

The Government's aim is to deliver world-class public services through sustained investment matched by reform, supporting strong and sustainable communities and a better quality of life. The Government is supporting schools and wider children's services to raise attainment for all pupils, is bringing forward a package of measures to help respond to short-term and long-term housing challenges and is supporting the third sector with a package of measures to enhance Gift Aid. The Budget announces:

- that in order to maintain the pace of reform the Government will **achieve significant further operational savings in the post-CSR period** and will launch the **Public Value Programme** to look at all major areas of public spending to identify where there is scope to improve value for money;
- the Department for Children Schools and Families will take forward a **£200 million package over the next three years** to bring forward by a year to 2011 the Government's ambition for **no school to have fewer than 30 per cent of its pupils achieving 5 A\* to C at GCSE**, including English and maths;
- a **package of measures to deliver decent and affordable housing for all** by increasing housing supply and making housing more affordable;
- a **Working Group that will take forward market initiatives to improve liquidity in the mortgage-backed securities market**. The Working Group will include the mortgage industry, the investment industry and also HM Treasury, the Bank of England and the Financial Services Authority. The Working Group will report initially to the Chancellor in summer 2008 and present proposals at the time of the 2008 Pre-Budget Report;
- the **Government is inviting views on options for a UK legislative framework to deliver more affordable long-term fixed-rate mortgages** and the lessons to be learned from international markets and institutions. The Government will work with a wide range of stakeholders and experts and will provide an update at the 2008 Pre-Budget Report;
- a **transitional rate of Gift Aid worth around £300 million over three years**, enabling Gift Aid to be paid at a rate of 22 per cent in 2008-09, 2009-10, and 2010-11 from 6 April; and
- a number of measures that reduce burdens on charities and include **major reform to the auditing process, a comprehensive programme for bringing additional smaller charities into Gift Aid** and measures to increase the awareness of Gift Aid including **the launch of targeted marketing tools**.

**5.1** Over the last ten years investment coupled with reform has generated real improvements in public services. This chapter sets out how the Government will build on these improvements already made in delivering efficient and effective public services. This chapter also sets out steps to increase housing supply and support home ownership, at the same time as responding to the increased uncertainty of current short-term market conditions. Finally this chapter sets out new investment to improve results in schools and new support for the third sector.

## DELIVERING EFFICIENT AND EFFECTIVE PUBLIC SERVICES

**Investment in priorities** 5.2 In June 1997 the Government launched the first Comprehensive Spending Review (CSR), to focus resources on priority areas such as health, education and transport. Building on the platform of stability provided by the Government's fiscal framework, the 1998 CSR and subsequent Spending Reviews have delivered sustained increases in spending for public services, so that since 1997:

- spending on the National Health Service (NHS) has almost doubled in real terms;
- total spending on education is nearly 60 per cent higher in real terms and as a proportion of GDP has risen from 4.5 to 5.4 per cent in 2007-08, and is set to rise to 5.6 per cent by 2010-11;
- public expenditure on transport is 90 per cent higher in real terms;
- spending on public order and safety has increased by over 50 per cent in real terms; and
- grant to local government will have increased by 45 per cent in real terms by 2010-11.

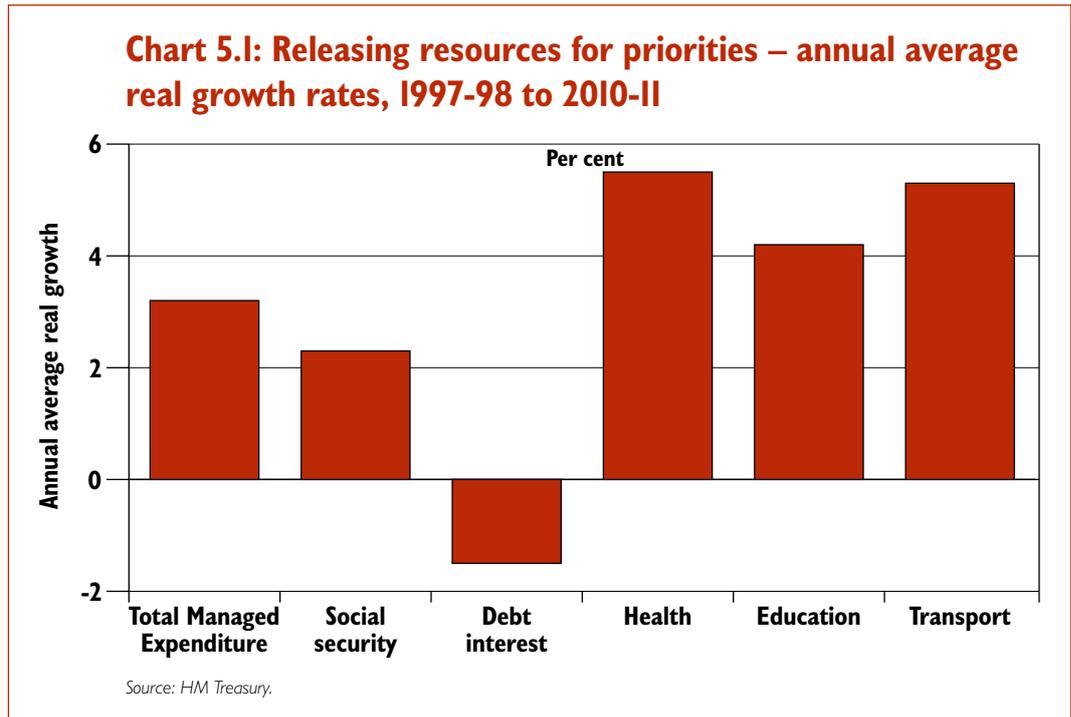
**Improvements in services** 5.3 Matching this growth in spending with ambitious reforms the Government has been able to achieve major improvements across frontline services. For example:

- investment in the NHS has helped reduce those experiencing inpatient waiting times of over 6 months from 284,000 in 1997 to virtually zero in 2007-08;
- in education, over 60 per cent of 15 year-olds in 2006-07 achieve five or more good GCSEs or equivalent, up from 45 per cent in 1997;
- nearly 650,000 registered childcare places have been created since 1997;
- overall crime rates in England and Wales fell by 32 per cent and total violent crime fell by 31 per cent between 1997 and 2006-07;<sup>1</sup> and
- the transport system continues to improve with over 100 road schemes completed and more rail journeys being made than at anytime since the 1960s.

5.4 This step-change in resources and outcomes has been made possible by:

- a fiscal framework that ensures sound public finances and protects investment;
- stable and sustainable economic growth with low unemployment and debt interest, releasing resources for priorities;
- clear outcome-based Public Service Agreements (PSAs) that set out what will be achieved with increased resources;
- ambitious efficiency savings, with over £20 billion of savings delivered in SR04 and £30 billion planned over CSR07 period; and
- asset disposals and spectrum auctions which have raised £82 billion to reduce debt and fund improvements in UK infrastructure since 1997.

<sup>1</sup> *Crime in England and Wales 2006-07*, Home Office, July 2007.



**CSR 5.5** The 2007 CSR announced spending plans and ambitious savings for the three years to 2010-11, continuing sustained real increases in public spending and focusing resources on frontline public services. Public sector net investment will reach 2¼ per cent of GDP over CSR07 period and total public spending will grow at 2.2 per cent per year in real terms funding:

- continued sustained investment in the NHS, with an average real increase in resources of 4 per cent per year;
- further sustained increases in resources for education, science, transport, local government, housing, child poverty, security and international development; and
- major capital projects such as the 2012 Olympic Games and Paralympic Games and Crossrail.

**5.6** By 2011 the Government will have delivered the longest sustained real increase in public spending since 1945. The Budget re-affirms the Government's commitment to continued real terms growth in spending and to further improved value for money across the whole of the public sector, releasing resources to frontline services. The Budget's fiscal forecast assumes total spending growing at a sustainable and prudent rate of 1.9 per cent year in real terms over 2011-12 and 2012-13 with public sector net investment remaining at 2¼ per cent of GDP.

## Efficiency, value for money and delivery

**Public Service Agreements 5.7** Clear priorities, strong accountability and effective performance management are fundamental to ensuring that increased resources result in higher standards across public services. From April 2008, the Government will work with delivery partners and across departmental boundaries to deliver the Government's priority outcomes for the CSR07 period – set out in 30 new Public Service Agreements (PSAs) announced at the 2007 CSR. The new performance management framework creates the conditions for more innovative and responsive public services, excellent outcomes for all, and greater value for money.

**Gershon Efficiency Programme 5.8** As part of the 2004 Spending Review the Government set stretching efficiency targets for departments and the wider public sector. The Government can announce that departments and local authorities have now reported delivery of over £23 billion efficiency savings – including over £8 billion from procurement and £1 billion from the back office – and over 77,600 net workforce reductions, as well as over 12,600 reallocations to the front line. In addition, departments continue to make strong progress towards the 2010 Lyons relocation target, with over 15,700 posts relocated.<sup>2</sup>

**5.9** These figures are not yet all finalised but indicate continued strong delivery of the Government's efficiency ambitions, with headline efficiency and workforce reduction figures already in excess of the Government's own targets.

**Value for money in the CSR 5.10** This strong focus on efficiency and value for money will continue as the Government prepares to deliver an additional £30 billion of net, cash-releasing savings over the CSR07 period. Departments have already set out their value for money targets and how and where they will make these savings in published Vfm Delivery Agreements. To build in extra scrutiny the National Audit Office will review departmental value for money savings during the CSR07 period.

**Value for money post-CSR 5.11** In order to build on the success of the Gershon Review and the 2007 CSR, the Government will begin work now to inform the value for money framework in the post-CSR period, and will set out its framework at Budget 2009 (see Box 5.1).

<sup>2</sup>For further details see *2004 Spending Review: efficiency progress to December 2007*, HM Treasury, March 2008

**Box 5.1: Driving further value for money across government**

The Government will match investment in public services with reform and a constant effort to improve value for money. The Government's approach in the current spending period has been to implement the recommendations made by Sir Peter Gershon to inform the 2004 Spending Review. In the most comprehensive and wide-ranging efficiency programme ever attempted, departments have now reported savings of over £23 billion for the SR04 period. The Government will build on this success and strengthen its approach in the CSR07 period. All departments have now published plans which will deliver another £30 billion of savings by 2010-11.

In order to maintain the pace of reform and prepare the ground for the post-CSR period, the Government will:

- **Achieve significant further operational savings in the post-CSR period**, building on the 5 per cent real annual reductions in administration budgets across all departments, which will reduce the running costs of central government to a record low as a percentage of public spending, and the £30 billion of savings to be delivered during the CSR07 period. The Government intends to maintain a firm discipline on back-office costs and administration, and to ensure that efforts to drive efficiency in the public services keep pace with developments in the private sector. The Government will announce more detailed plans for taking this forward before the summer, including how the Government will incorporate knowledge and expertise from the private sector in its analysis. The Government will set out at Budget 2009 what level of savings will be delivered.
- **Alongside this, the Budget launches the Public Value Programme.** Major improvements in value for money depend not only on a firm discipline on back-office costs, but also on a continual effort to find smarter ways of doing business and in taking wider policy decisions. The Programme will therefore look at all major areas of public spending to identify where there is scope to improve value for money and value for money incentives. Initial areas already identified for investigation include road-building, commissioning in the health sector, regeneration spending, value for money incentives in public sector budgeting frameworks, and the way in which major public sector IT projects are run and accounted for.

Both of these areas of work will inform the Government's framework for value for money in the post-CSR spending period, which will be set out in Budget 2009.

**Value for money in benefit spending** 5.12 Alongside the continuing focus on public service efficiency set out above, the Government will explore ways of improving the working age benefit system to increase work incentives and deliver value for money for the taxpayer. Chapter 4 sets out the Government's ambitious agenda of welfare reform, including the announcement in the Budget of the extension of the Work Capability Assessment to all Incapacity Benefit claimants and a review of Housing Benefit.

**Public sector pay** **5.13** Since 1997 the public sector has recruited 36,000 more teachers, 79,000 more nurses and 36,000 more doctors. The competitiveness of the overall public sector reward package, which includes valuable pension benefits, is demonstrated by healthy levels of recruitment and retention, with record levels of front line staff. To ensure this continues, the Government will seek to maintain the necessary levels of recruitment and retention to support service delivery while continuing to ensure affordability, value for money and consistency with the achievement of the Government's inflation target of 2 per cent. The Government will seek to agree multi-year pay awards during the CSR07 period, where appropriate, as a means of locking in economic stability and providing greater certainty for departments and public sector staff, facilitating long-term strategic decision making.

**Asset management and sales** **5.14** The Government is committed to managing the stock of public assets to deliver optimal results for society and the economy. Following the 2007 CSR, departments are publishing asset management strategies setting out how they will deliver best value from their assets. To support the introduction of asset management strategies the **Treasury and Shareholder Executive will undertake an assessment of the governance, business plans and future development strategies of each of the trading funds and a selection of public corporations** (excluding those already subject to central government review).

**5.15** An important part of asset management is the identification of opportunities to release assets that are surplus to Government's requirements or, where public policy goals can be maintained, assets that can be better managed in, or are otherwise value for money to sell to, the private sector. The Government is on track to deliver its target to dispose of £30 billion of surplus fixed assets between 2004-05 and 2010-11, with sales of £18.4 billion already delivered. Progress has also been made on financial asset sales, including Westinghouse and British Energy shares totalling £6 billion, the appointment of financial advisers to execute the sale of student loans in 2008-09 and the announcement by the Department for Culture Media and Sport on 5 March of its intention to appoint financial advisers on the sale of the Tote.

**Spectrum management** **5.16** As broadcast media and mobile technologies continue to grow in importance and diversity, efficient use of the electromagnetic spectrum to deliver the services that society demands remains an important issue for both the public and private sectors. In line with the Government's Forward Look on public sector spectrum, the Ministry of Defence will by May 2008 publish an implementation plan setting out its plans for the release of spectrum to the market. Other departments are adopting similar processes. To ensure best use of spectrum by the private sector, Ofcom has also confirmed that in contrast to some previous spectrum releases which were available for specific uses only (notably mobile telephone services) the spectrum released by digital switchover will be available for all technologies. The Government fully supports this decision.

## FOCUSING RESOURCES ON PRIORITIES

**Investing in Health** **5.17** The NHS will celebrate its 60th birthday in 2008-09 with a budget of £96 billion, almost double in real terms its budget of a decade ago. This represents the largest sustained funding increase in NHS history. It has delivered 79,000 more nurses and 35,000 more doctors. It has enabled 149 new hospitals to open, or to be on their way to opening. Ten years ago half of the NHS estate was built before the NHS itself was established; this is now down to a fifth.

**5.18** Investment combined with reform has delivered major improvements. In 1997 people were having to wait up to two years for a heart operation. In today's NHS, the number of heart operations has more than doubled and virtually no-one waits over three months. Long waits for inpatient treatment, commonplace in 1997, are now very rare. Over 280,000 people were waiting more than six months for an operation in 1997; in January 2008 this was down to under 100 people and the average wait is now under six weeks. By 2004 improvements in public health, along with better treatment for cancer and heart disease, had helped to increase life expectancy by 2.1 years for men and 1.4 years for women.

**Sustained investment in education** **5.19** Improving the life-chances of children and young people and enhancing services and support for families has been a priority for increased investment over the last decade with sustained increases in expenditure on education and wider children's services, with education spending in England rising by an average of 2.8 per cent per year in real terms between 2007-08 and 2010-11. Sustained investment, matched with reform, has focused on raising standards for all, with greater support for the most disadvantaged. This has resulted in almost all three and four year-olds benefiting from free early-years education and a significant increase in the number of young people continuing in education or training post-16.

**5.20** The Government's *Children's Plan*,<sup>3</sup> published in December 2007, sets out a comprehensive strategy – in partnership with parents, children themselves, schools and wider children's services – for ensuring that every child is healthy, happy, safe and supported to achieve their potential.

**Supporting and challenging under-attaining schools** **5.21** The Government has made substantial progress since 1997 in raising school standards – with the number of schools where less than 30 per cent of pupils attain 5 A\* to C at GCSE, including English and maths, falling from 1,610 in 1997 to 638 today.

**5.22** However, this is still too many schools below this minimum benchmark of performance. While some schools below the 30 per cent level are already improving, with dedicated leaders and staff working to raise standards in challenging circumstances, others are failing to make the necessary progress.

**5.23** Budget 2008 therefore announces that the Department for Children, Schools and Families will take forward **a £200 million package over the next three years, to raise the level of support and challenge for under-attaining schools, bringing forward by a year to 2011 the Government's ambition that there should be no schools with fewer than 30 per cent of pupils attaining 5 A\* to C at GCSE, including English and maths.** By 2011, the Government will expect all schools to have achieved the benchmark or to be subject to formal intervention.

**5.24** The new package will support rolling out the successful London Challenge model across the country; empowering more of the best head teachers to help turn around low attaining schools; creating new trusts and federations based on successful schools; and, in areas of greatest need, driving forward a faster expansion of the Academies programme. DCSF will publish a detailed strategy for delivering the Government's floor target ambition in summer 2008.

<sup>3</sup>The *Children's Plan: building brighter futures*, Department for Children, Schools and Families, December 2007.

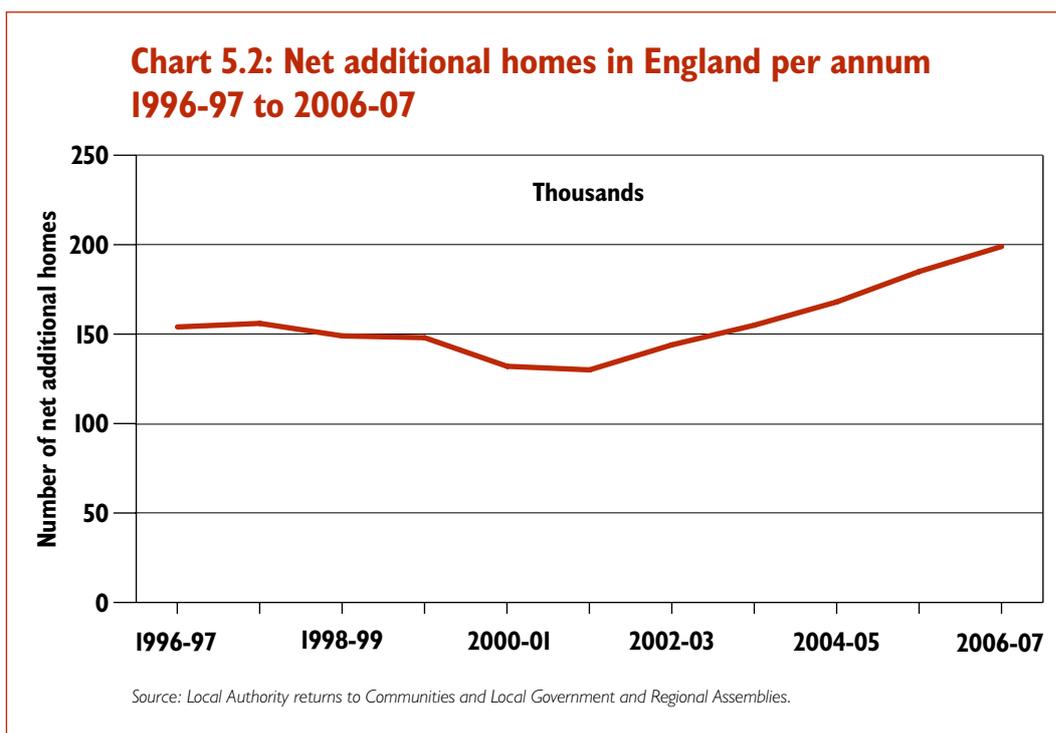
**Home security** **5.25** The Criminal Justice System and security have also been a vital priority for the Government. Since 1997 spending on public order and safety has increased by over 50 per cent in real terms, whilst crime has fallen by about a third. In responding to global insecurity, the Government has more than doubled counter-terrorism spending compared with pre-September 2001 levels, and this is set to rise further from £2½ billion in 2007-08 to over £3½ billion by 2010-11.

**5.26** The Government has made further ambitious commitments: to achieve full roll-out of neighbourhood policing by 1 April 2008, and give everyone access to one of the 3,600 neighbourhood policing teams across England and Wales. In parallel we will increase prison capacity by up to 15,000 places by 2014, adding to the 20,000 delivered since 1997. A Points Based Migration System will deliver comprehensive immigration reform ensuring that Britain continues to reap the economic benefits of migration, which contributes around 15 to 20 per cent of trend growth. Both the Home Office and Ministry of Justice are being resourced to meet these commitments. By 2010-11 Home Office spending will be £10.3 billion, whilst the Ministry of Justice's will rise to £9.9 billion.

**Defence and military operations** **5.27** The CSR07 period will see the Ministry of Defence budget rise to £36.9 billion by 2010-11 representing 1.5 per cent average annual real growth over the three years to 2010-11. Taken together with the last three Spending Reviews, in 2000, 2002 and 2004, this represents a decade of sustained real growth in planned defence expenditure – making it the longest period of steadily increasing planned defence spending since the end of the Cold War. At the same time and in order to support UK troops on the front line, the additional costs of military operations will continue to be funded on top of the defence budget and provision was made in the CSR Reserve for this purpose. This includes provision for Urgent Operational Requirements such as additional protected mobility vehicles.

## **DELIVERING DECENT AND AFFORDABLE HOUSING FOR ALL**

**5.28** The Government's aim is to increase housing supply and affordability and ensure everyone has access to a decent home at a price they can afford in communities where they want to live and work. Sustained economic growth and stability has helped over 1.8 million households across the UK into home ownership over the last decade, and in 2006-07 housing supply grew by around 199,000 net additional homes, the highest level since the 1980s, and up from 154,000 in 1996-97 (See Chart 5.2).



## Tackling short-term market conditions

**Short-term market conditions 5.29** The UK housing market is currently slowing, with annual house price inflation having declined from above 10 per cent in August 2007 to around 2½ per cent in February 2008. This slowdown is related to the tightening in credit conditions for secured lending, which has been affected by the ongoing disruption in global financial markets. This is having an effect on housing finance, and the Government is working with mortgage lenders and investors to find solutions to ensure the stability of mortgage finance supply.

**5.30** Mortgage arrears and repossessions have meanwhile risen from their historic lows in 2004. The Government has put in place statutory regulation, through the Financial Services Authority (FSA), to help ensure that lenders lend responsibly and borrowers are able to make informed choices. The FSA is currently reviewing its mortgage regime and will publish its findings which will include the treatment of borrowers in arrears, in 2008. The Government also provides targeted support for those experiencing difficulties through the provision of debt advice and Support for Mortgage Interest (SMI), delivered through Income Support, income-based Jobseekers Allowance and Pension Credit.

**5.31** The Government welcomes the Council of Mortgage Lenders' recent statement, which sets out the steps the industry is taking to help support borrowers facing repossession. These measures include working with debt advisers, pro-actively identifying at-risk borrowers and only repossessing as a last resort.

**5.32** Some stakeholders have expressed concerns in light of the recent growth of the sale and rentback market. This market offers some homeowners the option of selling properties at discounted rates in exchange for tenancy arrangements. **The Office of Fair Trading will lead a study of the market this year, focusing on consumers' experience of these arrangements, and consider options where appropriate to strengthen consumer protections. The study will draw on contributions from the FSA.**

## Improving provision of finance in the mortgage market

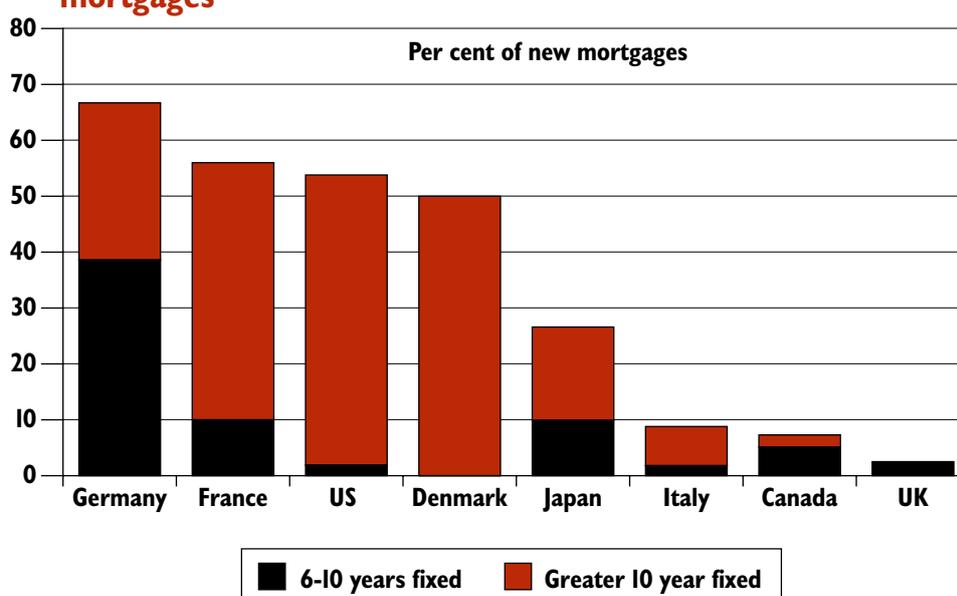
**Housing Finance Review** **5.33** A well-functioning housing finance system is important to many aspects of people's lives and to the functioning of the wider economy. A stable and efficient supply of affordable housing finance is a central part of achieving long-term housing affordability goals. At the same time, however, housing finance can entail significant risks for consumers, and managing those risks efficiently is important for borrowers, lenders and the wider financial sector.

**5.34** The UK mortgage market has many strengths. It is very competitive, with hundreds of lenders operating in the market including a wide variety of domestic and international banks, building societies and specialist lenders, supported by one of the largest intermediary markets in Europe. There are challenges, however, for the UK housing finance system and to address these the Chancellor announced in July 2007 that HM Treasury would undertake a review of housing finance (see Box 5.2).

**5.35** One key challenge for the UK market lies in the secondary funding markets for UK mortgage lenders. Secondary market funding refers to the process of originating mortgages, packaging and reselling these assets to investors, releasing capital for the lender to fund other mortgages. UK lenders access secondary funding markets mainly by issuing two types of financial product to investors: covered bonds and Residential Mortgage Backed Securities. In 2006, almost one third of all UK mortgages were funded through secondary markets. The recent disruption in financial markets has led to a sharp contraction in liquidity in the markets for securitised finance, which have effectively closed to new issuance. This has led to higher costs for lenders, with significant implications for UK mortgage borrowers.

**5.36** Another key challenge identified for the UK housing finance market is that, unlike in many other countries, there is very little mortgage debt with the interest rate fixed for more than a few years (see Chart 5.3). Long-term fixed-rate mortgages, if these offer flexibility to repay early, can bring benefits to many borrowers by offering protection against interest-rate risk. These mortgages may also contribute to wider macroeconomic stability by decreasing the risk of defaults should interest rates rise.

**Chart 5.3: International comparison of long-term fixed-rate mortgages**



Source: European Mortgage Federation, CML/BankSearch, Merrill Lynch. HM Treasury calculations, Statistics Canada.

Notes: 2007 data for Canada; 2006 data for UK and US; 2005 data, Japan, Denmark and Germany; 2004 data for France and Italy. Includes adjustable-rate mortgages (ARMs) where the initial rate is fixed for a defined period. For the UK data does not split between 6-10 year fixed rate mortgages. Therefore the assumption has been made that UK 10+ year fixed is negligible given that it is known that less than 1 per cent of the stock of UK mortgages are 10 year fixed-rates.

**Box 5.2: Housing Finance Review**

Given its centrality to housing affordability, the financial sector and the wider economy, the Chancellor announced in July 2007 that the Treasury would undertake a review of housing finance. The Review document is published alongside the Budget and sets out analysis and proposals on two key challenges:

- the recent disruption in global financial markets which raises issues about liquidity and transparency in the mortgage-backed securities markets; and
- the low availability of affordable and flexible fixed-rate mortgage products which may help borrowers manage better the risks associated with housing finance.

**Improving secondary market funding**

Well-functioning secondary funding markets are critical for an efficient mortgage market. Last year approximately one third of all mortgages were financed through secondary market funding. Access to these markets is now effectively closed due to the ongoing disruption in financial markets. To help lenders access robust and liquid secondary market funding, the Government has already introduced a UK legislative framework for covered bonds, which entered into force on 6 March 2008.

Furthermore, **the Government is establishing a Working Group to take forward market-led initiatives to help improve the mortgage-backed securities market.** The Working Group will include the mortgage industry, the investment industry and also HM Treasury, the Bank of England and the FSA. The Working Group will report initially to the Chancellor in summer 2008 and present proposals at the time of the 2008 Pre-Budget Report.

**Removing barriers to long-term fixed rate mortgages**

The UK mortgage market is unusual in having a low proportion of long-term fixed-rate mortgages compared with other countries. There is evidence, however, that at least some people may want, and would benefit from, this type of mortgage. Lenders in the UK, however, have limited means to manage the risk of these mortgages and need to include early repayment charges to cover their costs. Many other countries by contrast have a high proportion of fixed rate mortgages, and in some countries such as Denmark and the USA, these mortgages do not have early repayment charges.

**The Government is also inviting views on options for a UK legislative framework to deliver more affordable long-term fixed-rate mortgages** and the lessons to be learned from international markets and institutions. The Government will work with a range of stakeholders and experts and will provide an update at the 2008 Pre-Budget Report in the light of their findings and stakeholder responses.

**Housing supply**

**5.37** The Housing Green Paper and 2007 CSR set out the Government's strategy for increasing housing supply, including a target of delivering over 240,000 net additional homes per year by 2016, and a total of 3 million new homes by 2020. This was underpinned by increases in spending on housing from £8.8 billion in 2007-08 to £10 billion in 2010-11 and reforms to streamline the planning system, bring more land forward for development and coordinate infrastructure delivery better.

**Planning 5.38** Effective planning systems are essential to ensuring that development is delivered in a strategic and sustainable manner. As part of the implementation of the *Review of sub-national economic development and regeneration*,<sup>4</sup> the Government will shortly consult on

<sup>4</sup>*Review of sub-national economic development and regeneration*, HM Treasury, Department for Business Enterprise and Regulatory Reform and Communities and Local Government, July 2007.

bringing together the Regional Economic Strategy (RES) and Regional Spatial Strategy (RSS) into a single strategy setting out housing plans alongside wider economic, social and environmental objectives. The Housing Green Paper announced the Government's intention to conduct RSS mini-reviews to ensure each strategy sets ambitious plans consistent with the Government's national targets.

**Releasing land for development** **5.39** More land is needed for housing if the Government is to achieve its objectives. As set out in the planning policy statement on housing, local authorities are required to identify a rolling five-year supply of developable land as part of a longer term 15 year strategy to deliver the homes needed in their areas. The Government has also committed to achieving the delivery of 200,000 new homes on surplus public sector land by 2016, and **the Budget announces that the Government has firmly identified sites on central government surplus land with potential for 70,000 new homes.** Communities and Local Government will announce further details shortly. Work will continue to identify further sites and to streamline processes to speed up the release of surplus land for housing by central government, applying new higher standards on quality, sustainability and affordable housing, including on the recently released sites in Dover, Chichester and Warrington. The Government is also developing a new approach to the use of surplus land owned by local government, with a more active role for local authorities in housing development.

**Vacant, derelict and contaminated** **5.40** The Government is introducing measures to reform the tax incentives for developing brownfield land to make them more environmentally sustainable. The landfill tax exemption for waste from contaminated land will be phased out by 1 April 2012. **The Government will recycle the additional revenue to extend land remediation relief to expenditure on derelict land and to the removal of Japanese knotweed by treatment** from 1 April 2009. The Government will consult on draft legislation in the summer. Following the commitment in Budget 2007 and the 2007 Pre-Budget Report, the **Government has considered the merits of extending business rates to include derelict and vacant previously developed land, but has decided not to pursue such an extension at this time.**

**Community Infrastructure Levy** **5.41** Communities and Local Government (CLG) is progressing plans for the Community Infrastructure Levy (CIL) announced in the 2007 Pre-Budget Report. Local councils in England and Wales will be empowered to apply a CIL to new developments and spend the income on the infrastructure needed to support the growth of their areas, including housing growth.

**5.42** CLG recently published an explanation of how it is envisaged CIL will operate. Legislation is progressing through Parliament as part of the Planning Bill, and subject to Parliament's decisions, CLG aims to formally consult on the draft Regulations in autumn 2008, with a view to finalising them in spring 2009. **CLG will make further announcements on CIL before the summer.**

**VAT on renovation of poor quality property** **5.43** In the 2007 Pre-Budget Report, the Government announced a reduction in VAT on the costs associated with refurbishment or renovation of properties that have been empty for more than two years. In further support of its housing objectives, **the Government will now explore the case for additional targeted and cost-effective VAT measures** for the refurbishment or renovation of other dwellings that are of too poor quality to rent or sell.

## Making houses more affordable

**More affordable housing** **5.44** While the Government's long-term strategy is to build more homes to improve housing supply and affordability, it also wants to provide help now for more young people and families to buy their own homes. As part of the 2007 CSR, the Government set a target of 70,000 more affordable homes a year by 2010-11, including direct assistance to homebuyers through its shared equity and shared ownership programmes, which will help 25,000 households a year to enter home ownership. To deliver this, the Housing Corporation is undertaking a £8.4 billion investment programme over the next three years, the largest investment programme in its history, and recently announced the first £3.3 billion of allocations.

**5.45** Budget 2007 announced the launch of a shared equity competition, which invited bids for a shared equity product to be delivered in partnership with Government from April 2008. The aim is to encourage innovation and develop products that offer improved affordability and value for money. **Two winning schemes – Co-operative Bank/Places for People group and Chase, a housing association consortium – have been selected from the many proposals put forward, and will be made available to eligible households from 1 April 2008. The new products offer equity loans of up to 50 per cent of the property purchase price, reducing the conventional mortgage required. These loans are larger than those previously available and will help bring home ownership within the reach of many more households.**

**Shared ownership** **5.46** From today changes to Stamp Duty Land Tax (SDLT) rules mean that shared-ownership buyers **will generally only pay SDLT on the final 20 per cent of the property**, unless they elect to pay SDLT upfront.

## Greener homes

**Greener Homes** **5.47** It is important to ensure the delivery of the Government's housing supply and home ownership objectives are consistent with the Government's climate change and wider environmental objectives. It is therefore the Government's ambition that all new homes are zero carbon from 2016. Further details are set out in Chapter 6.

## SUPPORTING THE THIRD SECTOR

**5.48** The third sector makes a vital contribution to building stronger communities and delivering a better quality of life to the people it serves. Over the next ten years the Government wants to put the third sector at the heart of work to build active and connected communities. The Third Sector Review<sup>5</sup>, published in July 2007, recognised the importance of supporting third sector organisations through sustainable finance if they are to continue to grow and achieve their aims. The Minister for the Third Sector will report to Parliament annually on commitments made in the Review from October this year, though early indications are that good progress is already being made.

**Supporting giving** **5.49** The Government directly supports charities through a number of methods, one of which is the wide package of tax incentives worth over £3 billion to donors and charities each year. Gift Aid accounted for around £1 billion of this package in 2006-07. However, the Government believes there is even greater scope for charities to claim additional funds through Gift Aid. Budget 2007 announced a consultation with the charitable sector on measures to increase take-up of the relief.

**Gift Aid package** **5.50** Throughout the consultation charities were strongly supportive of the Gift Aid system, recognising the benefits of this successful tax relief. Having listened to over 500 views from

<sup>5</sup>The future note of the third sector in social and economic regeneration: final report, HM Treasury and Cabinet Office, July 2007.

across the third sector, the Government is today announcing a wide-ranging package of measures, including **major reform to the auditing process; a comprehensive programme for bringing additional smaller charities into Gift Aid; redesign of guidance; outreach to 5,000 new charities through the launch of targeted marketing tools**; and a number of other administrative changes (as set out in Chapter 2 of *Consultation on Gift Aid: the Government's response*<sup>6</sup>, published alongside the Budget). The Government also recognises the need to minimise administrative burdens for the sector while ensuring predictable income streams for charities. **Although the basic rate of tax will be 20 per cent the Budget announces that Gift Aid will continue to be paid at a transitional rate of 22 per cent for three years**, with no increase in administrative burdens in claiming Gift Aid for charities. The consultation raised issues around the Gift Aid system and ways to alter the mechanics of the system to make it easier for some donors to give. These are complex issues that require a better understanding of donor behaviour and a full assessment of the risks that could arise if alterations were to be made to a currently successful system. **The Government will continue to work with donors and charities to develop understanding of donor behaviour and use that to inform further thinking about Gift Aid.**

**5.51** The Government will also continue to work with the sector on other ways to support charitable giving, including through payroll giving.

**Simplifying the tax system for charities**

**5.52** As part of the Government's objective to simplify the tax system, the Budget announces a number of measures that will further reduce the administrative burdens placed on charities, including **consulting on legislation affecting substantial donors**. Further detail on the simplification package can be found in Chapter 4.

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<sup>6</sup>Consultation on Gift Aid: the Government's response, HM Treasury, March 2008.