

OVERVIEW

The Government's objective is to build a strong economy and a fair society, where there is opportunity and security for all. The 2009 Pre-Budget Report, *Securing the recovery: growth and opportunity* presents updated assessments and forecasts of the economy and public finances and reports on how, in the face of the downturn, the Government is delivering support to the economy, businesses and households to secure the recovery and provide a platform for growth and opportunity.

The Pre-Budget Report announces:

- support for business and growth, including extending empty property relief, extending the Enterprise Finance Guarantee and deferring the increase in the Small Companies rate for another year, a £200m addition to the Strategic Investment Fund in 2010-11, the establishment of Infrastructure UK, and the introduction of a patent box from April 2013;
- support for low carbon growth, through doubling from two to four the UK's commitment to fund carbon capture and storage demonstration projects, increasing support for low carbon vehicles, and additional funding for low carbon industries and energy efficiency, including Warm Front; and
- support for individuals, so that 18-24's claiming Jobseekers Allowance for six months will be guaranteed a job, work placement or work-related skills training, and extending free school meals to primary school pupils in low income working families.

The Pre-Budget Report announces that a temporary payroll tax of 50 per cent will apply to discretionary bonuses above £25,000 for each individual employee.

The Pre-Budget Report announces action to maintain the path of fiscal consolidation and to protect front line public services:

- an increase of 0.5 per cent in the employee, employers and self-employed rates of national insurance contributions (NICs) from April 2011, alongside an increase in the point at which individuals start to pay NICs to protect 15 million people on incomes below £20,000;
- a freeze in the point at which individuals start to pay the higher rate of income tax in 2012-13; and
- the restriction of pensions tax relief from April 2011 will apply to those with gross incomes over £150,000, where gross income incorporates all pension contributions, including those funded by an employer.

The Pre-Budget Report confirms that the Government will stick to planned levels of overall departmental spending in 2010-11, and announces that public sector current expenditure will grow by an average of 0.8 per cent a year in real terms from 2011-12 until 2014-15. It sets out a package to ensure that in 2011-12 and 2012-13, 95 per cent NHS front line spending rises in line with inflation, spending on front line schools rises by 0.7 per cent a year in real terms and that sufficient funding will be provided to enable the number of police officers to be maintained. To free up resources for this, it also announces £11 billion of savings through smarter government, £5 billion from targeting and prioritising spending and in addition reforms will be made to public sector pay and pensions.

The Pre-Budget Report sets out the Government's plans to reduce borrowing to 5.5 per cent of GDP in 2013-14, consistent with debt falling in 2015-16. These plans will be embedded in legislation through the Fiscal Responsibility Bill.

Global economic shocks and world downturn

1.1 In 2008 the global economy entered the most severe and synchronised recession since the Great Depression. By the end of the year, both advanced and emerging market economies were contracting – in many cases at rates not seen in the post-war period. In the UK, output at the start of the year fell more sharply than expected at Budget 2009. However, timely and effective action by governments around the world has helped to avoid a

significantly worse outcome and there are tentative signs of recovery in the global and UK economies. In the UK there is evidence that, compared with the 1990s recession, employment has held up relative to output, fewer firms have gone into liquidation and fewer houses have been repossessed. This partly reflects the action that the Government has taken to promote labour market flexibility since 1997 and to support jobs and businesses with cash-flow problems during the downturn.

Global prospects **I.2** Largely due to this unprecedented level of international policy cooperation,¹ there are now emerging signs of recovery in the world economy. Confidence and financial conditions have improved and world trade volumes recovered in the second half of 2009. While prospects for the world economy remain uncertain, as the policy stimulus announced by advanced and emerging market economies earlier this year begins to take effect, the world economy is forecast to grow by 3¼ per cent in 2010, before rising to 4¼ per cent in 2011 and 2012.

UK and global policy response **I.3** Through the UK's G20 presidency, the Government has led the international response to the financial crisis mitigating its impact on the global economy. At the G20 summit in Pittsburgh, Leaders announced the *Framework for Strong, Sustainable and Balanced Growth* to ensure that G20 policies promote adequate and more balanced global demand.

Economic prospects **I.4** Given the opposing forces of a severe global downturn and an unprecedented international policy response, prospects for the world economy remain uncertain. The world economy is forecast to contract by 1 per cent in 2009. The contraction has been most severe among the advanced economies and, although the second half of 2009 is likely to see an improvement, G7 GDP is forecast to contract by 3½ per cent in 2009. As the policy stimulus announced earlier this year by advanced and emerging market economies begins to take effect, the world economy is forecast to grow by 3¼ per cent in 2010, before rising to 4¼ per cent in 2011 and 2012.

I.5 In line with Budget 2009 forecast, GDP growth is expected to return by the end of the year, before picking up progressively through 2010 and 2011.

I.6 For the economic forecast, GDP growth is forecast to pick up to 1¼ per cent in 2010 and to above trend rates of 3½ per cent in 2011 and 2012.

Pre-Budget Report 2009 **I.7** The Government will continue to provide targeted support to businesses and households through the current downturn, while providing support for growth and ensuring the economy is able to make a strong and sustained recovery. The Pre-Budget Report describes the next steps that the Government is taking to make further progress in:

- **maintaining macroeconomic stability**, through supporting the economic recovery and building a strong economy for the future, while ensuring sound public finances;
- **reforming financial services**, through ensuring a strong, thriving and responsible financial sector that supports growth and prosperity across the UK;
- **supporting business and growth**, through ensuring UK businesses are well placed to meet the challenges and opportunities as the world moves into recovery;

¹As noted by Dominique Strauss-Kahn, *An address to the Confederation of British Industry Annual Conference*, November 23 2009.

- **achieving fairness and providing opportunity**, through the tax credits and benefits system, support to help people back to work and a fair and sustainable personal tax system;
- **protecting public services**, through freeing up the resources necessary to protect key public service priorities and making tough choices and reforms elsewhere; and
- **supporting low-carbon growth**, through playing a leading role on international climate change and domestic support for business investment in low carbon growth.

MAINTAINING MACROECONOMIC STABILITY

I.8 The Government's long-term economic goal is to secure and maintain macroeconomic stability, in order to promote a strong economy and achieve its objective of a fair society where there is security and opportunity for all.

Policy response I.9 Responding to the exceptional risks that the financial crisis has posed to UK economic stability, the Government has taken action to deliver a coherent and comprehensive package of support to the economy, and businesses and individuals within it, which the International Monetary Fund (IMF) has described as "bold and wide-ranging".²

I.10 First, the Government has undertaken major interventions to reinforce the stability of the financial system, to increase confidence and banks' capacity to lend, and in turn to support the recovery of the economy.

I.11 Second, a substantial macroeconomic stimulus has been put in place to help the economy through the recovery.

I.12 Third, through reprioritising existing budgets, targeted support has been provided to help those businesses and individuals who need it most, including measures to provide temporary support through the downturn for jobseekers, home-owners and businesses facing cash-flow problems.

I.13 A starting point of low public debt and the action that the Government is taking to ensure fiscal sustainability over the medium term, enables the Government to continue to provide support to the economy, where it is needed, through the downturn and in the early stages of recovery. The Government will continue to provide support where it is needed to secure sustainable growth; in particular, policies to ensure well-functioning financial markets are crucial to the future of the economy. The Bank Rate is at a historically low level of 0.5 per cent and is expected to continue to provide an ongoing and powerful stimulus throughout next year.

I.14 However, as the economy and financial markets recover after an exceptional period of risk and uncertainty, the role for macroeconomic policy will change. Based on its assessment of economic conditions and prospects, the Government's actions will move from supporting activity in the downturn to setting policy to provide the conditions for future growth.

Ensuring sustainability I.15 This Pre-Budget Report announces measures that maintain the path of consolidation set in Budget 2009 and reinforce the fairness of the tax system. The measures include:

²United Kingdom – 2009 Article IV Consultation, Concluding Statement of the Mission, International Monetary Fund, 20 May 2009.

- an increase of 0.5 per cent in the employee, employers and self-employed rates of national insurance contributions (NICs) from April 2011, alongside an increase in the point at which individuals start to pay NICs to protect 15 million people on incomes below £20,000;
- a freeze in the point at which individuals start to pay the higher rate of income tax in 2012-13; and
- the restriction of pensions tax relief from April 2011 will apply to those with gross incomes of £150,000 and over, where gross income incorporates all pension contributions, including those funded by an employer. This will be subject to an income floor, so that individuals with pre-tax incomes (excluding employer pension contributions) of less than £130,000 will be unaffected.

Public finances I.16 The 2009 Pre-Budget Report provides updated projections for the public finances. The projections take account of all firm decisions announced in this Pre-Budget Report, or since Budget 2009, consistent with the *Code for fiscal stability*. This Pre-Budget Report also sets out a new definition of net borrowing, PSNB excluding the temporary effects of financial interventions, which excludes the distortionary and temporary effects of the publicly-owned banks and the Bank of England Asset Purchase Facility Fund. This measure will be published in outturn by the ONS alongside the measure for PSND, which is already published.

I.17 The Pre-Budget Report public finance projections, summarised in Table 1.1, show that compared to Budget 2009:

- Public sector net borrowing (PSNB), excluding the temporary effects of the financial interventions, is broadly unchanged from the Budget 2009 forecast. Based on cautious assumptions, borrowing is projected to more than halve from 12.6 per cent of GDP in 2009-10 to 5.5 in 2013-14. It then falls to 4.4 per cent in 2014-15 in 2009-10; and
- Public sector net debt (PSND), excluding the temporary effects of the financial interventions, increases over the forecast period to 77.7 per cent of GDP.

Table 1.1: Summary of fiscal projections

	Per cent of GDP						
	Outturn Estimate		Projections				
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Public sector net borrowing (PSNB)	6.6	12.6	12.0	9.1	7.1	5.5	4.4
Total change since Budget 2009	0.4	0.2	0.1	0.0	-0.1	0.0	
Impact of discretionary measures on PSNB ¹	0.0	0.0	0.3	0.3	0.1	0.0	-0.2
Cyclically-adjusted PSNB	5.7	9.0	8.0	5.8	4.5	3.6	3.1
Surplus on current budget	-3.5	-9.1	-9.3	-7.2	-5.6	-4.3	-3.2
Public sector net investment	3.2	3.5	2.7	1.9	1.6	1.3	1.3
Public sector net debt ²	44.0	55.6	65.4	71.7	75.4	77.1	77.7

Note: All measures are presented on the basis which excludes the temporary effect of financial interventions.

¹ Including changes in forecasting assumptions on spending growth in 2011-12, 2012-13, 2013-14 and 2014-15.

² Debt at end March; GDP centred on end March.

The fiscal framework

I.18 The Government's fiscal policy objectives are:

- over the medium term, to ensure sound public finances and that spending and taxation impact fairly within and between generations; and
- over the short term, to support monetary policy and, in particular, to allow the automatic stabilisers to help smooth the path of the economy.

I.19 The Fiscal Responsibility Bill announced alongside the Pre-Budget Report will enshrine the Government's fiscal consolidation plans in legislation. The Bill requires the Government to set out at all times a statutory fiscal plan for delivering sound public finances, to be approved by Parliament, and places a binding duty on the Government to meet that plan.

I.20 Furthermore, the Bill sets out the Government's first legislative fiscal plan, the Fiscal Consolidation Plan (FCP). The FCP extends from 2009-10 to 2015-16 and incorporates the 2009 Pre-Budget Report fiscal judgment by requiring that the Government:

- halves public sector net borrowing as a share of GDP over four years from its forecast peak in 2009-10. The Government is setting a target, in secondary legislation enabled by the Bill, for borrowing to be 5.5 per cent of GDP or less in 2013-14;
- reduce borrowing as a share of GDP in each and every year from 2009-10 to 2015-16; and
- ensure that public sector net debt is falling as a share of GDP in 2015-16.

I.21 This is a significant reform in the way that the Government is held to account for delivering its fiscal plans, giving Parliament a clear, central role in both setting and monitoring the Government's fiscal plans.

I.22 These are binding targets that cannot be changed except through new primary legislation. This demonstrates the Government's commitment to delivering consolidation, and the importance it places upon action to ensure sound public finances in the medium term.

REFORMING FINANCIAL SERVICES

I.23 A strong and thriving UK financial services sector supports UK growth and prosperity. In order for this positive contribution to be delivered, market participants and regulators need to ensure that the sector's development is sustainable and supports long term economic growth.

I.24 The Government attaches great importance to tackling the remuneration practices that contributed to the excessive risk-taking by the banking industry. The 2009 Pre-Budget Report announces that:

- a temporary bank payroll tax of 50 per cent will apply to discretionary bonuses above £25,000 awarded in the period from Pre-Budget Report to 5 April 2010 for each individual employee.

I.25 The Government has taken decisive steps to maintain financial stability and promote the flow of credit to the economy. The success of these financial sector interventions is

reflected in a downward assessment of their eventual net fiscal cost. Building on these measures, the 2009 Pre-Budget Report announces that the Government will:

- explore ways of encouraging more sustainable, transparent and standardised mortgage-backed securities markets;
- consult on and promote the UK regulated covered bond market; and
- publish a discussion paper on developing non-bank lending channels.

1.26 The Government will shortly announce a package of measures to reduce the impact of any future failure of systematically important investment banks. It is also working at the national, EU and global level to shape the future development of the financial services sector. The 2009 Pre-Budget Report also announces:

- the introduction of a Code of Practice on taxation for banks;
- a new advisory group on professional and financial services;
- measures to promote a level playing field for Islamic finance products;
- a specific Governance Code for Building Societies and other mutuals; and
- the commencement of a new regulatory framework for recognised inter-bank payments systems.

1.27 Competition and choice are central to responsive and well functioning markets. The Government is taking steps to promote competition in financial services, and to ensure that consumers are empowered to make informed choices, have access to the services they need, and are appropriately protected. The 2009 Pre-Budget Report announces:

- £20 million to fund the national rollout of the Money Guidance service in 2010-11, helping one million people to manage their money better; and
- £5 million to fund extended opening hours at Citizens Advice bureaux in 2010-11, helping an additional 300,000 people.

SUPPORTING BUSINESS AND GROWTH

1.28 Following a year in which the global economy centered the most severe and synchronised recession since the Great Depression, the Government is determined that the UK remains an attractive place to do business, and to create a strong and stable platform for future growth.

1.29 The action that the Government is taking to put the public finances onto a sustainable footing, and to ensure that the financial markets are properly functioning, is key to providing the macroeconomic stability that business needs.

1.30 In addition to action economy-wide, the Government continues to take targeted measures to:

- support businesses into the recovery, by continuing the Business Payment Support Service that has already enabled over 160,000 businesses to spread over £4 billion of tax; extending the temporary increase in the threshold for empty property rate relief; and further deferral of the increase in the Small Companies' Rate of corporation tax;

- ensure that business has access to the capital it needs, through the legally binding lending commitments made by the Royal Bank of Scotland and Lloyds Banking Group; by making an additional £500 million of lending available to small and medium-sized enterprises **through a 12-month extension of the Enterprise Finance Guarantee** and by **creating a new Growth Capital Fund**, along with the £325 million UK Innovation Investment Fund;
- build on the unprecedented investment in infrastructure over the last decade and ensure the UK is ready to face the challenges of the transition to a low-carbon economy by **creating Infrastructure UK**, which will help facilitate private sector investment in infrastructure, and help ensure that publicly-funded infrastructure is effectively prioritised and delivered; and
- driving innovation by **introducing a Patent Box**, a reduced rate of corporation tax applying to income from patents from April 2013, to strengthen the incentives to invest in innovative industries, and through **additional funding of £200 million for the Strategic Investment Fund** that will include £150 million to support low-carbon investment.

ACHIEVING FAIRNESS AND PROVIDING OPPORTUNITY

I.31 Government support for people to move back into work, combined with a dynamic and flexible labour market, has helped over 3.2 million people to leave unemployment benefit since the 2008 Pre-Budget Report. This has helped unemployment remain lower than expected at the time of Budget 2009. The Government is therefore using some of the £3 billion funding for Jobcentre Plus and employment programmes from the 2008 Pre-Budget Report and Budget 2009 to provide additional support for those adversely affected by the recession. This additional support includes **bringing forward the young persons guarantee, so that 18-24s claiming Jobseeker's Allowance for six months will now be guaranteed a job, work placement or work-related skills training.**

I.32 The Government recognises that making the transition into work can be difficult and, to help families to make this move, the Government will **extend free school meals to primary school pupils in low income working families in England from September 2010.**

I.33 The 2009 Pre-Budget Report announces further Government action to provide support for households during the early stages of economic recovery, including increasing the basic State Pension by 2.5 per cent, the child element of the Child Tax Credit by £20 above earnings indexation, and **other benefits and tax credits normally linked to the Retail Prices Index (RPI) by 1.5 per cent.**

I.34 In 2009-10, just 2.5 per cent of estates are expected to pay inheritance tax. **The Government is therefore freezing the inheritance tax allowance at £325,000 in 2010-11.**

I.35 The Government continues to take action to protect revenues from those seeking to evade and avoid paying their fair share of tax. Building on existing measures, the Government will introduce **a package of measures which will protect around £5 billion per year from evasion and avoidance.**

PROTECTING PUBLIC SERVICES

I.36 Since 1997, record levels of investment matched by reform have enabled the Government to achieve lasting improvements in Britain's public services.

I.37 The Government's short-term priority is to continue to support the most vulnerable families and businesses until recovery is secured. The 2009 Pre-Budget Report announces new short-term spending measures, including **£300 million to bring forward the young persons guarantee, so that 18-24s claiming Jobseekers Allowance for six months will now be guaranteed a job, work placement or work-related skills training, and a freeze in the Standard Interest Rate used to calculate Support for Mortgage Interest at 6.08 per cent for a further six months, benefiting an estimated 220,000 homeowners.**

I.38 The 2009 Pre-Budget Report confirms that the Government will stick to planned levels of overall departmental spending in 2010-11 to help support the economy through the downturn, but from 2011-12 onwards spending growth will reduce to help halve the deficit over the next four years. The 2009 Pre-Budget Report announces an additional 0.5 per cent increase in employee, employer and self-employed rates of national insurance contributions. As a result, public sector current expenditure will grow by an average of 0.8³ per cent a year from 2011-12 until 2014-15. Public sector net investment will move to 1¼ per cent of GDP by 2013-14 and will remain at that level in 2014-15.

I.39 The 2009 Pre-Budget Report sets out a package to ensure that, in 2011-12 and 2012-13, NHS front-line spending – the 95 per cent of spending that supports patient care – rises in line with inflation, spending on front-line schools rises by 0.7 per cent a year in real terms and spending on 16 to 19 participation rises in real terms by 0.9 per cent a year. Spending on Sure Start Children's Centres will be maintained in line with inflation. Sufficient funding will be provided to police authorities to enable them to maintain the number of police officers and community support officers, and spending on overseas aid will remain on track to reach 0.7 per cent of Gross National Income (GNI) by 2013.

I.40 At the same time, the 2009 Pre-Budget Report announces new efficiencies and reforms across the public sector including:

- £11 billion of savings by 2012-13 through smarter government for example through rationalising Arms Length Bodies, greater use of online systems for providing advice and information to the public, cutting consultancy spend by 50 per cent, and better management of government assets;
- £5 billion of savings by 2012-13 from targeting and prioritising spending including by reforming the Criminal Justice System and legal aid, reducing lower priority provision within the adult skills budget, phasing out temporary employment programmes, and reducing the cost and scope of the NHS IT Programme;
- a one per cent cap on public sector pay settlements in 2011-12 and 2012-13, delivering £3.4 billion of savings a year by 2012-13; and
- reforms to public service pensions to save £1 billion a year from 2012-13 onwards.

³Excluding the additional time limit resource expenditure announced in the 2009 Pre-Budget Report.

SUPPORTING LOW-CARBON GROWTH

I.41 The UK is playing a leading role on climate change, setting the agenda for the international negotiations and taking radical domestic action to promote low-carbon growth. The Government is committed to an ambitious global deal at the UN negotiations in Copenhagen.

I.42 The UK is at the forefront of a worldwide low-carbon economic recovery. The Pre-Budget Report provides a further £400 million to support business investment in low-carbon growth and help households reduce energy costs. Combined with policies announced since September 2008, this could support over £15 billion of additional public and private investment in the low-carbon and energy sectors over the next three years. The Pre-Budget Report announces:

- additional support for offshore wind projects accredited from April 2010 to March 2014 via the Renewables Obligation;
- doubling to four the UK's commitment to fund carbon capture and storage demonstration projects via contributions from electricity suppliers;
- establishing Infrastructure UK to leverage further investment in low-carbon projects including by: investing €100 million in a European Investment Bank-led fund to deploy up to €1.5 billion of equity and €5 billion of debt in low-carbon infrastructure; and considering the case for a low-carbon investment institution;
- £120 million for low-carbon industries in the UK, including new manufacturing and testing facilities for offshore wind, a large-scale trial of smart grid technologies, and support to improve energy use in the chemicals industry;
- £200 million to improve energy efficiency and tackle fuel poverty by: offering £400 for up to 125,000 households to upgrade their old boilers to the latest efficient models with a greener boiler incentive; and providing extra resources for Warm Front to help 75,000 of the most vulnerable households with heating and insulation;
- confirming that the income received by those who generate small-scale renewable electricity for their home through the clean energy cash-back scheme, worth on average £900 in 2010, will be tax free;
- helping one million more vulnerable households with discounts on their energy bills by increasing support provided by energy companies from £150 million to £300 million by 2013-14; and
- increasing support for low-carbon vehicles through exempting electric cars from company car tax from 2010, introducing a 100 per cent first-year allowance for electric vans; and investing a further £30 million on low-carbon transport projects.

PRE-BUDGET REPORT POLICY DECISIONS

I.43 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 in the Pre-Budget Report or since Budget 2009. The fiscal impact of these measures is set out in table 1.2. Full details are provided in Annex B.

Table I.2: Estimated costs for Pre-Budget Report policy decisions and others announced since Budget 2009¹

	Head	£ million			
		2009-10	2010-11	2011-12	2012-13
Measures announced since Budget 2009²					
Stamp Duty: exemption for company buybacks of shares of overseas branches	Tax	0	-5	-5	-5
Financial products avoidance	Tax	+50	+100	+100	+50
Pensions tax: anti-forestalling rules	Tax	-30	-40	0	0
Digital Britain: Landline Duty	Tax	0	+90	+175	+175
Childcare: employer supported childcare tax relief ³	Tax/Spend	0	0	-	-
Gurkhas: removal of 1997 cut-off	Spend	-70	-240	-	-
Cold Weather Payments	Spend	-20	0	0	0
Funding for <i>Building Britain's Future</i>	Spend	-35	+35	0	0
Measures announced at Pre-Budget Report 2009					
Ensuring Sustainability of the Public finances					
Freeze Higher Rate Threshold in 2012-13	Tax	0	0	0	+400
Increase NICs Primary Threshold by £570 in 2011-12	Tax	0	0	-1,480	-1,500
Increase employer NICs rate by 0.5% from 2011-12	Tax	0	0	+2,350	+2,470
Increase main employee and self-employed NICs rate by 0.5 per cent from 2011-12	Tax	0	0	+1,970	+2,080
Increase additional employee and self-employed NICs rate by 0.5 per cent from 2011-12	Tax	0	0	+320	+340
Pensions tax: updated income definition	Tax	-10	-40	0	+500
Freeze Inheritance Tax Threshold in 2010-11	Tax	0	+80	+170	+190
Bank payroll tax	Tax	+550	0	0	0
Salary sacrifice: workplace canteens	Tax	0	0	+110	+110
Pensions auto-enrolment: slower introduction ⁴	Tax	0	0	0	+100
Protecting Revenues					
Insurance Premium Tax: avoidance	Tax	+5	+10	+10	+10
Index linked gilts	Tax	0	+40	+65	+40
Substantial donors to charity: replacement of anti-avoidance legislation	Tax	0	-10	-10	-10
Supporting Business					
Rates on empty property: temporary exemption	Tax	0	-135	+10	0
Small Companies Rate of corporation tax: defer increase to April 2011	Tax	0	-10	-380	-110
Patent Box from April 2013 ⁵	Tax	0	0	0	0
Bingo Duty: reduce to 20%	Tax	0	-5	-10	-10
Seafarer's Earning deduction	Tax	0	0	-5	-5
Venture Capital Schemes: State Aid changes	Tax	0	0	-20	-30
Strategic Investment Fund addition ⁶	Spend	0	-110	0	0
Protecting the Environment					
Climate change levy: reduction of relief from 2011-12	Tax	0	0	+50	+50
Fuel Benefit Charge: increase multiplier	Tax	0	+50	+45	+45
Company Car Tax: extend bands from 2012-13	Tax	0	0	0	+120
Biofuels Duty Differential: limited extension	Tax	0	-10	-10	0
Electric vehicles: tax relief	Tax	0	-5	-5	neg
Warm Front and Greener Boiler Incentive ⁷	Spend	0	-85	0	0

Table I.2: Estimated costs for Pre-Budget Report policy decisions and others announced since Budget 2009¹ (continued)

	Head	£ million			
		2009-10	2010-11	2011-12	2012-13
Helping People Fairly ⁸					
Tax relief for travel expenses	Tax	0	+35	+85	+85
Extension of free school meals	Spend	0	-140	-	-
Benefits uprating	Spend	0	-700	0	0
Local authority guideline rents ⁹	Spend	0	-115	-	0
Money Guidance rollout in 2010-11	Spend	0	-10	0	0
Working Tax Credits: extension to over 65s from April 2010	Spend	0	-5	-	-
Tackling benefit error	Spend	0	+95	-	-
Housing Benefit: managing gains from Local Housing Allowance from 2011	Spend	0	-40	-	-
Support for Mortgage Interest ¹⁰	Spend	-25	-70	0	0
TOTAL POLICY DECISIONS		+415	-1,240	+3,535	+5,095
Reserve: support for military operations	Spend	0	-2,500	0	0
Memo: Increase to Public Sector Current Expenditure	Spend	0	0	-7,700	-6,900

- Included within the current spending growth assumption for 2011-12 onwards.

¹ Costings shown relative to an indexed base.

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

³ Employer supported childcare tax relief measure used to fund expansion of free childcare for 2 year olds.

⁴ In 2013-14 the yield is £0.7 billion, in 2014-15 the yield is £1.6 billion.

⁵ The costs of this measure will rise to £1.3bn in steady state.

⁶ The total addition to the Strategic Investment Fund at this PBR is £210m in 2010-11, including Barnett consequential for non-reprioritised funding. £100m of this is funded through reprioritisation.

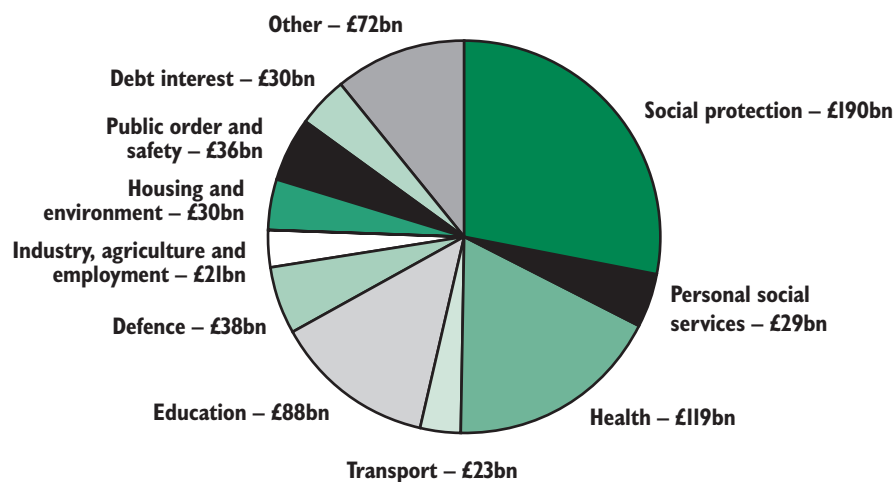
⁷ Total funding for Warm Front and the Greener Boiler Incentive is £215m in 2010-11 including Barnett consequential for non-reprioritised funding. £130m of this is funded through reprioritisation.

⁸ Employment support package costing £45 million in 2009-10 and £355 million in 2010-11 funded by DWP underspend.

⁹ Total support for Local Authority Guideline rents is £170m in 2010-11. £55m of this is funded through reprioritisation.

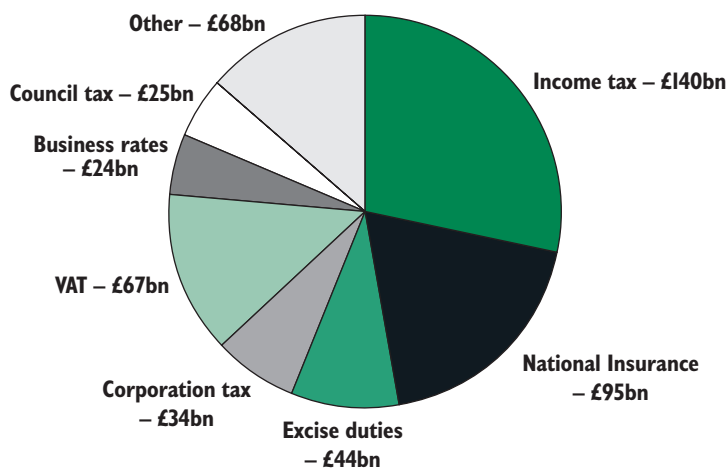
¹⁰ Total Support for Mortgage Interest in 2009-10 is £70m, including Barnett consequential for non-reprioritised funding. £45m of this is funded through reprioritisation.

I.44 Chart 1.1 presents public spending by main function. Total managed expenditure (TME) is expected to be around £676 billion in the current financial year, 2009-2010. TME is divided into Departmental Expenditure Limits (DEL), shown in table B17, and Annually Managed Expenditure (AME), shown in table B15.

Chart I.1: Government spending by function**Total managed expenditure: £676 billion**

Source: HM Treasury 2009-10 near-cash projections. The allocation of spending to functions is largely based on the United Nations' Classifications of the Functions of Government (COFOG). Other expenditure includes general public services (including international services); recreation, culture, and religion; 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 due to rounding.

I.45 Chart 1.2 shows the different sources of government revenues. Public sector current receipts are expected to be around £498 billion in 2009-2010. Table B10 provides a more detailed breakdown of receipts consistent with this chart.

Chart I.2: Government receipts**Total receipts: £498 billion**

Source: HM Treasury, 2009-10 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 due to rounding.