

# OVERVIEW

**Budget 2001, *Investing for the Long Term: Building Opportunity and Prosperity for All*, comprises the Economic and Fiscal Strategy Report (EFSR) and the Financial Statement and Budget Report (FSBR).**

**The EFSR describes:**

- the comprehensive strategy which the Government is pursuing to meet its economic objectives;
- the progress that has been made so far; and
- how Budget 2001 takes further steps to meet the Government's objectives.

**The FSBR provides:**

- a summary of each of the main Budget measures; and
- updated forecasts for the economy and the public finances.

## INTRODUCTION

**1.1** The Government's central economic objective is to raise the economy's sustainable rate of growth, and achieve rising prosperity, through creating economic and employment opportunities for all.

**1.2** Over the past four years the Government has built a platform of economic stability, rejecting the short termism of the past which resulted in successive cycles of boom and bust. Instead it has locked in the stability that is the essential pre-condition to achieving high and stable levels of growth and rising prosperity. Through a prudent approach to policy making and taking tough decisions, the Government has been able to allocate more resources to the nation's priorities – families, children, pensioners, enterprise and public services.

**1.3** By locking in the tough fiscal stance set out in Budget 2000 and the Pre-Budget Report, Budget 2001 maintains the right conditions for continued economic stability and underpins the planned expansion of key public services over the next three years, while taking further steps to meet the Government's long-term economic goals (see Box 1.1). The Budget includes targeted tax cuts to reward work and enterprise and to provide support for families, savers and pensioners. As a result of continued prudent management of the public finances, it is also able to allocate an additional £2<sup>1</sup>/<sub>3</sub> billion over the next three years to health, education and tackling drugs and drug-related crime.

**1.4** Full details of the Government's economic strategy are set out in the Pre-Budget Report. The EFSR follows the same structure as the Pre-Budget Report, describing the Government's strategy for:

- delivering macroeconomic stability;
- meeting the productivity challenge;
- increasing employment opportunity for all;
- ensuring fairness for families and communities; and
- protecting the environment.

**Box 1.1: Meeting the Government's long-term economic goals**

In working to deliver its central economic objective of high and stable levels of growth and employment, the Government has set five key long-term economic goals:

- **raising productivity:** that over the next decade, Britain will have a faster rise in productivity than its main competitors as it closes the productivity gap;
- **increasing employment opportunity for all:** that by the end of the decade, there will be a higher percentage of people in employment than ever before;
- **providing educational opportunity for all:** that by the end of the decade, and for the first time, the majority of the UK's young people can expect to go on from school or college into higher education;
- **abolishing child poverty:** that by the end of the decade, child poverty will be halved as the Government moves forward with its commitment to abolish child poverty within 20 years; and
- **delivering strong and dependable public services:** with sustainable increases in spending on the Government's priorities of education, health, transport and tackling crime.

**DELIVERING MACROECONOMIC STABILITY**

**1.5** Chapter 2 describes the Government's macroeconomic policy framework and shows how it is delivering economic stability. It summarises the prospects for the UK economy and the public finances, full details of which are set out in Chapters B and C of the FSBR.

**The policy framework**

**1.6** The Government's first economic priority when coming into office in 1997 was to deliver stability for the long term. It therefore moved quickly to put in place a new macroeconomic policy framework, based on the principles of transparency, responsibility and accountability. The Bank of England's Monetary Policy Committee was given operational independence to set interest rates to deliver the Government's inflation target, while a new fiscal policy framework underpinned by two strict fiscal rules was introduced to deliver sound public finances. A new public spending framework, integrated into the fiscal framework, provides for better long-term planning and places a greater focus on the quality of public service provision and the outcomes achieved.

**1.7** Under this new macroeconomic framework, the economy has experienced a period of stability and steady growth. Employment has risen to record levels and both inflation and interest rates have been lower and more stable than in the past. The large structural deficit the Government inherited has been tackled, returning the public finances to a sustainable position.

**The economy**

**1.8** The UK economy grew by 3 per cent last year, in line with the Government's forecasts, while RPIX inflation averaged just over 2 per cent and unemployment fell to its lowest levels since the 1970s. The Budget 2001 forecast shows that:

- **GDP** is expected to increase by  $2\frac{1}{4}$  to  $2\frac{3}{4}$  per cent a year over the next three years, unchanged from the Pre-Budget Report forecast. Weaker than previously expected external demand will be offset by stronger momentum in domestic spending;
- **RPIX inflation** is forecast to rise gradually back to the  $2\frac{1}{2}$  per cent target by spring 2002; and
- clear **risks** to US growth make the overall outlook more uncertain. But with sound public finances and low inflation, policy is well placed to respond to adverse news.

**The public finances** **I.9** Fiscal outturns have been better than expected over the past year. The surplus on current budget is now expected to be £23.1 billion in 2000–01, compared with a forecast of £14 billion at the time of Budget 2000. A similar improvement is expected for public sector net borrowing.

**I.10** This improvement over the past year largely appears to have been structural, reflecting non-discretionary improvements in both tax receipts and spending which feed through into future years.

**I.11** The upward revisions in the forecast include further improvements on top of those identified in the Pre-Budget Report interim forecast. Since November, the forecast for income tax receipts for 2000–01 has been revised upwards by over £3 billion, reflecting buoyant Self-Assessment and PAYE receipts, which largely carry forward into future years. There have also been further non-discretionary savings in Annually Managed Expenditure (AME) in addition to those identified in the Pre-Budget Report forecast. In particular, debt interest payments are forecast to be £1½ billion lower in 2001–02 than expected in November as a result of lower inflation and lower interest rate expectations, and £½ billion a year lower thereafter as a result of lower interest rate expectations.

**I.12** These structural improvements in the public finances have enabled additional discretionary changes in Budget 2001, including:

- a £1.1 billion a year package of further support for families and children;
- a £½ billion a year package of measures on maternity and paternity pay;
- a cut in income tax through a widening of the 10 pence band by £300 over and above inflation, at a cost of around £1 billion a year benefiting around 25 million taxpayers; and
- an additional £2⅓ billion of spending over the next three years, comprising an extra £1 billion for education, £1 billion for health and £⅓ billion for fighting drugs and drug-related crime.

**I.13** In addition, the Government has drawn down the savings in AME that were allocated to the AME margin at the time of the Pre-Budget Report. This frees up resources for the implementation of Pre-Budget Report consultation measures.

**I.14** Taking account of all these factors, the fiscal stance – as measured by cyclically-adjusted public sector net borrowing – is at least as tight as set out in Budget 2000 and the Pre-Budget Report throughout the next five years.

**Meeting the fiscal rules** **I.15** The surplus on current budget is projected to decline from 2.4 per cent of GDP in 2000–01 to 0.8 per cent of GDP over the forecast period. On a cyclically-adjusted basis, the surplus on current budget remains positive throughout the forecast period leaving the Government on track to meet the golden rule, including in the cautious case.

**I.16** Net debt is projected to decline from 31.8 per cent of GDP at the end of March 2001 to 30.3 per cent of GDP at the end of March 2002, thereafter remaining around 30 per cent of GDP.

**I.17** As required by the *Code for Fiscal Stability*, Annex A of the EFSR presents illustrative long-term fiscal projections and examines the long-term sustainability of the public finances. The projections indicate that the UK has a broadly sustainable fiscal position in the long term.

Table I.1: Fiscal balances comparison with Budget 2000 and PBR 2000<sup>1</sup>

	Outturn <sup>2</sup>	Estimate	Projections				
	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05	2005–06
<b>Surplus on current budget (£ billion)</b>							
Budget 2000	17.1	14	16	13	8	8	–
PBR 2000	19.4	16.6	16	14	8	8	8
<b>Budget 2001</b>	<b>19.2</b>	<b>23.1</b>	<b>17</b>	<b>15</b>	<b>8</b>	<b>9</b>	<b>9</b>
<b>Net borrowing (£ billion)</b>							
Budget 2000	–11.9	–6	–5	3	11	13	–
PBR 2000	–16.4	–10.1	–6	1	10	12	13
<b>Budget 2001</b>	<b>–16.0</b>	<b>–16.4</b>	<b>–6</b>	<b>1</b>	<b>10</b>	<b>11</b>	<b>12</b>
<b>Cyclically-adjusted surplus on current budget (per cent of GDP)</b>							
Budget 2000	1.8	1.3	1.3	1.0	0.7	0.7	–
PBR 2000	1.9	1.5	1.4	1.1	0.6	0.7	0.7
<b>Budget 2001</b>	<b>1.9</b>	<b>2.1</b>	<b>1.4</b>	<b>1.1</b>	<b>0.6</b>	<b>0.7</b>	<b>0.7</b>
<b>Cyclically-adjusted net borrowing (per cent of GDP)</b>							
Budget 2000	–1.2	–0.5	–0.3	0.5	1.1	1.1	–
PBR 2000	–1.6	–0.8	–0.3	0.3	1.1	1.1	1.1
<b>Budget 2001</b>	<b>–1.6</b>	<b>–1.4</b>	<b>–0.3</b>	<b>0.3</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>
<b>Public sector net debt<sup>3</sup> (per cent of GDP)</b>							
Budget 2000	37.1	35.1	33.6	32.7	32.6	32.6	–
PBR 2000	36.8	32.3	30.9	30.1	30.2	30.3	30.4
<b>Budget 2001</b>	<b>36.8</b>	<b>31.8</b>	<b>30.3</b>	<b>29.6</b>	<b>29.7</b>	<b>29.9</b>	<b>30.0</b>

<sup>1</sup> Excluding windfall tax receipts and associated spending.

<sup>2</sup> The 1999–2000 figures were estimates in Budget 2000.

<sup>3</sup> Including windfall tax receipts and associated spending.

## MEETING THE PRODUCTIVITY CHALLENGE

**I.18** Raising the UK's productivity performance is a key route to higher prosperity and living standards. Chapter 3 describes the action which the Government has already taken and the further steps it is taking in Budget 2001 to meet its goal of achieving a faster rise in productivity than in the UK's major competitor countries over the next decade, to help close the productivity gap which currently exists with other major economies.

**Measures so far I.19** To develop its strategy on productivity, the Government has identified five priority areas for action – the five drivers of productivity growth – and has taken significant steps forward in each of these areas, including:

- **competition:** strengthened powers for the Office of Fair Trading under the new Competition Act which came into force last year and investigations into competition in particular markets, including a review of retail banking;
- **enterprise and innovation:** major reforms to capital gains tax, permanent 40 per cent first year capital allowances for small and medium-sized enterprises (SMEs), a new All-Employee Share Ownership Plan and an Enterprise Management Incentive for small firm employee share options, an R&D tax credit for SMEs and action to promote enterprise and innovation across every region of the country through the work of the Regional Development Agencies and the Small Business Service;

- **investment:** reducing corporation tax rates, the introduction of a new 10 pence rate for the smallest companies, launching a review of institutional investment in the UK, measures to stimulate more private investment in under-invested communities and a planned doubling of public sector net investment by 2003–04;
- **skills:** substantial extra resources for education to raise standards in primary and secondary schools, additional funding for places in higher education, a focus on lifelong learning through learndirect and Individual Learning Accounts and changes to work permit arrangements; and
- **public sector productivity:** a greater focus on outcomes for public service delivery through Public Service Agreements, Departmental Investment Strategies to improve public sector investment, the Public Services Productivity Panel to help the public sector to innovate and deliver change, and the creation of the Office of Government Commerce to deliver more efficient procurement across government.

**Budget measures I.20** Budget 2001 sets out additional measures to raise productivity, promote enterprise in every region of Britain and support the implementation of regional economic strategies:

- full financial flexibility for **Regional Development Agencies (RDAs)** from 2002–03, including full end-year flexibility to carry over their resources from one year to the next, matched by increased accountability through objectives and targets for meeting their strategic goals;
- a package of measures to **help small businesses**, including the implementation of the Pre-Budget Report proposals to reduce the impact of VAT on small businesses, and also consultation on proposals to simplify the way in which small businesses are required to calculate tax due on their profits;
- an expansion of **Enterprise Management Incentives (EMIs)**, going further than the option set out in the Pre-Budget Report by abolishing the 15 employee limit from April 2001 and replacing it by a £3 million per company limit on the total value of shares under EMI option – double the current company limit;
- consultation on a new **tax credit for community investment**, to encourage private investment in enterprises in disadvantaged communities;
- consultation on proposals for a new **tax credit to boost R&D and innovation by large firms**, to complement the R&D tax credit for small firms;
- an independent study aimed at enhancing the supply of **highly-qualified scientists and engineers** in the UK;
- taking forward all the recommendations of the Myners **review of institutional investment**;
- replacement of the **Minimum Funding Requirement** with a long-term scheme-specific funding standard; and
- examining the need for further action – including from Government – to address the low level of **skills in the workforce**.

## INCREASING EMPLOYMENT OPPORTUNITY FOR ALL

**I.21** The Government is committed to creating employment opportunity for all – the modern definition of full employment. It has set the goal that, by the end of the decade, there will be a greater proportion of people in work than ever before.

**Measures so far I.22** The Government's strategy to increase employment opportunity for all is described in detail in Chapter 4 and focuses on helping people to move from welfare to work, easing the transition to work, making work pay and then securing progression once in work. A wide range of measures has already been introduced in each of these areas:

- **welfare to work:** the New Deal programme now spans a large number of groups including young people, those aged 25+, the over 50s, lone parents, people with disabilities and partners of the unemployed. Action Teams and Employment Zones are targeting worklessness in the most disadvantaged areas and the Job Transition Service will provide help in areas where large-scale redundancies occur;
- **easing the transition to work:** with the new Job Grant, a four-week Income Support for Mortgage Interest run-on, simplified extended payments in Housing Benefit and increased childcare provision and support through the National Childcare Strategy and the childcare tax credit; and
- **making work pay:** through reforms to the tax and benefit system including reform of national insurance contributions (NICs), a 10 pence rate of income tax, a reduction in the basic rate of income tax to 22 pence and the introduction of the Working Families' Tax Credit and the Disabled Person's Tax Credit, underpinned by the National Minimum Wage.

**Budget measures I.23** The Budget takes further steps towards ensuring that every person in every region of Britain who is able to work has the opportunity to do so:

- within the **New Deal for lone parents** there will be further help with training, starting up in self employment and up-front childcare costs, and a new outreach service for lone parents and partners;
- from April 2002, to ensure that lone parents are aware of the help available to them through the New Deal, **all lone parents on Income Support will be required to attend work-focused interviews** and an additional interview will be introduced at the six-month stage in the Income Support claim;
- resources will be allocated to **enhance the New Deal and other programmes** over the coming three years, focusing on employer needs, the hardest to help and the most disadvantaged areas;
- as announced on 5 March, the **National Minimum Wage** for workers aged 22 and over will be increased from its current £3.70 an hour to £4.10 an hour from October 2001 and, subject to the economic conditions prevailing at the time, £4.20 an hour from October 2002;
- a widening of the **10 pence income tax band** by £300 over and above indexation from April 2001 to cover the first £1,880 of taxable income, benefiting 25 million taxpayers and increasing the number of those only paying tax at 10 pence to nearly 3 million;
- the **basic credit in the Working Families' Tax Credit (WFTC) will be increased by £5 a week** from June 2001, on top of increases in line with indexation from April 2001. These increases will be matched in the Disabled Person's Tax Credit (DPTC); and

- the WFTC and DPTC **childcare tax credit** limits will be increased from £100 to £135 a week for childcare costs for one child and from £150 to £200 a week for two or more children from June 2001. The Government will also consider how to help families who need to use formal childcare in their homes.

Taken together, the Government's making work pay measures by October 2001 will guarantee:

- a minimum income of £225 a week for a one earner family with someone in full time work; and
- a family with one part-time worker a minimum income of £166 a week.

## FAIRNESS FOR FAMILIES AND COMMUNITIES

**I.24** As described in Chapter 5, the Government is working to build a fairer and more inclusive society in which everyone can contribute to and benefit from rising economic prosperity. The Government places particular priority on supporting families, tackling child and pensioner poverty, rewarding saving and providing high quality public services funded by a modern and fair tax system.

**Measures so far** **I.25** Since 1997, the Government has taken action on many fronts to address these priorities:

- **support for families and children:** with increases in Child Benefit, the introduction of the WFTC and the new Children's Tax Credit, targeted support for low-income parents including a new Sure Start Maternity Grant and a new Children's Fund to provide improved support for children, young people and their families;
- **fairness for pensioners:** including the introduction of the Minimum Income Guarantee (MIG) uprated by earnings for the poorest pensioners, an annual winter fuel payment which was set in the Pre-Budget Report at £200 for December 2000 for every 60+ household and concessionary TV licences for those aged 75 and over. In addition, the Pre-Budget Report announced a major package of new measures to boost pensioner incomes in advance of the introduction of the Pension Credit in 2003:
  - **increasing the basic state pension** by £5 to £72.50 a week in April 2001, and by a further £3 to £75.50 a week in April 2002 for single pensioners. For couples, this will mean an increase of £8 to £115.90 a week in April 2001, and a further £4.80 to £120.70 a week in April 2002; and
  - **increasing the lower rates of the MIG** to equal its highest rate, raising this by earnings, and further, by the real increase in the basic state pension, so that from April 2001 the new, simplified MIG will be £92.15 a week for single pensioners and £140.55 a week for couples.
- **supporting saving:** introducing Individual Savings Accounts (ISAs) and retaining the £7,000 annual contribution limit (and the associated £3,000 cash limit) for a further five years until April 2006 and making cash ISAs available to 16 and 17 year olds from April 2001; and
- **high quality public services:** substantial additional resources allocated to key public services over the next three years in the 2000 Spending Review, including health, education and transport.

**Budget measures** **1.26** Budget 2001 takes further action to support families and children, help pensioners, improve public services and ensure a fair tax system.

### Families and children

- 1.27** To provide further support for families with children and help tackle child poverty:
- the **Children's Tax Credit** will be introduced from April 2001 at £10 a week – more than the £8.50 previously announced - making it worth up to £520 a year for around 5 million taxpaying families;
  - to recognise the additional costs of a new child in the first year, from April 2002 the **Children's Tax Credit** will be increased by a further £10 to £20 a week, making it worth up to £1,000 a year, for **families in the year of a child's birth**;
  - in addition to increases in the WFTC and DPTC set out above, the child premia in **Income Support and the Jobseeker's Allowance** will be increased by £1.50 a week from October 2001; and
  - a package of measures on **maternity pay and parental leave**:
    - an increase in the flat rate of **Statutory Maternity Pay (SMP) and Maternity Allowance** from its present £60.20 a week to £75 a week from April 2002 and £100 a week from April 2003;
    - an extension of the **period of maternity pay** at this enhanced rate from 18 to 26 weeks from April 2003;
    - the right to two weeks **paid paternity leave** for working fathers from 2003, paid at the same flat rate as SMP;
    - from 2003, **paid adoption leave** when a child is first placed with a family, to allow one of the adoptive parents to take paid leave for the same period and at the same flat rate as maternity pay;
    - a doubling of the threshold for **Small Employer Relief** to £40,000 from April 2002, so that around 60 per cent of all firms paying SMP each year can reclaim their costs in full, plus compensation; and
    - a further increase in the **Sure Start Maternity Grant** from £300 to £500 in April 2002.

Over the Parliament as a whole, following Budget 2001, the tax and benefit changes introduced will lift over 1.2 million children out of poverty.

### Pensioners

**1.28** In addition to the major package of support for pensioners announced in the Pre-Budget Report and summarised above, Budget 2001:

- raises the **age-related income tax personal allowances** by £240 over and above indexation from April 2003, following consultation announced in the Pre-Budget Report. The Government will then raise these allowances by reference to the rise in earnings rather than prices throughout the remainder of the Parliament.

From April 2001, the average pensioner household will be £600 a year better off than in 1997 as a result of the personal tax and benefit changes introduced during this Parliament.

### Savings

**1.29** The £300 widening of the **10 pence income tax band** over and above indexation from April 2001 will apply to savings income and benefit around 1 million savers, many of whom are pensioners.

## High quality public services

**I.30** Building on the substantial increase in resources allocated in the 2000 Spending Review and as a result of the prudent management of the public finances, Budget 2001 provides an **additional £2<sup>1</sup>/<sub>3</sub> billion over the next three years for key public service priorities:**

- **an extra £1 billion for education.** In England, additions of £837 million over three years will go to schools. £600 million over three years will go direct to head teachers to modernise buildings and equipment, and improve pupil attainment. This will mean primary schools will receive additional direct payments of between £3,000 and £13,000 a year; and secondary schools will get additions of between £10,000 and £23,000 a year. A further £200 million fund over three years will help schools implement new recruitment and retention incentives for teachers;
- **an extra £1 billion for health.** In England, additions of £835 million over three years will go direct to the NHS. £450 million over three years will go to frontline hospital investment to help pay for new equipment such as scanners, and replace old Nightingale wards. Each of the acute hospital trusts will get between £<sup>1</sup>/<sub>2</sub> million and £1 million a year. A further new fund for recruitment and retention will help to tackle shortages of key staff in the health service; and
- **an extra £<sup>1</sup>/<sub>3</sub> billion to help tackle drugs.** In England and Wales, additions of £220 million over three years will go straight to Crime and Disorder Reduction Partnerships to help local communities drive out drugs and drug-related crime. Each of the 376 Partnerships should get up to £0.5 million over three years and those with larger areas and the worst problems to tackle, up to £1 million over three years. Further resources will also be provided to support voluntary action against drugs by leaders of the business and sporting worlds.

Further details of each of these packages will be announced shortly.

## Tackling global poverty

**I.31** Budget 2001 sets out proposals for a new **tax credit for research and development on drugs and vaccines** for the diseases of poverty affecting the world's poorest countries, and a new incentive to encourage the pharmaceutical industry to raise the level of **donations of drugs and vaccines** to developing countries.

## A modern and fair tax system

**I.32** Budget 2001 helps to promote a modern and fair tax system through measures including:

- a freeze in the **duties on alcohol** and an increase in **tobacco duties** in line with inflation;
- replacing general betting duty with a **gross profits tax** by 1 January 2002;
- a new scheme that will refund **national museums and galleries** the VAT they incur on their purchases when they allow the public free admission;
- **reforms to VAT** to modernise the system and make it fairer; and
- a continued commitment to **tackle tax avoidance and protect the revenue base**, with measures to ensure that both individuals and businesses pay their fair share of taxes.

## PROTECTING THE ENVIRONMENT

**I.33** Chapter 6 describes the Government's strategy towards protecting and, where possible, improving the environment and the measures that it is taking to tackle climate change, improve air quality, regenerate towns and cities and protect the countryside.

**Measures so far I.34** The Government has already taken significant steps to deliver its environmental objectives:

- **tackling climate change and improving air quality:** the climate change levy which will be introduced on 1 April 2001 to encourage more efficient business use of energy, consultation on an Emissions Trading Scheme, reforms to car and lorry vehicle excise duty (VED) and company car tax, tax incentives for ultra-low sulphur fuels and substantial extra resources for transport in the 2000 Spending Review as part of the new Ten Year Transport Plan; and
- **regenerating towns and cities and protecting the countryside:** a major package of tax measures over five years to regenerate Britain's towns and cities announced in the Pre-Budget Report, continued annual increases in the standard rate of landfill tax and a new aggregates levy from April 2002 to reflect the environmental costs of quarrying.

**Budget measures I.35** Following the various consultations announced in the Pre-Budget Report, the Budget sets out an affordable and carefully targeted series of measures which will help modernise road transport, increase access to cheaper motoring for people who need to use their cars and continue to protect the environment. In addition to the **cash freeze in all road fuel and other oil duties** announced in the Pre-Budget Report, the Budget includes:

- a 2 pence per litre reduction in the duty on **ultra-low sulphur petrol (ULSP)** with an accompanying and time-limited 2 pence per litre reduction in the duty on **unleaded petrol** until 14 June 2001 when ULSP should be available from all retailers;
- a 3 pence per litre reduction in the duty on **ultra-low sulphur diesel (ULSD)**;
- abolition of the duty premium on **lead-replacement and 'super-unleaded' petrol**;
- as part of the **Government's Green Fuels Challenge**, a cut in the duty on road fuel gases by the equivalent of 3 pence per litre and then a freeze in real terms until at least 2004, and Budget 2002 will introduce a new duty rate for biodiesel set at 20 pence per litre below the rate of duty on ULSD;
- a cash **freeze in VED** on cars, motorcycles and buses until Budget 2002;
- an **extension of the small car VED threshold from 1,200cc to 1,549cc** from July 2001, backdated to 1 November 2000;
- a **major reform of lorry VED** to be introduced from December 2001, reducing the total burden that lorry VED imposes on the haulage industry. In the meantime, the transitional arrangements announced in the Pre-Budget Report remain in place, with rebates of up to 50 per cent for licences in force on 30 November 2000 and lorry VED rates reduced by up to 50 per cent from 1 December 2000;
- initial allocations from the **£100 million Haulage Modernisation Fund** announced in the Pre-Budget Report; and
- abolition of **VED on tractors**, similar agricultural vehicles and other vehicles which currently qualify for the special concessionary rate from April 2001.

**I.36** Budget 2001 takes additional steps to protect and improve the environment:

- full implementation of the package of measures set out in the Pre-Budget Report to help **regenerate Britain's towns and cities**, including abolition of stamp duty on all property transactions in the most disadvantaged parts of the UK;
- building on the Pre-Budget Report measures, the Budget extends the 5 per cent reduced rate of VAT to the **renovation of homes** empty for three years or longer. It also extends the 5 per cent reduced rate of VAT to cover a range of **conversions of residential property**;
- announcement of plans to consult on a **Green Technology Challenge** to offer enhanced capital allowances to encourage the development of environmentally-friendly technologies;
- a grant scheme to help congregations pay for repairs to **listed places of worship**; and
- the Government welcomes the latest proposals from industry stakeholders to reduce the environmental impact of **pesticides** and would like to see the package implemented on a UK-wide basis as soon as possible.

**I.37** Table 6.1 of the EFSR shows how environmental tax measures fit into the overall framework of the Government's environmental policy. An environmental assessment of these measures is detailed in Table 6.2.

## THE BUDGET MEASURES AND THEIR IMPACT ON HOUSEHOLDS

**I.38** The measures in this and previous Budgets support the Government's objectives of promoting and rewarding work, while giving extra support to pensioners and families with children.

**I.39** By October 2001, as a result of personal tax and benefit measures, UK households will be, on average:

- £150 a year better off from this Budget, compared to indexation;
- £240 a year better off from all measures taking effect this year, compared to indexation; and
- £590 a year better off from measures introduced over the Parliament as a whole.<sup>1</sup>

### Families with children

**I.40** By October 2001, as a result of personal tax and benefit measures, UK families with children will be, on average:

- £180 a year better off from this Budget, compared to indexation;
- £420 a year better off from all measures taking effect this year, compared to indexation; and
- £1,000 a year better off from measures introduced over the Parliament as a whole.<sup>1</sup>

<sup>1</sup> Compared to an indexed 1997-98 base.

## Supporting working families

**I.41** The personal tax and benefit measures introduced over the Parliament mean that by October 2001:

- a single-earner family on average earnings (£25,400 a year) and with two children will be £520 a year better off in real terms;
- a single-earner family on half average earnings (£12,700 a year) and with two young children will be £3,000 a year better off in real terms;
- the direct tax burden on a single-earner family on average earnings with two children will be the lowest since 1972; and
- families with someone in full-time work will have a guaranteed minimum income of at least £225 a week, £11,700 a year.

## Living standards

- for a single-earner family on average earnings and with two young children, real living standards will have risen by 10 per cent over this Parliament;
- for a single-earner family on half average earnings and with two young children, real living standards will have risen by 28 per cent over the Parliament; and
- for a single person on average earnings, real living standards will have risen by 9 per cent over the Parliament.

## Tackling poverty

By October 2001, as a result of the personal tax and benefit measures:

- families with children in the poorest fifth of the population will on average be £1,700 a year better off;<sup>1</sup>
- over 1.2 million children will be lifted out of poverty; and
- around 2 million of the poorest pensioners will be at least £800 a year better off – a real terms rise in living standards of at least 17 per cent.<sup>1</sup>

**I.42** Table 1.2 lists the key Budget policy decisions and their impact on government spending and revenues. Further details are provided in Chapter A of the FSBR.

Table 1.2: Budget 2001 policy decisions

		(+ve is an Exchequer yield)			£ million
		2001–02 indexed	2002–03 indexed	2003–04 indexed	2001–02 non-indexed
<b>PBR CONSULTATION MEASURES</b>					
1	Enterprise Management Incentives: expansion	-10	-15	-20	-10
2	Abolition of withholding tax on intra-UK corporate interest	-250	-25	*	-250
3	General betting duty: reform by January 2002	-45	-145	-100	-45
4	Over index aged income allowances by £240 from April 2003	0	0	-120	0
5	Authorised mileage rates	0	-5	-5	0
<b>Fuel duty</b>					
6	Ultra-low sulphur petrol: cut duty by 2p	-445	-470	-465	-445
7	Ultra-low sulphur diesel: cut duty by 3p	-610	-620	-625	-610
8	Abolition of higher rate on higher octane unleaded petrol (including lead replacement petrol)	-85	-80	-65	-85
9	Road fuel gases: cut duty by 6p per kg	*	-5	-5	*
10	Biodiesel: cut duty by 20p from Royal Assent 2002	0	-10	-15	0
<b>Vehicle Excise Duty</b>					
11	Increase threshold for reduced VED rates for private and light goods vehicles tax class to 1549cc from November 2000	-430	-270	-250	-430
12	Introduction of reformed VED system for lorries	-105	-310	-310	-105
13	Abolition of VED for tractors	-15	-15	-15	-15
<b>Total: PBR consultation measures (tax and AME)</b>		<b>-1,995</b>	<b>-1,970</b>	<b>-1,995</b>	<b>-1,995</b>
<b>NEW BUDGET MEASURES</b>					
<b>MEETING THE PRODUCTIVITY CHALLENGE</b>					
14	All-employee share ownership plan: stamp duty exemption on purchase of shares from trust	*	*	-5	*
15	EIS/VCTs/CVS: enhancement	-5	-5	-5	-5
16	Films: extension of 100 per cent write-off for production costs	0	*	-50	0
17	Improved flexibility of close company foreign capital gains rules	*	-10	-10	*
<b>INCREASING EMPLOYMENT OPPORTUNITY FOR ALL</b>					
18	Income Tax: over-indexation of starting rate band by £300 from £1,520 to £1,880	-750	-950	-950	-900
19	Income Tax: indexation of basic rate limit	0	0	0	-400
<b>FAIRNESS FOR FAMILIES AND COMMUNITIES</b>					
<b>Supporting families with children</b>					
20	Increase Children's Tax Credit by £1.50 to £10 from April 2001	-230	-310	-310	-230
21	Increase Children's Tax Credit by a further £10 for families in the year of a child's birth from April 2002	0	-170	-250	0
22	Increase Working Families' Tax Credit (WFTC) basic credit by £5 from June 2001	-165	-300	-315	-165
23	Increase WFTC childcare tax credit limit from June 2001 to £135 for child care costs for one child and £200 for two or more	-5	-15	-15	-5
24	Increase Income Support and Jobseeker's Allowance child premia by £1.50 from October 2001	-120	-245	-250	-120
<b>Maternity package</b>					
25	Raise flat rate Statutory Maternity Pay and Maternity Allowance to £75 from April 2002 and £100 from April 2003	0	-45	-205	0
26	Extend Statutory Maternity Pay and Maternity Allowance from 18 to 26 weeks from April 2003	0	0	-160	0
27	Small Employer Relief: expand eligibility from April 2002	0	-30	-30	0
28	Increase Sure Start Maternity Grant by £200 from April 2002	0	-40	-40	0
29	Introduce two weeks paid paternity leave from April 2003	0	0	-50	0
30	Introduce paid adoption leave for one parent from April 2003	0	0	-5	0

		(+ve is an Exchequer yield)			£ million
		2001–02	2002–03	2003–04	2001–02
		indexed	indexed	indexed	non-indexed
<b>Duties and other tax changes</b>					
31	Alcohol: freeze duties	-90	-90	-90	0
32	Tobacco: revalorise duties	0	0	0	+125
33	Inheritance tax: index threshold	0	0	0	-40
34	VAT: modernising relief on vehicles adapted for people with disabilities	-10	-10	-10	-10
35	VAT: reduced rate on children's car seats	-5	-5	-5	-5
36	VAT: modernising relief for young children's clothing and footwear	-20	-20	-20	-20
37	VAT: refund scheme for national museums and galleries	-10	-15	-15	-10
38	Increase in de minimis limit for business gifts for business taxes and VAT	-15	-15	-15	-15
39	Life insurance policies: policyholder information	*	*	+10	*
40	Controlled foreign companies	0	+20	+20	0
<b>PROTECTING THE ENVIRONMENT</b>					
41	VAT: revalorisation of fuel scale charges	0	0	0	-15
42	Unleaded petrol: cut duty by 2p from 7 March 2001 to 14 June 2001	-15	0	0	-15
<b>Vehicle Excise Duty</b>					
43	Freeze car VED for one year	-85	-85	-85	0
<b>Urban regeneration</b>					
44	VAT: extend scope of reduced rate on conversion of residential dwellings	-25	-35	-35	-25
45	VAT: reduced rate on renovations of homes empty for 3 or more years	-5	-5	-5	-5
46	Enhanced tax relief for cleaning contaminated sites	-15	-35	-40	-15
<b>Total: new Budget measures (tax and AME)</b>		<b>-1,570</b>	<b>-2,415</b>	<b>-2,940</b>	<b>-1,875</b>
<b>Total: Budget measures (tax and AME)</b>		<b>-3,565</b>	<b>-4,385</b>	<b>-4,935</b>	<b>-3,870</b>
<b>ADDITIONAL BUDGET POLICY DECISIONS</b>					
Additions to DEL					
	Education	-290	-330	-380	
	Health	-360	-355	-290	
	Fighting crime and drugs	-70	-110	-155	
	Carrying forward of DEL underspend	-1,000	0	0	
	Additions to Capital Modernisation Fund	-60	0	0	
	Change to AME margin	+1,730	+1,580	+1,610	
<b>TOTAL: BUDGET POLICY DECISIONS</b>		<b>-3,615</b>	<b>-3,600</b>	<b>-4,150</b>	

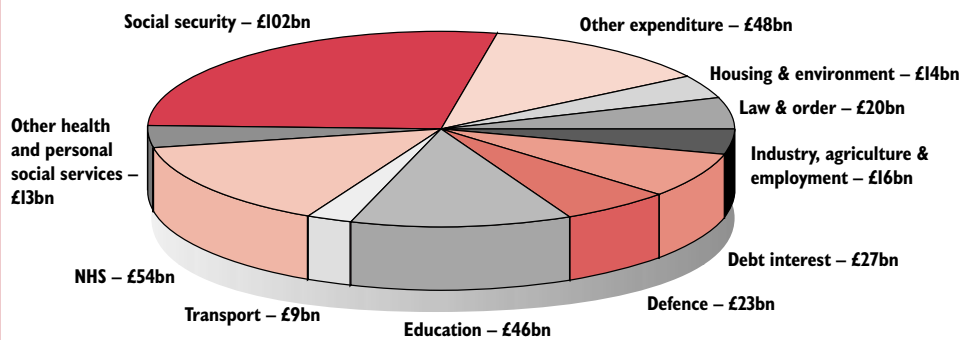
\* Negligible

## GOVERNMENT SPENDING AND REVENUE

**I.43** Chart 1.1 presents public spending by main function. Total public spending – Total Managed Expenditure (TME) – is expected to be around £394 billion in the coming financial year, 2001–02. TME comprises Departmental Expenditure Limits (DEL), shown in Table C13 of the FSBR, and Annually Managed Expenditure (AME), shown in Table C11 of the FSBR. A number of DELs, in particular those of the devolved administrations, contribute to spending on more than one function. Chart 1.1 includes spending by local authorities, rather than the grants they receive from central government, which are included in Tables C11 and C13.

**Chart I.1: Government spending by function**

Total managed expenditure: £372 billion

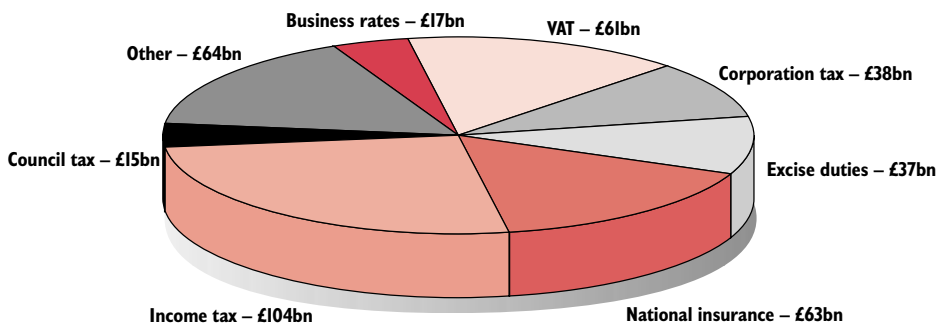


Source: HM Treasury, 2001–02 estimates. Other expenditure includes spending on central administration, culture, media and sport, international cooperation and development and public service pensions plus spending yet to be allocated and some accounting adjustments.

**I.44** Chart 1.2 shows the sources of government revenue. In total, public sector current receipts are expected to be around £398 billion in 2001–02. Table C7 of the FSBR provides a more detailed breakdown of receipts consistent with the chart below.

**Chart I.2: Government receipts**

Total receipts: £398 billion



Source: HM Treasury, 2001–02 projections. Other receipts include capital taxes, stamp duties, vehicle excise duties and some other tax and non-tax receipts (eg. interest and dividends).

