

# OVERVIEW

The Government's objective is to build a stronger economy and a fairer society, with opportunity and security for all. In an integrated world economy, and at a time of slower than expected global growth and heightened economic uncertainty, the challenge is to harness the opportunities that globalisation brings, while minimising its risks.

The Pre-Budget Report, *Steering a steady course: Delivering stability, enterprise and fairness in an uncertain world*, sets out updated forecasts for the economy and the public finances, reports on how the Government's policies are helping to deliver its long-term goals, and describes the reforms that the Government is considering ahead of Budget 2003 and on which it will be consulting in the months ahead. The Pre-Budget Report:

- shows that the economy is on course to maintain stability and growth despite renewed uncertainty in the world economy, and that the Government is firmly on track to meet its strict fiscal rules over the economic cycle;
- continues to strengthen the drivers of productivity growth, through new measures to build an enterprise society across all areas of Britain and further action to raise levels of skills in the workforce;
- takes further steps to extend employment opportunity to disadvantaged groups and deprived local areas, building on the success of the first five years of the New Deal programme;
- advances work to promote saving, with a commitment to consult key stakeholders on the detailed implementation of the Child Trust Fund and to set out proposals to help those of working age plan for their retirement; and
- describes a range of actions being taken to tackle global poverty and climate change, including through a new International Financing Facility and steps to promote more sustainable waste management.

## INTRODUCTION

**1.1** The Government's objective is to build a stronger, more enterprising economy and a fairer society, maintaining stability and ensuring rising living standards for all.

**1.2** The increasingly global economy has brought new opportunities for individuals, businesses and countries, but it has also brought new insecurities. Over the past five years, the Government has sought to maximise the benefits of globalisation while minimising its risks. Economic reforms have established a platform of stability and ensured that the UK is well placed to take advantage of opportunities in the global economy. Sustained economic growth has enabled the Government to invest more than ever before in promoting work, reducing poverty and reforming public services, helping to ensure that new opportunities are open to as many people as possible.

**1.3** Events around the world over the past two years have highlighted the risks in today's global environment. Slower than expected growth and continued global uncertainty have challenged the economic strength of countries the world over, threatening the prosperity and living standards of many. Last year saw the sharpest slowdown in global growth for three decades. This year, concern over corporate accounting standards and events in the Middle East have brought further uncertainty and volatility to financial markets, the effects of which

have reverberated around the world. There is also clear evidence that the international financial system – a source of economic opportunity for the world economy – is being abused by those who seek to plan and perpetrate global acts of terrorism.

**1.4** Sound economic fundamentals and decisive macroeconomic policy have improved the resilience of the UK economy to periods of global instability. But challenges and risks remain. The Government is determined to meet these challenges, maintaining economic stability and continuing to meet the fiscal rules. From a platform of stability, and despite continued weakness in the world economy, the Government is committed to taking the further steps needed to advance its long-term goals of:

- raising the sustainable rate of UK productivity growth to deliver rising national prosperity in a global marketplace for business, investment and skills;
- sustaining a higher proportion of people in employment than ever before, seeking to ensure full employment in every UK region;
- eradicating child poverty and tackling pensioner poverty, providing opportunity for all children and delivering security for all in retirement;
- establishing world class public services, with significant extra investment tied to reform and results; and
- tackling global poverty and climate change, helping to achieve the international community's Millennium Development Goals by 2015, and delivering the UK's commitments under the Kyoto Protocol.

## MAINTAINING MACROECONOMIC STABILITY

**1.5** The Government's long-term economic goal is to maintain stability, ensuring that the fiscal rules are met and that inflation remains low. Economic stability allows businesses, individuals and the Government to plan ahead, improving the quantity and quality of long-term investment in physical and human capital. Chapter 2 describes how the Government is working to achieve its goal and summarises prospects for the UK economy and the public finances, full details of which are set out in Annexes A and B.

### The policy framework

**1.6** The Government's macroeconomic policy framework is designed to secure lasting economic stability. Underpinned by the principles of transparency, responsibility and accountability, the framework consists of operational independence for the Bank of England to set interest rates to meet the Government's inflation target, and strict fiscal rules to ensure sound public finances over the medium term. Within the fiscal rules, the Government's public spending framework reinforces incentives for long-term planning and delivers a sharper focus on the quality of public service provision and the outcomes it achieves. These policies work together in a coherent and integrated way.

**1.7** The framework has successfully maintained stability and growth, and the UK continues to experience the longest period of unbroken economic expansion on record. Despite fragile global conditions, employment has risen to record levels, unemployment is at generational lows, and inflation has been lower and more stable than in the past. Sustained economic growth, and tough decisions on taxation and spending, have brought the public finances to a sustainable position and freed up substantial resources to reform and modernise public services. Fiscal policy has supported monetary policy in limiting the impact of adverse global developments on the UK economy.

**Economic prospects** **I.8** Last year saw the sharpest slowdown in world growth since 1974, and the first synchronised slowdown in the US, Europe and Asia for almost three decades. Across the major G7 economies, industrial production and investment both fell more sharply than at any time in the last 20 years, while growth in world trade collapsed from 13 per cent to near standstill. The world's three largest economies – the US, Japan and Germany – all experienced periods of recession.

**I.9** Evidence of global recovery mounted in the first half of 2002, as world trade strengthened and industrial production began to recover across the G7. But the world economy has since faced a series of new challenges and risks. Concern over corporate accounting standards and events in the Middle East have led to further falls on international equity markets and a rise in oil prices, compounding uncertainty about the strength of global demand and hampering confidence across the industrialised world. As a consequence, the recovery appears to have less momentum than anticipated earlier in the year, and prospects for the world economy seem weaker than at the time of the Budget. GDP in the G7 economies is expected to grow by 1½ per cent in 2002 and by just 2¼ per cent next year, before accelerating to 3 per cent in 2004.

**I.10** In an integrated global economy, no country can be fully immune to international developments, and uncertainty in the outlook for global demand has affected UK economic prospects in the short term, deterring companies from expanding investment and increasing production. Strong economic fundamentals and decisive macroeconomic policy have left the UK better placed than in previous world slowdowns to maintain stability. The economy grew faster than any other G7 country last year and is well placed to benefit when the global recovery gathers pace. In the Pre-Budget Report forecast:

- **GDP** is expected to rise by 1.6 per cent in 2002, below the Budget forecast due to renewed uncertainty in the world economy. A strengthening in the pace of global recovery from next year should subsequently allow the economy to achieve a temporary period of above trend growth, GDP rising by 2½ to 3 per cent in 2003 and by 3 to 3½ per cent in 2004 before returning to trend in 2005;
- **growth is expected to become gradually more balanced** over the forecast period as household consumption moderates and business investment picks up in response to a recovery in the world economy, lower uncertainty and improved corporate finances; and
- **RPIX inflation** is expected to remain close to the Government's 2½ per cent target throughout the forecast period.

**The public finances** **I.11** The current surplus in 2001-02 stood at £7.7 billion, £2.9 billion lower than forecast at the time of the Budget. At £1.2 billion, the outturn for public sector net borrowing was very close to the Budget forecast. **Detailed information on the public finances last year and in 2000-01 is set out in a new *End of year fiscal report***, published alongside the Pre-Budget Report and further enhancing transparency in fiscal policy.

**I.12** The Pre-Budget Report presents new projections for the public finances up to 2007-08. The projections provide an interim forecast update, and are not necessarily the fiscal outcomes that the Government is seeking. They are underpinned by a series of prudent assumptions about economic developments in the medium term, audited by the National Audit Office to ensure that they remain reasonable and cautious.

**I.13** Consistent with the requirements of the *Code for fiscal stability*, the updated projections take account of all firm decisions announced in this Pre-Budget Report or since Budget 2002, as set out in Table B4 in Annex B. This includes the addition of a **£1 billion special reserve in 2002-03 to ensure that resources are available to meet overseas and defence needs in the fight against global terrorism**.

**I.14** Prolonged uncertainty in the world economy means that receipts – particularly of corporation and income taxes – are now expected to be weaker this year and over the next two years than forecast in Budget 2002. The shortfall in receipts is primarily due to cyclical or otherwise temporary factors, including a further deterioration in financial companies’ profits due to weaker financial market activity since the Budget. The use of cautious, audited assumptions, especially for equity prices, further contributes to the decline in receipts, though this is partly offset in the longer term by a prudent assessment of future savings from action to tackle indirect tax fraud and avoidance. Overall, receipts are expected to return to their Budget profile by the end of the forecast period.

**I.15** Lower receipts in the short term mean that a current budget deficit of £5.7 billion is now expected this year. The deficit is projected to narrow slightly to £5 billion in 2003-04, before a cyclical recovery in the global economy and an improvement in financial companies’ profits restores the current budget to surplus from 2004-05. The projections demonstrate that fiscal policy is supporting monetary policy through the impact of the automatic stabilisers, helping to maintain stability during a period of weaker global demand.

**Table I.1: Meeting the fiscal rules**

|   | Per cent of GDP      |         |             |         |         |         |         |
|---|----------------------|---------|-------------|---------|---------|---------|---------|
|   | Outturn <sup>1</sup> |         | Projections |         |         |         |         |
|   | 2001–02              | 2002–03 | 2003–04     | 2004–05 | 2005–06 | 2006–07 | 2007–08 |
| <b>Golden rule</b>                            |                      |         |             |         |         |         |         |
| Surplus on current budget                     | 0.8                  | –0.5    | –0.4        | 0.2     | 0.4     | 0.6     | 0.7     |
| Average surplus since 1999-2000               | 1.7                  | 1.2     | 0.8         | 0.7     | 0.7     | 0.7     | 0.7     |
| Cyclically-adjusted surplus on current budget | 0.7                  | 0.2     | 0.3         | 0.6     | 0.5     | 0.6     | 0.7     |
| <b>Sustainable investment rule</b>            |                      |         |             |         |         |         |         |
| Public sector net debt                        | 30.4                 | 31.0    | 32.1        | 32.4    | 32.6    | 32.7    | 33.0    |

<sup>1</sup> The 2001–02 figures were estimates in Budget 2002.

**The fiscal rules** **I.16** After allowing for changes to receipts and expenditure resulting from cyclical weakness in the world economy and the use of cautious assumptions, and taking into account the impact of measures described in this Pre-Budget Report, the Government is firmly on track to meet its strict fiscal rules over the economic cycle, including in the cautious case.

**I.17** In a period of global weakness and uncertainty, the use of cautious assumptions and the ‘stress test’ against the cautious case help to ensure that the public finances are sound and sustainable and that the Government is vigilant in the face of potential risks. As shown in Table 1.1, the average surplus on the current budget since the start of the current cycle in 1999-2000 remains positive throughout the forecast period, leaving the Government on track to meet the golden rule. When adjusted for the impact of the economic cycle, the current budget is projected to be in surplus in every year of the projection period. Public sector net debt is projected to rise slightly to 33 per cent of GDP by 2007-08, comfortably meeting the sustainable investment rule, and well below 40 per cent.

**Long-term sustainability** **I.18** The public finances are also sustainable in the long term. **A new analysis of long-term fiscal sustainability is published alongside this Pre-Budget Report.** Based on reasonable assumptions, the analysis reveals that the UK is well placed to deal with future fiscal challenges, such as those arising from an ageing population, and that current policies impact fairly between generations.

## MEETING THE PRODUCTIVITY CHALLENGE

**I.19** Raising the UK's sustainable rate of productivity growth is central to the Government's economic strategy. Productivity growth, alongside high and stable levels of employment, is an important driver of long-term economic performance and rising living standards. If the economy is to continue to deliver growing prosperity in a global marketplace for business, investment and skills, it is essential that faster productivity growth is achieved. Chapter 3 describes the steps the Government is taking to address this challenge, narrowing the productivity gap that exists between the UK and other advanced industrial economies.

**Action so far I.20** The Government has taken significant steps to close the productivity gap, targeting historic weakness in five important drivers of productivity performance:

- **improving competition** to encourage firms to innovate and strive for greater efficiency. The Enterprise and Competition Acts increased the powers of the Office of Fair Trading and strengthened the UK's overall competition regime, and investigations have been conducted into competition in specific markets, including banking and the professions;
- **promoting enterprise** by helping businesses to start up, develop and grow. Reforms to the business tax regime, including reduced rates of corporation tax, a generous capital gains tax business assets taper and measures to simplify the VAT regime have increased the support to new and growing businesses. Exemptions from stamp duty and a new Community Investment Tax Credit are helping to encourage enterprise and investment in disadvantaged communities;
- **supporting science and innovation** to deliver efficiency gains from new technologies. Research and development tax credits are rewarding greater innovation by the private sector. Record increases in science spending are supporting improvements in the UK's scientific base to allow it to compete in a global market for research;
- **raising UK skills** through better education and improved workforce training. Substantial resources have been allocated to raise standards in primary and secondary schools, while Employer Training Pilots are testing new measures to improve opportunities for those already in the workforce to acquire new skills; and
- **encouraging investment** to improve the stock of physical capital. Building on a platform of macroeconomic stability, comprehensive reviews into institutional investment and the market for long-term savings have addressed the factors inhibiting sustained investment in the UK, and steps have been taken to improve the flexibility, speed and responsiveness of the planning system. Public sector net investment is projected to have risen almost three-fold over the last five years.

**Next steps I.21** The Pre-Budget Report describes the next steps in the Government's strategy to support the drivers of productivity growth, including:

- **the creation of 2,000 Enterprise Areas** in the most deprived parts of the UK, with extra support to help businesses start up, develop and grow;
- **a review of how business can better draw on the resources available in UK universities and a new DTI review of innovation**, to improve the UK's comparative innovation performance;

- **a new strategy to promote enterprise learning throughout the school and further education systems**, in line with the recommendations of the Davies Review of enterprise in education;
- **a new target to increase the participation of young people post-16 in full-time education and training**, including vocational programmes such as Modern Apprenticeships;
- **a new employer-led taskforce to support the expansion and improvement of Modern Apprenticeships** and other work-based training programmes;
- **£130 million to fund a second year of extended Employer Training Pilots** to continue to test new measures to improve access to training for low-skilled adults in the workforce;
- **extension of the Highly Skilled Migrant Programme**, and changes to the criteria to make the scheme a more effective source of highly skilled labour for the UK economy; and
- further work to establish a modern and competitive business tax system, through **simplified corporation tax rules for employee share schemes and consultation on wider reform of corporation tax**.

## INCREASING EMPLOYMENT OPPORTUNITY FOR ALL

**I.22** The Government's long-term goal is to ensure a higher proportion of people in work than ever before by 2010. The strength of the economy depends on the number of people in work and how productive they are. For many individuals and their families, employment is also the single most effective means of avoiding poverty, both now and in the future. Chapter 4 describes the steps the Government is taking to extend employment opportunity to all groups in every region of the country.

**Action so far I.23** Macroeconomic stability, a flexible labour market and investment in education are essential for achieving high levels of employment. They also underpin a comprehensive programme of microeconomic reform, including:

- **welfare to work** policies that help the long-term unemployed achieve a successful return to work. The New Deal programmes have helped to reduce long-term unemployment by more than three quarters since 1997 and have sharply reduced youth long-term unemployment, while Employment Zones are allowing jobseekers and their personal advisers to use funds more flexibly to overcome individual barriers to work. UK unemployment, at 5.3 per cent, is now the lowest among the G7 economies for the first time since the 1950s;
- **tailored support for disadvantaged groups and areas** that suffer from particularly low levels of employment. New Deal support has been extended to lone parents, disabled people and partners of the unemployed, helping to reduce the number of workless households, while Action Teams are tackling serious employment problems in disadvantaged areas throughout Britain. The national roll-out of Jobcentre Plus is providing an active, work-focused service to all working age benefit recipients, whether unemployed or economically inactive; and
- **reforms to make work pay** and ensure that individuals are rewarded as they move into and progress within employment. Reforms to the tax and benefit system, underpinned by the National Minimum Wage, the Working Families' (WFTC) and Disabled Person's Tax Credits, and, from April 2003, the Child and Working Tax Credits, are improving work incentives for families with children, people with disabilities and those in low paid work. These reforms guarantee minimum incomes from employment and help to ensure that work pays more than welfare.

**Next steps I.24** The robust performance of the labour market in recent years sets the UK apart from most other industrialised countries, many of which have seen unemployment rates rise significantly as global demand has weakened. The Government is determined to build on this success and is now taking further steps to address the remaining barriers that prevent people from taking up work, including:

- **piloting a programme of intensive support in neighbourhoods with very high concentrations of worklessness.** The pilots will begin from April 2004 in twelve of the most deprived neighbourhoods in the country;
- **extending eligibility for the Job Grant,** and introducing a new higher rate of £250 for households with children, to ease the transition to work;
- **reforming the administration and design of Housing Benefit** to reduce inefficiencies in the current system and ease the transition to work for tenants;
- **piloting new measures to improve employment retention and advancement** among the low paid and those moving off welfare as part of a demonstration project from October 2003;
- **extending Employment Zones to lone parents and people returning to the New Deal** for a second time, and testing the impact of multiple providers in the same areas; and
- **piloting new means of support to help those with health problems and disabilities find work,** including enhanced advice on the return to work and a new return to work credit of £40 a week, from October 2003.

## BUILDING A FAIRER SOCIETY

**I.25** Economic strength and social justice go hand in hand. Chapter 5 describes how the Government is working to create a fairer and more inclusive society in which everyone has the chance to fulfil their potential and to share in rising national prosperity. Reform of the welfare state is central to the Government's strategy for achieving its long-term goals of eradicating child poverty and tackling pensioner poverty, extending opportunity to all children and ensuring security for all in old age. The Government is also taking steps to reward and encourage saving, establish a modern and fair tax system, and promote international efforts to reduce global poverty.

**Action so far I.26** The Government has introduced a number of important reforms to achieve its objectives, including:

- **support for families with children** to tackle child poverty. Financial help through the tax and benefit system has been increased, with record rises in Child Benefit, enhanced maternity and paternity provision, the introduction of the WFTC and the Children's Tax Credit and, from April 2003, the launch of the new Child Tax Credit. Sure Start and the Children's Fund are improving the provision of local services for children across the country, especially in deprived areas;
- **support for pensioners** to tackle poverty and ensure that all pensioners are able to share in rising national prosperity. The Minimum Income Guarantee is already improving living standards for the poorest pensioners, while the Pension Credit will ensure that those on low and modest incomes are

rewarded for their savings from 2003. The basic state pension has been increased by more than inflation in each of the last two years; it will rise by 2½ per cent in 2003-04 and by at least 2½ per cent a year from 2004-05. As a result of policies introduced since 1997, the Government will be spending an additional £6 billion in real terms on pensioners this financial year; and

- **steps to support and encourage saving.** Stakeholder pensions are delivering the benefits of pension saving to previously excluded groups, and Individual Savings Accounts are extending tax-advantaged saving further than ever before. Saving Gateway pilots are currently testing a new approach of Government-funded matched contributions to help people on low incomes develop a regular saving habit and make informed saving choices.

**Next steps 1.27** Building on this programme of reform, the Government is now taking further steps to promote social progress and establish a modern and fair tax system, including:

- **publishing shortly next steps in the Government's strategy to help parents balance their work and family lives;**
- **consulting key stakeholders on the detailed implementation of the Child Trust Fund** to strengthen the saving habit and spread the benefits of asset ownership;
- **taking forward the recommendations of the Sandler review** to improve competition and efficiency in the market for long-term savings;
- **publishing on 17 December a Green Paper on pensions** setting out proposals to help those of working age plan more effectively for their retirement;
- **consulting, alongside the pensions Green Paper, on radical proposals to simplify the taxation of pensions** to increase choice and flexibility for all;
- **investing in the Social Fund** to improve its ability to help those on low incomes manage their finances;
- **working to deliver a global new deal to tackle international poverty**, by promoting a new \$50 billion International Financing Facility and improvements in aid effectiveness;
- **taking further steps to encourage charitable giving**, including by extending the Government supplement on payroll donations until 2004;
- **abolishing Royalty payments made by North Sea oil companies** to encourage long-term investment by the industry;
- **launching a new strategy to protect VAT revenues and taking further steps to tackle tax avoidance** to ensure that everyone pays their fair share of tax; and
- **consulting further on the shape of a modernised stamp duty regime** for land and buildings to be introduced late next year.

## DELIVERING HIGH QUALITY PUBLIC SERVICES

**I.28** The Government's long-term goal is to deliver world class public services that provide opportunity and security for all. Strong and efficient public services are central to the Government's strategy for tackling poverty and social exclusion, removing the barriers that prevent people from realising their full potential. They also lay the foundations for a prosperous, high productivity economy. High and stable levels of growth and employment provide the platform from which the Government is working to improve Britain's public services, through sustained investment matched by ambitious plans for reform and stretching targets for results.

**Action so far I.29** Chapter 6 describes the steps the Government has already taken to deliver lasting improvements in public service delivery, including:

- **a new framework for managing public spending** that strengthens incentives for departments to plan for the long term, and ensures that resources are targeted on priority areas, supported by reform and linked clearly to improved outcomes for public services;
- **significant extra resources** for public services. Building on the increases delivered in the last Parliament, the 2002 Spending Review planned an additional £63 billion of departmental spending by 2005-06 compared with this financial year – an average annual increase in public services spending of over 5 per cent in real terms. To address the legacy of under-investment in public services, public sector net investment, projected to be almost three times higher this year than in 1997-98, is planned to rise further to 2 per cent of GDP in 2005-06; and
- **targeting resources to deliver improvements in priority services.** Economic stability has led to significant savings in social security and debt interest payments, and allowed more resources to be devoted to frontline public services. Over 75 per cent of the additional resources allocated in the 2002 Spending Review have been directed to the Government's priorities of education, health, transport, housing and the fight against crime.

**Next steps I.30** The Government is as determined to secure value for money as it is to secure money for priority services. In each area of public service delivery, resources allocated in the 2002 Spending Review are tied to reform and results. The Pre-Budget Report describes how the Government is working to deliver reform, based on:

- **independent auditing and inspection** to ensure that departments and agencies are held accountable for performance against targets, including through a new independent Commission for Healthcare Audit and Inspection, a Comprehensive Performance Assessment in local government and the new Police Standards Unit;
- **maximum local flexibility and discretion to innovate**, to ensure that local service providers can respond to local conditions and consumer demands, with new freedoms for high performing local authorities, Regional Development Agencies, further education colleges and hospitals; and
- **increased transparency** about what is being achieved, with regular web-based reporting of departments' progress against all new Public Service Agreement targets from next April.

## PROTECTING THE ENVIRONMENT

**I.31** Sustainable development aims to ensure a better quality of life for everyone - today and for generations to come. Economic growth and social progress must be balanced with action to protect and improve the environment. Climate change, poor air quality and environmental degradation in urban and rural areas diminish the quality of life for every citizen. The Government is therefore using a range of economic instruments to address the challenge of sustainable development, tackling local environmental threats and controlling and reducing emissions of the gases responsible for global warming.

**Action so far I.32** Chapter 7 describes the steps the Government has already taken to deliver its environmental objectives, including action to:

- **tackle climate change and improve air quality**, ensuring that the UK meets its international commitments under the Kyoto Protocol. The climate change levy is encouraging business to use energy more efficiently, while the world's first economy-wide emissions trading scheme is helping companies to reduce their emissions at the lowest possible cost. Tax incentives and reforms have been introduced to promote the take-up of cleaner fuels and vehicles and to encourage investment in environmentally-friendly fuels and technologies;
- **regenerate Britain's towns and cities** so that they can attract investment and foster strong local communities. A significant package of fiscal measures has been introduced to support sustainable regeneration of urban areas, including targeted VAT reliefs, tax incentives for cleaning up contaminated land, extra funding for improving local public spaces and stamp duty exemptions to promote the economic, social and physical development of deprived areas; and
- **protect Britain's countryside and natural resources**, to ensure they are sustainable economically, socially and environmentally. The aggregates levy and sustainability fund are helping to tackle the environmental costs of quarrying, while a voluntary package of measures has been introduced to limit the environmental damage caused by pesticide use. Funding has been increased to support improvements in rural enterprise and productivity and in the provision of rural services.

**Next steps I.33** The Pre-Budget Report describes the further steps the Government is taking to protect and improve the environment, including:

- **publishing details of its strategy for using economic instruments** to tackle environmental problems;
- **further action to improve waste management**, by:
  - consulting on a revenue neutral proposal to **increase the landfill tax escalator** to £3 per tonne in 2005-06 and to increase the rate of tax by at least £3 per tonne in future years, on the way to a medium- to long-term rate of £35 per tonne; and
  - **reforming the Landfill Tax Credit Scheme** to ensure that funds more effectively promote sustainable waste management, while continuing to support local community environmental projects.
- **consulting on a new proposal to allow local authorities to retain increases in business rates revenue** to spend on their own priorities;
- **a new tax incentive to encourage donations towards the running costs of Urban Regeneration Companies**;

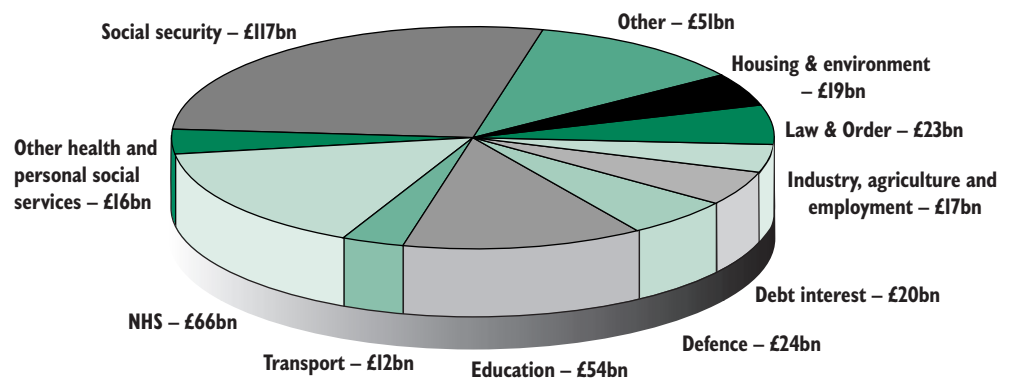
- **further steps to promote cleaner fuels**, including through a new low rate of duty on bioethanol;
- **the next steps towards introducing a lorry road-user charge** to ensure that all lorry operators contribute to the cost of using UK roads, regardless of nationality;
- discussing with stakeholders the role of **economic instruments in encouraging the aviation industry to take greater account of its environmental impact**; and
- **further consultation on the use of economic instruments** to promote household energy efficiency and to address the environmental impacts of agriculture.

## GOVERNMENT SPENDING AND REVENUE

**I.34** Chart 1.1 presents public expenditure by main function. Total public spending (Total Managed Expenditure – TME) is expected to be around £420 billion in the current financial year, 2002-03. TME is divided into Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME). DEL spending is set out in Table B15, though a number of DELs, particularly those of the devolved administrations, contribute to spending on more than one of the functions in Chart 1.1. AME components are shown in Table B17 and some of these, especially spending financed locally by local authorities, also cover spending on several different functions.

**Chart 1.1: Government spending by function**

Total managed expenditure: £420 billion

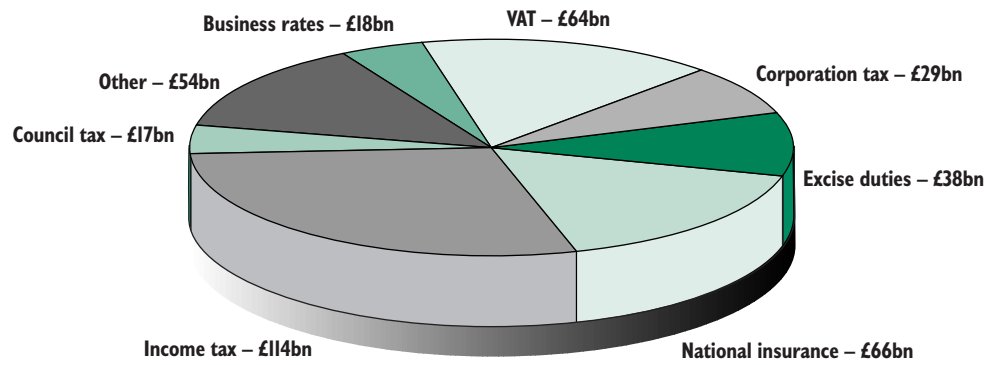


Source: HM Treasury, 2002-03 figures. Other expenditure includes spending on central administration; culture, media and sport; international cooperation and development; public service pensions; plus spending yet to be allocated and some accounting adjustments.

**I.35** Chart 1.2 shows the different sources of government revenue. Public sector current receipts are expected to be around £400 billion in 2002-03. Table B12 provides a more detailed breakdown of receipts consistent with this chart.

**Chart I.2: Government receipts**

**Total receipts: £400 billion**



Source: HM Treasury, 2002-03 figures. Other receipts include capital taxes, stamp duties, vehicle excise duties and some other tax and non-tax receipts – for example, interest and dividends.