

2

Economic analyses of budgets

2.1 This chapter provides additional analyses of the budgeting aggregates presented in **Chapter 1**. It shows analyses of budgets by economic category as well as information on the voted and non-voted components of public sector spending. All outturn data (to 2007-08) fall within the scope of National Statistics.

What's new

2.2 **Table 2.3** has been renamed to align with **Table 5.6**, the equivalent public sector table, in order to provide consistency between chapters. For the same reason a number of headings in this table have also been renamed.

Analyses of budgets by economic category of spending

2.3 **Table 2.1** shows analyses of budgets by economic category of spending, consistent with the budgeting aggregates reported in **Chapter 1**. The breakdowns of near-cash in resource DEL and resource departmental AME are consistent with **Table 1.7**; non-cash in resource DEL and resource departmental AME with **Table 1.8**; administration budgets in resource DEL with **Table 1.9**; and capital budgets with **Table 1.10**. Unallocated funds in resource and capital DEL are not included within the breakdown, as they are not allocated to an economic category at this planning stage.

2.4 Brief descriptions of the main economic categories are given below, including main differences from the corresponding economic categories presented against the expenditure on services framework in **Tables 5.3 and 6.5**.

2.5 **Pay** includes wages and salaries, employers' social contributions, payments of accruing superannuation liability charges for UK staff and locally engaged staff overseas, and amounts that finance employee contributions to pension schemes. It also includes income from the recovery of secondee costs, but does not include payments for contract and agency staff that are treated as procurement expenditure.

2.6 **Net current procurement** shows current expenditure and receipts from purchasing and selling goods and services, including hire and rentals under PFI and non-PFI operating leases, payments for contract and agency staff, and payments for consultancy and audit services. Spending on single use military equipment, shown as current procurement in the National Accounts presentations in **Chapters 5 and 6**, is treated as capital procurement in budgets.

2.7 **Current grants** are transfer payments that are not used to fund capital formation. In **Table 2.1** these grants are analysed by recipient: local government; persons and non-profit bodies; and overseas recipients. Current grants to local government are intra-public sector payments that consolidate out of Total Managed Expenditure (TME), which is the government's preferred measure of total public spending. Further information on local government finance is given in **Chapter 7**. Current grants to persons and non-profit bodies largely comprise social security benefits included in resource departmental AME.

2.8 Subsidies are current transfer payments to trading businesses (both private sector companies and public corporations) to provide support for current costs. They are given with the objective of influencing their levels of production, their prices, or other factors. Unlike other intra-public sector transactions, subsidies to public corporations are included within TME as the receipt of this funding, and subsequent spending, is included within the calculation of the PC's gross operating surplus (which scores on the revenue side of the National Accounts).

2.9 Depreciation, also termed capital consumption, represents the amount of capital used up in respect of fixed assets measured on the basis of Generally Accepted Accounting Practice (GAAP). The depreciation lines in **Table 2.1** also include releases from the donated assets and government grant reserves, as well as impairments and downward revaluations of fixed assets.

2.10 Cost of capital charges are annual non-cash charges applied to each department's budget to represent the opportunity cost of tying up capital in assets. The rate is 3.5 per cent of the net assets of the department. Where the value of liabilities exceeds the value of assets, departments receive a cost of capital credit, which will also be included within this line.

2.11 The **grant equivalent element of student lending** is the subsidy implied in student loans being issued at the inflation rate rather than the market interest rate. It does not form part of TME in National Accounts (which measures in the current balance the difference between interest received from students and the amount of interest paid by the government on the debt incurred to make the loans), but it is included as part of public sector expenditure on services in the functional analyses in other chapters.

2.12 Take-up of provisions are non-cash costs in resource budgets recognising that liabilities have been incurred that will more likely than not lead to a future payment, but where the amount and timing of these future payments are uncertain. Upon settling the liability the payment scores to the resource or capital budget according to the economic category of the transaction, whilst an equal and opposite (negative) **release of provisions** scores as a benefit to the non-cash part of the resource budget. These lines do not include pension scheme provisions (see below).

2.13 Net public service pensions shows the costs of pensions on a National Accounts basis; that is, payments to pensioners less receipts of contributions by employers and employees. It also includes payments and receipts associated with bulk and individual transfers into and out of the scheme. **Change in pension scheme liabilities** shows increases to the liability as measured on a UK GAAP basis. This includes changes to current service costs, any bulk or individual transfers in or out, and purchases of added years. **Release of provisions funding payments of pension benefits** records a non-cash reduction equal and opposite to the pension benefits paid, where these are charged to the provision. The **unwinding of the discount rate on pension scheme liabilities** shows the increase in the liability as future payments move one year closer to being paid (so the effects of discounting reduce) and scores in the non-cash items line in departmental AME. More information on pensions is included in **Annex D**, and a reconciliation from GAAP pensions in departmental AME to the National Accounts measure is given in **Table D1**.

2.14 Capital grants are transfer payments that are usually made on the condition that the recipient uses the funds for capital projects. Capital grants in **Table 2.1** are analysed by the nature of the recipient: persons and non-profit bodies; private sector companies; and overseas recipients. Capital grants to local government and public corporations are included as part of the respective capital support rows (see below).

2.15 Capital support for local government shows central government support for local government capital expenditure, comprising capital grants and credit approvals. More information is given in **Chapter 7**.

2.16 Capital support for public corporations comprises capital grants, net lending to public corporations (see paragraph 2.18) and public corporations' market and overseas borrowing where this scores in the parent department's budget.

2.17 Net capital procurement comprises the acquisition of fixed assets (such as land, buildings and machinery) recorded net of the sales value of any assets disposed of, as well as any net increases in stock (where included in budgets). It is measured gross of depreciation. This includes the pay of civil servants engaged in in-house capital formation that is recorded as capital expenditure, rather than as pay. It also includes expenditure on single use military equipment that is classified as current procurement in the National Accounts. The expenditure on services presentations in **Chapters 5 and 6** follow the National Accounts treatment of single use military equipment, and separately identifies changes in stocks.

2.18 Net lending to private sector means lending by government net of any repayments of previous lending. It includes transactions in shares of private companies – so for example privatisation receipts count as negative net lending.

2.19 Other includes items that are too small to warrant an individual line. These include certain receipts that are usually treated as part of revenue in the National Accounts, public corporations' profit or loss where in budgets, write-offs of stock, loans written-off, and financial transactions. In plans years it also includes departmental unallocated provision that has not been allocated to an economic category at this planning stage.

2.20 Table 2.2 shows current procurement expenditure in budgets by departmental group. Unlike **Table 2.1**, procurement expenditure here is before the deduction of receipts from sales of goods and services. The net current procurement line, which includes income from goods and services, reconciles the table to the presentation of current procurement in **Table 2.1**.

2.21 Table 2.3 shows central government own capital procurement, gross of depreciation and before deduction of sales, broken down by departmental group. Further lines for central government assets sales (at sales value) and public corporations' net capital procurement are included to reconcile this table to the presentation of net capital procurement in **Table 2.1**.

Supply Expenditure

2.22 Table 2.4 shows the split of DEL and AME between expenditure that is voted in Estimates, which accounts for about two-thirds of the total, and expenditure financed by other means. The relationship between the budgetary aggregates (DEL and AME) and Supply Expenditure is explained in more detail in the introductory sections of the Supply Estimates 2009-10: Supplementary Budgeting Information (Cm 7631).

Table 2.1 Budgets by economic category of spending, 2003–04 to 2010–11

	£ million								
	National Statistics							2009–10 plans	2010–11 plans
	2003–04 outturn	2004–05 outturn	2005–06 outturn	2006–07 outturn	2007–08 outturn	2008–09 estimated outturn			
Near-cash in resource DEL									
Pay	63,560	70,169	75,597	77,839	80,043	83,844	84,287	87,472	
Net current procurement	65,996	70,092	74,155	78,978	85,617	93,972	101,320	98,880	
Current grants to local government	69,146	73,351	78,086	82,014	86,469	89,599	93,459	97,218	
Current grants to persons and non-profit bodies	23,240	24,487	25,773	26,933	28,674	29,010	31,585	33,208	
Current grants abroad	-224	-69	-167	288	954	1,197	568	1,846	
Subsidies to private sector companies	5,135	5,672	5,526	5,605	5,415	5,198	5,701	5,071	
Subsidies to public corporations	1,676	757	812	870	1,382	1,200	1,129	1,128	
Other ⁽¹⁾	547	90	46	-188	-164	-448	848	806	
Plus unallocated funds	-	-	-	-	-	-600	1,000	3,100	
Total near-cash resource DEL	229,076	244,551	259,826	272,340	288,390	302,973	319,900	328,800	
Non-cash in resource DEL									
Depreciation ⁽²⁾	8,665	7,899	9,638	10,327	10,944	11,862	12,749	13,414	
Cost of capital charges	5,066	5,080	5,411	5,687	5,806	6,304	6,141	6,313	
Grant equivalent element of student lending	362	702	762	784	1,140	1,358	1,504	1,587	
Take-up of provisions	5,324	3,634	5,216	6,442	8,258	6,411	6,170	6,348	
Release of provisions	-4,166	-4,665	-4,484	-4,728	-5,179	-5,053	-4,731	-4,733	
Other ⁽¹⁾	768	1,301	1,323	448	654	337	440	555	
Total non-cash resource DEL	16,019	13,950	17,867	18,961	21,622	21,219	22,274	23,485	
Total resource DEL	245,095	258,501	277,693	291,300	310,012	324,192	342,100	352,300	
Of which: administration budgets in resource DEL									
Pay	10,065	10,679	11,167	10,820	10,752	10,606	10,230	10,182	
Net procurement	5,881	5,841	5,552	5,781	5,134	5,307	5,217	4,813	
Depreciation	431	585	504	604	569	550	624	629	
Cost of capital charges	3	88	11	44	24	69	96	93	
Take up of provisions	42	119	115	178	350	34	118	89	
Release of provisions	-70	-62	-83	-61	-111	-57	-79	-76	
Other ⁽¹⁾	-247	-300	-267	-502	-206	-146	681	1,254	
Total administration budgets in resource DEL	16,105	16,949	16,999	16,864	16,512	16,364	16,888	16,984	
Near-cash in resource departmental AME									
Pay	942	977	1,009	1,024	1,179	1,314	1,379	1,384	
Procurement	2,330	2,190	2,187	2,238	2,173	1,093	2,292	2,445	
Current grants to local authorities	14,223	16,788	17,785	19,945	20,720	22,249	25,064	26,896	
Current grants to persons and non-profit bodies	115,277	121,451	127,408	131,130	137,898	150,197	163,356	167,835	
Subsidies to private sector companies	249	172	211	150	148	138	160	165	
Net public service pensions ⁽³⁾	1,801	1,258	274	1,147	2,290	3,062	4,118	4,602	
Other ⁽¹⁾	-386	-660	-526	-534	-891	-1,510	-1,077	-1,688	
Total near-cash in resource AME	134,436	142,177	148,348	155,099	163,517	176,543	195,290	201,639	

Table 2.1 Budgets by economic category of spending, 2003–04 to 2010–11 (continued)

	National Statistics							
	2003–04 outturn	2004–05 outturn	2005–06 outturn	2006–07 outturn	2007–08 outturn	2008–09 estimated outturn	2009–10 plans	2010–11 plans
£ million								
Non-cash in resource departmental AME								
Depreciation ⁽⁴⁾	562	825	2,283	4,767	2,697	22,527	3,961	3,525
Cost of capital charges	3,221	3,957	4,117	4,524	4,940	5,758	6,737	5,318
Take up of provisions ⁽⁴⁾	2,700	960	5,567	7,405	10,043	39,049	1,894	1,893
Release of provisions	-1,205	-1,373	-1,508	-1,259	-1,160	-884	-1,048	-541
Change in pension scheme liabilities	15,357	15,309	20,918	21,074	24,426	25,504	21,915	22,744
Unwinding of the discount rate on pension scheme liabilities	22,303	24,102	27,378	29,545	32,805	36,727	38,404	40,826
Release of provisions covering payments of pension benefits ⁽⁵⁾	-15,361	-16,216	-17,536	-18,908	-21,327	-22,627	-24,330	-25,129
Other ⁽¹⁾	64	-305	-304	-331	134	425	267	293
Total non-cash in resource departmental AME	27,640	27,260	40,914	46,816	52,557	106,481	47,799	48,928
Total resource departmental AME	162,076	169,437	189,262	201,916	216,074	283,024	243,089	250,568
Capital budgets								
Capital support for local government	9,100	10,372	11,372	10,638	12,556	12,705	15,200	14,093
Capital grants to persons and non-profit bodies	5,336	5,303	6,586	6,948	7,108	7,955	10,110	7,612
Capital grants to private sector companies	3,128	3,149	3,342	5,179	5,198	6,209	5,965	5,180
Capital grants abroad	-223	-262	-175	-134	-172	-204	79	452
Capital support for public corporations	211	630	119	91	921	57,911	34,612	473
Net capital procurement	13,843	15,369	15,882	17,097	18,600	22,424	24,647	22,121
Net lending to the private sector and abroad	1,786	1,712	2,258	2,976	4,449	33,432	7,332	6,668
Other ⁽¹⁾	80	48	-266	-212	-489	-1,066	96	443
Plus unallocated funds in capital DEL	-	-	-	-	-	-200	1,200	2,100
Total capital budgets	33,261	36,321	39,118	42,583	48,172	139,166	99,200	59,100
<i>of which:</i>								
Capital DEL	30,547	32,785	35,199	38,787	44,063	48,345	57,700	51,600
Capital departmental AME	2,714	3,536	3,918	3,796	4,109	90,821	41,516	7,517

(1) Other includes items too small to warrant an individual line and, in plans, departmental unallocated provision.

(2) Excludes NHS Trust depreciation, which is included within the Department of Health near-cash DEL budget and shown as other near-cash in this table.

(3) Figures here are based on payments and receipts that score in TME, and incorporate the net effect of bulk and individual transfers. A full reconciliation with the GAAP based measure of net public service pension expenditure is provided in Table D.1.

(4) The 2008–09 estimated outturn includes the provision made at Budget 2009 for unrealised financial sector losses. The Budget indicated a range of £20bn to £50bn as a provisional estimate of the Government's potential exposure across all financial sector interventions and the high end of this range was included in the fiscal forecast. PESA09 adopts the same approach, reflecting the £50bn estimate split between impairments and provisions.

(5) Payments that release provision include bulk and individual transfers, including transfers of liabilities within government.

Table 2.2 Current procurement in budgets, 2003–04 to 2010–11

	National Statistics							£ million	
	2003–04	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10	2010–11	
	outturn	outturn	outturn	outturn	outturn	estimated outturn	plans	plans	
Gross current procurement in budgets									
Children, Schools and Families	450	476	448	512	574	1,292	988	628	
Health	37,159	41,550	45,287	47,048	52,874	56,612	61,552	63,556	
Transport	1,775	1,687	1,803	2,039	2,135	2,365	2,399	2,263	
Innovation, Universities and Skills	765	733	786	818	865	830	716	753	
CLG Communities	412	440	441	420	444	456	563	519	
CLG Local Government	256	298	301	264	266	261	283	277	
Home Office	1,868	1,916	1,837	2,323	2,379	2,417	2,534	1,889	
Justice	4,451	5,152	5,334	5,607	5,832	5,636	5,906	5,667	
Law Officers' Departments	349	383	411	418	436	428	431	418	
Defence	11,921	12,137	12,781	13,478	13,947	16,002	17,220	14,178	
Foreign and Commonwealth Office	607	657	701	604	617	1,085	912	890	
International Development	118	137	610	712	641	664	1,017	209	
Energy and Climate Change	565	817	1,892	1,955	1,971	2,190	2,070	2,050	
Business, Enterprise and Regulatory Reform	884	717	656	690	636	767	1,005	1,008	
Environment, Food and Rural Affairs	1,465	1,372	1,402	1,543	1,444	1,468	1,385	1,233	
Culture, Media and Sport	2,730	2,776	2,931	3,165	3,155	3,039	2,960	3,118	
Work and Pensions	3,747	3,828	3,647	3,403	3,494	3,798	4,186	4,447	
Scotland	5,427	5,230	5,832	5,733	6,571	5,829	6,132	6,403	
Wales	2,667	2,686	2,786	3,139	3,312	3,800	3,717	3,801	
Northern Ireland Executive	2,186	2,262	2,507	2,649	3,113	3,024	3,179	3,468	
Northern Ireland Office	296	231	314	298	295	302	303	305	
Chancellor's Departments	2,356	2,420	2,482	2,411	2,325	2,544	2,339	2,315	
Cabinet Office	647	778	862	983	962	1,006	1,147	1,229	
Independent Bodies	298	327	336	356	360	454	508	546	
Total gross current procurement in budgets	83,399	89,009	96,387	100,570	108,649	116,270	123,455	121,170	
Plus income from goods and services	-15,073	-16,727	-20,045	-19,354	-20,859	-21,205	-19,843	-19,845	
Total net current procurement in budgets	68,326	72,282	76,342	81,216	87,790	95,065	103,612	101,324	
<i>of which:</i>									
Resource DEL	65,996	70,092	74,155	78,978	85,617	93,972	101,320	98,880	
Resource departmental AME	2,330	2,190	2,187	2,238	2,173	1,093	2,292	2,445	

(1) Budgeting definition of current procurement so excludes Defence spending on Single Use Military Equipment (SUME). Chapter 5 presents spending according to National Accounts definitions, where SUME is classified as current procurement.

Table 2.3 Capital procurement⁽¹⁾ in budgets, 2003–04 to 2010–11

	National Statistics							£ million	
	2003–04	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10	2010–11	
	outturn	outturn	outturn	outturn	outturn	estimated outturn	plans	plans	
Central government gross capital procurement in budgets									
Children, Schools and Families	19	15	13	22	19	43	21	20	
Health	2,969	3,240	3,539	3,890	3,926	4,525	5,253	4,565	
Transport	588	705	827	1,208	1,175	1,223	2,036	1,677	
Innovation, Universities and Skills	170	230	275	264	259	267	202	191	
CLG Communities	111	304	602	226	322	235	397	207	
CLG Local Government	1	0	1	2	0	0	1	1	
Home Office	293	165	151	389	370	579	468	340	
Justice	406	579	517	552	798	973	793	781	
Law Officers' Departments	11	11	10	11	11	12	13	13	
Defence	6,331	7,104	7,119	7,545	8,619	8,975	9,468	9,032	
Foreign and Commonwealth Office	77	85	113	162	192	214	173	155	
International Development	47	31	30	25	66	20	28	34	
Energy and Climate Change	5	6	1,016	1,054	1,077	1,158	1,202	1,195	
Business, Enterprise and Regulatory Reform	224	208	108	19	169	181	20	16	
Environment, Food and Rural Affairs	210	199	236	200	199	247	239	267	
Culture, Media and Sport	118	123	236	385	652	1,374	1,674	1,601	
Work and Pensions	353	299	401	202	85	68	67	56	
Scotland	748	831	595	765	838	966	1,293	965	
Wales	347	358	347	383	495	469	660	722	
Northern Ireland Executive	566	785	759	794	844	1,041	964	989	
Northern Ireland Office	50	72	63	79	89	84	77	72	
Chancellor's Departments	235	478	386	312	262	305	263	253	
Cabinet Office	545	170	227	248	317	374	347	303	
Independent Bodies	33	102	43	61	61	42	64	67	
Total central government gross capital procurement in budgets	14,459	16,101	17,614	18,800	20,844	23,378	25,724	23,518	
Plus central government income from sales of fixed assets in budgets	-1,516	-1,406	-2,336	-2,180	-2,563	-880	-1,078	-1,114	
Total central government net capital procurement in budgets	12,943	14,695	15,278	16,621	18,281	22,497	24,646	22,405	
Plus public corporations net capital procurement	900	674	605	476	319	-73	1	-3	
Total net capital procurement in budgets	13,843	15,369	15,882	17,097	18,600	22,424	24,647	22,402	
of which:									
Capital DEL	13,834	15,047	15,482	16,973	19,202	22,345	24,462	22,283	
Capital departmental AME	9	322	401	124	-602	79	186	119	

(1) Expenditure on tangible and intangible fixed assets, including both the purchase of existing assets and the construction of new assets. Budgeting definition of capital procurement so includes Defence spending on Single Use Military Equipment (SUME). Chapter 5 presents spending according to National Accounts definitions, where SUME is classified as current procurement.

Table 2.4 Voted and non-voted expenditure in Total Managed Expenditure, 2003–04 to 2010–11

	£ million							
	National Statistics							
	2003–04 outturn	2004–05 outturn	2005–06 outturn	2006–07 outturn	2007–08 outturn	2008–09 estimated outturn	2009–10 plans	2010–11 plans
Voted expenditure in budgets								
<i>DEL</i>								
Central government own spending, excluding depreciation	131,512	139,594	149,091	158,492	171,041	181,341	192,106	191,500
Support for local government	60,868	65,051	69,255	72,899	78,582	80,969	86,029	88,794
Support for public corporations	212	55	–9	74	35	36	70	22
Depreciation	7,794	6,781	8,458	8,701	9,459	10,392	11,152	11,685
<i>Departmental AME</i>								
Central government own spending	71,605	71,744	80,074	84,294	93,176	178,175	104,614	106,567
Support for local government	13,979	16,740	17,721	19,861	20,665	22,192	25,012	26,848
Support for public corporations	216	676	29	177	205	61,904	34,566	379
Total voted expenditure in budgets	286,186	300,640	324,619	344,497	373,162	535,010	453,550	425,795
Non-voted expenditure in budgets								
<i>DEL</i>								
Central government own spending, excluding depreciation	55,909	58,907	63,560	67,785	71,747	77,363	84,086	82,559
Support for local government	17,147	18,577	20,113	19,670	20,150	21,041	22,341	22,247
Support for public corporations	1,329	1,204	1,244	840	1,577	724	312	101
Depreciation	871	1,118	1,181	1,626	1,485	1,470	1,596	1,730
DEL not allocated by spending sector	–	–	–	–	–	–800	2,100	5,200
<i>Departmental AME</i>								
Central government own spending	78,546	83,706	95,249	101,318	105,873	115,812	120,492	124,054
Support for local government	475	145	154	168	349	350	341	318
Support for public corporations	–31	–38	–47	–105	–85	–4,588	–419	–82
<i>Other AME</i>								
Locally financed expenditure, net expenditure transfers to the EC, and accounting and other adjustments	15,163	28,250	18,100	14,317	8,418	–125,697	–13,010	39,789
Total non-voted expenditure in budgets	169,409	191,869	199,554	205,619	209,514	85,675	217,900	275,900
Total Managed Expenditure	455,595	492,509	524,173	550,116	582,676	620,685	671,400	701,700
Memorandum								
<i>Voted expenditure not in budgets (included within "Non-Budget" in Estimates):</i>								
Grants to NDPBs to finance their expenditure	30,618	31,792	35,721	35,393	39,431	42,575	45,826	–
Grants to devolved administrations to finance their expenditure	35,002	37,947	40,802	43,167	46,858	47,160	51,344	–
Other voted expenditure not in budgets	–891	–7,399	3,216	–7,902	–7,945	–9,792	–10,078	–
Total voted expenditure not in budgets	64,730	62,340	79,739	70,658	78,344	79,943	87,092	–
Total voted expenditure	350,916	362,980	404,358	415,156	451,506	614,953	540,642	–