 The Budget presents information on the public finances on two different bases:

- **including the temporary effects of financial interventions**. These measures include the temporary effects from, for example, the inclusion of the balance sheets and operations of banks classified to the public sector; and
- **excluding the temporary effects of financial interventions.** These measures remove the temporary effects of financial interventions on the fiscal aggregates but retain the permanent effects which are recorded as they occur.

C.3 The long-term impact of the financial interventions on the taxpayer and the sustainability of the public finances will be determined by the eventual net profit or loss on these interventions. The Government's assessment of the fiscal position therefore uses the basis which excludes the temporary effects of the interventions and accounts for these permanent effects. Fiscal aggregates in this chapter are presented on this basis unless otherwise stated.

[1] For further detail see *Budget 2010: the economy and public finances – supplementary material.* This includes tables on public expenditure and sub-sector and economic category analyses, and conventions used in presenting the public finances.

FORECAST ASSUMPTIONS AND RISKS

Key assumptions **C.4** This section sets out the key assumptions on which the fiscal projections are based:

- the economy follows the path described in Chapter B. The fiscal projections continue to be based on the assumption that trend output growth will be ¼ percentage point lower than the centre of the forecast range, which is designed to add caution;
- 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 this Budget or since the 2009 Pre-Budget Report. The fiscal impacts of these measures are set out in Chapter A;
- there are no tax or spending policy changes beyond those announced in or before Budget 2010. Rates, thresholds and limits, including for 2009-10, increase in line with projected indexation or announced policy. Consistent with the *Code for fiscal stability*, the forecast does not take account of measures proposed in Budget 2010 for consultation or other proposals where final decisions have yet to be taken;
- Departmental Expenditure Limits (DEL) to 2010-11 are adjusted to reflect the cost of the policy decisions listed in Chapter A;
- total Annually Managed Expenditure (AME) programmes to 2010-11 have been forecast consistent with the economic assumptions and policy decisions in this Budget;
- public sector current expenditure (excluding the additional time-limited resource expenditure announced in the 2009 Pre-Budget Report and all additional Budget 2010 expenditure) is projected to grow at 0.8 per cent per year on average in real terms from 2011-12 to 2014-15; and
- public sector net investment is projected to decrease to 1¼ per cent of GDP in 2013-14, and remain at that level in 2014-15.

C.5 The estimates for 2009-10 are based on all available data within the Treasury and other government departments involved in producing tax and spending forecasts.

Table C1: Economic assumptions for the public finance projections

	Percentage changes on previous year unless otherwise specified						
	Outturn	Estimate	Projections				
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Output (GDP)	-1 ½	-3 ¾	2	3	3 ¼	3 ¼	3 ¼
Prices							
CPI	3 ¾	2 ¼	2 ¼	1 ½	2	2	2
GDP deflator	2 ½	1 ¾	2 ¼	1 ½	2 ½	2 ¾	2 ¾
RPI[1] (September)	5	-1 ½	3 ¼	2 ½	3 ¼	3 ¼	3 ¼
Rossi[2] (September)	6 ¼	1 ¾	3 ½	1 ¾	2 ¼	2 ¼	2 ½
Nominal GDP[3]	1435	1406	1464	1533	1621	1720	1824

[1] *Used for revalorising excise duties in current year and uprating income tax allowances and bands in the following year.*
[2] *RPI excluding housing costs.*
[3] *Not seasonally adjusted.*

Forecast differences and risks

C.6 The fiscal balances represent the difference between the two large aggregates of expenditure and receipts, and forecasts are inevitably subject to wide margins of uncertainty. This is particularly the case at times such as now when the economy is recovering from significant shocks. The uncertainty surrounding economic prospects at the current time therefore implies greater than usual risks surrounding the public finance projections.

C.7 Risks to specific tax and spending projections are discussed in further detail in subsequent sections. A number of key risks relate to the economic determinants that underpin the fiscal projections. The Budget projections assume a return to above-trend levels of economic growth in 2011-12 which drives a recovery in cyclical tax receipts. The projections also assume a recovery in labour income and consumption, though at lower rates of growth than forecast for nominal GDP. These determinants are the key drivers of the forecasts of income tax and VAT receipts.

C.8 On the spending side, two key determinants are the claimant count and gilt rates. For the claimant count, the fiscal forecast uses the NAO assumption based on the average of independent forecasts. Under that convention, unemployment rises from 1.62 million at the end of 2009 to 1.74 million at the end of 2010 and is then flat across the projection period. A change in the claimant count of 100,000 is equal on an approximate ready-reckoner basis to a change of around £0.5 billion in social security payments.[2] Interest rates applying to new issuance of Government gilts are a key driver of the forecast for the cost of funding Government debt. The projections use market expectations of gilt rates, in line with the NAO assumption, which are currently low by historical standards.

The use of NAO-audited assumptions

C.9 The use of assumptions audited by the National Audit Office (NAO) under the three-year rolling review process is designed to add caution into the public finance projections. Details of the audited assumptions are given in Box C1. For Budget 2010, the Comptroller and Auditor General audited the assumptions on the VAT gap, tobacco revenues, factor income shares and funding.

VAT gap assumption

C.10 For Budget 2010, the Comptroller and Auditor General has audited the Treasury's assumption for VAT revenues. He concluded that the overall approach for estimating the VAT gap was reasonable and cautious over the rolling review period and remains reasonable for the future. He noted that there has been significant volatility around the growth of the VAT gap in recent years and recommended that the Treasury should consider whether to do more to assess factors, such as VAT debt levels, that may be causes of this volatility.

Tobacco revenues assumption

C.11 The Comptroller and Auditor General has also audited the tobacco revenues assumption used for the Treasury's public finance projections. The report concluded that over the rolling review period the assumption proved cautious. He noted that in the short term the assumption may be susceptible to the uncertainty of the current economic conditions, but includes a safeguard that a faster rate of decline in duty-paid cigarettes can be assumed if necessary, which introduces an element of caution, to the extent that a faster rate of decline can be forecast in advance. He recommended that the Treasury should keep under review the impact of other factors, such as current economic uncertainties and the impact of legislative changes on cigarette consumption.

[2] The 'ready-reckoned' impact of an NAO assumption or economic determinant on the public finances is an approximate estimate which has been made by varying the assumption in the appropriate receipts or expenditure forecast model. However these estimates should be treated with caution as the actual impact will depend crucially on the particular set of economic conditions at the time of the change. In addition these estimates measure only the direct effects and not the wider indirect effects.

Factor income shares assumption

C.12 The Comptroller and Auditor General concluded that the factor shares assumption was reasonable over the rolling review period and remains reasonable. He recommended that the Treasury should consider further investigation of the impact of cyclical factors on the relative proportions of labour and profits shares in domestic income, to provide additional checks on the reasonableness of the approach.

Funding assumption

C.13 The review also covered the funding assumption used for the Treasury's public finance projections. The Comptroller and Auditor General confirmed that, through the audit period of Budget 2007 to the 2009 Pre-Budget Report, the figures for government borrowing used to calculate debt interest payments in the relevant Budget or Pre-Budget Report were consistent with the forecast of government borrowing and that they reflected the policy assumptions in the relevant Debt and Reserves Management Report, and that the data input to the Treasury's economic forecasting system was consistent with the detailed forecast of debt interest as stated in the relevant Budget or Pre-Budget Report. No other assumptions were due for review at this Budget.

Box C1: Key assumptions audited by the NAO[a]

Trend GDP growth [d]	2½ per cent a year over the forecast period to 2014. A downward adjustment of just over 5 per cent has been made to the level of trend output, phased in between mid-2007 and mid-2010.
Dating of the cycle [c]	The previous economic cycle, which began in the first half of 1997, ended in the second half of 2006.
Cyclical adjustment methodology [d]	Estimates of the fiscal balances adjusted for the effects of the economic cycle are produced in line with the ready-reckoner set out in *Public Finances and the cycle*, Treasury Working Paper No.5, 2008.
Composition of GDP [f]	Shares of labour income and profits in national income are broadly constant in the medium term.
Consistency of price indices [e]	Projections of price indices used to project the public finances are consistent with CPI.
Oil prices [c]	$75.8 a barrel in 2010, the average of independent forecasts and then constant in real terms.
Equity prices [e]	FTSE All-Share index rises from 2889 (close 17 March) in line with nominal GDP.
VAT [f]	The underlying VAT gap will rise by 0.5 percentage points per year from the estimated outturn for the current year.
Tobacco [f]	The underlying level of duty paid consumption of cigarettes will be set at least three per cent per year lower than the estimated outturn for the current year.
UK claimant unemployment [b, g]	Based on the average of independent forecasts. Under that convention, unemployment rises from 1.62 million at the end of 2009 to 1.74 million at the end of 2010.
Interest rates [d]	3-month market rates change in line with market expectations.
Funding [f]	Funding assumptions used to project debt interest are consistent with the forecast level of government borrowing and with financing policy.
Privatisation proceeds [d]	Credit is taken only for proceeds from sales that have been announced.

[a] For details of all NAO audits before the 2007 Pre-Budget Report, see Budget 2007, 21 March 2007 (HC 342).
[b] Audit of Assumptions for Budget 2008, 12 March 2008 (HC 345).
[c] Audit of Assumptions for the 2008 Pre-Budget Report, 24 November 2008 (HC 1150).
[d] Audit of Assumptions for Budget 2009, 22 April 2009 (HC 408).
[e] Audit of Assumptions for the 2009 Pre-Budget Report, 9 December 2009 (HC 83).
[f] Audit of Assumptions for Budget 2010, 24 March 2010 (HC 434).
[g] Seasonally-adjusted UK claimant unemployment. This is a cautious assumption based on the average of external forecasts and is not the Treasury's economic forecast.

FISCAL PROJECTIONS

C.14 Table C2 shows five-year projections for public sector net borrowing, current budget, cyclically-adjusted current budget, and public sector net debt. Except where otherwise indicated these aggregates are presented on the basis which excludes the temporary effect of financial interventions. Outturns, estimates and projections of other important measures of the public finances are also shown.

Table C2: Summary of public sector finances

	Per cent of GDP						
	Outturn	Estimate	Projections				
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Fiscal stance							
Public sector net borrowing (PSNB)	6.7	11.8	11.1	8.5	6.8	5.2	4.0
Cyclically-adjusted PSNB	5.8	8.4	7.3	5.3	4.1	3.1	2.5
Surplus on current budget	-3.4	-8.3	-8.4	-6.6	-5.2	-3.9	-2.8
Cyclically-adjusted surplus on current budget	-2.5	-4.8	-4.6	-3.4	-2.5	-1.8	-1.3
Net investment	3.3	3.6	2.7	1.9	1.6	1.3	1.3
Sustainability							
Public sector net debt[1]	43.8	54.1	63.6	69.5	73.0	74.5	74.9
Core debt[1]	42.5	49.5	55.4	58.5	60.0	60.3	60.0
Net worth[2]	22.4	18.0	7.4	1.8	-1.6	-4.1	-5.0
Primary balance	-5.0	-9.9	-8.5	-5.8	-3.7	-2.0	-0.7
Financing							
Central government net cash requirement	11.3	14.3	11.4	9.0	6.8	5.5	4.0
Public sector net cash requirement	4.2	11.8	11.6	9.2	7.1	5.7	4.2
Stability and Growth Pact							
Treaty deficit[3]	6.7	12.2	11.2	8.6	6.9	5.3	4.2
Cyclically-adjusted Treaty deficit[3]	5.7	8.7	7.4	5.4	4.2	3.2	2.7
Treaty debt ratio[4]	55.5	71.4	80.5	86.0	88.7	89.2	88.7
Memo: Output gap	*-2.0*	*-6.1*	*-5.2*	*-4.4*	*-3.6*	*-2.7*	*-1.9*

Note: All measures are shown on the basis which excludes the temporary effect of financial interventions, except net worth and the aggregates shown in the Financing and Stability and Growth Pact sections.

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

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

[3] General government net borrowing on a Maastricht basis.

[4] General government gross debt on a Maastricht basis.

Public sector net borrowing

C.15 Public sector net borrowing (PSNB) is forecast to peak at 11.8 per cent of GDP in 2009-10. PSNB is then projected to fall in every year of the forecast period to reach 5.2 per cent of GDP in 2013-14, which is the target year for the Fiscal Consolidation Plan as discussed in Chapter 2. This is a projected improvement of 6.6 percentage points between 2009-10 and 2013-14. This decline can be divided into a cyclical and a 'structural' component:

- a fall of 1.3 per cent of GDP is due to the forecast recovery in the economy driving a cyclical increase in tax receipts. The cyclical component of borrowing (the difference between PSNB and cyclically-adjusted PSNB) falls from 3.4 per cent of GDP in 2009-10 to 2.1 per cent of GDP in 2013-14; and

- a structural improvement of 5.3 per cent which is the difference between cyclically-adjusted PSNB of 8.4 per cent of GDP in 2009-10 and 3.1 per cent of GDP in 2013-14. Of this structural improvement, the Government's discretionary action to reduce the deficit announced since Budget 2008 accounts for 3.3 per cent of GDP or £57 billion in 2013-14, including £19 billion of tax measures and £38 billion in measures to slow the rate of spending growth. Around a further 1 per cent of GDP is due to the reversal of the measures introduced to support the economy in 2009-10, such as the VAT rate reduction and capital spending. The assumptions in place to reduce the rate of spending growth from before Budget 2008 also contribute to the reduction in borrowing. The remaining structural improvement is due to a projected rise in receipts not allowed for in the cyclical adjustment methodology, for example from a recovery in the financial and housing sectors.

C.16 In 2010-11 PSNB falls by 0.7 per cent of GDP compared to 2009-10. After falling sharply in 2009-10, nominal tax receipts rise in 2010-11 reflecting the economic recovery and the reversal of the VAT rate cut. In total the Government's measures to support the economy increased borrowing in 2009-10 compared to 2010-11 by around 1 per cent of GDP. Part of the underlying growth in receipts in 2010-11 is due to a recovery in receipts from the housing and financial sectors, which fell very sharply in 2009-10 as a result of the financial crisis. Wider corporation tax receipts are also expected to recover more sharply than after previous recessions, in part due to changes in the payment regime.

Current budget

C.17 The Budget projections show that the current budget is in deficit throughout the forecast period, peaking at 8.4 per cent of GDP in 2010-11, and then falling to 2.8 per cent by 2014-15. The current budget peaks a year later than public sector net borrowing, reflecting the profiles of current and capital spending. The cyclically-adjusted current budget, which removes the estimated effect of the economic cycle, falls from a deficit of 4.6 per cent of GDP in 2010-11 to 1.3 per cent in 2014-15.

Net investment

C.18 Net investment rose to 3.6 per cent of GDP in 2009-10 and is projected to reach 2.7 per cent of GDP in 2010-11. Net investment will decrease to 1¼ per cent of GDP by 2013-14. In 2008-09 and 2009-10, net investment is increased by the portion of the Government's capital injections into public sector banks that is scored as capital grants, as set out in further detail in the financial interventions section of this chapter.

Net debt to GDP ratio

C.19 Public sector net debt is projected to rise over the forecast period to a peak of 74.9 per cent of GDP in 2014-15. The projections for core debt, which excludes the estimated impact of the economic cycle, are expected to rise to 60.0 per cent in 2014-15.

Contingent liabilities

C.20 Fiscal aggregates published by the Government, such as net debt and net worth, reflect public sector liabilities that have been accrued in the past and are certain to require future transfers to meet the obligations. In addition, there are provisions or contingent liabilities that may have to be met in the future but where the timing or existence of the liability is not certain. Measures based on Generally Accepted Accounting Practice (GAAP) take into account the extent to which past transactions have already committed future funding flows, such as nuclear decommissioning or public sector pensions. The Government has announced that it will publish a GAAP-based balance sheet as part of its move towards publishing Whole of Government Accounts (WGA) for 2009-10. When WGA are published for the year 2009-10, contingent liabilities will be disclosed as a note to the accounts. However, measures of contingent liability are subject to significant uncertainties, which limits the extent to which they can be used to determine fiscal policy in the short run.

Net worth

C.21 Public sector financial and non-financial assets net of financial liabilities can be calculated to provide an estimated measure of net worth. Because capital spending financed by borrowing leaves net worth unaffected, this measure is the approximate stock counterpart of the current budget. On this measure, net worth is projected to become negative in the medium term as current borrowing continues. This borrowing reduces net worth, as it is not offset by an increase in the Government's assets. As such measures include liabilities accrued to date that will have to be met in the future, but do not take account of future government revenues, the concept of net worth is not comprehensive. 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. The estimates of values of 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.

Financing

C.22 The central government net cash requirement (CGNCR) is projected to be 11.4 per cent of GDP in 2010-11 and is expected to fall to 4.0 per cent in 2014-15 as net borrowing falls. The impact on the CGNCR of the financial interventions is included in Table C14. The CGNCR in 2009-10 is now £22 billion lower than forecast at the Pre-Budget Report. This is driven by lower borrowing (due to higher receipts and lower accrued spending), lower cash transactions related to the financial sector interventions and lower cash spending. Full details are provided in the final section of this chapter. In 2008-09 and 2009-10, there was a large gap between PSNB and CGNCR, caused by substantial financial transactions associated with the financial sector interventions such as the equity injections. With the absence of such interventions in future years, this gap is small across the forecast period as shown in Table C14.

Stability and Growth Pact

C.23 Table C2 shows the Treaty measures of debt and deficit used for the purposes of the Excessive Deficit Procedure – Article 126 (1) of the Treaty of Maastricht. The main difference between the Treaty deficit measure and PSNB is that the Treaty measure is calculated for general government only (central and local government) whereas PSNB covers the whole public sector and so also includes public corporations. Similarly, PSND includes public corporations while Treaty debt does not. In addition PSND is net of liquid assets such as the Official Reserves, while Treaty debt is a gross measure. The Treaty deficit is projected to fall from 11.2 per cent of GDP in 2010-11 to 4.2 per cent in 2014-15. Treaty debt is forecast to rise from 80.5 per cent of GDP in 2010-11 to 88.7 per cent in 2014-15.

C.24 Tables C3 and C4 provide more detail on the projections for the current and capital budgets. The current budget surplus is equal to public sector current receipts less public sector current expenditure and depreciation. The reasons for changes in receipts and current expenditure are explained in later sections.

Table C3: Current and capital budgets

	£ billion						
	Outturn	Estimate	Projections				
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Current budget							
Current receipts	533.5	507.5	541	582	621	660	699
Current expenditure	563.7	604.6	644	662	682	703	725
Depreciation	18.7	19.5	20	21	22	23	24
Surplus on current budget	**-48.9**	**-116.6**	**-124**	**-102**	**-84**	**-67**	**-51**
Capital budget							
Gross investment[1]	65.9	69.5	60	51	48	45	47
Less depreciation	-18.7	-19.5	-20	-21	-22	-23	-24
Net investment	47.2	50.0	40	29	26	22	23
Net borrowing	**96.1**	**166.5**	**163**	**131**	**110**	**89**	**74**
Public sector net debt[2]	**617.0**	**776.6**	**952**	**1095**	**1218**	**1320**	**1406**
Memos:							
Treaty deficit[3]	96.7	171.5	164	132	111	91	77
Treaty debt[4]	796.9	1004.1	1179	1319	1438	1535	1618

Note: Measures of current budget, public sector net borrowing and public sector net debt are presented on the basis which excludes the temporary effect of financial interventions.

1 *Net of asset sales; for a breakdown see Budget 2010: the economy and public finances - supplementary material.*

2 *Debt at end March.*

3 *General government net borrowing on a Maastricht basis.*

4 *General government gross debt on a Maastricht basis.*

Table C4: Current and capital budgets

	Per cent of GDP						
	Outturn	Estimate	Projections				
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Current budget							
Current receipts	37.2	36.1	36.9	38.0	38.3	38.4	38.3
Current expenditure	39.3	43.0	44.0	43.2	42.1	40.9	39.8
Depreciation	1.3	1.4	1.4	1.4	1.4	1.4	1.3
Surplus on current budget	**-3.4**	**-8.3**	**-8.4**	**-6.6**	**-5.2**	**-3.9**	**-2.8**
Capital budget							
Gross investment[1]	4.6	4.9	4.1	3.3	3.0	2.6	2.6
Less depreciation	-1.3	-1.4	-1.4	-1.4	-1.4	-1.4	-1.3
Net investment	3.3	3.6	2.7	1.9	1.6	1.3	1.3
Net borrowing	**6.7**	**11.8**	**11.1**	**8.5**	**6.8**	**5.2**	**4.0**
Public sector net debt[2]	**43.8**	**54.1**	**63.6**	**69.5**	**73.0**	**74.5**	**74.9**
Memos:							
Treaty deficit[3]	6.7	12.2	11.2	8.6	6.9	5.3	4.2
Treaty debt[4]	55.5	71.4	80.5	86.0	88.7	89.2	88.7

Note: Measures of current budget, public sector net borrowing and public sector net debt are presented on the basis which excludes the temporary effect of financial interventions.

1 *Net of asset sales; for a breakdown see Budget 2010: the economy and public finances - supplementary material.*

2 *Debt at end March; GDP centred on end March.*

3 *General government net borrowing on a Maastricht basis.*

4 *General government gross debt on a Maastricht basis.*

CHANGES TO THE FISCAL BALANCES

C.25 Table C5 compares the latest estimates for the main fiscal balances with those in Budget 2009 and the 2009 Pre-Budget Report.

Table C5: Changes to the fiscal aggregates

	Outturn[1]	Estimate[2]	Projections				
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Net borrowing (£ billion)							
Budget 2009	**90.0**	**175.4**	**173**	**140**	**118**	**97**	**-**
Effect of revisions and forecasting changes[3]	5.4	2.6	- ½	-4 ½	-2 ½	0	-
Effect of PBR 2009 policy decisions	0.0	-0.4	1	-3 ½	-5	-6	-
Effect of other discretionary changes[4]	0.0	0.0	2 ½	7 ½	7	5	-
2009 Pre-Budget Report	**95.4**	**177.6**	**176**	**140**	**117**	**96**	**82**
Effect of revisions and forecasting changes	0.7	-11.0	-14 ½	-9	-7	-6 ½	-6 ½
Effect of Budget 2010 policy decisions	0.0	0.0	1 ½	0	- ½	-1	-1 ½
Effect of other discretionary changes[4]	0.0	0.0	0	0	0	0	0
Budget 2010	**96.1**	**166.5**	**163**	**131**	**110**	**89**	**74**
Cyclically-adjusted surplus on current budget (per cent of GDP)							
Budget 2009	-3.1	-6.7	-6.4	-4.9	-3.9	-3.2	-
2009 Pre-Budget Report	-2.6	-5.5	-5.4	-3.9	-3.0	-2.3	-1.9
Budget 2010	**-2.5**	**-4.8**	**-4.6**	**-3.4**	**-2.5**	**-1.8**	**-1.3**
Cyclically-adjusted net borrowing (per cent of GDP)							
Budget 2009	5.7	9.8	8.9	6.8	5.5	4.5	-
2009 Pre-Budget Report	5.7	9.0	8.0	5.8	4.5	3.6	3.1
Budget 2010	**5.8**	**8.4**	**7.3**	**5.3**	**4.1**	**3.1**	**2.5**
Net debt (per cent of GDP)[5]							
Budget 2009[6]	46.5	59.0	68.4	74.0	77.5	79.0	-
2009 Pre-Budget Report	44.0	55.6	65.4	71.7	75.4	77.1	77.7
Budget 2010	**43.8**	**54.1**	**63.6**	**69.5**	**73.0**	**74.5**	**74.9**

Note: Totals may not sum due to rounding. Budget 2009 aggregates, except for net debt, were on the basis which includes the temporary effects of financial interventions. All 2009 Pre-Budget Report and Budget 2010 aggregates are on the basis which excludes the temporary effects.

1 The 2008-09 figures were estimates in Budget 2009.

2 The 2009-10 figures were projections in Budget 2009.

3 This includes the impact of moving from PSNB to PSNB excluding financial interventions. At the time of the 2009 Pre-Budget Report, the impact on 2008-09 was £10.4 billion, while the impact on 2009-10 was negligible.

4 Including any changes to forecasting assumptions on spending growth from 2011-12 onwards.

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

6 Measure of debt used for fiscal policy purposes at Budget 2009. This included a cautious provision for losses from the financial interventions of £50 billion.

Changes to 2009-10

C.26 This Budget forecasts borrowing in 2009-10 of £167 billion compared to £178 billion at the Pre-Budget Report. Compared to the Pre-Budget Report forecast, economic growth has been broadly in line with expectations, but tax receipts since November are now expected to be around £9½ billion higher. Some of these higher than expected receipts are considered to be temporary, such as higher PAYE and corporation tax receipts relating to the financial sector, and so do not feed through into future years. More detail is set out in the receipts section of this chapter. Total spending in 2009-10 is close to the forecast made in the Pre-Budget Report, with lower current spending in some areas partly offset by higher capital spending.

Changes to 2010-11

C.27 Borrowing in 2010-11 at £163 billion is £13 billion lower than at the Pre-Budget Report. Forecasting changes reduce borrowing by £14½ billion, offset by approximately £1½ billion of policy changes announced in this Budget. Some of the stronger than expected receipts in the final months of 2009-10 are expected to be sustained into 2010-11. Other one-off factors also raise expected receipts in 2010-11, including the temporary Bank Payroll Tax which adds an additional £2 billion of gross receipts in 2010-11. At the time of the Pre-Budget Report it was assumed this tax would accrue to 2009-10. The ONS have now decided that in line with Eurostat guidelines it should accrue to the point at which the tax passes into law which is assumed to be in 2010-11.

C.28 Total expenditure in 2010-11 is expected to be around £2.7 billion lower than at the time of the Pre-Budget Report. Debt interest payments in 2010-11 are around £2.9 billion lower than forecast at the Pre-Budget Report due to a reduced cash requirement in 2009-10 and 2010-11 and updated information on the DMO's gilt issuance strategy. In line with normal convention the AME margin has been reset at £1 billion for 2010-11, compared to £2 billion at the Pre-Budget Report.

Changes from 2011-12

C.29 The forecast for GDP growth in 2011 has been reduced to 3 to 3½ per cent. The fiscal forecast is based on the lower end of the forecast range, at 3 per cent. Recent developments suggest that this growth will be less tax-rich due to lower forecast earnings and consumption. This reduces medium-term receipts growth slightly compared to the Pre-Budget Report, which partially offsets the impact of higher than expected receipts in 2009-10.

C.30 Public sector current expenditure from 2011-12 grows at the Pre-Budget Report assumption of 0.8 per cent per year in real terms from 2010-11 levels. With spending in 2010-11 lower than at the Pre-Budget Report, as set out above, current expenditure is therefore around £3.5 billion lower each year in the medium-term.

C.31 Overall, forecasting changes reduce borrowing by around £14½ billion in 2010-11 and by £6½ billion in 2014-15. The impact of policy measures announced in this Budget reduces borrowing by a further £1½ billion in 2014-15. By 2014-15, borrowing is around £8 billion lower than forecast at the Pre-Budget Report and reaches 4.0 per cent of GDP.

C.32 Public sector net debt is now forecast to peak at 74.9 per cent of GDP in 2014-15. This is 2.8 per cent of GDP lower than forecast at the Pre-Budget Report, driven by lower projected borrowing over the forecast period. Debt in 2013-14 is now projected to be 4.5 per cent of GDP lower than the measure of debt used for fiscal policy purposes at Budget 2009. This partly reflects a reduction in the estimate of net losses from the financial interventions from £50 billion at Budget 2009 (3½ per cent of GDP) to around £10 billion at the 2009 Pre-Budget Report as the Asset Protection Scheme (APS) was finalised and risks receded.

RECEIPTS

C.33 This section analyses the projections for tax receipts in detail. It begins by looking at the main determinants of changes in the overall projections since the 2009 Pre-Budget Report, before looking at changes in the projections of individual tax receipts. Finally it provides updated forecasts for the tax-GDP ratio. Box C2 describes the caution inherent in the fiscal forecast, and Box C3 describes the impact of the financial and housing sectors on receipts.

Changes in total receipts since the 2009 Pre-Budget Report

C.34 Tax receipts in the months since the 2009 Pre-Budget Report have been around £9½ billion higher than expected. Self-assessed (SA) income tax paid in January 2010 related to economic activity in 2008-09 at the worst point of the downturn. Receipts of SA income tax fell by 3.2 per cent compared to last year but were higher than the forecast at the Pre-Budget Report. VAT receipts since the Pre-Budget Report have also been stronger than expected, partly because businesses have repaid more VAT debt than expected, and possibly due to stronger consumer spending ahead of the standard rate of VAT reverting to 17.5 per cent and the end of the Government's scrappage schemes. In addition, financial sector profits have boosted corporation tax and PAYE from financial sector bonuses. Some of these higher than expected receipts are considered to be temporary such as the additional corporation tax and PAYE from the financial sector. In the medium term, much of this strength in receipts is offset by the reduced forecast of GDP growth in 2010-11, and by lower earnings and consumption growth.

Table C6: Current receipts

	£ billion			Changes since PBR 2009 (£ billion)		
	Outturn 2008-09	Estimate 2009-10	Projection 2010-11	Outturn 2008-09	Estimate 2009-10	Projection 2010-11
HM Revenue and Customs						
Income tax (gross of tax credits)	153.4	144.4	146.4	0.0	4.0	1.7
Income tax credits	-5.6	-5.6	-5.9	0.0	0.6	0.5
National insurance contributions	96.9	94.9	97.0	0.0	0.1	-0.1
Value added tax	78.4	70.0	78.0	0.0	2.8	3.8
Corporation tax[1]	43.7	36.0	42.1	0.0	1.9	1.2
Corporation tax credits[2]	-0.6	-0.7	-0.8	0.0	0.0	0.0
Petroleum revenue tax	2.6	0.8	1.6	0.0	-0.4	0.0
Fuel duties	24.6	26.2	27.5	0.0	-0.2	-0.6
Capital gains tax	7.8	2.5	2.7	0.0	0.0	0.1
Inheritance tax	2.8	2.4	2.3	0.0	0.1	0.0
Stamp duties	8.0	7.7	9.8	0.0	0.3	0.4
Tobacco duties	8.2	8.8	8.8	0.0	0.0	-0.1
Spirits duties	2.4	2.6	2.6	0.0	0.0	0.0
Wine duties	2.7	3.0	3.1	0.0	0.0	0.1
Beer and cider duties	3.4	3.5	3.6	0.0	0.0	0.1
Betting and gaming duties	1.5	1.4	1.4	0.0	0.0	0.0
Air passenger duty	1.9	1.9	2.4	0.0	0.0	0.1
Insurance premium tax	2.3	2.3	2.3	0.0	0.0	-0.1
Landfill tax	1.0	0.8	1.1	0.0	0.0	-0.1
Climate change levy	0.7	0.7	0.7	0.0	0.0	0.0
Aggregates levy	0.3	0.3	0.3	0.0	0.0	0.0
Customs duties and levies	2.7	2.6	2.6	0.0	0.0	0.1
Temporary bank payroll tax[3]	0.0	0.0	2.0	0.0	0.0	1.2
Total HMRC	**439.1**	**406.5**	**431.8**	**0.0**	**9.5**	**8.6**
Vehicle excise duties	5.6	5.7	6.0	0.0	0.0	-0.1
Business rates	22.9	23.7	24.7	0.0	0.0	0.2
Council tax[4]	24.4	24.8	25.8	0.0	0.0	0.0
Other taxes and royalties[5]	16.0	15.7	18.7	0.3	-0.6	-0.6
Net taxes and NICs[6]	**507.9**	**476.4**	**507.0**	**0.2**	**8.9**	**8.1**
Accruals adjustments on taxes	-4.2	1.4	4.0	0.0	0.2	2.3
Less own resources contribution to EU budget	-5.1	-3.8	-4.6	0.0	0.0	0.0
Less PC corporation tax payments	-0.2	-0.2	-0.2	0.0	0.0	0.0
Tax credits adjustment[7]	0.7	0.7	0.8	0.0	0.0	0.0
Interest and dividends	7.7	4.2	4.4	0.8	-0.2	-0.3
Other receipts[8]	26.8	28.7	29.5	0.1	0.6	0.3
Current receipts	**533.5**	**507.5**	**540.8**	**1.1**	**9.4**	**10.5**
Memo:						
North Sea revenues[9]	*12.9*	*6.4*	*8.5*	*0.0*	*-0.6*	*0.1*

[1] National Accounts measure, gross of enhanced and payable tax credits.
[2] Includes enhanced company tax credits.
[3] 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.
[4] 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.
[5] Includes VAT refunds and money paid into the National Lottery Distribution Fund.
[6] Includes VAT and 'traditional own resources' contributions to EU budget.
[7] Tax credits which are scored as negative tax in the calculation of Net taxes and NICs but expenditure in the National Accounts.
[8] Includes gross operating surplus, rent and business rate payments by local authorities.
[9] Consists of North Sea corporation tax and petroleum revenue tax.

Tax by tax analysis

C.35 Table C6 shows the main components of public sector receipts outturn for 2008-09, the estimate for 2009-10 and the projections for 2010-11, as well as the changes to the projections of individual taxes since the 2009 Pre-Budget Report. Table 2.9 in *Budget 2010: the economy and public finances – supplementary material* provides projections of individual taxes to 2014-15.

Income tax and NICs

C.36 Cash receipts of income tax and NICs in 2009-10 are expected to be £4.1 billion above their 2009 Pre-Budget Report projection, reflecting higher than expected PAYE and NIC receipts as well as self-assessment receipts. The stronger PAYE and NIC receipts are mainly due to higher than forecast financial sector bonuses. Bonuses in the whole of the financial sector on which PAYE is payable are now expected to rise by 15 per cent on 2008-09 levels, while the Pre-Budget Report forecast a fall of more than 25 per cent relative to 2008-09. The Pre-Budget Report forecast was a cautious judgement based on the information available before bonus awards were agreed. Budget 2010 has updated this forecast based on further evidence from January and February PAYE receipts and firms' compensation announcements. Income tax and NICs collected within the self-assessment system were around £2¼ billion higher than expected in 2009-10, although still lower than in 2008-09. The 2009 Pre-Budget Report incorporated a cautious estimate for 2009-10 reflecting the fact that these receipts relate to 2008-09 liabilities, when the economic downturn was at its most severe.

C.37 Some recovery in income tax and NICs receipts is expected in 2010-11 with survey measures starting to point towards an upturn in labour demand, but receipts will continue to be held back by the low level of pay settlements. The 2010-11 forecast allows for the Budget 2009 measure for a 50 per cent rate of income tax on incomes above £150,000. However, self-assessment receipts are expected to fall further in 2010-11, since these refer to 2009-10 liabilities.

C.38 Growth in income tax and NICs picks up from 2011-12 onwards, in part because of the rise in National Insurance rates. Earnings growth remains more subdued for longer than assumed in the 2009 Pre-Budget Report forecast. This contributes to growth in wages and salaries, the key driver of income tax and NIC receipts, growing substantially more slowly than the overall growth in nominal GDP.

Temporary Bank Payroll tax

C.39 The forecast of receipts from the temporary Bank Payroll Tax is based on the updated forecast for bonuses in 2009-10. Bonuses eligible for the payroll tax, which includes deferred awards in 2009-10, are now expected to rise by around 25 per cent on 2008-09 levels. This is higher than the expected 15 per cent increase in wider financial sector bonuses because it includes deferred bonus awards and applies to banks only. The 2009 Pre-Budget Report forecast was a cautious judgement based on the information available at the time and has been updated at this Budget based on the information set out above. The gross yield is estimated at £2 billion and is set out in Table C6. The final level of Bank Payroll Tax receipts will be known when payments are made in August 2010. Chapter A sets out that the net yield, after reductions in PAYE due to lower bonus payments resulting from the tax, is £1.3 billion.

C.40 At the time of the Pre-Budget Report it was assumed the Bank Payroll Tax would accrue to 2009-10. The ONS have now decided that in line with Eurostat guidelines it should accrue to the point at which the tax passes into law which is assumed to be in 2010-11.

Value added tax

C.41 Cash receipts of VAT in 2009-10 are expected to be £2.8 billion above their 2009 Pre-Budget Report projection. Higher receipts reflect both the composition of recent consumer spending growth towards goods subject to the standard rate of VAT, as well as movements in VAT debt. VAT debts rose sharply in 2008-09 reflecting pressure on firms' cash flows from the economic downturn and restrictive credit conditions. This pushed up the VAT gap (the difference between the theoretical tax liability and actual receipts). As 2009-10 has progressed, the VAT gap has started to fall back with less new VAT debt being created than was expected, and businesses repaying existing debt. Spending on consumer durables in the latter half of 2009 may have been buoyed by the growing effect of the temporary reduction in VAT, as households brought forward consumption before the rate reverted to 17.5 per cent. This was supplemented by the effect of the car scrappage scheme and low interest rates.

C.42 VAT receipts are expected to rise by 11 per cent in 2010-11 largely reflecting the ending of the temporary reduction in VAT. However, some of this will be offset by repayments relating to the judicial ruling in Fleming and Condé Nast on the three-year time limit for reclaiming over-declared or under-claimed VAT for tax periods before May 1997. Growth in VAT receipts in 2010-11 and through the forecast is held back by the judgement that consumer spending will lag overall growth in the economy, as households continue to adjust their finances. While the NAO-audited assumption on the VAT gap has a lower starting point than in the 2009 Pre-Budget Report, the assumption requires at least a 0.5 percentage point rise in the underlying VAT gap each year. This is likely to build in caution if the economic recovery leads to a further fall in VAT debt.

Non-North Sea corporation tax

C.43 Non-North Sea corporation tax is one of the most cyclical of taxes and has fallen by just over a quarter in the last two years. The drop in receipts has been most marked in the financial sector with receipts down by almost 60 per cent since 2007-08. The decline in receipts has been more rapid than in previous downturns, reflecting in part the fact that the tax payment lag for corporation tax has lessened since the move to Quarterly Instalment Payments for medium and large companies. However, the decline in non-North Sea corporation tax receipts in 2009-10 is not as steep as forecast in the 2009 Pre-Budget Report, with receipts £2.2 billion higher than expected. Receipts relating to liabilities incurred in current and previous years have been stronger than expected in both the financial and non-financial sectors.

C.44 Non-North Sea corporation tax is expected to start to recover in 2010-11, with growth in receipts of around 16 per cent. A sizeable element of the rebound in 2010-11 reflects a lessening of the impact from factors that reduced 2009-10 receipts, in particular the one-year enhanced capital allowances measure and higher repayments as firms carried back losses to relieve against earlier liabilities. Repayments are expected to fall back, as firms return to profit and also because loss-making firms can only carry back losses against recently paid tax for one year. Receipts will also benefit from the resumption of profit growth in 2010, forecast at 9 per cent in the financial sector and around 3 per cent in the non-financial sector.

C.45 With the economic forecast assuming a rebalancing of the economy towards investment and exports, profit growth in the non-oil, non-financial sector is expected to grow more strongly than the overall growth in the economy from 2011 onwards. This will boost receipts, although there will be some offset from firms carrying forward downturn-related losses to use against future liabilities. Financial sector profits are assumed to grow by just under 7 per cent a year from 2011 onwards, only bringing profits as a percentage of GDP back to close to their 20-year average by 2014-15. The smaller contribution of the financial sector than that envisaged prior to the downturn leads to non-North Sea corporation tax averaging 2.6 per cent of GDP in the medium-term, 0.3 percentage points below the recent peak of 2.9 per cent of GDP in 2007-08.

North Sea revenues

C.46 With oil prices in 2009 averaging $36 a barrel less than in 2008, North Sea revenues for 2009-10 are approximately half those received during 2008-09. Relative to the 2009 Pre-Budget Report, North Sea revenues were £0.6 billion below expectations. This reflected lower than anticipated gas prices and production in the latter half of 2009.

C.47 North Sea revenues are expected to rise by 33 per cent in 2010-11. The forecast uses the NAO-audited assumption on oil prices. Based on the average of independent forecasts, oil prices are expected to be $75.8 per barrel in 2010 and then assumed to be constant in real terms. This is around $13 per barrel higher than in 2009 and $3 per barrel higher than the 2010 oil price incorporated in the Pre-Budget Report. The weakening of sterling against the dollar will mean that the rise in oil prices in sterling terms will be higher.

C.48 The boost from higher sterling oil prices is offset in future years by the incorporation of the 2010 survey data on both production and capital expenditure from the Department of Energy and Climate Change. In particular, the forecast allows for substantially higher capital expenditure by oil and gas producers in 2012-13 and 2013-14. The forecast also allows for weaker gas prices in 2010 and 2011 than assumed in the 2009 Pre-Budget Report. Reflecting declining oil and gas production, North Sea revenues fall as a percentage of GDP after 2010-11.

Capital gains tax and inheritance tax

C.49 In line with the 2009 Pre-Budget Report projection, capital gains tax (CGT) fell sharply from £7.8 billion in 2008-09 to just £2.5 billion in 2009-10. CGT paid in 2009-10 relates to gains realised in the previous year and the steep fall reflects a number of factors. CGT is particularly sensitive to changes in equity prices, reflecting the fact that it is taxed on the gain rather than the whole disposal price and that financial assets account for around two-thirds of chargeable gains. Equity prices fell by over 25 per cent in 2008-09 compared with the previous year. The year-on-year drop in CGT receipts also reflects particularly strong receipts in 2008-09, as investors rearranged their affairs ahead of the abolition of taper relief when the CGT regime was reformed in the 2007 Pre-Budget Report.

C.50 Inheritance tax also fell sharply in 2009-10 by around 17 per cent, reflecting asset price falls and the continuing impact of the 2007 Pre-Budget Report measure on transferable tax-free allowances for married couples and civil partners. Tax payment lags for both CGT and inheritance tax mean that the rise in both equity and house prices from their low point will help stabilise receipts in 2010-11, with receipts rising thereafter.

Stamp duties

C.51 The forecast of stamp duties on property and shares in 2009-10 is £0.3 billion higher than at the 2009 Pre-Budget Report, driven primarily by higher than expected receipts, mainly from stamp duty land tax. The strong year-on-year growth in stamp duties expected in 2010-11 will reflect the fact that the annual comparison in the first half of the financial year will be against a period when both property transactions and asset prices were close to their low point. House prices are assumed to grow modestly in 2010 and 2011 in line with the median of independent forecasts, before growing at around 5 per cent in the medium-term, consistent with their long-term average real growth rate. Property transactions are assumed to return to a level consistent with the historical average duration of ownership.

Excise duties

C.52 Fuel duties in 2009-10 are expected to be £0.2 billion lower than assumed in the 2009 Pre-Budget Report. This is likely to be the result of the adverse weather conditions this winter reducing the demand for road fuel. With fuel duty charged on a per litre basis, higher pump prices reduce demand and hence receipts. The higher oil price in sterling terms lowers the fuel duty forecast by around £0.2 to £0.3 billion from 2010-11 onwards.

C.53 The estimates for both alcohol and tobacco duties in 2009-10 are in line with their Pre-Budget Report forecasts. Tobacco duties in 2009-10 have been buoyed by a rise in duty-paid consumption. A combination of the weaker exchange rate and less overseas travel is likely to have reduced cross-border shopping and made illicit behaviour less attractive. The tobacco forecast is based on an NAO-audited assumption that the underlying duty-paid consumption of cigarettes will be set at least 3 per cent lower than the estimated outturn for the current year. As the economy recovers and overseas travel rebounds, some of the 2009-10 rise in consumption could be reversed. To allow for this risk, duty paid consumption is assumed to fall by greater than 3 per cent in both 2010-11 and 2011-12.

Other receipts

C.54 Changes to other receipts include a rise in interest and dividend payments in the medium term due to changes in the expected profile of interest rates, student loans and other financial assets. Council tax increases are determined annually by local authorities, not by the Government. The council tax projections are based on stylised assumptions and are not Government forecasts. The council tax figures for 2010-11 onwards are based on the arithmetic average of council tax increases over the past three years. Since changes to council tax are broadly balanced by changes to locally financed expenditure, they have little material impact on the current balance or on net borrowing.

Box C2: Caution in the fiscal forecast

The Government takes a cautious approach to fiscal forecasting, including through some of the National Audit Office (NAO) audited assumptions.

Trend rate of GDP growth: the rate of economic growth used for the public finances projections is ¼ percentage points below the centre of the forecast range. In principle, with all other things equal, if economic growth were to be ¼ percentage points per year higher than forecast over the projection period, borrowing would be reduced by approximately ¾ per cent of GDP by 2014-15[a]. But in practice, the impact on the public finances would depend crucially on the composition of the extra growth.

Equity and oil prices: The NAO-audited assumption on equity prices is that the FTSE All-Share index rises in line with nominal GDP from its current level. For the oil price the NAO-audited assumption is based on the average of independent forecasts, which is then held flat in real terms over the forecast. This means the oil price remains at between $75–81 per barrel over the forecast period, which compares to an average of close to $100 per barrel in 2008. Every $1 increase in the oil price would increase direct North Sea receipts by around £150 million, although the wider effects of a higher oil price would reduce receipts[b]. A 1 per cent increase in equity prices would yield an approximate additional £100 million of receipts from various taxes.

VAT gap: The NAO-audited assumption is that the underlying VAT gap (the difference between actual VAT receipts and the theoretical tax liability) increases by 0.5 percentage points per year from the latest estimated outturn. The VAT gap therefore rises throughout the forecast period to 2014-15, which holds back the forecast of growth in VAT receipts. This is likely to provide caution in the fiscal forecast because as the economy recovers over the forecast period, it is likely that the VAT gap will actually fall, resulting in higher VAT receipts. If the VAT gap were to be 1 percentage point lower, VAT receipts would be approximately £1 billion higher.

Claimant count unemployment: The NAO-audited assumption on the claimant count rises to 1.74 million by the end of 2010, which is the average of independent forecasts in the March comparison published by HM Treasury, and then remains flat at this level for the purposes of projecting the public finances throughout the rest of the forecast period. This provides caution within the public expenditure projections.

Claimant count unemployment: NAO assumption and HMT projection (millions)

	Outturn						
	2008	2009	2010	2011	2012	2013	2014
NAO Assumption (Q4)	1.09	1.62	1.74	1.74	1.74	1.74	1.74
HMT Projection (Q4)[1]	1.09	1.62	1 ¾	1 ½	1 ¼	1 ¼	1

[1] *Levels beyond 2009 are rounded to the nearest ¼ million.*

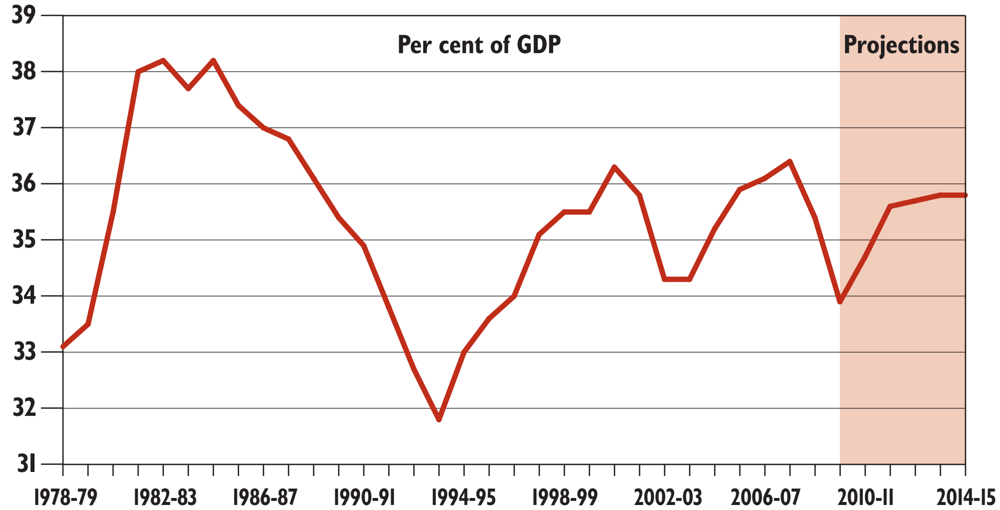
HM Treasury's projection is that claimant count unemployment will fall to around 1 million by the end of 2014. A change in claimant count unemployment of 100,000 would change unemployment and related benefits spending by approximately £500 million.

[a] Approximate impact on borrowing based on cyclical adjustment coefficients published alongside the 2008 Pre-Budget Report in *Public Finances and the cycle*, Treasury Economic Working Paper No. 5, November 2008.
[b] The 'ready-reckoned' impact of an NAO assumption or economic determinant on the public finances is an approximate estimate which has been made by varying the assumption in the appropriate receipts or expenditure forecast model. However these estimates should be treated with caution as the actual impact will depend crucially on the particular set of economic conditions at the time of the change. In addition these estimates measure only the direct effects and not the wider indirect effects.

Tax-GDP ratio

C.55 Table C7 shows projections of receipts from major taxes as a percentage of GDP, and Table C8 sets out projections of the overall tax-GDP ratio, based on net taxes and national insurance contributions.

Chart C1: Tax-GDP ratio[1]



[1] Net taxes and NICs as defined in Table C6.

C.56 The tax-GDP ratio has fallen by about 2½ percentage points since its pre-crisis peak in 2007-08, reflecting the economic downturn, the decline in receipts from the financial and housing sectors, and policy measures for fiscal support such as the temporary reduction in the standard rate of VAT. However, the strength of tax receipts in recent months and consequent upward revisions to the 2009-10 receipts forecast means that this fall is less marked than that forecast at the Pre-Budget Report. The fall in the tax-GDP ratio has been less steep than in previous recessions, in part reflecting the magnitude of the fall in demand (and therefore nominal GDP, which is the denominator in the calculation) as a result of the financial crisis.

C.57 In 2010-11, the tax-GDP ratio rises, reflecting economic recovery and the reversal of the VAT rate cut. The rise continues in 2011-12, driven by the impact of the fiscal consolidation measures announced by the government. Measures announced since the 2008 Pre-Budget Report raise the tax-GDP ratio by around 1 per cent of GDP by 2013-14. Beyond 2011-12, the tax-GDP ratio remains broadly flat, reflecting rebalancing of demand in the economy away from tax-rich activities, a lower contribution to receipts from the financial sector, the forecast decline in receipts from North Sea oil and gas production, and the impact of the NAO-audited assumptions.

C.58 Relative to the 2009 Pre-Budget Report projection, the tax-GDP ratio is around 0.7 percentage points higher than expected in 2009-10. While economic growth has been broadly in line with expectations, receipts have been stronger than anticipated. In the medium term, the tax-GDP ratio is expected to be around 0.4 percentage points higher, reflecting the fact that some of the receipts in 2009-10 are expected to be temporary and that growth could be less tax-rich because of the lower projection for earnings and consumption growth.

Table C7: Current receipts as a proportion of GDP

	Per cent of GDP						
	Outturn	Estimate	Projections				
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Income tax (gross of tax credits)	10.7	10.3	10.0	10.4	10.7	10.8	11.0
National insurance contributions	6.8	6.8	6.6	6.9	6.9	7.0	7.0
Non-North Sea corporation tax[1]	2.3	2.2	2.4	2.6	2.6	2.5	2.6
Tax credits[2]	-0.4	-0.4	-0.5	-0.4	-0.4	-0.4	-0.4
North Sea revenues[3]	0.9	0.5	0.6	0.6	0.5	0.5	0.4
Value added tax	5.5	5.0	5.3	5.5	5.4	5.3	5.2
Excise duties[4]	2.9	3.1	3.1	3.1	3.1	3.0	3.0
Other taxes and royalties[5]	6.8	6.6	7.0	7.0	7.0	7.1	7.1
Net taxes and NICs[6]	**35.4**	**33.9**	**34.6**	**35.6**	**35.7**	**35.8**	**35.8**
Accruals adjustments on taxes	-0.3	0.1	0.3	0.1	0.3	0.2	0.2
Less EU transfers	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Other receipts[7]	2.4	2.4	2.4	2.6	2.6	2.7	2.7
Current receipts	**37.2**	**36.1**	**36.9**	**38.0**	**38.3**	**38.4**	**38.3**

[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 petroleum revenue tax and North Sea corporation tax.*
[4] *Fuel, alcohol and tobacco duties.*
[5] *Includes council tax and money paid into the National Lottery Distribution Fund, as well as other central government taxes.*
[6] *Includes VAT and 'own resources' contributions to EU budget; cash basis.*
[7] *Mainly gross operating surplus and rent.*

Table C8: Net taxes and national insurance contributions[1]

	Per cent of GDP						
	Outturn[2]	Estimate[3]	Projections				
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Budget 2009	35.1	33.0	33.8	34.7	35.1	35.3	-
2009 Pre-Budget Report	35.4	33.2	33.9	34.9	35.3	35.3	35.3
Budget 2010	**35.4**	**33.9**	**34.6**	**35.6**	**35.7**	**35.8**	**35.8**

[1] *Cash basis. Uses OECD definition of tax credits scored as negative tax.*
[2] *The 2008-09 figures were estimates in Budget 2009.*
[3] *The 2009-10 figures were projections in Budget 2009.*

Box C3: Impact of the financial and housing sector on the public finances

The financial crisis and global downturn has particularly affected the financial and housing sectors in the UK, which are sectors that have been a particularly important source of tax receipts.

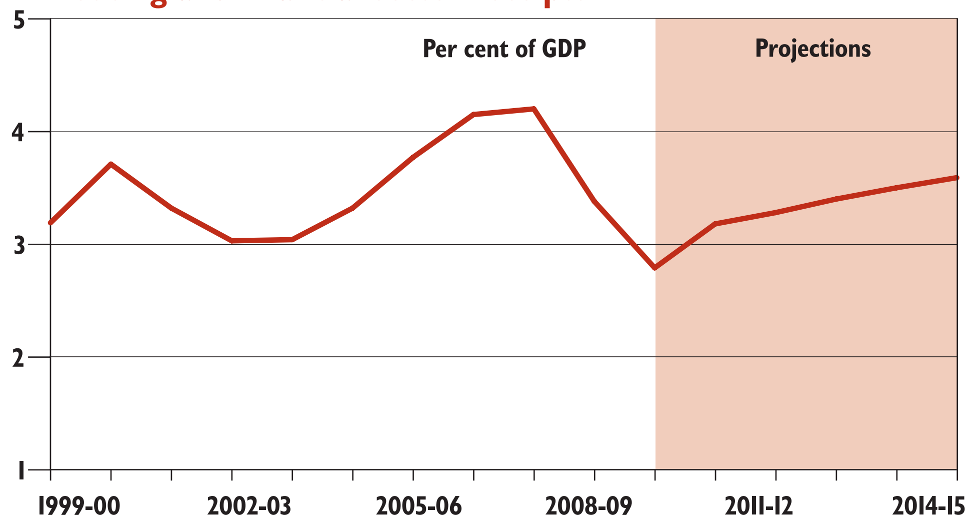
Financial company corporation tax has in the past accounted for around 25 per cent of overall corporation tax (£10 billion in 2007-08), and the sector provides significant amounts of income tax and NICs on salaries and bonuses. The housing sector provides revenue directly through stamp duty, inheritance tax and capital gains tax and indirectly through the VAT collected on housing-related consumption.

Immediately before the financial crisis, the financial and housing sectors saw rapid growth in activity and asset values. This growth was reflected in receipts from taxes linked to the two sectors. In 2002-03, financial and housing sector receipts were equivalent to 3 per cent of GDP. By 2007-08, these receipts had increased to 4¼ per cent of GDP. The rise in housing and financial sector receipts from 2002-03 to 2007-08 accounted for half of the increase in total current receipts over this period.

The economic downturn led housing and financial sector receipts to fall to an estimated 2¾ per cent of GDP in 2009-10. A large part of this is considered to be a structural decline in receipts, which contributes to the sharp rise in cyclically-adjusted borrowing. The sectors and receipts are expected to recover, but not to the levels of activity and associated receipts seen in 2007-08.

Financial sector profits are only assumed to return to close to their 20-year average as a percentage of GDP by 2014-15, well below the 2007-08 percentage. Financial sector bonuses are also forecast to remain lower than 2007-08 levels even by the end of forecast period. Overall receipts from these sectors are forecast to rise to 3½ per cent of GDP in 2014-15, contributing to the fall in cyclically-adjusted borrowing over the medium-term.

Housing and financial sector receipts[a]



Source: HM Treasury.

[a] These revenues include receipts from financial sector corporation tax, financial sector PAYE and NICs, Bank Payroll Tax, Capital Gains Tax, Inheritance Tax and stamp duties.

PUBLIC EXPENDITURE

C.59 This section looks in detail at the projections for public expenditure. It includes outturns for 2008-09, the latest estimates for 2009-10 and public expenditure plans for 2010-11. The spending projections cover the whole of the public sector, using the National Accounts aggregate Total Managed Expenditure (TME).

C.60 For fiscal aggregates purposes, TME is split into National Accounts components covering public sector current expenditure, public sector net investment and depreciation. For budgeting and other purposes, TME is split into DEL (firm three-year limits for departments' programme expenditure) and AME (expenditure that is not easily subject to firm multi-year limits). Departments have separate budgets, for current and capital expenditure.

C.61 In line with the Government's normal convention, the Budget publishes firm DEL plans and a forecast of AME for each year of the current spending review period, which is up to the end of 2010-11. Beyond the current spending review from 2011-12, in line with the Government's normal convention the Budget presents the overall level of spending, with TME broken down into public sector current expenditure (PSCE) and public sector net investment (PSNI).

C.62 Projections of AME are sensitive to movements in a number of economic determinants, such as inflation, claimant count unemployment, and interest rates. Movements in these variables could therefore drive significant changes in AME. Given the uncertainty and volatility inherent in these forecasts it has not been the Government's practice to publish an AME forecast beyond the current spending review period.

C.63 Table C9 sets out projected spending on DEL and the main components of AME to the end of the 2007 Comprehensive Spending Review period in 2010-11. Table C10 shows changes since the 2009 Pre-Budget Report.

Changes in TME since the 2009 Pre-Budget Report

C.64 Latest estimates suggest that TME for 2009-10 will be lower than in the 2009 Pre-Budget Report. Current expenditure is £2.4 billion lower due to a number of changes including removing the remaining AME margin, lower net payments on public sector pensions, and lower VAT refund payments, where the change in VAT refunds is offset in current receipts. Public sector net investment is higher by £0.5 billion reflecting the higher final market value of the capital grant component of the Government's equity injection into Royal Bank of Scotland (RBS) in December.

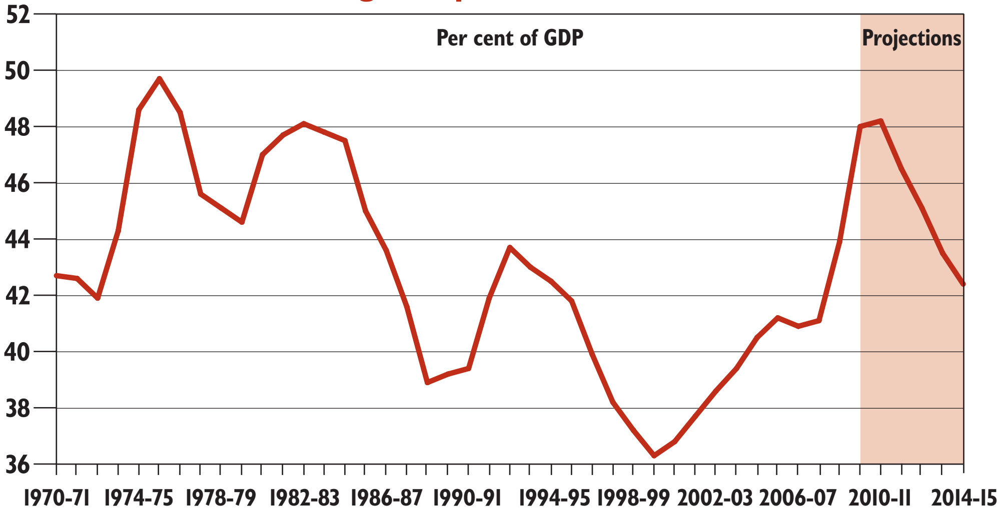
C.65 TME is estimated to be £2.7 billion lower in 2010-11 than at the Pre-Budget Report, mainly due to a lower forecast for debt interest payments, and the normal convention of resetting the AME margin to £1 billion for the year immediately ahead. The reasons for changes in TME are explained in more detail in the paragraphs below on DELs and the individual AME components.

C.66 After the end of the current spending review period, PSCE is projected to grow at 0.8 per cent per year on average in real terms from 2011-12 to 2014-15[3], the same growth rate assumption as at the Pre-Budget Report. As at the Pre-Budget Report, public sector net

[3] Excluding the additional time-limited expenditure announced in the 2009 Pre-Budget Report and all additional expenditure announced in Budget 2010.

investment is projected to decrease to 1¼ per cent of GDP in 2013-14 and remain at that level in 2014-15. As shown in Chart C2, TME is projected to fall from a peak of around 48 per cent of GDP in 2010-11 to just over 42 per cent in 2014-15.

Chart C2: Total Managed Expenditure



Source: HM Treasury.

AME

Social security benefits

C.67 Social security spending accounts for around a quarter of public sector current expenditure and is forecast to rise to £170 billion or 11.6 per cent of GDP in 2010-11. Social security spending grew significantly through the downturn as claimant count unemployment rose and the automatic stabilisers worked to help support the economy. Social security projections are based on the NAO-audited assumption for claimant count unemployment, which holds unemployment constant at the peak forecast by independent forecasters. This helps to provide an element of caution against future uncertainty.

C.68 The estimate of social security expenditure in 2009-10 is broadly in line with expectations at the 2009 Pre-Budget Report. Expenditure on Jobseeker's Allowance has been lower than expected as a result of lower than forecast levels of claimant count unemployment, although this is offset by higher than expected Cold Weather Payments this winter and higher than expected Housing Benefit expenditure. The forecast is higher in 2010-11 due to the measures set out in Chapter 5 to help support people as the economy recovers.

Table C9: Total Managed Expenditure 2008-09 to 2010-11

	£ billion		
	Outturn 2008-09	Estimate 2009-10	Projections 2010-11
CURRENT EXPENDITURE			
Resource Departmental Expenditure Limits	**321.1**	**343.5**	**355.1**
of which:			
Near-cash Departmental Expenditure Limits	301.6	319.6	330.0
Non-cash	19.5	23.9	25.1
Resource Annually Managed Expenditure	**242.6**	**261.1**	**288.9**
of which:			
Social security benefits [1]	149.7	163.7	170.0
Tax credits [1]	19.9	22.9	23.6
Net public service pensions [2]	3.1	3.4	4.4
National Lottery	1.0	0.9	0.9
BBC domestic services	3.4	3.5	3.7
Other departmental expenditure	1.3	-0.1	1.3
Net expenditure transfers to EU institutions [3]	3.1	6.4	7.6
Locally-financed expenditure	26.8	26.8	28.1
Central government gross debt interest	30.5	30.8	41.6
AME margin	0.0	0.0	0.9
Accounting adjustments	3.9	2.8	6.8
Public sector current expenditure	**563.7**	**604.6**	**644.0**
CAPITAL EXPENDITURE			
Capital Departmental Expenditure Limits	**48.1**	**56.6**	**53.0**
Capital Annually Managed Expenditure	**17.8**	**12.8**	**7.0**
of which:			
National Lottery	0.5	1.0	0.9
Locally-financed expenditure	7.5	6.5	5.1
Public corporations' own-financed capital expenditure	7.8	7.0	7.6
Central government grants to public sector banks	9.4	4.5	0.0
Other capital expenditure	0.2	1.8	2.5
AME margin	0.0	0.0	0.1
Accounting adjustments	-7.6	-8.0	-9.2
Public sector gross investment	**65.9**	**69.5**	**60.0**
Less public sector depreciation	-18.7	-19.5	-20.5
Public sector net investment	**47.2**	**50.0**	**39.5**
TOTAL MANAGED EXPENDITURE [4]	**629.6**	**674.1**	**704.0**
of which:			
Departmental Expenditure Limits	357.6	386.7	393.4
Annually Managed Expenditure	272.0	287.4	310.6

[1] For 2008-09, child allowances in Income Support and Jobseekers' Allowance have been included in the tax credits line and excluded from the social security benefits line.

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

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

	2008-09	2009-10	2010-11
Net payments to EU institutions	2.2	3.8	5.7
Net contribution to EU Budget	3.0	4.7	6.6

[4] Total Managed Expenditure is equal to the sum of public sector current expenditure, public sector net investment, and public sector depreciation, on a basis which excludes temporary effects of financial interventions.

Table C10: Changes to Total Managed Expenditure since the 2009 Pre-Budget Report

	£ billion		
	Outturn	Estimate	Projections
	2008-09	2009-10	2010-11
CURRENT EXPENDITURE			
Resource Departmental Expenditure Limits	**-0.1**	**1.3**	**1.6**
of which:			
Near-cash Departmental Expenditure Limits	0.0	0.2	0.2
Non-cash	-0.1	1.1	1.4
Resource Annually Managed Expenditure	**-0.1**	**-3.6**	**-4.7**
of which:			
Social security benefits	-0.1	-0.2	0.5
Tax credits	0.0	0.8	0.9
Net public service pensions	-0.2	-0.7	-0.4
National Lottery	0.0	0.0	0.0
BBC domestic services	0.0	0.0	0.0
Other departmental expenditure	0.3	0.2	-0.7
Net expenditure transfers to EU institutions	0.0	-0.2	0.3
Locally-financed expenditure	0.0	-0.2	-0.2
Central government gross debt interest	0.0	0.1	-2.9
AME margin	0.0	-0.9	-0.9
Accounting adjustments	-0.1	-2.6	-1.3
Public sector current expenditure	**-0.1**	**-2.4**	**-3.1**
CAPITAL EXPENDITURE			
Capital Departmental Expenditure Limits	**0.0**	**0.0**	**0.3**
Capital Annually Managed Expenditure	**1.9**	**0.7**	**0.2**
of which:			
National Lottery	0.0	0.0	0.0
Locally-financed expenditure	0.1	0.7	0.4
Public corporations' own-financed capital expenditure	1.0	-0.1	0.3
Central government grants to public sector banks	-0.5	1.5	0.0
Other capital expenditure	0.6	0.4	1.1
AME margin	0.0	0.0	0.1
Accounting adjustments	0.8	-1.8	-1.7
Public sector gross investment	**1.9**	**0.7**	**0.5**
Less public sector depreciation	-0.1	-0.3	-0.4
Public sector net investment	**1.9**	**0.5**	**0.1**
TOTAL MANAGED EXPENDITURE	**1.8**	**-1.6**	**-2.7**
of which:			
Departmental Expenditure Limits	-0.1	0.8	0.7
Annually Managed Expenditure	1.8	-2.4	-3.4

Tax credits

C.69 Child and Working Tax credits have been an important automatic stabiliser in the recent recession, with total expenditure increasing between 2008-09 and 2009-10 by £3.0 billion. Overall, tax credits in 2009-10 are broadly as forecast at the Pre-Budget Report. The changes to the AME estimates for 2009-10 and 2010-11 since the 2009 Pre-Budget Report largely reflect revisions to the split of expenditure classified as negative tax and AME, where more tax credit payments have become classified as AME. The economic downturn has meant that, for a greater number of recipients, tax credit entitlements now more than offset income tax liabilities. This change in the split has a neutral effect on the public finances overall, as the increase in payments classified as AME is exactly equal to the increase in tax receipts caused by the shift away from classification as negative tax.

Public service pensions

C.70 Net public service pensions are measured on a National Accounts basis, and report benefits paid less contributions received by central government pay-as-you-go public service pension schemes. Net public service pensions expenditure has fallen across the forecast horizon since the 2009 Pre-Budget Report.

C.71 The lower net expenditure for 2009-10 than at the Pre-Budget Report is largely due to a one-off receipt into the Northern Ireland NHS pension scheme, which takes account of actuarial revisions to past payments of employers' pension contributions. There is also a corresponding one-off increase in the Northern Ireland Executive DEL to reflect the payments of employers' contributions into the scheme. In addition, net pensions expenditure in 2010-11 has been reduced by higher receipts of contributions due to changes in workforce demographics and increased average contribution rates.

National Lottery

C.72 The National Lottery figures reflect the latest view on the timing of drawdown by distributing bodies. The figures are broadly unchanged from the 2009 Pre-Budget Report. The forecasts are consistent with the latest information from the distribution funds, and projected revenues from ticket sales.

Other departmental expenditure

C.73 The forecast for other departmental current expenditure is lower in 2010-11 than at the 2009 Pre-Budget Report. This is largely the result of the inclusion of those fees received to date for 2010-11 in respect of the Asset Protection Scheme. The increase in 2009-10 for capital grants to public sector banks since the 2009 Pre-Budget Report reflects the final market value for the Royal Bank of Scotland equity injection. Other capital expenditure has increased in both 2009-10 and 2010-11 because of a classification change to departments' budgets, where departments' AME spending now includes capital grants to local authorities' spending, or PSNI, and so they are removed in the AME capital accounting adjustments, which are lower as a result.

EU contributions

C.74 Net expenditure transfers to EU Institutions, which consist of Gross National Income (GNI) based contributions less the UK abatement, are unchanged in 2008-09, lower in 2009-10 and higher in 2010-11 than was estimated at the time of the 2009 Pre-Budget Report. The main factors for these changes are the use of later information on the size of the EU Budget for 2010, and the level and pattern of UK payments to this Budget, and changes in UK GNI-based contributions resulting from the use of latest economic assumptions.

Locally financed expenditure

C.75 Locally financed expenditure mainly consists of local authority self-financed expenditure (LASFE) and Scottish spending financed by local taxation. LASFE is the local authority spending financed by local authorities' own sources of net income, other than central government support. The main determinant of the LASFE forecast is council tax. The council tax projections used to derive current LASFE are based on stylised assumptions, which are not government forecasts, and are mirrored in the projections for council tax included in current receipts, so that these assumptions have no material effect on the fiscal aggregates. Current LASFE also includes current spending financed by local authorities' net drawdown from their current reserves, and interest receipts earned on all their investments, net of their repayments of debt. Capital LASFE reflects forecasts on the level of capital expenditure financed by the use of capital receipts, revenue sources of capital finance, private sector contributions and self-financed borrowing. Capital LASFE is net of local authority asset sales.

C.76 There are significant uncertainties in the forecasts for current and capital LASFE, particularly on local authorities' net use of reserves (affecting current LASFE), and their levels of self-financed borrowing and asset sales (affecting capital LASFE). The forecasts in this Budget are based on recent outturns, where available, and projections based on local authorities' budgets, adjusted to reflect known spending pressures and the large historical variation between local authorities' budgets and final outturns.

C.77 The changes in the LASFE forecast since the 2009 Pre-Budget Report mainly reflect an increase to the capital forecast, following the higher level of capital spending reported by local authorities during the last quarter of 2009, and some small switches from current to capital LASFE, reflecting an improvement in the methodology for attributing Northern Ireland expenditure between current and capital LASFE.

CG debt interest

C.78 Estimates for central government gross interest payments have been revised to take account of latest assumptions for economic determinants and improved information on gilts issuance. The debt interest forecast is broadly unchanged compared to the 2009 Pre-Budget Report in 2009-10, but has fallen in 2010-11. Market expectations of gilt rates have increased since the Pre-Budget Report, raising forecast debt interest payments. However in 2010-11 this is more than offset by the following factors:

- significantly lower forecasts for the CGNCR in 2009-10 and 2010-11. The CGNCR in 2009-10 and 2010-11 is cumulatively lower by £30 billion than at the Pre-Budget Report, which has reduced the debt interest forecast in 2010-11 by around £1 billion;
- lower RPI inflation, which reduces accrued debt interest payments on index-linked gilts; and
- moving to a more detailed, fully-specified model of year-ahead gilt issuance, to replace the top-down model estimate made in the Pre-Budget Report. This is the normal forecasting convention at Budget and takes account of detailed information from the Debt Management Office on expected gilt operations in 2010-11 and also enables the implications of issuance in 2009-10, which is now known, to be allowed for more precisely.

C.79 The debt interest forecast rises in line with the increase in public sector debt over the forecast period.

PC capital expenditure **C.80** Public corporations' own-financed capital expenditure (PCOFCE) measures the total amount of public corporations' net capital expenditure, less the amount of spending that is financed by central government departments, which is already included in DEL and elsewhere in AME. The forecast for PCOFCE in 2010-11 has increased since the Pre-Budget Report, which largely reflects a higher estimate of Housing Revenue Account net capital expenditure, due to a lower forecast for local authority housing sales.

AME margin **C.81** The AME margin has been reset at £1 billion for 2010-11 in line with the usual convention. The AME margin provides an element of caution to mitigate the risks of higher than expected spending.

Accounting adjustments **C.82** The accounting adjustments reconcile the budgeting aggregates DEL and AME with the National Accounts definition of TME, removing items that score in DEL or AME but not in TME, and adding in items included in TME but not in DEL or AME. A breakdown of these adjustments is given in *Budget 2010: the economy and public finances – supplementary material*. The reduction in current accounting adjustments in 2009-10 is due to a number of factors, including lower than anticipated VAT refunds, which is offset in receipts, and a lower estimate of defence capital spending classified as 'single use military equipment' (SUME), which is treated as current in National Accounts. The SUME spending is switched from capital to current spending in the accounting adjustments, and so the capital accounting adjustments include an offsetting increase. The capital accounting adjustments are reduced overall largely because of a new adjustment to remove grants to local authorities which finance debt repayments.

Table C11: Departmental Expenditure Limits - resource and capital budgets

	£ billion		
	Outturn 2008-09	Estimate 2009-10	Plans 2010-11
Resource DEL			
Children, Schools and Families	46.8	49.6	51.5
Health	92.3	99.6	104.1
of which: NHS England	90.7	98.0	102.1
Transport	5.7	6.9	7.0
CLG Communities	4.2	4.5	4.4
CLG Local Government	24.7	25.5	26.3
Business, Innovation and Skills	18.0	19.5	19.6
Home Office	9.2	9.5	9.8
Justice	9.1	9.9	9.4
Law Officers' Departments	0.7	0.7	0.7
Defence	36.7	39.1	40.4
Foreign and Commonwealth Office	2.1	2.3	2.2
International Development	4.8	5.4	6.2
Energy and Climate Change	0.4	1.2	1.2
Environment, Food and Rural Affairs	2.6	2.7	2.7
Culture, Media and Sport	1.5	1.7	1.7
Work and Pensions	8.0	9.1	9.3
Scotland	24.6	25.6	26.2
Wales	12.9	14.0	14.0
Northern Ireland Executive	8.0	9.0	8.7
Northern Ireland Office	1.3	1.2	1.2
Chancellor's Departments	4.5	4.5	4.3
Cabinet Office	2.1	2.2	2.4
Independent Bodies	0.8	0.9	1.0
Modernisation Funding	0.0	0.0	0.2
Reserve	0.0	0.0	0.8
Allowance for shortfall	0.0	-1.2	0.0
Total resource DEL	**321.1**	**343.5**	**355.1**
Capital DEL			
Children, Schools and Families	5.5	7.5	6.7
Health	4.4	5.4	4.7
of which: NHS England	*4.2*	*5.2*	*4.5*
Transport	7.2	8.3	7.7
CLG Communities	7.1	9.1	6.4
CLG Local Government	0.1	0.2	0.1
Business, Innovation and Skills	2.1	3.0	2.4
Home Office	0.8	1.0	0.8
Justice	0.9	0.9	0.7
Law Officers' Departments	0.0	0.0	0.0
Defence	8.7	9.2	10.1
Foreign and Commonwealth Office	0.2	0.2	0.2
International Development	0.9	1.3	1.6
Energy and Climate Change	1.7	1.9	2.0
Environment, Food and Rural Affairs	0.6	0.7	0.6
Culture, Media and Sport	0.9	0.6	0.6
Work and Pensions	0.1	0.3	0.3
Scotland	3.3	3.9	3.2
Wales	1.6	2.0	1.7
Northern Ireland Executive	1.2	1.2	1.1
Northern Ireland Office	0.1	0.1	0.1
Chancellor's Departments	0.3	0.4	0.3
Cabinet Office	0.4	0.5	0.4
Independent Bodies	0.0	0.0	0.1
Reserve	0.0	0.0	1.5
Allowance for shortfall	0.0	-1.2	0.0
Total capital DEL	**48.1**	**56.6**	**53.0**
Depreciation	11.6	13.5	14.7
Total Departmental Expenditure Limits	**357.6**	**386.7**	**393.4**
Total Education spending[1]	82.6	88.3	89.4

Note: Classification changes arising from the Alignment project, which were set out in Cm 7567 (Alignment (Clear Line of Sight) Project) in March 2009, will be implemented during 2010-11. They are not reflected in this Budget but will be reflected from the Main Supply Estimates onwards. These classification changes will not have any impact on the level of Total Managed Expenditure or on the fiscal aggregates.

[1] *Education spending is defined according to the UN's Classification of the Functions of Government. Projections include spending by departments, Devolved Administrations and local authorities.*

DEL

C.83 The detailed allocation of DEL is shown in Table C11. In line with previous practice, resource and capital DEL for 2009-10 reflect the latest available information and include an allowance for shortfall reflecting likely underspends against departmental provisions.

C.84 There are a number of changes to DEL budgets since the 2009 Pre-Budget Report. These mostly reflect:

- Budget 2010 policy decisions, which are set out in more detail in Chapter A;
- reprioritisation measures to fund new spending policies from within existing budgets;
- access to End of Year Flexibility for a number of departments in 2009-10, including for the Department for Children, Schools and Families (DCSF) and the Department for Business, Innovation and Skills (BIS);
- access to the DEL Reserve for a number of departments, including an allocation to the Ministry of Defence in both 2009-10 and 2010-11 to fund military operations;
- adjustments to the resource and capital budgets for a number of departments as a result of the implementation of International Financial Reporting Standards; and
- other classification and budgetary changes, which have no impact on National Accounts definitions or TME.

FINANCIAL INTERVENTIONS

Classification in National Accounts

C.85 On 6 November 2009, the independent Office for National Statistics (ONS) issued comprehensive documentation describing how measures to maintain financial stability and support the effective functioning of the financial sector should be classified in National Accounts and included in outturn data[4]. This followed consultation with Eurostat (the statistical office of the European Union) and statistical offices in other Member States, to ensure consistent interpretation of international statistical guidance.

Treatment in the public finances

C.86 The long-term impact of the financial interventions on the taxpayer and the sustainability of public finances will be determined by the eventual net profit or loss on the interventions. The Government therefore bases its assessment of the fiscal position on measures that account for these permanent effects and which exclude any temporary effects of liabilities incurred as a result of the interventions. The treatment of net losses from the financial interventions in the fiscal projections is described further in Box C4.

C.87 As set out at the start of this chapter, and consistent with this approach, this Budget uses the measure of net borrowing that excludes the temporary effects of the financial interventions, introduced in the 2009 Pre-Budget Report. The measure is consistent with the measure of PSND excluding the temporary effects of the financial interventions announced at Budget 2008 and the ONS now publish outturn data for both[5]. These measures essentially treat the public sector banks and central government-administered schemes as if they were in the private sector. Bank of England schemes (Special Liquidity Scheme and Asset

[4] *Public Sector Interventions in the Financial Crisis*, Office for National Statistics, 6 November 2009.

[5] *Public Sector Finances excluding Financial Interventions*, Office for National Statistics, 18 March 2010.

Protection Facility) are treated similarly. This means that transactions between Government and the banks or schemes, such as fee payments or any loss payouts, will score in these measures when they occur. This is appropriate as it is the transactions between Government and the banks that represent the permanent impact on the taxpayer of the interventions.

C.88 However, transactions between the banks and the wider private sector, for example the gross operating surpluses of the banks, will not score in the measure. Including the banks' gross operating surpluses in the measurement of the public sector's fiscal position would not be appropriate as the banks are only temporarily in the public sector. Once the ONS have included data for Royal Bank of Scotland (RBS) and Lloyds Banking Group (LBG) in the Public Sector Finances data these flows have the potential to be large and volatile.

C.89 The next two tables in this section show how this treatment affects net borrowing and net debt. Table C12 shows the removal of temporary effects and the inclusion of permanent effects for PSNB, reconciling the two measures of net borrowing. Table C13 is the equivalent for PSND, presenting the debt implications in similar detail.

Table C12: Financial interventions and Bank of England schemes - impact on PSNB

	£ billion			
	Outturn	Estimate	Projections	
	2008-09	2009-10	2010-11	2011-12
PSNB including temporary effects of financial interventions	**86.5**	**155.9**	**157**	**126**
Temporary effects excluded from PSNB ex:				
Public sector banks, Special Liquidity Scheme and Asset Purchase Facility: transactions with private sector[1]	1.3	8.0	7	5
Permanent effects included in PSNB ex:				
Public sector banks: transactions with government[2]	-1.1	-5.1	-1	0
Equity injections into RBS and Lloyds	6.1	6.3	0	0
Capital injection into Northern Rock	0.0	1.4	0	0
Depositor compensation: Bradford & Bingley	3.3	0.0	0	0
PSNB excluding temporary effects of financial interventions	**96.1**	**166.5**	**163**	**131**
Difference between PSNB and PSNB ex	**9.6**	**10.6**	**6**	**5**
of which:				
Current receipts	0.4	8.0	7	5
Current expenditure	-0.8	-1.8	-1	0
Net investment	10.0	4.4	0	0

[1] *Illustrative projections for the purposes of the public finances only. Do not represent the Government's view on the future profits of public sector banks or the net interest income of the Asset Purchase Facility.*

[2] *This includes fees that have been received. No fee payments are included in the projections unless already received.*

Impact on net borrowing

C.90 Table C12 sets out the impact in detail from 2008-09 to 2011-12. The aggregate permanent effect of interventions, net of receivables, excluding the temporary effect of interventions is around £10.2 billion up to 2010-11. This is the sum of the permanent effects as shown in Table C12. Taking each line in turn, Table C12 shows:

- *transactions between the public sector banks and the private sector* are excluded. Those are currently small as the ONS has not yet included RBS and Lloyds comprehensively in the National Accounts measure of PSNB. The net interest income of the Bank of England Asset Purchase Facility Fund (BEAPFF) is also excluded. The Government has indemnified the Bank of England with respect to any net losses that may materialise on the Fund's operations and these would score in this measure;

- *public sector banks' transactions with Government* are included in PSNB ex. This currently includes fees paid to the Government by RBS and Lloyds related to recapitalisations and the APS. Any losses on the APS would also be included in this line;
- *equity injections into RBS and Lloyds are included*. On a National Accounts basis the difference between the price paid for the acquisition of shares in the public sector banks and the market price of that equity on the day of purchase is included as a capital grant. The remainder of the purchase price only affects the central government net cash requirement;
- *capital injection into Northern Rock*, which also scores as a capital grant; and
- *depositor compensation:* the Government's support for depositors in Bradford & Bingley for that element of their deposits over the FSCS depositor compensation limit is also included as a capital grant.

C.91 The borrowing projections in this chapter do not include any estimate of fee or dividend income from the interventions. Payments and receipts associated with interventions are only included in estimated outturn and in the Budget projections where these have already been made, or a firm announcement has been made of a future transaction. The additional borrowing to finance these payments gives rise to an increase in the Government's debt interest costs which is included in the projections in this chapter. Net interest flows are included in the projections.

Box C4: The net fiscal cost of the financial interventions

The 2009 Pre-Budget Report set out the Government's assessment of the net fiscal cost of its financial sector interventions. There have been no material changes to the Government's assessment other than changes in market prices. The treatment of the interventions for fiscal policy purposes remains prudent.

The eventual fiscal cost remains dependent on a number of factors, including the eventual sale price achieved for the shares in Royal Bank of Scotland (RBS) and Lloyds Banking Group (LBG) compared to the purchase price. At current market prices the cost of the financial sector interventions net of fees and other income would total £6 billion, a decrease since the Pre-Budget Report. This estimate is based on the current market value of the Government's shareholdings, the expected net benefit from the Asset Protection Scheme (APS) following due diligence, and the expectation that the aggregate costs of all other interventions will not be material. It is calculated on the basis of a detailed assessment of the liabilities, potential losses and fee income associated with each scheme. Some external estimates have taken a broad cross-country approach, for example using average losses following previous financial crises, leading to higher estimates. However, these estimates do not take into account the specific set of safeguards built into the UK interventions.

The key elements on which the final net cost will depend are:

- the eventual net profit or loss on the recapitalisations of RBS and LBG. UK Financial Investments (UKFI) have today published updated details about the Government's investments[a]. One way to value these investments is on the basis of current market prices. This would point to a cost of £12 billion which is net of the value of the Government's RBS dividend access share. However, the actual profit or loss will depend upon the share price at the time of sale. The Government has also received a total of £0.7 billion in underwriting fees and a £0.3 billion fee for the RBS contingent capital guarantee; and
- net payouts under the APS scheme. The Asset Protection Agency (APA) has been established to operate the APS and continues to examine the APS assets. Under the APS the Government has now received fees totalling £3.9 billion and will receive at least a further £1.1 billion from RBS. Based on the APA's assessment of the assets the central expectation remains that there will be a net benefit to the taxpayer of at least £5 billion from the scheme (taking account of the £60 billion first loss, fees and recoveries).

Other interventions, not expected to have a material cost to the taxpayer after fees, other income and recoveries are taken into account, are:

- the repayment and recovery of financial support provided to protect retail depositors. As part of the resolution of a number of financial institutions during the crisis (Bradford & Bingley, Dunfermline Building Society, London Scottish Bank, Kaupthing Singer & Friedlander, Heritable Bank and the payout to Icesave depositors) the Government provided loans and other financial support in order to protect retail depositors. The outstanding amount totals £27 billion. The majority of this is repayable from the Financial Services Compensation Scheme through recoveries from the resolved institutions and, if necessary, levies on the financial industry. HM Treasury also has claims to proceeds from the winding-up of the relevant institutions and continues to expect full repayment of the loan to the Icelandic Depositor Compensation Scheme and is continuing to discuss the terms of the repayment with the Icelandic authorities;
- returns on the disposal and wind-down of Northern Rock. Northern Rock was restructured into two separate companies from 1 January 2010: Northern Rock plc and Northern Rock (Asset Management) plc. The Government remains the sole shareholder and has provided support to the two companies in the form of: a loan (current outstanding balance of £23 billion) to Northern Rock (Asset Management) plc; an equity injection of £1.4 billion into Northern Rock plc; and a Working Capital Facility of up to £2.5 billion to Northern Rock

(Asset Management) plc to support the company's business plan. Certain wholesale deposit guarantees remain in place but notice has been given of the intention to lift the retail deposit guarantee from 24 May. Given the financial position of both companies it is expected that all of this money will be returned to the taxpayer;

- returns on the wind-down of Bradford & Bingley. The Government is also a sole shareholder in Bradford & Bingley and provides it with a Working Capital Facility (currently the commitment is up to £11.5 billion) and certain deposit and capital guarantees. Given the level of loss absorbing capital of Bradford & Bingley the Government expects to recover all of this money;
- losses suffered by the Bank of England on the Special Liquidity Scheme (SLS) (HM Treasury has indemnified the Bank of England for any such losses). However given the high quality of collateral required by the Bank of England and the amount of collateral pledged (£287 billion nominal value of securities against £185 billion of nominal Treasury bills) losses are considered unlikely; and
- fees received and payouts under the Credit Guarantee Scheme (CGS). Losses would occur under the CGS only in the event that a financial institution which had participated in the scheme went into administration and insufficient recoveries were available to pay back creditors.

Thus, with a cost of £12 billion from recapitalisation and a minimum £6 billion of fees associated with recapitalisation and the APS, overall these elements point to a net cost of £6 billion at current market prices, although the actual cost will depend on the eventual value achieved for the Government's shareholdings on sale.

Treatment in the public finance statistics and for fiscal policy purposes

Since the 2009 Pre-Budget Report the estimated net losses from the financial sector interventions have been incorporated into the public finances on a National Accounts basis. This treatment is consistent with the approach set out above:

- the main element is a treatment of the implied paper loss on the Government's holdings of shares in RBS and Lloyds. On a National Accounts basis the difference between the price paid for the acquisition of shares in the public sector banks and the market price of that equity on the day of purchase is included as a capital grant. In 2008-09 these were £6.1 billion and in 2009-10 £6.3 billion, net of the value of the dividend access share, as shown in Table C12. The 2009-10 capital grant is £2.2 billion higher than estimated at the Pre-Budget Report. These figures were computed on the day of purchase and are now fixed and will not move when share prices change in the market; and
- as above, this paper loss is offset by the fees that have been received so far, also shown in Table C12 in the line '*Public sector banks' transactions with Government*'. Fee receipts estimated to be of a similar value across the projection period are excluded from the forecast.

As set out in Table C13 the aggregate permanent effect of interventions, net of receivables, on the measure of net debt excluding the temporary effect of interventions is around £10 billion up to 2010-11 on a National Accounts basis. Given that this is higher than the loss at current market prices, the approach taken for fiscal policy purposes remains prudent.

[a] *Update on UKFI market investments*, UK Financial Investments, 24 March 2010 (www.ukfi.co.uk).

C.92 Consistent with National Accounts, a number of transactions relating to the financial interventions will not affect any measure of PSNB because they take the form of financial transactions, such as loans or share purchases, which do not constitute borrowing (as one financial asset is being exchanged for another), or they are offset by recoveries imputed in the National Accounts, such as for liabilities borne by the FSCS. This means that the cash receipts from the sale of shares in public sector banks will not score in PSNB as they will be classified as financial transactions. On the point of sale, debt will be reduced if the sale price is above the original purchase price.

Impact on public sector net debt

C.93 Since September 2008 the ONS has published estimates of public sector net debt both including and excluding financial interventions in the monthly Public Sector Finances statistical bulletin. Table C13 shows the composition of the difference between PSND including and excluding the temporary effects of financial interventions.

Table C13: Financial interventions and Bank of England schemes - impact on PSND

	£ billion			
	Outturn	Estimate	Projections	
	2008-09	2009-10	2010-11	2011-12
PSND including temporary effects of financial interventions	**742.3**	**913.1**	**1081**	**1216**
Temporary effects excluded from PSND ex:				
Public sector banks: Bank balance sheets [1]	-122	-122	-121	-118
Depositor compensation: Icelandic banks & Dunfermline Building Society	-9	-9	-10	-9
Special Liquidity Scheme and Asset Purchase Facility	-2	-15	-8	-4
Permanent effects included in PSND ex:				
Public sector banks: transactions with government [2]	-1	-7	-7	-7
Equity injections into RBS and Lloyds	6	12	12	12
Capital injection into Northern Rock	0	1	1	1
Depositor compensation: Bradford & Bingley	3	3	3	3
PSND excluding temporary effects of financial interventions	**617.0**	**776.6**	**952**	**1095**

[1] *Includes receipts from take up by private sector of share issues.*

[2] *No fee payments are included in the projections unless already received.*

C.94 The main contributions to PSND, in addition to those shown in Table C12, from financial interventions are:

- the total liabilities, net of liquid assets, of the *balance sheets* of Northern Rock and Bradford & Bingley (B&B). ONS have not yet been able to calculate the impact of RBS and Lloyds' balance sheets on PSND;
- *depositor compensation* paid out by the FSCS and HM Treasury in respect of deposits with Kaupthing Singer & Friedlander (KSF), Heritable, Landsbanki, Dunfermline Building Society and London Scottish Bank which has yet to be recovered from the administrators of those institutions; and
- the *Bank of England Asset Purchase Facility Fund* (BEAPFF), which is a monetary policy instrument that is also excluded from the measures excluding the temporary effects of financial interventions. As at the end of December 2009, the scheme had added some £18 billion to the National Accounts measure of PSND, mainly from gilts which for PSND are valued at face value and this was lower than the market price paid.

C.95 General government gross debt (GGGD), the Maastricht Treaty debt definition, excludes public corporations and hence the publicly-owned banks. This means GGGD is affected by all of the cash flows that impact on the CGNCR, whether or not they cross the public sector boundary. Thus the total cost of the Government's purchases of shares in RBS and in the Lloyds Banking Group are included in GGGD even though these are classified by the ONS as intra-public sector transactions and thus net out in the National Accounts measure of PSND.

C.96 Table C14 shows the total cash impact of the interventions on the CGNCR in each financial year and so includes the temporary effects as well as the permanent ones. This table also shows the unwinding of these temporary effects on central government cash flows where this has already occurred or is known with reasonable certainty.

Table C14: Financial interventions and Bank of England schemes - impact on CGNCR

	£ billion			
	Outturn	Estimate	Projections	
	2008-09	2009-10	2010-11	2011-12
Net effect of financial interventions	**83.1**	**35.5**	**-1.5**	**-3.2**
Transactions which also affect net borrowing				
Equity injections: acquisition of shares	6.1	6.3	0.0	0.0
Other equity injections	0.0	1.4	0.0	0.0
Depositor compensation	3.3	0.0	0.0	0.0
Public sector banks: transactions with government[1]	-0.8	-6.4	0.0	0.0
Financial transactions which do not affect net borrowing				
Loans	20.6	11.0	-1.2	-3.3
Equity injections (net acquisition of shares at market price)	30.8	23.0	0.0	0.0
Depositor compensation	23.1	0.2	-0.4	0.0

[1] *No fee payments are included in the projections unless already received.*

Impact on CGNCR

C.97 Cash payments and receipts associated with the financial interventions affect the CGNCR in the year in which they occur. The transactions in Table C14 which also affect net borrowing are discussed earlier in this section. Note, though, that some transactions, for example the APS fees, score differently in PSNB where they are treated on an accruals basis. The transactions which only affect the CGNCR include:

- loan advances and repayments in cash (these do not affect net borrowing);
- that element of equity injections into public sector banks which is at or below the market value of the equity;
- depositor compensation payments which are regarded as being offset in net borrowing by an immediate accrual of capital tax receipts (either recoverable from the institution's administrators or through a levy by the FSCS on the deposit-taking industry); and
- recoveries in cash from bank administrators.

C.98 The estimate for the CGNCR in 2009-10 is revised down by £8.5 billion reflecting the receipt of £1.7 billion of fees in cash from RBS for the APS and the contingent capital commitment; £4.0 billion lower loans to Northern Rock (Asset Management) plc and Bradford & Bingley; £0.9 billion of recoveries from the administrators of Heritable and Kaupthing Singer Friedlander; and the inclusion of CGS fees and the interest paid by Lloyds and RBS on the preference shares redeemed in the first quarter of the year. The projection for 2010-11 is revised up by £3.0 billion largely reflecting £3.5 billion lower loan repayments partly offset by further recoveries from the administrators.

NET CASH REQUIREMENT

C.99 Table C15 presents projections of the net cash requirement by sub-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 C15: Public sector net cash requirement

	£ billion 2009-10				£ billion 2010-11			
	General government				General government			
	Central government	Local authorities	Public corporations	Public sector	Central government	Local authorities	Public corporations	Public sector
Net borrowing ex	**163.0**	**7.9**	**-4.3**	**166.5**	**158.9**	**5.0**	**-0.8**	**163.2**
Financial interventions impact	0.0	0.0	-10.6	-10.6	0.0	0.0	-6.2	-6.2
Net borrowing	**163.0**	**7.9**	**-14.9**	**155.9**	**158.9**	**5.0**	**-6.9**	**157.0**
Financial transactions								
Net lending to private sector and abroad	4.8	0.9	-0.1	5.6	6.1	0.1	-0.2	6.0
Cash expenditure on company securities	24.0	-0.5	-32.6	-9.1	1.0	-0.6	0.6	1.0
Accounts receivable/payable	1.0	0.2	0.3	1.5	4.3	0.2	0.3	4.8
Adjustment for interest on gilts	1.4	0.0	0.0	1.4	-4.4	0.0	0.0	-4.4
Miscellaneous financial transactions	6.1	-1.2	-16.3	-11.4	-1.7	0.0	1.2	-0.6
Own account net cash requirement	200.2	7.3	-63.7	143.8	164.1	4.7	-5.1	163.8
Net lending within the public sector	0.7	-0.3	-0.4	0.0	2.2	-1.7	-0.5	0.0
Net cash requirement[1]	**200.9**	**7.0**	**-64.1**	**143.8**	**166.4**	**3.0**	**-5.6**	**163.8**

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

C.100 The central government net cash requirement (CGNCR) for 2009-10 is now projected to be £22 billion lower than at the 2009 Pre-Budget Report, reflecting changes both to net borrowing and to the financial transactions. In order to derive the CGNCR it is necessary to deduct net borrowing by local authorities and public corporations from the projected public sector total to arrive at CG net borrowing (CGNB). CGNB is £7.7 billion lower than the 2009 Pre-Budget Report projection, mainly from higher receipts and lower current expenditure partly offset by higher CG net investment, the result of a £4.1 billion imputed capital grant to London and Continental Railways. The changes to the central government financial transactions are as follows:

- *net lending to private sector and abroad* is £0.2 billion lower at £4.8 billion;
- *cash expenditure on company securities* is £2.1 billion lower at £24.0 billion. More of the £25.5 billion payment for unquoted RBS equity is now counted as a capital grant, reflecting the final share price on this transaction, and thus falls within CG net borrowing;
- *accounts receivable/payable* are £1.6 billion lower than at the 2009 Pre-Budget Report, the result of changes to the projected tax accrual for 2009-10 which will not be received in cash in the financial year and to the timing of cash expenditures relative to their accrued equivalents. In addition, at the Pre-Budget Report it had been assumed that the RBS fees for the Asset Protection Scheme (APS) and for the contingent capital commitment might not be paid in cash. In the event there were cash receipts of £1.7 billion covering APS fees of £0.7 billion for each of 2009 and 2010, and the contingent capital fee for 2010 of £0.3 billion;

- *the adjustment for interest on gilts* is £0.2 billion lower at £1.4 billion, largely because inflation as it affects index-linked gilts is now projected to be slightly higher than at the Pre-Budget Report. This change offsets the increase to CGNB resulting from a higher debt interest accrual on the index-linked gilts;
- *miscellaneous financial transactions* are £10.1 billion lower at £6.1 billion, the result of lower projections of the new lending required in the remainder of the year for supporting Northern Rock (Asset Management) plc and for providing working capital facilities to Bradford & Bingley; and
- *net lending within the public sector* is £0.5 billion lower at £0.8 billion, the result of lower expected lending to local authorities.

C.101 Compared to the 2009 Pre-Budget Report, the central government net cash requirement (CGNCR) for 2010-11 is now projected to be £7.5 billion lower, while central government net borrowing is £12.8 billion lower. This results from both higher receipts and lower expenditure. The changes to the central government financial transactions are as follows:

- *net lending to the private sector and abroad* is £0.4 billion higher at £6.1 billion the result of higher student loans;
- *accounts receivable/payable* are £2.3 billion higher than at the Pre-Budget Report, the result of stronger growth in the income tax and NICs accruals in 2010-11;
- *the adjustment for interest on gilts* is £0.1 billion higher at -£4.4 billion;
- *miscellaneous financial transactions* are £3.1 billion higher at -£1.7 billion, the result of updated projections of loan support for Northern Rock (Asset Management) plc and Bradford & Bingley; and
- *net lending within the public sector* is £0.5 billion lower at £2.2 billion, the result of lower expected lending to local authorities.

FINANCING REQUIREMENT

C.102 Table C16 updates the financing arithmetic for 2009-10 and 2010-11 in line with the updated fiscal forecasts. The improvement in the fiscal position in both years results in £25.7 billion lower projected gilt sales in 2010-11 compared to the Pre-Budget Report. The CGNCR is now forecast to be £200.9 billion in 2009-10, a decrease of £22 billion from the 2009 Pre-Budget Report forecast of £223.3 billion. This is due to lower net borrowing and lower than expected costs of financial sector interventions, as described earlier in the chapter. The projected net contribution to financing by National Savings & Investments (NS&I) has increased by £2 billion, to £1.5 billion, which has also decreased the net financing requirement (NFR). The net financing requirement is forecast to be £218.5 billion in 2009-10, a decrease of £24.4 billion from the 2009 Pre-Budget Report. The reduction in the NFR, which emerged late in the financing year, is reflected in an unanticipated rise in the Debt Management Office's (DMO) short-term net cash position at end March 2010 of £24 billion. This will be run down in 2010-11 and will reduce the NFR accordingly.

Table C16: Financing requirement forecast

	£ billion		
	2009-10		2010-11
	December 2009 Pre-Budget Report	March 2010 Budget	March 2010 Budget
Central government net cash requirement	**223.3**	**200.9**	**166.4**
Gilt redemptions	16.6	16.6	39.0
Financing for the Asset Purchase Facility	-1.0	-1.0	0.0
Financing for the official reserves[1]	4.0	4.0	4.0
Buy-backs[2]	0.1	0.1	0.0
Planned short-term financing adjustment[3]	-0.6	-0.6	-24.0
Gross financing requirement	**242.4**	**220.0**	**185.4**
Less Assumed net contribution from National Savings and Investments	-0.5	1.5	0.0
Net financing requirement	**242.9**	**218.5**	**185.4**
Financed by:			
Debt issuance by the Debt Management Office			
Treasury bills	21.6	18.7	-1.9
Gilts	225.1	227.6	187.3
Other planned changes in short-term debt[4]			
Changes in Ways & Means[5]	-3.8	-3.8	0.0
Unanticipated changes in short-term cash position[6]	**0.0**	**24.0**	**0.0**
Total financing	**242.9**	**242.5**	**185.4**
Short-term debt levels at end of financial year			
Treasury bill stock in market hands[7]	65.6	62.7	60.8
Ways & Means	0.4	0.4	0.4
DMO net cash position	0.5	24.5	0.5

[1] The 2009-10 figure reflects an additional £2 billion of sterling financing for the Official Reserves in addition to the £2 billion announced at Budget 2009.
[2] Purchases of "rump" gilts which are older, small gilts, declared as such by the DMO and in which Gilt-edged Market Makers (GEMMs) are not required to make two-way markets. The Government will not sell further amounts of such gilts to the market but the DMO is prepared, when asked by a GEMM, to make a price to purchase such gilts.
[3] To accommodate changes to the current year's financing requirement resulting from: (i) publication of the previous year's outturn CGNCR; (ii) an increase in the DMO's cash position at the Bank of England; and / or (iii) carry over of unanticipated changes to the cash position from the previous year.
[4] Total planned changes to short-term debt are the sum of: (i) the planned short-term financing adjustment; (ii) net Treasury bill sales; and (iii) changes to the level of the Ways & Means advance.
[5] Reflects the Government's decision to pay £3.8 billion of the remaining balance of the Ways and Means advance in 2009-10.
[6] A negative (positive) number indicates an addition to (reduction in) the financing requirement for the following financial year.
[7] The DMO has operational flexibility to vary the end-financial year stock subject to its operational requirements in 2010-11.

C.103 The projection for the CGNCR in 2010-11 is £166.4 billion, £7.5 billion lower than expected at the Pre-Budget Report. Gross gilt redemptions are £39 billion and NS&I is not expected to make a net contribution to financing in 2010-11, reflecting the continuing target to maintain broadly the existing level of stock. The Government will finance the Official Reserves by £4.0 billion. The planned short-term financing adjustment will, as a result of the overfunding in 2009-10, reduce the financing requirement in 2010-11 by £24.0 billion. The projection for the NFR in 2010-11 is £185.4 billion.

C.104 The financing requirement will be met by:

- gross gilt issuance of £187.3 billion; and
- a decrease in the Treasury bill stock by £1.9 billion to £60.8 billion.

C.105 Gross gilt issuance is expected to be as follows:

- short maturity gilt issuance is expected to be £59.0 billion (or 31.5 per cent of total issuance);

- medium maturity gilt issuance is expected to be £45.0 billion (or 24.0 per cent of total issuance);
- long maturity gilt issuance is expected to be £45.3 billion (or 24.2 per cent of total issuance); and
- issuance of index-linked gilts is expected to be £38.0 billion (or 20.3 per cent of total issuance).

C.106 Auctions will remain the Government's primary method by which to issue gilts. However, consistent with the strategy adopted in 2009-10 and drawing on experience from implementing the 2009-10 financing remit, the Government has decided to continue to use supplementary methods to issue gilts in 2010-11. In particular, the Government will continue its programme of syndicated offerings and mini-tenders, and continue to make the post-auction 'top-up' facility available after auctions.

C.107 It is anticipated that:

- £148.1 billion (79.1 per cent of total issuance) will be issued through pre-announced auctions;
- £29.2 billion (15.6 per cent of total issuance) will be issued by syndication; and
- £10.0 billion (5.3 per cent of total issuance) will be issued through mini-tenders.

C.108 The planning assumption is that short and medium maturity gilts will be sold at auction only. Long maturity and index-linked gilts will be issued also by way of syndication and mini tender.

C.109 Full details of the DMO's financing remit including further information on the structure of gilts issuance and the gilt auction calendar for 2010-11 can be found in the *Debt and reserves management report 2010-11* which is published alongside this Budget and is available on HM Treasury's website.

ADDITIONAL ANALYSES

C.110 Historical series for the main fiscal aggregates are included in Tables C17 and C18. Further information on general government transactions and more detailed breakdowns of the public sector are included in *Budget 2010: the economy and public finances – supplementary material*, along with a detailed description of the conventions used in presenting the public finances.

HISTORICAL SERIES

Table C17: 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	6.8		-0.6		1.2	36.3	43.3		
1971-72	4.2		1.1		1.4	35.0	41.5		
1972-73	2.0		2.8		3.6	32.6	39.0		
1973-74	0.4	-0.7	4.9	6.0	5.8	31.9	39.5		
1974-75	-0.9	-2.5	6.5	8.1	8.9	34.5	42.1	52.1	
1975-76	-1.4	-1.6	7.0	7.2	9.2	35.3	42.7	53.8	
1976-77	-1.1	-0.6	5.5	5.0	6.3	35.1	43.0	52.3	
1977-78	-1.3	-1.2	4.3	4.1	3.6	34.1	41.3	49.0	
1978-79	-2.5	-2.3	5.0	4.8	5.2	33.1	40.1	47.1	
1979-80	-1.8	-1.7	4.1	4.0	4.6	33.5	40.5	43.9	
1980-81	-2.9	-1.5	4.8	3.4	5.1	35.5	42.2	46.0	
1981-82	-1.3	2.5	2.3	-1.5	3.3	38.0	45.4	46.2	
1982-83	-1.4	2.9	3.0	-1.4	3.1	38.2	45.1	44.8	
1983-84	-1.9	1.8	3.7	0.0	3.1	37.7	44.1	45.1	
1984-85	-2.1	0.9	3.6	0.6	3.0	38.2	43.9	45.3	
1985-86	-1.2	0.6	2.4	0.6	1.6	37.4	42.7	43.5	
1986-87	-1.4	-1.2	2.0	1.9	0.9	37.0	41.6	41.0	
1987-88	-0.4	-1.7	1.0	2.2	-0.7	36.8	40.6	36.8	74.0
1988-89	1.6	-1.0	-1.3	1.3	-3.0	36.1	40.2	30.5	79.0
1989-90	1.4	-1.4	-0.2	2.6	-1.3	35.4	39.4	27.7	70.9
1990-91	0.3	-1.2	1.0	2.6	-0.1	34.9	38.4	26.2	60.1
1991-92	-2.0	-1.5	3.7	3.3	2.3	33.8	38.1	27.4	52.8
1992-93	-5.6	-3.7	7.4	5.5	5.8	32.7	36.3	31.4	40.2
1993-94	-6.3	-4.0	7.7	5.4	6.9	31.8	35.4	36.5	29.7
1994-95	-4.8	-3.3	6.2	4.7	5.2	33.0	36.4	40.1	28.9
1995-96	-3.3	-2.4	4.7	3.8	4.2	33.6	37.2	41.9	21.6
1996-97	-2.7	-2.2	3.4	2.8	2.9	34.0	36.4	42.5	17.7
1997-98	-0.1	-0.1	0.7	0.6	0.1	35.1	37.5	40.6	15.3
1998-99	1.2	0.9	-0.5	-0.2	-0.7	35.5	37.7	38.4	14.4
1999-00	2.2	1.7	-1.6	-1.1	-0.9	35.5	37.9	35.6	17.4
2000-01	2.4	1.6	-1.9	-1.1	-3.7	36.3	38.6	30.7	23.0
2001-02	1.2	0.9	0.0	0.2	0.4	35.8	37.8	29.7	29.6
2002-03	-1.0	-0.6	2.3	1.9	2.2	34.3	36.3	30.8	28.2
2003-04	-1.5	-1.2	2.9	2.6	3.3	34.3	36.5	32.1	28.5
2004-05	-1.6	-1.4	3.3	3.1	3.2	35.2	37.3	34.0	28.6
2005-06	-1.1	-0.9	2.9	2.8	3.2	35.9	38.3	35.3	28.7
2006-07	-0.4	-0.4	2.3	2.3	2.6	36.1	38.6	36.0	28.9
2007-08	-0.3	-0.6	2.4	2.6	1.5	36.4	38.7	36.5	28.9
2008-09[3]	-3.4	-2.5	6.7	5.8	4.2	35.4	37.2	43.8	22.4

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

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

[3] *All measures are presented on the basis which excludes the temporary effect of financial interventions for 2008-09 except net worth which is presented on the basis that includes financial interventions.*

Table C18: Historical series of government expenditure

	£ billion (2008-09 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	195.3	37.3	59.7	255.0	32.7	6.2	10.0	42.7
1971-72	204.8	32.4	56.0	260.8	33.4	5.3	9.1	42.6
1972-73	213.1	31.2	55.7	268.9	33.2	4.9	8.7	41.9
1973-74	234.1	35.0	62.5	296.6	35.0	5.2	9.3	44.3
1974-75	258.1	37.5	66.4	324.5	38.7	5.6	10.0	48.6
1975-76	263.6	36.9	65.9	329.5	39.7	5.6	9.9	49.7
1976-77	270.8	30.2	60.3	331.1	39.7	4.4	8.8	48.5
1977-78	267.1	20.7	51.0	318.1	38.3	3.0	7.3	45.6
1978-79	275.1	18.0	49.1	324.2	38.2	2.5	6.8	45.1
1979-80	281.9	16.8	48.3	330.2	38.1	2.3	6.5	44.6
1980-81	290.0	13.5	45.5	335.5	40.6	1.9	6.4	47.0
1981-82	302.8	7.2	38.9	341.8	42.3	1.0	5.4	47.7
1982-83	309.8	11.4	42.2	352.0	42.3	1.6	5.8	48.1
1983-84	319.5	13.9	44.6	364.1	42.0	1.8	5.9	47.8
1984-85	327.8	12.2	41.4	369.2	42.2	1.6	5.3	47.5
1985-86	327.8	9.4	36.3	364.1	40.5	1.2	4.5	45.0
1986-87	333.2	5.7	32.7	365.8	39.7	0.7	3.9	43.6
1987-88	336.6	5.2	30.6	367.2	38.1	0.6	3.5	41.6
1988-89	329.2	3.2	28.6	357.8	35.8	0.3	3.1	38.9
1989-90	331.5	11.6	36.7	368.2	35.3	1.2	3.9	39.2
1990-91	333.8	12.6	35.6	369.3	35.6	1.3	3.8	39.4
1991-92	353.8	16.5	35.8	389.6	38.0	1.8	3.8	41.9
1992-93	371.5	17.2	36.1	407.7	39.8	1.8	3.9	43.7
1993-94	381.6	13.6	32.3	414.0	39.7	1.4	3.4	43.0
1994-95	393.4	14.0	32.8	426.2	39.3	1.4	3.3	42.5
1995-96	399.0	14.0	32.1	431.0	38.7	1.4	3.1	41.8
1996-97	398.0	7.2	23.9	421.8	37.6	0.7	2.3	39.9
1997-98	396.9	6.3	22.2	419.1	36.2	0.6	2.0	38.2
1998-99	398.7	7.6	23.0	421.7	35.1	0.7	2.0	37.2
1999-00	406.4	6.9	22.3	428.7	34.4	0.6	1.9	36.3
2000-01	427.2	6.3	21.9	449.1	35.0	0.5	1.8	36.8
2001-02	439.5	14.4	30.2	469.7	35.3	1.2	2.4	37.7
2002-03	459.9	16.1	32.5	492.4	36.0	1.3	2.5	38.6
2003-04	483.6	17.8	34.3	517.9	36.7	1.3	2.6	39.4
2004-05	505.2	22.8	39.5	544.7	37.6	1.7	2.9	40.5
2005-06	526.1	25.5	42.9	569.1	38.1	1.8	3.1	41.2
2006-07	535.0	27.3	45.2	580.1	37.7	1.9	3.2	40.9
2007-08	549.3	29.9	48.1	597.4	37.8	2.1	3.3	41.1
2008-09[2]	563.7	47.2	65.9	629.6	39.3	3.3	4.6	43.9

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

[2] *All measures are presented on the basis which excludes the temporary effect of financial interventions for 2008-09.*