

Improvement Network

Briefing: Pre-budget report – 27 November 2008

This briefing provides an overview of the announcements made in the pre-budget report. It covers:

- growth: section 2
 - borrowing: section 3
 - tax: section 4
 - public spending: section 5
 - efficiency: section 6
 - environment: section 7
 - business: section 8
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Section 1: Introduction

The pre-budget report ([*Facing global challenges: supporting people through difficult times*](#)) sets out how the government plans to meet two separate priorities in the short and medium term. As it states:

- 'The government's **immediate** priority is to continue to support the economy through these difficult times'. The pre-budget report intends to support growth in the short-term through the £20 billion 'fiscal stimulus' of a reduction in VAT, capital spending (brought forward from 2010/11) and – it recommends to the Bank of England – low interest rates.
- 'Over the **medium term**, the government's fiscal policy objective is to ensure the sustainability of the public finances, in order to protect economic stability and long-term growth.' The report aims to claw back the deficit and balance the 'cyclically-adjusted current budget' after 2010/11 by, for example, increasing income tax and national insurance, reducing capital spending as a share of GDP and looking to make further efficiency gains. It estimates that balance in the cyclically-adjusted current budget will be achieved in 2015/16.

The current economic environment and fiscal outlook has increased the focus on public debt. Any Chancellor can look to one (or more) of four solutions in order to balance a projected budget deficit:

- increasing GDP growth, therefore increasing projected tax yield
- increasing borrowing
- increasing taxes
- reducing public spending

The following sections take these four issues in turn and explore the pre-budget report's predictions about them.

Section 2: Growth

The UK's GDP¹ for 2007 was £1,401 billion. The pre-budget report predicts that GDP growth for 2008 as a whole will be 0.75 per cent; that it will be negative in 2009, at -1.25 to -0.75 per cent, and that it will be 1.5 to 2 per cent in 2010. This downgrades the predictions made in the March 2008 budget by 1 per cent for 2008, 3.5 per cent for 2009 and 0.75 per cent in 2010. This is the fourth time in a row that the prediction for 2008 has been downgraded - the 2007 budget predicted average growth of 2.5 per cent in 2008. The figures are set out in the tables below.

Table 2.1: Summary of UK forecast¹

	2007	Forecasts		
		2008	2009	2010
GDP growth (per cent)	3	1¾ to 2¼	2¼ to 2¾	2½ to 3
CPI inflation (per cent, Q4)	2	2½	2	2

(Source: March 2008 budget)

Table 2.1: Summary of UK forecast¹

	2007	Forecast			
		2008	2009	2010	2011
GDP growth (per cent)	3	¾	-1¼ to -¾	1½ to 2	2¾ to 3¼
CPI inflation (per cent, Q4)	2	3¾	½	2¼	2

¹ See footnote to Table A9 for explanation of forecast ranges.

(Source: November 2008 pre-budget report)

The figures for growth are higher than some commentators have estimated. For example, HSBC predicts that growth will be -1.7 per cent in 2009 and 0.5 per cent in 2010. OECD predicts it will be -1.1 per cent in 2009 and 0.9 per cent in 2010².

Monetary policy framework

The Treasury has stated in this and previous reports that it has put in place two policy frameworks that allow for macro-economic stability (one of its 'three pillars of growth'³). The first is the monetary policy framework, which is the means through which the Monetary Policy Committee of the Bank of England aims to keep inflation at 2 per cent of the Consumer Price Index (and no higher than 3 per cent) through interest rates.

Since August 2007, the Monetary Policy Committee has cut interest rates by 2.75 percentage points, from 5.75 per cent to 3 per cent, the lowest level since 1955.

Inflation, as measured by the Consumer Price Index⁴, reached a high of 5.2 per cent in September 2008, before falling back to 4.5 per cent in October. The pre-

¹ Calculated by adding together consumption, gross investment, government spending and exports – while subtracting imports. Figure taken from the ONS:

http://www.statistics.gov.uk/elmr/10_08/downloads/ELMR_Oct08_Tily.pdf.

² From Table A8 in pre-budget report

³ The other two pillars are micro-economic reforms to address market failures in product, labour and capital markets (reforms have been based around what the Treasury calls the drivers of productivity: competition, enterprise, innovation, skills and investment); and devolution of decision making to the regional and local levels.

⁴ The Treasury prefers CPI to RPI (which also measures house prices) as a measure of inflation. The pre-budget report predicts that RPI inflation will be negative in September 2009.

budget report accredits the September high to global commodity prices, which have subsequently fallen – ‘Between Budget 2008 and early July, oil prices increased from \$100 to almost \$150 a barrel, but have since fallen to around \$50’, while ‘food price inflation appears to have passed its peak’.

The pre-budget report predicts that inflation will continue to fall, to below 1 per cent in the second half of 2009 (as shown in the table above). It gives several reasons why, including ‘commodity price developments and the emergence of a negative output gap’; and the temporary reduction in VAT, which it assumes will be passed on to customers by businesses because of ‘the competitive nature of the UK retail sector’.

Before the pre-budget report, Gordon Brown warned that ‘the [central economic] problem is deflation and the problem of inflation close to zero’⁵. The pre-budget report states that monetary policy cannot address this problem alone – ‘monetary policy may be less effective than normal in stimulating economic activity at present, in particular due to constraints on the availability of credit’. It therefore attempts to use fiscal policy (the second component of macro-economic stability) to support monetary policy in limiting the extent of the downturn. This is explored more in the next section.

Section 3: Borrowing

Much of the commentary before and after the pre-budget report has centred on the government’s borrowing – with the Shadow Chancellor, George Osborne, warning that a large increase in borrowing could lead to a collapse in sterling⁶. There are two measures used in the pre-budget report to measure the public sector fiscal position – public sector net borrowing (PSNB) and public sector net debt (PSND)⁷.

The Treasury has, since it published its *Code for fiscal stability* in 1998, aimed to keep PSNB and PSND within the limits set by the two rules of its **fiscal policy framework**. The two rules are:

- the ‘golden rule’ – that the government will borrow only to invest over the economic cycle, not to finance revenue expenditure
- the ‘sustainable investment rule’ – that public sector net debt must not breach 40 per cent of GDP

As the tables below shows, PSND predictions have grown substantially since the budget, and the sustainable investment rule is now expected to be breached, with PSND reaching a peak of 57.4 per cent of GDP in 2013/14. The pre-budget report therefore announces that ‘the government will depart temporarily from the fiscal rules until the global shocks have worked their way through the economy in full’.

⁵ As quoted in the Financial Times, 18 November 2008.

⁶ The pre-budget report mentions the recent depreciation of sterling at several points but does not comment on the likely strength of the pound in future.

⁷ Public sector net borrowing is defined as the difference between the sum of UK public sector current and capital revenues and expenditure. Public sector net debt ‘includes most financial liabilities issued by the public sector less its holdings of liquid financial assets, such as bank deposits... The majority of debt financing is through central government issues of government securities (gilts) and treasury bills’ http://www.statistics.gov.uk/about/methodology_by_theme/public_sector_accounts/downloads/debt_history.pdf

Table I.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
Golden Rule							
Surplus on current budget	-0.3	-0.6	-0.7	-0.2	0.3	0.6	1.0
Average surplus since 1997-1998	0.1	0.1	0.0	0.0	0.0	0.1	0.1
Cyclically-adjusted surplus on current budget	-0.3	-0.7	-0.5	0.1	0.5	0.8	1.0
Sustainable investment rule							
Public sector net debt ¹	36.6	37.1	38.5	39.4	39.8	39.7	39.3

¹Debt at end March; GDP centred on end March

(Source: March 2008 budget)

Table I.1: Summary of fiscal projections

	Per cent of GDP						
	Outturn	Estimate	Projections				
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Public sector net borrowing (PSNB)	2.6	5.3	8.0	6.8	5.3	4.1	2.9
Total change since Budget	0.0	2.4	5.5	4.8	3.7	2.8	-
Impact of discretionary measures on PSNB ¹	0.0	0.6	1.1	-0.3	-0.9	-1.3	-1.6
Surplus on current budget	-0.5	-2.8	-5.3	-4.7	-3.3	-2.2	-1.1
Cyclically-adjusted surplus on current budget	-0.8	-2.8	-4.4	-3.4	-2.3	-1.6	-1.0
Public sector net investment	2.1	2.5	2.7	2.1	2.0	1.9	1.8
Public sector net debt ²	36.3	41.2	48.2	52.9	55.6	57.1	57.4

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

² Debt at end March; GDP centred on end March; excluding financial sector interventions.

(Source: November 2008 pre-budget report)

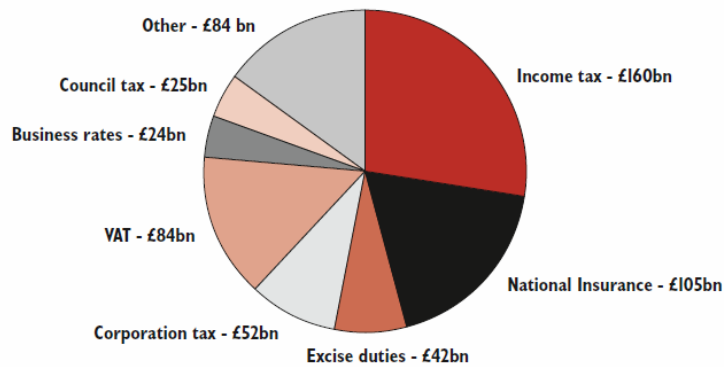
As the two fiscal rules are temporarily set aside, the pre-budget report announces a new temporary operating rule: 'to set policies to improve the cyclically-adjusted current budget each year, once the economy emerges from the downturn, so it reaches balance and debt is falling as a proportion of GDP once the global shocks have worked their way through the economy'. This new rule is consistent with the main theme of the budget – that in the medium term the deficit will be clawed back through 'an adjustment in the cyclically-adjusted current balance of over 0.5 per cent of GDP a year from 2010-11', returning to balance by 2015/16.

Section 4: Tax

The lower growth predictions affect the revenue from taxation. The March budget predictions for income tax, national insurance and corporation tax receipts have been substantially down-graded, with receipts for 2008/09 now estimated to be just under £30 billion lower. This figure is projected to fall by a further £10 billion in 2009/10:

Chart I.2: Government receipts

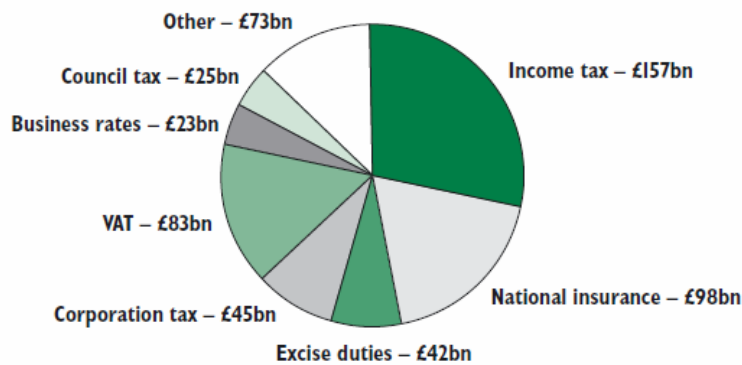
Total receipts: £575 billion



(Source: March 2008 budget)

Chart I.2: Government receipts

Total receipts: £545 billion



Source: HM Treasury, 2007-08 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.

(Source: November 2008 pre-budget report)

The pre-budget report makes several changes to tax rates, with the Conservative Party accusing the Prime Minister of planning a 'borrowing bombshell which would soon become a tax bombshell'. It is possible to divide the changes to taxes into two phases: a short term fiscal stimulus stage of reduced taxes until 2010/11 (after the next election, as George Osborne pointed out) followed by a medium-term claw back stage of increased taxes. The tax announcements in the 2008 budget compared to those in the pre-budget report are set out in the table below.

Tax	Pre-budget report 2008			Changes announced in budget 2008
	Short term tax changes	Medium term tax changes	Stakeholder reaction	
Income tax	£600 increase in personal allowance, with a further increase of £130	<ul style="list-style-type: none"> Personal allowance abolished for those with incomes over £100,000 from April 2010 Higher rate of income tax of 45 per cent for those with incomes above £150,000 from April 2011 	Conservatives claim that changes will punish those earning over £19,000. IFS warn that personal allowance abolition may cause high earners to top up pension contributions to a level that their taxable incomes will fall to the bottom of the income tax bands	No change ⁸ at the time of the budget, but personal allowance increased by £600 in May 2008
National insurance	None	Employee, employer and self-employed rates of NI contributions to be increased by 0.5 per cent from April 2011	Conservatives stated that anybody earning over £19,000 will pay £2 more a year as a result. The Chancellor replied that the personal allowance increase redressed the balance	No change
VAT	Temporarily reduction of VAT to 15 per cent with effect from 1 December 2008 to 31 December 2009, at the cost to the government of £12.5 billion	<ul style="list-style-type: none"> Return to 17.5 per cent after 31 December 2009. [The Treasury considered increasing VAT to 18.5 per cent in the medium term] 	George Osborne stated that 'a temporary cut when prices are already falling ... is not much of a stimulus'.	No change
Corporation	<ul style="list-style-type: none"> Increase in small companies' rate to be deferred for one year – rate will remain at 21p for 2009/10 Empty properties with a rateable value of less than £15,000 exempt from business rates for 2008/09 	<ul style="list-style-type: none"> Small companies' rate increases to 22p in 2010/11 Empty properties no longer exempt 		Reduced to 28p from 30p. Small companies rate increase to 21p in April 2008 and 22p in April 2009.

⁸ Other than that charities would be allowed to claim gift aid at 22 per cent when the standard rate of income tax falls in April.

Tax	Pre-budget report 2008			Changes announced in budget 2008
	Short term tax changes	Medium term tax changes	Stakeholder reaction	
Capital gains	No change	No change	Business called for reduction in CGT	Flat rate charge of 18 per cent on gains over £9,600 will be introduced from April 2009. Taper relief will cease.
Alcohol and cigarettes	To offset the effects of the temporary reduction in VAT, increasing alcohol and tobacco duties from 1 December for alcohol and 24 November for tobacco. Increases are estimated to raise around £1 billion	<ul style="list-style-type: none"> Increases maintained after December 2009 to support fiscal consolidation 2 per cent increase in alcohol tax planned each year until 2013. 		Duty rates on all alcohol were raised by 6 per cent. 11.5 per cent rise in duty for cigarettes.
Stamp duty	No change	No change		Some changes to SDLT for zero-carbon homes and shared ownership homes
Inheritance tax	No change	No change		No change, following the introduction of transferable nil-rate allowances in the 2007 pre budget report
Motoring	A 2p per litre increase in fuel duty from 1 December 2008	No change	Alan Duncan attacked change saying that because businesses do not pay VAT on fuel they will see road transport costs rise	The planned fuel duty rise of 2p due to come into effect in April 2008 was postponed until October 2008.

Tax	Pre-budget report 2008			Changes announced in budget 2008
	Short term tax changes	Medium term tax changes	Stakeholder reaction	
Non-domicile	No change	No change		Levy of £30,000 on non-domiciles who have lived in Britain for seven years remains.
Green taxes	Postponed two pence rise in fuel duty will now come into force on 1 December 2008.	No change		First carbon budget to be announced alongside the 2009 budget; reform of car vehicle excise duty rates and bandings; increasing aircraft duty revenue by 10 per cent; removal of tax breaks on all bio fuels; elimination of single use carrier bags; planned fuel duty rise of 2p was postponed until October 1 2008.
Tax credits	Increase in child tax credit brought forward from April 2010 to April 2009	No change		Increase in child tax credit

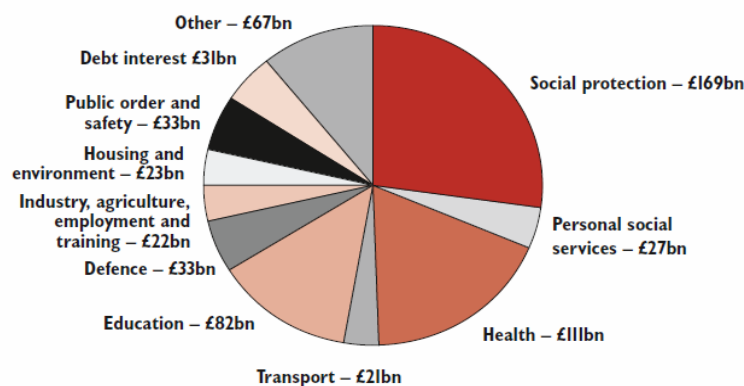
Section 5: Public spending

There was a vigorous debate over the need for a 'fiscal stimulus' to reignite the economy in the weeks leading up to the pre-budget report, with the government and Conservative Party divided on the issue. The Conservatives have recently broken with their previous policy of matching the government's 2010/11 spending plans and David Cameron has recommended that spending should be cut in order to curtail future tax rises.

The pre-budget report shows that expenditure in 2008/09 is now set to rise by £5 billion from the figures provided in the March 2008 budget. This is a result of capital spend being brought forward, but also an increase in social security due to higher unemployment and the increased cost of servicing the national debt.

Chart I.I: Government spending by function

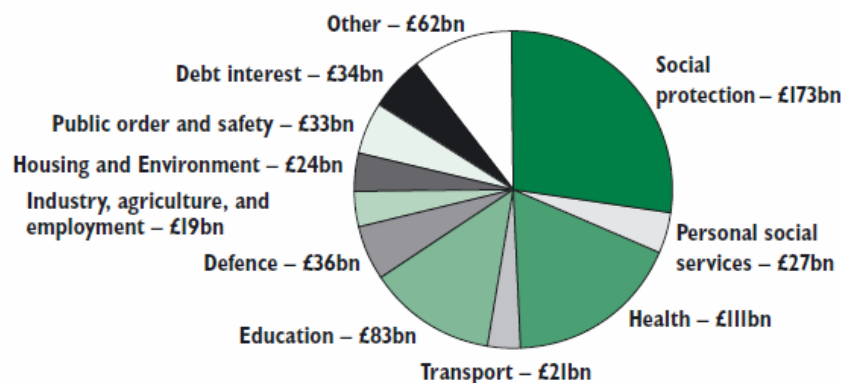
Total managed expenditure: £618 billion



(Source: 2008/09 spending, from March 2008 budget)

Chart I.I: Government spending by function

Total Managed Expenditure: £623 billion



(Source: 2008/09 spending, from November 2008 pre-budget report)

In the March 2008 budget the Chancellor, Alistair Darling, confirmed that public spending would grow by 2.2 per cent a year over the next three years, followed by spending increases of 1.9 per cent from 2011/12. The pre-budget report sets the assumptions that spending growth will be 1.3 per cent in real terms in 2010/11, 1.2 per cent in 2012/13 and 1.1 per cent in 2013/14. This is a significant reduction from the previously forecasted 1.9 per cent and would represent a cut of around £35 billion. Public sector net investment is forecast to move to 1.8 per cent of GDP by 2013/14.

However, the Financial Times reports that the real growth rate of public spending will be even lower (at 1 per cent) because Alistair Darling has announced that he will also freeze capital spending in 2010/11 and for subsequent years.

As expected, the pre-budget report announced plans to bring forward capital investment. Alistair Darling announced that £3 billion will be brought forward from 2010/11 in order to stimulate housing, education, transport and other construction projects. The announcement included plans to:

- Invest £775 million in housing and regeneration, including £200 million on the decent homes programme, £150 million on social rented housing and £175 million for repairs to council housing stock.
- Spend £100 million on regeneration to complete transport projects in the growth areas and support regeneration projects that might otherwise not go ahead in the current market.
- Bring forward £800 million for the priority schools capital programme. In particular it will accelerate renewal of the primary school estate.
- Use £700 million to advance the Department of Transport's plans to increase motorway capacity and provide 200 new carriages on the rail network.
- Invest £445 million in further education capital infrastructure projects.
- Invest £20 million in flood defences.

Alistair Darling also announced that the government would provide additional funding of £1.3 billion to the DWP to support people to return to work. Other proposals included:

- the extension of train to gain programmes in order to provide training and support to those in pre-redundancy positions
- the establishment of skills hubs, which will involve local authorities and partners providing job brokerage, training and other support
- the expansion of the rapid response service to provide support for smaller redundancies.

The revised Departmental Expenditure Limits are set out in the table below. The main changes from the 2008 budget report relate to 2010/11, with the NHS capital projections for 2010/11 £1.4 billion lower than those included in the 2008 budget, and education capital spend declining by £900 million.

Table B18: Departmental Expenditure Limits - resource and capital budgets

	Outturn 2007-08	Estimate 2008-09	Plans 2009-10	2010-11
Resource DEL¹				
Children, Schools and Families	44.9	46.9	49.2	51.9
Health	88.4	94.0	99.9	106.3
of which: NHS England	86.4	92.5	98.3	104.6
Transport	6.8	6.4	6.4	6.6
Innovation, Universities and Skills	15.5	16.4	17.2	18.2
CLG Communities	4.2	4.4	4.5	4.6
CLG Local Government	22.8	24.7	25.6	26.4
Home Office	8.5	9.0	9.4	9.6
Justice	8.8	9.5	9.4	9.4
Law Officers' Departments	0.7	0.7	0.7	0.7
Defence	35.8	37.3	35.2	36.7
Foreign and Commonwealth Office	1.9	2.0	1.6	1.6
International Development	4.5	4.9	5.5	6.4
Energy and Climate Change	0.6	0.9	1.0	1.1
Business, Enterprise and Regulatory Reform	1.8	1.6	1.5	1.4
Environment, Food and Rural Affairs	2.7	2.7	2.8	2.8
Culture, Media and Sport	1.6	1.6	1.7	1.8
Work and Pensions	8.1	8.0	8.2	7.9
Scotland	23.8	24.6	25.4	26.5
Wales	12.3	13.0	13.5	14.2
Northern Ireland Executive	7.7	8.1	8.4	8.8
Northern Ireland Office	1.3	1.2	1.2	1.2
Chancellor's Departments	4.8	4.8	4.6	4.5
Cabinet Office	1.8	2.1	2.2	2.4
Independent Bodies	0.8	0.9	0.8	0.9
Moderisation Funding	0.0	0.4	0.4	0.1
Reserve	0.0	0.5	2.8	2.9
Allowance for shortfall	0.0	-1.2	0.0	0.0
Additional Value for Money savings	0.0	0.0	0.0	-5.0
Total resource DEL	310.0	325.3	339.2	350.0
Capital DEL^{1,2}				
Children, Schools and Families	5.2	6.0	7.2	6.8
Health	3.8	4.7	5.6	4.8
of which: NHS England	3.6	4.6	5.4	4.7
Transport	7.1	7.3	8.3	7.4
Innovation, Universities and Skills	2.1	2.2	2.5	1.8
CLG Communities	6.1	7.4	8.4	6.0
CLG Local Government	0.0	0.2	0.1	0.1
Home Office	0.7	0.9	0.8	0.8
Justice	0.8	0.9	0.8	0.7
Law Officers' Departments	0.0	0.0	0.0	0.0
Defence	7.9	8.0	8.2	8.9
Foreign and Commonwealth Office	0.2	0.2	0.2	0.2
International Development	0.7	0.9	1.4	1.6
Energy and Climate Change	1.5	1.7	1.7	1.8
Business, Enterprise and Regulatory Reform	0.0	0.0	0.0	0.0
Environment, Food and Rural Affairs	0.6	0.6	0.7	0.6
Culture, Media and Sport	0.5	1.0	0.4	0.6
Work and Pensions	0.1	0.1	0.1	0.1
Scotland	3.6	3.3	3.3	3.5
Wales	1.5	1.6	1.7	1.8
Northern Ireland Executive	1.0	1.0	1.1	1.1
Northern Ireland Office	0.0	0.1	0.1	0.1
Chancellor's Departments	0.3	0.3	0.3	0.3
Cabinet Office	0.3	0.4	0.4	0.4
Independent Bodies	0.1	0.1	0.1	0.0
Reserve	0.0	0.8	0.6	0.8
Allowance for shortfall	0.0	-0.6	0.0	0.0
Total capital DEL	44.1	48.8	53.8	50.1
Depreciation	10.7	12.0	12.3	13.3
Total Departmental Expenditure Limits	343.5	362.1	380.6	386.8
Total Education spending³	77.8	83.0	87.7	90.4

¹ Figures for the Departments for Business, Enterprise and Regulatory Reform, Environment, Food and Rural Affairs, and Energy and Climate Change are provisional

² The 2010-11 capital figures reflect changes including updating Department of Health's capital plans to a level consistent with the latest planned spend and adjustments to Devolved Administrations DEL plans in line with the normal application of the Barnett formula, as set out in paragraph B.85.

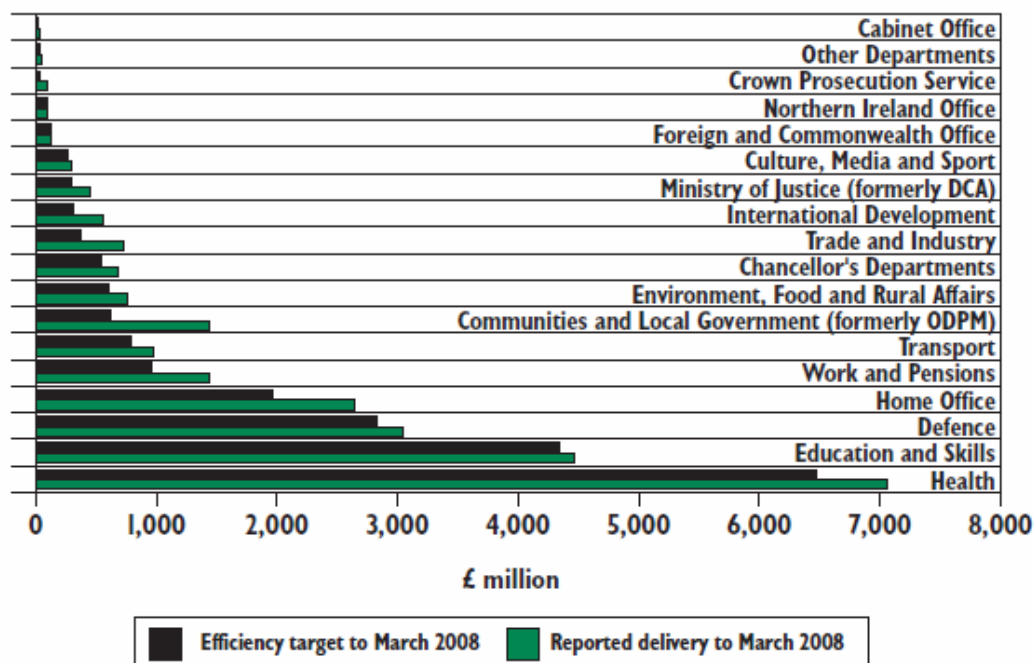
³ The definition of education is now more closely aligned to the UN's Classification of the Functions of Government, including education not definable by level. The total DCSF budget, although reprofiled to bring forward capital spending, is unchanged over the 2008-09 to 2010-11 period. Projections also reflect updated information in respect of Devolved Administration and Local Authority spending plans

Section 6: Efficiency

Increasing the savings from the government's efficiency agenda is one way in which the impact of the increasing budget deficit can be softened. Prior to the pre-budget report Chief Secretary to the Treasury Yvette Cooper told the Cabinet that the Gershon efficiency programme had now saved £26.5 billion - £5 billion more than the original target. However, Ms Cooper also stated that the drop in

commercial property prices will make the sale of public sector buildings and land less profitable, while the credit crunch is making joint ventures and other public-private partnerships more difficult.

Chart 6.1: Departments' efficiency savings (agreed target and reported delivery)



Source: HM Treasury

In the pre-budget report Alistair Darling [confirmed](#) that savings of £26.5 billion had been achieved so far, and announced that independent advisors had identified the potential for an additional £5 billion by 2010/11. This would be on top of the previously set targets of 3 per cent per year over the CSR 07 period, which if achieved would release £30 billion by 2011. This therefore brings the total value for money target for 2011 to £35 billion. However, the resource expenditure projections for 2010/11 in the pre-budget report have already assumed that this £5 billion will definitely be found.

The Chancellor said that these new savings would be achieved through improvements in the cost of back office operations, better procurement and examining property holdings and asset sales. This will be delivered through the operational efficiency programme, which is discussed below. The savings that individual departments can make will be outlined in budget 2009.

In addition to cashable savings, the pre-budget report announced that there have been over 86,700 net government workforce reductions, exceeding the original Gershon target of 70,600. Relocation of staff from London and the South East was also reported to be on course to meet the 2010 target, with 17,100 relocated by June 2008.

The pre-budget report also provided some interim findings from the operational efficiency programme, which was announced in budget 2008 and has been looking at ways to make further efficiency savings in five cross-cutting areas. The full findings for the programme will be published in budget 2009.

The interim findings argue that there are opportunities to make savings from 2010/11 in:

- back office functions – including human resources, finance, estate, security, marketing, travel and legal services
- collaborative procurement – including improving compliance on centrally negotiated deals and optimising the complex and fragmented public sector buying landscape

The other three work streams are asset management and sales; property; and local incentives and empowerment. These workstreams are being progressed and are working towards identifying efficiencies in the use of public sector assets, property holdings and the delivery of innovation in frontline services.

Alistair Darling confirmed that the Treasury has appointed Sir Michael Bichard, executive director of the Institute for Government, to lead the 'local incentives' work-strand of the government's operational efficiency programme. A new 'efficiency award' for frontline public sector workers will also be introduced, rewarding those who are successful in delivering greater value for money.

Public value programme

The Chancellor used the Pre-budget report to reveal that the Public Value Programme (PVP), which was announced in budget 2008, had identified a number of areas in which savings could be made in 2010/11 and the next spending review period. Particular areas of note include:

- Improvements to NHS estate utilisation, which will reduce the need for new hospital space by up to £3 billion, and save up to £100 million per annum of estate costs over the next spending period.
- An extension of the Local Improvement Finance Trust programme, with new models of development and management of a PCT's entire primary care estate.
- The Ministry of Justice will increase its use of competition to improve efficiency and effectiveness in the National Offender Management Service.
- DIUS will take further steps to drive forward the Leitch reforms and move to a more demand-led system for skills, and will ensure that subsidies are targeted on raising demand in the most economically valuable areas.

In addition there will be a number of further PVP reviews, which will include:

- Projections on the value for money impact of world class commissioning, and the scope to increase efficiency further in the hospital sector through the tariff prices paid by PCTs and progress on extending pricing to new areas of the health service.
- DCSF assessing the value for money of Building Schools for the Future, childcare and teaching assistants.
- CLG's forthcoming regeneration framework, which will improve the efficiency of regeneration spending, including strengthening

accountability for delivering improvements in economic growth and employment, providing clear regional prioritisation of capital investment and strengthening local coordination.

- The government working with the RDAs to maintain and where possible increase the value realised from the Single Pot Funding.

The PVP appears to be a scoping exercise to feed into the next comprehensive spending review. Although it is mainly focused on central government its findings will ultimately have an impact on local public bodies.

Section 7: Environment

Following a number of measures to combat climate change and the reduction of carbon emissions in this year's March budget, the Chancellor announced a range of environmental initiatives in the pre-budget report.

One announcement was a 'green stimulus' facilitated by the capital funding brought forward for investment in energy efficiency, rail transport, and adaptation measures. This includes £100 million of additional funding for the warm front programme and £60 million to provide social housing with energy efficiency and heating measures. Alistair Darling also announced that government would:

- Retain the renewable obligation for at least 10 years.
- Install 600,000 insulation measures this winter, through the £6.8 billion Home Energy Saving programme. This would include £100 million in new money.
- Provide a clearer environmental signal through reform to vehicle excise duty, while ensuring that no driver in any given band will pay more than £5 extra in 2009 or £30 extra in 2010.
- Successfully secure inclusion of aviation in the EU Emissions Trading Scheme from 2012, and hold Europe's first Phase II carbon auction on 19 November 2008.

In relation to transport, Alistair Darling confirmed that the postponed two pence a litre increase in fuel duty would come into force on 1 December 2008 because the recent fall in petrol prices now made this viable. The Chancellor also set out details of reforms to air passenger duty, which will come into force from 1 November 2009. Moving away from original plans the Chancellor announced there would be no per-plane tax and that there would now be four distance bands, instead of the original two, providing a greater penalty on longer distance travel.

Environmental groups reacted to the report with caution. Friends of the Earth Executive Director Andy Atkins accused the government of missing a 'golden opportunity' to use the pre-budget report to 'tackle both the economic downturn and global climate change'. Mr Atkins said that 'Ministers should have gone much further to slash energy waste and develop the UK's massive renewable energy potential'.

Section 8: Business

The pre-budget report announced a package of measures to support business through the economic downturn. Many of the new measures have been introduced to help small and medium sized enterprises (SMEs). These measures include:

- a new Small Business Finance Scheme to support up to £1 billion of bank lending
- a £1 billion guarantee facility to support bank lending to small exporters
- a £50 million fund to convert businesses' debt into equity
- a £25 million regional loan transition fund

The pre-budget report also included [recommendations](#) from Anne Glover, who was commissioned to investigate how small businesses can better access some of the £150 billion the state spends each year on goods and services. As a result of the Glover report the government will now advertise all government contracts worth over £20,000 on a free online portal. The government will also undertake measures to reduce bureaucracy and make opportunities more transparent for small business.

Some broader measures were announced including:

- A new HMRC Business Payment Support Service to allow businesses in temporary financial difficulty to pay their HMRC tax bills on a timetable they can afford.
- More generous tax relief for businesses now making losses, by allowing temporary additional carry-back of up to £50,000 of losses to be set against taxable profits from the last three years.
- A package of reforms to the taxation of foreign profits, including the introduction of a foreign dividend exemption for large and medium-sized businesses.

The pre-budget report also included details of progress on tax simplification. These new measures included: simplifying the eligibility tests for the flat rate scheme for small business; from early 2009, making it easier to tax otherwise exempt supplies of land and property; simplifying certain rules on employment-related securities; **and** repealing anti-avoidance provision on transactions between associated persons. A [discussion document](#) was also published updating progress on the tax simplification review and inviting comment on ideas generated so far.

The report highlighted the publication of the Crosby Review, which was set up to examine ways in which liquidity could be improved in the mortgage-backed securities market. The report, which was led by Sir James Crosby, found that the availability of mortgage finance in 2009 and 2010 could be severely reduced due to closure of the securitisation market and the pressures on banks to de-leverage. It recommended that the government should provide, for a temporary period, guarantees on the interest and principal of high quality mortgage-backed bonds backed by lending for new housing transactions. The Chancellor responded by promising to implement the recommendation, although this would be subject to gaining state aid approval from the European Commission.

Reaction from the business community to this raft of measures was fairly upbeat, with CBI Director Richard Lambert saying that there were 'a number of measures in this report that we have asked for that will help cashflow in small businesses and business overall by reducing costs'. He highlighted the exemption of foreign dividends and the deferment of the increase in corporation tax as two such examples. However Mr Lambert was cautious as to the extent to which the Chancellor's VAT cut would produce the fiscal stimulus that is required to kick start spending.