

# 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 2006 Pre-Budget Report, *Investing in Britain's potential: Building our long-term future*, 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 2007 and on which it will be consulting in the months ahead. The Pre-Budget Report:

- shows that the economy is stable and growing and that the Government is meeting its strict rules for the public finances;
- provides further help for families and children, including from April 2009 every mother-to-be will be eligible for Child Benefit from week 29 of their pregnancy;
- improves enforcement of the National Minimum Wage by increasing by 50 per cent the resources to tackle non-compliance;
- sets out a new ambition for the 2007 Comprehensive Spending Review of at least 3 per cent savings per year across central and local government, releasing further resources for the challenges ahead;
- makes a new commitment for capital investment in education to rise from £8.3 billion in 2007-08 to £10.2 billion in 2010-11;
- sets out a new ambition of world-class skills, taking forward the recommendations of the Leitch Review;
- sets out further measures to boost productivity and growth, to promote scientific research and reform planning and transport infrastructure;
- promotes fairness in the tax system, including action to tackle tax avoidance;
- takes further steps to tackle the global challenges of climate change, including an increase in all rates of air passenger duty with effect from 1 February 2007, in recognition of the environmental costs of flying; and
- announces an increase in line with inflation in the main road fuel duties, alongside measures to support the use of cleaner fuels.

**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 the UK, with low and stable inflation, interest rates set by the Monetary Policy Committee to meet the Government's symmetric inflation target, and fiscal policy supporting monetary policy over the cycle, the economy has grown continuously throughout this period. The UK economy is currently experiencing its longest unbroken expansion since quarterly records began, with GDP now having grown for 57 consecutive quarters.

## Long-term opportunities and challenges

**1.3** The global economy is in the midst of radical transformation with far reaching and fundamental changes in technology, production and trading patterns. Rapid technological change continues to impact on how individuals, business and communities interact with each other and how they expect to interact with the state. Global security is being reshaped as the international community responds to the ongoing threat of international terrorism, conflict and the challenges of ending world poverty. The pressures that economic and

population growth are placing on the earth's natural resources and climate are increasingly apparent, presenting an urgent need for international cooperation.<sup>1</sup>

**I.4** This transformation will present both challenges and opportunities for the UK. Individuals, businesses and communities all need to be ready to respond to the changing global environment. Stable, flexible, skilled and innovative economies will prosper. This Pre-Budget Report sets out further reforms to lock in stability and to invest in the UK's future – including a new ambition for world-class skills, a commitment to further investment in education, reforms to the UK's planning and transport infrastructure and measures to tackle the global challenge of climate change.

**I.5** 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 system which encourages work and saving, and ensures that everyone pays their fair share of tax. This Pre-Budget Report announces further measures to help support families, children and pensioners.

**I.6** This 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.

## MAINTAINING MACROECONOMIC STABILITY

**I.7** 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.8** 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

<sup>1</sup> *Long-term opportunities and challenges for the UK: analysis for the 2007 Comprehensive Spending Review*, HM Treasury, November 2006

framework which facilitates long-term planning and provide departments with the flexibility and incentives they need to increase the quality of public services and deliver specified outcomes.

**Economic Prospects 1.9** Growth of the UK economy since Budget 2006 has been higher than forecast. Domestically, growth has been driven by higher than expected business investment. Externally, the recovery in the euro area has boosted export growth. The UK economy is currently experiencing its longest unbroken expansion on record, with GDP now having grown for 57 consecutive quarters. With volatility in the UK economy at historically low levels and now the lowest in the G7, the domestic stability delivered by the Government's macroeconomic framework puts the UK in a strong position to respond to the global economic challenges of the next decade.

**1.10** In light of new evidence published since Budget 2006, the Treasury has reviewed the underpinning assumptions for its neutral trend growth assumption from 2007 onwards, which it has revised to continue at 2<sup>3</sup>/<sub>4</sub> per cent a year, consistent with the neutral rate since 2001. This revised 2<sup>3</sup>/<sub>4</sub> per cent trend rate of output growth anchors the Pre-Budget Report economic forecast. GDP is forecast to grow by 2<sup>3</sup>/<sub>4</sub> per cent in 2006, above the Budget 2006 forecast range, rising to 2<sup>3</sup>/<sub>4</sub> to 3<sup>1</sup>/<sub>4</sub> per cent in 2007 when the output gap is expected to close. Growth is expected to remain close to trend in 2008 and 2009.

**The public finances 1.11** 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 1.12** 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 1997-98 shows an average annual surplus up to 2006-07 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. Both the current budget and the cyclically adjusted current budget move into surplus by 2008-09; and
- public sector net debt remains low and stable over the forecast period, remaining below 39 per cent of GDP, below the 40 per cent ceiling set in the sustainable investment rule.

**Table 1.1: Meeting the fiscal rules**

	Per cent of GDP						
	Outturn 2005-06	Estimate 2006-07	Projections				
			2007-08	2008-09	2009-10	2010-11	2011-12
<b>Golden rule</b>							
Surplus on current budget	-1.2	-0.6	-0.1	0.3	0.5	0.6	0.8
Average surplus since 1997-1998	0.1	0.1	0.0	0.1	0.1	0.1	0.2
Cyclically-adjusted surplus on current budget	-1.0	-0.4	-0.1	0.3	0.5	0.6	0.8
<b>Sustainable investment rule</b>							
Public sector net debt <sup>1</sup>	36.4	37.5	38.2	38.6	38.7	38.7	38.5

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

**I.13** An updated analysis of long-term fiscal sustainability is published alongside this Pre-Budget Report in the *2006 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 well placed relative to many other countries to meet the challenges of an aging population.

## MEETING THE PRODUCTIVITY CHALLENGE

**I.14** 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. Historically, the UK has experienced comparatively low rates of productivity growth. However, UK performance has improved in relation to other major economies in recent years. 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.15** 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**, 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 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 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, attracting international capital and investment will require macroeconomic stability and a robust and efficient investment environment.

**Next steps I.16** Building on the reforms and initiatives already introduced, the 2006 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 and opportunities of the global economy, including:

- **investing in a new ambition for world-class skills**, increasing adult skills across all levels and strengthening employer voice in their provision – by taking forward the recommendations of the Leitch Review;
- **investing in the growth of the UK's science and innovation system** – through a single health research fund of at least £1 billion, taking forward the recommendations of the Cooksey Review, and ensuring a more balanced, coherent and flexible regime for intellectual property, as set out in the Gowers Review;
- **enabling greater flexibility in the land use planning system** to ensure it contributes to economic growth while delivering its wider sustainable development goals – by taking forward the Barker Review;

- **investing in transport infrastructure** to maximise the return on investment in transport – by taking forward the recommendations of the Eddington Transport Study;
- **investing in the growth of sustainable housing supply** – including further acceleration of the release of surplus public sector land and greater ambitions for assisted home ownership through shared equity schemes; and
- **increasing business flexibility by reducing unnecessary burdens on business** – by creating certainty for business, by implementing the recommendations of the Varney Review of HMRC Links with Large Business, and driving forward implementation of the Hampton Review’s risk-based approach to regulation, and the Davidson Review’s recommendations to reduce any gold plating of EU legislation.

## INCREASING EMPLOYMENT OPPORTUNITY FOR ALL

**I.17** The Government’s long-term objective for the labour market is to realise employment opportunity for all – the modern definition of full employment. There has been considerable progress on this objective, particularly in those areas and among those groups of people who had previously been most disadvantaged. The Government aims to go further, however, and has set a long-term aspiration for an employment rate equivalent to 80 per cent of the working age population. This will involve reaching out to the hardest to help, moving people from inactivity to labour market participation and encouraging more individuals to take personal responsibility to move from welfare to work.

**Action so far I.18** The Government’s strategy for extending employment opportunity to all builds on the strong performance of the UK labour market over recent years. Employment in the UK reached 29 million for the first time in 2006. This is the highest figure since comparable records began in 1971. The working age employment rate is now 74.5 per cent, up from 72.7 per cent in 1997, while unemployment has fallen to 5.6 per cent. Chapter 4 describes the successful action the Government has 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;
- **extending employment opportunity** 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 create a system of support that provides greater rewards from work, improving incentives for individuals to participate in the labour market.

**Next steps I.19** The 2006 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, the low-skilled and those who face particular barriers to work. The Pre-Budget Report announces:

- **extending the support offered to lone parents who move into work** by maintaining the In-Work Credit in the current pilot areas for a further six months;

- **improving the Jobseeker's Allowance intervention regime** by offering expert work-search support at the new claim stage, and extending the Job Grant of £100 (£250 to claimants with children) to 18-24 year old jobseekers;
- **improving enforcement of the National Minimum Wage by increasing by 50 per cent the resources allocated to tackle non-compliance and raising penalties for the seriously non-compliant;**
- **providing funding to improve the administration of Housing Benefit and to raise awareness that Housing Benefit is available to those in work;**
- **taking forward measures to simplify and reduce error in the benefits system; and**
- **raising the earnings disregard to Housing Benefit and Council Tax Benefit in line with indexation to £15.45 in April 2007**, ensuring that claimants gain from increases in the rate of Working Tax Credits.

## BUILDING A FAIRER SOCIETY

**I.20** 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.21** 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; 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 I.22** Building on these reforms, the Government is committed to taking the long-term decisions to promote opportunity and fairness. The Pre-Budget Report announces:

- **from April 2007, the value of the child element of Child Tax Credit will rise by £80 to £1,845 per year;**
- **from April 2009, additional support for all families, with every mother-to-be becoming eligible for Child Benefit from week 29 of their pregnancy, so that women will be up to £200 better off;**

- **an extension of the Warm Front programme, targeting 300,000 of the most vulnerable pensioner and other households, community by community;**
- **making Individual Savings Accounts (ISAs) permanent, beyond 2010,** to provide stability for savers and certainty for the industry. In addition, the introduction of a package of reforms to the ISA, designed to simplify the regime, will make it more flexible for savers and providers and further promote saving;
- **a package of measures responding to the consultation on the role of the third sector in social and economic regeneration,** including the establishment of a new £30 million Community Asset Transfer fund and the guarantee of three years of funding passed on to third sector organisations;
- **the establishment of an international research collaborative for the development sciences,** led by a high level steering board including leading scientists; and
- **further reforms to modernise the tax system and protect tax revenues,** including work to tackle tax avoidance.

## DELIVERING HIGH QUALITY SERVICES

**Action so far I.23** The Government's aim is to deliver world-class public services through sustained investment and far-reaching reform. High quality education and training, a modern health service, a fair and effective criminal justice system and a fast and reliable transport network provide the essential foundations for a flexible economy and a fair society, which is well placed to prosper in the increasingly competitive global environment.

**I.24** 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; 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.25** A decade on from the first Comprehensive Spending Review (CSR), the Government is now conducting a second CSR, reporting in 2007. In preparation for the 2007 CSR, this Pre-Budget Report announces:

- **solid progress in the Government's SR04 efficiency programme,** with departments and local authorities reporting gains of £13.3 billion by September 2006, over halfway towards the target of over £21 billion by 2007-08;
- building on this success, **the baseline savings ambition for the 2007 CSR period will be at least 3 per cent per year across central and local government,** with a focus on net cashable savings to free-up resources to meet the challenges ahead;
- **administration budgets across departments will be reduced by at least 5 per cent per year in real terms over the 2007 CSR period,** releasing resources for reallocation to frontline services;

- **an early CSR07 settlement for the Department for Constitutional Affairs**, which will see its budget fall by an annual average of 3.5 per cent in real terms over the 2007 CSR period;
- **an early CSR07 settlement for education capital with investment rising from £8.3 billion in 2007-08 to £10.2 billion in 2010-11**, a total of £36 billion over the next four years; and
- **the publication of Sir David Varney's review of public service transformation**, making recommendations to strengthen and join up public service delivery and make public services more efficient and responsive to the needs of users.

**1.26** The Pre-Budget report outlines further measures directing resources to the Government's priorities, including:

- **a further £130 million direct to schools in England in 2007-08**, including to support personalised teaching and extended services;
- an increased focus on small group and one-to-one support, with **the Every Child a Reader scheme, rolled out nationally to 30,000 children a year by 2010-11; and an additional £10 million in 2007-08 to increase personalised support in schools** where boys are falling behind; and
- **an additional £84 million to support the ongoing expansion of counter-terrorism capabilities in the Intelligence Agencies.**

## PROTECTING THE ENVIRONMENT

**1.27** The Government is committed to delivering a strong economy based not just on high and stable levels of growth and employment but also on high standards of environmental stewardship. Growth in the developed world, accompanied 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. Climate change is a very significant challenge, and the recently published *Stern Review on the Economics of Climate Change*<sup>2</sup> has highlighted how long-term global prosperity will be undermined if early and coordinated international action is not taken.

**Action so far 1.28** 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 EU Emissions Trading Scheme and the Climate Change Levy;
- **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.

<sup>2</sup>*Stern Review on the Economics of Climate Change, October 2006, Cambridge University Press*

**Next steps I.29** 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, whilst taking into account other social and economic factors. This Pre-Budget Report sets out the next stage in the Government's strategy for tackling the global challenge of climate change including:

- **promoting the development of a global carbon market** through the expansion and strengthening of the EU Emissions Trading Scheme and linking it to schemes outside the EU;
- **taking further steps towards realising carbon capture and storage technology**, including tendering for consulting engineers to help enable a decision in 2007 on whether to support a UK-based demonstration plant;
- **an increase in all rates of air passenger duty**, with effect from 1 February 2007, in recognition of the environmental costs air travel;
- **an inflation-based increase of 1.25 pence per litre (ppl) in the rate of road fuel duty with effect from midnight tonight**; and the same increase of 1.25 ppl in duty for rebated fuels, maintaining the differential with main fuel duty rates;
- **a package of measures to encourage the development of the biofuels market** and innovative types of biofuels;
- **an ambition for all new homes to be zero carbon within a decade with a time-limited stamp duty exemption** for the vast majority of new zero-carbon homes that meet this standard;
- **legislation to ensure householders installing microgeneration are not subject to income tax on any payment for surplus electricity exported back to the grid**; and
- **the extension of the Landlords Energy Saving Allowance** to 2015 and to corporate landlords.

**I.30** The Pre-Budget Report also reports on the Government's strategy for tackling other environmental challenges, including:

- **confirmation that the standard rate of landfill tax will increase by £3 per tonne to £24 per tonne with effect from 1 April 2007**. The Government will also consider the case for steeper increases in the tax from 2008.

## 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 2006. The fiscal impact of these measures is set out in Table 1.2. Full details are provided in Annex B.

**I.32** Chart 1.1 presents public spending by main function. Total managed expenditure (TME) is expected to be around £555 billion in the current financial year, 2006-07. TME is divided into Departmental Expenditure Limits (DEL), shown in Table B18, and Annually Managed Expenditure (AME), shown in Table B16.

**Table I.2: Estimated costs for Pre-Budget Report policy decisions and others announced since Budget 2006<sup>1</sup>**

	£ million			
	2006-07	2007-08	2008-09	2009-10
<b>Increasing employment opportunity for all</b>				
Increase in Housing Benefit disregard	0	-5	-	-
Supporting people into work through extending the job grant	*	-5	-	-
<b>Building a fairer society</b>				
July renewal deadline for Child and Working Tax Credits <sup>2</sup>	0	+60	+20	+10
Tackling Managed Service Companies	0	+350	+450	+250
Film tax reliefs: transitional arrangements	0	-20	-20	*
Life assurance companies reform	0	-15	-20	-10
Simplification of general insurers' reserves	0	0	+130	+150
VAT: partial exemption special method	0	+20	+20	+25
Construction Industry Scheme deduction rates	0	+250	-10	-20
Increasing travellers' allowance from outside the EU	0	-15	-15	-15
<b>Protecting revenues</b>				
Controlled Foreign Companies: repeal of public quotation exemption <sup>3</sup>	+20	+125	+160	+160
Tackling avoidance using structured finance arrangements	+10	+15	+15	+15
Countering corporation tax avoidance	+110	+180	+195	+195
Life assurance companies: valuation rules	+70	+95	+95	+95
Stamp duty land tax anti-avoidance	+25	+75	+70	+70
Countering CGT avoidance	0	+70	+130	+120
<b>Protecting the environment</b>				
Air passenger duty rates <sup>4</sup>	+165	+1,000	+1,100	+1,200
Fuel duties: revalorise main rates from 7 December 2006	-190	0	0	0
Fuel duties: maintain the differential for rebated oils from 7 December 2006	-20	0	0	0
Rebated oils: changes to excepted vehicle schedule	0	-5	0	0
Extension of the Landlords Energy Saving Allowance	0	0	-10	-10
<b>Other policy decisions</b>				
Direct payments to schools	0	-155	-	-
<b>TOTAL POLICY DECISIONS</b>	<b>+190</b>	<b>+2,020</b>	<b>+2,310</b>	<b>+2,235</b>

\* Negligible

- Included within the current spending growth assumption from 2008-09 onwards.

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

<sup>2</sup> The savings in AME spending as a result of this measure are included within the current spending growth assumption from 2008-09 onwards.

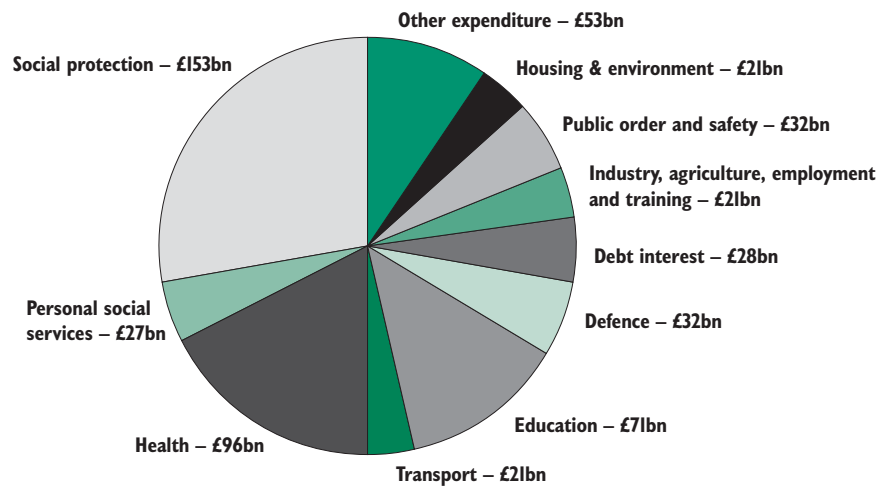
<sup>3</sup> Alongside the revenue raised by this measure, forecast tax revenues have been adjusted as a result of the European Court of Justice ruling on the taxation of Controlled Foreign Companies and the Government's response to it, as described in Chapter 5. The impact on tax revenues of this adjustment is estimated as:

	2006-07	2007-08	2008-09	2009-10
	-15	-100	-175	-250

<sup>4</sup> The costing assumes revalorisation annually from 1 April 2008.

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

Total managed expenditure: £555 billion

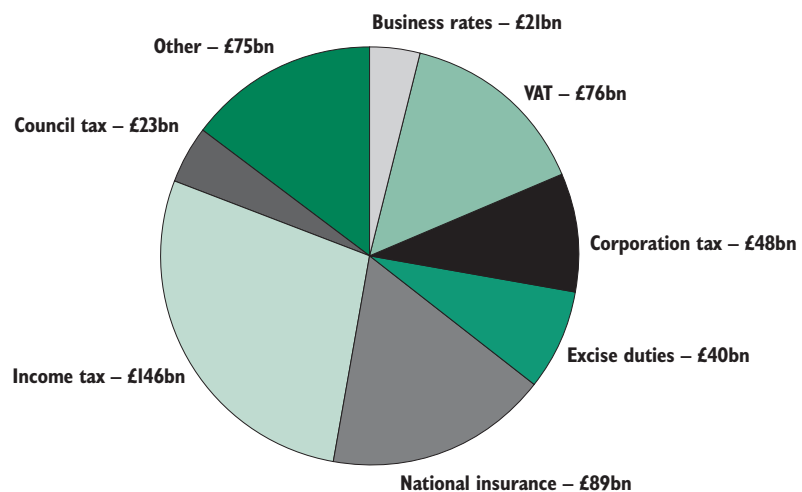


Source: HM Treasury, 2006-07 near-cash projections. Spending re-classified to functions compared to previous presentations and is now using methods specified in international standards. Other expenditure includes spending on general public services; recreation, culture, media and sport; international 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 now counted in AME, in line with OECD guidelines. Figures may not sum to total due to rounding.

**I.33** Chart 1.2 shows the different sources of government revenues. Public sector current receipts are expected to be around £518 billion in 2006-07. Table B13 provides a more detailed breakdown of receipts consistent with this chart.

### Chart I.2: Government receipts

Total receipts: £518 billion



Source: HM Treasury, 2006-07 projections. Other receipts include capital taxes, stamp duties, vehicle excise duties and some other tax and non-tax receipts – for example, interest and dividends. Figures may not sum to total due to rounding.

