



HM TREASURY

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# Britain meeting the global challenge: Enterprise, fairness and responsibility

## Pre-Budget Report

December 2005

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.

# CONTENTS

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	Page	
Chapter 1	Overview	1
Chapter 2	Maintaining macroeconomic stability	13
Chapter 3	Meeting the productivity challenge	35
Chapter 4	Increasing employment opportunity for all	75
Chapter 5	Building a fairer society	91
Chapter 6	Delivering high quality public services	125
Chapter 7	Protecting the environment	147
Annex A	The economy	173
Annex B	The public finances	207
	List of abbreviations	249
	List of charts	256
	List of tables	258



# OVERVIEW

The Government's economic objective is to build a strong economy and a fair society, where there is opportunity and security for all. The 2005 Pre-Budget Report, *Britain meeting the global challenge: Enterprise, fairness and responsibility*, presents updated assessments and forecasts of the economy and public finances, reports on how the Government's policies are helping to deliver its long-term goals and describes the reforms the Government is considering ahead of Budget 2006 and on which it will be consulting in the months ahead. The Pre-Budget Report:

- shows that the economy is stable and growing, despite the sustained rise in oil prices and the slowdown in key UK export markets; and that the Government is meeting its strict fiscal rules for the public finances;
- sets out the Government's strategy for tackling the long-term lack of supply and responsiveness of housing, responding to Kate Barker's independent Review of Housing Supply;
- announces a tax credits package to provide more certainty around tax credit awards while maintaining the flexibility to respond to falls in income and changes in circumstances;
- increases North Sea oil taxation, striking the right balance between producers and consumers, to promote investment and ensure fairness for taxpayers;
- announces an extension of Winter Fuel Payments paid at £200 for households with someone aged 60 or over, rising to £300 for households with someone aged 80 or over, for the rest of this Parliament;
- allocates an additional £300 million over three years to enable pensioners on Pension Credit to have central heating systems installed free of charge, and to provide a £300 discount on central heating systems to all other pensioners who do not already have one in their home;
- introduces measures to make the UK a world-class environment for health research and to support a new partnership with the biomedical industry to increase private investment in medical R&D by £1 billion per year in the medium to long term;
- allocates an additional £53 million to expand Youth Opportunity Funds, enabling young people to secure the amenities and activities they want in each local authority;
- allocates an additional £580 million to the special reserve for 2005-06 for military operations in Iraq and the UK's other international obligations, and additional resources for counter-terrorism;
- promotes fairness in the tax system, including action to tackle tax fraud, avoidance and tax motivated incorporation; and
- announces the continuation of the freeze on main road fuel duties, in response to the continued volatility in oil prices.

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

**1.2** The long-term decisions the Government has taken – giving independence to the Bank of England, new fiscal rules and a reduction in debt – have created a strong platform of economic stability. In recent years the international economy has been affected by geopolitical uncertainty, rising oil prices, and large current account imbalances and shifting exchange rates between the US, Asia and Europe. World growth in 2005, while still robust by historical standards, has moderated compared with 2004, due in part to a sustained rise in oil and

petroleum product prices. This slowdown has been more pronounced among advanced economies, especially the UK's main export markets. Despite this, the UK economy continues its longest unbroken expansion since records began, with GDP now having grown for 53 consecutive quarters.

**Macroeconomic stability** **I.3** A more integrated global economy increases the speed and magnitude with which global shocks and imbalances can affect the UK. The UK's strong macroeconomic framework has helped to underpin increased stability compared to earlier decades, and put the UK in a strong position to resist the inflationary pressure brought by recent sustained increases in oil prices. The OECD's most recent report on the UK economy states that the UK is now the most stable economy in the G7 and the OECD. Economic stability provides the platform for building prosperity, achieving social justice with security and opportunity for all, and maintaining investment in public services. Stability allows businesses, individuals and the Government to plan more effectively for the long term, improving the quantity and quality of investment and helping to raise productivity. The Government is committed to locking in stability and investing in the UK's future, enabling it to meet the challenges and rise to the opportunities of the global economy.

**Meeting long-term global challenges** **I.4** The global economy is undergoing a major transformation, with far-reaching and fundamental changes in technology, production and trading patterns. Faster information flows and falling transport costs are breaking down geographical barriers to economic activity. The boundary between what can and cannot be traded is being steadily eroded, and the global market is encompassing ever-greater numbers of goods and services. This fast pace of change, combined with emergence of rapidly industrialising economies such as China and India and their integration into the global economy, presents new opportunities for the UK as well as new challenges.

**I.5** The response to globalisation requires action from businesses to respond to transformed markets and new opportunities, and action from government to establish the right business environment. In the long run, continued economic growth depends on enhanced productivity, and – as the pace of economic transformation quickens – on the flexibility of the UK economy to respond to changing global markets and trade. This Pre-Budget Report sets out further reforms to support the UK's response to globalisation – including plans to increase the supply and improve the affordability of housing and to strengthen the planning system; to reduce further the regulatory burden on business; to create a world-class environment for scientific research and development; and to improve the skills of the nation.

**I.6** Fairness must go alongside flexibility, providing security and support for those that need it and ensuring that everyone has the opportunity to fulfil their potential. The reforms of the welfare state, introduced since 1997, reflect the Government's aims of eradicating child poverty, supporting families to balance their work and family life, promoting saving and ensuring security for all in old age. The Government is also committed to a modern and fair tax and benefit system which encourages work and saving, and ensures that everyone pays their fair share of tax. The Pre-Budget Report announces further measures to help support families, children and pensioners.

**1.7** The Pre-Budget Report describes the next steps the Government is taking to enhance its long term goals of:

- **maintaining macroeconomic stability**, ensuring the fiscal rules are met and that inflation remains low;
- **raising the sustainable rate of productivity growth**, through reforms that promote enterprise and competition, enhance flexibility and promote science, innovation and skills;
- **providing employment opportunity for all**, by promoting a flexible labour market which sustains a higher proportion of people in employment than ever before;
- **ensuring fairness**, by providing security for people when they need it, tackling child and pensioner poverty, providing opportunity for all children and young people and delivering security for all in retirement;
- **delivering world-class public services**, with extra investment alongside efficiency, reform and results; and
- **addressing environmental challenges**, such as climate change and the need for energy efficiency in response to rising oil prices.

## MAINTAINING MACROECONOMIC STABILITY

**1.8** The Government's long term economic goal is to maintain macroeconomic stability, ensuring the fiscal rules are met at all times 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 public finances, full details of which are set out in Annexes A and B.

### The policy framework

**1.9** The Government's macroeconomic framework is based on the principles of transparency, responsibility and accountability, and is designed to ensure lasting stability so that businesses, individuals and the Government can plan effectively for the long term. The Bank of England has operational independence to meet the Government's symmetrical inflation target. Fiscal policy is underpinned by clear objectives and two strict rules which ensure sound public finances over the medium term. The fiscal rules underpin 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.

### Economic prospects

**1.10** World growth in 2005, while still robust, is judged to have moderated compared with 2004, due to a combination of high oil and petroleum product prices, structural difficulties adjusting to higher energy prices and other shocks, and cyclical slowdowns following above potential growth in some economies. This easing in growth rates has been more pronounced among advanced economies, especially the UK's main export markets in Europe. Despite this slowdown, the Government's macroeconomic framework has continued to deliver the UK's longest period of sustained and stable economic growth since records began fifty years ago. UK GDP has now expanded for 53 consecutive quarters. Moreover, the current economic expansion has now persisted for well over twice as long as the duration of the previous period of unbroken growth.

**I.II** Sound macroeconomic fundamentals continue to support growth and stability in the UK, helping the economy to remain far more resilient to challenges and shocks than it has in the past. However, there have been three significant developments affecting the outlook for UK growth since Budget 2005: significant statistical revisions to the quarterly profile of growth, external shocks such as higher oil prices and weaker demand growth in the euro area, and some weakness in domestically-generated growth. UK GDP is now expected to rise by 1<sup>3</sup>/<sub>4</sub> per cent in 2005 as a whole. Growth in 2006 is forecast to remain below trend at between 2-2<sup>1</sup>/<sub>2</sub> per cent, picking up to 2<sup>3</sup>/<sub>4</sub>-3<sup>1</sup>/<sub>4</sub> per cent in 2007 and 2008, leading to a closing of the output gap in 2008-09.

**The public finances** **I.I2** 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. 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*. 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.

**The fiscal rules** **I.I3** The interim forecast update of the projections for the public finances published in this Pre-Budget Report and summarised in Table 1.1, shows that the Government is meeting its strict fiscal rules:

- the current budget since the start of the current economic cycle in 1997-98 shows an average annual surplus up to 2008-09 of 0.1 per cent of GDP and the Government is therefore meeting the golden rule on the basis of cautious assumptions. There is a margin against the golden rule of £16 billion in this cycle, including the Annually Managed Expenditure (AME) margin. The current budget returns to balance by 2007-08, and the cyclically adjusted current budget in the cautious case moves into surplus by the end of the projection period; and
- public sector net debt is projected to remain low and stable over the forecast period, stabilising at around 38 per cent of GDP, below the 40 per cent of GDP ceiling set in the sustainable investment rule.

**Table 1.1: Meeting the fiscal rules**

	Per cent of GDP						
	Outturn 2004-05	Estimate 2005-06	Projections				
			2006-07	2007-08	2008-09	2009-10	2010-11
<b>Golden rule</b>							
Surplus on current budget	-1.7	-0.9	-0.3	0.0	0.5	0.7	0.8
Average surplus since 1997-1998	0.2	0.1	0.1	0.0	0.1	0.1	0.2
Cyclically-adjusted surplus on current budget	-1.3	-0.1	0.7	0.7	0.7	0.7	0.8
<b>Sustainable investment rule</b>							
Public sector net debt <sup>1</sup>	34.7	36.5	37.4	37.9	38.2	38.2	38.2

<sup>1</sup> Debt at end March; GDP centred on end March.

**I.I4** An updated analysis of long-term fiscal sustainability is published alongside this Pre-Budget Report in the 2005 *Long-term public finances report*. Using a range of sustainability indicators, the report shows that the public finances are sustainable in the longer term. In addition, the UK is in a strong position relative to many other countries to meet the challenges of an aging population.

## MEETING THE PRODUCTIVITY CHALLENGE

**I.15** Productivity growth, alongside high and stable levels of employment, is central to long-term economic performance. In the increasingly knowledge-driven global economy, science, innovation and creativity are important drivers of productivity growth, backed up by a highly skilled workforce and a competitive and enterprising economy. The UK has historically experienced comparatively low rates of productivity growth. However, in recent years, UK performance has improved in relation to other major economies. The Government's long-term goal is for the UK to continue to close the productivity gap by achieving a faster rate of growth than its main competitors.

**Action so far I.16** The Government's strategy focuses on five key drivers of productivity performance:

- **improving competition**, which promotes consumer choice and encourages flexible markets and increased business efficiency;
- **promoting enterprise**, including through reducing the regulatory burden on business, to ensure that UK firms are well-placed to respond to opportunities in a rapidly changing global market;
- **supporting science and innovation**, which is central to success in the international economy, as global restructuring focuses developed economies towards knowledge-based and high value-added sectors;
- **raising UK skills**, to create a more flexible and productive workforce, and to meet the long-term challenge of rising skills levels in emerging markets; and
- **encouraging investment** to increase the stock of physical capital supported by stronger, more efficient capital markets. In the global economy, macroeconomic stability is important to attract international capital and investment, alongside a robust and efficient investment environment.

**Next steps I.17** Building on the reforms and initiatives already introduced, the Pre-Budget Report sets out the next steps the Government is taking to drive productivity growth and meet the long-term challenges of the global economy, including:

- **taking forward the goals of the ten-year Science and Innovation Investment Framework** with measures to create a world-class environment for health research, to enable the UK to maintain a leading role in stem cell research, and a strengthened partnership with the biomedical industry to increase private investment in medical R&D by up to £500 million in the short to medium term, rising to £1 billion per year in the medium to long term;
- **setting out the Government's strategy for tackling the long-term lack of supply and responsiveness of housing**, responding to Kate Barker's independent review of housing supply, and bringing forward Real Estate Investment Trusts to improve efficiency in the UK's commercial and residential property investment markets;
- building on the planning reforms already put in place by **launching a review, led by Kate Barker, to consider how planning in England can better deliver sustainable economic development in a timely and transparent manner**;

- progress **implementing the recommendations of the Hampton Review to reduce the costs on business of administering regulations**. HM Revenue & Customs (HMRC) will set a target for reducing administrative burdens in the tax system in Budget 2006, and, as a first step towards this target, plans have been announced for £300 million savings for business through reforms to tax administration;
- **measures to reduce costs on business by removing unnecessary regulatory burdens** including: the abolition of Operating and Financial Reviews for quoted companies; a ten-point action plan to reduce regulatory burdens in the financial services industry; greater consistency in local authority regulation and a review of gold-plated regulations derived from Europe;
- **announcing an Independent Review, led by Andrew Gowers**, to ensure that the UK's intellectual property framework is appropriate for the digital age;
- **publishing the interim report of the Leitch Review of Skills** advancing the evidence base on the UK's existing skills profile and highlighting the need for the UK to raise its ambition if it is to have a world-class skills base by 2020; and
- additional **support for higher education exports** to sustain the UK's world-leading position and attract more highly skilled overseas students.

## INCREASING EMPLOYMENT OPPORTUNITY FOR ALL

**I.18** The Government's long-term goal is employment opportunity for all – the modern definition of full employment. Delivering this requires that everyone should be provided with the support they need to participate in a successful labour market. The Government is determined to build a flexible labour market which allows the economy to respond quickly and efficiently to economic change, driven for example by shifting patterns of international production and trade.

**Action so far I.19** The Government's strategy for extending employment opportunities to all builds on the strong performance of the UK labour market over recent years. UK unemployment has fallen to 4.7 per cent, the second lowest of the G7 economies and the lowest rate in the UK for around 30 years. The working-age employment rate has reached 74.9 per cent, and continues on an upward trend. Chapter 4 describes the successful action the Government has already taken to increase employment opportunity, through:

- **delivering employment opportunity to all**, to provide everyone who is able to work with the support they need to move into work as quickly as possible and extending opportunities to those groups and regions which have faced the greatest barriers to work;
- **enhancing skills and mobility**, to ensure that everyone can fulfil their potential in the labour market and that business has access to the skilled workforce they need to compete in the global economy; and
- **making work pay**, through the National Minimum Wage and tax credits which deliver a system of support that provides greater rewards from work, improving incentives for individuals to participate in the labour market.

**Next steps I.20** The 2005 Pre-Budget report describes the further steps the Government is taking to build on this success and further strengthen the labour market, with a long-term vision for extending support to the inactive and those who face particular barriers to work. The Pre-Budget Report announces:

- **extending the support offered through the New Deal Plus for lone parents (NDLP+) pilots**, in the existing five locations for a further two years, to 2008;
- **extension of the NDLP+ pilots to two further Jobcentre Plus districts in Scotland and Wales** from October 2006;
- **outreach support for people who are neither in work nor on benefit** – especially the non-working partners of people in low income families, in groups which face particular barriers to employment, putting into practice a recommendation by the National Employment Panel (NEP);
- **introduction of a Commission of Business Leaders to advise on helping the private sector to tackle racial discrimination** (building on NEP recommendations);
- **providing funding to ensure that all local authorities can take steps to reduce Housing Benefit fraud** by reviewing or visiting at least 50 per cent of their claimants each year, in line with best practice; and
- **raising the earnings disregard in Housing Benefit and Council Tax benefit** in line with inflation to £14.90 in April 2006, ensuring that claimants gain from increases in the rate of Working Tax Credits.

## BUILDING A FAIRER SOCIETY

**I.21** The Government's long-term economic goal is to combine flexibility with fairness. Policies that ensure fairness act to minimise the short-term costs that can be associated with the changes that are needed in flexible outward-looking economies. Fairness provides security and support for those that need it and ensures that everyone has the opportunity to fulfil their potential in the global economy, now and in the future. The Government is also at the forefront of efforts to achieve the Millennium Development Goals for global poverty and to reduce debt in poor countries.

**Action so far I.22** Chapter 5 describes the range of reforms the Government has undertaken 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 fulfil their potential;
- **support for pensioners to tackle poverty and ensure security in retirement for all pensioners**, with extra help for those who need it most and rewards for those who have saved modest amounts;
- **steps to encourage saving**, including through the introduction of the Child Trust Fund, Stakeholder pensions and Individual Savings Accounts (ISAs); and
- **measures to reform and improve the tax system**, and to ensure that everyone pays their fair share toward extra investment in public services.

**Next steps I.23** Building on these reforms the Government is committed to taking the long-term decisions to promote opportunity and fairness. The Pre-Budget Report announces:

- **an extension of Winter Fuel Payments** paid at £200 for households with someone aged 60 or over, rising to £300 for households with someone aged 80 or over, for the rest of this Parliament;
- **an additional £300 million over three years to enable pensioners on Pension Credit to have central heating systems installed free of charge**, and to provide a £300 discount on central heating systems to all other pensioners who do not already have one in their home;
- **investment of £53 million over the next two years to improve support for families and children**, piloting new Parent Support Advisers in over 600 primary and secondary schools;
- **a tax credits package** to provide more certainty around tax credit awards while maintaining the flexibility to respond to falls in income and changes in circumstances;
- **the establishment of an implementation body to take forward the Russell Commission recommendations** on youth volunteering, with £3.5 million already committed by seven corporate Founding Partners;
- **action to protect tax revenues and modernise the tax system**, including a number of measures to tackle fraud, avoidance and tax motivated incorporation;
- **an increase in North Sea oil taxation**, striking the right balance between producers and consumers, to promote investment and ensure fairness for taxpayers; and
- **further steps to promote debt relief and international development**, including the launch of the pilot International Finance Facility for Immunisation.

## DELIVERING HIGH QUALITY PUBLIC SERVICES

**I.24** The Government's goal is to establish world class public services, through sustained investment matched by reform, together with stretching efficiency targets, to ensure that taxpayers receive value for money. Investment in key public services provides the foundation on which the UK will be able to meet long-term economic challenges. A healthy and skilled workforce, modern and reliable transport networks, and an adequate supply of affordable housing will promote productivity and flexibility, and also help to ensure opportunity and security for all, both now and in future generations.

**Action so far I.25** 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;
- **significant extra resources for public services**, consistent with the fiscal rules. The 2004 Spending Review set departmental spending plans for the three years to 2007-08, locking in previous increases in investment, while providing for further investment in priority areas of the public services; and

- **challenging efficiency targets** for all departments, delivering over £21 billion of efficiency gains a year by 2007-08 to be recycled to front-line public services.

**Next steps I.26** The Pre-Budget Report announcements include:

- **an additional £53 million to expand Youth Opportunity Funds, enabling young people to run their own projects and secure the amenities and activities they want in each local authority.** This will mean an average local authority receiving £500,000 over the next two years;
- **reallocating an additional £305 million in 2006-07 and £508 million in 2007-08 into grant for local authorities,** enabling them to continue delivering better public services alongside low council tax increases;
- **providing an additional £85 million to advance the ongoing expansion of the security and intelligence agencies** and extending the availability of the £50 million Counter-Terrorism Pool beyond 2005-06; and
- **providing an additional £580 million for the special reserve** in 2005-06 for military operations in Iraq and the UK's other international obligations.

**I.27** This Pre-Budget Report also sets out further details of the preparations for the 2007 Comprehensive Spending Review (CSR). The CSR will involve a fundamental review of Government priorities and expenditure, to identify the investments needed to ensure Britain is fully equipped to meet the challenges of the decade ahead.

## PROTECTING THE ENVIRONMENT

**I.28** The Government's goal is to deliver sustainable growth and a better environment, by addressing the challenges of climate change, poor air quality and environmental degradation in urban and rural areas. 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 in the developed world, accompanied by the rapidly growing and highly populated economies of China and India, will place increasing demands on the world's resources and environment over the coming decade. Meeting this long-term challenge requires action at a local and national level, but crucially also through international cooperation.

**Action so far I.29** Chapter 7 describes the steps the Government has taken to deliver its environmental objectives, including:

- **tackling climate change** and reducing emissions of greenhouse gases in line with domestic as well as international targets – in particular through the climate change levy and reduced VAT rates for energy saving materials;
- **improving air quality** to ensure that air pollutants are maintained below levels that could pose a risk to human health – including through support for cleaner fuels and vehicles;
- **improving waste management,** so that resources are used more efficiently and waste is re-used or recycled to deliver economic value – for example through increases in the landfill tax; and
- **protecting the UK's countryside and natural resources** to ensure that they are sustainable economically, socially and physically – in particular by introducing the aggregates levy.

**Next steps I.30** The Government is committed to delivering sustainable growth, a better environment and to tackling the global challenges of climate change. It is using a range of economic instruments to address the challenges posed by sustainable development, while taking into account other social and economic factors. The Pre-Budget report describes the next steps in the Government's strategy, including:

- **support for alternative sources of energy** including further consultation on carbon capture and storage, collaboration with Norway on this technology, and additional funding for Carbon Abatement Technology demonstration;
- **further measures to improve energy efficiency**, through the proposed Green Landlord Scheme and £35 million for the Carbon Trust, to provide interest free loans for the introduction of energy saving measures in the business and public sectors;
- **continuation of the freeze in main duty rates and the duty rates for road fuel gases**, due to continued oil market volatility; and a 1.22 pence per litre increase in duty on rebated fuels, which will support the strategy to tackle oils fraud;
- **a commitment to introduce a Renewable Transport Fuel Obligation and Enhanced Capital Allowances for the cleanest biofuels plants**, to stimulate the development of alternative fuels;
- in support of the UK's continuing leadership in tackling the international challenge of climate change, **progress on taking forward the Gleneagles Plan of Action agreed by the G8 under the UK's Presidency and the Stern Review on the economics of climate change**; and
- **progress towards the inclusion of the aviation sector within the EU emissions trading scheme.**

## PRE-BUDGET REPORT POLICY DECISIONS

**I.31** 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 2005. 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 2005<sup>1</sup>**

	£ million			
	2005–06	2006–07	2007–08	2008–09
<b>Meeting the productivity challenge</b>				
VAT: increased thresholds for cash and annual accounting schemes	0	*	-55	0
50% first year capital allowances for small enterprises	0	0	-60	+15
<b>Increasing employment opportunity for all</b>				
Increase in Housing Benefit disregard	0	-5	-5	-5
<b>Building a fairer society</b>				
Tax credits package	0	-100	+200	+50
Reform of film tax incentives	0	+30	-10	+30
Sale of lessors	+10	+35	+85	+155
Oil valuation for tax purposes	0	+40	+80	+80
Tackling tax motivated incorporation <sup>2</sup>	0	+10	+390	+530
Class 2 NICs: no increase in flat rate charge for self employed	0	-5	-5	-5
Tax exemption for bank accounts of holocaust survivors	*	-5	*	*
Stamp duty on shares: reconstruction relief	*	-20	-20	-20
Aligning taxation of gambling machines with the Gambling Act	-5	+30	+30	+30
<b>Protecting revenues</b>				
Financial avoidance using stock lending arrangements	+10	+30	+30	+30
Life assurance companies: closing avoidance opportunities	+155	+115	+85	+85
Corporate intangible assets avoidance	+10	+90	+120	+120
Prevention of abuse of corporate capital losses	+20	+210	+300	+300
Capital gains: preventing abuse of capital redemption policies	0	+35	+100	+75
Enhancing the strategy to tackle tobacco smuggling	0	+50	+90	+115
Preventing income tax avoidance from transfer of assets abroad	0	*	+10	+30
Rebated oils: supporting the UK oils fraud strategy	-20	0	0	0
<b>Responding to oil price changes</b>				
North Sea oil: increase in supplementary charge and first year allowance elections	0	+2,000	+2,200	+2,300
Introducing ringfenced expenditure supplement	0	0	*	-5
Continued higher Winter Fuel Payments	0	-665	-680	-690
Tackling pensioner fuel poverty	-25	-150	-125	0
<b>Protecting the environment</b>				
Enhanced Capital Allowances for the cleanest biofuels production plants	0	0	-25	-20
Fuel duties: freeze of main rates	-375	-610	-610	-635
Fuel duties: freeze of biofuel rates	*	-5	-5	-15
Fuel duties: freeze of road fuel gases	-5	-5	-5	-5
Exemption of oils used for electricity generation	*	-5	-5	-5
<b>Other policy decisions</b>				
Addition to the Special Reserve	-580	0	0	0
<b>TOTAL POLICY DECISIONS<sup>3</sup></b>	<b>-805</b>	<b>+1,100</b>	<b>+2,110</b>	<b>+2,540</b>

\* Negligible.

<sup>1</sup> Costings shown relative to an indexed base.

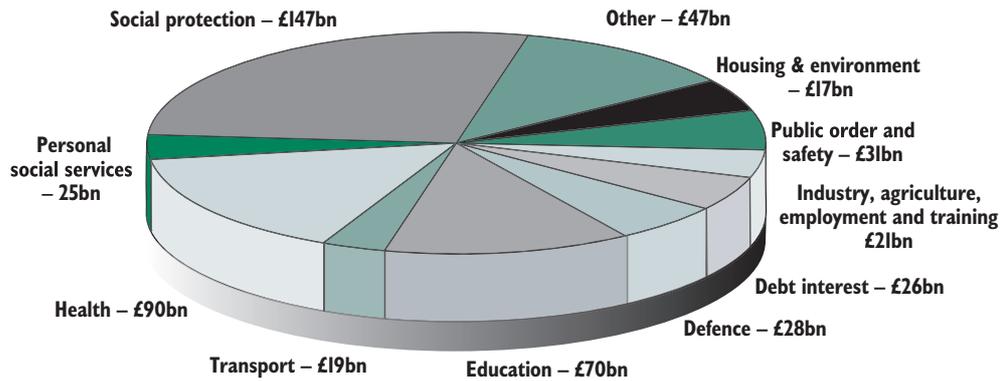
<sup>2</sup> Alongside the revenue raised by this measure projected tax receipts have been further reduced as a result of an increase in the number of those incorporating simply to reduce their tax and national insurance liability as described in Chapter 5.

<sup>3</sup> Excludes the effects of measures taken to manage the transition arising from the move to International Accounting Standards and changes to the income recognition rules in UK GAAP. The impact of these changes is detailed in Table B5.

**I.32** Chart 1.1 presents public spending by main function. Total managed expenditure (TME) is expected to be around £520 billion in the current financial year, 2005-06. TME is divided into Departmental Expenditure Limits (DEL), shown in Table B19, and Annually Managed Expenditure (AME), shown in Table B17.

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

**Total managed expenditure: £520 billion**

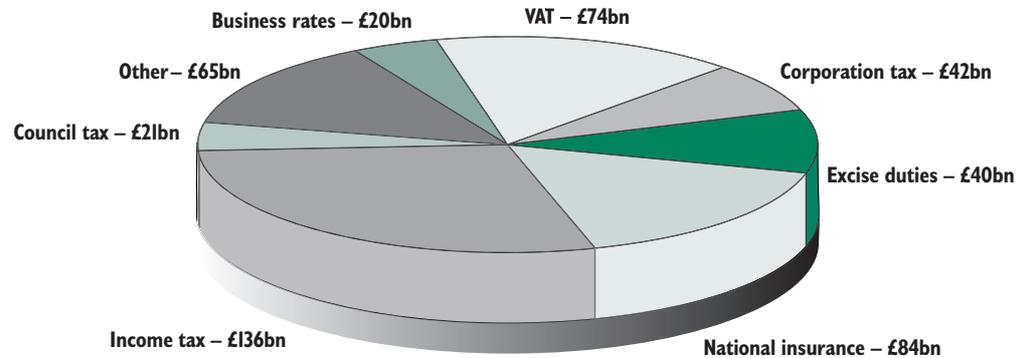


Source: HM Treasury, 2005-06 near-cash projections. Classification of spending consistent with UN Classification of Function of Government (COFOG) guidelines. Compared with Public Expenditure Statistical Analyses (PESA) presentations of functions, Personal Social Services has been identified separately from rest of Social Protection; Education is shown separately from Training, and some other PESA functions have been grouped in the pie. Other expenditure includes spending on general public services; recreation, 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 counted in AME, in line with OECD guidelines. Figures may not sum due to rounding.

**I.33** Chart 1.2 shows the different sources of government revenues. Public sector current receipts are expected to be around £483 billion in 2005-06. Table B14 provides a more detailed breakdown of receipts consistent with this chart.

**Chart I.2: Government receipts**

**Total receipts: £483 billion**



Other receipts includes capital taxes, stamp duties, vehicle excise duties and some other tax and non-tax receipts (e.g. interest and dividends). Source: HM Treasury, 2005-06 figures. Figures may not sum to total due to rounding.