



HM TREASURY

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# Meeting the aspirations of the British people

## 2007 Pre-Budget Report and Comprehensive Spending Review

October 2007

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 and Comprehensive Spending Review includes, with other material, updated forecasts for the economy and projections for the public finances. Subject to the usual scrutiny and approval for the purposes of Section 5 of the European Communities (Amendment) Act 1993, these reports will form the basis of submissions to the European Commission under Article 99 (ex Article 103) and Article 104 (ex Article 104c) of the Treaty establishing the European Community.

# CONTENTS

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		Page
Chapter 1	Overview	1
Chapter 2	Maintaining macroeconomic stability	15
Chapter 3	Transforming public services	31
Chapter 4	Sustainable growth and prosperity	49
Chapter 5	Fairness and opportunity for all	71
Chapter 6	Stronger communities and a better quality of life	95
Chapter 7	A more secure, fair and environmentally sustainable world	113
Annex A	The economy	133
Annex B	The public finances	157
Annex C	Public Service Agreements	187
Annex D	2007 Comprehensive Spending Review settlements	199
Annex D1	Department for Children, Schools and Families	200
Annex D2	Department of Health	204
Annex D3	Department for Transport	209
Annex D4	Department for Innovation, Universities and Skills	212
Annex D5	Communities and Local Government	217
Annex D6	Local Government	221
Annex D7	Home Office, Ministry of Justice and Law Officers' Departments	225
Annex D8	Ministry of Defence	231
Annex D9	Foreign and Commonwealth Office	234
Annex D10	Department for International Development	237
Annex D11	Department for Business, Enterprise and Regulatory Reform	241
Annex D12	Department for Environment, Food and Rural Affairs	244
Annex D13	Department for Culture, Media and Sport	247
Annex D14	2012 Olympic Games and Paralympic Games	250
Annex D15	Department for Work and Pensions	252
Annex D16	Chancellor's Departments	255
Annex D17	Cabinet Office	257
Annex D18	Devolved Administrations and Northern Ireland Office	260
Annex D19	England's Regional Development Agencies	264
	List of departmental groupings	269
	List of abbreviations	273
	List of tables	279
	List of charts	281



# OVERVIEW

The Government's objective is to build a strong economy and a fair society, in which there is opportunity and security for all. The 2007 Pre-Budget Report and Comprehensive Spending Review, *Meeting the aspirations of the British people*, presents updated assessments and forecasts of the economy and public finances, describes reforms that the Government is making and sets out the Government's priorities and spending plans for the years 2008-09, 2009-10 and 2010-11, including:

- **maintaining macroeconomic stability**, with the economy continuing to grow strongly and with the Government meeting its strict fiscal rules over the forecast period;
- **investing in the future**, with total public spending rising from £589 billion in 2007-08 to £678 billion in 2010-11, an average increase of 2.1 per cent per year in real terms, including an addition of £2 billion to the plans set at Budget 2007 in order to take forward vital capital investment in public services;
- **continuing the sustained investment in the NHS**, with resources increasing from around £90 billion in 2007-08 to £110 billion by 2010-11 – an average real increase of 4 per cent a year – which alongside value for money savings of at least £8.2 billion will fund the conclusions of the Darzi Review to build a health service fit for the 21st century;
- **further sustained increases in resources** for education, science, transport, housing, child poverty, security and international poverty reduction as well as fully funding the 2012 Olympic Games and Paralympic Games;
- **building on the SR04 efficiency programme** with at least 3 per cent value for money savings per year over the CSR07 period across central and local government, totalling £30 billion of annual savings by 2010-11;
- **simplifying the tax system** to make it fairer, simpler and more efficient with the announcement of three simplification reviews and a package of simplification measures;
- **continuing to modernise the tax system through announcing major reforms to inheritance tax and capital gains tax**; and
- **taking steps to protect the environment**, including by reforms and increases to the tax regime for aviation and a new Environmental Transformation Fund worth £1.2 billion over the CSR07 period, to support the demonstration and deployment of new energy and efficiency technologies in the UK and to advance poverty reduction through environmental protection in developing countries.

**1.1** The Government's objective is to build a strong economy and a fair society, in which there is opportunity and security for all. A decade ago the Government laid the foundations for achieving this through a series of fundamental reforms to the macroeconomic framework, the public spending framework and the tax and benefit system. These have underpinned a decade of investment and reform, which has helped to achieve a sustained period of economic expansion, low unemployment and significant improvements in public services.

## LONG-TERM CHALLENGES AND OPPORTUNITIES

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**1.2** A decade on, the 2007 Comprehensive Spending Review has provided the opportunity to undertake an extensive programme of analysis and public engagement in order to inform the Government's response to the new challenges and opportunities facing the UK, including:

- demographic and socio-economic change, with rapid increases in the old age dependency ratio and rising consumer expectations of public services;
- increasing pressures on natural resources and the global climate, requiring action by governments, businesses and individuals to maintain prosperity and improve environmental care;
- the intensification of cross-border economic competition, with new opportunities for growth, as the balance of international economic activity shifts towards emerging markets such as China and India;
- the rapid pace of innovation and technological diffusion, which will continue to transform the way people live and open up new ways of delivering public services; and
- continued global uncertainty with ongoing threats from international terrorism and conflict and the continued imperative to tackle global poverty.

**1.3** These developments will have complex and far-reaching implications for government, citizens, businesses and the third sector that demand a shared sense of purpose and coordinated interventions across tax, spending and regulatory levers. The 2007 Pre-Budget Report and Comprehensive Spending Review sets out how the Government plans to respond to these challenges and opportunities in order to make further progress against its goals of:

- **sustainable growth and prosperity**, in order to continue to improve people's standard of living;
- **fairness and opportunity for all**, so that everyone can make the most of their talents and share in rising national prosperity;
- **stronger communities and a better quality of life**, enabling people to lead healthy, safe and fulfilling lives; and
- **a more secure, fair and environmentally sustainable world**, with the UK playing a leading global role.

**1.4** To contribute to the achievement of these overarching goals, **the Government has agreed 30 Public Service Agreements (PSAs)**, that articulate the Government's highest priority outcomes for the forthcoming period, setting out a shared vision, spanning departmental boundaries and leading collaboration at all levels of the delivery system.

## MAINTAINING MACROECONOMIC STABILITY

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**1.5** The Government is committed to maintaining macroeconomic stability as the essential foundation for achieving its priorities, as it underpins its ability to raise the productivity of the economy, reduce poverty, expand opportunity and sustain increased investment in public services.

**1.6** The Government's macroeconomic framework and promotion of flexible and open labour, product and capital markets continue to deliver sustained economic growth with low inflation. The economy has grown for 60 consecutive quarters and inflation is close to target. This macroeconomic stability puts the UK in a strong position to respond to global economic challenges, and to take advantage of the opportunities of the coming decade. The 2007 Pre-Budget Report and Comprehensive Spending Review provide for further investment in public services to help equip the country for change while entrenching the macroeconomic stability needed to enable the UK to prosper in the increasingly competitive global economy.

**1.7** In 2007, the UK economy has continued to perform strongly, with GDP growth in the first half of the year reaching 3¼ per cent on a year earlier, towards the upper end of the Budget 2007 forecast range. Reflecting the combination of momentum in the economy, but higher interest rates than markets expected at the time of Budget 2007 and the assumed impact of financial market disruption, the 2007 Pre-Budget Report economic forecast is for GDP growth of 3 per cent in 2007, slowing to 2 to 2½ per cent in 2008, before strengthening to trend at 2½ to 3 per cent in 2009 and 2010.

**1.8** The 2007 Pre-Budget Report projections for the public finances show that the Government is meeting its strict fiscal rules:

- the current budget shows an average surplus as a percentage of GDP over the current economic cycle, ensuring the Government is meeting the golden rule. Beyond the current cycle, the current budget moves clearly into surplus; and
- public sector net debt is projected to remain low and stable over the forecast period, stabilising below 39 per cent of GDP and so meeting the sustainable investment rule.

**Table 1.1: Meeting the fiscal rules**

	Per cent of GDP						
	Outturn	Estimate	Projections				
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<b>Golden Rule</b>							
Surplus on current budget	-0.4	-0.6	-0.3	0.2	0.6	0.8	1.1
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	-0.2	-0.7	-0.2	0.3	0.6	0.8	1.1
<b>Sustainable investment rule</b>							
Public sector net debt <sup>1</sup>	36.7	37.6	38.4	38.8	38.9	38.8	38.6

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

## TRANSFORMING PUBLIC SERVICES

**1.9** Delivering better outcomes in the Government's 30 priority areas will require world-class public services that respond to people's rising aspirations and equip the UK for global change. The Government's approach to improving outcomes from public services comprises: investing for the long term; driving better value for money from public spending; and taking forward the next stage in public service reform by empowering users and frontline professionals to shape services.

**I.10** Budget 2007 set the overall spending envelope for the CSR07 period, locking in the historic increases in investment of the past decade while allowing public spending to increase by an average of 2 per cent a year in real terms. The strength of the UK's public finances enables the Government to **announce an addition of £2 billion to public sector net investment in 2010-11, to take forward vital investment in public services.** With this addition, total public spending over the CSR07 period will rise by an average of 2.1 per cent a year in real terms with:

- current spending increasing by an average of 1.9 per cent per year in real terms; and
- net investment rising to 2¼ per cent of GDP.

**I.11** These increases in spending will enable the Government to sustain the pace of improvement in frontline public services seen in previous spending rounds and focus additional investment on its key long-term priorities, including:

- meeting the challenge of globalisation by investing in the human and physical capital that will keep the UK economy competitive over the long-term, with **additional spending by 2010-11 of £14.5 billion on education, £900 million on science and £3.6 billion on transport;**
- making the UK a better place to live by continuing to **improve the NHS with further investment of £19 billion by 2010-11** and progressing towards its objective of decent and affordable housing for all, with total spending on new housing of at least £8 billion over the next three years;
- protecting the nation from external and internal threats, with **total spending on counter-terrorism and intelligence rising from £2½ billion in 2007-08 to £3½ billion in 2010-11** and continuing the longest period of sustained real increases in defence expenditure in over 20 years; and
- **ensuring a lasting cultural and sporting legacy for the nation by investing £3.6 billion in the construction costs of the Olympics over the CSR07 period,** with further funding to be announced in the next spending review.

**I.12** The Government is committed to driving better value for money from this increased public spending over the CSR07 years by:

- **delivering at least 3 per cent net, cash-releasing value for money savings per year across central and local government, a total annual saving of £30 billion** thereby maximising the resources available to improve front line services and fund new priorities;
- **reducing administration budgets by 5 per cent a year in real terms across departments,** bringing the proportion of public spending spent on administration to a new record low; and
- **the release of £30 billion from fixed asset disposals between 2004-05 and 2010-11 as well as further funds from the sale of financial assets for reinvestment in new infrastructure.**

**I.13** In addition, the Government will continue to make reforms to public services to improve both outcomes and people's experience of those services, including through:

- **a new performance management framework** for central and local government that supports a sharper focus on key priorities, a more collaborative approach to achieving outcomes, and a reduction in burdens on frontline services; and
- putting users at the heart of services, including through a **programme of service transformation** that will build service delivery around the needs of citizens and businesses;

## SUSTAINABLE GROWTH AND PROSPERITY

**I.14** The pace of change in the global economy is intensifying, with growing movement of people, investment and goods. Rapid technological change and the emergence of newly industrialised economies are driving shifts in the competitive environment, with knowledge and other intangible assets growing in importance, creating new opportunities for individuals and businesses. In order to equip the UK to respond to these changes and support *sustainable growth and prosperity* the Government's priorities set out in PSAs will be to:

- **raise the productivity of the UK economy**, sustaining high rates of economic growth and improving the standard of living;
- **improve the skills of the population, on the way to ensuring a world class skills base by 2020**, setting stretching national targets to support working age people to acquire the skills they need to succeed at all levels;
- **ensure controlled, fair migration that protects the public and contributes to economic growth**, including developing a strong identity management system, reducing the processing time for asylum applications, removing those that cause the most harm to society first and managing migration to reduce skills shortages;
- **promote world class science and innovation in the UK**, with world-class research in UK centres of excellence, increasing business investment in R&D, and using the education system to deliver a strong base of future scientists, engineers and technologists;
- **deliver reliable and efficient transport networks that support economic growth**, tackling congestion and increasing the capacity of the rail network;
- **deliver the conditions for business success in the UK**, providing a world-class competition and corporate governance regime, a flexible labour market and better regulation; and
- **improve the economic performance of all English regions and reduce the gap in economic growth rates between regions.**

**I.15** The 2007 Pre-Budget Report and Comprehensive Spending Review sets out a number of steps that the Government will take towards delivering on these priorities, including:

- **increasing spending by the Department for Innovation, Universities and Skills on higher education and skills from £14.2 billion in 2007-08 to £16.4 billion by 2010-11** to implement the recommendations of the Leitch Review, developing a strong partnership with employers and individuals to deliver higher skills;
- **increasing public investment in the science base from £5.4 billion in 2007-08 to £6.3 billion by 2010-11** to implement the recommendations of the Sainsbury Review. **Total public support for business innovation through the Technology Strategy amounting to over £1 billion** will ensure the UK's continued success in generating new ideas and using them in wealth creation;
- **confirming a 2¼ per cent annual real increase in the Department for Transport's programme budget**, consistent with the Long Term Funding Guideline which **is extended to 2018-19**. This will continue renewal of the UK's transport infrastructure including the **funding package for Crossrail**;
- **simplifying the tax system** to make it fairer and more efficient with the announcement of new principles, three reviews and a package of measures;
- **simplifying business support** to reduce confusion and the time businesses spend understanding what support is available and accessing it, and to improve the quality, effectiveness and efficiency of schemes;
- **supporting the private equity industry's moves to increase transparency and a number of measures to ensure that tax arrangements are sustainable and appropriate**; and
- **allowing local authorities to invest in economic development through levying a local business rate supplement and focusing the strategic role for the Regional Development Agencies on economic growth** as announced in the *Review of sub-national economic development and regeneration*.

## FAIRNESS AND OPPORTUNITY FOR ALL

**I.16** A decade ago, the Government set itself the twin aims of employment opportunity for all and a fair society in which everyone shares in rising national prosperity. These objectives are mutually reinforcing: work is the surest route out of poverty, while the tax and benefit system must work with public services to make sure that everyone is supported and given a chance to achieve their potential. The Government is also committed to a modern and fair tax system that ensures that everyone pays their fair share of tax. In order to promote *fairness and opportunity for all*, the Government's priorities as set out in PSAs will be to:

- **maximise employment opportunity for all**, raising the overall employment rate and narrowing the gap between the employment rates of disadvantaged groups and the overall rate;
- **halve the number of children in poverty by 2010-11, on the way to eradicating child poverty by 2020**, with a national target to reduce the number of children in relative low income households, supplemented by indicators to track progress on reduction in the number of children in absolute low income poverty and the number in relative low income and material deprivation;

- **raise the educational achievement of all children and young people**, raising standards at all levels of learning and development with stretching national targets;
- **narrow the gap in educational achievement between children from low income and disadvantaged backgrounds and their peers**, with national targets focused on pupil level progression and improving outcomes for the most vulnerable;
- **improve the health and well-being of children and young people**, turning round long term trends on childhood obesity and improving the experience of parents of disabled children with the services they receive;
- **increase the number of children and young people on the path to success**, reducing the number not in education, employment and training, reducing teenage pregnancy and reducing drug and alcohol use by teenagers;
- **improve children and young people's safety**, reducing bullying, reducing unintentional and deliberate injuries to children and reducing the number of preventable deaths;
- **address the disadvantage that individuals experience because of their gender, race, disability, age, sexual orientation, religion or belief**, reducing discrimination in employment, increasing participation in public life and narrowing the persistent gap between men and women's wage rates;
- **increase the proportion of socially excluded adults in settled accommodation and employment, education or training**, especially for care leavers, offenders under probation supervision, adults with secondary mental health problems and adults with moderate to severe learning disabilities; and
- **tackle poverty and promote greater independence and well-being in later life**, improving employment opportunities, improving health outcomes, and ensuring older people share in the rising prosperity of the UK.

**I.17** The 2007 Pre-Budget Report and Comprehensive Spending Review sets out a number of steps that the Government will take towards delivering on these priorities, including:

- **ensuring that all married couples and civil partners can benefit from double the inheritance tax allowance - £600,000 immediately, rising to £700,000 by 2010-11 in addition to the entitlement to full inheritance tax spouse relief;**
- **a major reform of capital gains tax, introducing a single rate of 18 per cent from April 2008, ensuring a more sustainable system that is straight forward for taxpayers, and internationally competitive;**
- **announcing that, in addition to the £150 increase announced at Budget 2007, the child element of Child Tax Credit will increase by £25 per year above indexation from April 2008, and by a further £25 above indexation, from April 2010 and that the child maintenance disregard in the main income related benefits will increase to £20 by the end of 2008, with a further increase to £40 from April 2010, together lifting an estimated 100,000 children out of poverty;**

- **education spending in England will rise an average by 2.8 per cent a year in real terms between 2007-08 and 2010-11, meaning that UK education spending as a proportion of GDP is projected to increase from 4.7 per cent in 1996-97 to 5.6 per cent in 2010-11;**
- **increasing the Jobseekers Allowance and Income Support rates for 16-17 year olds from April 2008 to align with the 18-24 rates, to help to simplify the system and ensure a higher minimum level of income for this group;**
- **the national roll-out from April 2008 of the In-Work Credit for lone parents at a rate of £40, retaining a rate of £60 in London, ensuring a substantial financial gain from moving into work;**
- **announcing the continuation of the Financial Inclusion Fund at £130 million over the the CSR07 period and an £11.5 million package of support for schools to teach children financial skills; and**
- **further reforms to modernise the tax system and protect tax revenues, including work to tackle avoidance.**

## **STRONGER COMMUNITIES AND A BETTER QUALITY OF LIFE**

**I.18** Stable growth with high employment and low inflation provide the platform for rising living standards, while world class standard of education and modern tax and benefit system help to expand opportunity, ensure fairness and delivery security for the most vulnerable. However, public services also play a crucial role in building the foundations of communities and enabling individuals to lead healthy and fulfilling lives. To support *stronger communities and a better quality of life* the Government's priorities as set out in PSAs will be to:

- **promote better health and well-being for all**, with national targets to narrow the gap in life expectancy between the poorest areas and the national average, reducing smoking rates and improving access to psychological therapies;
- **ensure better care for all**, with no one waiting more than 18 weeks from GP to referral to hospital appointment, increased focus on patient experience and reducing hospital acquired infections;
- **improve long-term housing supply and affordability**, increasing housing supply, increasing the number of affordable homes, and improving the energy performance of new homes;
- **deliver a successful Olympic Games and Paralympic Games with a sustainable legacy and get more children and young people taking part in high quality PE and sport;**
- **build more cohesive, empowered and active communities**, enhancing the shared sense of purpose and belonging, as well as increasing participation in volunteering, sporting and cultural activities;
- **make communities safer**, reducing levels of serious violent crimes and serious acquisitive crimes, increasing confidence in local crime reduction agencies, and reducing reoffending;
- **deliver a more effective, transparent and responsive Criminal Justice System for victims and the public**, increasing public confidence in the fairness of the system and delivering better standards of service for victims and witnesses;

- **reduce the harm caused by alcohol and drugs**, improving the level of effective treatment for drug users thereby reducing the harm to communities as a result of associated crime, disorder and anti-social behaviour, and for the first time extending this to focus on alcohol abuse; and
- **reduce the risks to the UK and its interests overseas from international terrorism**, stopping attacks, mitigating their impacts and tackling violent extremism.

**I.19** The 2007 Pre-Budget Report and Comprehensive Spending Review sets out the steps that the Government will take towards delivering on these priorities, including:

- **increasing spending on the NHS by an average of 4 per cent a year in real terms, taking its budget from £90 billion in 2007-08 to £110 billion by 2010-11**, and delivering the vision set out by the Darzi Review for a health service which is fair, personalised, effective, safe and locally accountable;
- **funding the delivery of more personalised adult social care** that will give people greater choice and control, and announcing plans to consult on reform of the adult care and support systems;
- **delivering the target of 2 million new homes by 2016, by increasing spending on housing from £8.8 billion in 2007-08 to £10 billion by 2010-11**, reforming the tax and planning systems, and laying the ground for new planning charges to support essential investment in infrastructure;
- **strengthening the role of local authorities to reshape local services** around the individuals, families and communities that use them – underpinned by resource growth of 1 per cent a year in real terms over the CSR07 period, which the Government expects will enable the overall council tax increase to stay well below five per cent in each of the next three years;
- **maintaining funding in real terms for the arts, museums and galleries**, and ensuring a lasting cultural and sporting legacy for the nation by **contributing £3.6 billion to the first phase of the construction costs of the Olympics over the next three years**;
- **increasing resources for the Home Office by 1.1 per cent a year in real terms over the CSR07 period**, with an addition of over £220 million by 2010-11 to lead the fight against terrorism, alongside wider steps to roll out neighbourhood policing and deliver a more effective criminal justice system; and
- protecting the UK's security by **increasing spending on counter-terrorism, intelligence and resilience from £2½ billion in 2007-08 to £3½ billion in 2010-11, within a new single security and intelligence budget for counter-terrorism**.

## A MORE SECURE, FAIR AND ENVIRONMENTALLY SUSTAINABLE WORLD

**I.20** Advances in transport and communications technology mean the links between nations are now closer and more immediate than ever before. This brings new opportunities but also significant challenges, with economic, environmental and security risks no longer easily contained within one country. To help build *a more secure, fair and environmentally sustainable world*, the Government's priorities as set out in PSAs will be to:

- **lead the global effort to avoid dangerous climate change**, which sets out the UK's ambitions to secure robust global commitments for the period after 2012, adopt and promote cost effective policies which reduce net greenhouse gas emissions, and adapt to unavoidable climate change;
- **secure a healthy natural environment for today and the future**, monitoring water quality, biodiversity and air quality and protecting and enhancing the natural environment;
- **reduce poverty in poorer countries through quicker progress towards the Millennium Development Goals**, building global partnerships and focusing action on where it is most needed in Africa and South Asia; and
- **reduce the impact of conflict through enhanced UK and international efforts** to prevent, manage and resolve it, creating the conditions for effective state-building and economic development and strengthening international institutions.

**1.21** The 2007 Pre-Budget Report and Comprehensive Spending Review sets out the next stage in the Government's strategy to meet these challenges, including:

- **increasing the Department for Environment, Food and Rural Affairs' budget by an average of 1.4 per cent a year in real terms, from £3,508 million in 2007-08 to £3,960 million in 2010-11.** This includes increasing funding for flood and coastal erosion risk management from £600 million in 2007-08 to £800 million in 2010-11;
- **creating an Environmental Transformation Fund of £1.2 billion over the CSR07 period**, to support the demonstration and deployment of new energy and efficiency technologies in the UK and to advance poverty reduction through environmental protection in developing countries;
- **publishing the interim report of the King Review** on vehicle and fuel technologies which over the next 25 years could help 'decarbonise' road transport;
- **replacing air passenger duty with a duty payable per plane rather than per passenger, from 1 November 2009;**
- **increases to the Department for International Development's (DfID) budget by 11 per cent a year in real terms over the CSR07 period from £5.4 billion in 2007-08 to £7.9 billion in 2010-11;**
- **an overall CSR07 settlement, that puts the UK on track to spend 0.56 per cent of Gross National Income (GNI) on Official Development Assistance (ODA) by 2010-11**, meeting the EU's collective commitment, and on course to reach 0.7 per cent of GNI by 2013;
- **a new Stabilisation Aid Fund jointly managed by DfID, the Foreign and Commonwealth Office (FCO) and the Ministry of Defence (MoD) worth over £260 million** during the CSR07 period, for conflict stabilisation activity in volatile or hostile areas;
- **an increase for the MoD budget of 1.5 per cent a year in real terms over the CSR07 period**, enhancing capability including funding for two new aircraft carriers, new protected vehicles for the Army, further Air Transport capability while providing the resources necessary to sustain the UK's nuclear deterrent; and

- a CSR07 settlement for the FCO, which enhances security across the overseas diplomatic network, funds a new embassy in Kabul, and provides an additional £21 million by 2010-11 for a Farsi TV service and for a 24/7 Arabic TV service.

## PRE-BUDGET REPORT AND COMPREHENSIVE SPENDING REVIEW POLICY DECISIONS

**1.22** 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 2007. 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 for Pre-Budget Report policy decisions and others announced since Budget 2007<sup>1</sup>**

	£ million			
	2007-08	2008-09	2009-10	2010-11
<b>Sustainable growth and prosperity</b>				
Tax simplification: increase income tax self assessment payment on account threshold	0	0	-90	0
<b>Fairness and opportunity for all</b>				
Increase in housing benefit disregard <sup>2</sup>	-5	-	-	-
Implementing state second pension White Paper reforms	0	0	+290	+440
Modernisation of residence and domicile taxation	0	0	+800	+500
Increase child element of CTC by £25 in April 2008 and a further £25 in April 2010 <sup>3</sup>	0	-30	-30	-60
Transferable inheritance tax allowances for married couples and civil partners	-100	-1,000	-1,200	-1,400
Capital gains tax reform: 18% single rate	0	+350	+750	+900
<b>Protecting revenues</b>				
Removal of national insurance contributions exemption	+100	+200	+200	+200
Tackling income shifting	0	+25	+260	+200
Life insurance companies avoidance	0	+35	+45	+45
Countering interest relief exploitation by individuals	+25	+10	0	0
Vehicle excise duty enforcement	0	+10	+20	+25
<b>Protecting the environment</b>				
Aviation duty <sup>4</sup>	0	-55	+100	+520
Non-car vehicle excise duty rates for 2008-09	0	-5	-5	-10
Fuel benefit charge: revalorisation since 2003	0	+65	+40	+25
Extending the exemption for oils used in electricity generation	-5	-5	-5	-5
Enhanced capital allowances for biofuel plants	0	+30	+20	+35
<b>Other policy decisions</b>				
Addition to the special reserve	-400	0	0	0
<b>TOTAL POLICY DECISIONS</b>	<b>-385</b>	<b>-370</b>	<b>+1,195</b>	<b>+1,415</b>
Additional investment in public services	0	0	0	-2,000

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

<sup>2</sup> From 2008-09 onwards, included within the Comprehensive Spending Review settlement.

<sup>3</sup> Negative tax costs. AME spending consequences are included within the Comprehensive Spending Review settlement.

<sup>4</sup> Intention to replace air passenger duty by per plane duty from November 2009.

## Departmental Expenditure Limits (DEL)

**1.23** Table 1.3 shows total allocations made to each department in the 2007 Comprehensive Spending Review. Details of each department's settlement are given in Annex D, and Annex B shows public expenditure plans for 2008-09 to 2010-11.

**Table 1.3: Comprehensive Spending Review total DEL settlements**

	£ billion				Per cent
	Baseline <sup>1</sup> 2007-08	2008-09	Plans 2009-10	2010-11	Average annual real growth <sup>2</sup>
<b>Resource and net capital DEL</b>					
Children, Schools and Families	50.1	52.9	55.6	59.5	3.1
Health	91.8	97.9	104.4	111.4	3.9
<i>of which: NHS England</i>	90.4	96.4	102.9	109.8	4.0
Transport	12.6	13.4	13.8	14.5	2.1
Innovation, Universities and Skills	18.0	18.7	19.7	20.8	2.2
CLG Communities	10.3	11.3	11.8	12.1	2.9
CLG Local Government <sup>3</sup>	23.9	24.8	25.7	26.5	0.9
Home Office	9.2	9.8	9.9	10.3	1.1
Justice	9.5	9.6	9.7	9.7	-1.7
Law Officers' Departments	0.7	0.7	0.7	0.7	-3.2
Defence	32.6	34.1	35.4	36.9	1.5
Foreign and Commonwealth Office	1.6	1.7	1.7	1.7	-0.1
International Development	5.4	5.8	6.8	7.9	11.0
Business, Enterprise and Regulatory Reform	3.4	3.4	3.4	3.4	-2.6
Environment, Food and Rural Affairs	3.5	3.7	3.8	4.0	1.4
Culture, Media and Sport	1.7	2.6	2.0	2.2	6.6
Work and Pensions	7.7	7.5	7.3	7.0	-5.6
Scotland	26.1	27.2	28.4	29.8	1.8
Wales	13.6	14.3	15.0	15.8	2.4
Northern Ireland Executive	8.4	8.8	9.2	9.6	1.7
Northern Ireland Office	1.2	1.2	1.2	1.2	-1.9
Chancellor's Departments	4.9	4.8	4.7	4.6	-4.9
Cabinet Office	1.9	2.2	2.4	2.5	7.2
Independent Bodies <sup>4</sup>	0.8	0.8	0.9	1.0	4.9
Modernisation Funding	-	0.5	0.4	0.1	-
Reserve	2.5	3.2	3.5	3.8	-
<b>Total DEL</b>	<b>344.6</b>	<b>361.1</b>	<b>377.5</b>	<b>396.9</b>	<b>2.1</b>

<sup>1</sup> Baselines exclude one-off and time limited expenditure

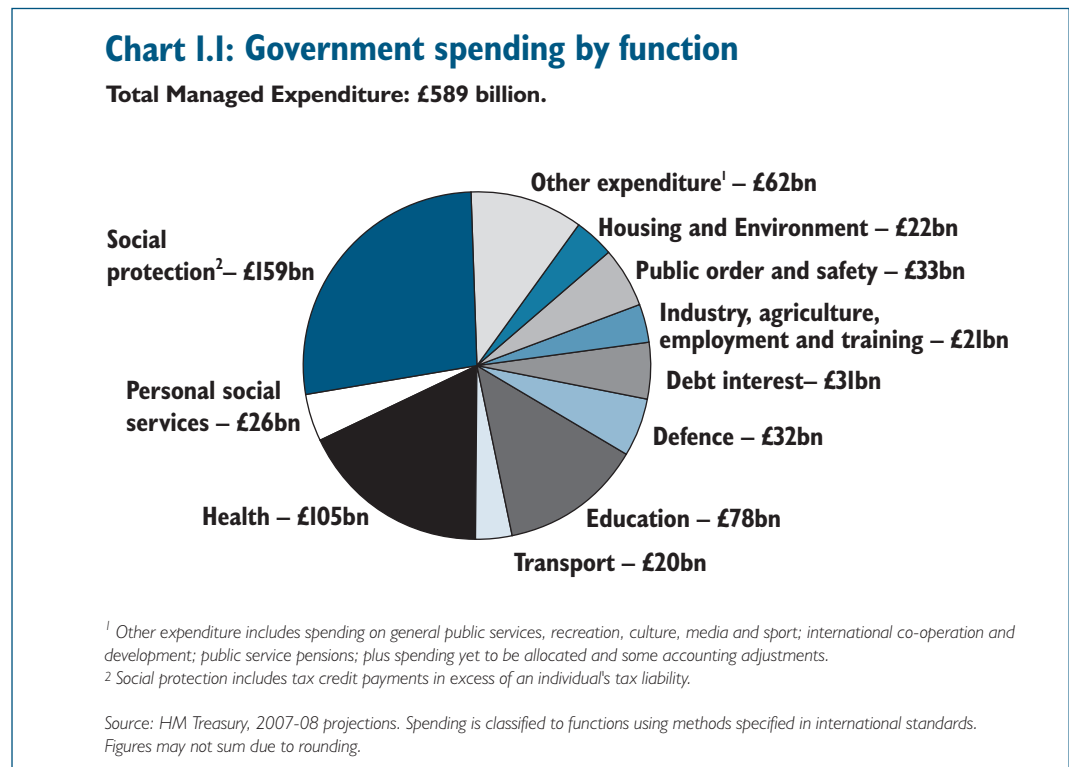
<sup>2</sup> Average annual real growth rates are calculated off a 2007-08 baseline

<sup>3</sup> Resource growth for local Government is 1.0%

<sup>4</sup> Independent bodies within Departmental Expenditure Limits that are not settled as part of the Comprehensive Spending Review. Includes the Statistics board, House of Commons, House of Lords, National Audit Office and the Office of the Parliamentary Commissioner.

## GOVERNMENT SPENDING AND REVENUE

**I.24** Chart 1.1 presents public spending by main function. Total Managed Expenditure (TME) is expected to be around £589 billion in the current financial year, 2007-08. TME is divided into Departmental Expenditure Limits (DEL), shown in Table B13, and Annually Managed Expenditure (AME) shown in B11.



**I.25** Chart 1.2 shows the different sources of government revenues. Public sector current receipts are expected to be around £551 billion in 2007-08. Table B8 provides a more detailed breakdown of receipts consistent with this chart.

