



HM TREASURY

Opportunity for all:

The strength to take
the long-term decisions for Britain

Pre-Budget Report

December 2004

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. Ensuring opportunity for all in the global economy requires taking long-term decisions to promote flexibility, enterprise and fairness in the economy, including through Government investing for the long term.

The 2004 Pre-Budget Report, *Opportunity for all: The strength to take the long-term decisions for Britain*, 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 2005 and on which it will be consulting in the months ahead. The Pre-Budget Report:

- shows that the economy is growing strongly and that the Government is meeting its strict fiscal rules for the public finances;
- announces a ten-year strategy for childcare, setting out the Government's vision of affordable, flexible, high-quality childcare for all parents who need it; an extension of paid maternity leave to nine months from April 2007; and improvements to the childcare element of the Working Tax Credit;
- gives employers the opportunity to access free and flexibly delivered training for their low skilled employees through a National Employer Training Programme, and new measures under the New Deal for skills;
- introduces reforms to reduce the regulatory burden on enterprise and welcomes the publication of the interim report of the Hampton Review consulting on improvements to the current system of regulatory inspection and enforcement;
- announces a payment of £50 to households with someone aged over 70, to help with council tax and other living expenses;
- takes further steps to extend employment opportunity for all, by introducing measures to help people on incapacity benefits who want to return to work, including a major expansion of the successful Pathways to Work Pilots;
- allocates a further £520 million to the special reserve for 2004-05 for military operations in Iraq and the UK's other international obligations, and additional resources for counter-terrorism and resilience;
- promotes fairness in the tax system through a range of measures to tackle avoidance; and
- announces the continuation of the freeze on main road fuel duties, in response to the sustained volatility in the oil market.

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. Over the past four years, many industrialised countries have suffered economic downturns, including the US and much of the euro area. More recently, the international economy has been affected by geopolitical uncertainty, rising oil prices and large current account imbalances and shifting exchange rates between Europe, Asia and the US. The UK has grown continuously throughout this period of global economic uncertainty and continues its longest unbroken expansion since quarterly national accounts data began 50 years ago, with GDP now having grown for 49 consecutive quarters.

I.3 To continue to prosper in the coming decades the UK must meet the long-term challenges of the rapidly evolving global economy. As described in Box 1.1 and in *Long-term global economic challenges and opportunities for the UK*, published today alongside the Pre-Budget Report, the international economy is becoming increasingly integrated through greater cross-border trade and investment, driven in part by rapid advances in technology. Emerging market economies are growing strongly, particularly China and India, and are developing skilled workforces. Within the next twenty years, half the world's manufactured exports could come from developing countries.

Meeting the challenges of the global economy

I.4 The Government is committed to taking the long-term decisions that will ensure the UK will meet these challenges, by entrenching macroeconomic stability and by building a flexible, enterprising economy with a highly-skilled, high-productivity workforce and a strong science and innovation sector. This requires investment by Government in the country's long-term future, and the public and private sectors working together to meet the challenges facing the UK economy. 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 Pre-Budget Report describes the action the Government is taking to address the key policy challenges identified in *Long-term global economic challenges and opportunities for the UK*, which will ensure the UK can prosper in the changing global economy, through:

- **maintaining macroeconomic stability** in a more integrated global economy where shocks in one part of the world can be rapidly transmitted to other regions, and ensuring fiscal sustainability in the face of the long-term demographic changes facing all developed economies. Stability allows business and individuals to plan for the long term and ensures the UK will remain an attractive destination for foreign investment;
- **promoting enterprise and competition** to create a business environment that is the best in the world, from which firms are able to succeed in the more open and competitive global economy;
- **enhancing science and innovation** through the public and private sectors working together to make the UK one of the leading countries in the world for turning science into business innovation. Countries at the forefront of research and innovation will be best placed to move into high value-added, technology driven areas, which can provide new sources of growth;
- **improving workforce skills** by investing in the education that individuals and the country need to prosper and by enabling all adults to update and enhance their skills. Higher level skills will increase the UK's ability to benefit from technological advances and become more productive. It will also increase the ability of both employers and employees to adapt to the changing demands of the UK economy;
- **ensuring fairness** by providing security for people when they need it and support to return to the labour market. In the global economy, the pace of economic change will be ever quicker and more intense. This has great potential benefits but also means that there may be transitional impacts for individuals and firms, as labour and capital are redeployed; and
- **addressing global environmental challenges, such as climate change**, by increasing the energy and resource efficiency of the economy and by speeding up the commercialisation of low-carbon energy sources. Tackling global environmental issues, notably climate change, requires engagement with international partners to secure effective multilateral action.

Box 1.1: Meeting the challenges of the global economy

Long-term global economic challenges and opportunities for the UK, published alongside this Pre-Budget Report, examines the economic challenges facing the global economy and policy priorities for the UK over the next ten years. The global economy is experiencing a period of rapid and far-reaching change. Many emerging markets are growing strongly and their workforces are developing higher skills levels and becoming more productive. International trade and investment is growing and production is becoming increasingly fragmented, as companies locate different parts of the production process where costs are lowest. This is facilitated in part by the rapid rate of technological advance. These trends mean that the next ten years and beyond will be ones of fundamental change in the global economy:

- the balance of global economic activity will probably shift significantly. By 2015, China is likely to have become the world's third largest economy after the US and Japan; and if current growth rates are sustained, the Indian economy will have doubled in size. These two countries between them account for almost one-third of the world's population;
- cross-border trade and investment flows are likely to continue to grow as markets are liberalised and technological advance allows the production of ever more goods and services to be located away from final markets. Emerging markets are likely to become increasingly important destinations and sources of foreign direct investment;
- as communication and technology continue to improve, so production processes are becoming increasingly flexible, dispersed across continents and with an increasing level of specialisation. More services such as accountancy, banking and IT servicing will be processed remotely in offshore centres;
- rapid advances in technology mean there will be increasing rewards from innovation. Countries at the forefront of research and innovation will be best placed to move into high value-added, technology driven areas, which can provide new sources of growth;
- workforce skills in emerging economies are likely to rise – China and India already each produce around 2 million graduates a year, compared to around 250,000 in the UK. By 2015, this will translate into huge increases in the stock of skilled human capital in these countries; and
- the growing global economy will put increasing pressure on the world's resources, such as energy, commodities, water and the environment. By 2015, the share of energy demand from developing countries is expected to rise to around half of total international demand.

These developments are both a great opportunity and a great challenge for the UK and the global economy. The emergence of India and China has the potential to lift hundreds of millions of people out of poverty. Alongside increasing international competition and technological advance it will also provide new opportunities for developed economies. Countries that are flexible, skilled and innovative will prosper in this changing global economy. The challenge for the UK is to seize these opportunities by drawing on its strengths and confronting historical weaknesses. This Pre-Budget Report sets out the action the Government is taking now to ensure the UK will meet these long-term challenges.

MAINTAINING MACROECONOMIC STABILITY

I.5 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 **I.6** 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 may 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 **I.7** Over the past four years, many industrialised countries have suffered economic downturns, including the US and much of the euro area. More recently, the international economy has been affected by geopolitical uncertainty, rising oil prices and large current account imbalances and shifting exchange rates between Europe, Asia and the US. The UK has grown continuously throughout this period of global economic uncertainty and it continues its longest unbroken expansion since quarterly national accounts data began 50 years ago, with GDP now having grown for 49 consecutive quarters.

I.8 Sound macroeconomic fundamentals, recent strong growth rates and continued growth in the world economy point to a further period of relatively strong growth in demand for UK output. UK GDP is expected to grow by 3 $\frac{1}{4}$ per cent in 2004, in line with the Budget 2004 forecast and up from 2.2 per cent last year. Growth is forecast to remain within the 3 to 3 $\frac{1}{2}$ per cent range for 2005 as a whole. By early 2006, the output gap is forecast to have closed and GDP growth is expected to be back to trend rates.

The public finances **I.9** 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.10** The interim forecast update of the projections for the public finances published in this Pre-Budget Report, and summarised in Table 1.1, show that the Government is meeting its strict fiscal rules:

- the current budget since the start of the current economic cycle in 1999-2000 shows an average annual surplus up to 2005-06 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 £8 billion in this cycle, including the Annually Managed Expenditure (AME) margin. The current budget returns to balance by 2006-07, 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 37 per cent of GDP in 2009-10, well below the 40 per cent ceiling set in the sustainable investment rule.

Table I.1: Meeting the fiscal rules

	Per cent of GDP						
	Outturn ¹ 2003–04	Estimate 2004–05	2005–06	2006–07	Projections 2007–08 2008–09 2009–10		
Golden rule							
Surplus on current budget	–1.9	–1.1	–0.6	0.0	0.3	0.6	0.8
Average surplus since 1999-2000	0.4	0.2	0.1	0.1	0.1	0.1	0.2
Cyclically-adjusted surplus on current budget	–1.0	–0.4	–0.4	0.1	0.3	0.6	0.8
Sustainable investment rule							
Public sector net debt	32.9	34.3	35.4	36.2	36.8	37.0	37.1

¹ The 2003–04 figures were estimates in Budget 2004.

I.11 An updated analysis of long-term fiscal sustainability is published alongside this Pre-Budget Report in the 2004 *Long-term public finance 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 ageing population.

MEETING THE PRODUCTIVITY CHALLENGE

I.12 Productivity growth, alongside high and stable levels of employment, is central to long-term economic performance. In the increasingly knowledge-driven global economy, a strong science and innovation sector is an important driver of productivity growth, backed up by a highly-skilled workforce and a competitive and enterprising economy. As a result of macroeconomic instability and market failures, the UK has historically experienced low rates of productivity growth compared to other major economies. 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.13** The Government's strategy focuses on five key drivers of productivity performance:
- **improving competition**, which promotes flexible markets and increases business efficiency and consumer choice;
 - **promoting enterprise** to ensure that UK business is 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 toward knowledge-based and high value-added sectors;
 - **raising UK skills** to create a more flexible and productive workforce, and to meet the long-term challenges and opportunities presented by emerging markets; and
 - **encouraging investment** to increase the stock of physical capital supported by stronger, more efficient capital markets. In the global economy, attracting international capital and investment will require macroeconomic stability and a robust and efficient investment environment.

Next steps I.14 Building on the reforms and initiatives already introduced, the Pre-Budget Report sets out the next steps the Government is taking to strengthen the drivers of productivity growth and meet the long-term challenges of the global economy, including:

- giving employers the opportunity to access free and flexibly delivered training for their low-skilled employees through **a National Employer Training Programme**;
- **establishing an independent review to examine the future skills needs of the UK economy, to be led by Sandy Leitch**, (Chairman of the National Employment Panel and formerly a Chief Executive of Zurich Financial Services);
- **reforms to reduce the regulatory burden on business**, including the extension of Common Commencement Dates to other areas of legislation, and progress on the Panel for Regulatory Accountability;
- **publication of the interim report of the Hampton Review** consulting on improvements to the current system of regulatory inspection and enforcement to reduce the administrative burden on business;
- **setting out the vision of how significant reductions in compliance burdens for small businesses** will be delivered through the integration of HM Customs and Excise and the Inland Revenue;
- **implementation of the changes recommended by the Graham Review** of the Small Firms Loan Guarantee by end 2005; and
- **implementation of the ten-year Science and Innovation Investment Framework**, through strengthening the partnership with business on raising investment in UK R&D, and taking forward the recommendations of the Lambert Review on business-university collaboration including through the Northern Science and Industry Initiative.

INCREASING EMPLOYMENT OPPORTUNITY FOR ALL

I.15 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. To achieve this, each individual who wants and is able to work should be provided with the support to enable them to find work and develop skills. The Government recognises that each person will face different barriers to work. Delivering full employment requires a personalised approach, with services tailored to the needs of the individual and local circumstances.

I.16 The Government is also 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. Without a flexible labour market, firms may be unable to respond quickly enough to grasp market opportunities and workers may find that they face prolonged periods of unemployment.

Action so far I.17 The Government's strategy for extending employment opportunity to all builds on the strong performance of the UK labour market over recent years. UK unemployment has fallen to 4.6 per cent, the lowest of the G7 economies, while the working age employment rate has reached 74.7 per cent. Chapter 4 describes the successful action the Government has already taken to increase employment opportunity, through:

- **extending employment opportunity** and equipping people to take advantage of employment opportunities;
- **making work pay**, through the National Minimum Wage and tax credits which create a system of support that provides greater rewards from work, improving incentives for individuals to participate in the labour market; and
- **ensuring responsive and flexible delivery**, so that providers are able to tailor policies to suit the specific needs of the community they serve.

Next steps I.18 The 2004 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:

- **a major expansion of the Pathways to Work pilots for incapacity benefits claimants** to an additional 14 Jobcentre Plus districts covering the thirty Local Authority Districts with the highest concentrations of incapacity benefits claimants, thereby extending this groundbreaking approach to around one-third of the country;
- **a package of measures to further help people on incapacity benefits move into work**, including changes to permitted work rules to improve opportunities to move from benefits to full-time employment, and placing employment adviser support within GPs' surgeries;
- **an extension of the £40 per week In-Work Credit for lone parents to six further pilot areas**, to reinforce the gains to work for lone parents in the areas that need it most;
- **a Housing Benefit Reform Fund worth £180m during 2006-08** to enable the roll out of flat-rate allowances and to improve the administration and structure of the Housing Benefit system;
- **piloting a Learning Allowance** that will allow benefit claimants to participate in full-time training; and
- **increasing by £3 per week the income threshold above which the Working Tax Credit is tapered, in line with inflation to £5220 in 2005-06**, so that families whose incomes are rising retain more of their tax credits, ensuring gains to work are maintained.

BUILDING A FAIRER SOCIETY

I.19 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 global efforts to achieve the Millennium Development Goals for global poverty and to reduce debt in the poorest countries.

Action so far I.20 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 that 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 and reforms to improve the tax system**, and to ensure that everyone pays their fair share toward extra investment in public services.

Next steps 1.21 Building on these reforms, the Government is committed to taking the long-term decisions to promote opportunity and fairness. The Pre-Budget Report announces:

- **a ten-year strategy for childcare**, setting out the Government's long-term vision of affordable, flexible, high-quality childcare for all parents who need it, and providing parents with real choices in balancing work and family life;
- **an extension of paid maternity leave from six months to nine months from April 2007**;
- **an increase in the entitlement to free nursery education for all 3 and 4 year olds** to 15 hours a week for 38 weeks a year, reaching all children by 2010;
- **improvements to the childcare element of the Working Tax Credit**, with an increase in the maximum eligible costs to £175 a week for one child and to £300 a week for families with two or more children from April 2005, and an increase in the maximum proportion of costs covered from 70 to 80 per cent from April 2006;
- **further steps to encourage saving and asset ownership**, through ISAs, the Saving Gateway and Stakeholder products;
- **consultation on the value of payments at age seven in the Child Trust Fund**;
- **a package of measures to promote financial inclusion**, by increasing access to banking services, affordable credit and face-to-face money advice;
- **a £50 payment to households with someone over age 70 in addition to the Winter Fuel Payment in 2005**, to help meet the cost of council tax and other living expenses;
- **action to protect tax revenues and modernise the tax system**, including measures to combat tax fraud and avoidance; and
- **the development priorities for the Presidencies of the G7/8**, and further steps to tackle global poverty and reduce developing country debt.

DELIVERING HIGH QUALITY PUBLIC SERVICES

1.22 The Government's goal is to establish world class public services, with extra investment tied to reform and results. Investment in key public services provides the foundation on which the UK will be able to meet the long-term global economic challenges. A healthy, skilled and educated workforce, modern and reliable transport networks and 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. 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.23 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. Current spending will increase by an annual average of 2.5 per cent in real terms over 2006-07 and 2007-08; and
- **challenging efficiency targets for all departments**, delivering over £20 billion of efficiency gains a year by 2007-08 to be recycled to front-line public services.

Next steps I.24 The Government's long-term goal is to deliver world class public services through investment and reform, while ensuring efficiency and value for money. The Pre-Budget Report announcements include:

- **a further £520 million assigned to the special reserve** for 2004-05 for military operations in Iraq and the UK's other international obligations, and additional resources for counter-terrorism and resilience; and
- **taking action to reduce pressures on council tax in 2005-06 by £1 billion** by releasing an extra £125 million of resources for England alongside a reduction in ring fencing and other obligations and £512 million from departmental reallocations.

I.25 The Pre-Budget Report details progress departments have already made in delivering efficiencies against the 2004 Spending Review targets:

- **savings on branded and generic medicines for the NHS of £1 billion per year from 2005-06;**
- **value for money gains of £2 billion in central civil government procurement;** and
- **a total of around 4,000 posts moving out of London and the South East by the end of 2004-05.**

PROTECTING THE ENVIRONMENT

I.26 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 must not come at the expense of the environment or social progress. Continued growth in the developed world, combined with 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.27 Chapter 7 describes the steps the Government has taken to deliver its environmental objectives, including:

- **tackling climate change** and reducing emissions of greenhouse gases to minimise the potential costs;
- **improving air quality** to ensure that air pollutants are maintained below levels that could pose a risk to human health;
- **improving waste management**, so that resources are re-used or recycled to deliver economic value; and
- **protecting the UK's countryside and natural resources** to ensure they are sustainable economically, socially and physically.

Next steps I.28 The Government is committed to delivering sustainable growth and a better environment and to tackling the global challenge of climate change. It is using a range of economic instruments to address the challenges posed by sustainable development, whilst taking into account other social and economic factors. This Pre-Budget Report reviews progress and announces new steps and decisions including:

- **the forthcoming launch of the UK climate change programme consultation** and prioritisation of climate change as a key theme for the UK's presidencies of the G8 and EU;
- **the launch of a joint Energy Efficiency Innovation Review with Defra**, supported by a new R&D fund aimed at accelerating energy-efficient technology;
- **continuation of the freeze on the main road fuel duties** in response to the sustained volatility in the oil market;
- **narrowing of the duty differential between rebated oils and main road fuels by one penny per litre** to help tackle oils fraud and a **consultation on vehicles using rebated oils**;
- **a package of measures to support the development of biofuels**, including a consultative process and feasibility study on a Renewable Transport Fuels Obligation;
- **plans to align the VAT fuel scale charge with the company car benefit charge** to provide consistent tax incentives for less polluting cars, subject to informal consultation with businesses; and
- **restoration from April 2006 of the company car tax diesel supplement on new diesel cars** registered from January 2006, to reflect the mandatory introduction of Euro IV emissions standards.

PRE-BUDGET REPORT POLICY DECISIONS

I.29 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 2004. 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 2004¹

	£ million			
	2004–05	2005–06	2006–07	2007–08
Meeting the productivity challenge				
National Employer Training Programme	0	0	–80	–160
New Deal for Skills	0	–10	–10	–25
Increasing employment opportunity for all				
Incapacity benefit: additional Pathways to Work	0	*	–60	–65
Increasing Working Tax Credit thresholds	0	–140	–140	–140
Building a fairer society				
Social Fund reform	0	0	–5	–5
£50 payment for the over 70s	0	–260	0	0
Tax consequences of the Civil Partnerships Act	0	–10	–25	–30
VAT: grant to Band Aid 20	0	–5	*	*
Modernising the taxation of leasing	0	0	65	170
10 year Childcare Strategy				
Working Tax Credit: increase childcare element to 80%	0	0	–130	–130
Working Tax Credit: increase childcare limits to £175/£300 per week	0	–30	–30	–30
Extension of paid maternity leave to 9 months	0	0	0	–285
Improving childcare quality and sustainability	0	0	–240	–155
Protecting revenues				
Capital gains options avoidance	10	50	80	80
Remuneration based avoidance	200	500	500	500
Reform of film tax reliefs	20	90	110	120
Life Insurance companies avoidance	0	35	50	50
Abuse of Controlled Foreign Companies regime	0	30	50	80
Abuse of double tax relief	0	145	200	200
VAT: abuse of input tax rules	15	45	45	50
Loans and financial instruments avoidance	10	115	150	150
Protecting the environment				
Company car tax: reform of diesel supplement	0	0	40	100
Fuel duties: freeze of main rates	–370	–665	–685	–710
Rebated oils: narrowing of the differential	–80	–105	–110	–110
Other Pre-Budget Report policy decisions				
Addition to local authorities	0	–150	0	0
Addition to special reserve	–520	0	0	0
TOTAL POLICY DECISIONS	–715	–365	–225	–345

* Negligible.

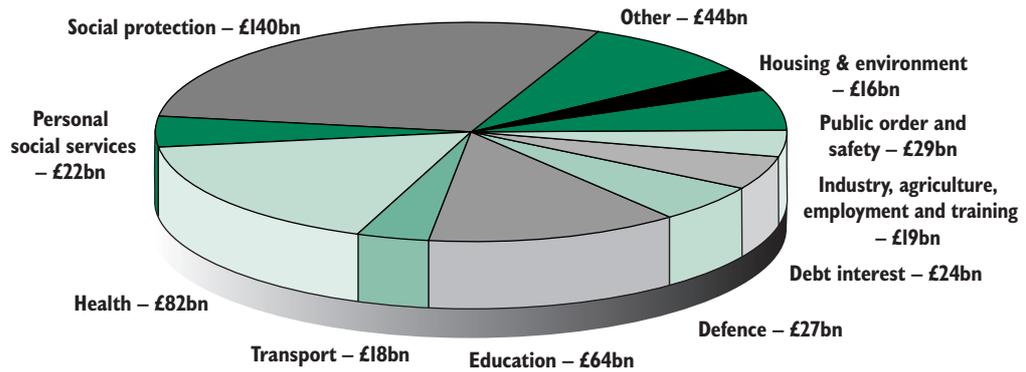
¹ Costings shown relative to an indexed base.

GOVERNMENT SPENDING AND REVENUE

I.30 Chart 1.1 presents public spending by main function. Total managed expenditure (TME) is expected to be around £485 billion in the current financial year, 2004-05. TME is divided into Departmental Expenditure Limits (DEL), shown in Table B18, and Annually Managed Expenditure (AME), shown in Table B16.

Chart I.1: Government spending by function

Total managed expenditure: £485 billion

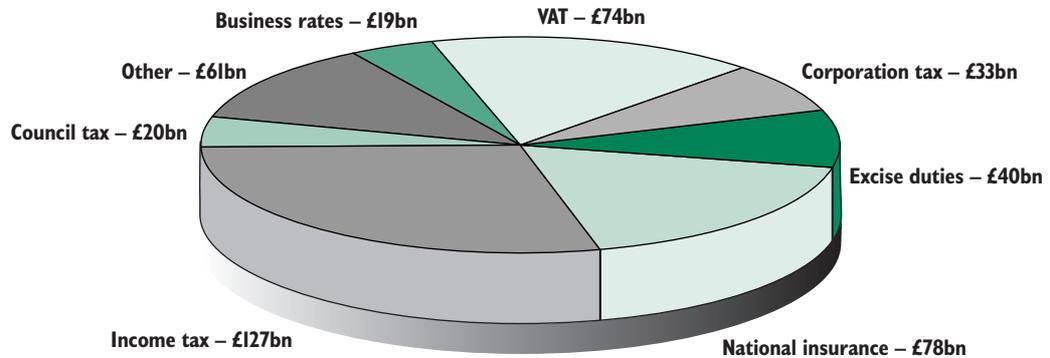


Source: HM Treasury, 2004-05 figures. Other expenditure includes spending on general public services; recreation, culture and religion; international cooperation and development; public service pensions; plus spending yet to be allocated and some accounting adjustments. Social protection includes tax 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.31 Chart 1.2 shows the different sources of government revenue. Public sector current receipts are expected to be around £451 billion in 2004-05. Table B13 provides a more detailed breakdown of receipts consistent with this chart.

Chart I.2: Government receipts

Total receipts: £451 billion



Source: HM Treasury, 2004-05 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.