

HM TREASURY

The strength to take the long-term decisions for Britain:

Seizing the opportunities of the global recovery

Pre-Budget Report

December 2003

Presented to Parliament by
the Chancellor of the Exchequer
by Command of Her Majesty

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The Economic and Fiscal Strategy Report and the Financial Statement and Budget Report contain the Government's assessment of the medium-term economic and budgetary position. They set out the Government's tax and spending plans, including those for public investment, in the context of its overall approach to social, economic and environmental objectives. This Pre-Budget Report includes, with other material, updated forecasts for the economy and projections for the public finances. Subject to the usual scrutiny and approval for the purposes of Section 5 of the European Communities (Amendment) Act 1993, these reports will form the basis of submissions to the European Commission under Article 99 (ex Article 103) and Article 104 (ex Article 104c) of the Treaty establishing the European Community.

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OVERVIEW

The Government's economic objective is to build a strong economy and a fair society, where there is opportunity and security for all. From a platform of stability and sustained growth the UK is well placed to benefit from the opportunities that the global economic recovery will bring.

The Pre-Budget Report, *The strength to take the long-term decisions for Britain: Seizing the opportunities of the global recovery*, sets out updated forecasts for the economy and 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 2004 and on which it will be consulting in the months ahead. The Pre-Budget Report:

- shows that economic growth has strengthened in line with the Budget 2003 forecast and that the Government is on track to meet its fiscal rules over the economic cycle;
- confirms that the target for monetary policy will switch to a target based on a harmonised index of consumer prices, which the Office for National Statistics has named the Consumer Prices Index (CPI) for the UK. From today the target will be 2 per cent CPI inflation;
- sets out reforms which will promote business and enterprise across the UK, by improving access to finance for small business, reducing red tape and boosting the role of local authorities in encouraging enterprise;
- takes further steps to extend employment opportunity for all, through measures which focus help on disadvantaged groups and deprived areas;
- tackles child and pensioner poverty, by increasing the child element of the Child Tax Credit by £180 a year, and provides further help with childcare and help to ensure security in retirement;
- promotes fairness in the tax system by ensuring that everyone fairly contributes to the extra investment in public services; and
- introduces further measures to improve the environment, including proposals to tackle climate change, reduce waste and protect Britain's natural resources.

INTRODUCTION

1.1 The Government's economic objective is to build a strong economy and a fair society, with opportunity and security for all.

1.2 Over the past three years recession has spread across many of the world's major industrialised economies, including the US and much of the euro area. Sound economic fundamentals and a robust macroeconomic policy framework have allowed the UK to avoid recession and to continue to grow steadily.

1.3 While risks remain there are now clear signs that world economic activity is strengthening. From a platform of stability and sustained growth, the UK is well placed to benefit from the global economic recovery. This Pre-Budget Report builds on past reforms to ensure the UK is in a position to take advantage of the opportunities that the global recovery will create. The Government is determined to build prosperity by promoting a wider and deeper entrepreneurial culture across the whole country, and to increase the flexibility of the labour market to build full employment in every region. Flexibility must be matched with fairness, so that everyone has the opportunity to fulfil their potential in the economy.

1.4 The Government will put stability first, taking no risks with inflation or the public finances. The 2004 Spending Review will ensure the sustainability of the public finances, while locking in improved levels of investment, particularly in health, education and transport.

1.5 Economic stability provides the platform for building prosperity, achieving social justice with security and opportunity for all, and maintaining investment in public services. In this Pre-Budget Report, the Government sets out the steps it is taking to advance its long-term goals of:

- maintaining macroeconomic stability, ensuring that the fiscal rules are met at all times and that inflation remains low;
- raising the sustainable rate of productivity growth through reforms that promote enterprise across the whole economy and enhance the flexibility of product and capital markets;
- ensuring a flexible labour market, which sustains a higher proportion of people in employment than ever before, providing employment opportunity for all;
- combining flexibility with fairness, by tackling child and pensioner poverty, providing opportunity for all children, effective choices for parents and delivering security for all in retirement;
- establishing world class public services, with extra investment tied to reform and results; and
- addressing the environmental challenges of climate change, poor air quality and environmental degradation in urban and rural areas.

MAINTAINING MACROECONOMIC STABILITY

1.6 The Government's long-term economic goal is to maintain stability, ensuring that the fiscal rules are met and that inflation remains low. Chapter 2 describes how the Government is working to achieve this 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

1.7 The Government's macroeconomic framework is designed to maintain long-term economic stability. Large fluctuations in output, employment and inflation add to uncertainty for firms, consumers and the public sector, and can reduce the economy's long-term growth potential. Stability allows businesses, individuals and the Government to plan more effectively for the long term, improving the quality and quantity of investment in physical and human capital, and helping to raise productivity.

1.8 The macroeconomic framework is based on the principles of transparency, responsibility and accountability. The monetary policy framework seeks to ensure low and stable inflation, while fiscal policy is underpinned by clear objectives and two strict rules that ensure sound public finances over the medium term. The fiscal rules are the foundation of the Government's public spending framework, which facilitates long-term planning and provides departments with the flexibility and incentives they need to increase the quality of public services and deliver specified outcomes. These policies work together in a coherent and integrated way.

I.9 On 9 June 2003, the Chancellor announced that he intended to change the basis of the inflation target in the remit for the Bank of England's Monetary Policy Committee (MPC). This Pre-Budget Report confirms that the operational target for monetary policy will switch to a target based on the harmonised index of consumer prices, which the National Statistician has named the Consumer Prices Index (CPI) for the UK. The Chancellor has written to the Governor of the Bank of England setting out the new remit. The level of the new CPI inflation target is being set at 2 per cent and the switch to the new target will apply from today. The new target is 0.5 percentage points below the previous RPIX-based target, reflecting differences in the way that CPI and RPIX inflation are measured. The level of the new target is set to be consistent with the old target in two years' time – the typical forecast horizon for monetary policy.

Economic prospects

I.10 At the start of 2003, global uncertainties weighed heavily on short-term prospects for the world economy. Confidence and demand in the global economy were affected by geo-political uncertainties, volatility on international financial and exchange rate markets and uncertainty regarding growth prospects in major economies, in particular the euro area.

I.11 As an open economy, the UK is inevitably affected by these global developments. However, the domestic stability delivered by the Government's macroeconomic framework has enabled the UK economy to cope well in a challenging global economic environment. Demand and activity has strengthened as geo-political uncertainties have receded. GDP grew by 0.6 per cent in the second quarter of 2003 and by 0.7 per cent in the third quarter.

I.12 While risks remain there are now clear signs that world economic activity is strengthening. Sound fundamentals mean the UK economy is forecast to build on recent positive developments with GDP accelerating through into 2004:

- GDP is expected to grow by 2.1 per cent in 2003 and by 3 to 3½ per cent in both 2004 and 2005 in line with the Budget 2003 forecasts. Growth is expected to fall back to its trend rate by early 2006 as slack in the economy is absorbed and output returns to its trend path; and
- CPI inflation is expected to rise slowly from early next year to reach its 2 per cent target in 2005 as the effects of recovery in the global economy and this year's depreciation of sterling feed through to higher import prices.

The public finances

I.13 The Pre-Budget Report provides updated projections for the public finances. These represent an interim forecast update and are based on a series of cautious, audited assumptions that help to build a margin against unexpected events.

I.14 The projections for the public finances take into account all firm decisions announced in this Pre-Budget Report, consistent with the requirements of the *Code for fiscal stability*. This includes the commitment to carry forward the £2 billion unallocated special reserve into 2003-04 and add a further £500 million. A further £300 million will be added in 2004-05 to ensure that the Government is able to meet its international commitments in Iraq and elsewhere in the war against terrorism.

I.15 The economy is expected to grow by 2.1 per cent this year and by 3 to 3½ per cent in both 2004 and 2005, in line with the Budget 2003 forecast. The composition of growth, however, is forecast to be different from that projected at the time of the Budget. In particular, growth in wages and salaries this year is forecast to be lower than projected, reducing receipts from income tax and national insurance contributions.

I.16 The Government has always remained vigilant to the uncertainties inherent in forecasting the public finances and created a margin against unexpected events through the use of cautious, audited assumptions and the cautious case. Combined with the decision to consolidate the public finances when the economy was above trend, which resulted in low debt, the Government can now draw on this margin to safeguard the increase in investment in priority public services, fully meet the UK's international commitments and allow the automatic stabilisers to work in full following a period of global economic uncertainty, while remaining on track to meet the fiscal rules.

Table 1.1: Meeting the fiscal rules

	Per cent of GDP						
	Outturn ¹ 2002–03	Estimate 2003–04	Projections				
			2004–05	2005–06	2006–07	2007–08	2008–09
Golden rule							
Surplus on current budget	-1.1	-1.7	-0.7	-0.4	0.0	0.3	0.6
Average surplus since 1999-2000	1.0	0.4	0.3	0.2	0.1	0.2	0.2
Cyclically-adjusted surplus on current budget	-0.6	-0.8	-0.1	-0.1	0.0	0.3	0.6
Sustainable investment rule							
Public sector net debt	30.9	32.8	33.8	34.6	35.1	35.4	35.5

¹ The 2002–03 figures were estimates in Budget 2003.

The fiscal rules I.17 The projections show that the Government is on track to meet its strict fiscal rules over the economic cycle. Table 1.1 shows that the average surplus on the current budget since 1999-2000, which is the Government's provisional judgement on the start of the economic cycle, is positive throughout the projection period. The average annual surplus on the current budget over the whole cycle up to 2005-06 is around 0.2 per cent of GDP, equivalent to a margin or surplus in this cycle of £14 billion. The Government is therefore on track to meet the golden rule. Public sector net debt is projected to stabilise at 35½ per cent of GDP by the end of the projection period – £64 billion below the 40 per cent level and comfortably meeting the sustainable investment rule.

I.18 While a key objective of fiscal policy is to ensure sound public finances over the short and medium term, the Government must also ensure that fiscal policy decisions are sustainable in the long term. An improved and updated analysis of long-term fiscal sustainability is published alongside this Pre-Budget Report in the *Long-term public finance report*. The report shows that, based on reasonable assumptions, the public finances are sustainable in the longer term, and that the UK is well placed to meet the challenges of an ageing population relative to many other countries.

MEETING THE PRODUCTIVITY CHALLENGE

I.19 Productivity growth, alongside high and stable levels of employment, is central to long-term economic performance and rising living standards. The UK has historically experienced low rates of productivity growth by international standards, as macroeconomic instability and market failures restricted competition, enterprise and innovation, and discouraged long-term investment in capital and skills. Productivity growth requires a flexible economy which promotes enterprise and entrepreneurship. The Government's long-term goal is for Britain to achieve a faster rate of productivity growth than its main competitors, through boosting enterprise and by promoting greater flexibility in labour, product and capital markets.

Action so far I.20 Chapter 3 describes the steps the Government is taking to meet the productivity challenge, including measures to promote enterprise and flexibility. Annex C sets out progress on flexibility in labour, product and capital markets. The Government's approach focuses on five key drivers of productivity performance:

- **improving competition**, which promotes flexible markets and increases business efficiency and consumer choice. The Government has worked to ensure that the UK competition regime ranks among the best in the world. The Enterprise and Competition Acts have strengthened the powers of the Office of Fair Trading, which has made progress in promoting competition in a number of specific markets;
- **promoting enterprise** through measures aimed at increasing flexibility by removing barriers to entrepreneurship and developing an enterprise culture. Reforms to the business tax regime have helped small and growing businesses, as have measures designed to increase access to finance for small business. Enterprise Areas have been designated in the most deprived communities of the UK, with additional support made available for small businesses in these areas. The Government has also provided resources to promote the development of an enterprise culture in schools and the further education system;
- **supporting science and innovation** through increases in funding for science and promoting stronger collaboration between business and universities. Improvements to research and development (R&D) tax credits have enabled more businesses to claim a wider range of relief;
- **raising UK skills** to create a more flexible and productive workforce. Increased resources have been made available to improve standards in schools and in the further and higher education system. The Government has launched the Employer Training Pilots based on a partnership between Government, employers, employees and training providers and packages of training support for small businesses; and
- **encouraging investment** to increase the stock of physical capital supported by stronger, more efficient capital markets. The Government has introduced new proposals and undertaken reviews to increase flexibility in the housing market and to improve the planning regime. It has also followed through earlier reviews into institutional investment and long-term savings to promote greater flexibility in capital markets.

Next steps I.21 The Pre-Budget Report describes the next steps in the Government's strategy to promote productivity growth through a more enterprising and highly skilled economy, including:

- **reforms to reduce the regulatory burden on enterprise**, including improvements to the VAT flat-rate scheme to ensure more businesses can benefit fully from compliance savings;
- **measures to overcome barriers to raising finance for small business**, including a pathfinder round of Enterprise Capital Funds and proposed enhancements to Venture Capital Trusts and the Enterprise Investment Scheme;

- **launching an independent review of the Small Firms Loan Guarantee**, to ensure its effectiveness;
- **measures to support regional growth**, including details of the Local Authority Business Growth Incentives scheme, which will boost the role of local authorities in promoting growth, and in Enterprise Areas, a Business Premises Renovation Allowance;
- **measures to promote a step change in the UK's enterprise culture**, including supporting a national campaign by Enterprise Insight;
- a **new, clearer and more accessible R&D tax credit definition**, which will promote the development of science and innovation;
- **an extension of Employer Training Pilots** to encourage skills training for a third year and to cover more than a third of England;
- **publication of the interim report of the Barker Review** on the factors affecting housing supply in the UK; and
- **consulting on the most appropriate structure for tax transparent property investment trusts**, as recommended in the interim report of the Barker Review.

INCREASING EMPLOYMENT OPPORTUNITY FOR ALL

I.22 The Government's long-term goal is employment opportunity for all – the modern definition of full employment. It aims to ensure a higher proportion of people in work than ever before by 2010. Worklessness, particularly on a long-term basis, is a constraint on the economy's growth potential and a major cause of poverty and deprivation, entailing costs for individuals, households and society as a whole. Delivering full employment requires that everyone should be able to take advantage of the opportunities offered by a stable, enterprising economy. Achieving this aim requires a flexible labour market in which people are equipped to make effective labour market choices.

Action so far I.23 Annex C sets out progress on flexibility in labour, product and capital markets. Chapter 4 describes the action the Government has taken to create a flexible labour market which provides opportunity and choice for all, through:

- empowering people to exercise real and effective labour market choices and equipping them to take advantage of employment opportunities. Active labour market policies provide the effective support needed to help people into work. Measures that make work pay, such as the National Minimum Wage and the Working Tax Credit, improve work incentives for families with children and those in low-paid work. Further measures aim to promote diverse forms of employment, facilitate labour market mobility and raise skills; and
- ensuring policy delivery is effective, efficient and responsive to individual and local circumstances by enhancing local flexibility and autonomy.

Next steps I.24 The performance of the labour market over recent years has been strong by international and historical standards. At 5.0 per cent, UK unemployment is the lowest of the G7 economies. This Pre-Budget Report describes the further steps the Government is taking to build on this success by removing remaining barriers to opportunity and choice in the labour market, including:

- **extra support to help the unemployed**, by piloting mandatory short intensive work-focused courses at the six-month stage;
- **an extension of eligibility for the enhanced New Deal for partners**;
- **enhanced help for lone parents**, increasing the number of work-focused interviews lone parents with children aged 14 or over are required to attend and providing help with childcare costs in the week before starting work;
- **improving work incentives in London** by extending pilots of the £40 per week in-work credit to parents, including lone parents, who have been on certain benefits for a year or more;
- **continued reform of Housing Benefit**, beginning flat-rate Pathfinders in the social sector as soon as it is practical and aligning some of the rules of Housing Benefit and tax credits;
- **additional help for those on benefits to enter self-employment**;
- **an extension of back to work help for those aged 60 and over and on the Pension Credit by October 2004**; and
- **extra help for sick and disabled people** by enabling Jobcentre Plus personal advisers to provide additional voluntary support to Incapacity Benefit customers who want to return to work.

FAIRNESS FOR FAMILIES AND COMMUNITIES

I.25 The Government is committed to promoting fairness together with flexibility and enterprise so that everyone can take advantage of opportunities to achieve their full potential in a modern, dynamic economy. The tax and benefit system puts into practice the principle of progressive universalism, with support for all and more help for those who need it most, when they need it most. The Government is also at the forefront of global efforts to achieve the Millennium Development Goals for global poverty.

Action so far I.26 The Government has undertaken a wide range of reforms to achieve its goals in these areas, including:

- **support for families and children** to lift children out of poverty and so ensure they have the opportunity to achieve their full potential. The Government has increased financial support through the tax and benefit system, with significant rises in Child Benefit and the introduction of the Child Tax Credit, as well as improvements in parental leave to help families balance work and family life;

- **support for pensioners** to tackle poverty and ensure security in retirement for all pensioners, with extra help for those who need it most and reward for those who have saved modest amounts. The Government has increased the basic state pension by more than inflation in each of the last three years, has introduced winter fuel payments and has extended to 52 weeks the period over which pensioners in hospital receive their full state pension. The Government has also introduced the Pension Credit, which rewards saving by pensioners on low and modest incomes; and
- **steps to encourage saving**, including through the introduction of the Child Trust Fund, stakeholder pensions and Individual Savings Accounts. The Child Trust Fund will provide an endowment for every child, with more for children in the poorest third of families, and will strengthen the saving habit of future generations. Saving Gateway pilots are testing Government-funded matched contributions to help people on low incomes develop a regular saving habit.

Next steps 1.27 Building on this programme of reform, this Pre-Budget Report sets out further steps to promote fairness, including:

- **increasing the child element of the Child Tax Credit by £180 to £1,625 a year from April 2004, equivalent to a weekly increase of £3.50.** This will benefit 7.2 million children and means the Government is on track to meet or exceed the target to reduce the number of children in low-income households by a quarter by 2004-05 on a before housing costs basis. The increase will enable the Government step by step to make progress towards the goal to halve child poverty by 2010 and eradicate it in a generation;
- **promoting the provision of employer supported childcare**, as part of the Government's ongoing commitment to help parents balance their work and family lives;
- **consulting further on detailed proposals to simplify radically the taxation of pensions**, increasing choice and flexibility for pension savers and promoting the take up of the Pension Credit, launched in October 2003, providing increased financial security for pensioners on low or modest incomes and helping to tackle pensioner poverty;
- **bringing all Sandler stakeholder medium-term products and life insurance products into the stocks and shares component of ISAs from 2005;** and
- **taking action to protect direct and indirect tax revenues** and modernise the tax system.

DELIVERING HIGH QUALITY PUBLIC SERVICES

1.28 World class public services are central to achieving the Government's goal of a stronger, more flexible economy and a fairer society. A healthy and educated workforce, modern and reliable transport network and an adequate supply of affordable housing promote productivity and flexibility and help to ensure opportunity and security for all. The Government's strategy is to deliver improvements in public services through sustained investment and reform to ensure that taxpayers receive value for money.

Action so far I.29 Chapter 6 sets out the steps the Government has taken to deliver lasting improvements in the delivery of public services, including:

- **a new framework for managing public spending** that strengthens incentives for departments to plan for the long term, ensures that resources are used as effectively and efficiently as possible, and gives departments the flexibility they need to ensure improvements in public service delivery; and
- **significant extra resources for public services**, consistent with the fiscal rules. The 2002 Spending Review delivered substantial extra investment in key public service priorities with more than 75 per cent of planned additional spending allocated to the key priorities of health, education, criminal justice, housing and transport.

Next steps I.30 The Pre-Budget Report describes how the Government is working to deliver reform of public services, including:

- **setting out the key issues which will guide the 2004 Spending Review**, concluding next summer, which will lock in the step change in funding for key public services delivered in previous Spending Reviews. The Review will determine new departmental spending plans for 2006-07 and 2007-08 and a new set of Public Service Agreements; and
- **reporting on progress on the Reviews announced in Budget 2003** to inform the outcome of the 2004 Spending Review, including the Lyons Review of public sector relocation, the Gershon Review of public sector efficiency and the Devolved Decision-Making Review.

PROTECTING THE ENVIRONMENT

I.31 Sustainable development is vital to ensure a better quality of life for everyone, today and for generations to come. Economic growth is key to rising national prosperity. However, growth must not come at the expense of the environment or social progress. The Government is pursuing a far-reaching strategy to deliver its long-term goal of tackling climate change and fulfilling its commitments under the Kyoto Protocol. To meet the challenge of sustainable development, it is also taking wider action to improve air quality, regenerate Britain's towns and protect the countryside.

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

- **tackling climate change and improving air quality**, by ensuring that the UK meets its international commitments under the Kyoto Protocol. The Energy White Paper, published in February 2003, restates the Government's commitment to its climate change goal and its aim to put the UK on the path to a 60 per cent reduction in greenhouse gas emissions from current levels by 2050;
- **improving waste management** so that resources are re-used or recycled to deliver economic value, resulting in greater resource efficiency and reducing the damaging environmental impact of waste. The landfill tax and the landfill tax credit are central to these aims; and

- **protecting Britain's countryside and natural resources** to ensure that they are sustainable economically, socially and physically. The aggregates levy is helping to tackle the environmental costs of quarrying and action has been taken to limit the environmentally damaging impact of agriculture.

Next steps 1.33 Further steps to protect the environment are set out in this Pre-Budget Report, including:

- **the establishment of an Alternative Fuels Framework to guide the duty regime for alternative fuels**, including a commitment to providing rolling three-year certainty on duty differentials for all alternative fuels. Consistent with this framework the Government is today announcing a gradual increase in the duty rate for Liquefied Petroleum Gas (LPG) to a level which better reflects its relative environmental benefits;
- the extension, subject to state aid approval and satisfactory negotiated agreements with the industry, of **relief from the levy for the aggregates used in processed products and virgin aggregate in Northern Ireland**;
- **announcing plans for changes to the eligibility criteria for climate change agreements** that will provide better incentives for businesses to encourage energy efficiency;
- **how it proposes to recycle landfill tax revenues** to businesses; and
- **a consultation in early 2004 on tackling diffuse water pollution**, including a consideration of the pros and cons of economic instruments.

PRE-BUDGET REPORT DECISIONS

1.34 Consistent with the requirements of the *Code for fiscal stability*, the updated public finance projections in the Pre-Budget Report take into account the fiscal effects of all firm decisions announced in the Pre-Budget Report or since Budget 2003, including the special reserve allocation in Departmental Expenditure Limits, increases to the Child Tax Credit and measures to protect tax revenues. The fiscal impact of these measures is set out in Table 1.2. Full details are provided in Annex B.

Table 1.2: Estimated costs of Pre-Budget Report policy decisions and others announced since Budget 2003¹

	(+ve is an Exchequer yield)			£ million
	2003–04	2004–05	2005–06	2006–07
Raising productivity in an enterprise economy				
Improvements to the VAT flat-rate scheme	0	–10	–25	–30
Improvements to R&D tax credit schemes	0	–15	–25	–25
Capital allowances: increases in the thresholds defining SMEs	0	–100	–170	–125
Corporation tax reform: extension of relief for management expenses	0	–20	–35	–25
Corporation tax reform: transfer pricing and thin capitalisation	0	25	40	25
Interest and royalties directive	0	*	*	5
Increasing employment opportunity for all				
Housing benefit: social sector Pathfinders	0	0	–15	–30
Building a fairer society				
Child Tax Credit: increase above earnings commitment	0	–885	–925	–955
Employer supported childcare	0	0	–20	–25
Working Tax Credit for first time parents	0	–10	–10	–10
State pension: deferral; lump sum and increments	0	0	–10	–25
Modernising National Savings and Investments	0	0	5	5
VAT: cultural bodies	–20	–25	–25	–20
Protecting tax revenues				
Foreign earnings deduction for seafarers (FED)	0	20	50	40
Reform of the Construction Industry Scheme (CIS)	0	20	40	80
Modernising the taxation of trusts	0	40	105	100
VAT: abusive grouping	0	50	70	65
VAT: partial exemption special methods	0	50	55	50
VAT: assignment of bad debts	5	20	20	20
Tackling alcohol fraud	0	5	10	175
Total Pre-Budget Report measures	–15	–835	–865	–705
Additional Pre-Budget Report policy decisions				
Total special reserve allocation	–2500	–300	0	0
TOTAL POLICY DECISIONS	–2515	–1135	–865	–705
Extension of the VAT strategy ²	–5	165	210	290
TOTAL DISCRETIONARY MEASURES	–2520	–970	–655	–415

* Negligible

¹ Costings shown relative to an indexed base.

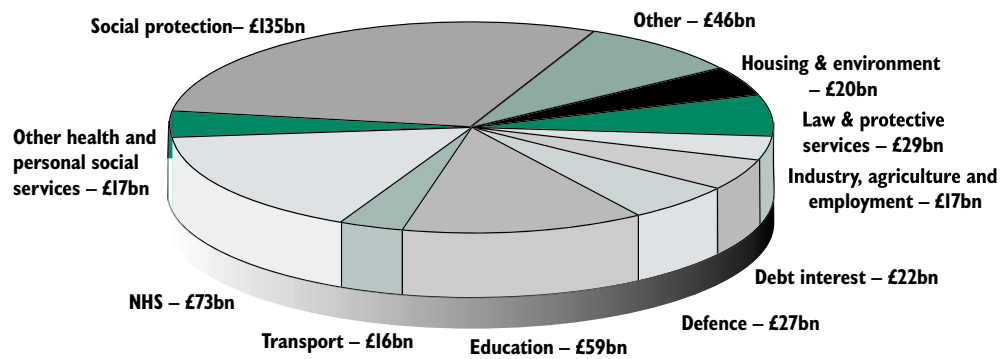
² Underlying assumptions audited by the NAO; net of additional resources allocated to HM Customs and Excise.

GOVERNMENT SPENDING AND REVENUES

I.35 Chart 1.1 presents public spending by main function. Total Managed Expenditure (TME) is expected to be around £460 billion in the current financial year, 2003-04. TME is divided into Departmental Expenditure Limits, shown in Table B15, and Annually Managed Expenditure (AME), shown in Table B13.

Chart I.1: Government spending by function

Total managed expenditure: £460 billion

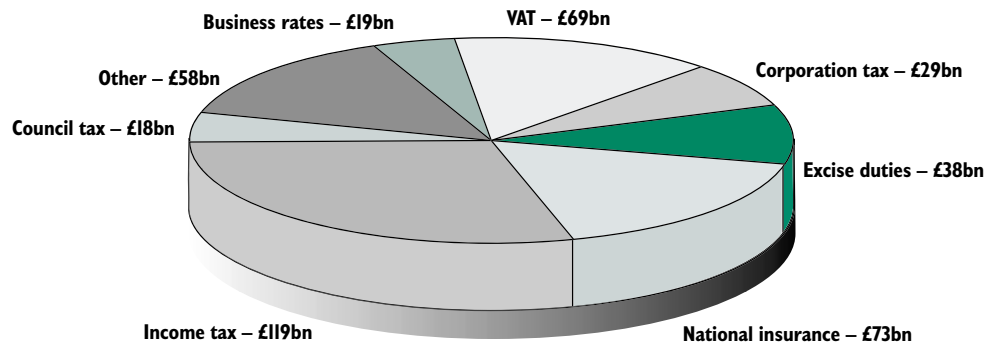


Source: HM Treasury, 2003-04 figures. Other expenditure includes spending on central administration; culture, media and sport; international cooperation and development; public service pensions; plus spending yet to be allocated and some accounting adjustments. Social protection includes tax credit payments in excess of an individual's tax liability, which are now counted in AME, in line with OECD guidelines. Figures may not sum to total due to rounding.

I.36 Chart 1.2 shows the different sources of government revenue. Public sector current receipts are expected to be around £423 billion in 2003-04. Table B11 provides a more detailed breakdown of receipts consistent with this chart.

Chart I.2: Government receipts

Total receipts: £423 billion



Source: HM Treasury, 2003-04 figures. Other receipts include capital taxes, stamp duties, vehicle excise duties and some other tax and non-tax receipts – for example, interest and dividends. Figures may not sum to total due to rounding.