Pre-Budget Report
November 2008

Facing global challenges:
Supporting people through difficult times

HM Treasury
Cm 7484
Facing global challenges:
Supporting people through difficult times

Pre-Budget Report
November 2008

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

Cm 7484
£45.00
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.
The Government’s objective is to build a strong economy and a fair society, where there is opportunity and security for all. The 2008 Pre-Budget Report, **Facing global challenges: supporting people through difficult times**, presents updated assessments and forecasts of the economy and public finances, and reports on how in the face of major global economic shocks the Government intends to support the economy, businesses and households through these uncertain times while delivering its long-term goals. The Pre-Budget Report:

Announces discretionary fiscal policy to support the economy through these difficult times followed by a sustained fiscal consolidation from 2010-11 when the economy is expected to be recovering and able to support a reduction in borrowing:

- temporarily reducing the Value Added Tax (VAT) rate to 15 per cent with effect from 1 December 2008 to 31 December 2009;
- bringing forward £3 billion of capital spending from 2010-11 including introducing a green stimulus supporting low carbon growth and jobs;
- restricting the income tax personal allowance for those with incomes over £100,000 from April 2010, and introducing a new additional higher rate of income tax of 45 per cent for those with incomes above £150,000 from April 2011;
- increasing the employee, employer and self-employed rates of national insurance contributions by 0.5 per cent from April 2011;
- to offset the effects of the temporary reduction in VAT, increasing alcohol and tobacco duties, maintaining these increases after December 2009 to support fiscal consolidation; and following a fall in pump prices of over 20 pence per litre from their summer peaks, a two pence per litre increase in fuel duty from 1 December 2008; and
- an additional £5 billion value for money target for 2010-11 and setting assumptions for spending growth from 2011-12 onwards.

Announces immediate action to help those individuals and businesses most affected by the economic downturn:

- making permanent the £600 increase in the income tax personal allowance announced in May 2008 with a further increase of £130;
- bringing forward April’s increase in Child Benefit to January, increases of the Child Tax Credit and a payment of £60 to all pensioners equivalent to bringing forward the April increase in the basic state pension;
- help through mortgage rescue and Support for Mortgage Interest schemes for eligible homeowners in difficulty and a commitment from major mortgage lenders not to initiate repossession action within at least three months of an owner-occupier going into arrears;
- an additional £1.3 billion to continue delivering effective support for the unemployed to find a new job;
- measures to help small and medium-sized enterprises facing credit constraints, including a new Small Business Finance Scheme and a £1 billion guarantee facility to support bank lending to small exporters;
- a new HMRC Business Payment Support Service to allow businesses in temporary financial difficulty to pay their HMRC tax bills on a timetable they can afford; and
- more generous tax relief for businesses now making losses and the modification of a number of planned tax reforms, including vehicle excise duty, air passenger duty, and the deferral of the increase in the small companies’ rate of corporation tax.
The Government’s objective is to build a strong economy and a fair society, where there is opportunity and security for all.

In the face of recent global economic shocks, the Government’s immediate priority at this Pre-Budget Report is to support the economy through these difficult times. The long-term decisions the Government has taken – giving independence to the Bank of England, the introduction of a fiscal framework, and reduction of public debt – have created a strong base for the UK to meet this challenge.

The world economies have been hit by major shocks. Developments in the US subprime mortgage market triggered a credit shock that intensified into the worst global financial crisis for generations. In September 2008, the global financial system was brought close to collapse. The Government acted decisively to implement comprehensive measures to stabilise the banking system, and other governments around the world have followed similar steps. Between Budget 2008 and early July, oil prices increased from $100 to almost $150 a barrel, but have since fallen to around $50. As a result of these shocks, growth prospects have deteriorated sharply, with many advanced economies already in recession. Growth in the major advanced economies is forecast to be negative in 2009, the first year of contraction since 1982, while world GDP growth is forecast to be just 2 per cent, well below recent trends.

The UK economy has slowed as credit conditions tightened and high food and energy prices squeezed household incomes and company profits. The combined effects of these shocks has been to push the UK economy into recession and inflation to a 16-year high. Due to lower commodity prices, inflation has started to ease, but growth is forecast to be negative in 2009. From the second half of 2009, with support from fiscal policy stimulus, low interest rates and lower commodity prices, the economy is forecast to begin to recover, with growth picking up further in 2010 and 2011.

The current economic and fiscal climate is exceptionally challenging. While economic prospects are subject to significant uncertainty, it is clear that the UK, like many advanced economies has moved into recession. As a result of the major global shocks, economic prospects have deteriorated since Budget 2008. The macroeconomic framework, introduced in 1997, means that the UK is facing these shocks from a solid foundation. Credible medium-term objectives and mechanisms for short-term flexibility mean that the Bank of England and the Government can deliver the necessary support to the economy without compromising their respective commitments to low inflation and sound public finances.

The Government’s immediate priority is to continue to support the economy through these difficult times. The Bank of England has reduced interest rates to a 50-year low, providing monetary policy support to the economy. A starting point of low public debt, and the action being taken to ensure sound public finances over the medium term, provide flexibility for fiscal policy to support the economy now, complementing low interest rates. This Pre-Budget Report announces that the Government will support families and businesses, including by:

- temporarily reducing the VAT rate to 15 per cent with effect from 1 December 2008 to 31 December 2009; and
• bringing forward £3bn of capital spending from 2010-11 to 2008-09 and 2009-10, the years when the impact of the shock is likely to be the strongest.

Ensuring sustainability 1.8 Over the medium term, the Government’s fiscal policy objective is to ensure the sustainability of the public finances, in order to protect economic stability and long-term growth. This Pre-Budget Report sets out measures which put the public finances on a path to achieve a balanced cyclically-adjusted current budget and a declining debt to GDP ratio by 2015-16.

• the income tax personal allowance will be restricted for those with incomes over £100,000 from April 2010 and a new additional higher rate of income tax of 45 per cent will be introduced for those with incomes above £150,000 from April 2011;

• the employee, employer and self-employed rates of National Insurance Contributions will increase by 0.5 per cent from April 2011, when economic growth is forecast to be above trend rates and real incomes are growing strongly; and

• the Government will increase its Value for Money target in 2010-11 by £5 billion. Current spending will grow on average from 2011-12 to 2013-14 at 1.2 per cent a year in real terms, and public sector net investment will move to 1.8 per cent of GDP by 2013-14.

Economic prospects 1.9 Against the backdrop of major economic shocks, growth across the G7 economies is expected to have slowed to 1 per cent this year, and to turn negative in 2009, the first year of contraction since 1982. Many advanced economies are already experiencing falling output, with the euro area and Japan in recession in mid 2008. In the UK GDP, having slowed progressively over the past year, is forecast to grow by ¾ per cent in 2008 as a whole, with output falling in the second half of the year. The recession is forecast to continue into the first half of 2009, before GDP growth begins to recover in the second half of the year as credit conditions start to ease and the boost to real incomes from lower commodity prices, the stimulus from monetary and fiscal policy, and the effects of sterling’s depreciation, take hold.

Public finances 1.10 The Pre-Budget Report provides updated projections for the public finances. The projections for the public finances take into account all firm decisions announced in this Pre-Budget Report, or since Budget 2008, consistent with the requirements of the Code for Fiscal Stability. Table 1.2 lists the key Pre-Budget Report policy decisions and their impact on the public finances. Further details are set out in Annex B.

1.11 The interim forecast update of the projections for the public finances, published in this Pre-Budget report and summarised in Table 1.1, shows:

• Public sector net borrowing (PSNB) increases from 2.6 per cent of GDP in 2007-08 to 8.0 per cent in 2009-10, reflecting the impact of the economic downturn on receipts, in particular from the financial and housing sectors, the effect of the automatic stabilisers and the action the Government is taking to support the economy. Of this around 1.1 per cent of GDP is as a result of discretionary action to support the economy. PSNB then declines to 2.9 per cent of GDP by 2013-14 as the economy recovers and the Government takes action to ensure the sustainability of the public finances; and

• Public sector net debt (PSND) increases over the forecast period, in particular in 2009-10 and 2010-11, reflecting the additional borrowing in these years, then begins to stabilise at just over 57 per cent by the end of the forecast period.
### Table 1.1: Summary of fiscal projections

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<thead>
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<td>5.3</td>
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<td>6.8</td>
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<td>5.5</td>
<td>4.8</td>
<td>3.7</td>
<td>2.8</td>
<td>-</td>
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<td>Impact of discretionary measures on PSNB</td>
<td>0.0</td>
<td>0.0</td>
<td>0.6</td>
<td>1.1</td>
<td>-0.3</td>
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<tr>
<td>Surplus on current budget</td>
<td>-0.5</td>
<td>-2.8</td>
<td>-5.3</td>
<td>-4.7</td>
<td>-3.3</td>
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<tr>
<td>Cyclically-adjusted surplus on current budget</td>
<td>-0.8</td>
<td>-2.8</td>
<td>-4.4</td>
<td>-3.4</td>
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<tr>
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<td>2.5</td>
<td>2.7</td>
<td>2.1</td>
<td>2.0</td>
<td>1.9</td>
<td>1.8</td>
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<tr>
<td>Public sector net debt²</td>
<td>36.3</td>
<td>41.2</td>
<td>48.2</td>
<td>52.9</td>
<td>55.6</td>
<td>57.1</td>
<td>57.4</td>
</tr>
</tbody>
</table>

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2. Debt at end March; GDP centred on end March; excluding financial sector interventions.

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### The fiscal framework

The Government’s fiscal policy objectives remain unchanged – to smooth the path of the economy over the short term, and ensure sound public finances over the medium term. To implement these in current economic circumstances, the Government will depart temporarily from the fiscal rules until the global shocks have worked their way through the economy in full.

Consistent with the *Code for fiscal stability*, the Government is setting a temporary operating rule: to set policies to improve the cyclically-adjusted current budget each year, once the economy emerges from the downturn, so it reaches balance and debt is falling as a proportion of GDP once the global shocks have worked their way through the economy in full.

The fiscal projections set out in this Pre-Budget Report are consistent with returning to cyclically-adjusted current balance and debt falling as a share of the economy by 2015-16 when the global shocks will have worked through the economy in full. They imply, as the economy emerges from the downturn, an adjustment in the cyclically-adjusted current balance of over 0.5 per cent of GDP a year from 2010-11.

### Ensuring financial stability

Financial markets influence the lives of every individual and business in the country. They are the core mechanism by which resources are efficiently allocated in an economy and a key driver of productivity, growth and opportunities. Financial instability, to the extent that it disrupts financial markets, can therefore affect everybody.

Since July 2007, the global economy has experienced levels of financial instability not seen for generations. The causes of this instability are varied and global. They include both macroeconomic factors, such as global financial imbalances, and microeconomic factors, such as the failure of banks to manage financial risk. The trigger for the instability was the downturn in the US housing market, the ‘subprime’ end of which was a feature of many of the financial products that have been created in recent years. The instability grew steadily, peaking in the weeks following the collapse of Lehman Brothers, a US investment bank, in September 2008.

The Government’s objectives for addressing these threats to the financial system have been consistent, and focused around the need to:

- support stability and restore confidence in the financial system;
In September 2008, the crisis intensified and it became clear that not just individual institutions but the entire banking system was at risk of collapse. That would have had devastating consequences for UK households and businesses. The Government therefore intervened decisively to prevent systemic collapse. First, to address concerns about liquidity, at least £200 billion was made available to the Bank of England’s existing Special Liquidity Scheme. Second, to address concerns about solvency at least £50 billion was committed to a Bank Recapitalisation Fund. Third, to address concerns about funding, a credit guarantee scheme was established.

Other governments around the world have followed with similar steps and market reactions have been generally positive. However, markets remain fragile and volatile. The Government remains committed to taking action to meet its objectives.

Looking to the future, and given the global nature of this instability, the Government’s international priorities include:

- as the 2009 Chair of the G20, making rapid progress on priority issues for the future of the international financial regulatory system;
- ensuring that the EU learns the lessons from the crisis, in particular regarding supervision and deposit protection arrangements for banks operating across borders; and
- reviewing the long-term opportunities and challenges for the UK’s crown dependencies and overseas territories as financial centres.

Within the UK, the Government’s immediate priorities include:

- continuing to monitor the financial system to ensure it is able to support the wider economy, including through appropriate levels of lending to businesses and households;
- strengthening the Banking Bill to enhance the Authorities’ ability to deal with banking group holding companies and the insolvency of investment firms; and
- introducing measures to facilitate the raising of equity capital.

Businesses are facing an exceptionally challenging economic climate with uncertainty over the short to medium term. The decisive steps the Government has taken to help ensure financial stability are critical to businesses, and action such as the temporary reduction in the rate of VAT, which will provide significant support during the economic downturn. Further action that the Government is taking to help businesses respond to the current economic challenges over the short term include:

- measures to help small and medium-sized enterprises (SMEs) facing credit constraints. The Government will launch a new Small Business Finance Scheme to support up to £1 billion of bank lending to small exporters; a £50 million fund to convert businesses’ debt into equity; and a £25 million regional loan transition fund;
a new HMRC Business Payment Support Service to allow any business in temporary financial difficulty to pay their HMRC tax bills on a timetable they can afford;

more generous tax relief for businesses now making losses, by allowing temporary additional carry-back of up to £50,000 of losses to be set against taxable profits from the last three years; and

the modification of a number of planned tax reforms, including the deferral of the increase in the small companies’ rate of corporation tax, a temporary increase in the threshold at which an empty property becomes liable for business rates, and the reform of air passenger duty rather than proceeding with a per-plane tax.

The Government is committed to ensuring the UK is in a strong position to respond to longer-term challenges. The Government announces further measures to ensure the UK is well placed to deliver sustainable growth and prosperity over the decade ahead including:

- a package of reforms to the taxation of foreign profits, including the introduction of a foreign dividend exemption for large and medium-sized businesses, supported by a worldwide debt cap on interest;
- a review of the Controlled Foreign Companies anti-avoidance rules consistent with a further move towards a territorial approach;
- measures to enhance SME access to Government contracts, including a new online portal for all Government contracts over £20,000; and
- a set of devolutionary proposals, to be agreed with local authorities in city-regions on a voluntary basis, to increase their ability to drive sustainable economic growth.

HELPING PEOPLE FAIRLY

The Government has already taken action to help people through the current global economic difficulties. Building on this, the Government announces further packages of targeted support, providing additional help to those who need it most now.

To provide additional support for low-income and middle-income taxpayers, the Government will:

- make permanent the £600 increase in the income tax personal allowance announced in May 2008 with a further increase of £130, meaning basic rate taxpayers pay £145 less tax a year in 2009-10. The Government is also taking measures to consolidate the public finances. The combined effect of all its reforms will mean that taxpayers with incomes below £40,000 will pay less tax and national insurance contributions in April 2011 compared to April 2008;
- bring forward April’s increase in Child Benefit to January, worth an additional £22 on average to families; and bring forward its commitment to increase the child element of the Child Tax Credit by £25 above indexation in April 2010 to April 2009 meaning it will increase by £75 above indexation to £2,235 in April 2009; and
- pay £60 to all pensioners in the New Year which is equivalent to bringing forward the April increase in the basic State Pension for a single pensioner to January.

The Government is committed to supporting householders facing financial difficulties. A new Lending Panel will improve monitoring of lending to households and businesses
lending, as well as drive up best practice across the mortgage market and promote awareness of initiatives to support households against repossessions. Individuals can also expect:

- help through mortgage rescue and Support for Mortgage Interest schemes for eligible homeowners in difficulty;
- a commitment from major mortgage lenders on the Panel not to initiate repossession action within at least three months of an owner-occupier going into arrears; and
- free and impartial debt advice through increased Government funding.

1.27 The UK's dynamic labour market leaves it well placed to deal with rising unemployment, with 1.2 million people finding new jobs in the three months to September. To ensure that those facing redundancy and those seeking employment are helped back into work as quickly as possible, the Government announces:

- an additional £1.3 billion to continue delivering effective support for the unemployed to find a new job;
- a National Employment Partnership, bringing together Government and major employers to tackle rising unemployment; and
- refocusing Train to Gain to provide support in pre-redundancy situations, expanding the Rapid Response Service to target small and large scale redundancies and extending Local Employment Partnerships to focus on the short-term unemployed.

1.28 The 2008 Pre-Budget Report also announces further measures to continue the Government's established fairness agenda, including contributing 50 pence for every pound saved in the Saving Gateway and reforms to modernise tax administration and protect tax revenues.

**IMPROVING PUBLIC SERVICES**

1.29 Over the last ten years, record levels of investment coupled with reform have generated real and enduring improvements in Britain's schools, hospitals and other public services. The 2008 Pre-Budget Report continues high levels of investment to improve public services, reprioritises spending to support the economy through the downturn and announces an ambitious extension of its plans to increase value for money.

1.30 In the short term, the Government is focused on providing targeted support to the individuals and businesses most affected by the global economic shocks. The 2008 Pre-Budget Report announces:

- as part of the Government's fiscal stimulus package, bringing forward £3 billion of capital spending from 2010-11 into 2009-10 and 2008-09 for housing, education, transport and other construction projects, supporting industries and jobs across the country; and
- new spending measures including additional funding for Jobcentre Plus to help people move back to work, the extension of the Support for Mortgage Interest Scheme and a new Small Business Finance Scheme for small and medium enterprises.
1.31 Over the last decade, the Government has made significant progress in delivering public services that represent good value for money and is determined to do even more in the period ahead. The 2008 Pre-Budget Report announces that:

- the Government has over-achieved against the targets set by the Gershon Efficiency Programme, including delivering £26.5 billion in savings and a reduction of 86,700 civil service posts between 2004 and 2007;
- departments are making good progress towards the 2007 Comprehensive Spending Review (CSR) value for money target of £30 billion of savings by 2010-11;
- additional value for money savings have been identified through the work of the Operational Efficiency Programme (OEP) including through collaborative procurement and back office efficiencies; and
- further value for money savings will be delivered within the 2007 CSR period and beyond through a set of Public Value Programme (PVP) reforms across major areas of spend.

1.32 Given the over-achievement against the 2004 target, and the scope for these additional efficiency savings, the Government announces an additional £5 billion value for money target for 2010-11.

1.33 To achieve continued improvement and investment in public services and maintain sustainable public finances in the medium term. The 2008 Pre-Budget Report:

- sets assumptions for spending growth from 2011-12 onwards, with current growing in real terms by 1.3 per cent in 2011-12, 1.2 per cent in 2012-13 and 1.1 per cent in 2013-14; and public sector net investment moving to 1.8 per cent of GDP by 2013-14; and
- announces the Government will continue and deepen work to improve value for money in the next Spending Review period, in particular by driving forward the OEP and PVP.

**Delivering on Environmental Goals**

1.34 Action to achieve environmental goals remains a high priority for the Government in current economic circumstances. The Government is putting in place policies and investment to support a low-carbon recovery, with new jobs and businesses created through green growth. Government policies are driving £50 billion of investment in the low-carbon sector over three years. The Climate Change Bill introduces a legally binding target to cut greenhouse gas emissions by at least 80 per cent by 2050, the most ambitious in the G7, building on the Government’s plans to deliver a one-third reduction in emissions from 1990 levels by 2020.

1.35 The Pre-Budget Report contributes to meeting the UK’s ambitious long-term environmental goals, while supporting low-carbon growth by:

- introducing a green stimulus – ensuring part of the fiscal stimulus supports low-carbon growth and jobs by accelerating £535 million of capital spending on energy efficiency, rail transport, and adaptation measures. 76,000 low-income households will benefit earlier from better heating and energy efficiency, up to 200 new rail carriages will be delivered earlier and 27,000 homes will benefit sooner from flood defences;
• successfully securing inclusion of aviation in the EU Emissions Trading Scheme from 2012, and holding Europe’s first Phase II carbon auction on 19 November 2008;

• retaining the Renewables Obligation to provide financial support for large-scale renewable electricity and extending it by at least ten years, ensuring investors can plan with confidence for the future. This will complement the introduction of a feed-in tariff for small-scale renewable electricity and a renewable heat incentive to reward households and businesses that generate renewable energy on site; and

• following a fall in pump prices of over 20 pence per litre from their summer peaks, the postponed two pence per litre fuel duty increase will go ahead on 1 December 2008.

1.36 At the same time, the Pre-Budget Report shows how environmental policies can respond flexibly to help people and businesses through tough times, while reducing carbon emissions by:

• installing 600,000 insulation measures this winter, up 70 per cent on last winter, through the £6.8 billion Home Energy Saving Programme, half of which is funded by energy companies. This will help households save up to £300 a year on energy bills and reduce carbon emissions;

• continuing to provide a clearer environmental signal through reform to vehicle excise duty, while ensuring that no driver in any given band will pay more than £5 extra in 2009 or £30 extra in 2010; and

• reforming air passenger duty from 1 November 2009, moving from two to four distance bands to improve environmental signals. The Government has decided not to proceed with a per-plane tax in order to ensure greater stability and protect competitiveness at a time of economic uncertainty.

PRE-BUDGET REPORT POLICY DECISIONS

1.37 Consistent with 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 2008. The fiscal impact of these measures is set out in Table 1.2. Full details are provided in Annex B.
## OVERVIEW

### Table 1.2: Estimated costs for Pre-Budget Report policy decisions and others announced since Budget 2008

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<th>Measures announced since Budget 2008</th>
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<td><strong>2008-09</strong></td>
<td><strong>2009-10</strong></td>
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<tr>
<td>Personal allowance and basic rate limit changes for 2008-09</td>
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<tr>
<td>September housing package: spending measures</td>
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<td>SDLT holiday for residential homes</td>
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<tr>
<td>Local Housing Allowance: cap benefit at 5 bedroom rate</td>
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<tr>
<td>Class 3 NICs: Pensions Bill amendment</td>
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</table>

**Supporting the economy and ensuring sustainability of public finances**

| VAT rate reduction | -3,800 | -8,600 | 0 | 0 |
| Alcohol duties: increase in rates | +160 | +640 | 0 | 0 |
| Tobacco duties: increase in rates | +115 | +340 | 0 | 0 |
| Capital spending brought forward | -365 | -2,545 | +2,910 | 0 |
| Indexation of personal allowance and basic rate limit | 0 | -930 | -3,310 | -3,270 |
| £130 increase in personal allowance in 2009-10 and 2010-11 | 0 | -630 | -770 | -100 |
| Freeze basic rate limit in 2011-12 | 0 | 0 | 0 | +180 |
| Restrict personal allowance by half from £100,000 and to zero from £140,000 from 2010-11 | 0 | 0 | +830 | +1,320 |
| Additional higher income tax rate of 45% above £150,000 and raise trust rate to 45% from 2011-12 | 0 | 0 | 0 | +670 |
| Align the NICs primary threshold with personal allowance in 2011-12 | 0 | 0 | 0 | -1,610 |
| Increase main employee NICs rate by 0.5% from 2011-12 | 0 | 0 | 0 | +2,050 |
| Increase additional employee NICs rate by 0.5% from 2011-12 | 0 | 0 | 0 | +440 |
| Increase employer NICs rate by 0.5% from 2011-12 | 0 | 0 | 0 | +2,650 |
| Increase main self-employed rate of NICs by 0.5% from 2011-12 | 0 | 0 | 0 | +170 |
| Increase additional self-employed NICs rate by 0.5% from 2011-12 | 0 | 0 | 0 | +80 |
| Public spending: additional value for money savings | 0 | 0 | +5,000 | +5,000 |

**Supporting business**

| Foreign profits | 0 | +75 | +25 | -275 |
| Loss carry back: temporary extension | -10 | -175 | -20 | +15 |
| Small Companies Rate of corporation tax: defer increase to April 2010 | 0 | -20 | -460 | -130 |
| Rates on empty property: temporary exemption | 0 | -185 | +10 | 0 |
| Backdated business rates bills | -80 | -55 | +25 | +20 |
| Income shifting: defer action | 0 | -25 | -260 | -200 |
| Insurance claims equalisation reserves | -15 | -35 | -35 | -35 |

**Helping people fairly**

| Child benefit: bring forward uprating from April 2009 to January 2009 | -170 | 0 | 0 | 0 |
| Child element of Child Tax Credit: bring forward £25 increase from 2010 to April 2009 | 0 | -190 | 0 | 0 |
| DWI Job Centre Plus funding | 0 | -400 | 0 | 0 |
| Uprating of pension credit above indexation | 0 | -260 | -300 | -310 |
| Additional payment to pensioners and others | -900 | 0 | 0 | 0 |
| Freeze pension lifetime and annual allowance from 2011-12 for 5 years | +25 | +100 | +200 | +400 |
| Index housing benefit disregard in tax credits | 0 | -5 | -5 | -5 |
| Support for mortgage interest | -30 | -15 | 0 | 0 |
| Further support for debt advice | -5 | -10 | -5 | 0 |

**Protecting revenues**

| Change of Accounting Practice Regulations | 0 | +10 | +15 | +15 |
| Enhance tax avoidance disclosure regime | 0 | +10 | +15 | +10 |

**Delivering on environmental goals**

| Air passenger duty | 0 | -60 | -160 | -50 |
| Vehicle excise duty - cars and vans | 0 | -465 | -515 | -545 |
| Vehicle excise duty - heavy goods vehicles | 0 | -10 | -10 | -10 |
| Fuel duty | -180 | 0 | 0 | 0 |
| Additional spending on Warm Front | -50 | -50 | 0 | 0 |
| Capital allowances: business cars | 0 | +10 | +10 | +5 |

**Other policy decisions**

| Addition to DEL reserve | -1,000 | 0 | 0 | 0 |

**TOTAL POLICY DECISIONS**

-9,285 -16,330 +4,775 +7,550

**Memo: Resetting AME margin**

0 -1,000 -2,000 -2,000

1 Costings shown relative to an indexed base.

2 Costings reflect Pre-Budget Report economic forecast and assumptions.

3 Yield increases due to lagged effects of self-assessment. For 2011-12 onwards, yield is £670 million / £1650 million / £1600 million.

4 The remainder of the employment package totalling £1.3 billion announced in Chapter 5 is funded from DWP End of Year flexibility.

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10 2008 Pre-Budget Report
1.38 Chart 1.1 presents public spending by main function. Total managed expenditure (TME) is expected to be around £623 billion in the current financial year, 2008-09. TME is divided into Departmental Expenditure Limits (DEL), shown in Table B18, and Annually Managed Expenditure (AME), shown in Table B16.

Chart 1.1: Government spending by function

Total Managed Expenditure: £623 billion

- Other – £62bn
- Social protection – £173bn
- Personal social services – £27bn
- Health – £111bn
- Transport – £21bn
- Education – £83bn
- Defence – £36bn
- Industry, agriculture, and employment – £19bn
- Housing and Environment – £24bn
- Public order and safety – £33bn
- Debt interest – £34bn
- Social protection includes tax credit payments in excess of an individual’s tax liability, which are now counted on AME, in line with OECD guidelines. Figures may not sum due to rounding.

Source: HM Treasury, 2008-09 near-cash projections. Spending re-classified to functions compared to previous publications and is now more closely aligned with methods specified in international standards. Other expenditure includes spending on general public services (including international services) recreation, culture and religion, public service pensions; plus spending yet to be allocated and some accounting adjustments. Figures may not sum due to rounding.

1.39 Chart 1.2 shows the different sources of government revenues. Public sector current receipts are expected to be around £545 billion in 2008-09. Table B13 provides a more detailed breakdown of receipts consistent with this chart.

Chart 1.2: Government receipts

Total receipts: £545 billion

- Income tax – £157bn
- National insurance – £98bn
- Corporation tax – £45bn
- VAT – £83bn
- Excise duties – £42bn
- National insurance – £98bn
- Business rates – £23bn
- Council tax – £25bn
- Other – £73bn

Source: HM Treasury, 2007-08 projections. 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.